Financial Performance

Industry overview

The Indian IT industry has a come a long way from the humble beginnings of servicing the Y2K needs of clients in the US and Europe. Over a period of two and half decades, the IT services capability of the industry morphed from staff augmentation to addressing the critical business needs of a variety of organizations where IT is involved. What has begun on the compelling economic rationale of cost arbitrage is increasingly being sustained on the growing relevance of superior quality, full services and global delivery models. The overall portfolio of services that are on offer by the Indian IT Services industry have been growing in innovation and diversity and are addressing the needs of CIO and CTO organizations across the world quite comprehensively. For the FY 07, Indian IT Software Services industry has clocked revenue of USD 39.6 Billion in revenues with exports pegged at USD 31.6 Billion.

MindTree Consulting is a global IT & R&D Services Company co-head quartered in the US and India. With a passion for customer satisfaction, MindTree partners with its clients to create a transparent, value based relationship. Our domain experts deliver business-enabling solutions by leveraging a consulting led, framework-based and IP-driven approach. MindTree's IT Services business provides a range of services to CIO's across a variety of industry segments. Our R&D services business works with Technology companies to help build innovative products by providing product realization services. MindTree was named among the Top 30 offshore service providers by the International Association of Outsourcing Professionals and Fortune Magazine. Widely known for its human capital development, MindTree has been consistently rated as the most admired employers by several industry surveys including Hewitt Associates and Mercer TNS and is also the winner of MAKE award for knowledge management

The vigorous growth and dynamism of this industry are not without its share of key risks. In the short term, the rapid appreciation of rupee is having a significant impact on the profitability of the industry. In the medium to long term risks associated with withdrawal of the income tax benefits available to STPI units; availability of right skilled manpower in a timely manner, to support the projected vigorous growth; quality infrastructure; rising competition from countries like China, Philippines, Malaysia, Sri Lanka and Latin American countries could have a significant impact on the industry. Lastly, the globally distributed delivery model pioneered by the Indian IT industry is being replicated by international IT companies, so it is no longer a unique proposition from the Indian IT players. MindTree being an enthusiastic and respected participant in this industry is not completely immune to these industry risks.

Income

Income from software development:

(Rs. in million)

	Quarter Ended				Growth %
Revenue	**Sept 30, 2007**	**%**	**June 30, 2007**	**%**	**Sequential**
Overseas	1,694	93.1	1,514	93.8	11.9%
Domestic	125	6.9	101	6.2	23.9%
Total	**1,819**	**100**	**1,615**	**100**	12.7%

(Rs. in million)

	Half Year Ended				Growth %
Revenue	**Sept 30, 2007**	**%**	**Sept 30, 2006**	**%**	**YOY**
Overseas	3,209	93.4	2,705	94.2	18.6%
Domestic	226	6.6	165	5.8	36.6%
Total	**3,435**	**100**	**2,870**	**100**	19.7%

Our revenues for the quarter ending Sept 30, 2007 is Rs.1,819 million and have grown by 12.7% Sequential in rupee terms. The corresponding revenue for the previous quarter ended 30th June 07 is Rs.1,615 Million. The revenues for the half year ending Sept 30, 2007 is Rs. 3,435 Million and the YOY growth is 19.7% in Rupee terms.

We have 192 active customers as at Sept 30, 2007 of which 39 are Fortune 500 accounts. Our one Million dollar client base has increased from 34 in the immediately preceding quarter to 41 in the current quarter.

