MindTree Limited
Investors/Analysts Conference Call
(April 16, 2008, 6:30 PM IST)

Moderator: Good evening ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to earnings conference call of MindTree Limited for the fourth quarter and year ended March 31, 2008. 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. After that, the question and answer session will be conducted for participants in India. I would like to handover to Mr. Bhaskar. Thank you and over to you sir.

Bhaskar: Thank you Sandhya. Good evening and welcome everyone to this conference call to discuss the financial results for MindTree Limited for the Fourth Quarter and Year ended March 31, 2008. I am Bhaskar from the Investor Relations team in Bangalore. We have with us the senior management team including Mr. Ashok Soota, Chairman and Managing Director; Mr. N. Krishnakumar, Chief Executive Officer; Mr. S. Janakiraman, President and CEO R&D Services; Mr. Vinod Deshmukh, President and co-CEO R&D services; Mr. N. S. Parthasarathy, Chief Operating Officer; Mr. Rostow Ravanan, CFO, and Mr. Puneet Jetli, Vice President and Global Head People Function. The agenda for the session is as follows. Ashok and Rostow will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session. Before I hand over, let me begin with the 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 these statements periodically. I now pass it on to Mr. Ashok Soota.

Ashok Soota: Good evening and welcome to the analyst conference call for the Quarter and Year ended March 2008. I am happy to inform you that MindTree has had an outstanding quarter with a 14.5% serial growth over the previous quarter to 55 million dollars, and this has enabled the Profit After Tax to have a serial growth of 65% in dollar terms, and with this, we have beaten our guidance for Total Income and Profit After Tax for the year. Our Total Income was 191.1 million dollars, representing a growth of 44.4% in US dollar terms and 28.4% in Indian rupee terms over last year. This is higher than the guidance which we had given the last quarter we had raised the original guidance as you know in the beginning of the year was 178 to 180 million dollars, and the beginning of last quarter we had raised this to 186 million dollars. So, we have beaten that also quite significantly. The PAT for the year was 25.7 million dollars, representing a growth of 28.9% in US dollar terms, and 14.7% in Indian rupee terms over the same period last year. This is also higher than our guidance of 22.5 to 22.6 million dollars. The EPS for the year was Rs 27.45 as compared to Rs 28.98 last year and higher than our guidance of Rs 24.5. This is on a consolidated basis along with our subsidiary MindTree Technologies Private Limited, and for Fourth quarter of 08, MTPL has revenues of 1.6 million dollars, and incurred a loss of 222,000 dollars. Overall, the business momentum has been very strong. All our geographies have shown solid quarter-by-quarter growth, and in terms of our service offerings, our Package Implementation, our Infrastructure and Tech Support and Testing have shown the highest traction. We see all our verticals, our industry groups continuing to do very well. This year has been one of our best years for various recognitions we received, and these have included recognitions in the area of Corporate Governance, Innovation, Knowledge Management, and People Practices. All of these contribute towards our Vision of being amongst the most admired companies in our industry. Our people brand continues to be strong, and on a gross basis, we added 488 people during the quarter. The attrition on a trailing 12 month basis was 15.8%, and this compares to 16% in Q3. The number in the previous year in the same quarter was really more or less comparable. Things do look very bright, and of course there is overall concern on the macroeconomic weakness in the US as well as the possible recession there. However, our pipeline, business pipeline continues to look strong, and with this overview, now let me pass this on to my colleague Rostow to share few other highlights, and we will thereafter open the floor for questions.

Rostow Ravanan: Thank you Ashok. This is Rostow, and good evening to everybody on this call. On a consolidated basis, our software revenue for Q4 was 52.9 million dollars. In dollar terms, this represents a quarter sequential growth of 12.2% and an annual year-over-year growth rate of 49.2%. In INR terms, the Q4 Software Revenue grew 12.5% sequential quarter and 34.0% year over year. Of the growth that we had in this quarter, the fee revenue growth was 11.9%, which translated to a volume growth of 11.7% and a pricing realized rate growth of 0.2%. This is on a consolidated basis. On a standalone basis, our realized rate improved by little less than 1%, but the realized rate fell a little bit on a consolidated basis because the acquisition that we did, which is Purple Vision, which was done in December 2007, had marginally lower rates than MindTree. In the quarter, we added 23 customers and have 206 active customers as of 31st March, 2008. Within these, we have 46 million dollar customers which is up from Q3 by four numbers. In Q3, we had 42 million dollar customers. We have 6 5-million dollar customers. This is up from 4 in March 2007, and we have two 10-million dollar customers. During the course of the year, we mitigated the rupee appreciation through a combination of operational efficiency, productivity improvement, and revenue growth, which can be seen both at our EBITDA level, where EBITDA has growth to 18.1% in Q4, compared to 17.2% in Q3. At a PBT level, our margins were exactly the same as of March 07, which shows how we have defended margins in the course of this year in spite of close to 12% rupee appreciation. The average exchange rate for Q4 was 39.6 as compared to 39.51 in Q3. As of 31st December, we have hedged about 160 million dollars worth of forwards and options. The average rate for this is 42.30. Within this 160 million, hedges were 90.5 million for the next 12 months which is at an average rate of 40.97. Coming to our guidance for next year, our guidance for March 09 on a consolidated basis is as follows. Revenues of US dollar 228 to 238 million, PAT of 31.7 to 33.1 million, EPS of Rs. 32.7 to 34.1, and this guidance assumes an average exchange rate of 39.40 for the year. The guidance like in the last year has been derived on the basis of what we see as a realistic picture for our business, and the business environment as of now. We are confident that our differentiated and value-added offerings will continue to maintain strong customer traction, and our innovative people practices will make us be seen as a best employer in the country. We will now open the floor for question and answers.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor to WebEx International Moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you Laurie.

