

**MindTree Limited**  
**Investors/Analysts Conference Call**  
**(Jan 19, 2009, 6:30 PM IST)**

**Moderator:** Ladies and gentlemen, good evening and welcome to the MindTree Ltd.'s Q3 FY09 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this moment, I would like to hand the conference over to Mr. Sushanth Pai of MindTree Ltd. Thank you and over to you, Mr. Pai.

**Sushanth Pai:** Thanks, Melissa. Good evening and welcome to this conference call to discuss the Financial Results for MindTree Ltd. and Aztecsoft Ltd. for the 3<sup>rd</sup> quarter ended 31 December 2008. I am Sushanth from the Investor Relations team in Bangalore. We have with us senior management team including Ashok Soota, Chairman and Managing Director; N. Krishnakumar, CEO, MindTree; Samir Bodas, CEO, Aztecsoft; S. Janakiraman, President and CEO, R&D Services; Vinod Deshmukh, President and Co-CEO, R&D Services; Anjan Lahiri, President and Co-CEO, IT Services; Rostow Ramanan, CFO, MindTree; Sundararajan, CFO, Aztecsoft; Parthasarathy, President and Chief Operating Officer, MindTree; Puneet Jetli, Global Head, People Function and Salil Godika, Chief Strategy Officer. The agenda for the session is as follows: Ashok, NKK, Samir, 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 conference 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. I now pass it on to Ashok Soota.

**Ashok Soota:** Good evening and welcome to the Analyst Conference Call for the quarter ended December 31<sup>st</sup>, 2008. I am happy to inform you that MindTree was chosen as one of the joint winners of the National Award for Excellence in Corporate Governance amongst all listed companies in India for 2008. We are aware that certain awards have lost their sheen because of recent developments in the Corporate Governance scene in India. I would like to emphasize that our award is the National Award for Corporate Governance given by the ICSI, based on numerous criteria including the value systems that we demonstrate. This is indeed a coveted recognition that MindTree has received in less than two years of going public. I wish to reiterate that we continue to focus on excellence in corporate governance and maintain a high degree of transparency. We follow an inclusive approach in all we do to protect the interests of all our stakeholders including our customers, employees, shareholders, bankers and society at large. We are clearly in the midst of a challenging business environment; however, we are confident that we are well equipped to meet the challenges. Considering the recent market trends, seen in Q3 and outlook in Q4, we are revising MindTree revenue guidance including



MindTree Technologies for FY 2009 to \$223 to \$225 million. In dollar terms, this corresponds to a year over year growth of 22.1% at the lower end and 23.2% at the higher end. In rupee terms, this corresponds to a year over year growth of 38.7% at the lower end and 39.9% at the higher end. Our EBITDA guidance will be \$51 to \$53 million. Our PAT guidance is revised to \$12.8 million to \$14.5 million. On a consolidated basis including Aztecsoft, the revenue guidance for FY 2009, will be \$269 to \$273 million. EBITDA guidance will be \$62 million to \$65 million and our PAT guidance will be \$14.8 million to \$17.5 million. As indicated earlier, the consolidation is effective 1<sup>st</sup> August, 2008. The above guidance assumes a rupee-dollar level of 48.5 on 31<sup>st</sup> March, 2009. Since our hedges are affected by spot and forward premiums on 31<sup>st</sup> March 2009, our guidance is sensitive to these parameters. The reason for revision to the PAT guidance is the accounting impact on our forex hedges. Now, I invite KK, my colleague and the rest of the team to give details of the quarter and an assessment of the future. Thank you.

**Krishnakumar:**

Thanks, Ashok. Good evening to everyone on this call. The results that will be discussed now is that of MindTree including MindTree Technologies, that is TES-PV which we acquired in December 2007. The Q3 software revenues were \$56.8 million representing a quarter on quarter degrowth of 4.7% and year on year growth of 20.4%. In rupee terms, this represents a quarter on quarter growth of 8.1% and a very strong year on year growth of 48.3%. In rupee terms, our EBITDA margin is 31.3% this quarter which represents a quarter on quarter growth of 21% and a year on year growth of 169.9%. This is our best quarter in terms of EBITDA margins, both due to rupee depreciation and focused efforts in productivity parameters such as utilization and very effective cost management. In rupee terms, IT services has shown 7.5% quarter on quarter growth and grown 50.7% year on year while R&D Services has grown 10% quarter on quarter and grown 34.6% year on year. In dollar terms, IT Services has shown a degrowth of 5.2% quarter on quarter and a growth of 22.3% year on year. R&D Services has shown a degrowth of 2.6% quarter on quarter and a growth of 13.7% year on year. In terms of service offerings, Independent Testing has shown very good growth. On the industry groups for R&D Services, the star performers have been Industrial Systems and Automotive Systems. For IT Services, Hitech and BFSI have shown good traction. We added 19 customers during this quarter. On the people front, the attrition on a trailing 12-month basis has reduced to 13.8%. This compares to 15% in Q2 and 16% in Q3 of last year. I will now hand over to Samir Bodas, CEO of Aztecsoft to give you a brief update on Aztecsoft.

**Samir Bodas:**

Thank you KK and good evening to everybody on the call. Aztecsoft Q3 software revenues were \$17.83 million representing a quarter over quarter degrowth of 7.4% and year over year growth of 11.1%. In rupee terms, this represents a quarter over quarter growth of 2.4% and year over year growth of 38.3%. In rupee terms, our EBITDA margin is 30.3% this quarter which represents quarter over quarter growth of 23.4% and year over year growth of 350.2%. We added one client this quarter and today we have 61 active customers as of December 2008. Now let me pass on to my



colleague Rostow to share a few other financial highlights and we will of course all be available thereafter for the Q&A. Rostow.