Our million dollar client count is follows:

No of million dollar clients*		
	Sept 30, 2007	**June 30, 2007**
$1 million clients	41	34
$5 million clients	5	4
$10 million clients	2	2

*Based on last 12 months revenues

We provide our software development services on time-and-material basis or fixed-price basis. Revenue from software development on time-and-material basis is recognized as the related services are rendered. Revenue from fixed price contracts is recognized using the proportionate completion method, which is determined by relating the actual person hours of work performed to date to the estimated total person hours for each contract. Our revenues by project type are as follows:

Project Type	**Quarter ended**	
	Sept 30, 2007	**June 30, 2007**
Fixed price	23.8%	22.4%
Time and Material	76.2%	77.6%
Total	**100.00%**	**100.0%**

Our revenue, broken down by service offerings is given below:

Service offerings	Quarter Ended	
	Sept 30, 2007	June 30, 2007
Development	55.8%	60.4%
Maintenance	28.9%	25.6%
Consulting	3.4%	4.8%
Package Implementation	3.8%	1.7%
Independent Testing	4.7%	3.5%
Infrastructure Management and Tech Support	3.2%	3.9%
IP Licensing	0.2%	0.1%
Total	**100.0%**	**100.0%**

We derive revenues from services provided both offshore and onsite. Offshore revenues consist of revenues from software services work conducted in our offshore facilities in India. Onsite revenues consist of revenues from software services work conducted at clients' premises or from our premises outside India. Services performed at a client site or our premises located outside India typically generate higher revenues per-capita at a lower gross margin than the same services performed at our facilities in India.

The mix in this category is as follows:

	Quarter Ended	
Effort mix	**Sept 30, 2007**	**June 30, 2007**
Onsite	13.4%	14.2%
Offshore	86.6%	85.8%
Total	**100.0%**	**100.0%**
Revenue mix		
Onsite	27.3%	29.0%
Offshore	72.7%	71.0%
Total	**100.0%**	**100.0%**

We have classified our revenues into four geographic segments comprising the Americas, Europe, India and Rest of the World. The geographic break down of revenues contained in the following table is based on the location of the specific client entity for which the project has been executed, irrespective of the location where the invoice is rendered or whether the work for a specific client entity is performed onsite or from our offshore delivery centres in India.

(Rs in million)

	Quarter ended				
	Sept 30, 2007	%	Jun 30, 2007	%	Growth %
America	1,219	67.0	1,129	69.9	8.0
Europe	332	18.2	268	16.6	23.9
India	96	5.3	69	4.3	39.3
Rest of World	172	9.5	149	9.2	15.7
Total	**1,819**	100	**1,615**	**100**	**12.7**

(Rs. in million)

Revenue	Half Year Ended Sept 30, 2007	%	Sept 30, 2006	%	Growth % YOY
America	2,348	68.3	1,773	61.8	32.4
Europe	600	17.5	677	23.6	-11.4
India	165	4.8	172	6.0	-3.9
Rest of world	322	9.4	248	8.6	30.1
Total	**3,435**	**100**	**2,870**	**100**	19.7%

Our operations predominantly relate to providing IT services in two primary business segments viz. IT Services and R&D Services. Revenues in these segments are as follows:

(Rs in million)

	Quarter Ended Sept 30, 2007	%	June30 , 2007	%	Sequential Growth %
IT Services	1,410	77.5	1,254	77.6	12.5
R&D Services	409	22.5	361	22.4	13.1
Total	**1,819**	**100.0**	**1,615**	**100.0**	**12.7**

(Rs in million)

	Half Year Ended Sept 30, 2007	%	Sept 30 , 2006	%	YOY Growth %
IT Services	2,664	77.6	2,178	75.9	22.3
R&D Services	771	22.4	692	24.1	11.3
Total	**3,435**	**100.0**	**2,870**	**100.0**	**19.7**

Under IT Services and R&D Services, our business is organized by Industry Groups (Verticals). The revenue mix of these verticals in 2007-08 is as follows:

Revenue by Industry - ITS	**Quarter Ended** Sept 30, 2007	June 30, 2007
Manufacturing	25.8%	25.7%
Banking & Financial	26.4%	27.3%
Travel & Transportation	16.7%	17.0%
Hitech	16.8%	17.0%
Others	14.3%	13.0%
Total	**100.0%**	**100.0%**

Revenue by Industry - RDS	Quarter Ended	
	Sept 30, 2007	June 30, 2007
Storage and Servers	39.2%	40.6%
Consumer Appliances	27.4%	26.9%
Communication Systems	11.0%	10.6%
Automotive & Industrial Systems	19.1%	18.0%
Others	3.3%	3.9%
	100.0%	**100.0%**

We are continuing to see good growth across all our target vertical markets.

