Mindtree

Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call
First quarter ended June 30, 2013.

July 26, 2013

Welcome to possible

Moderator Ladies and gentlemen, good day and welcome to the Earnings Conference Call to discuss the 1st Quarter Results of Mindtree Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai of Mindtree Limited. Thank you and over to you sir.

Sushanth Pai Thanks Melissa. Welcome to this conference call to discuss the financial results for Mindtree Ltd. for the 1st Quarter ended June 30, 2013. I am Sushanth from the investor relations team in Bangalore. On this call we have with us the senior management team including Mr. N. Krishnakumar – CEO and Managing Director. Mr. Parthasarathy – COO and President Enterprise Service Lines, Mr. Ravi Shankar – Chief People Officer, Mr. Rostow Ravanan – CFO, and Mr. Veeraraghavan – Chief Delivery Officer. The agenda for the 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. Please note that this call is meant only for the analysts and investors. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call.

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.

N. Krishnakumar Thanks Sushanth. Mindtree has evolved as an organization in the last few years and I am happy to share with you that we have delivered 15 consecutive quarters of revenue growth. We need to continue our focus to establish Mindtree as a leader in our chosen verticals. We will drive to deliver industry leading growth and predictable results. We have been leveraging the expertise of several world leading external partners to help us towards achieving our aspirations. In this context some of the key changes in our structure are as follows.

a) To introduce greater agility in the organization and be closer to our customer we have dropped an intermediary level, which was our IT Services and product Engineering Services business. PES is now being reoriented as Hi-tech, a vertical by itself rather than a business unit. This removes the restriction of only providing product Engineering Services to Hi-tech clients who will now have access to the entire capability of Mindtree. We now also have ER&D as a key service line and this will be positioned as a strategic service line with a focus on retaining our leadership in the product Engineering Services and this will be leveraged across all our verticals.

b) With this our four main verticals will be BFSI, Manufacturing, CPG, Retail, Travel & Transportation, and Hi-tech. All these four vertical groups will directly report into me. We will also be henceforth reporting our segment wise results along these vertical groups.

C) Within these verticals we will have special focus on micro verticals such as property and casualty in the BFSI segment, online in the Retail segment, Software, Cloud Engineering and Hardware in the Hi-tech segment and home and personal care in the consumer products group.

d) We have also adopted a structured approach towards hunting and farming. The vertical industry group's primary focus will be on mining our customer accounts which is farming, whereas the new logos are being handled by a dedicated organization called Global Sales which is headed by Cofounder and President Americas, Scott Staples. We would try to improve the quality of our new logo acquisition.

e) We are also significantly enhancing our focus on service lines to enhance specialization and the aspiration is the strategic service lines which should contribute to at least 50% to 55% of our revenues. Partha who is the chief operating officer will not only manage IMTS and testing but all our strategic service lines.

Before moving onto Q1 results we would also like to thank Mr. R Srinivasan and Mr. Anjan Lahiri for the contributions they have made to the Board and wishing them the best in the years to come. Mr. R Srinivasan, Independent Director of the board retires on attaining the age of 70 after the forthcoming AGM. Anjan after almost a decade and half of working closely has moved on.

Now moving onto Q1 results – Quarter 1 revenues were $117.7 million reflecting a growth of 4.1% quarter-on-quarter and 11.6% year-on-year. On a constant currency basis the growth would have been 4.7%. Manufacturing, CPG Retail and BSFI reported a good growth of 9% plus. We have 222 active customers and the $10 million customers grew to 10. We continue to improve our client metrics and have managed tail customers without impacting our growth. AIG is our top customer during this quarter.

Some significant wins in the quarter are as follows:

- Two multi-year engagements with an existing customer who is a world leader in the computer and software technology industry, Mindtree will provide support services for their developer tools and cloud business.

- And a large multiyear engagement with an existing customer in the global financial services area, Mindtree will provide support services to their global services and human resources technology portfolio.
- A large Human Capital Management Software and services company based in Europe, Mindtree has been chosen as a strategic partner to provide a range of application testing, BI and infrastructure services.
- An existing customer who is a leading general use vehicle rental company Mindtree has been chosen as a system integration partner to build their next generation pan European digital platform.