International Moderator: Thank you Sandhya. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. Your first question comes from the line of Devang Kothari of JMP Securities.

Devang Kothari: Hi guys, this quarter, had a couple of questions, and this I think for Rostow. Would you talk a little bit of the pricing environment out there and what type of price increases that you are getting on renewals and new contracts?

Rostow Ravanan: Sure, Hi Devang, good to hear from you. We are seeing a stable pricing environment. As you would have seen, over the last 4 quarters, we have consistently managed to get good price increases from both existing customers and contract renewals. We are expecting more or less the same trend to continue for the next year as well.

Devang Kothari: Rostow, could you quantify that by any chance, what type of, is it 3 to 5% range, what type of increases are you seeing?

Rostow Ravanan: Sure. If you could just look at the last 2 quarters for us have been a price increase of 0.2% in Q4 versus Q3, and Q3 versus Q2 was 2.1%, and Q2 over Q1 was 3.4%. So, more or less, we are running at the similar averages for the year as a whole, and we expect the same trend to continue in the future as well.

N. Krishnakumar: Devang, again just to substantiate this, the Q4 is on a consolidated basis, which has impacted a little bit by the acquisition which we did, which had lower realization rate. On a standalone basis, it would be little above 1%, around 1%.

Devang Kothari: Okay, so even at 1%, it seems to be moderating a little bit, is that just seasonal and you see that every year or is this something particular about this year that caused the moderation?

Rostow Ravanan: From an environment point of view, we are not seeing this as anything specific from the environment. I think it is a function of the fact that our rates have consistently increased over the last maybe 18 months or 24 months. That is causing the moderation. From an environment standpoint, we continue to see a positive and a stable environment.

Devang Kothari: Okay great, and certainly having your results and your guidance, when I compare to some of the larger vendors, you now, really strong, very solid. As you look at your guidance, how much of growth are you assuming is coming from price increases and how much is coming from head count additions?

Rostow Ravanan: Sure. We are not giving specific breakdown on that at this stage within the guidance, Devang. All we are saying is that we expect a strong environment, and we now want to maintain our trend of you know trying to shoot of efficiencies both on price and volume growth.

Devang Kothari: Okay, and just the last one, and I will let other people get in the queue. From the service offering perspective, which service offerings are you seeing the greatest traction?

Rostow Ravanan: I will hand this question over to KK who will answer this for our IT Services business and thereafter to Jani to answer this question for our R&D Services business.

N. Krishnakumar: Devang, really if you look at, I think, in IT services, we have a broad range of services which addresses most of the requirement of an enterprise, and clearly in some of the practices like Independent Testing and Validation, we see strong growth traction. Infrastructure Management is another practice where again I think we are seeing fairly strong growth, and over the last two quarters we have certainly seen services in Business Intelligence, Data Warehousing, as well as our Package Implementation business both having strong growth traction. Jani, do you want to add on the R&D?

S. Janakiraman: The R&D services, the consumer appliance area in terms of the digital, audio-video digital home area, as well as the handset area are the ones where we are seeing maximum traction as far as the vertical is concerned. As far as services are concerned, surely the testing is one area where we are seeing lot more opportunities coming our way in terms of product testing interoperability and qualification, and in addition to that, we are seeing a trend in terms of increase on the services related to the multimedia, DSP, codec, and those kind of areas, which are much more again applicable for the consumer appliance space.

Devang Kothari: Great results guys, congratulations.

Rostow Ravanan: Thank you.

Moderator: Participants who wish to ask questions, please press *1. Your next question comes from the line of Kanchana Vydianathan of Pacific Crest Securities.

Kanchana Vydianathan: Hi, thank you for taking the question. I want to know if you could speak about the banking financial services sector. What are you seeing with the clients' spending environment especially this year?

N. Krishnakumar: Again, just to give you a context, in IT services, initially, we as a strategy focused on what we call more the underserved verticals which is Manufacturing, Travel, and Transportation, which are big industries for us. If you look at our Banking Financial Services and Insurance, now it contributes in the last quarter ending 31st March, it is 24.8% of the IT services revenue. Again, out of this, if you look at Insurance, we are certainly seeing a growth traction. We do anticipate good growth. We are seeing a strong momentum in Insurance. Within Banking and Financial Services, we have two main groups. One which addresses the Capital Markets, where we are seeing clients slowing down in terms of what decisions which they are making and certain shift in terms of spending patterns. So to that extent, we do see some headwind in the Capital Markets industry. In Banking and Financial Services, our focus in Banking is really on the mid-size banks, where we are not seeing any slowdown. In fact, they are new entrants to the offshoring market, and people are looking at how they can really enlarge the offerings, but in Financial Services, particularly on the Consumer Finance side, we are seeing the first signs of people being cautious. Budgets are still being maintained at the same level, but certainly we are not seeing an expansion of budgets.

Kanchana Vydianathan: Okay, so when you say the budgets are being maintained, are you talking about the overall IT budgets or is that just the offshore component as well is just being maintained?

N. Krishnakumar: The overall budgets are being maintained now.

Kanchana Vydianathan: Okay, but then within that overall IT budget, is the offshore component increasing or you getting a sense that you are working towards that even though that you are seeing a lag in the decision making process?

N. Krishnakumar: See, decisions are certainly taking longer than what it used to be, so we do anticipate people get into optimizing their budgets more. It could turn out to be positive, but at this point in time, I think it is little early in the game, as we progress towards the year, I think, we will get more clarity on that.

