

**MindTree Consulting Ltd.**  
**Investors/Analysts Conference Call**  
**(July 24, 2007, 6:00PM IST)**

**Moderator:** Good evening ladies and gentlemen. I am Gaurav, the moderator for this conference. Welcome to the MindTree Consulting First Quarter earnings conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International bridge. After that, the question and answer session will be conducted for participants in India. I would now like to hand over the proceedings to Mr. Bhaskar. Thank you and over to you sir.

**Bhaskar:** Thanks Gaurav. Good evening and welcome everyone to this conference call to discuss MindTree Consulting's financial results for the quarter ending June 30, 2007. I am Bhaskar from the Investor Relations team in Bangalore. Joining us today on this conference call are Mr. Ashok Soota (Chairman and Managing Director), Mr. N. Krishnakumar (President and CEO, IT Services), Mr. S. Janakiraman (President and CEO, R&D Services), Mr. Rostow Ramanan (CFO), Mr. Puneet Jetli (Vice President and Global Head, People Function) along with other members of the senior management. I would like to start by giving a safe harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically. With that, I would like to hand the call over to Mr. Ashok Soota.

**Ashok Soota:** Thank you Bhaskar. Good evening. I would like to welcome all of you to MindTree's earnings conference call at the end of our first quarter for the financial year 07-08.

In US dollar terms, MindTree's Q1 total income was \$40.5 million, which represents a year-over-year growth of 35.6% and a quarter-over-quarter growth of 12%. Incidentally, this is MindTree's first \$40 million quarter and we are pleased at achieving this milestone. The Q1 profit after tax was 12.3% as compared to 15.4% in the last period. And, in Indian rupee terms our Q1 PAT was Rs. 206 million, which is a year-over-year decline of 15% and a quarter-over-quarter decline of 16.1%; largely due to the rupee appreciation.

The software income quarter-over-quarter growth this quarter was 9.9% and the March quarter as you know we had 9.1% serial growth. Therefore we have had two successive quarters of very strong serial growth. As you could visualize, future year-over-year growth comes from current quarter growth, and I would say that ours is amongst the highest today in the software industry in India.

The business continues to show good growth and momentum. We have added 28 customers this quarter and now MindTree has 175 active customers at the end of Q1. Of these 34 are over 1-million dollars, four are 5-million dollar accounts, and two 10-million customers. Overall, the one million accounts have gone up from 31 in the last quarter to 34 now. We have also added two Fortune 500 customers in the last quarter.

In terms of geographies, the US, Japan, and Australia showed very good traction. In terms of industry segments, we saw very strong contributions from the BFSI segment. Our annuity business has gone up from 26% to 33%, which is a significant increase. The recent customer



satisfaction survey at MindTree, which we have just done in May 2007, has shown very high levels of customer satisfaction, and over 89% of the customers have rated us 4 or higher on a scale of 5 on overall satisfaction, and 93% have given us again a rating of 4 or higher on a scale of 5 where they would be willing to do repeat business with us. We believe this is a very important lead indicator for future success in this business.

We continue to make investments in strengthening our domain capability, improving operational efficiency and productivity. We have opened two new offices now in the US, one in Plano, Texas, and the other in Seattle. We will continue to focus on expanding our geographical footprint.

Our people brand continues to be strong. On a gross basis, we added 485 people during the quarter. In July, we have had the largest ever batch of engineering graduates joining us from campus of about a little over 450 people, and the current strength of MindTree Minds now is 4,963 MindTree Minds.

Our Q1 voluntary attrition has come down significantly to 13.7%. This is one of the lowest attrition rates in the Indian IT industry. The attrition on a trailing 12 month basis stands at 15.2%.

Now, let me pass this on to my colleague Rostow to share a few other highlights and we will thereafter open the floor for questions.

**Rostow Ravanan:** Thanks Ashok. Good evening to everybody. This is Rostow. I'm CFO at MindTree.

**Moderator:** Hello sir.

**Rostow Ravanan:** Yes.

**Moderator:** Sir Can you come a bit closer to the speakerphone sir, your voice is coming feeble sir.

**Rostow Ravanan:** Sure, thanks. Good evening. This is Rostow. As you would have seen from the results, the biggest impact for us in this quarter was the rupee dollar exchange rate. Our average exchange rate for the current quarter was 41.4 as compared to 44.09 for the previous quarter.