Other income

Other income for the half year ending Sept 30, 2007 is Rs.161.35 million and has increased by 300% YoY. This is because we had higher investments, being proceeds from the IPO. Other income primarily comprises of the following:

- Interest income on account of deposits with banks Rs 31.37 million
- Profit on sale of investments Rs 19.39 million
- Profit from sale of assets Rs.0.26 million
- Dividend from investments Rs 66.39 million
- Forex Gain net Rs. 28.81 million. The gain is on account of Mark-to-Market (MTM) on Forward Contracts on the basis of Hedge accounting.
- Misc income Rs 15.13 million, which comprises sponsorships received for our annual technology festival, rental income from sub-lease of properties & miscellaneous interest income.

Expenditure

Software development expenses

(Rs in million)

	Half Year ended				Growth %
	Sep 30, 2007	**%**	**Sep 30, 2006**	**%**	**YoY**
Revenues	**3,435**	**100**	**2,870**	**100**	**19.7%**
Salary and allowances and contribution to provident and other funds	1721.9	50.14	1332.3	46.42	29.24
Staff welfare	20.3	0.59	20.5	0.72	-1.09
Travel and conveyance	265.9	7.74	211.4	7.37	25.78
Communication expenses	19.9	0.58	21.2	0.74	-6.10
Sub-contractor charges	41.6	1.21	45.7	1.59	-8.95
Computer consumables and software purchases	87.3	2.54	58.0	2.02	50.49
Rent	48.6	1.41	64.4	2.24	-24.53
Post Contract support services	-10.9	-0.31	5.0	0.17	-320.29
Total	**2,194.6**	**63.90**	**1,758.50**	**61.27**	**24.8**

Software development expenses for the half year ending Sept 30, 2007 is Rs.2,194.6 million and has increased by 24.8% YoY. Software development expenses amounting to Rs. 1,721.9 million, mainly comprises of salary costs paid to people in India and overseas has increased by 29.24% YoY. The increase in salary costs is mainly on account of two factors, one being the increase in headcount and second being the revision in increment policy from 2007-08. Increments from the current year onwards have been staggered over the period and this is one of the factors for increase in salary cost. Travel and conveyance amounting to Rs 265 million, for the half year ended Sept 30, 2007, mainly comprises overseas travel for software development and has increased by 25.78% YoY. Communication expenses mainly comprise connectivity charges to stay linked with clients. Subcontractor charges are services purchased from third party and used on our projects. Computer consumables and software purchases form an integral part of project requirements and includes packages and tools to enhance the quality of our services and for the half year ending Sept 30, 2007 is Rs.87 million and has increased by 50.49% YoY. Rent expenses for the current year have come down mainly on account of purchase of Phase1 and Phase 2 buildings at West Campus Facility (Mysore Road). Post contract support services are provisions made for post completion warranty support. Earlier the warranty provisioning was based on a percentage on the last 2 months trailing revenues. Based on a recent exercise carried out on our actual warranty trends we have revised this number and therefore the reduction in warranty provision.