Kanchana Vydianathan: Okay, thank you. One other question was with respect to on the hiring front and on the wage inflation. Can you give me a sense as to what are you are anticipating with respect to wage hikes in the offshore and the onsite locations for this year and also as you go back to campus for recruiting for next year, what are you anticipating for fresher wage hikes?

N. Krishnakumar: I am going to give it to Head of People Function, Puneet, to give you these.

Puneet Jetli: Yeah. Let me take your second question first. In terms of, you know, campus offers that we are making for the next fiscal year, we are actually maintaining the current salary levels, so we are not seeing any pressure on increasing the entry level salaries now. Coming to your first question on, you know, the environment on wages overall, you know, we have a very systematic process of actually finding out, you know, and benchmarking our compensation with respect to certain competitors in the industry. We actually are in the process of compiling that data, which should be ready by, you know, around middle of May kind of timeframe, and based on where we are, we would actually then want to ensure that we maintain the external equity. We want to benchmark our compensation and maintain it between the 66^{th} and the 75^{th} percentile, and that is what we would be hoping to do, and once the data is ready, it will tell us, you know, what kind of wage increases we have to really factor in for the current year. In terms of head count additions for the guidance that we are giving, we are expecting a net addition of around 1200 people.

Kanchana Vydianathan: Thank you. That is very helpful.

International Moderator: Participants who wish to ask questions, please press *1. Participants who wish to ask questions, please press *1. At this moment, there are no further questions from participants at WebEx International Center. I would like to handover the proceedings back to Sandhya.

Moderator: Thank you very much Laurie. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your 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, please press *1 now. First in line, we have Mr. Hitesh Shah of Citigroup. Over to you sir.

Hitesh Shah: Congratulations on a good set of numbers. Just had a small question on your guidance. What is your assumption on the margins that is built into the guidance for earnings growth?

Rostow Ravanan: We are guiding to 13.4% PAT margins.

Hitesh Shah: In terms of operating margin, are we looking at an expansion in the operating margins?

Rostow Ravanan: No…we are expected of stable operating margins for next year.

Hitesh Shah: What would be the outlook on the tax rate and the depreciation?

Rostow Ravanan: Depreciation would increase next year because we had large capacity additions in terms of physical infrastructure as we had planned in the course of this year, so we expect the increased depreciation to come on that from next year onwards including some of those facilities that were capitalized in the middle of this year, so next year, we will have full depreciation for those, and there will be marginal increase in tax rates as well. On an effective tax rate basis, we have marginal increase in next years' taxes.

Hitesh Shah: How much should we assume for the next year's tax rate?

Rostow Ravanan: 10% effective tax rate.

N. Krishnakumar: 10.3.

Hitesh Shah: Okay. Thanks. I will come back for further questions if any.

Moderator: Thank you very much Sir. Next in line, we have Mr. Chetan from Templeton. Over to you sir.

Chetan: Hi, I just would like to enquire the reasons why you are able to beat the guidance by such large margin in the last quarter, and what does it say for the predictability of the business if the outperformance can be so vast as compared to the prediction?

Rostow Ravanan: The outperformance on guidance is 191 versus 186. There is a 5 million dollar outperformance in that sense. To that extent, I don't think it is a function of predictability or anything that was affecting the business or whatever. It is, you know, the momentum that we are seeing between Q4 versus Q3, and that has led to that performance.

Ashok Soota: I think we should also be, I mean, just a thing in, there is a certain issue on revenue recognition, which does take place quarter by quarter, as we are not sometimes able to put certain, get 100% of our billing, and clearly what has happened is we have been able to get the benefit of ensuring that we have a done 100% revenue recognition on all our contracts in this quarter, a little bit of leeway on that score, and that has really come to this quarter.

Chetan: I mean, the followup question is that at the end of third quarter probably, you know, I am just talking of Q4 versus Q3 because you reiterated the guidance at the end of Q3, so it is really this one quarter where the outperformance appears to be very stark, so it was not really on an annualized?

Rostow Ravanan: Chetan, I don't think that, that was the way. We have always given an annual guidance. We had marginally upped the annual guidance at the end of Q3, and the good tailwind that we got in Q4 from a business point of view helped us beat that estimate.

Chetan: It was not something which really was unexpected kind of or was there something in the quarter, which turned out to be positive from the way you had planned it.

Rostow Ravanan: I don't think there was anything unusual that had happened in the course of the quarter.

Chetan: Thank you.

Rostow Ravanan: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil Thirumalai of Credit Suisse. Over to you Sir.

Sunil: Hi Sir, I am Sunil from Credit Suisse. Just a question, following, continuing on the guidance comments that you gave, I am getting a sense that probably the guidance for next year after what we have seen this year could be a bit on the lower side. What is your take on that?

Ashok Soota: I am not sure whether you are saying is it conservative or you are saying ?

Sunil: Yeah, I feel it is a bit conservative, given the momentum that you have been having, I mean, in terms of your yearly top end growth.

Ashok Soota: You know, if you really look at these numbers, if you see year-to-year growth in rupee terms, the current year, which we just finished reporting on, 07-08, has had 37.3%. The guidance for the next year, if you convert that range of ours, it is 21.5 to 26.8, so if you really, overall, look at this, it is not, you know, when you consider the size, obviously base is higher, clearly, we have global concerns. I mean, we have to be absolutely sure about that, and to that extent, I would say that it really does look like a very balanced number, I mean, I don't think we should get carried away by the one quarter which has really been outstanding, and you must appreciate that in the sense has increased the base for the next and itself.

