

MindTree Consulting Ltd.
Investors/Analysts Conference Call
(April 30, 2007, 2:00PM IST)

Moderator: Good afternoon Ladies and Gentlemen. I am Rita, the moderator, for this conference. Welcome to MindTree conference call hosted by JM Morgan Stanley. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation the Q&A session will be conducted to the participants connected to the international bridge, after that the Q&A session will be conducted for the participants connected to the India bridge. I would like to handover the floor to Mr. Anantha Narayan of JM Morgan Stanley. Thank you and over to you sir.

Anantha Narayan: Thanks Rita and good afternoon to all the participants on this call. My name is Anantha Narayan and I am from Morgan Stanley research team and on behalf of MindTree Consulting and my firm, I would like to welcome all the participants for this call. As you maybe aware MindTree reported Q4 fiscal 07 results earlier today and they recorded some strong sequential net income growth for the quarter as well as some robust growth guidance for fiscal 2008. We will discuss these numbers and the outlook for the company for fiscal 2008. We have with us on the call the senior management team of MindTree. The team includes Mr. Ashok Soota, Chairman and Managing Director, Mr. Subroto Bagchi, Chief Operating Officer, Mr. N. Krishnakumar, President & CEO IT Services, Mr. S. Janakiraman, President & CEO R&D Services, Mr. Rostow Ravanan, CFO and Mr. Puneet Jetli, Vice President and Global Head of People Function. To begin introduction I would like to invite Rostow to commence this call on behalf of the management team.

Rostow Ravanan: Thanks Anantha. Good afternoon to the team on the call. I will just start by reminding that during the call we would make forward-looking statements. These statements are obviously considering all the environment we see as of today. So therefore there would be quite significant risk and uncertainties that could cause the results actually to vary materially from what we are discussing on the call and we would not always be able to update those forward-looking statements always and so with that safe harbour clause let me turn it over to Ashok to start up the call.

Ashok Soota: Good afternoon and I would like to welcome all the participants and thank you for joining. This is MindTree's first post-IPO briefing. We were very pleased with the response we got for IPO and realize that investors have high expectations of us. As you know MindTree delivers business enabling solutions which are IP-led on the R&D Services side and consulting-led on the IT Services business. We are committed to high standards of governance, ethics, and integrity, which are very key in our value system. In line with this philosophy we will strive for very high levels of transparency.

In the year where we just closed and reported on, our year-over-year profit after tax growth was 66.1% in rupee terms and the revenue growth was 31.5% giving an earnings per share growth of 44%. Both of our businesses have shown good growth and see good momentum. We added 17 customers in the quarter and we have 36 Fortune 500 customers in our portfolio. We focus very strongly on customer satisfaction and our customer satisfaction survey result show very strong customer satisfaction. 90% of our customers gave us score of 4 or higher on a scale of 5 and the indication of willingness to do repeat business with us 93% gave rating of 4 or higher. We will publish our customer satisfaction scores in our forthcoming annual report, which we believe will be an industry first.



In terms of challenges we see for the future, I'd say the significant and the major one has been the sudden and sharp appreciation of the rupee, which will be a challenge ahead. I now like to invite my colleague Subroto to give few more highlights.

Subroto Bagchi: Thank you Ashok. Ladies and Gentleman as Ashok said welcome to the first ever post-IPO analyst briefing by MindTree. Pleased to have you with us. I would like to make six key points.

Number one - people brand continues to be strong. We had a net addition of 156 people during the last quarter and a total of 1034 people joined us during the year.

Our attrition in quarter 4 was 15% which we believe is significantly lower than what the industry is experiencing today.

The third thing I would like to highlight is that we maintain consistently high people satisfaction ratings. The most recent MindTree poll indicates that 90% of people gave us rating of 4 or higher on scale of 5, thereby indicating that they find MindTree to be a great place to work in.

We were ranked highly in many of the reputed industry surveys that track best employers to work for across industries and not just the IT industry. The most recent polls being Business Today and Business World where we continue to be rated as one of the best places to work-in in India.

We continue to do path breaking work in the area of Knowledge Management. Most recently we are recipient of the Most Admired Knowledge Enterprise Award. We believe that this will be a key differentiator for us both in terms of delivering highly value added solutions to our customers and also to create great learning opportunities for our people.

