

MindTree Limited
Investors/Analysts Conference Call
(Apr 27, 2009, 6:30 PM IST)

Moderator: Good evening ladies and gentlemen. I am Suresh, the moderator for this conference. Welcome to earnings conference call of MindTree Limited and Aztecsoft Limited for the fourth quarter and year ended March 31, 2009. For the duration of the presentation, all participants' 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 hand over to Mr. Sushanth Pai. Thank you and over to you sir.

Sushanth Pai: Thanks Suresh. Good evening and welcome to this conference call to discuss the financial results for MindTree Limited and Aztecsoft Limited for the quarter and year ended March 31, 2009. I am Sushanth from the investor relations team in Bangalore. We have with us the senior management team including Ashok Soota, Executive Chairman; N. Krishnakumar, CEO and Managing Director; Janakiraman S, President and Group CEO, Product Engineering Services; Vinod Deshmukh, CEO, R&D Services; Anjan Lahiri, CEO, IT Services; Rostow Ramanan, CFO, MindTree; Sundararajan, CFO, Aztecsoft; Parthasarathy N.S., CEO, Testing and IMTS; Puneet Jetli, Global Head, People Function; and Salil Godika, Chief Strategy Officer. The agenda for this session is as follows. Krishnakumar 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 those statements periodically. I now pass it on to Krishnakumar.

Krishnakumar: Thank you Sushanth. Good evening and welcome to the analyst conference call for the quarter and year ended March 31, 2009. Despite the challenges, our revenues have shown industry-leading growth of 21% in dollar terms and 37% in rupee terms in financial year 09. Our acquisition of Aztecsoft during the year has brought in synergies and along with it, growth engines such as testing and infrastructure management helps us position attractively to address the growth challenges. We have also commenced our knowledge services offering in the area of analytics. The reorganization we had announced earlier will help MindTree to have more growth engines to take advantages of the emerging opportunities in the global services market. It draws from the strengths of both MindTree and Aztecsoft and positions us as a leading midsize player across industry segments. Above all, the culture and value systems that were built over the years instills in us a comfort and



the confidence that we have in our growth and gives tremendous confidence to customers and prospects to do business with us.

I will now provide a few highlights of our Q4 results. We have met our revised revenue guidance both on standalone and consolidated basis for FY '09. Rostow will provide more details on this later. We have received the High Court order to merge MindTree Technologies which was TES-PV which we acquired in December 07 with MindTree. The merger is effective 1st April 2008. Consequently, MindTree's standalone results include that of MindTree Technologies. For MindTree, Q4 software revenues were 51.6 million US dollars representing a quarter-on-quarter decrease of 9.1% and a year-on-year decrease of 2.5%. In rupee terms, this represents a quarter-on-quarter decrease of 7.2% and a year-on-year growth of 23.2%. In rupee terms, our EBITDA margin is 23.1% this quarter, which represents a quarter-on-quarter decrease of 31.3% and a year-on-year growth of 54.9%. The margins have declined as compared to the previous quarter, mainly because of the addition of campus minds which we have added and volume declines on revenue. Rostow will provide more details of this later on. In rupee terms, our IT Services business has grown 21.8% year on year and decreased 9.3% quarter on quarter while our R&D services business has grown 28.1% year on year and has had a 0.8% growth quarter on quarter. In terms of industry groups, travel and transportation, insurance for IT services, and consumer appliances in R&D has shown good growth in the financial year 2009 over financial year 2008. Our growth in the BFSI vertical has also been steady. We have added 22 new customers this quarter. On new wins, the noteworthy ones are a large customer based in Europe in the BFSI segment -this is a deal where the customer clearly saw a differentiation in the midsize positioning and the attention and the agility we bring on to their initiative; a large insurance services company based in the US - this is a long-term maintenance project. Our Bluetooth IP brought in some significant wins in Q4. Noteworthy amongst them being a leading semiconductor company in Asia and a large technology company based in US. On the people front, the attrition on a trailing 12-month basis has reduced to 11.8% compared to 13.8% in Q3 and 15.8% in Q4 of last year. On a consolidated basis, we have added 217 minds during the quarter mainly from campus, taking the consolidated people count to 7,866.

I will now give you a brief update on Aztecsoft. Aztecsoft's Q4 software revenues were US dollars 16.32 million representing a quarter-on-quarter decrease of 8.5% and a year-on-year decrease of 5.5%. In rupee terms, this represents a quarter-on-quarter decrease of 6.2% and a year-on-year growth of 19.5%. In rupee terms, Aztecsoft's EBITDA margin has been steady at 30.7% this quarter, which represents a quarter-on-quarter decrease of 5.1% and a year-on-year growth of 163.4%. On the profit front, Aztec ended the quarter with profit after tax of rupees 157 million, which works out to 19.1% on revenue, which is a tremendous achievement.



Coming to our consolidated guidance for FY 2010, our guidance will be as follows. Revenue guidance of dollar 290 to 300 million, that is rupees 14,906 to 15,420 million. Our PAT guidance of dollar 37.7 million to 39 million which in rupees is 1,938 million to 2,005 million. EPS is expected to be in the range of rupees 49.3 to 50.9. The above guidance is based on the exchange rate of 51.4 to the dollar.

