

MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Moderator: Good evening ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to earnings conference call of MindTree Limited for the first quarter ended June 30, 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. Now, I would like to hand over to Mr. Sushanth Pai. Thank you and over to you sir.

Mr. Sushanth Pai: Yeah, thanks Manjula. Good evening and welcome to this conference call to discuss the financial results for MindTree Limited for the quarter ended 30th June 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, Parthasarathy N.S., CEO, Testing and IMTS; Puneet Jetli, Global Head, People Function. The agenda for this session is as follows. Krishna Kumar 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 Krishna Kumar.

Mr. N Krishnakumar: Good evening and welcome to the analyst conference call for the quarter ended June 30th 2009. I am happy to inform you that we have received the High Court order for the merger of Aztecsoft with that of Mindtree. Consequently, the results of MindTree in quarter one includes that of Aztecsoft. During the integration process, we have realized synergies in multiple areas like cross-selling, facility consolidation, vendor cost rationalization, etc. Beginning this financial year, we aligned all our people policies and processes. Our new organization structure also came into force providing MindTree with six growth engines as against the earlier two. Some of the recent wins are encouraging and has a potential to give us significant growth next year. However, we see continued uncertainty in a few of the major industry segments we operate in. Keeping this in mind, along with the fact that the



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

global economic situation continues to be challenging, we have revised our guidance as follows. Revenues dollar 255 to dollar 270 million. In rupees, 12342 to 13068 million. PAT of dollar 30.4 to 36.8 million. In rupees, 1471 to 1781 million. EPS is expected to be in the range of rupees 37.4 to 45.3. The above guidance assumes a rupee-dollar level of 48.4 for FY10. Since our hedges are affected by spot and forward premium, as on 31st March 2010, our guidance is sensitive to these parameters. Now, I will provide a few highlights of our Q1 results. Q1 software revenues were US dollar 62.1 million representing quarter on quarter decrease of 8.5% and year on year increase of 13.7%. In rupee terms, this represents a quarter on quarter decrease of 9.8% and year on year growth of 36.3%. Based on the new organization structure, I am giving below some highlights of our businesses. Consequent to this change, the prior quarter numbers have been reclassified to reflect the new structure. IT services in dollar terms quarter on quarter decline of 1.8%. R&D services quarter on quarter decline of 27%. Software product engineering quarter on quarter decline of 9.5%. In industry group's travel and transportation and BFS have shown growth. We added 18 customers during this quarter. In terms of new wins, the noteworthy ones are a large consumer products company for digital transformation of their brands, a large financial services company for services across multiple technologies, a leading networking company in a new technology space. What is noteworthy is that we have won many of these engagements against larger players and these are multiyear deals. On the people front, attrition on a trailing 12-month basis is reduced to 11.4% compared to 13.7% in Q4 and 16.3% in Q1 of last year. The people count at the end of the quarter was 7693 minds as against 7866 minds as at the end of March 2009. This reflects a headcount reduction of 173 MindTree minds. Now, let me pass on to my colleague Rostow to share some of the financial highlights.

Mr. Rostow Ramanan: Thank you KK. This is Rostow and good evening to everybody on this call. In the first quarter for the current year, MindTree's revenue in dollar terms declined by 7.25%. That breaks down to a volume decline of 3.4% and the realized rates decline of 3.8%. In the price decline, the actual rate reduction from customers is only about 0.5%. The rest is attributable to some fixed price projects where we had some effort overruns. Our utilization on the current quarter has decreased to 61.1% compared to 65.3% in the previous quarter. In rupee terms, our EBITDA margin at 16.6% in the current quarter which represents a decline of 41.4% on a sequential basis and a growth of 8.2% on a year over year basis. The margins declined in the current quarter mainly because of the revenue decline. In the current quarter, we had a rupee



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

appreciation of 5.5% which led to a reversal of our mark to market provisions on our hedges by approximately 12 million dollars. Our PAT for the current quarter is 16.8% which is a 217% growth on a sequential basis and a 466% growth year over year in dollar terms. We ended the quarter with 239 active customers. Of this, we have 60 million dollar accounts, 12 five-million dollars accounts, and 3 ten-million dollars accounts. In the current quarter, our day sales outstanding has gone up to 86 days from 70 days in March 09. We will now open the floor for question and answers. Thank you.