Last point I would like to make is that all current indications from the international market seems to show good demand for a differentiated solution provider like MindTree. Given our great service capability and our emphasis on Agility, Access and Attention that truly makes us different. We are witnessing that the demand for consulting-led solutions and IP-led solutions in both our businesses actually indicates towards a favorable future in 2008-2009. With that let me handover to CFO, Rostow Ravanan.

Rostow Ravanan: Thank you Subroto. Like Ashok mentioned we had a good growth year. Sequentially Q4 revenues grew by 9.1% in U.S. dollar terms and 6.6% in rupee terms.

At the PAT margin level we grew sequentially at 32.8% in dollar terms and 29.8% in rupee terms. We ended the year with 155 customers of which 31 customers gave us revenue of more than million dollars, 4 customers gave us more than \$5 million, and 2 customers gave us more than \$10 million.

In terms of guidance, our philosophy is to give guidance for the whole year ending March 2008. On that basis, we are guiding to revenues in the range of \$178 to \$180 million, which would constituted 36% growth at the higher end compared to this year. At the bottom line level we are guiding to \$25.1 to \$25.2 million in profit after tax, which would approximately be 26% growth year-over-year at the high end.



At an EPS level we are guiding to Rs. 28.9 to Rs. 29.4. The guidance has been worked on the basis of rupee-dollar exchange rate of 42.25. It also needs to be noted that the EPS growth guidance assumes that we have higher-weighted average shares for March 2008 as compare to March 07 because the IPO of approximately 5.6 Million share as well as large ESOP exercise that happened during the month of March. The IPO as you know happened in early March and we had a large ESOP exercise on 31st of March. Both of those did not make huge difference to the weighted average share calculation for the current year but they would impact the whole of next year so that is also a reason for the EPS guidance to be where it is. We will now turn this over to the team for Q&A.

Anantha Narayan: Thank you. Rita if we can call for Q&A.

Moderator: Sure sir. Thank you very much sir. At this moment I would like to handover the proceedings to the international moderator to conduct the Q&A for the participants connected to the international bridge. After this, we will have Q&A session for the participants connected to the India bridge. Thank you and over to you Salvia.

Salvia: Thank you Rita. We would now begin a Q&A session for participants connected to the international bridge. Please press 01 to ask a question. Once again please press 01 to ask a question. At this moment there are no questions from participants at international bridge. I would like to handover to proceedings back to Rita.

Moderator: Thank you very much Salvia. We will now begin the Q&A interactive session for participants connected to the India bridge.

Participants who wish to ask questions kindly press *1 at your telephone keypad. On pressing *1 participants will get a chance to present your questions on first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question kindly press *1 now. First in line we have Ms. Divya from Motilal Oswal. Over to you Madam.

Divya: Hi. Congrats on good year. My question relates to how you see FY2008 panning out in terms of guidance that you have given? What are the areas that give you the confidence that you would be able to achieve this growth? What rallies are you seeing in clients spend and would you also give us a sense of margin assumption that you taken in terms of salary hikes, rupee impact analyze please?

Ashok Soota: Couple of questions in that one thing. The first thing is let me start with the business end. So turn this over to my colleagues also and so overall what we are seeing is good traction in the business. I mean we have been hearing people say there are things in the US slowing down and will that we have any impact and in fact of all our markets the very strongest traction we see is in the US. We are also seeing other geographies and both of the businesses continue to show very positive trend and we see a very healthy pipeline, which we believe, is probably at highest level. So overall you could say that the indications remain strong but on a very specific basis let me ask both K.K. and Janakiraman to tell you about IT Services and R&D Services and since Subroto is now in the US and is based there, I would also ask him to comment on that and once we got the business end done we will come back to your other questions on the people front etc and for that I can get Puneet who is People Function Head to come in and respond to those points.

Krishnakumar: Like Ashok said certainly IT services we see strong growth momentum and in response to your question where we really see the demand? Certainly one segment of demand



where we are seeing large players who are mature users of outsourcing ending to now get in the next level of players in to the game rather than just restricting themselves to the top players. Clearly, many of these companies want to get in midsize players like us for focused in specific domains added to their list of preferred vendors. So there is going to be a large volume demand, which is coming out of it.

We also seek people who have not leveraged Fortune 500 companies which have not leverage offshoring first time users are coming in where again companies like MindTree are very well positioned with our consulting-led approach to help them make outsourcing of big initiative. Both these type of demands we see it happening in terms of what clearly we see as a very robust demand where it can get speed up.