**Rostow Ravanan:** Thank you, Samir. Good evening. My name is Rostow. Let me walk you through a few other financial highlights. On a consolidated basis, our revenue grew 16.6% in rupee terms. On a consolidated basis, our EBITDA margin is 30.5% in Q3 as compared to 27.8% in Q2. In dollar terms, our consolidated revenue is 3.5% quarter over quarter. Coming to the stand alone details of MindTree, in dollar terms, MindTree's stand-alone Q3 fee revenues declined by 5.1% and grew 8.1% in rupee terms. If you take the dollar revenue, the break down was a volume decline of 1.8%, entirely due to the fact that Q3 had lower billing hours, lower available hours due to the holidays; and the realized rate declined approximately 3%. Again, this decline was entirely due to the cross-currency impact on our billing which are non dollar foreign currency billing, predominantly, GBP, Euro, and the Swedish Kroner. We have 201 active customers as of December 2008. Of these, we have 48 customers in the million dollar range, 10 customers in the 5 million dollar range and 2 customers in the 10 million dollar range.

Utilization has increased to 71.1% in the current quarter compared to 70.5% in the previous quarter. Improvement in utilization along with other productivity measures where we improved as well as gaining from the rupee depreciation led to the EBITDA margin increase from 27.9% in the previous quarter to 31.3% in the current quarter. The biggest impact to our profitability at the net margin level was because of the provision on a market to market basis on our foreign exchange hedge contracts which did not qualify for hedge accounting. In the current quarter, the rupee depreciated approximately 5%; that led to an additional provision of approximately \$11 million in the current quarter. The high provision is because of the very high volatility of the rupee in the current quarter as well as significant increase in the forward premium as of 31<sup>st</sup> December compared to the forward premium as of 30<sup>th</sup> September. One area that we have also shown good improvements on operational perspective is that our DSO has reduced to 81 days as of 31<sup>st</sup> December compared to 85 days of 30<sup>th</sup> September.

Coming to the Aztecsoft result, in the current quarter revenues of Rs.874 million and profit of Rs.76 million of Aztecsoft got consolidated into MindTree. The application with the Regulatory Authority for merging Aztecsoft into MindTree is progressing as per plan. We filed the petition to the Regulatory Authorities. The Honorable High Court of Karnataka convened meetings of the shareholders and creditors of both companies. All those meetings got completed in December. All of them are positive and so we continue to be confident that the merger will be done by 1<sup>st</sup> April, 2009. The revenue parameters for the Aztecsoft, we will break it down, the revenue degrowth of Aztecsoft-volume decline was 7.7%, again because of the seasonality impact of the Q3 holidays and low available hours. Realized rate actually improved by 0.28% in Aztecsoft case. EBITDA margins improved to 30.3% in Q3 compared to 25.1% in Q2. And Aztecsoft also continues to show an operational improvement on their collections. DSO has decreased to 73 days as of 31<sup>st</sup> December compared to 74 days as of 30<sup>th</sup> September. Aztecsoft had to take a



provision of 34 million rupees as the market to market loss on its derivative portfolio to the extent these contracts do not qualify for hedge accounting. Again this loss was due to the rupee depreciation. We will now open the floor for Q&A. Back to you, Melissa.

**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin with the Question & Answer session. At this time, if you would like to ask a question, please press "\*" and then "1" on your touchtone phone. If you want to withdraw your question from the questioning queue, please press "\*" and "2" to remove yourself from the queue. Please use only handsets while asking a question. Anyone who has a question may press "\*" and "1" at this time. The first question is from Mr. Srivathsan R from Spark Capital. Please go ahead.

**Srivathsan R:** Hi. I just wanted to get some sense for some business environment you are seeing and particular segments of interest at this point of time is the R&D services and OPD. Could you just talk about how is the business environment especially in terms of pipeline and finally what are you seeing at this point of time?

**Rostow Ravanan:** Sure. Thanks. I will pass the mic over to my colleague Janakiraman to give you the comments on R&D Services and thereafter to Samir to give you the comment on the OPD Business.

**S. Janakiraman:** In the R&D Services, particularly if you look at the fact sheet mix of business between the various segments that we address, whether it is storage or consumer appliances or communication services, it has remained some what similar. We have seen a marginal degrowth of a 2.6% during this particular quarter but over all we have seen that our customers are long term and that the projects that we are working are something important to our customers. We do not see any major show stoppers at this point of time.

**Krishnakumar:** Samir, you want to add on OPD?

**Samir Bodas:** Yeah. In OPD, one of the things that we are noticing especially in Q3 was the slowdown in venture funding of start-ups. VentureWire reported that the venture funding in Q3 year over year saw a reduction by about 30%. And that is definitely something that we have also seen in our business. As Jani was saying the larger customers continue to work very closely with us and we continue to see stability in the work that comes from them. But of course, these are times that we all have to watch very carefully which we will continue to do moving into Q4 and beyond.

**Srivathsan R:** Okay. I just want to ask... because I remember that it is about 25% of Aztecsoft revenues come from kind of VC funded companies. At this point of time, do you see any risks of, not only business going but bad debts arising?

**Samir Bodas:** Hello, this is Samir. We have been very diligent about collections, both with respect to following up with customers and not taking business from companies that we think perhaps might have challenges with respect to



payments. So at this time, we do not see any issues with bad debts arising.

**Ashok Soota:** Can I add one clarification?

**Sundararajan:** To clarify on what Samir said, there has been tight monitoring of the early stage customers and in fact this quarter our receivables have actually come down and we are satisfied that there are no major delinquencies amongst our existing customers.