We are making a significant progress on the attrition front with attrition on a trailing 12-month basis coming down to 12.4% from 17% in Q1 of FY13. Mindtree was also listed in the top 100 companies to work for in India and we were ranked 40th amongst the 535 participating organizations, moving up 7 ranks as compared to last year. This survey was conducted by the Economic Times and the Great Places to Work ® Institute. We have on board 12,239 Mindtree minds reflecting a gross addition of 1057 minds in this quarter.

Now for some points on the outlook for Quarter 2 – We strongly believe that the revenue momentum will continue and is expected to be similar as what we have experienced in Quarter 1. We have signed orders worth $95 million in Quarter 1 and this has been through both renewals and new orders. Our Hi-tech vertical has grown for two consecutive quarters and we expect this to result in a better year for Hi-tech. 80% of Mindtree minds will get salary increases effective 1st July, 18% effective 1st October and 2% effective 1st November. Salary increases are expected to be in the range 6% to 8%, which is in line with our assessment of current market trends. Now let me pass on to my colleague Rostow to share a few other financial highlights.

Rostow Ravanan Good evening to all the investors and analysts on the call. To give you few further highlights on our financial performance for Quarter 1 of the financial year 2013-14, in Quarter 1 our fee revenue growth was 4.5%, which breaks down to a volume increase of 4.1% and a price realization improvement of 0.4%. EBITDA margins for quarter 1 was 18.4% compared to 19% of the previous quarter. The main margin headwind during the quarter were visa costs for the US visa filing and 467 campus additions which happened in this quarter, this was partly offset by rupee depreciation and improvement in utilization for our people excluding the trainees. It is important here to note that under our accounting policy, our average rupee-dollar realization rate for this quarter was 55.05 compared to 54.18 for the previous quarter. In this quarter we had a Forex gain of $11.2 million mainly because of the revaluation of debtors at 30th June at the quarter ending rate. On 30th June the Rupee had depreciated significantly to 59.39 compared to 54.29 as on 31st March. The effective tax rate for this quarter was 22.4% which is a small increase compared to 21.7%

in the previous quarter. PAT for the quarter is 20.9% compared to 12.9% in the previous quarter, mainly due to the significant increase in the exchange gain as we have explained earlier. EPS for the quarter is 32.4 which is a strong increase for 72% compared to the previous quarter and ROCE for the quarter also improves to 50% compared to 31% in the previous quarter. The large exchange gain was one of the major components for both of these increases.

One parameter which could have been better was that our DSO has increased to 77 days compared to 70 days for the last quarter mainly due to poor collections in the quarter. We do not see any receivables issues in the revenue that we booked in this quarter. Utilization including trainees is 69.6%, the same as the previous quarter. However, utilization excluding trainees has increased to 74% compared to 70.9% in the previous quarter. As on 30th June, we have $150 million worth of hedges of which $122 million is for the remainder of FY14 at an average rate of 57.32. The balance $28 million is for FY15 at an average rate of 59.85. Capex spend in Q1 was $7.3 million for some of the new facilities which we have inaugurated in the quarter.

Coming to the margin outlook for Quarter 2, some of the headwinds on the margin front are the salary increases indicated by KK as well as one further batch of campus graduates who will join us in the second quarter. With this we are happy to report that we have honored and got on board all the offers which we had made in 2012. The tailwinds for margins are the revenue growth and the absence of visa costs. Overall we expect the positives and the negatives to balance each other and EBITDA margin is expected to remain stable on a constant currency basis. Any impact of currency is outside of this. For us given our onsite offshore ratio and the business portfolio that we have, every 1% change in the rupee is at approximately 40 to 50 basis points impact on margins. Wanted to also highlight that at PAT level, if the rupee remains at similar levels as we had on 30th June, then we will have a Forex loss in quarter 2 compared to a large Forex gain reported in Quarter 1.

With that we would like to turn this over for questions from the analysts and the investors.