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

International Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. Again, please press *1 to ask a question. I repeat, please press *1 now to ask a question. At this moment, there are no further 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 very much Sandra. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Mr. Viju from Edelweiss Securities. Please go ahead with the questions sir.

Mr. Viju George: Yeah, hi. I am just trying to understand, you know, what is it that you faced in the environment that has surprised you so much that you had to revise your guidance so early into the year? Could you just sort of throw light on that please.

Mr N Krishnakumar: See, Biju, as we sort of articulated, we continue to see uncertainties in some of the major segments in which we are operating, particularly if you take our IT services and segments like manufacturing, the environment continues to be uncertain. In the product engineering services, many of the major segments in which we operate, the uncertainties in the environment continue to



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

be there and consequently the ability to sort of look at what could be the possible opportunities going ahead is challenging. What I will ask is I will ask Jani to give little more perspective in terms of what he feels are the challenges in the product engineering business and Anjan to talk about the IT services segment.

Mr. Janakiraman S: Viju, in terms of the R&D services, we have that customers of ours facing head wind in the market and this is especially true when it comes to two segments, that is the semiconductor segment and another one is the consumer appliance segment. Since they have high pressure on their business in the market, they in turn have taken certain short-term measures in terms of cutting down the R&D investment. We have not lost any customers because of this, but we have had volume reduction in terms of the business that we do with our customers and already we have started seeing some early signs of revival, especially in the semi-con sector. That is our view of the market.

Mr. Anjan Lahiri: This is Anjan. Thank you Jani. In terms of IT services, manufacturing constitutes fairly large proportion of our revenues and manufacturing industry globally has been very hard hit and we have seen some new projects which people would have normally gone into in terms of capital expenditure which is still in question. BFSI has held up relatively well and the travel and transportation has improved, but we are seeing continuing caution in the investments people are making in terms of pure maintenance and essential expenditure that is continuing, but in terms of new development, those expenses are getting postponed and that is pretty much the outlook right now.

Mr. Viju George: Yeah.

Mr. N. Krishnakumar Viju, again, to give another perspective, I think we did talk about two significant or three significant client wins we have had, but what we see in a challenging environment like what we are seeing today, the ramp-up of these clients are also progressing slowly and to that extent we anticipate that they will start contributing a lot more significantly in the subsequent years and their impact on the current year's revenue would be minimal and taking to account these uncertainties, the challenges which we see ahead, we have really sort of revised our guidance to what we see as a realistic number.

Mr. Viju George: Okay. Can you also guide as to why your range is so much higher now, I mean, your PAT guidance has been revised to a much larger range, delta, 30.4 to 36.8, I think, you know, there was just



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

a 1 million sort of range between your earlier guidance, so are you providing for a lot of variability on the margin front as well?

Mr. Rostow Ravanan: Viju, hi, this is Rostow. You are absolutely right. In the last occasion, we held a certain percentage PAT margin constant between the revenue ranges. Because of the higher revenue range and the narrower revenue range, maintaining profitability is that much easier. In the new scenario where there is a decline in revenues, there will always be some impact on margins as well, so that is why you see a different range in the margins right now than compared to a narrower range in the past.

Mr. Viju George: Okay. Just a couple of other questions also. I see your DSOs have moved pretty adversely in this quarter and the number of Fortune 500 accounts, that the count there has also decreased, you know, sequentially. Comments please.