Administrative and other expenses

(Rs in million)

	Half Year ended				Growth %
	Sep 30, 2007	**%**	**Sep 30, 2006**	**%**	**YoY**
Revenues	**3,435**	**100**	**2,870**	**100**	19.7%
Salary and allowances and contribution to Provident and other funds	311.5	9.1%	258.8	9.0%	20.3%
Travel and conveyance	53.3	1.5%	41.3	1.4%	29.2%
Power and Fuel	51.5	1.5%	37.1	1.3%	38.9%
Rent	13.0	0.4%	37.2	1.3%	-65.0%
Telephone	28.5	0.8%	16.8	0.6%	69.5%
Staff training	25.0	0.7%	10.6	0.4%	135.9%
Recruitment	31.1	0.9%	16.6	0.6%	87.7%
Marketing	23.6	0.7%	22.4	0.8%	5.1%
Legal and professional	57.5	1.7%	29.9	1.0%	91.9%
Others	90.2	2.6%	93.4	3.2%	-3.4%
Total	**685.2**	19.9%	**564.1**	**19.6%**	**21.4%**

Administrative and other expense for the half year ended Sept 30, 2007 is Rs.685 million and has increased by 21.4% YoY. We had 356 sales and support people as at Sept 30, 2007. We had savings in rental expenses because we purchased 2 of the buildings from which we operate in, in our Mysore Road campus. Training expenses includes all staff related training including seminar and conference expenses. The increase in professional fees is mainly on account of IPO expenses paid to various professional agencies. The other increase in general administration expenses like Power and Fuel, Telephone and marketing expenses have gone up mainly on account of additional facilities in Chennai and increased business.

Operating profits for the half year ended Sept 30, 2007 is Rs.716 million, representing 20.9% of revenues as compared to 20.5% for the half year ended Sept 30, 2006.

Interest

Interest cost for the half year ended Sept 30, 2007 is Rs.27.2 million and represents interest on term loans (Rs 19.0 million) and Interest on short term credit / finance charges (Rs 8.2 million). Total interest increased by Rs 10.05 million YoY. A part of this increase was due to loans taken to finance the purchase of the 2 buildings, as explained above.

Depreciation

Depreciation is Rs.159 million for the half year ended Sept 30, 2007 and has increased by Rs 49 million YoY. The increase in depreciation was due to our ownership of the 2 buildings as explained above, as well as routine capex investment.

Provision for tax and Deferred Tax

We pay income tax in countries where we provide software services. Our profits from export of software and related activities are fully deductible from taxable income. Our unit at Bangalore is registered as a 100% Export Oriented Unit, which is entitled to a tax holiday period of 10 years from the date of commencement of commercial operations under Section 10B of the Income Tax Act, 1961. Deferred tax assets of Rs 49.0 million recognized are on account of timing differences in respect of fixed assets, which reverse after the tax holiday period. We have made a provision for Fringe Benefit Tax (FBT) under income taxes.

Net Profit

Net profit for the half year ended Sept 30, 2007 is Rs.477.5 million and has increased by 2.4% YoY and represented 13.3% of total income as compared to 16.0% for the half year ended Sept 30, 2006.

Share Capital

The outstanding equity shares as at Sept 30, 2007 is 37,788,359 of Rs.10 (Previous year 37,752,577 shares of Rs.10 each at March 31, 2007). The total paid up share capital is Rs.378 million.

Reserves & Surplus

A. Securities Premium Account

The amount in Securities premium account is Rs.2,753 million as at Sept 30, 2007, an addition of Rs.2.77 Million during the year on exercise of employee stock options/customer warrants.

B. Stock Option outstanding Account

The total stock option outstanding as at Sept 30, 2007 is Rs.25 million as compared to Rs.13 million as at March 31, 2007 after deducting the deferred employees compensation expenses amounting to Rs.33.7 million as at 30 Sept 2007 (Rs 49 million as at March 31, 2007).

Secured Loans

The balance in this account as at Sept 30, 2007 is Rs.943 million as compared to Rs.264 million at March 31, 2007. The composition and movements are explained below:

- Term loan with HSBC having pari passu charge on fixed assets has increased to Rs.747 million as at Sept 30, 2007 from Rs.57 million as at March 31, 2007.
- Other loans comprising of Loan from HSBC and Standard Chartered Bank is secured by a pari passu charge on the book debts and other current assets. The balance is Rs.155 million as at Sept 30 2007 as compared to Rs.165 million as at March 31, 2007.
- Outstanding financial lease obligation secured by hypothecation of assets taken on lease is Rs.41 million as at Sept 30, 2007 as compared to Rs.42 million at March 31, 2007.