Moderator Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi Can you clarify a bit more on the outlook for the EBITDA margins, when you said margins are likely to be stable on a constant currency basis, so does it mean the realized exchange rate during the quarter or the current exchange rate of Rs.60?

Rostow Ravanan No, it was at the exchange rate that we had as an average for Quarter 1, which was approximately Rs.55-56. So on that basis we expect EBITDA margins to be stable for next quarter. Anything that comes because of currency above that is separate.

Sandeep Muthangi And also Rostow, because the Forex income was such a large component, can you also quantify what could be the Forex loss? Let us say if the rupee remains at the same levels throughout the quarter say Rs. 60.

Rostow Ravanan Difficult to quantify exactly Sandeep but I think it will probably not exceed $5 million.

Moderator The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu Sir can you give an outlook on your hiring, I mean how many more campus graduates are left and what would be the Q3-Q4 kind of hiring?

Veeraraghavan Yeah we will be adding totally for this financial year 1700 campus graduates, 430 odd are already taken in Q1. The rest will come through the next three quarters.

Madhu Babu And just in terms of service line perspective IMS has been driving growth, I mean just can you give an outlook on which are the service lines where we are seeing a good traction and second thing onsite shift is happening in the effort mix, so would that have any pressure on the margins?

Rostow Ravanan The change in the onsite-offshore ratio to a certain extent the anecdotal is based on some of the new wins that you have had. We do not think that it will make a major impact to the margin outlook for the next quarter, like we said there are a few positives and a few negatives but we expect both to cancel each other and on a constant currency basis compared to the average rate of the last quarter, margins are expected to be broadly stable. So this change in the onsite offshore ratio is unlikely to make a major change in the margin profile.

Parthasarathy N.S. Madhu on your question on the service line growth, I think this quarter if you look at our results, I think we have had a very good traction in our ADM space which has grown to upwards of 8% quarter-on-quarter. We also had very good traction in the infrastructure business as well as independent testing; both were upwards of 6.5%. So those are the service lines where we have had growth in this quarter.

Moderator The next question is from the line of H R Gala from Quest Investment Advisors. Please go ahead.

H R Gala Just I wanted to know what is the reason for this segmental operating income in BFSI to fall so drastically to Rs. 4.4 crores, against Rs. 7.5 in the previous quarter and Rs. 20 crores in the corresponding quarter of last year?

Rostow Ravanan Some of these are also related to the way our allocation methodology for our overheads has changed but on an overall basis like we reported Mindtree had a stable profitability compared from last quarter to this quarter. Within the large portfolio there will always be some pieces which do lag and some pieces which are ramping up so that affects the BFSI industry.

H R Gala But going ahead what kind of sustainable PBIT percentage we can expect in the BFSI segment?

Rostow Ravanan Difficult to call out at this point of time at a vertical unit level. Overall at Mindtree level like we explained in the coming quarter is likely to be sort of stable profitability at an EBITDA level but there will be a swing and an exchange gain loss line item because we had a large exchange gain in this quarter, assuming the rupee remains where it is right now there will be exchange loss for the second quarter. So on PBIT level things could change because of exchange gain loss but on an operating profit level broadly we are expecting things to remain same from where we are.

H R Gala So if the rupee remains at 60 throughout the second quarter then you expect a loss of $5 million?

Rostow Ravanan Not to exceed $5 million. It is difficult to predict exactly but we do not think it will exceed $5 million.

N. Krishnakumar From the BSFI thing I think it is more consequential to starts which we had on some large deals we closed there and as you understand I think the early part of the transition really happens onsite which certainly is an investment as well as by the time it comes to a steady state I think you will start seeing the margins going up.

H R Gala That is why the overheads would have been higher in this quarter. Sir as far as this 150 million hedges are concerned, these are I believe all must be receivables. Is it not?

Rostow Ravanan Yes, so these are all against our estimated collections over the next 12 months.

H R Gala As far as the total Forex gain of Rs.61.8 crores in this quarter is concerned most of it is translation or how much is realized out of that?

Rostow Ravanan About $7 to $8 million is the gain from translation and the balance is gained on realization.