Rostow Ravanan: Sunil, like we have done even in the beginning of last year, we give the guidance based on what we believe is the reasonable estimate for us and keeping all these positives and negatives in mind when we give the guidance, so that is exactly the same basis we have adopted this year as well.

Sunil: Okay, so just following up on one of the comments that you made. So, are you seeing any material impact due to global concerns that you mentioned or is it just a conservative number that you have taken when you are building up your guidance?

Ashok Soota: You know, personally, I don't think it is conservative. I do believe it is balanced.

Sunil: Okay, okay.

Ashok Soota: It reflects a larger base, and I think it certainly does reflect that the overall global environment as we begin the year is certainly got more clouds on the horizon than it had in the beginning of last year, and there could be factors like the US being in recession or likely to go into recession, and obviously, the probability that some of this could spread into other sectors.

Sunil: Okay, and Sir just wanted to recheck that you said that you could expect stable operating margins for next year. Is that right?

Ashok Soota: That is right.

Sunil: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Viju George of Edelweiss. Over to you sir.

Viju George: Yeah, thank you, thanks for taking my question and congratulations to the management. I just want to take over the point that was raised in the previous question. It seems to me that you know the lower end of guidance assumes just a 3% sequential growth for the next 4 quarters and upper end at around 5%, so you are more comfortable guiding to between 3% to 5% through the next 4 quarters.

Rostow Ravanan: Yeah, the only thing Viju is we would like you to not look at it on a quarterly basis because in our mind that is not the way we look at it. The guidance is for the year as a whole, and on the year as a whole, it is 24 to 29% growth over current year's base, so that is the way we look at it.

Viju George: Yeah, but given your track record in the last 3 to 4 quarters, at least in terms of sequential quarterly growth rate, is not that you know, at least, I mean, is it 50% lower than what you have done in the last couple of quarters really, so you are building in adequate headroom for any headwind coming to the system, right?

Rostow Ravanan: I would not call it that way. Like I said before, and I think the same point which Ashok made as well. This is what we believe is the realistic assumptions for our customer base and you know our feedback from customers, etc, and this is what we believe we can reasonably guide to for next year.

Viju George: Fine. My next question relates to, you know, what we are beginning to perhaps see in the sector, this trend of back-endedness, you know, at least some of majors who have declared so far have talked about that continuously, is there any back-endedness so to speak in this guidance or would we expect more, you know, linear kind of an uniform trend to this number?

Ashok Soota: You know, since we are not giving quarterly guidance, in a way, we have a little hesitation in answering you here, and I think, overall, what we would like to guide towards is that we have got this overall numbers that we have given you, and we will strive towards uniformity, but this does not mean that, that is where we are necessarily heading towards. I would not also say that it is necessarily back-ended, you know, if you had concerns on that having seen a couple of other forecasts.

Viju George: Okay, fine. My other question relates to the India revenues. Again, what you have seen an extremely robust traction here sequentially, quarter basis, what is exactly driving this and what is the margin outlook, I mean, at least on this line of business?

Rostow Ravanan: The growth from Q4 versus Q3 was to certain extent anecdotal in terms of some large customers whom we had in this quarter. Margin wise, we are very, very comfortable with the level of margins that we get from the India business.

Viju George: Okay, is it comparable to the overall business?

Rostow Ravanan: It is marginally lower, but it is…..

N. Krishnakumar: The cost of sales is far lower.

Rostow Ravanan: Far lower, and we are able to execute it with a lower average experience base, etc, from a customer delivery point of view, and so we are quite comfortable with the margins we get from our domestic business.

Viju George: Fine, alright. I have one more specific question, if I may raise that. How much is Purple Vision expected to contribute in FY09.

S. Janakiraman: FY09, I expect it to contribute somewhere around 4.5 million dollars to 5 million dollars.

Viju George: 4.5 to 5, okay. Maybe one more question. Your DSOs have shown an increase. I mean, it is not alarming, it has gone from 83 to 87, but is not it sort of slightly on the higher end now when we compare it with the rest of the sector?

Rostow Ravanan: Absolutely yes. It is something that is, you know, on our radar, and we are doing a lot of both process and other improvement to try and bring that down.

Viju George: Okay.

N. Krishnakumar: What happens is that we have started some large customer engagements for the last couple of months, and in the first 6 months is when you understand the customer's payment cycle and process, and as it stabilizes clearly you will see a downward trend in the DSO.

Viju George: Fine, thank you.

Moderator: Thank you very much Sir. Next in line, we have Mr. Hitesh of Religare Securities. Over to you Sir.

Hitesh: Good evening to the management, and congratulations on good number. Sir, I would like to take forward the guidance discussion further, we just discussed whether it is back-ended or not, the current guidance, does it factor in, is the current scenario that you forecast for FY08, what if the scenario improves in the in the latter half of the year in US, you might further increase the guidance going forward.

Rostow Ravanan: Difficult to say Hitesh. This is the guidance we are giving as of now, and if we believe there is any material change, we will update it during the course of the year, but otherwise, this is the guidance that we are giving for the year as a whole.

Hitesh: Also, could you break the growth in quarter 4 in terms of organic and inorganic?

Rostow Ravanan: Quarter 4, the inorganics was very small portion. Out of the 55 million dollars of consolidated income for the whole quarter, 1.6 million came from inorganic growth.

Hitesh: Thank you, thank you very much Sir, and all the best.

Rostow Ravanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Krishnan from Spark Capital. Over to you sir.