Fixed Assets

The Gross Block of Fixed Assets as at Sept 30, 2007 has increased to Rs.2,407 million as compared to Rs.1,368 million as at March 31, 2007. The additions during the half year to the Gross block are Rs.1,059 million & deletions during the period to the Gross Block are Rs.20 million. The net addition during the period is Rs. 1,039 million.

Additions comprises of:

- Addition to building is the buildings at West Campus Phase 1 and Phase 2 amounting to Rs.543 million.
- Addition to leasehold land from Tanglin amounting to Rs.328 million.
- Other additions are Leasehold improvements (Rs.40.0 million), Computer systems and software (Rs 113 million), Furniture and Fixtures (Rs.6 million), Electrical installations (Rs.2.5 million), office equipment (Rs 14.5 million) and motor vehicles on lease (Rs.12 million)

The deletion represents sale of Computer systems (Rs.7 million) and foreclosure of Leased Motor Vehicles (Rs 13 million).

Capital work in progress has increased to Rs.665.1 million as at Sept 30, 2007 from Rs.131.7 million as at March 31, 2007.

The estimated amount of contracts remaining to be executed on capital account and not provided for as at Sept 30, 2007 is Rs.392 million as compared to Rs.695 million as at March 31, 2007.

Investments

Our investments have decreased to Rs.1,514.2 million as at Sept 30, 2007 from Rs.2,140.2 million as at March 31, 2007.

The investments comprises of:

- Investments in mutual funds (Non trade - quoted), is Rs.272 million as at Sept 30, 2007 as compared to Rs.397 million as at March 31, 2007. These are valued at lower of cost or market value
- Investments in mutual funds (Non trade – quoted), out of IPO issue proceeds, is Rs.1,242 million as at Sept 30, 2007 as compared to Rs.1,743 million as at March 31, 2007. These are valued at lower of cost or market value.
- Long Term investment in unquoted equity shares is Rs.1.5 million. However provision for diminution in the value of these shares have been made for Rs.1.37 million and the current book value is Rs.0.2 million

The funds realized from the redemption of investments were used to pay off some of the older debts and for capex expansion, especially the acquisition of the 2 buildings as explained before.

Deferred Tax Asset

We recognize the Deferred Tax assets in compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India. Deferred Tax assets are on account of timing differences in respect of depreciation on fixed assets. The same has been recognized amounting to Rs.49 million as at Sept 30, 2007.

Sundry Debtors

Gross Sundry Debtors is Rs.1,604 million as at Sept 30, 2007 as compared to Rs.1,288 million as at March 31, 2007.

The Days Sales Outstanding (DSO) as at Sept 30, 2007 is 82 Days as compared to 79 days as at March 31, 2007. The increase in DSO is mainly on account of increase in billing during the quarter ended Sept 30 2007.

The age profile of debtors is given below:

Rs million

Period in Days	Mar 31, 2007	%	Sept 30, 2007	%
0-30 Days	625	48.5	1,061	66
31-60 Days	438	34.0	43	3
61-90 Days	45	3.5	205	13
more than 90 Days	180	14.0	295	18
Total	**1,288**	**100.0**	**1,604**	**100.0**

Cash and Bank Balances

Cash and Bank balances have decreased to Rs.676.75 million at Sept30, 2007 as compared to Rs.768.0 million at March 31, 2007. The composition and movements are explained below:

- Cash balance is at Rs.0.05 million at Sept 30, 2007 (Rs.0.01 million as at March 31, 2007).
- Balance with scheduled banks in India is Rs.590.7 million (Rs.401 million is out of IPO proceeds) as at Sept 30, 2007 as compared to Rs.704.1 million at March 31, 2007.
- Balance with non-scheduled banks has increased to Rs.86 million at Sept 30, 2007 as compared to Rs.63.9 million at March 31, 2007. These balances represent balances held in overseas bank current accounts for meeting the operational expenses in these branches.