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Moderator The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar Your price increase of 0.4% is like to like basis or is it a cola or it is a portfolio mix? Second question is that as an investor we are basically confused because on one hand Accenture and IBMs and at SAP are downgrading their guidance and on the other hand Indian companies are posting a superb result. So do you see that there is an overall IT upturn cycle in the play and third question is your Hi-tech you said that in the introductory comments that the base will be same YoY but will it remain the same QoQ, that is the third question?

Rostow Ravanan On pricing, broadly the environment and our customer feedback indicates that pricing is stable. On a quarter-to-quarter basis that would be an impact based on one customer contract coming this way or that way, onsite-offshore ratio changing from X percent to Y percent etc. Broad trends that we are seeing, that pricing will remain stable year-over-year. None of our customers are under any pressure on their business which is forcing them to ask for price reduction from us. So overall we expect pricing to remain stable.

N. Krishnakumar On the other question the way I understood it is you are asking while the license revenues for both SAP and Oracle and IBM have been under pressure this quarter? Even IBM, if you sort of look into their results my guess is that transactional services as well as the software services which are discretionary in nature have shown an improvement, which is really the trend which at least at Mindtree we are seeing. Clearly our visibility of deals and our funnel is better than what it was 12 months back. And clearly this improvement till the visibility and funnel is coming from very specific segments like insurance in the BFSI segment, home and personal care in the CPG segment as well as the hospitality segment. And discretionary spending is starting to occur in these segments, which in a way is driving the volumes. You had asked a question about the Hi-tech segment. What we are happy about is that for two consecutive quarters we have seen the Hi-tech segment grow and for the first time after almost six quarters, the Hi-tech segment has shown a year-on-year growth, though it is slow. It is about 4% year-on-year growth. Clearly that is a little more volatile segment and if we have to analyze sub-segments of Hi-tech clearly the demand traction in cloud Engineering Services and ISV which are really the software driven Hi-tech companies, the demand is fairly robust. The challenge is really in embedded software, the hardware part of the Hi-tech business where there is still volatility in terms of the demand environment.

Pranav Tendulkar Are you seeing any softness in Europe or the pipeline there also seems good in the verticals you mentioned?

N. Krishnakumar See Europe certainly is more flattish. Again the small decline which you see in our revenues is more relating to the currency impact that which it had in dollar terms. I think Europe is far more a specific client related play. We have also had one large client in Europe declining during the quarter which added to this thing. But overall I think Europe is far more driven by the sentiment which is specific to clients and their industry group. I do not think there is a negativity overall in Europe. There are specific clients. We talked about a general vehicle rental car company which signed up for a large eCommerce platform which is going to be pan European. Their business seems to be okay and consequently there is demand. Also there is a large product Engineering Company in the Human Capital Management Software, which again has contracted with Mindtree to do large scale transformation, both of their product engineering as well as specific business intelligence related work for them. So I think Europe is far more client specific and we do not see any across the board negativity in Europe.

Moderator The next question is from the line of Rijul Gandhi from Centrum Wealth Management Limited. Please go ahead.

Rijul Gandhi There is around a 20% increase in the other expenses in the current quarter. If I look at it quarter-on-quarter, could you please throw some light on it why was it so and what are these expenses, if you could just throw some light on it?

Rostow Ravanan The biggest component in that was visa cost.

Rijul Gandhi And we do not see that happening in the second quarter?

Rostow Ravanan No, the bulk of that increase in visa cost relates to the H1 filings which have happened in April. So that amount will obviously trend down in the subsequent quarters.

Moderator The next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

Basudeb Banerjee At a current juncture where do you see the full year NASSCOM guidance and as you have been saying that you are following the NASSCOM guidance for the overall ITES growth, so at the current juncture do you see a probability of any revision to the annual guidance per se looking at the client feedback?