Now, let me pass on to my colleague Rostow to share some of the financial highlights for the quarter and the year.

Rostow Ramanan: Thank you KK. Good evening to everybody. I am Rostow. MindTree's Q4 revenue in dollar terms declined 9.3%. This is the standalone revenue for MindTree. This breaks down to a volume decline of 7.4% and a price decline of 1.9%. In the price decline, cross currency impact is 0.6%, so the actual price decline is only 1.3%. The volume decline is mainly attributable to some ramp-down in existing clients and some delays in new projects. Our utilization excluding trainees has fallen approximately 5% and now it is 66.6%. In the current quarter, the rupee depreciated approximately 4% and therefore we had to take an additional charge of 4.2 million dollars towards a mark-to-market loss on our derivative portfolio. However, for Aztec, there are very little hedges left for 2010 and there was no additional mark-to-market impact in Q4. As KK mentioned, the PAT percentage for Aztec in Q4 was 19.1%, which is a very, very robust level and has also achieved a sequential growth of 65.3% and almost 400% year over year growth in terms of the Aztec's Q4 profitability. On a consolidated basis, our revenues declined 7.1% Q over Q in rupee terms and grew 62.3%. EBITDA margin is 25.6% in Q4. It is a little lower than Q3 mainly because of the revenue decline and as well as the new campus batches that have joined us in the current quarter. Aztecsoft revenues for the quarter were rupees 815 million and a PAT of rupees 155 million and these were consolidated into the MindTree results. On a consolidated basis, we have 261 active customers. Of these, we have 64 million dollar customers, which is an increase of 4 from quarter three and it was 46 in March 08, so we have really added a lot of high-value customers in the course of this financial year, 13 five-million dollar customers which is the same as quarter three and up from 6 in March 08, and 3 ten-million dollar customers which was the same in quarter three and up from 2 in March 08. One of the important achievements in the current quarter was a persistent collection effort which led to DSO falling to 70 days in this quarter as compared to 79 days as of 31st December. The big highlight also was that we have completed almost all the steps for the Aztec merger into MindTree. The only pending step is the order from the Honorable High Court of Karnataka, which we are expecting anytime now. The moment the order comes, the merger will be effective 1st April 2009. We were rated AA by Fitch on our long-term borrowings and F1+ on our short-term borrowing, reflecting the strong financial fundamentals of MindTree, so that was our credit rating which we achieved in the current quarter.



Coming to the highlights of our full year results as compared to the guidance we had given at the end of Q3, on a standalone basis, we achieved the lower end of our rupee guidance and almost met the lower end of the dollar guidance. Our dollar lower end guidance was 223 million and our actual performance was 222.7 million, so very close to the lower end of the dollar guidance. We exceeded the higher end of the rupee and dollar EBITDA guidance. Our PAT is a little short of the guidance. We achieved a PAT of 6.6 million dollars as compared to a guidance of 12.8 to 14.5 million in dollar terms and in rupee terms, we achieved rupees 300 million as compared to rupees 595 to 677 million of guidance, but that is mainly and only because of the currency impact. The guidance was given at rupees 48.5 whereas the actual for this quarter was more than 50. Had the rupee remained at 48.5, we would have exceeded our PAT guidance also. On a consolidated basis, we met both our rupee and dollar revenue guidance. We achieved 269.1 million dollar revenues in dollar terms as compared to a guidance of 269 to 273 and in rupee terms, we achieved 12,375 million rupees as compared to a guidance of 12,269 to 12,460. On the EBITDA, we have exceeded the EBITDA guidance both in rupee and dollar terms. The actual performance on EBITDA was 72.6 million dollars in dollar terms and rupees 3,310 million. On the PAT level, we achieved a PAT of 11.4 million in dollar terms and 523 million in rupee terms. Again, it is a little short of the guidance, but the guidance was given at 48.5 and had the rupee remained at that level, we would have exceeded this guidance on PAT. On a standalone basis, Aztecsoft achieved 71.7 million dollars, 3,320 million rupees in rupee terms for the full financial year. That is a 13.7% growth in dollar terms and a 31.2% growth in rupee terms. Standalone profit after tax of Aztec was rupees 216 million which is a 24.5% growth over the previous year. We will now open the floor for question and answers. Thank you.

Sushanth Pai: Suresh, Sushanth here. Hello...hello...hello Suresh.

Moderator: Yes sir.

Sushanth Pai: Yeah.

Moderator: Thank you very much sir. At this moment, I would like to hand over the proceeding 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 Cindrel.

International Moderator:

Thank you moderator. We will now begin the Q&A session for the participants connected to the WebEx International Bridge. Please press *1 to ask a question. Again, participants who wish to ask questions, please press *1 now. Again, participants who wish to ask a question, please press *1 now. At this moment, there are no questions from the



participants at the WebEx International Center. I would like to hand over the proceedings back to the India moderator.