During this quarter, we obviously increased our forex hedges. As at the quarter end we have about \$69 million worth of hedge and of this about \$22 million is for the next 12 months as of now and the remainder is for the 48 months thereafter. So the hedge actually covers for a period for the next 60 months. We have also raised a loan of approximately Rs. 70 crores about \$17 million worth of loan that we took for certain capex expansion which we did, we did a derivative structure on the loan so that the outflow on the loan to that extent also acts as a hedge for us when those loans get repaid.

The effective yield on our portfolio of investments was approximately 9% during the quarter. Utilization during the quarter was about 65.1% as compared to 62.7% in the previous quarter. Increased focus on collections helped bring the DSO, days sales outstanding at the end of quarter was 75 days as compared to 78 days in the previous quarter. Also, approximately 64% of our receivables now are less than 30 days old, so the focus on operational issues has clearly paid off and we are seeing operational efficiencies coming in.



We also did a change to our previous practice on salary revision. In previous years, the entire organization got the salary revisions in July, this year we changed our practice and some of our people got their salary revisions on 1<sup>st</sup> April, about 53% of our people all offshore based people got their salary revisions on 1<sup>st</sup> of April, some groups will get it effective from July, and the balance organization will get it on 1<sup>st</sup> of October.

Overall, we are seeing a good momentum in the business. We saw good volume growth of approximately 12%, and all current indications from market standpoint show that a differentiated solution provider like MindTree continues to see strong traction.

Coming to the guidance, at last quarter's call we had given a revenue guidance of \$178-180 million. Given the strong business traction that we are seeing we reconfirm that guidance, we are maintaining guidance for this year at the same level. Given the significant impact of the rupee we have had, we are revising our PAT guidance from the \$25.1 - \$25.2M that we announced last time to \$22.5 – \$22.6M as of now. The change was absolutely entirely driven by the difference in the exchange rate that we assumed previously to now; at an operational level, we are not seeing any fundamental impact to the business itself.

We now open the floor for question and answers. We will take questions as they come up.

**Moderator:** Thank you very much sir. At this moment, I would like to hand over the proceedings to Laurie to conduct the Q&A for participants connected to WebEx International bridge. After that, we will have a Q&A session for participants connected to India bridge. Thank you and over to you Laurie.

**International Moderator:** Thank you Gaurav. We will now begin the Q&A session for participants connected to the WebEx International bridge. Please press \*1 to ask a question. Once again, participants who wish to ask a question please press \*1. At this moment, there are no questions from participants at WebEx international center. I would like to hand over the proceedings back to Gaurav.

**Moderator:** Thank you very much Laurie. We will now begin the Q&A interactive session for participants connected to India. Participants who wish to ask questions may please press \*1 on the telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, participants may please press \*1 now. First in line we have Mr. Anantha Narayan from Morgan Stanley. Over to you sir.

**Anantha Narayan:** Thank you and good evening gentlemen. Firstly, congratulations on the strong revenue momentum. I had a couple of questions on the financials Rostow. First is you know there has been some sort of significant quarterly moves in some of your metrics like revenue from the US and Europe, for example, and also in terms of revenue from the top 5 customers etc. Is there any re-classification that has happened out here?

**Rostow Ravanan:** Absolutely. The top 5 customers and the top 10 customers between March and now has had a change, because one of our largest customers previously used to be Cendant. As an organization Cendant has now split into four different entities, so that reclassification is the biggest reason for that change in the top 5 to top 10 customer percentages.



**Ashok Soota:** So in absolute ways we are not seeing any, although you see those percentages apparently having to move down, but in reality the top 5 customers have not really gone down, they have really gone up, but there has been a reclassification.

**Rostow Ravanan:** And, in terms of the geographical mix, obviously US business is seeing a very very significant growth so that is why from quarter ended March to quarter ended June you are seeing an increase in our US business as a proportion of total.

**Moderator:** Hello Mr. Bhaskar.

**Bhaskar:** Yes.

**Moderator:** Sir, this is Gaurav here sir. Sir can you please request the speakers to you know a bit close to the speakerphone sir, their voice is fading sir, that is why.

**Bhaskar:** Ok.

**Anantha Narayan:** You had given us a EPS guidance as well, may be just possible to update that number so that we are on the same page in terms of share count and the exchange rate assumptions.

**Rostow Ravanan:** The EPS guidance we are now giving is (\* speech inaudible \*) now revising to 24.5 (\* speech inaudible \*). The share count itself has not changed. It is just the fall in the guidance that has caused the fall in the EPS.

**Moderator:** Hello Mr. Bhaskar.

**Bhaskar:** Yes.

**Moderator:** Sir, there seems to be some problem with the speakerphone sir.

**Ashok Soota:** Yeah, there is a bit of an echo; are you still not able to hear me now?

**Moderator:** Yeah, means I am able to hear one speaker, but when the second speaker speaks there seems to be a echo that is coming sir.