Our expansion to new geographies Australia is on very good start. We have good start in Germany. So new geographies are going to be another major drivers for growth as well as new practices Infrastructural Management and Tech Support which we launched last year is of very good start and we anticipate fairly solid growth in that during this year. On verticals in the last few weeks, we had excellent traction in Banking and Financial Services. Particularly midsize banks in the US, a number of them coming in today to leverage offshore as the key initiative which is driven at the board levels as well as the large financial services companies which are in the second tier are also wanting to leverage offshore. So, this is broadly the sort of demand pattern we find large accounts growing, we find expansion in new geographies and new practices. I will now ask S. Janakiraman to talk about how demand in R&D services.

S. Janakiraman: Account base in terms of both the large size technology companies as well as midsize technology companies they tend to stick to the vendors and then they get into high level of repeat business and R&D services always enjoys the high level of repeat business. The second that we see is the visibility of the targets in pipeline from the large clients. Normally they do a long-term planning and they share with us with the roadmap. The kind of projects that we are seeing in the pipeline as well as the new accounts that we have in the last few quarters many of them are maturing in the relationship that we are seeing growth happening over there. Kinds of the projects that we used to entertain our clients we are seeing that we being considered in the larger RFPs now and we are bidding for it with the leading vendors in this phase and we believe that we will be able to win more larger projects compared to what we used to do in the past.

US had always been our traditional base for technology business in R&D Services and now we are seeing that Europe is opening up. Europe is looking at outsourcing. We have seen in the recent time we see the storage vertical as flagship vertical and that had been the one which had given us the growth in the last years and in the recent times last six months we are seeing significant momentum in the consumer appliance vertical too especially with digital audio-video systems becoming complex and becoming more software and electronic intensive. We are seeing more opportunities in this phase. These are the overall growth drivers for R&D.

Divya: Yeah thanks.

Ashok Soota: Subroto is going to add a little bit on the US side specifically from recent experience there.

Subroto: Thanks Ashok I have been in the US from last six month and I have been doing a fair bit of international travel myself. I am seeing a fairly good growth momentum. Couple of things are happening. One is finding that many customers are now beginning to talk about IT strategy.



We just completed a large IT strategy roadmap definition for a major Indian bank and currently doing that with significant bank in the West Coast in the United States. Now this kind of work that was really the dream for many Indian IT companies for many many years now and this is basically not only helping us to pitch at a very high level but also expanding in terms of the subsequent business improve. Recently Business Week Online singled us out in terms of our IT strategy consulting capability and ran a report on us and you know this is making the media also take note of us in the markets that we operate in. In addition to that in May we are one of the sponsors for Forrester's IT Forum. So all in all it is basically making the MindTree differentiated story which is consulting led on the IT Services side and IP led on the R&D side actually resonate.

Ashok Soota: You had a question on people fronts. So we will get Puneet to comment on that.

Puneet Jetli: Thanks Ashok. The question was what assumptions have we made in terms of salary increases for the current year. The salary increases that we are working on is we are planning an increase of 16% for offshore and around 3%-5% for you know various overseas geographies in terms of local currency that we pay in and these increases would be actually affected over 3 quarters, starting April and then some of part of it will be effective July and some part of it will be effective October.

Ashok Soota: I think we have fully answered all you questions. There was also one question on margin assumptions and I think that our business margins have been showing an upward trend would continue to do so. The impact at profit after tax level this year clearly I would say that even slightly before this recent rupee appreciation began, we expected that will held absolutely steady in spite of the fact that there is higher tax ailment this year but the combined impact of the rupee appreciation, the service tax on rental is what we have factored in the guidance that we have now given you and as Rostow mentioned this guidance is now based on Rs. 42.25 to dollar versus 45.39 in the year that we have just reported on.

Moderator: Thank you very much sir. Next in line we have Ms. Zankhana from Alchemy. Over to you madam.

Smaeer: Hi this is Sameer Jha from Alchemy. I just wanted to know in your thoughts on how the billing rates are shaping up for you? On the R&D side of business how are things shaping up for you?

Ashok Soota: Okay. We could just give you a startup by giving you a little historic data on how it has just moved over the last quarter in itself and Rostow will give that and then perhaps how are seeing two businesses billing rates we can get Jani to give his first because you got a most specific question overall on the R&D Services business also.

Sameer: Yeah.

Rostow: The headline was that for Q4 we have seen after sequential growth that we had 2.8% was contributed by price growth. We have an approximately 5% increase in onsite rates and about 2.5% increase in our offshore rates. Therefore, we are seeing growth coming for us both out of volume growth and price growth.