Moderator: Thank you Cindrel. We will now begin the Q&A interactive session for participants connected to WebEx India Bridge. 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. Ajay from Idea Capital

Ajay: Hi, good afternoon. I wanted to ask about your mark-to-market losses of 200 crore, is this...could you please shed some light on how this is calculated.

Rostow Ravanan: Hi Ajay. This is Rostow. Like we have explained in the past, we have booked long-term hedges for our foreign currency exposure. Since we have approximately 80% of our revenues coming in US dollars and during the course of 07-08, the rupee was expected to appreciate, we had booked forward contracts and options to protect our dollar-rupee exposure. Those contracts, since we have booked in 2007-2008, was at an average of about 41 rupees in terms of realized rates, however in 08-09 the rupee was much higher. Under the accounting rules, specifically known as Accounting Standard 30 which was issued by the Institute of Chartered Accountants, these instruments have to be fair valued, which is what we have done and we have taken a provision on a mark-to-market basis. The 200 crore that you see is for the full year. In the current quarter, it is only about 20 crores.

Ajay: Okay. This is what kind of...what are your outstanding hedges at this point?

Rostow Ravanan: Our outstanding hedges at this point for 2009-2010 is 83 million dollars and longer than 2009-2010, i.e., from 2010-2011 to 2012-2013 is 102 million dollars.

Ajay: 102 million for post FY 10?

Rostow Ravanan: Correct. And the average rate for the 83 million dollars that have been booked for 2009-2010 is 45.34. The average rate for the longer term hedges is 42.81.

Ajay: Okay. And these are, you know, when you look at 200 crores loss in the financial year, are these hedges also accounted for in that loss?

Rostow Ravanan: Exactly. It is these contracts that led to that provision.

Ajay: Surely. So, at this point, you know, what is the loss that you have booked on the income statement but that you have not paid for, I mean are these...do you pay every quarter for whatever is the mark to market?



- Rostow Ravanan:** This is only a notional accounting provision, so no money has been paid against these instruments...against this provision.
- Ajay:** So, how do you, where do you, on your balance sheet, just walk through, where do you put it in, you know, where is the liability, where is the liability side, this 200 crores?
- Rostow Ravanan:** It will be shown under that current liability's grouping.
- Ajay:** For current liabilities, this 286 crores, 200 crores is...200 crores will be the forex hedged liability.
- Rostow Ravanan:** The liability is actually 142 crores. I don't know where you picked up that 200 crore number from, but the liability is shown under our current liability heading.
- Ajay:** I am looking at the consolidated balance sheet and, you know, current liability provision says 285...2859 million rupees as provision of...
- Krishnakumar:** Ajay, we are just trying to check that number. In the meanwhile, you have any other queries?
- Ajay:** Surely, yeah.
- Krishnakumar:** Yeah.
- Ajay:** What is your ongoing forex hedging policy given that you have large amounts outstanding?
- Krishnakumar:** See, clearly Ajay we have got a well-defined policy which states that we will hedge only up to 50% of our receivables at the maximum and this has been something which we have consistently followed. If at all, we have erred on being more cautious on this and it has always been below 50% of our receivables.
- Ajay:** Okay. And you also mentioned that...
- Krishnakumar:** And only...we take hedges only for 12 months ahead, not for longish, though some of this which are causing these things were taken during the period when rupee was expected to appreciate. That time, we have taken long. Since then, we have changed also the period. We don't hedge beyond 12 months.
- Ajay:** Okay.
- Krishnakumar:** I think meanwhile Rostow has got that number.



Rostow Ravanan: Yeah, the number that you are seeing of 247 crores in the consolidated balance sheet under the current liabilities Ajay, , 142 crores is the mark-to-market impact, the remaining 100 odd crores is our current liabilities.

Ajay: Okay, 142 crores is the mark-to-market impact that is not paid for yet.

Rostow Ravanan: Exactly.

Ajay: And everything else here, so whatever is market, so except...apart from the 142 crores, everything you already paid for to your counterparties?

Rostow Ravanan: No, that is not the way this works. This is a portfolio of contracts that is, you know, done on this mark-to-market accounting basis and you create a provision at every period end.

Ajay: Surely, okay. Also you mentioned that some of your revenue decline was because of some large customers drop...some projects ramping down, some customers dropping off, and I also see that your customer count has declined in Fortune 500 from 38 to 34, I believe. Do you see that as, you know, how long do you think this course will last, is this the last quarter, your outlook on that.

Krishnakumar: Ajay, again, what we mentioned was that yes, the demand environment is challenging and sales cycles are longer and customers have sort of started being slow on volume. This does not necessarily mean a reflection in terms of how we are seeing the demand going ahead. Clearly, even the drop which you see in terms of Fortune 500 customers is because there is a percentage of our business which is project oriented and what work we have done, which means currently we are not billing for those customers. These are projects which have ended and to that extent, there may be future part of our customer base as we sort of move into that. So, that is the sort of change which you see in that.