**Ashok Soota:** Okay, so earlier when Rostow was replying were you getting an echo?

**Moderator:** Yeah, means just now when the other speaker, other than you who is talking sir.

**Ashok Soota:** Okay, so may be what we will do is we can just both of us can be closer this side.

**Rostow Ravanan:** Anantha, this is basically a response to your question.

**Anantha Narayan:** EPS numbers again.

**Rostow Ravanan:** We are revising the EPS to 24.5 from the previous 29.

**Anantha Narayan:** 24.5?



**Rostow Ravanan:** Yes, there is no change in the share count assumption per se, it is only the change in the guidance that is causing change in the EPS guidance.

**Anantha Narayan:** Just to reconfirm, you said, 24.5 right?

**Rostow Ravanan:** That is correct.

**Anantha Narayan:** Thanks Rostow.

**Moderator:** Thank you very much sir. Next in line we have Mr. George from Edelweiss.

**George:** Yeah, hi, congratulations to the management on a set of good results, especially on the revenue front. I had a few questions, you know, how do you define your annuity business?

**Ashok Soota:** Well the annuity business is really comprising of three components; one is the maintenance, which is directly there, we have as you know launched the IMS practice last year, and a fair bit of testing business and a very small part of the development business that is being classified as being annuity, for this purpose when I'm giving you 33%. Just to keep it simple we have treated the whole of the testing business as annuity, no number out of the development has been annuity, but you can visualize that within development itself there are large number in ODCs, etc. which are virtually like annuities, but we are not counting that at all.

**George:** Okay, so basically it is maintenance, infrastructure management and testing.

**Ashok Soota:** Yeah, exactly.

**George:** Okay, I am just wondering if there is any seasonality to each of your main lines of businesses i.e. IT services and R&D, because the release says that your R&D services have grown 20.3% YOY in USD dollar terms, which is significantly below that of your IT services at 36.4.

**Ashok Soota:** Sure, you know I will ask Mr. Janakiraman to address the issue on the specific issue regarding the growth of R&D services, but this is not necessarily due to seasonality, there could be other cyclical other factors which could have contributed to this, though seasonality wise there is a fact that in this quarter Japan, which we get the bulk of our R&D services business in the past, tends to be slow in this quarter and then picks up. But Mr. Janakiraman can give you specific other factors if you have a question on R&D services.

**Moderator:** Sir, just a moment, your voice is again fading sir. Can you please come near to the speakerphone?

**Ashok Soota:** Actually, I am almost as close as I can. So, you will have to just hope that it is going through well.

**Moderator:** Yeah, it is audible now sir, you can continue.

**Ashok Soota:** Thank you. So, as I explained to you there is no essential seasonality. There is what you would call as a geography issue in Japan for R&D services. In R&D services there is one other factor, which isn't seasonality but lumpiness in the research business. That number is also given to you where in terms of the fact that clearly there has been lower IP licensing in this quarter, so that would also then have together with the Japan factor have contributed to what



that lower number that you have seen in R&D services. There is an additional factor, since you are on R&D services, we may as well close it, and that is the fact that there would have been significant consolidations in some customer base, which would have led to temporary let us say reassessment and therefore things will begin to pick up once these things have settled down and the consolidation impact is over.

**George:** Okay, fine. The other thing is I would just like to understand what your guidance was based on in terms of exchange rate at the end of the last quarter and what is based on now?

**Rostow Ravanan:** The guidance at the end of last quarter was based on the exchange rate of 42.25 to the dollar and now it is at 41.

**George:** At 41?

**Rostow Ravanan:** That is right.

**George:** Okay, I am just trying to think aloud here, given the strong revenue growth that we have had in this quarter, was there a case for raising the revenue guidance just may be a little bit upwards from what was earlier guided?

**Rostow Ravanan:** Sure, if you see our guidance, anyway it assumes fairly strong consecutive sequential quarter growth and we are projecting a revenue growth from approximately 130 million to about 180 million, and so frankly the business is executing on plan, we see strong traction, we also at this stage don't believe that there is a cause to revise the guidance either upwards or downwards right now.

**George:** Okay, fine. One last question from my side, have you recruited 530 professionals or so just in the last 3 weeks?

**Rostow Ravanan:** Yes, the campus joiners on 1<sup>st</sup> of July, I think 2<sup>nd</sup> of July in fact was the Monday of the month. 500 campus joiners joined us on 1<sup>st</sup> of July.