S. Janakiraman: We see a sort of similar trend in the R&D Services. In the recent past we have booked some of the clients out from India and that had been based on the rupee booking and we expect with the rupee appreciation in those clients business we expect the overall rate



to improve and overall in the new accounts that we are booking in R&D Services, rates have been higher than what we have charged in the past actually. So, we see in the long-term, the prices to be stable to positive.

Sameer: Sir this improvement in rupee in the current quarter was it to something to do with change in service offering or change in industry vertical because we have seen a sharp increase in BFSI vertical this quarter or is it point-to-point increase what we saw?

Ashok Soota: I think I will get KK to comment both on the pricing trend. The increase that you have seen BFSI in the quarter really reflects new accounts that we have got which we already have reflected and presumably will continue to grow now that these are new accounts with growth potential.

Krishnakumar: In fact, now that you have heard while I was making the comment on demand, we certainly have seen last few months strong traction in the Banking and Financial Services and their increase really reflects that.

Coming back to the pricing, I think in IT Services you need to look at that we work on low price market slightly impact particularly Middle East in India. So if you look at our major markets such as US and Europe very stable pricing environment. In fact, new contracts, renewal are up onsite between 2%-3% and offshore between 4%-6% and overall in the last quarter we had increase in both onsite as well as offshore pricing. What is interesting is even an impact which is a low price market particularly in markets like Middle East which used to be largely onsite-oriented market increasingly we see a traction to move work offshore and that in turn is going to help us improve pricing levels even in the impact market in the next two quarters.

Sameer: The other question was on margins. You broadly said that business margins would remain stable this year and just a comment on the salary hikes what you have given but could you repeat the same for me and be your guidance assumes bit lower margins because of the growth of revenues 36% while the profit guidance is of 26%?

Ashok Soota: Let me complete the margin bit and then Puneet will complete the thing. As mentioned, if you can really see the gross margin is clearly stable to marginally increasing, the fact to the matters is that this year we do have a higher tax impact so that clearly it is factored in approximately 1.5%. We have had the in fact the service tax on rented premises will have its own impact and then add on this most recent thing in rupee appreciation. It is really a combination of these factors which has reflected in that profit guidance and Puneet will again just repeat what he had said on people front.

Puneet Jetli: Sameer you know what essentially I had said in terms of the compensation increase, we are planning a weighted average of 16% for offshore people and since we operate in various geographies onsite it will range from 3%-5%.

Sameer: Thanks and best of luck.

Moderator: Thank you very much sir. Participants to wish to ask questions kindly press *1 on your telephone keypad. I repeat. Participants to wish to ask questions kindly press *1 on your telephone keypad. At this moment there are no further questions from participants. I would like to handover the floor to Mr. Anantha Narayan of JM Morgan Stanley for the final remarks. Over to you sir.



Anantha Narayan: Thanks Rita. Before that Mr. Rostow could you help me with the question of my own? Essentially if you just look at the sector broadly you have these larger companies and you have somewhat slightly smaller one and they seem to be operating at different levels of margins. Now clearly this rupee is the factor that is going to impact everyone. I guess given the lower margins for smaller companies, rupee leverage could be a bit higher so impact could be bit higher. So the flip side I see there is more room to control other cost. So, you how do you expect the smaller companies margins to plan out vis-à-vis the larger companies?

Rostow Ravanan: It will be difficult for us to respond to your question generically about smaller companies. I guess each company will obviously have to evolve strategies and operational plans of their own but like what we have been discussing about MindTree specifically we believe the business is on good momentum, we built the business to fairly stable level. We still have margin levers it will continue to exploit and drive higher value for the business and we will subject to external events like rupee appreciation or changes in tax law but given all that our aim is to obviously deliver more to customer and increase margins over time.

Anantha Narayan: Thanks Rostow.

Anantha Narayan: Rita, do have any questions or shall we wrap up the call?

Moderator: We have no question sir.

Anantha Narayan: Thanks and I would like to take this opportunity to thank MindTree management for the opportunity to host this call. Thank you all the participants for your participation and as reminder the management will participate in one more call today evening at 6:30 p.m. India time. The time and details are there on MindTree's website.

Ashok Soota: Thank you Anantha. Thank you.

Moderator: Ladies and Gentleman. Thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You can now disconnect you lines. Thank you and have a nice day.