N. Krishnakumar I think it is a little bit difficult to make a judgment on Mindtree's growth for the whole year. First of all we do not give a guidance for the whole year, but it is difficult to compare with the NASSCOM estimates because the 12% to 14% indicated by NASSCOM includes several sub-segments of the industry. It includes IT Services, it includes business process management, it includes the ER&D and we are not present in the BPO or the BPM industry, which obviously is seeing higher traction in terms of growth. So it is very difficult to compare with the NASSCOM number. What we certainly see is that like I talked earlier we are seeing a better visibility than what it was 12 months back. Our funnel both in terms of weighted funnel, in terms of value of opportunities which we are pursuing as well as what we see with the probability sort of impacted, being far healthier than what it was 12 months back, so it gives us the confidence that clearly our growth momentum for Q2 would be as good as what it has been on Q1. Quarter 3 has certainly been a seasonally weak quarter so to that extent one should anticipate that the gross momentum will not stay at the same level. But overall as we look at the year we are certainly far more confident that on the growth parameter we will be certainly better than FY13 because clearly the basic parameters in terms of funnel, in terms of orders which we have closed as well as what we are seeing appear to be far better than what it was one year back.

Basudeb Banerjee And you said that the incremental visa cost this quarter has specifically led to this other expense moving up, so broadly can you quantify the magnitude per se out of that?

Rostow Ravanan Little less than $2 million.

Moderator The next question is from the line of Gaurav Jain from Altavista Capital. Please go ahead.

Gaurav Jain Sir you have changed the segment reporting, so I just wanted to clarify whether Hi-tech is equivalent to PES?

N. Krishnakumar Yeah, by and large Hi-tech is what were the accounts which were addressed by PES earlier.

Rostow Ravanan The only point we would like to add to that while the customers are the same the range of offerings we are taking to the customers are different. So over the next 2-3 quarters it will not be right to compare the Hi-tech of today to the PES of yesterday.

Gaurav Jain Is there a change in the way the accounts are managed because of this rejigging of the organization?

N. Krishnakumar See the accounts are managed because we are taking a broader set of services. Earlier to these Hi-tech accounts primarily our go-to market would be just Product Engineering Services which really means helping them build their product which were faster and better. And primarily the decision makers there were the VP – Engineering or the CTO, today we are also taking other services or technology by which these technology companies run their business, which could be package applications, it could be business intelligence including data warehousing or traditional ADM services and the decision maker for that is the CIO. So to that extent the go-to market approach is certainly broader and addresses two key decision makers in the Hi-tech organization.

Rostow Ravanan Just to add to that this improvement or strengthening, streamlining of our account management processes actually span across the company, not just only to the Hi-tech vertical. We have made investment both in terms of training new people, improved processes, etc., so that our overall account management practices and processes are much stronger than what we had in the past, which will also reflect in the fact that in this quarter we have added one more $10 million customer. So revenue per customer is continuously increasing.

Gaurav Jain That $10 million account is in Hi-tech, the one that has been added?

Rostow Ravanan No that account was not in Hi-tech, but the point was that this improvement in account management is a process that spans across all customers of the company, not just specific to the Hi-tech vertical.

Gaurav Jain In the segment operating income, I think one person pointed out earlier that the BFSI margins are lower and the "Others" margins are very high. You are reporting initially so there is an issue in cost allocation or is there any other way to think about it?

Rostow Ravanan See there are two parts to it. One is like you said reporting for the first time for the cost allocation methodologies between the verticals have changed. Partly it is also led by the fact like KK mentioned that some of the recent starts within the BFSI vertical had more onsite component in the initial stages, so some of those would also get addressed as we go through the rest of this quarter within this year.

Gaurav Jain Why is "Others" margin like 40%?

Rostow Ravanan The business portfolio of client mix, onsite-offshore ratio and some of those things are different in different verticals.

Gaurav Jain And just lastly on the immigration reform, you had mentioned that you have a center in Florida last time which you were staffing, etc., so have you changed in any way the way you are hiring onsite and the onsite-offshore ratio? Is there any change in the way you are operating your business right now?