Mr. Rostow Ravanan: Sure. The decline in the Fortune 500 accounts I would say is just a natural progression. Some of the accounts we dealt with don't continue with us anymore and also there has been a change in the Fortune 500 list itself, so some of the accounts we worked with are no longer in the Fortune 500 list. Therefore, on a broader basis, there is no serious sort of concerns on that count. The deterioration in the DSO, I would say is a function of a little bit of a slackening from an operational efficiency, discipline kind of point of view. We are going to work on bringing this back under control. Currently, no bad news that you heard in terms of actual write-off or a problem per se. It is just we probably slipped up on our efficiency of collecting money. We are going to work on bringing it back. If you remember, it used to run at these sort of levels till September last year and through the second half of last year, we had put in a lot of effort and that is what brought it down to about 72 days in March and somehow, you know, it slipped again in this quarter. We will work on bringing it back. However, no major causes for concern of any significant write-offs or anything like that.

Mr. Viju George: Okay. One last question if I may. This pricing decline sequentially of 7.2% on a blended basis, can you just break this down into, you know, you did indicate that part of this was because of fixed price overruns, can you just sort of throw a little bit of light on that please.

Mr. Rostow Ravanan: Sure. The whole revenue decline was 7.2%, out of which volume decline was 3.4% and the only balance of 3.8% is price decline. Of the price decline of 3.8%, only about 0.5% is actual customer rate reduction, the balance came out of, like we said, a couple of



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

fixed price projects where we saw some overrun and to that extent, it is a one-time sort of a scenario and it is unlikely to continue in future quarters as well.

Mr. Viju George: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sunil Tirumalai from Credit Suisse. Please go ahead with the questions.

Mr. Bhuvnesh Singh: Hi sir, this is Bhuvnesh from Credit Suisse. One question on your guidance. You know, what sort of visibility do you currently have on your guidance range which you have given because if I look at the higher end of your guidance range, it implies something like 5% quarter on quarter for the next three quarters. So, is it something which you expect to be frontloaded or is it backloaded, if you can give some color on that, that would be useful.

Mr. Rostow Ravanan: Sure. Bhuvnesh, this is Rostow again. You are probably almost spot-on. At the higher end of the guidance, it is approximately a 6% sequential growth that we require from now to the remaining three quarters of the year. Currently, there is a reasonably high confidence in that number based on like KK mentioned, you know, we have also signed some fairly large deals during the quarter, etc., so we have a reasonably high confidence on that number.

Mr. Bhuvnesh Singh: Rostow, just one more clarification. Is this number frontloaded, that is, do you expect this number to come and start delivering from September quarter itself or is it backloaded?

Mr. N Krishnakumar: What we do anticipate is certainly we would see a growth during the September quarter which could be marginal and subsequently like I said some of these large accounts take time to ramp up. So, a part of that will start happening towards the later half of the current year.

Mr. Bhuvnesh Singh: You know sir, in that case, wouldn't it would have been better that we would have given a rather more conservative guidance because over the past one year, we have had a few of such accidents in terms of guidance. So, if we are not seeing good growth just in the next one or two quarters, it is back-ended, there is again a possibility that environment could be weaker.

Mr. Rostow Ravanan: No, I am not saying it is totally backended. Certainly, you will see the first signs of growth in quarter two and subsequent quarters, which is what we see on it. Again, looking back, I think this is realistically what we see as what we would be as of March 2010



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

based in terms of what we are anticipating and the visibility which we have with respect to the market as of now.

Mr. Bhuvnesh Singh: Sir, one last comment from my side. See like, you know, what we have seen that companies like Infosys, TCS, they have reported, they have done reasonably well, so, you know, though there is also a difference of size and all involved over there. However, those companies have maintained a rather cautious stance like Infosys guidance just implies flat next three quarters. So, what exactly is the difference between your company versus say Infosys that you could still foresee a very strong growth while they are still maintaining a flat sort of a number next three quarters. I don't know whether you can comment on that, but any comments would be useful.

Mr. N Krishnakumar: See, what we are seeing particularly again, even like we mentioned earlier, we do see uncertainties and challenges in some of the major segments in which we operate and clearly in some of the segments we are seeing the first signs of saying will it come out and the demand pattern there will start picking up. This is also factoring into account what we are talking to our customers and the visibility which we see in these segments. So, to that extent, we would think that whatever we indicated now is realistic and what is our assessment in terms of how we would end up in March 2010.