**Ashok Soota:** Also important to clarify that his question of 25%, which he said are...

**Sundararajan:** 25% is actually on the cap which we had, actual revenues are around 17%.

**Ashok Soota:** ...from VC funded companies.

**Srivathsan R:** Okay. It will also be great if we just talk about pricing across your sub-verticals and the service offerings you may see mostly in R&D driven or OPD related space. So customers are asking for a kind of pricing cuts because that is the commentary we are hearing from across all of the vendors.

**Krishnakumar:** Shrivatsan, this is Krishnakumar. I will just give you a broad fit in terms of how we see the pricing environment. Till the end of Q3, we have certainly seen the pricing environment as stable. Only now, we have started sort of having the first discussions with a few clients. But based on the tight economic environment, people are talking in terms of how they can effectively leverage their budgets for the coming year. So we would not at this point of time feel that there is a very strong head wind in terms of pricing and many of these discussions are client-specific, so we would not be in a position to give specifics. But clearly, till the end of Q3, we have seen it as stable but the scenario we see moving ahead is, yes, there are going to be challenges on pricing, but clearly they will be client-specific.

**Srivathsan R:** Okay.

**Krishnakumar:** Probably a broad thing across all the segments of businesses we are in IT Services, R&D and OPD as well.

**Srivathsan R:** Okay. Rostow, just a couple of quick questions on the Forex part, about the loss that we have taken into the P&L this quarter, what would be the actual loss and what would be more related to the mark to market effect?

**Rostow Ravanan:** Give me one minute, Srivathsan, I will give you that breakup. If you look at for the quarter, the overall hits to the P&L was approximately \$14.2 million, out of which approximately \$11 million, so the largest component of the overall impact was because of the mark to market impact. The remaining were operational issues of not enough collections on receivable, a restatement of debtors' balances, so on and so forth. But out of the \$14 million of total impact, 11 is because of the mark to market impact.



- Srivathsan R:** Okay. And then, what would be the cash and debt on consolidated basis because I think the balance sheet is given as standalone balance sheet?
- Rostow Ravanan:** On a consolidated basis, MindTree has cash of approximately \$8 million and Aztecsoft has a cash of approximately \$18 million and so that is your respective cash position of both companies.
- Srivathsan R:** And debt would be?
- Rostow Ravanan:** That would be \$23 million for MindTree. Aztecsoft has no debt.
- Srivathsan R:** Okay, I will come back later on. Thank you.
- Moderator:** Thank you, Mr. Srivathsan. The next question is from Mr. Urmil Shah of Kim Eng Securities India. Please go ahead.
- Urmil Shah:** Hi, sir. I am Urmil from Kim Eng Securities. I just wanted to reconcile what would be the MTM loss for the nine months as regards to the total FX loss?
- Rostow Ravanan:** 27 million dollars is the impact for nine months.
- Urmil Shah:** That is the MTM?
- Rostow Ravanan:** Correct.
- Urmil Shah:** And what would be the realized loss?
- Rostow Ravanan:** Realized is about \$2.9 million.
- Urmil Shah:** Okay. Sir, and would it be possible to give the revenue decline or growth figures on a constant currency basis?
- Rostow Ravanan:** On a constant currency basis, there would be no pricing decline, pricing would have been stable. Only the seasonality impact approximately 1.8% would have been the revenue impact.
- Ashok Soota:** Likewise with revenue
- Rostow Ravanan:** Yeah. On revenue, instead of 5%, it has been only 1.8% decline on a constant currency basis.
- Ashok Soota:** This question that he had asked for you gave the data on Forex. Was that the MindTree data alone?
- Rostow Ravanan:** Yeah. What I gave you was only the MindTree data. You want the Aztecsoft data as well?
- Urmil Shah:** Yeah, yeah.
- Rostow Ravanan:** I will give it to Sundararajan to give you the impact of the Aztecsoft numbers.



- Sundararajan:** The constant currency levels, we actually had in rupees around a mark to market of around 34 million rupees. It is a net provision for quarter three.
- Urmil Shah:** It's 54 million.
- Sundararajan:** 34. It is exactly 34.
- Urmil Shah:** Okay. Sir, and based on the discussions we are having with our clients, what sort of picture is emerging for FY10? Because as we see the employee additions have not been as aggressive but the company has tried to increase the utilization rate. So is there an actual attempt to reduce the cost by increasing the utilization rate?
- Krishnakumar:** Your first question was on the outlook for FY10.
- Urmil Shah:** Yeah.
- Krishnakumar:** Clearly right now, I think, like we are talking to a number of our clients and we are involved in work which is integral to their business. But certainly there is foginess in terms of their outlook and I think over the next few weeks, the next four to six weeks, I think we will have a better feel of what the client budgets look like for the next financial year.
- Ashok Soota:** Question on people addition, Puneet, do you want to just mention anything about that?
- Puneet Jetli:** Sure. So, on the people addition front, the vibe for FY10, it is too early to comment because we have not started the planning process. For the remaining part of FY09, on a MindTree stand-alone basis, we hope to have a people number close to around 6,200 by end of March. And on a consolidated basis, you know, we expect our accounts to be between 8,060 to 8,100.
- Urmil Shah:** Okay, okay. Thanks for taking my question.
- Moderator:** Thank you, Mr. Shah. The next question is from Mr. Shantanu Mishra of ETIG, please go ahead.
- Shantanu Mishra:** Good evening, sir. Can you give the growth because you told that in constant currency terms the growth is flat overall. But region wise, sir, can you give it from Europe and India, particularly because the cross currency threat should be there?
- Rostow Ravanan:** If you see the growth in Europe, that was maximum affected by the currency movement. But in any case for MindTree, the revenue from Europe was \$14.099 million in September quarter, which has become \$13.986 million in the December quarter. India was 2.9 million...
- Shantanu Mishra:** Excuse me, sir. I mean, I have those figures in dollars millions, okay? I just want to know in constant currency terms. Because if you look at the dollar revenue in Europe, it is almost flat up, very marginal decline is there. Okay? But actually, I would have accepted a more decline and



there should be some kind of growth. Because see, there is cross currency and the Euro and other currencies depreciating against the dollar.