Ajay: Okay. And this year, your EBITDA has been fantastic. If, you know, let's say if rupee goes to say 45 or 42, what kind of EBITDA do you think, you know, you can expect, you know, leaving aside the reversal of losses on the forex hedges, what kind of EBITDA you think you would expect?

Rostow Ravanan: We will wait and watch on that Ajay because the rupee is just being so volatile, so given the way that we have built a plan right now, you know, we have assumed the plan on the basis of 51.4, so we will have to wait and watch on the rupee exchange rate.

Ajay: Surely. If I ask you this question bit differently, you know, how do you sort of, you know, given that rupee has been very volatile and it has gone, you know, over a year or two years, the movement has not been something that was easy to anticipate and is core part of your business, how do you manage this variable?



Rostow Ravanan: Sure. Our view has been consistent. In the past, we always wanted to hedge between 30% and 50% of our revenues and we are just sticking to that policy. The only change that we made was given the fact that the accounting rules on some of these instruments have changed and we have also adopted a different portfolio of instruments from April 2008 onwards. We no longer do option-based hedging. We only do forward contracts and plain vanilla puts to hedge, but other than that, we don't take a view on currency. Our hedging is not determined by is the rate going to be X or going to be Y or whatever. We are just sticking to a consistent hedging policy.

Ajay: Also, you know, given that the model business is project oriented, when your projects come up for renewal or, you know, project gets over and the clients go in for newer projects and, you know, given the currency, rupee has depreciated and what is happening globally, are you seeing, you know, what kind of pricing pressure you are seeing?

Krishnakumar: See again Ajay, just to correct, if you see our maintenance portfolio has certainly been increasing quarter after quarter. Even in the quarter ended March 09, our maintenance portfolio has become 31.5% on a standalone basis. I talked about a large insurance company which we won last quarter, which is largely a maintenance portfolio with visibility of almost three years in terms of the business. So, that transition is continuously happening and to that extent I think we are clearly seeing customers continue to invest in strategic areas. Of course, yes, there is some level of I would say demand sluggishness where there is possibly sales cycles which are taking longer, but that does not mean necessarily our portfolio business there is getting impacted in a big way. There is some level of reduction, which we talked about saying that about 7.4% of that was volume, but we have been able to...though you have talked about pricing pressure, I think we have managed that fairly well in terms of trying to talk more value with customer rather than just getting stuck to cost and dollar per hour. So, you see our pricing decrease which is just 1.9% of which 0.6% is really the cross-currency impact of euro, pound, as well as the SEK. So, the real pricing decrease is just about 1.3%, which I think is by and large very, very good compared to many others who have sort of indicated on that, which in a way reflects that our positioning with customers is very different from just being a pricing game to what is the value which the customer sees out of that, the ability to sort of use this opportunity when customers ask for price decrease to try and get into a longer-term visibility and volume-oriented pricing structure and really ensure that we are consistently providing extra value to the customer.

Ajay: Sure. Thanks so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil Tirumalai from Credit Suisse.

Sunil Tirumalai: Hi sir, good evening. I just had a couple of questions. Firstly, on the guidance, it will be good if you could throw some color as to what



assumptions are going into it in terms of volume or pricing changes that you are building into the guidance, both for MindTree and for Aztec separately and also in terms of the forex losses, how are you building that for the strong EPS guidance that you put out?

Rostow Ravanan: Sure. Let me take the forex part Tirumalai, this is Rostow and then KK can comment because it is a smaller, it is a more easily answerable question. If the rupee continues to behave like what we have planned like I said we took the rupee was 50.7 on 1st April and we are anticipating for the year as a whole to be at 51.4. On that basis, we are booking an extra 3 million dollars of foreign exchange loss for the year as a whole and I will have to now give it to KK for the broader business question.

Krishnakumar: Sunil, we have guided revenues of 290 to 295 million for FY 10 sorry, 290 to 300 million, which indicates by and large a flat sort of revenue. We are not going to give separate guidance for MindTree and Aztecsoft because like Rostow mentioned and even in my opening remarks which I mentioned, we expect the court order to come anytime now. So, we will only be sort of giving one guidance for both MindTree and Aztecsoft together.

Sunil Tirumalai: Yeah. So, even if we look at in consolidated, what kind of volume growth on a like-to-like basis, volume and pricing movement have you built in, have you assumed something like a flat pricing and volumes, what are your assumptions behind it?

Krishnakumar: See, clearly we see that pricing would probably remain flat or there might be a marginal decrease in terms of pricing. In terms of volume growth, probably Q1 is still going to have pressure on volume growth and we could have marginal decline on volume growth, but after Q1, certainly we see the pipeline in terms of possible prospects, new opportunities that are coming in starting to contribute back to the volume growth. So, by Q2, we should start having marginal growth on volume which will lead on to the later half of the year certainly growing in terms of both volume as well as revenues.

Sunil Tirumalai: Okay. And sir, what is the outlook on hiring?

Krishnakumar: I will ask Puneet to sort of talk to you about it.