Krishnan: Hi, I just have one question pertaining to the product development revenues. In case of a very tough economic scenario, do you expect your development revenues to keep moving up or you expect some sort of downtrend in development revenue?

S. Janakiraman: In terms of the R&D services, overall revenue, we expect the growth to continue at current level. Surely, there will be some level of churn in terms of some of the technology companies going through trouble and then you know cutting budgets, but at the same time, there are other companies which are looking at offshoring much more actively, so that they are able to control their R&D costs, so there can be some change in the mix of business, but overall growth trend, I don't think it is impacted beyond a point.

Krishnan: What about the development revenues in IT services, I mean, do you have any development revenues there?

N. Krishnakumar: Yes. See, clearly, there are two trends which we are seeing in the IT services on the development percentage compared to December 07 to March, we have had about 0.5% increase, so this is clearly unlike earlier times where there is the thing, people today are investing in key business critical applications to be built, and we are not seeing a let up where it is very critical to the business. What is also interesting is that our maintenance as a percentage of our revenue has gone up to almost 1%, which gives us more predictability in terms of our revenue.

Krishnan: Okay, and pertaining to the type of projects you are signing right now, do you see an increase in time-and-material contract or you sort of negotiate for a fixed price contract, I mean, how do you find the contract negotiations going on with the new client?

Rostow Ravanan: I don't think this is the trend per se. I think different clients take different stand. Our view has always been that if the scope of the project is very, very clear and well understood, we are going with fixed price bid for those kind of projects. Now, where we believe something are, you know, yet unclear, those we gone on time-and material basis, so it is very situational specific sort of view that we take with customers. We are not seeing a big change in the environment on that front.

Krishnan: Okay, thanks a lot.

Moderator: Thank you very much Sir. Next in line, we have Ms. Madhu of Systematic Group. Over to you ma'am.

Madhu: Yes sir. My question is what is the targeted utilization rate. Currently, we are operating at 66% I guess, so can we assume some upside over there?

N. Krishnakumar: I am going to ask Partha who is our Chief Operating Officer to answer this.

N. S. Parthasarathy: Yes, you are right. We are planning for increase in utilization rate in both our businesses between 3 and 5 percentage points through the year.

Madhu: Okay Sir, and another thing which you are talking of is of focus on the Travel vertical, so do we see any slowdown in this Travel vertical, I mean, considering in a slowdown, this vertical also tends to get impacted?

N. Krishnakumar: See, clearly again, within the Travel vertical, we operate on multiple segments. One is clearly the Airline segment. The second is the Online Travel and Travel Aggregator. We are not seeing a slowdown in either one of these segments. The majority of our business comes from these two subsegments. As of now, we are not seeing any slowdown in either of these. In fact, in the last quarter, travel segment had a fairly good growth, and it is increased from 18.2% in December 07 to 18.7% in March 08.

Madhu: Okay, so we don't expect spend cut even in the airline segment also?

N. Krishnakumar: No. Right now, we are not seeing that.

Madhu: Okay sir, thank you.

Moderator: Thank you very much Sir. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. Next in line, we have Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta: Yeah, hi, good evening gentlemen. Congratulations. I joined a little late, but could you just explain to me the rationale behind your margin uptake guidance for next year?

Rostow Ravanan: Ruchit, we are actually planning for a stable margin next year. The revenue growth would give us some amount of margin expansion, but during the course of next year, we are also you know planning for things that we had cut down from an SG&A standpoint, for example, on sales and marketing, etc. Those investments continue to, you know, need to be made going forward, so these two sort of balance out each other, and we are planning for a stable margin outlook for next year. Assuming the currency of 39.4, which is probably you know little INR appreciation from we are right now, on that basis, we are actually you know planning for a stable margin next year.

Ruchit Mehta: So, are we planning for stable margin from a full year 08 number or only from Q4 number?

Rostow Ravanan: Full year 09 versus full year 08.

Ruchit Mehta: Okay, and can you just also comment briefly on the pricing environment, especially most of the R&D side of business because I would assume there possibly will be more discretionary projects and therefore could be one of the first to get hit in any sort of downturn or slowdown?

S. Janakiraman: We have not seen any pricing pressure so far surely in the R&D services, and rather many of the contracts which came up for renewal during the last 6 months including the last quarter, we had a price increase only actually, but surely the headroom for price increase can come down, but I don't think there is any issue in terms of pricing as such.

Ruchit Mehta: Okay, but any issue on the growth outlook also?

S. Janakiraman: On the growth outlook, I can say the R&D services will be little slower compared to what it had been in this fiscal year, but if you take on a consolidated basis, if you take Purple Vision, it will be higher than the current year in terms of the growth.

Ruchit Mehta: Okay, okay, and finally also just probably some bit of a broad macro sort of outlook also, I mean, most are from the experience that your management team has, I mean, have you seen anything different this time around in this sort of a slowdown or do you think customers are more willing to take up more of offshoring, is that the sort of comment we keep on hearing from all of the IT companies but still missing slackness in first quarter or something in the near-term uncertainty, so?

N. Krishnakumar: See, I think clearly the sales cycle times have increased, but we are seeing newer segments of customers interested in offshoring, particularly if you take a geography like Europe, we are seeing large enterprises wanting to get into the offshoring game. We are seeing renewed interests in Japan across both the IT services and the R&D services, but clearly the decision making time cycles are increasing, which is a different thing which we are seeing at this point, and I am sure when newer sort of customers are entering into exploring this, the decision cycles may be longer but in the medium term, it is certainly going to generate more positive momentum for the offshoring revenues.

Rostow Ravanan: If I understood your question as to saying you know are we seeing anything different now as compared to say 2001, etc, where the previous slowdown happened, economic slowdown happened.