Mr. Bhuvnesh Singh: Thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Anthony Miller from TechMarketView UK. Please go ahead with the questions.

Mr. Anthony Miller: Yes. Hello gentlemen. I am curious to get up to date with your progress in the UK and in Europe. I want to be specific, what is your key focus about keeping the UK market with some of the customers where you are seeing more success and what impact the Aztec acquisition do you think would plan to have in the UK market?

Mr. N Krishnakumar: I think he is talking about UK and Europe market.

Mr. Anjan Lahiri: Anthony, we couldn't hear you very well, this is Anjan, but your question essentially was what traction and trends are we seeing in the UK market, is that correct?

Mr. Anthony Miller: Yes, that's exactly it. I am sorry, I am not on a very good line, but yes, that's exactly it.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Mr. N. Krishnakumar: The UK market continues to be a very important market and the core of our business in Europe. We have continued to strengthen while we have been in Europe for six years now, a lot of our business came from outside the UK. We have continued to strengthen our position in the UK and won significant new business there, we have strengthened our position on the ground and we continue to be, you know, committed to the UK market and see increased interest and traction from the region.

Mr. Anthony Miller: Do you think the business is going to be real stronger, given that we have a lot of software companies here in the UK and I know from personal contacts that many of them, they are trying to look at ways of cutting the cost?

Mr. Anjan Lahiri: That is correct. You know, if you are asking for software companies, I will hand it over to Jani, but in terms of enterprises, clearly enterprises are looking at cutting costs and UK has been very comfortable with offshoring, you know, for a long time and we see that continuing not only in the larger enterprises, but in some of the second-tier enterprises also.

Mr. Anthony Miller: Okay.

Mr. Anjan Lahiri: I will hand it over to Jani for some of the outlook.

Mr. Anthony Miller: Okay.

Mr. Janakiraman S: In the product engineering services, we broadly address two markets, one is the R&D services which is focused on the semiconductor and system companies and another one is the software product engineering which is much more in terms of the independent software vendor. What we see is that our percentage share of business with respect to Europe and UK in comparison with US or Asia Pacific has constantly increased in the last few quarters with respect to the Europe and UK market for the R&D services whereas in the software product engineering, the ISVs are not so much present in Europe and UK and we do very small business out of that and I won't be able to give you a proper direction on that.

Mr. Anthony Miller: I would very much like to catch up with your people out here in the UK if that is possible and get sort of a more clear view of what MindTree is doing here, so I would be happy if you can arrange that in the next few days.

Mr. N. Krishnakumar: Sure.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Mr. Anthony Miller: Yeah, thanks very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Yogesh Agarwal from HSBC Securities. Please go ahead with the questions.

Mr. Yogesh Agarwal: Yeah, hi. I just have one question if I may. Could you just throw some more light on the project overruns that you had and was it specific to a client or specific to the service? Thanks a lot.

Mr. Anjan Lahiri: Yogesh, this is Anjan responding. There were a couple of them and they were specific to a project across two clients, but it was not specific to any industry. It was specific to the individual in the project and the complexities of the size involved in it and the work that we were doing.

Mr. N. Krishnakumar: Again, Yogesh, just to add on to that, I think we have addressed the key things on it and we believe it is now significantly under control which is why Rostow made that specific thing of saying we see that as being specific to this quarter and clearly we have everything under control now.

Mr. Yogesh Agarwal: Perfect, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Madhu Babu from Systematix Shares. Please go ahead with the questions.

Mr. Madhu Babu: Yes sir. Sir, our utilization has been continuing on the downtrend, I mean, at 61.1%. Some of the other players in the IT industry are rationalizing the cost structure. So, would we do something with the utilization, I mean, in terms of headcount reduction?