**Rostow Ravanan:** Sure. That was the combined impact and the numbers for India and APAC are given. On an overall basis like I said, we are a 5.1% revenue degrowth for MindTree in dollar terms, which was a break up of 1.8% in volume and 3% in revenue. And the revenue degrowth was because of cross currency impact.

**Shantanu Mishra:** Okay. Okay. And the other question is about the hedging, and we see the exchange loss for last so many quarters and this quarter probably it has again gone up significantly. Is there any plan to change the policy in hedging or something like that?

**Rostow Ravanan:** Sure. One small sort of a correction, the hedging has not been for the last so many quarters. It has only been for the last two quarters.

**Shantanu Mishra:** Yeah, last June or September, okay.

**Rostow Ravanan:** Yeah. I told you that it has been for the last two quarters. Subsequently the two changes were made to our policy. Now, we would only enter into contract that meets the test of effective hedges under the Accounting Standard 30, and in future all contracts that we book will only be for 12 months, will not contract longer than 12 months. These were two changes that were made. Other than that, the policy continues to be to hedge 50% of our revenue, which we believe is the best thing to do to balance between risk and opportunity for our business. There is no fundamental change of policy on that basis.

**Shantanu Mishra:** Okay. The second one, you said going forward it will be for 12 months of your revenue, right?

**Rostow Ravanan:** That is correct.

**Shantanu Mishra:** Yeah. So right now and I mean earlier, how much it was? For how many months?

**Rostow Ravanan:** In March, we had contracts up till 2013. So 4 years worth of contract were entered into, when we were in March 2008 or through the year 2007-08.

**Shantanu Mishra:** Okay.

**Rostow Ravanan:** And so we are not going to book any contracts longer than 12 months.

**Ashok Soota:** We should clarify that that applies to MindTree and at Aztecsoft, the contracts were only till June of '09. And when we are saying that there were longer-term contracts, the percentage for further periods was obviously much lower.

**Shantanu Mishra:** Okay, okay. Thank you very much, sir, for taking my question.





- Moderator:** Thank you, Mr. Mishra. The next question is from Mr. Rohit Chordia of Kotak Institutional Equity. Please go ahead.
- Rohit Chordia:** Hi. I have a couple of questions for Rostow. Rostow, one, could you give us a guidance in Rupee terms?
- Rohit Chordia:** Should I just read it as, you know, whatever the guidance into 48.5 or is 48.5 only for the fourth quarter?
- Rostow Ravanan:** Multiply the revenue by 48.5 but I will re-confirm the number.
- Rohit Chordia:** Right. So if I just look at that, and I was just looking at the implied EBITDA guidance. We are looking at a sharp decline of, you know, close to 12-13% points in, you know, EBITDA margins in the fourth quarter. Could you just explain the reasons for the same?
- Rostow Ravanan:** We do not have such a sharp decline, the only impact was, we really do not know if the rupee remains at 48.5, then obviously the impact will also be felt at an EBITDA level to the extent of gross margin being lower, etc. So that is the impact of currency that is playing and obviously, when you are giving your guidance, multiple factors go into assessing that guidance. So that is how the EBITDA guidance has worked out.
- Rohit Chordia:** So, if your revenue guidance is at 224 and the midpoint of your EBITDA guidance is at 52, you know, the full year EBITDA margin works out to roughly 23.2%, while you have already done 27% in the first 9 months. Now a 4% point drop in, you know, in the full year margins in a single quarter would roughly translate to a 12% quarter on quarter EBITDA margin decline. That number seems to be, you know, pretty sharp.
- Rostow Ravanan:** Yes. I will explain to you separately, Rohit. But impact is because of the currency. Because part of the reason for EBITDA to be high right now was the improvement through the rupee depreciation as well as that it is very, very sharp rupee depreciation in Q3 and also like I said utilization has already now come to 72 etc. So that was why it was done but I can send you the working separately.
- Krishnakumar:** Rohit, like Rostow said, there is not too much of scope on the utilization front and we also have the campus recruits who have joined, who are undergoing training. So the utilization may marginally drop in Q4, which will explain part of the little bit drop in the EBITDA margin.
- Rohit Chordia:** Hi KK. I understand all that but it is just that 12% points drop that the implied numbers are suggesting...
- Rostow Ravanan:** No, let me come back to you.
- Rohit Chordia:** It is pretty sharp and all those factors probably you know do not add up. So I was just trying to reconcile that. My second question is you know, how does your variable cost structure work? If you could throw light on that?