Ruchit Mehta: Yeah.

Rostow Ravanan: I think there are a couple of big differences between now and then. The slowdown in 2001-2002 in a sense of sort of technology induced slowdown, and therefore probably permeated all verticals across all segments, whereas now if at all you can call a certain amount of softness is probably localized to say Financial Services, and at best maybe a little bit in Retail, but Manufacturing or Travel, etc, are not currently seeing the same level of impact. The second difference which we are seeing now as compared to 2001-2002, there it was only a global sort of slowdown at that stage, here we are not seeing the same level of impact say in some parts of APAC and in some parts of Europe, so I think you know some markets are doing well even in today's environment.

Ruchit Mehta: Okay, so what is the risk to your guidance. I mean, if one want to take the call, what can sort of you know make you come back and sort of reduce your guidance from a worst case perspective?

Rostow Ravanan: From a worst case perspective, there will be a really, really big environmental changes what we see as a risk. Other than that, we are reasonably……

Ashok Soota: I would just add that we don't foresee reducing our guidance, if you could balanced guidance, and we are not seeing any disaster scenarios in the horizon, and irrespective of what people are saying about economies, I still think that is reasonably predictable. and to that extent, it is a reasonably good, well-predictable, balanced guidance.

Ruchit Mehta: Okay, thank you so much.

Ashok Soota: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ruchir Desai of Pioneer Invest. Over to you sir.

Ruchir Desai: Hi, good evening. Congratulations on the numbers. Just a couple of questions. One of them on pricing again. You mentioned that pricing environment is stable and expect to be have the same trend in FY09 as well, but could you throw some color on what is the pricing environment in the BFSI vertical at present considering that you are saying Capital Market clients are seeing delay in decision making and Consumer Banking also seeing some concern?

Rostow Ravanan: The financial services market, right now, we are not seeing a pricing pressure per se, but what NKK mentioned was that there is some decision making slowdown, etc, in that space. Otherwise, within our customer base, we are not seeing any sort of impact on the pricing environment there.

Ruchir Desai: Could you break up the revenue which comes from Insurance and which comes from BFS if possible?

Rostow Ravanan: See, 24.8% is BFSI, of which Insurance would be about 11%.

Ruchir Desai: Alright, great. Just one last question. Did I understand correctly or you correctly said, wage levels of freshers joining in FY10 are same as last year for FY09?

Rostow Ravanan: That is right.

Ruchir Desai: Alright, fine, thank you. All the best.

Moderator: Thank you very much sir. Next question comes from Mr. Neeraj Dalal of Capital market. Over to you Sir.

Neeraj Dalal: Good evening Sir. Sir, I wanted to know the effective tax rate. I was not clear?

Rostow Ravanan: Effective tax rate for next year is planned to be 10%.

Neeraj Dalal: 10%?

Rostow Ravanan: Yeah.

Neeraj Dalal: And what would be the CAPEX for the next year and what was it for this year?

Rostow Ravanan: This year CAPEX was about 50 million dollars and next year CAPEX is estimated to be a little less than 18 million dollars.

Neeraj Dalal: Okay, right, and Sir what is the wage hike policy because you said that in May you would be in a better position to know what wage hike would be, so what is the wage hike policy that you take?

N. Krishnakumar: I am going to ask Puneet to answer this.

Puneet Jetli: Sure. You know, our philosophy as I said is to be able to maintain, you know, external equity, so that we are able to attract the talent to MindTree, and you know, benchmarking will tell us, you know, in terms of where we are and where we need to go, and based on that, we will then decide on the quantum of increase.

Neeraj Dalal: So, it would be effective 1st of April or how would….?

Puneet Jetli: You know, right now, we have not taken a call. Again, it really depends on where we are and what the benchmarking shows. As you would have seen in the past few years also, we have really gone by what the results have told us and what is really the need for correction, so once we have the data in front of us, then we will have a comprehensive review and then make the decisions, so the next time we speak we will be able to give you the exact picture.

Neeraj Dalal: Right, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Shreyas of IDFC SSKI Securities. Over to you sir.

Shreyas: Hello, I just wanted to know about the R&D services division. There, the revenue growth has been very muted in the last couple of quarters, and now you are saying that the growth in next year also will be lower than this year. So, any reason for that?

S. Janakiraman: See, the overall revenue growth of R&D services, if you take, in the last year on year basis for the whole year, we have grown 25% over the previous year without the Purple Vision acquisition, and we have grown 29.7% with Purple Vision. Purple Vision only the last 4 months come into picture actually, and surely for the next year also, we are also talking about a similar kind of growth rate.

Shreyas: Okay. Sir, kindly, during the quarter you have taken one shareholder approval for increasing some limit for debt, so any big ticket acquisitions in pipeline.

Rostow Ravanan: Nothing in the pipeline that we can announce as of now. It was an enabling resolution because we planned in terms of ongoing CAPEX additions in new locations, etc, as well as enabling resolution, if acquisition opportunities come our way, we did not want this to be a bottleneck at that stage, so at this stage purely an enabling resolution.

Shreyas: And Thirdly, what is your annuity-based revenue this quarter?

Rostow Ravanan: Annuity-based revenue this quarter has gone up in this quarter like Ashok had mentioned to 39% from 38% in the previous quarter.

Shreyas: Okay fine, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Ashi Anand of Kotak. Over to you sir.