Puneet Jetli: Yeah, Sunil, you know...Puneet here, you know, there are obviously two channels from, you know, for hiring for us. One is really the campus recruitment and we are planning to have the next batch of campus people of around 250 people joining us in October of 2009. On the lateral side, you know, we would actually be hiring based on the visibility as well as the need that we see on the ground. Obviously, the emphasis will continue to be on improving our internal utilization and as and when we see, based on business forecast, the need for hiring external experienced talent, we will go and tap it from the market.



- Krishnakumar:** Sunil, again here, I would like to stress on campus recruits of 08. We are probably the only company with this 250, we would have honored all the offers we have made.
- Sunil Tirumalai:** Okay, and you have already given the joining dates?
- Krishnakumar:** Already, significant portion of the people have come on board and this is the last tail of 250 people who will come on board during the next two quarters.
- Sunil Tirumalai:** Okay. Sir, thank you very much.
- Krishnakumar:** Thanks Sunil.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Vishal Agarwal from Citigroup.
- Vishal Agarwal:** Yeah, hi, thanks. Most of my questions have been answered, the only thing I missed was the forex loss assumption in your FY 10 guidance, if you could just repeat that please. Thank you.
- Rostow Ravanan:** 3 million dollars.
- Vishal Agarwal:** Sorry.
- Rostow Ravanan:** 3 million dollars.
- Vishal Agarwal:** Okay, thank you.
- Rostow Ravanan:** Thank you.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Abhijeet Kumar from Equity Master.
- Abhijeet Kumar:** Hello...hello...
- Krishnakumar:** Yes Abhijeet, go on.
- Abhijeet Kumar:** My question has been answered, thanks.
- Moderator:** Thank you very much sir. Next, we have Mr. Srivathsan from Spark Capital.
- Srivathsan:** Yeah, hi. Just wanted to get some update on your couple of core businesses. One would be the erstwhile Aztec's product OPD piece of business and other is MindTree's standalone R&D business, what is the demand trend you are seeing because these tend to be extremely cyclical in a slowdown and what kind of sense you are getting from your customers?



- Krishnakumar:** Srivathsan, I will ask Jani who is the President and Group CEO of Product Engineering to talk on OPD and Vinod who is the CEO of R&D Services to give you a feel of the demand in R&D services. Srivathsan, can you just repeat the question because I think there was a lot of...
- S. Janakiraman:** Maybe you are using the speaker phone Srivathsan, can you repeat the question.
- Srivathsan:** Yeah, sure. Just wanted to know what is the demand scenario or sense you are getting from customers in OPD and R&D services?
- S. Janakiraman:** Okay. The demand scenario if you look at, Srivathsan, in the quarter four, you know, we had just a 0.6% decline in the overall business compared to the previous quarter in the R&D services business, but we do expect that some of the ramp-down, you know, possibilities in some of the accounts which are not, you know, something where we are going to completely close down, but there will be a marginal reduction that will start reflecting in Q1 result, but we expect the recovery to start from Q2 onwards because we are seeing new orders coming in and some of the customers who have slowed down are asking us to, you know, generate new projects, so from that angle, we expect that Q1 will be a little lower than Q4 whereas Q2 onwards the momentum to pick up. In the case of OPD business, we expect a sort of a similar trend and what we are seeing is surely the projects coming in from some of the accounts that are already existing in terms of newer projects getting initiated and even the newer accounts getting added on. One thing that you would have seen in the things that we have posted is that in the Q4, we had a significant uptake in terms of the IP revenue that we had in terms of the number of licenses that we have done and that trend is again continuing in Q1 and that also can bring us the upside in the revenue in Q1 and Q2.
- Srivathsan:** Okay. Just in terms of the end market, the kind of improvements you are seeing in R&D services, is this more the telecom or the storage services, can you just talk about which environment are you seeing this kind of demand coming in later or work coming in at least.
- Krishnakumar:** Which...end markets, Vinod, you want to...
- S. Janakiraman:** Okay. In terms of the end market, the areas where we are seeing, you know, the slowdown impact is much more in the semiconductor sector whereas the system side of the business, we are seeing reasonably good momentum, especially on the communication side we have seen a positive momentum. On storage, it is holding on. In areas like, you know, medical electronics and industrial system, it is holding on whereas the consumer equipment side, we are seeing a little bit of a slowdown again. So, I can say semiconductor and consumer are the areas where there is a slowdown whereas the rest of the segments are either remaining flat or picking up momentum.