Mr. N Krishnakumar: See, clearly I think we do believe we will infuse elements of what we need to do to control cost, but at the same time I think we have always followed a prudent policy of recruiting people and to that extent, we believe within the industry, capacity is also a very key constraint. So, clearly wherever we see performance as an issue, yes, we will sort of take action, but we do believe that there is a point in time when the demand situation starts picking up, the capacity we have itself is also going to be a big advantage. So, we will continue to sort of watch this space closely and see what are the cost control measures on the manpower cost which we need to do, we will implement them and sort of see how the demand environment also plays out.

Mr. Madhu Babu: Okay sir. And North America is down substantially, I mean, quarter on quarter. What is the major reason for that?



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Mr. N Krishnakumar: See, like we mentioned, clearly I think...

Mr. Rostow Ravanan: Sorry, North America is not down, it is actually up marginally in percentage terms from 67.2 to 67.3. The absolute term of decline is because of the overall volume decline for the company.

Mr. Madhu Babu: Okay, okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Anurag Purohit from Religare. Please go ahead with the questions.

Mr. Anurag Purohit: Good evening gentlemen. I would like to again come back to the guidance. You see, you have peers in the industry again signalling some level of stabilization, though uncertainty is still there, but still they are indicating some level of stabilization. So, is our problem specific to certain clients or it is a situation across multiple clients in our company?

Mr. N. Krishnakumar: No, Anurag, just to give you a context like we said we see uncertainties in some of the major segments in which we operate in and those segments there continues to be uncertainty and lack of clarity in terms of how the demand environment is going to pan out. Like we also mentioned, we have had good client wins during this quarter, but in the current context of uncertainty, the ramp-up on these clients is going to be slower, so their impact on current year's revenue is going to be marginal, but we do see that based in terms of our assessment and visibility which we have within the clients in this segment, that we will sort of have a refreeze numbers, which is the guided numbers of 255 to 270 million.

Mr. Anurag Purohit: Okay. And also, does your PAT guidance include the reversal of MTM forex provisions?

Mr. Rostow Ravanan: Not from now onwards. From here onwards, we are assuming a stable sort of a rupee, like KK mentioned, at 48.4. So, therefore, currently we are not factoring in any additional MTM reversal.

Mr. Anurag Purohit: Okay sir, but when you gave the guidance for the full year in last quarter, it also didn't include the reversal of forex losses, am I correct sir?

Mr. Rostow Ravanan: No, it hadn't. When we gave the last guidance, it was with a rupee assumption of 51.4 and in the current quarter obviously the rupee has appreciated, so we have got the benefit of that reversal and from here onwards, currently we are assuming to be a flat rupee.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Mr. Anurag Purohit: Okay. And if you could just give me a data point regarding how much is the provision outstanding at this point in time?

Mr. Rostow Ravanan: The provision outstanding at this point of time is a little more than 20 million dollars.

Mr. Anurag Purohit: Fine. Thank you and all the best.

Mr. Rostow Ravanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nimish Joshi from CLSA. Please go ahead with the questions.

Mr. Nimish Joshi: Hi. Rostow, the query, do you think much of the shock in the quarter came in the June month because management commented till May and did not seem to indicate that either the quarter or the guidance for the full year was in danger to this extent?

Mr. N Krishnakumar: So, Nimish, at the time till April-May, we have certainly had some of those larger opportunities which we are pursuing and they were reaching close to decision making and clearly those were anticipated to provide lot more impact on the current year's revenue. As these deals closed and we started getting into the execution planning mode for these large accounts, the realization came in the current context of uncertainty. The impact of these on current year's revenues is also going to be significantly lower than what we had planned for. It is also a fact that I think in the last four to six weeks, the uncertainties in some of the major segments like manufacturing and semiconductor have enhanced and they have also impacted our outlook on the full year guidance.

Mr. Nimish Joshi: Okay. And for the exchange gain, for this quarter, you reported around 6.5 million dollars net, whereas 12 million dollars is the write-back, so what does the delta account for?