- Krishnakumar:** I will ask Puneet to sort of explain our variable cost structure.
- Puneet:** Yeah, right. Obviously there are multiple people in different roles, so I am going to just try and explain the variable pay, how it is structured for most of the people in MindTree. Now, that is typically your variable pay components, you know, vary from 15% to 30% and it is largely, tied to two parameters. One is company profitability and the other is the respective business revenue. So if a person is in IT Services, then it would be IT services revenue and the company profitability.
- Rohit Chordia:** Now when you say company profitability, has the variable pay this year in FY09 been impacted by all the Forex losses that you have had?
- Puneet:** You know, the parameter which we track is the PAT to sales ratio. So whatever is the PAT to sales ratio, the payouts would be based on that.
- Rohit Chordia:** Okay this is for Rostow. Rostow, I was looking at repeat business. How do you define repeat business in a particular quarter?
- Rostow Ravanan:** All customers with whom we have done business in the previous quarter, if they continue to do business, essentially, it is the same customer; if I bill them in the previous quarter as well, then that would be called repeat business.
- Rohit Chordia:** Okay, so, repeat business for you in this quarter was 99.7% and you have added a lot of customers. The revenue per new customer added works out to be pretty low in terms of analyzed revenues. Any light on your quality of customers you have added in this quarter?
- Krishnakumar:** As you realize in this business when you start the engagement, initially it is low. So what we talk in terms of new business are customers who have started during that quarter and whatever revenues we have had. And the second element is, there is also spacing of those customers. Not necessarily every new customer acquisition happens beginning of the quarter. It could be that a new customer has been added in month three. So the impact of new revenues from that new customer during this quarter would be low in spite of percentages.
- Rostow Ravanan:** In terms of profile of customers we are having in the quarter, it continues to be very attractive in terms of the names we have, mix of large customers, medium-sized customers, etc across both businesses, across different verticals. There is no concern on the quality of customers, either in terms of sustainability or collections or growth etc point of view. It continues to be a good profile of customers that we have in the quarter.
- Rohit Chordia:** Thanks again. Thanks Rostow.
- Moderator:** Thank you, Mr. Chordia. The next question is from Mr. Santosh Iyer of Tata Securities. Please go ahead.
- Santosh Iyer:** Good evening, everyone. Thanks for touching on the R&D Services part of the business as well as on the VC-funded part of the business projects done by Aztecsoft. If you could also touch upon, what is the impact that is



likely going to be because MindTree has a larger portion of revenues coming from development projects? Given that this is more discretionary in nature, how is it going to impact the company and how is it gearing up for the next year?

**Anjan Lahiri:** Hello, this is Anjan Lahiri and about 40-50% is development and 20-30% is maintenance. But if you look at it, today we are very integral to the workings of our customers. So it is not all discretionary. Having said that, the customers are looking at new decisions with much more caution in the last 2 months or so. So I think we have to watch that space. We are not seeing any drastic cut downs or drastic changes. The individual customers are definitely re-looking at how to go over the next few months. But our lock-in with our customers is because we are very, very central and strategic to them and we do not see any large-scale black and white differences between the development projects or the maintenance projects.

**Ashok Soota:** Well, I would like to just add here that if you take our Maintenance as well as the Independent Testing and the IMTS, that number has gone up to about 41% plus which if you will remember, previous slowdowns used to be around 25-26. So we have got a very significant swing and even in the development, there are a lot of projects which have essentially got a 10-12 month duration. So it is not that things are getting just phased out. And we are equally seeing new demands as well as new projects. All these new customers we have just talked about, in effect, all of them have new requirements.

**Santosh Iyer:** Okay, thank you so much.

**Moderator:** Thank you, Mr. Iyer. The next question is from Mr. Murali Yerram of Franklin Templeton. Please go ahead....

**Murali Yerram:** Good evening, gentlemen. Rostow, can you talk about, I mean, potential Forex losses in Q4 assuming a currency rate of about 48.7?

**Rostow Ravanan:** Murali, thumb rule is one percent change in the rupee, if the rupee depreciates by 1%, then the additional FX losses or additional MTM losses we will have to book is \$1.7 million. But so far as the rupee appreciates by 1%, then it will reduce the FX loss we did or the write back of the FX provision would be \$1.7 million.

**Ashok Soota:** So at the constant currency you are saying, we should have no additional...

**Rostow Ravanan:** Yeah. If the rupee remains at 48.5, which is where we ended 31<sup>st</sup> December 2008, there must be no incremental provision. But the only thing is, please remember it is not only a one single parameter of a spot rate. It is also the implication of a forward premium as of 31<sup>st</sup> March compared to 31<sup>st</sup> December assuming both remain the same, there will be no impacts to the additional provision.

**Murali Yerram:** Right. And what is the forward premium as of 31<sup>st</sup> December?



**Rostow Ravanan:** I do not have it right now but that is available on any Kotak screen or Reuters, but I can send it across to you after the call.

**Murali Yerram:** Sure. Thanks.

**Rostow Ravanan:** One year premium as of 31<sup>st</sup> December is approximately 85 paisa.

**Murali Yerram:** Also, can you talk about, I mean, the write-off which you had, I mean the provisions for bad debts. I think you had a provision of bad debt of about six and a half crores in the first 9 months, which is significantly higher from the corresponding period last year. Can you talk about the nature of these provisions? I mean, who these clients are?

**Rostow Ravanan:** Sure. The provisions are essentially driven out of our accounting policy; we have a policy-based provisioning norm, which looks after buckets of our receivables and make a provision on that basis. So it is more like a thumb rule that is used on a quarter to quarter basis and anecdotally no specific bad news from any customer or no indication of any customer going wrong or whatever. It is just the provisioning norm that we follow. Impact is also because the debtor balances have also got impacted because of currencies. Like I said now the rupee has depreciated by 5% in the current quarter, assuming all the things being equal, I have exactly the same balance in dollar terms. That is 100 dollar, debtors on 30<sup>th</sup> September and the same 100 dollars debtors as of the 31<sup>st</sup> December for argument's sake. Just the fact that the dollar has appreciated, rupee has depreciated would have meant higher rupee revenue and that under the policy norm would be together higher provisioning. And so that impacted mainly.

**Murali Yerram:** Alright. And finally, what kind of vibes are you getting from, I mean, the troubled clients like AIG? What are they talking about their 2009 budget? Do you think your business would still grow there?

**Ashok Soota:** Yeah. You know, we do want to avoid references to any specific customer, but I would tell you that the momentum amongst all of our larger accounts remains strong. So we have not seen any decline or any slowdown or any caution of saying that we will see a decline. We will need to watch and keep when we give the guidance for next year, by then we will have a much better view. At this stage, certainly there has been steadiness in almost all of those accounts.