Ashi Anand: Congrats on a good set of numbers. The question is actually on client mining. While we have grown our revenue fairly well, in terms of number of clients, I mean, that has grown fairly significantly from last year from 150 to 200, and even in terms of kind of 5 million dollar clients, we are still at about 6, just kind of 4 has gone to 6, just trying to understand in terms of future growth, do we need to keep adding new clients or can we kind of improve the client mining strategy and what are the kind of things we are doing in terms of improving client mining to get larger numbers, 5 million plus clients?

N. Krishnakumar: Yeah, again, one of the key things you have to relate, within our businesses, in the R&D services business, we tend to work with the large number of start-up companies, so you find the number of customers more, and also a few active customers have come in through the Purple Vision acquisition, so that is how you find the number of customers jumping up fairly sharply. If you look at purely 1 million dollar and 5 million dollar customers, there has been growth. If you look at vis-à-vis December 07, we had 42 one million dollar clients, that has grown up to 46, while the 5-million and the 10-million dollar accounts have stayed at the same level.

Ashok Soota: Actually, if you see the growth over the year here is dramatic because the 1-million dollar accounts have grown from 31 to 46 in one year, something like a 50% increase.

Ashi Anand: Sir, actually the question was not about the 5 million in terms of because base has also increased quite a lot now, so just wanted to understand….

Rostow Ravanan: Five million customers went up from 4 to 6 in the course of one year.

Ashi Anand: Okay.

Rostow Ravanan: Clearly, the way we approach our business is that is a long relationship cycle that you know we build with customers, typically you get empanelled, you get the first few small projects, and that is how accounts grow, and so given our current age and whatever you know state of evolution, you know, we believe we are reasonably okay from where we are, but a lot of effort is ongoing happening on mining existing customers. Almost 85% of our growth every year comes from existing customers, so lot of effort goes into, you know, mining and to growing each customer account, lot of account specific plans are put in place, etc, so that is an ongoing exercise.

Ashi Anand: Okay, thanks, thanks so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Hitesh Shah of Citigroup. Over to you sir.

Hitesh Shah: Sir, just a followup. I am trying to reconcile what you said in the call. You are looking for a flat operating margin and the same time you are looking at flat net margin for the next year, and at the same time we are also looking at depreciation going up significantly next year, and tax rate going up, so just trying to reconcile how would we come to flat, net margin with a flat EBITDA margin with higher depreciation and higher tax rates?

Rostow Ravanan: There will be a little bit of growth. What I said is stable, close to flat sort of margin….

N. Krishnakumar: Net margin.

N. Krishnakumar: EBITDA will certainly expand Hitesh.

Hitesh Shah: Okay, and also we are also looking at higher other income. Is that the case because with the higher taxes?

Rostow Ravanan: No. We are not expecting higher other income. Actually, other income marginally will drop from March 09 versus March 08.

Hitesh Shah: Okay, and in terms of CAPEX for next year, you said 18, eighteen million dollars or ?

Rostow Ravanan: Yes, 18 million dollars.

Hitesh Shah: So, we would be looking at a significantly drop in the CAPEX for the next year.

N. Krishnakumar: Correct.

Rostow Ravanan: Correct.

Hitesh Shah: Okay, thanks, and all the best.

Ashok Soota: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Viju George of Edelweiss. Over to you sir.

Viju George: Hi, thanks for taking this question. I was just struck by one observation that you made about, you know, you having traction from mid-tier community banks, etc. I mean, what I am trying to ask is that do you see some of your larger peers now, you know, go after aggressively, you know, some of the smaller customers there in the US because they are desperate for growth, probably not able to get growth from the existing clients the way they used to. Do you see that trend happening wherein, you know, and if so what are the implications for possibly somebody like you there?

N. Krishnakumar: See, again, if we really look at rather than mid tier, what I meant was the mid tier banks, which tend to be either large regional banks or people who focus on one specific segment of operation. The needs of these customers are very different because they are first-time outsourcers, their ability or need the access attention, and ability of the service provider to work along with them to roll out the whole program, so the comfort level which these customers have with a vendor like us is far more than what a big vendor can provide. So, to that extent, we don't see that as a competition.

Viju George: Okay, and do you see that continue in the current environment or would you think that you know given the challenges that the larger guys are relatively faced with. They would probably you know try and reach out to this customer segment, giving the more specific treatment. Do you sense that happening incrementally or not yet?

N. Krishnakumar: See, what the larger people would do, maybe, we may not be able to comment, but what we are certain is, the value proposition which we are articulating to this segment, is certainly finding a lot of traction.

Viju George: Okay, yeah, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Pramod Gupta of Principal Asset Management. Over to you sir.

Pramod Gupta: Thank you and congratulations for taking the question. Just one small question I have. Last time, in 2001, what actually led to the price compression and what is different that we are observing this time if you can just comment on that?

N. Krishnakumar: See, we see the environment between 2001 and now very different because in 2001 we were coming out of scenario where there was excessive investments in IT related thing. One due to the year 2000 and the e-commerce boom, so primarily enterprises were questioning the value and return on what investment, IT investments they had made. Coupled with an event like 9/11, a wide cross-section of the segments virtually stopped functioning because there was a questioning of ROI on IT investment, there was a macroeconomic event which happened, which sort of froze their operation, so many things came to a standstill suddenly. So, almost like, an engine which is running which just stalled. Compared to that today, I think the softness or the difficulty is just confined to specified identified segments. It is the financial services segment. Within that, people who are more exposed to the subprime crises, who sort of lent in the housing market, so we do not see a more widespread sort of impact happening this time of the thing.