**George:** Okay, so basically right now you have got close to 5000 professionals?

**Rostow Ravanan:** Correct.

**George:** Okay, thank you so much.

**Ashok Soota:** Thanks a lot.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1 now. Next in line we have Mr. Kawaljeet from Kotak. Please go ahead sir.

**Kawaljeet:** Hi! I have a couple of questions. First, Rostow, do you follow a cash flow hedge method of accounting for forward covers and what is the rupee dollar realization for the June quarter for you?

**Rostow Ravanan:** Sure, the rupee dollar realization rate for the June quarter was 41.4.

**Kawaljeet:** 41 point?



**Rostow Ravanan:** 41.4. Yes, we do follow cash flow based hedging, which means the hedges that are available for the next 3 months at the quarter end get marked against our receivables and we don't account for a gain or loss in hedges that are longer than (\* speech inaudible \*).

**Kawaljeet:** Let us say if you were to mark you know not for the cash flow hedging but just mark to market your entire forward cover and assume the gains or losses below the EBITDA line, then what would have been the decline at the EBITDA level been?

**Rostow Ravanan:** It would actually been a positive for us. The problem is that the cover varies on a daily basis, for example if we did it on the 30<sup>th</sup> June it would given us another 1.5 crores worth of gains, and the same number if we had done it on 9<sup>th</sup> of July it would given us almost 13 crores worth of gains, so it is a a fairly sensitive number to (\* speech inaudible \*) and we also want to apply (\* speech inaudible \*).

**Kawaljeet:** Rostow, you are breaking up, I am not able to hear you clearly.

**Rostow Ravanan:** If we had done mark-to-market accounting on 30<sup>th</sup> June it could have given us a gain of another 1.5 crores.

**Kawaljeet:** Okay, I mean can you just offer us an entire margin reconciliation quarter-on-quarter you know there is a dip of 280 basis points, can you just reconcile the various items which you know contributed to this decline?

**Rostow Ravanan:** Sure, approximately 3% point decline was because of the rupee, because the exchange rates appreciation of the rupee was about 6%. The wage increase contributed to a little bit, and we also had things that we put in place in terms of cost savings or other operational efficiency measures which have given some gains, so that is why you see a net impact of little less than 3% for the quarter.

**Kawaljeet:** And as far as you know wage increase is concerned, for which all levels have been that been effected for the current quarter?

**Rostow Ravanan:** For our offshore based people, typically at the junior levels what we have covered right now, like I said 53% of our people have got their wage increases effective 1<sup>st</sup> April.

**Kawaljeet:** I think the more relevant number would be you know what percentage of your salary bill you know what is the contribution of this as a percentage of overall salary bill?

**Rostow Ravanan:** Yeah, 40% of our salary bill has seen this revision on 1<sup>st</sup> of April.

**Kawaljeet:** Okay, and that is only for offshore?

**Rostow Ravanan:** That is right.

**Kawaljeet:** Hello.

**Bhaskar:** Yes. This is Bhaskar here.

**Kawaljeet:** Hello.

**Rostow:** Yes Kawaljeet go ahead.



**Kawaljeet:** Okay, now as far as your guidance is concerned, you know it looks like that you had to do something 9.5% dollar sequential growth for the next three quarters to achieve your guidance, which is a fairly strong or if you don't mind fairly aggressive number, now where is the management confidence on this strong revenue growth coming from, and can you just walk us through some of the engagement wins you had to give you this comfort?

**Ashok Soota:** Yeah, you know at an overall level we do believe that it is like we had done when we did the original guidance that we believe it is a balanced number, it is a realistic number – neither optimistic nor conservative, and in fact the trend of the last two quarters only reconfirms that. And we have also indicated to you obviously that there has been a strong customer addition, so we believe that the inherent traction is itself will take us to those numbers. Now I am not sure if you have any more specific question to that, in which case we can obviously try and address that. Now the two business heads can address your specific response.

**Kawaljeet:** The key question over here is that would the growth be led by the enterprise business or would it more accrue from the R&D services?

**Ashok Soota:** Overall, I think if you see the traction that we have now had in this quarter, it is fairly evident that IT services has had a faster growth at least in this quarter than the R&D services, we expect R&D services to now pick up in the rest of the year, and to that extent you would see that both the businesses would be contributing going ahead.

**Kawaljeet:** Okay, thank you.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Bhaskar for final remarks.

**Bhaskar:** Thanks Gaurav. Thank you everyone, we appreciate you taking time to participate in this call. We look forward to talking to you during the quarter or at the end of next quarter. Thanks once again.

**Ashok Soota:** Thank you.

**Moderator:** Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.