**Murali Yerram:** Alright. Rostow, can you comment on the pricing in the market place? How is that behaving?

**Rostow Ravanan:** I will actually pass this to KK and others to give their comment on that.

**Krishnakumar:** What you have seen till the end of Q3 is certainly the pricing environment has been stable. Moving forward, I think, yes, we do see challenges in terms of pricing and to that extent many of them are very client-specific engagements and discussions which we are going to follow through. So we are not facing any panic or very negative scenario on pricing. Till the end of Q3, we have seen it stable. We have seen some head winds sort of starting to build up as we move into the next quarter.



- Murali Yerram:** Thank you, thank you very much.
- Moderator:** Thank you, Mr. Yerram. The next question is from Mr. Ruchit Mehta of HSBC Asset Management. Please go ahead.
- Ruchit Mehta:** Hi. Good evening, guys. I actually missed out on the part that was the MindTree revenue with degrowth of 4.7% in the quarter. Could you elaborate how much was due to volume pricing and the cross currency effect?
- Rostow Ramanan:** Sure, to break this up Ruchit, MindTree's revenue degrew 5.1% in the quarter and Aztecsoft was 7.4% and the respective contributions for MindTree out of that 5%, 1.8% was volume degrowth and again to clarify it is not that customers actually stopped billing. It is just the current quarter has lower billing hours. And the price degrowth of 3% again the impact of cross currency led to degrowth, it is not as if actual billing to our customers fell in the current quarter.
- Ruchit Mehta:** Okay.
- Rostow Ramanan:** Similarly, if you look at Aztecsoft, their volume degrowth of 7.7% because of the seasonality and there the marginal price improvement of approximately 0.3%. That is the break-up for Aztecsoft.
- Ruchit Mehta:** MindTree in terms of constant currency actually showed a de-growth of over 1.8%?
- Rostow Ramanan:** On constant-term currency terms, there was the degrowth of 1.8%. Again, it is not because of the customer pulling away or projects going away or anything and it was because in fact of the seasonality in Q3 which has lower billing hours.
- Ruchit Mehta:** Okay, okay. Just give me a sense of this, given the environment and obviously how are your customers budgeting cycles behaving? I mean, are they getting lengthened again just like last year? Or do you think some sort of a clarity will emerge by the end of January or February or something like that? Or do you think you have to push it over to the April or so?
- Krishnakumar:** This is what we certainly hear from customers is that there is still uncertainty. So the outlook is still not clear and we think that in the next 4-6 weeks, there should be more clarity emerging on how the budgets are going to pan out for next year.
- Ruchit Mehta:** Okay. Do you see increase off shoring as a part of that strategy or?
- Krishnakumar:** See that certainly is a part where again, it is client-specific. We do see some clients certainly planning in terms of transitioning some of the on-site work to offshore. And in the context of them wanting to be more competitive, that is going to be an essential part of the strategy. But how



much? What quantum is going to be? I think we will have clarity in, maybe 4-6 weeks.

**Ruchit Mehta:** Okay, okay. There is this whole debate of vendor consolidation; when you consider that we have bought a mid cap of \$250 million company, how are you seeing this challenge of vendor consolidation in a sense do you face additional pressure from the customers to either to cut prices more or do you tend to lose some of the smaller contracts because they tend to get clubbed with the larger boys?

**Ashok Soota:** Yes. I mean there are lots of angles to your question and I am not sure. There is one bit on consolidation and again there is a bit of saying, "How do you see things as a mid-sized player?" And you link that up with price. You know, without saying anything negative here for the larger players, I do believe the pricing pressure is less on mid-sized entities. And we can see this ourselves... I mean, from whatever we hear in the market and you all have a better idea on that. And that is simply because the larger size... who are the customers, the larger players in very big ways have a higher degree of pricing power. And so, certainly at this point of time, we are not seeing, that sort of pricing, pressure though we do not rule out the challenges, as KK has told you on a couple of occasions in this conference. Then you talked about vendor consolidation...clearly again, I would imagine that it is an ongoing issue in the industry. Could the slow down you might say, perhaps expedite it etc, obviously we here would like to respond totally as a company ourselves. We do not see ourselves as being at all even an iota under. I mean they may have a lot of interest in us but we clearly have no interest in being a part of any consolidation process. Okay, okay. I am sorry then, I misunderstood the thrust of your question. Maybe KK, you might want to take that on.

**Krishnakumar:** See, this is what we are certainly seeing in the market is really a couple of large customers wanting for more of the multisourcing type of work, where they are looking at naturally bringing in a mid-sized player like us to in a sense get more value. In fact right now, we probably have two opportunities where clearly the client has initiated the RFP, trying to bring in a mid-sized player. So vendor consolidation does not necessarily mean negative for a mid-sized player. Many times it is turning out to be an opportunity. And even today, I think this trend we have been seeing for the last 12 months or so. In some of the engagements that we have got in as a mid-sized player to bring in a mix of both the large and the mid-sized players, we see there is an opportunity for us to expand our volume.

**Ruchit Mehta:** Okay, okay. Great. I am just wondering if your PAT guidance factors in the FX losses up till now?

**Rostow Ravanan:** Correct. Factors in the FX losses till now and like KK and Ashok mentioned, it assumes a certain exchange rate as of 31<sup>st</sup> March. And also the forward premium as of 31<sup>st</sup>, March.