Rostow Ravanan: The other point also is in the 2001 timeframe because like KK mentioned it was a technology induced sort of a boom, billing rates had also gone completely out of whack. Offshore rates in those years, I think had almost gone up to 6000 to 7000 dollars per person per month, and clearly those sort of rates are possible, you know, in a boom sort of an environment, but they are not realistic. Given that the rates that we are operating in right now are a lot more realistic, we don't foresee the sort of correction that happened in that cycle to repeat itself in this cycle.

Pramod Gupta: Just followup to that is, was last time the overcapacity kind of a situation in the domestic or offshore vendors led to the price war or a price correction kind of a situation and is that possible this time at all or ?

Rostow Ravanan: No, our view is not that, I don't think there was overcapacity then or the overcapacity now at a broad macro level. I would always say individual companies would have specific skew, but otherwise, I don't think there was overcapacity then or now, I think it is a function of different people had different sort of growth ambitions, etc, and the larger question was you know markets had difference from that time to now. That is what I think that led to the price correction at that stage, and our view as of now is we are not seeing the same sort of signals at this stage.

Pramod Gupta: Okay, thanks a lot, and all the best.

Rostow Ravanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Subhashini of JM Finance. Over to you ma'am.

Subhashini: Hello?

Rostow Ravanan: Hi Subhashini, go ahead.

Subhashini: Congrats for the great set of number. Most of my questions are answered. Just one question, and you mentioned that you work with a large number of start-ups within your R&D services. Just wanted to know, I mean, can you put a number to it as to what percentage of your R&D client base is actually start-ups and how many are among your active client who currently comes from R&D clients?

S. Janakiraman: See, when we say large, it is not too large, at least, if you take, totally we have 55 customers in R&D services, and out of that, hardly something like 6 or 7 can be classified as the start-up companies, and the dependence on revenue with them will be to an extent of something like 6% to 8%. I don't have exact number, but it is not a big number. So, it is not so much dependent on the start-up companies.

S. Janakiraman: 6 to 8% of R&D services revenue.

Ms. Subhashini: Okay, sure.

S. Janakiraman: It is not a too big a number.

Ms. Subhashini: Thanks.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Atul Shah of Shareholders. Over to you sir.

Atul Shah: Yeah, sir my question is regarding the tax rates, you mentioned the effective tax rate is around 10% for FY08 and will be slightly more for FY09, now….

Rostow Ravanan: It is approximately 7% for FY08 and 10% for FY09.

Atul Shah: Okay, now if the tax benefit offered to software companies and the STPI is removed from FY09 – FY10, how will the effective tax rate change?

Rostow Ravanan: As of now, we don't anticipate a big impact in March 10 versus March 09 because all our incremental growth over the last maybe year or so is coming in the new SEZ scheme that the government of India announced, and like we mentioned earlier in the call, we have a fairly active domestic business as well. So, the way we are, you know, anticipating our business growth, we do not see a big impact to our tax rate based on the STPI scheme going out of operation.

Atul Shah: So, again it would be around 10% for FY10 in case.

Rostow Ravanan: Yeah, that is our current estimate. Obviously, you know, we will give a more firmer number when we give the next year's guidance.

Atul Shah: Okay, thank you very much sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Hitesh of Religare Securities. Over to you sir.

Hitesh: Thank you for taking my question again. Sir, as you mentioned earlier that you expect that the EBITDA margins to expand in FY09, with billing rates remaining stable which margin levers you are choosing would be more prominent to expand the margins?

N. Krishnakumar: Clearly, the utilization, we have scope for expanding the margins, and like we said, clearly there is scope also for pricing increase. Both these will sort of help us expand the EBITDA margins.

Rostow Ravanan: Yeah, it is volume growth, price growth, operational efficiency, all of this will contribute to the EBITDA growth.

Hitesh: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Krishnan of Spark Capital. Over to you sir.

Krishnan: My question is answered. Thank you very much.

Moderator: Thank you very much. Participants who wish to ask questions may kindly press*1 on the telephone keypad. Next in line, we have Mr. Sudhakar of Span Capital.

Sudhakar: Yeah, hi, this is Sudhakar here. Congratulations to the management for excellent results. Most of my questions have been answered. I just have one question. Can you just brief us about this 23 new clients which you added in this quarter, I mean, how big these clients can be and in which area these are in. Thanks.

N. Krishnakumar: Just to add the 23 new clients, 8 of them came from our acquisition which we did of Purple Vision. So, the new clients added were 15. They come across a wide cross-section of segments, certainly in the Manufacturing and Transportation we had new customer additions. We have had some in the Financial Services segment as well as in the Hi-tech segment in IT services. At least, one engagement or one customer we do anticipate to grow into a multi-million dollar client and already it is ramped up to a reasonable size. I will probably ask Jani to talk in terms of some of the new customer additions in R&D services.

S. Janakiraman: In R&D services, the customer addition has been across the section. We have had one customer addition in the Communication area, and one customer addition in the Consumer Appliance, and one in the Semiconductor space, and the Storage space.

Sudhakar: Yeah, thanks, that is helpful.

N. Krishnakumar: Sudhakar, I just wanted to correct one number is that 8 new customers got added to the active customer list, so it is not that it has added into new customers. These 23 are new additions which are made during the quarter.

Sudhakar: Okay.

Moderator: Thank you very much sir.

Rostow Ravanan: Sandhya, we are a little pressed for time for our next meeting. Would it be okay if we close the call now or there are lot of questions pending as of now?

Moderator: At this moment, we don't have any questions. You can go ahead sir.

Rostow Ravanan: Good, thank you.

Bhaskar: Thank you. I think thanks everybody. Thanks for joining the call. We look forward to speaking with you over the course of the quarter. Thanks. Good night.

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.