- Srivathsan:** Okay. Rostow, just a quick question on the debt. If I assume correctly, all our debts are INR denominated right?
- Rostow Ravanan:** Yes.
- Srivathsan:** There is no forex.....
- Rostow Ravanan:** No, no forex impact on our loans.
- Srivathsan:** Okay. And then what would be the interest rate on these?
- Rostow Ravanan:** The interest rates approximately will be about 9%.
- Srivathsan:** Okay. Thanks a lot.
- Rostow Ravanan:** Thank you.
- Moderator:** Thank you very much sir. Participants are requested to use their handsets while asking a question. Next in line, we have Ms. Sudha from Fitch Ratings.
- Rostow Ravanan:** Hi Sudha, go ahead.
- Moderator:** Ms. Sudha, your lines are open. As there is no response, we will move on to the next question. Next in line, we have Mr. Sujith from CRISIL.
- Sujith:** Yeah, hi. Just one clarification, the guidance is on top line that includes the other income also?
- Rostow Ravanan:** No, this is only sales.
- Sujith:** Okay, it does not include...okay, okay. That's it from my side. Thank you.
- Krishnakumar:** Thank you.
- Moderator:** Thank you very much sir. Hello Mr. Sushanth, there is a line disturbance.
- Rostow Ravanan:** I don't think it is coming from our end.
- Moderator:** Let me check sir. Next, the lines are open for Mr. Aniruddha from IIFL.
- Aniruddha Dange:** Hi, this is Aniruddha Dange. Just wanted to understand a bit more on the pricing, what proportion of clients would have gone through their annual renegotiation or whereas the prices are stable and unlikely to be renegotiated in the next three to six months.
- Krishnakumar:** Aniruddha, we won't have readily the percentage of clients who have done, but like I talked earlier, clearly the way in which we look at positioning this with customers is rather than making it just a cost issue,



many of the customers with whom we are engaged with have been customers with whom we have worked for a long time, so to that extent, we are trying to see how we increase value to them and look at both volume as well as visibility for us over a longer term which then leads to more cost effectiveness for that. Again, I don't have a percentage of what percentage of those customers have sort of negotiated, but if you look at just our Q4 numbers, out of the 9.3% decrease, about 1.3% has come from price decrease and about 0.6% has come out of the currency, cross currency movement of euro, pound, as well as the SEK.

Aniruddha Dange: Right.

Krishnakumar: But it has largely been impacted by the volume degrowth which is about 7.4%.

Aniruddha Dange: Right, right, I mean so the performance in Q4 is definitely impressive, given the pricing decline was such small numbers, which is what I wanted to understand that whether it is maybe 5% to 10% or 50-60-70% has been done, so that then there is no worry in terms of incremental clients because my basic query is in this environment, I mean where the revenue growth expected for most players in the industry is likely to be zero or plus/minus 10%, there would be definitely some player who will be doing sort of marginal or a slightly lower pricing.

Rostow Ravanan: Yeah, the other way to answer your question Aniruddha, this is Rostow...

Aniruddha Dange: Yes.

Rostow Ravanan: ...is that in many of our customer conversations, it is not becoming a single dimension question on price. It is not as though 50% of our customers are coming and asking for a 50% price reduction or anything like that. It is relatively a small portion. We don't expect that to dramatically change given the nature of our services, given the fact that, you know, high consulting, high IP-led offerings and so on and so forth, we are not anticipating a huge pricing pressure from any of our customers.

Aniruddha Dange: Fair enough. And basically could you elaborate on what has been the experience on revenues from clients which are having specific problems who either acquired clients or clients which have filed for bankruptcies or things like that versus others, I mean is there, I mean is this revenue decline primarily because of such kind of clients?

Krishnakumar: None Aniruddha. We have not had any problem with clients either going bankrupt or affected.

Ashok Soota: Actually, we don't have any clients who declared bankruptcy.

Krishnakumar: Yeah, yeah.



Aniruddha Dange: Okay. And just a final question, could you elaborate on the proportion of revenues, you have given development, maintenance, consulting, etc., but the proportion of revenues as per your estimate which could be project based versus non-project based which is more sustainable or discretionary and nondiscretionary, that sort of a revenue breakup?

Rostow Ravanan: Yeah, we don't look at our revenue base like that Aniruddha and like we have spoken in the past, not necessarily, all of that development work and if you see from our fact sheet, approximately 50% of our revenue is from development work...

Aniruddha Dange: 50%, yeah.

Rostow Ravanan: ...not all of that is actually discretionary in that sense and it is sort of projects, but it is started...and once customers kick it off, very rarely do they, you know, cancel a project midway because they will not even get the value they expect from a...and within that also, there are...some portions of the development projects are from very long-term customer relationship that we have where we run dedicated development centers for those customers as well. So, while approximately 50% of our revenues is development oriented, but I would say very little of that is "discretionary" for that customer.

Aniruddha Dange: Okay. Okay, fair enough, thanks.

Rostow Ravanan: Thanks Aniruddha.

Krishnakumar: Thanks Aniruddha.

Moderator: Thank you very much sir. Next in line, we have Mr. Arjun Bhuwalka from ValueNotes.

Arjun Bhuwalka: Hello, good evening. I just wanted to understand that given the drop in employee utilization, how do you foresee these numbers, do you foresee an improvement in the quarters to go by or do you consider this utilization to remain at the given percentage?

Krishnakumar: Arjun, like we mentioned earlier in the call, we do anticipate that during this quarter, there could be still pressure on volumes, which means yes, it might go down a few percentage points, but starting Q2, we anticipate the utilizations to start moving up. The utilization could also go down because like I mentioned earlier, we have probably been one of the few companies to have honored all our campus recruits. So, they do add to the utilization falling by a few percentage points down and the last tail of that campus recruits, about 250 will also come on board during Q1 and Q2, which again could drop utilization. Sorry, the last tail will come in October.