**Ruchit Mehta:** Thank you so much. All the best.

**Rostow Ravanan:** Thank you.



- Moderator:** Thank you, Mr. Mehta. The next question is from Mr. Sandeep Muthangi, of IIFL. Please go ahead.
- Sandeep Muthangi:** Hey, guys, good evening. Going into the next quarter, could you elaborate on the volume or the pricing challenges that you guys are seeing?
- Krishnakumar:** Sorry, Sandeep. You asked about? On the pricing, like I mentioned was till Q3 we have seen the pricing environment as being stable. Yes, there are some head winds appearing on the pricing but many of them are very client-specific, so it is very difficult to give a number or what could be the outcome of that. Certainly, in terms of volumes like I said, we think we will have more clarity on how the customers' budgets are panning out in the next 4-6 weeks. The outlook on that right now is hazy. And to that extent, we anticipate that there will be a lot more clarity in the next 4-6 weeks.
- Sandeep Muthangi:** Yes. Where I am coming from is if I take your US dollar guidance, then you are guiding for an 8% decline in revenues for the next quarter in US dollar terms. So I was wondering what kind of volume and pricing declines you guys are building into the guidance?
- Rostow Ravanan:** Sandeep, it is an estimate as of now and obviously we have factored in all available inputs as of today. So wait for one more quarter to pass to see how that actual breakup turns out to be.
- Sandeep Muthangi:** Okay. And just one point on your Forex losses, can you clarify the extent of hedging position with MindTree now?
- Rostow Ravanan:** MindTree has \$190 million worth of hedges outstanding as of 31<sup>st</sup> December and I will ask Sundar to give the equivalent number for Aztecsoft.
- Sundararajan:** As of December 31<sup>st</sup>, we had a \$37.3 million of hedges which are substantially getting utilized by March and for FY-10 we have only \$14.75 million
- Sandeep Muthangi:** Thanks guys, that is it from me.
- Rostow Ravanan:** Thank you.
- Sundararajan:** Thank you.
- Moderator:** Thank you, Mr. Muthangi. The next question is from Mr. Vishal Agarwal from CitiGroup. Please go ahead.
- Surendra:** Hi, good evening, this is Surendra here. First, could you please explain the reasons for margin expansion in this quarter? I believe there was a wage hike, which was effected from October 1<sup>st</sup> as well. So could you please explain the reasons for margin expansion in this quarter?
- Rostow Ravanan:** Sure, you are absolutely right. Large part of the organization got their pay revisions effective 1<sup>st</sup> October but the positive benefits came because of



the rupee depreciation and improvement in operational parameters, like utilization, all of those contributed to the margin expansion.

**Surendra:** And secondly Rostow, we would really appreciate if something as significant as of 13-14% decline in margins could be explained in the call as well. Because that way I think, everybody gets to know the answer to that. Because I think what is implied in the guidance is a fairly sharp fall as Rohit was talking about. And I do not think a small currency change or a small change in utilization would really explain a 13-14% decline in margins on a quarter-on-quarter basis?

**Rostow Ravanan:** No, actually that is probably not the correct way to look at it. He mentioned a 4% decline, not a 13% decline. He said a 4% decline taken over four quarters or whatever came to 13-14%. And secondly, you also need to realize that when you give a guidance, you give a guidance taking many different factors into mind and that is what the EBITDA guidance has been given. And the large part of that reason is again FX. Because if you see the rupee being so volatile, that is why the guidance was given on that basis. And the only other point also I would like to add is we are also seeing some employee additions in the current quarter. So that is also one of the factors that make us give the current guidance as of now.

**Surendra:** Right and Rostow, just to clarify, at least I thought and if I understood it rightly, that 400, basis point margin was for the full year. So if one is working on a sequential quarter basis, then what your guidance implies is 30% going down to 14-15%. So, the fall is actually 14-15% and not 4%. The 4% is a full year thing which he was talking about.

**Rostow Ravanan:** No. The implied EBITDA on that basis is approximately 24% or so. So it is only a 5-6% decline, it is not a 13% decline in one quarter. But EBITDA also ...

**Krishnakumar:** The other key factor to look at in Q4, Sandeep, is that we have had campus batches joining and most them are in training stage now and they will become available. Because as per our thing we after 90 days take them as billable manpower. So the utilization will undergo a marginal drop during Q4, which in turn will impact a reduction in terms of revenue.

**Surendra:** Well and Rostow, just to understand it once again, the implied guidance is 24-25%. Is that in fourth quarter?

**Rostow Ravanan:** I did not have the number, need to re-verify that.

**Surendra:** Thanks.

**Moderator:** Thank you, Mr. Agarwal. We have a follow-up question from Mr. Srivathsan R. from Spark Capital. Please go ahead.

**Srivathsan R:** The question we are looking for is just actually from last quarter to this quarter, there has been a significant change in realized rate on Forex. I just want to know what is the difference?





- Ashok Soota:** Change in what rate....I am sorry. I was ...
- Srivathsan R:** Last quarter was 43.50 paise and this quarter it moved 48.5. I just wanted to know that kind of jump because the last quarter most others had a high average of 45 and we had a much lower rate, is there any change in terms of accounting norms for Forex rate?
- Rostow Ravanan:** No. I am not sure of this thing. It is not the realized rate; it is the period closing rates. If you look at the market, that was the closing rate as of 31<sup>st</sup> December, it is not realized rate. Two rates are given in the fact sheet are the period closing rate and the period average rate, both of those are from the market.
- Srivathsan R:** Okay. The next question is that \$190 million from the MindTree Forex hedges that we have at this point of time. What is the kind of expiry schedule you can look at?
- Rostow Ravanan:** Sure. Of the MindTree hedges, \$33 million is for the next quarter, and the remaining \$150 million or \$158 million worth of hedge breaks over the next 4 years, of which, \$56 million is for 2009-10, and there are after approximately \$30 million for the next three years.
- Srivathsan R:** Okay. How would be for Aztecsoft?
- Rostow Ravanan:** I will give it to Sundar for Aztecsoft numbers.
- Sundararajan:** I think we have as of date \$37.3 million, out of which \$3.5 million is for July August and September of 2009. And the balance is for the next 6 months.
- Srivathsan R:** Okay. Sure. Thanks a lot.
- Moderator:** Thank you, Mr. Srivathsan. The next question is from Ms. Sudha Sundaram from Fitch Ratings. Please go ahead.
- Sudha Sundaram:** Hi. Just a couple of things. Is it possible to give an idea of the, net employee addition for MindTree and Aztecsoft for FY09 and maybe an idea for FY10?
- Rostow Ravanan:** I will give it to Puneet for replying this question.
- Puneet Jetli:** Yes, you know. I obviously cannot give you any numbers right now for FY10 because we have not started doing the financial plan for FY10. But there are two parts I will answer one as we stand at Q3 and how the position looks at March end. As of now, we have a total in net count addition in MindTree and Aztecsoft is around 50 people. That is between both MindTree and Aztecsoft put together. On a stand-alone basis in a total head count addition for the quarter in MindTree is about 80 and for FY09 YTD is 200 people.
- Sudha Sundaram:** And is it possible to possibly, you know, give an idea of the normal routine capex which MindTree and Aztecsoft would have? Okay. There are additions, on account of employees coming in. But is there something like