N. Krishnakumar See right now like I probably mentioned in the call I think the impact of what the comprehensive Immigrations Bill would be and what are the business model changes, it is still something which is not clearly known. But at the same time I think we are preparing ourselves in managing any eventual risk which may happen and to that extent we are building capacity in our US delivery center. Again the need to deliver out of the US delivery center is driven by the customer needs to have same time zones accessibility and to that extent it was not dictated by the needs of how the visa environment is going to get tighter. We thought of the US based delivery center almost a year and half back when we clearly realized as we get to doing more of business critical work we need to be in the same time zone as the customer. So what I think we are comfortable enough is that we have a brand, we have a strong infrastructure and the proven delivery center from where we can deliver services as well we are working out other risk mitigation plans by which based on various scenarios which might emerge out of the Comprehensive Immigration Bill how will we really address each scenario, so that this minimal risk to the business model we can still continue to deliver on our results.

Moderator The next question is from the line of Nirav Dalal from SBI Cap Securities. Please go ahead.

Nirav Dalal You have given the employee split for the wage hike, 80%, 18%, and 2%, I wanted to know what would be the costs split?

N. Krishnakumar My recollection is roughly 65% contributes to the 80% of people because they are on the lower-end of our spectrum. Approximately 17% to 18% will come in the next lot and the balance would come in the last lot.

Nirav Dalal Sir and there has been an increase in the depreciation in the quarter, so I just wanted to know would this be the new run-rate?

Rostow Ravanan The depreciation we have will approximately be the same. The only difference was because of the capitalization in the quarter. So we should plan similar sort of levels as a percentage of revenue again in a quarter or two.

Moderator The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar Rostow could you also quantify the other tailwinds and headwinds apart from the visa cost for the quarter?

Rostow Ravanan In this quarter like I said the exchange gain that we had was approximately 0.6% to little less than 1%, so that was the benefit. Little more than 1% was the negative impact because of the visa cost. Broadly they cancel each other with one or two other parameters including campus recruits as well as on the negative side but improvement in the utilization of the positive side. So overall that is why it has led to a small 0.6% decline in profitability in this quarter.

Moderator The next question is from the line of Ankita Somani from Angel Broking. Please go ahead.

Ankita Somani I missed upon on the hedge book, so could you please repeat that?

Rostow Ravanan Our outstanding hedges as on 30th June were $150 million, of that $122 million is for the remainder of FY14, that is at an average rate of 57.32. $28 million is for FY15 at an average rate of 59.85.

Moderator The next question is a follow-up from the line of H R Gala from Quest Investment Advisors. Please go ahead.

H R Gala Two things I wanted to know, one was the average salary increase will be how much for the full year?

N. Krishnakumar 6% to 8%.

H R Gala And my second question is in the Quarter 4 Conference Call you had indicated that in current year our Capex will be around 35 to 40 million, so are we going to spend that much in the current year since we have spent 7 million so far?

Rostow Ravanan The correct way to look at it effectively is that we probably will have about half of that overall Capex: of the routine operating Capex on a year-over-year basis. In the second half is the Capex we need to spend to get our Bhubaneswar facility ready. So the second part is to some extent linked to all approvals coming on time, etc. So to that extent it is a little bit more unpredictable. The first $20 million will get spent based on the business plan we see as of now. So we will keep giving you updates every quarter. We are trying to get all the approvals on time and complete the spend because it is a very key initiative for us to be able to streamline our intake of campus graduates, train them in a very-very different way and align with the overall strategic objectives of the company, however, the actual spend date is not in my control. It depends on when all the approvals come.

H R Gala So are there any serious matters pending with the government that they are not giving the approval?

Rostow Ravanan There are no any serious matters but procedurally there are many steps and each step takes its own time, so that is where we are stuck right now.

H R Gala As far as the effective tax rate is concerned, what will be the average tax rate in the current year?

Rostow Ravanan More or less the same level as where we are in Q1.

H R Gala Around 22%.

Rostow Ravanan 22% to 23% in what we think is the full year will be.