Mr. Rostow Ravanan: Delta is the actual forex loss for the quarter as well because revenue would have got booked at our accounting rate on the hedged revenue, the realization would have actually been lower, so the actual exchange loss for this quarter is approximately 6 million dollars.

Mr. Nimish Joshi: Okay. And are you confident of maintaining the absolute costs at the current level or do you think they will go up slightly because you have seen some hiring in the support staff whereas you have



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

reduced your technical staff. So, how do you see the cost, absolute cost in these two things going on?

Mr. N Krishnakumar: Nimish, again just to clarify, that hiring which we have had is clearly because we believe in businesses like testing and infrastructure management, we see a great opportunity, and purely the additions have been in terms of our investments in creating a sales and marketing infrastructure for that business. Otherwise, I think we have had our cost under control. We do see, going forward, there is an opportunity to have sort of structured some reduction in terms of cost. Certainly, we don't see the nonbillable cost going up.

Mr. Nimish Joshi: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Shradha from B&K Securities. Please go ahead.

Ms. Shradha
Agarwal:

Hi sir, good evening. Coming back to the earlier question on reversal of mark to market losses, if I am not wrong, when you guided for in the last quarter, you had guided for the 3 million dollar forex loss for the full year, but now already in 1Q you have a 12 million dollar forex gain, I mean, reversal of mark to market loss and despite that your PAT guidance has been downward revised by 19% at the lower and the revenue guidance has been downward revised by 12%. So, why is there incremental downward revision in PAT when there is already a reversal of mark to market loss on the forex item?

Mr. Rostow Ramanan: Sure. This is Rostow. Clearly the impact of the fall in revenues is a major reason for that downward revision to PAT. While obviously we will do what we can in terms of, you know, maintaining cost, etc., clearly not all cost and obviously we will very quickly control, so therefore the impact of the fall in revenue will impact profitability.

Ms. Shradha
Agarwal:

But the impact is seen more on the profitability, 12% reduction in revenue, 19% on PAT, so you mean to say your EBITDA margin would be declining in this year versus what you had earlier anticipated?

Mr. Rostow Ramanan: If you also remember, the PAT as a percentage of sales is more or less being maintained right now. Even at the revised guidance, the PAT as a percentage of sales is 12% at the lower end to 13.6 at the higher end. So, clearly you have factored in the reversal of



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

the mark to market right now. You will also keep in mind that if the rupee appreciates obviously at an operating profit level, it will impact us negatively, so there is that impact as well. So, all of those are the reasons behind the revised PAT guidance.

Ms. Shradha
Agarwal:

Sure, because I was just wondering why is the revision so much, I mean, you had built in a 3 million dollar loss, now you have already gained some 12 million dollars in this quarter. So, according to us, I mean, the revision impact should not have been to this extent.

Mr. Rostow Ramanan: But this is just the first quarter. I mean, if you remember, the revenues have fallen or the revenue guidance was changed from 290 to 270 million, 300 to 270 at the higher end and correspondingly at the lower end as well. So, it is a fairly large revision to guide to the revenue and obviously there will be corresponding impact to profitability because of that.

Ms. Shradha
Agarwal:

Sure sir. Thanks.

Moderator:

Thank you very much ma'am. Next in line, we have Mr. Raunak Omkar from Parag Parikh Finance. Please go ahead with the questions.

Mr. Raunak Omkar: Hi, good evening. Earlier in the con call, you have mentioned that you won some significant deals against competitors. Which competitors were these, can you name the competitors?

Mr. N Krishnakumar: See, Raunak, certainly we can't divulge specific, client specific competitive situations. All we can say is they are amongst the best in the industry.

Mr. Raunak Omkar: Okay, okay. Other thing is, could you give some view on what the knowledge services segment is doing right now?

Mr. N Krishnakumar: See, the knowledge services segment like we mentioned earlier clearly is what we see as our positioning in terms of building on the strong domain capabilities we are building and we have entered the area of analytics where we are offering primarily sales and marketing analytics.