a routine, you know, capex year on year which has to happen necessarily? Some estimate of that?

**Rostow Ravanan:** Sure. Our plans for capex for this year was approximately \$17-18 million. But, actual amount YTD December was only \$10 million roughly. We actually are, therefore, have scaled back on our capex plans to that extent given the environment and going forward like I said, typically we run at an approximately \$6000 for a person of capex for every person that we add. Once we finish the plan, after we finalize the headcount addition for next year, roughly that sort of a number would be what we expect, capex addition for next year would be. Some of those would also be a nature of a routine operational capex. Some of those who also depend on for example if you make larger scale facility extension etc, all of this would only be known once we finish the plans for next year.

**Sudha Sundaram:** And, just one more thing, I am not sure you will talk about the individual customers but is there anything you know or with respect to say Nortel, and MindTree servicing Nortel in anyway?

**Rostow Ravanan:** MindTree is not a vendor to Nortel. It never worked with Nortel in the last ten years of MindTree. So, from that standpoint, there is no impact of Nortel used on MindTree business.

**Sudha Sundaram:** Fine. Thanks for that.

**Moderator:** Thank you Ms. Sundaram. We have another follow-up question from Mr. Murralli Yerram from Franklin Templeton. Please go ahead.

**Murralli Yerram:** Yes, a quick question in terms of your Forex losses, I think the Forex losses this quarter has been significantly higher than the last quarter. You had about 67 crores this quarter compared to about 16 crores last quarter whereas rupee depreciated only 5% this quarter vis-à-vis 10% or more than 10% last quarter. Can you actually throw some light on that?

**Rostow Ravanan:** Sure. The biggest reason for that, in fact, Murralli, I think this is the point made in the previous call as well. That movement is the function of both the spot and forward premium. For example, forward premium as of 30<sup>th</sup> September for 1 year is actually negative. Whereas premiums for 1 year as of 31<sup>st</sup> December was almost 2% roughly. So that was the reason for the different higher provisions in the current quarter and compared to this spot movement.

**Murralli Yerram:** Okay, thank you.

**Moderator:** Thank You Mr. Yerram.

**Rostow Ravanan:** Melissa, sorry this Rostow. We will take two more questions and the close this call because the team has to move into your next meeting.

**Moderator:** Sure, sir. The next follow-up question is from Mr. Vishal Agarwal from Citi Group. Please go ahead.



- Surendra:** Hi Rostow, Surendra here again. Sorry to persist but just thought this is something which investors might want to know and also let me know if I have got my facts wrong here. In the first 9 months, MindTree did an EBITDA of 54 million dollars on revenues of 201 million dollars which implies EBITDA margin of 27% and if I look at the higher end of the guidance which you have given out, it implies that fourth quarter, you will do 11 million dollars of EBITDA taking the full year to 65 on higher-end revenues of 72 million dollars per fourth quarter taking the total to 273. And this 11 million and 72 million implies 15% margins. So for the first 9 months is 27% margin since the company has reported and fourth quarter the guidance implies that the higher end a margin of 15%. Is there a factual mistake here?
- Rostow Ravanan:** Surendra, let's sync up after that call. I will walk you through the working. All I would like to reiterate is it is the function of multiple different things that go into giving a guidance and we will give them a guidance based on what we believe has to be reasonable at this point of time.
- Surendra:** Okay.
- Moderator:** Thank you, Mr. Agarwal. The last follow-up question is from Mr. Urmil Shah of Kim Eng Securities in India. Please go ahead.
- Urmil Shah:** Yes. Sir, there have been news regarding our interest for a couple of acquisitions so any outlook on that?
- Ashok Soota:** Yes. We keep examining them from time to time. There is nothing immediately in the pipeline.
- Urmil Shah:** Okay, so just wanted to understand, do you think that business environment currently would be in favor of expansion of a vertical or addition in the capacity via an acquisition.
- Rostow Ravanan:** Difficult to comment on a generic basis because if you argue on a generic basis on any given issue, there should be multiple points of view and like Ashok mentioned, we prefer to have a specific combination when there is a deal on the table and as of now like he said, there is no immediate opportunity that is under our consideration.
- Urmil Shah:** Okay, fair enough.
- Moderator:** Thank you Mr. Shah. I would now like to hand the conference back to Mr. Sushanth Pai and the management of MindTree Ltd. Please go ahead.
- Sushanth Pai:** Thank you, Melissa. That concludes the conference call for today. Thanks everyone and we look forward to speaking with you in the coming months.
- Ashok Soota:** Okay, bye bye. Good night.
- Moderator:** Thank you, management of MindTree Ltd. Ladies and gentlemen, on behalf of my MindTree Ltd., that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