Moderator The next question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chaterjee I basically have three questions – one is on the US geography, if I see your numbers and also of the companies who have released the numbers till now, US seems to be doing pretty strongly. Is there a secular growth which you were seeing that is coming back in the US again? Question #2 is the DSOs have gone up to 77 days, by the end of this year do we expect the DSOs to come back to 70 days because if I look at the cash flow statement we have a negative operating cash flow for this quarter and my third question is basically relating to the changes in the top client. Earlier it used to be KPN then it became Microsoft now it is AIG. I mean is AIG is ramping up faster or some clients are basically stagnating, just wanted to understand why there is a good amount of change. I think the three changes have happened in the span of 3 to 4 quarters.

N. Krishnakumar Let me answer question 3 first. I think it is clearly because all the three clients are ramping up and KPN because of the currency impact in dollar terms might be lower because as you are seeing the Euro to the Dollar, the headwind in terms of the dollar exchange rates, so actually all the three clients are ramping up well and to that extent are contributing to the revenue growth. On the second question on DSO I think clearly this should be treated as something which has been an aberration this quarter where I think there were a few client related changes where they have made changes into their accounts payable process. So the goal is clearly to get it down the 70 or ideally even marginally below 70 by the end of this year. The third question which you asked about the US geography, I think one is relating to what is overall at a macro level where there is more positive optimism specifically in some segments in the US geography. The second contribution was clearly based in terms of specific investments which Mindtree made because in the earlier calls we had clearly been sharing with you that we are investing significantly in our client facing sales force in the US and you would see in terms of numbers in the last 12 months approximately $3 million of cost we have added on that basis. Clearly, the first signs in terms of return on investing in sales and marketing which was clearly a conscious effort which we have put in about three quarters back is starting to demonstrate results, which is also resulting in a better funnel and visibility as far as US is concerned. What we also see in segments like Insurance, CPG I think clearly there is a discretionary spending starting to kick in which is also a positive for Mindtree.

Rostow Ravanan Just to amplify one other angle on this cash flow question that you asked, you are right that the cash flow impact in this quarter was partly influenced by the fact that collection was poor and to that extent it is an area where we could have done better but there are two other points to keep in mind as well. We had a dividend payoff in this quarter which to some extent is a good parameter that we are returning cash back to investors and the second was an investment in Capex. So it is sort of a commitment or investments we are making based on the future potential we see in the business. And so there are two different aspects that led to the cash flow question that you asked.

Soumitra Chatterjee Are we seeing any instances where basically till last year if I recollect that clients had the budget but they were not willing to spend it completely. They were a bit skeptical about how the macro environment will pan out in US. Are we seeing instances where clients are now willing to spend the entire budget that they have?

N. Krishnakumar See clearly like I shared earlier we are seeing increased spends on discretionary programs, whereas last year 12 months back we would see definitely a cautious approach from customers. Clearly today we are seeing discretionary spends increasing and on the existing portfolio wherever contracts are up for renewal there is certainly a lot more demand on how they could improve the cost efficiency of the current application management deal, which is also providing an opportunity for Mindtree to win business from competition.

Moderator The next question is a follow-up from the line of Gaurav Jain from Altavista Capital. Please go ahead.

Gaurav Jain Can you just remind us why there will be a Forex loss of $5 million in the next quarter?

Rostow Ravanan Like I mentioned we will have a Forex loss and we set an amount that we do not think will exceed $5 million. The actual amount is obviously difficult to quantify at the beginning of the quarter. The reason why we will have a Forex loss in the second quarter is that all the receivables have been booked at a rate that was existing as on 30th June during the course of the quarter when they are realized. Some will come at a rate at which we have hedged and those contracts were entered last year and obviously those contracts at that time were lower than the rate as on 30th June. So that will be a reason for the loss in this quarter.

Gaurav Jain And you have this revenue by service offering description and one line in that is Engineering which is down quite significantly YoY. What could be reason for that?

Rostow Ravanan That is mainly the kind of work we do for our Product Engineering Services customer that we had as a business segment in the past. Many of those customers have a much more volatile Engineering budget and more of our work within those customers has moved to Infrastructure Management or testing kind of opportunities. The core Engineering kind of work is a very unpredictable budget within our customer segment and new product introductions by many of our customers is not as robust as what it used to be a few years ago. So that is why Engineering as a proportion of our revenues has reduced.