Loans & Advances

Loans and advances have increased to Rs.903 million at Sept 30, 2007 as compared to Rs.830 million at March 31, 2007. The composition and movements are explained below:

- Advances are mainly toward amounts paid in advance for value and services to be received in future and amounting to Rs.586 million as at Sept 30, 2007 as compared to Rs.564 million as at March 31, 2007.
- Unbilled Revenue amounting to Rs.203 million as at Sept 30, 2007 as compared to Rs.199 million as at March 31, 2007. Unbilled revenue represents cost and earnings in excess of billings in fixed price projects.
- Advance tax and tax deducted at source, net of provision of taxes amounting to Rs. 114 million at Sept 30, 2007 as compared to 67 million at March 31, 2007.

Current Liabilities

The Current liabilities as at Sept 30, 2007 is Rs.792.8 million as compared to Rs.861.6 million as at March 31, 2007. The composition and movements are explained below:

- Advance from Customers (representing amounts received from customers for services which are yet be provided) has increased to Rs.27.4 million at Sept 30, 2007 as compared to Rs.6.5 million at March 31, 2007.
- Interest accrued but not due has increased to Rs.0.5 million at Sept 30, 2007 as compared to Rs.0.4 million at March 31, 2007. This represents interest on Term Loans and packing credit.
- Unearned revenue represents customer billing done in excess of cost and earnings on fixed price projects. The amount of unearned revenue as at Sept 30, 2007 is Rs.17 million as compared to Rs.27.3 million as at March 31, 2007.
- Sundry Creditors Expenses comprises of amounts payable to suppliers of Materials, Services, Employees (travel and other expenses), retention money and others. The amount outstanding as at Sept 30, 2007 is Rs.75.5 million as compared to Rs.236.6 million as at March 31, 2007.
- Sundry Creditors for Capital Goods representing amounts payable to Supplier of Capital Goods is Rs.15.9 million at Sept 30, 2007 as compared to Rs.7.2 million at March 31, 2007.
- Other liabilities mainly comprises of represents amounts payable towards Salary, bonus, sales incentive and other employee compensations, statutory payments and others. The amount outstanding at Sept 30, 2007 is Rs.649.1 million as compared to Rs.578.6 million as at March 31, 2007.
- Book overdraft amounting to Rs.7.4 million as at Sept 30, 2007, as compared to Rs.5 million at March 31, 2007.

Provisions

The Provisions at Sept 30, 2007 is Rs.216 million as compared to Rs.176 million as at March 31, 2007. The composition and movements are explained below:

- Dividend at Re.1 per share has been proposed on 37,788,359 equity shares amounting to Rs.38 million as of Sept 07 (Rs.38 million as at March 31, 2007).
- Provision for Gratuity made in compliance with the Accounting Standard 15 (revised) issued by the Institute of Chartered Accountants of India amounting to Rs.14 million as compared to Rs.4 million as at March 31, 2007.
- Provision for leave encashment is Rs.49 million at Sept 30, 2007 as compared to Rs.32 million at March 31, 2007.
- Post Contract support services provision at Sept 30, 2007 is Rs.10 million as compared to Rs.21 million as at March 31, 2007.
- Provision for volume discount is Rs 42 million at Sept 30, 2007 as compared to Rs. 54 million at March 31, 2007.
- Other Provisions at Sept 30, 2007 represents tax on dividend Rs.6 million (Rs.6 million as at March 31, 2007), foreign taxes Rs.52.0 Million (Rs.21 million as at March 31, 2007) and Rs. 5 million Fringe Benefit Tax net of taxes.