Arjun Bhuwalka: Okay, okay. So, by when do you sort of would reach the target utilization you think?



- Krishnakumar:** We think in our business to sort of be competitive to win new business as well as to run an optimal sort of thing, we should be in the early 70s in terms of utilization. By end of Q3-Q4, we will reach that number.
- Arjun Bhuwalka:** Thank you sir. All my other questions have been answered. Thank you.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Chetan Vadia from JHP Securities.
- Chetan Vadia:** Yeah, this is Chetan Vadia from JHP Securities. What is the debt on the books right now?
- Rostow Ravanan:** MindTree has 31 million dollars of debt as of 31st March. Aztecsoft doesn't have any debt.
- Chetan Vadia:** Okay. All this is in rupees as you said earlier.
- Rostow Ravanan:** Correct, it is all in INR debt.
- Chetan Vadia:** INR debt. And then, how many clients have we added in Q4?
- Krishnakumar:** 22 clients we have added during Q4.
- Chetan Vadia:** 22 and how many of these are more than 10 million dollar kind of...
- Rostow Ravanan:** None of the customers which we added in Q4 would have reached a 10-million dollar revenue within one quarter, but some of them are, like KK mentioned in his opening remarks, are very large opportunities for us, so we anticipate them to grow in the coming quarters.
- Chetan Vadia:** Sir, on a year-on-year basis then, the total revenues from the customers could grow more than that?
- Rostow Ravanan:** Yes, we expect at least a few of the new customers that we have added to grow into very large accounts for us going forward.
- Krishnakumar:** Chetan, again, if you look at our own thing, our 1 million dollar customers have gone up to 64, which is up from 60 in Q3 and 46 in March 08, which means the 1 million dollar customers have almost gone up by 18 customers. There are 13 customers in the 5 million which is same as Q3, but up from 6 in March 08, which means we have added during the year 7 five-million dollar customers and there are three 10-million dollar customers, up from 2 in March 08.
- Chetan Vadia:** Alright sir. Thank you very much.
- Moderator:** Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Sujith from CRISIL.



- Sujith:** All my questions have been answered. Thank you.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Manoj from JP Morgan.
- Manoj:** Yeah, hi, good evening guys. I just wanted to understand a little bit more about your guidance because you said you expect some sequential decline in the June quarter, that basically leaves you with something like a 7% at least sequential growth even to meet the lower end of your revenue guidance number, I am just trying to understand where does that kind of confidence come in because 7% sequential growth we haven't seen from any of the companies and having that kind of confidence for the second half of the year is actually saying a lot, so where does this come from?
- Krishnakumar:** Manoj, like we mentioned earlier, clearly in the last few weeks, we have started seeing the first signs of revival which has resulted in RFPs and some large opportunities in the pipeline. So, we do see that during the latter half of the year, possibly starting from mid of Q2 and beyond that there is going to be revival of both revenues in volume terms as well as in business terms. Again, to go back in terms of our own thing, if you look at our Q1 last year, we have grown about 9.9% quarter on quarter and in Q2, we grew about 13.5%, so it is not that we have not achieved that scale. So, we do see that the pipeline certainly in certain parts of the business is healthy and we do see that there is an opportunity to grow in the latter half of the year.
- Manoj:** But...
- Rostow Ravanan:** And Manoj, sorry, this is Rostow, just so that there is no confusion, the guidance of 290 to 300 million which KK gave is on a consolidated basis. If you compare that on an organic basis, on a full year MindTree plus full year Aztecsoft basis, that comparison is against 295.3 million dollars which the combined entities have achieved. Though on a consolidated basis, we reported 269 million revenue for the full year, but that is because only part year of Aztec was consolidated, but if you "look at it on an organic basis" on the base year for both organizations, it is about 295 million dollars, which we are expecting it to go from 290 to 300, so it is a flat year. So, the sequential growth in future quarters is not 7%.
- Manoj:** No, actually Rostow, I am looking at on the fourth quarter basis, this quarter you did 67.86 million.
- Rostow Ravanan:** Yeah.
- Manoj:** And if I even assume that next quarter let's say you will do roughly similar number because you yourselves are indicating, so let's say 66 million for 1Q and then you build from that, to get to even 290, you will have to grow that number by 7% sequentially, that is what I was doing.