Gaurav Jain You share the order numbers, it is a $95 million this quarter and it was $160 million in the last quarter. Like how does one think about this? Like how long does it take your order to convert into revenues? Does it take very long? Like some companies like Accenture, etc., have been saying that their order book is growing but their revenues are not coming and because clients are taking longer and longer to convert, so is that something that you are also seeing?

Rostow Ravanan Not really. The way we report our order book, in fact those were the orders actually signed in the quarter. As of now they are all ramping up as per plan. Like KK explained some of those are existing customers where you have renewed the contract or may be it was a 1-year contract, it got renewed to a larger contract now based on our performance in that contract, etc., and somewhere new wins as well. So it is a mix of different types of win. But all the contracts we have signed are all ramping up as per plan. Both what we signed in Q4 of last year and what we signed in Q1 of this year.

Gaurav Jain What would be your overall order book right now?

Rostow Ravanan We do not disclose that number.

Gaurav Jain But if you are sharing the net flow number would it be helpful for investors to also know the overall book?

Rostow Ravanan Fair enough. We take your point. We will see if we can include that in our disclosure in the future.

Moderator The next question is a follow-up from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey My question pertains to the our TCV win discussion that we are just having so, I wanted to just bring in thoughts of consultancies such as ISG which has said that in the second half of the year they do see better activity in the market and the $100 million deal win for us is fairly impressive. So I just want to check whether you share that optimism, that the second half of the current year would be better?

N. Krishnakumar See again what we are seeing Ankit is unlike last year when we clearly saw that the demand momentum was picking up during the latter half. This time clearly we are seeing that there has been fairly even type of demand, which in a way reflects in terms of the

4.7% constant currency growth as well as we are seeing Q2 being at almost an equal level as what it is in Q1. Quarter 3 has always been a seasonally weak quarter with a number of holidays and the number of working days being lesser. So clearly that will have an impact in terms of quarter-on-quarter growth, but overall the visibility, the size of funnel is far more positive than what it has been 12 months back.

Ankit Pandey I just want to understand from the point you are participating in the market, do we perceive that we are invested in the right areas to actually get on the correct end of the things where especially again deals like infrastructure and especially those that are coming in the market rebids that is where a lot of momentum is being seen and in a particular geography. So I just wanted to check whether you share optimism and you are indeed invested in those areas?

N. Krishnakumar No clearly part of our investments in terms of front line sales force was in areas like Infrastructure where we invested on clearly staffing up the complete underlying sales-force just focused on infra management. And in a way you will see that reflection in the results which has grown about 41% year-on-year as well as a very healthy quarter-on-quarter growth. So we do think both in existing customers clearly we are being called to the table for contracts which are ending and to that extent part of some of the deals which have closed have either been our own renewals or business which we have won from competition. So I think we have the right investments made in the client facing teams and already we are seeing there is an uptick in terms of demand. If contract renewals are going to make the demand scenario far more positive, we will stand to gain from them.

Ankit Pandey Just a check on the $95 million, just give a YoY comparison.

Rostow Ravanan We did not track it or report it historically. We thought of doing this only from one quarter ago.

Ankit Pandey Just another question on the Immigration Bill impact, just wanted to know about Gainesville. How far is it filled up and just looking at the lever that you can exercise in say FY15, how much capacity do you think you will be able to get up by FY15?

N. Krishnakumar See Gainesville has already touched a little over 100 Mindtree minds. Within 60 days we can easily expand that capacity to 400 people. We have enough of adequate space of that. In a crunch we can even double that to 800. So I do not think that capacity or the backend infrastructure to recruit and to work in Gainesville is any way a constraint. I think we are well geared up for that.

Moderator Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to the management and Mr. Pai for closing comments. Please go ahead sir.

Sushanth Pai Thanks Melissa. Thank you all for joining this call. If you have any further clarifications or questions, please do reach out to me. I look forward to speaking with you in the coming months.

Moderator Thank you. Ladies and gentlemen, on behalf of Mindtree that concludes this conference call.