- Rostow Ravanan:** Sure. On a sequential quarter basis, you are right.
- Manoj:** So, yeah, that is...okay. The second thing Rostow, I want to understand was on the whole currency side, you obviously said you are building in a 3 million dollar loss. Now, I just want to understand that if rupee depreciates, does that increase your net profit or decrease your net profit because like we saw this quarter rupee depreciation is actually negative for your net profit, so...and what is the sensitivity of that for FY 10?
- Rostow Ravanan:** Sure. Till the hedges continue, there will be a balancing effect. Like you see the EBITDA has grown strongly, but we still continue to take this mark-to-market impact. So, on the assumptions that we have built on a full year average of 51.4, we will get a part reversal for some of the hedges, but we will also book an exchange loss for some of the contracts that we have booked as well, so that net impact is 3 million dollars. So, if the rupee depreciates beyond 51.4, then there could be further exchange loss that we need to provide, but if the rupee appreciates, there will be a lesser provision, so for one more year, there will be this dichotomy in the way the rupee results affect us.
- Manoj:** No, but I am trying to understand let's say if rupee is at 45, will your profit be lower or higher in terms of rupee terms, given everything, if your volume and pricing assumptions are correct, just in terms of rupee?
- Rostow Ravanan:** If the rupee is at 45, we haven't done that scenario, but we can do that and get back to you.
- Manoj:** Yeah, because just want to understand that actually rupee depreciation or appreciation, is it actually good or bad for your net profit because I think given the kind of forex losses that are coming in, it may be difficult for us to predict which way it would go, so if you could just share some information on that, that would be great.
- Rostow Ravanan:** Sure.
- Manoj:** And lastly Rostow, on the margin side, except for rupee exchange fluctuation, let's assume rupee remains at the same rate as this year, which was approximately 46-47 I think as an average, what are you building for EBITDA margin next year compared to this year on a consol basis?
- Rostow Ravanan:** Manoj, at this time, we are not giving a breakup of the guidance. We are just giving the revenue, PAT, and the EPS guidance. So, some of those, we would want to wait and see how they play out during the course of the year.
- Manoj:** Sure. Thank you.
- Rostow Ravanan:** Thanks Manoj.



- Moderator:** Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next, we have a follow-up question from Mr. Chetan of JHP Securities.
- Chetan Vadia:** Yeah, hello...
- Krishnakumar:** Yes, go on Chetan.
- Chetan Vadia:** Yeah. Sir, can you give me the geographical breakup of revenue in terms of America, Europe, India, and rest of the world?
- Rostow Ravanan:** You can actually find it on our fact sheet. On a consolidated basis, US was 64.9%, Europe was 19.9%, India was 6.4%, and 8.8% for the full year March 09.
- Chetan Vadia:** And among these, in which geography you are most bullish on towards the guidance for FY '10?
- Rostow Ravanan:** We are actually anticipating growth from all our geographies. Based on whatever customer concentration and customer information that we have, we are expecting growth from all our geographies, but I will get Anjan and a few other colleagues to add their point as well.
- Anjan Lahiri:** I think as Rostow said, all geographies are important but obviously US and Europe will provide the maximum volume, although the growth from Asia Pacific in India, on a smaller base though, will possibly be higher is what is the estimate.
- Chetan Vadia:** Alright sir. Thank you very much.
- Moderator:** Thank you very much sir. Next in line, we have Ms. Sudha from Fitch Ratings.
- Sudha:** Hello...
- Rostow Ravanan:** Yeah Sudha, go ahead, go ahead.
- Sudha:** Yeah, sir, out of this total forex loss of 208.9 crores in the consolidated financials, is it possible to give the actual cash transaction versus excluding the MTM or the notional loss sir?
- Rostow Ravanan:** Yeah, like we mentioned in the earlier question Sudha, 142 crores is the non-cash mark-to-market component.
- Sudha:** Okay.
- Rostow Ravanan:** The balance is the actual cash loss that we incurred in the whole year.
- Sudha:** The balance is entirely cash outflow then?



- Rostow Ravanan:** On a consolidated basis, the balance is cash.
- Sudha:** Okay. And one more question in terms of how has, anything you see in terms of cross selling, the IT services to existing clients of Aztecsoft?
- Rostow Ravanan:** I will give it to KK to answer this question.
- Krishnakumar:** Sudha, I just had mentioned this point earlier. One of the areas that we have certainly been very happy with the integration is the extent of synergy we have seen in selling IT services to Aztecsoft clients and vice versa. And, that is really also reflected in the superior results which Aztecsoft has achieved in Q4, where you see that they have achieved a 19.1% PAT to sales, which in turn has been driven by some of the cross selling and synergy which we have been able to derive. We have also been able to derive operational efficiency in terms of cross leveraging people in getting billed across customers. So, clearly I think the value of the synergy as we had identified early in the year when we announced the integration is making sense to customers, it is playing out as what it was intended to be.
- Sudha:** Okay. And sir, the projected employee addition for 2010 would be 250 gross freshers?
- Krishnakumar:** That's right.
- Sudha:** And any thoughts on how will you manage employee cost in terms of increments?
- Krishnakumar:** I will ask Puneet to answer this.
- Puneet Jetli:** Yeah, Sudha, you know, typically, for example, if you look at it last year, we implemented our annual compensation increase effective October, so we have still some time. We are clearly, you know, tracking as to, you know, how the market is going to pan out and we will take a final decision in due course and unless we see the, you know, the market conditions really improve, we may not actually go ahead and implement, you know, compensation increase for this financial year.
- Sudha:** Right sir. Thanks a lot.
- Moderator:** Thank you very much ma'am. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Sushanth for final remarks.
- Sushanth Pai:** Thank you Suresh. Thank you everyone for joining this call. We look forward to speaking with you in the coming quarters. Thank you.



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