Mr. Raunak Omkar: Okay.

Mr. N Krishnakumar: We are very pleased with the progress the business has made in the last 90 days. We already have the first few customers. There



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

are a number of proof-of-value projects which are being done for several other customers and we will keep you updated as we sort of have the calls in the subsequent quarters.

Mr. Raunak Omkar: Right.

Mr. N Krishnakumar: But I would say that we are extremely pleased with the progress the business has made.

Mr. Raunak Omkar: Okay. Could you just give what sort of margins do you get in knowledge services?

Mr. N. Krishnakumar: See, fundamentally as we said, we have always liked to play in an area where we can do significant value add and maintain a consulting-led approach. So, it is very comparable with the type of services we deliver in IT or R&D services.

Mr. Raunak Omkar: Okay, okay.

Mr N Krishnakumar: It is not a commodity services like the BPO business.

Mr. Raunak Omkar: Right. One last question is could you just give us a breakup of the other liabilities?

Mr. N Krishnakumar: Rostow will just...

Mr. Rostow Ravanan: The other liabilities would largely cover routine operating issues like, you know, employee payables and third party vendor payables, etc., and the forex provision that we have booked of approximately 20 million dollars.

Mr. Raunak Omkar: Okay.

Mr. Rostow Ravanan: That is also covered including the other liabilities.

Mr. Raunak Omkar: Okay, thank you so much.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Sunil Tirumalai from Credit Suisse. Please go ahead.

Mr. Sunil Tirumalai: That's okay, my questions were answered. Thank you.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Anurag Purohit from Religare. Please go ahead.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Mr. Anurag Purohit: Yeah, thanks for taking my question again. Sir, could you please provide what will be the constant currency growth in dollar revenues this quarter?

Mr. Rostow Ravanan: Constant, the impact of the cross currency was very minimal. It was about 0.8%. So, therefore, there hasn't been a huge swing because of cross-currency impact in the current quarter.

Mr. Anurag Purohit: Okay. And would I be right to assume that the revenues in software product engineering would be primarily the revenues that come from Aztec software or other erstwhile Aztec software?

Mr. Rostow Ravanan: Largely yes. There was a portion of what MindTree used to do as the hi-tech vertical within our IT services business. That is also now classified under the software product engineering business. Now, also if you remember, the old Aztecsoft entity had two businesses. One was the SPE business, the other was the testing business. So, the SPE business is a portion of what used to be done by Aztec in the past.

Mr. Anurag Purohit: Okay. Thank you very much and all the best.

Mr. N Krishnakumar: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Srivatsan from Spark Capital, Chennai. Please go ahead.

Mr. Srivatsan: Yeah, hi Rostow. Just wanted to...of the 30.5 crores of forex amount that is given, about 12 million dollars, you are talking about close to 50 crores being mark to market write-backs right?

Mr. Rostow Ravanan: Correct.

Mr. Srivatsan: And then 5.5 million dollars of actual cash losses?

Mr. Rostow Ravanan: Correct.

Mr. Srivatsan: Okay. And what are the current outstanding positions at this point of time?

Mr. Rostow Ravanan: Our current outstanding hedges for this year is 94.5 million dollars.

Mr. Srivatsan: 94.5?

Mr. Rostow Ravanan: Correct. And for this year...and hedges for longer than or beyond this year is 112 million dollars.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Mr. Srivatsan: 112. And 94.5 would be about 45 rupees to a dollar?

Mr. Rostow Ravanan: Weighted average rate of 47.33.

Mr. Srivatsan: 47.33. Just wanted to...on these two specific projects where we had fixed price overrun, just wanted to know is the project completed, has been completed or still that is a project that is under execution?

Mr. N Krishnakumar: It is under execution, but what we have crossed is a very significant phase of the requirement gathering, design, and it is in the development phase and since we think that a large portion of the thing was due to understanding in terms of the total requirements of the customer, we currently believe we have got some of the problem area sorted out and it is under control.

Mr. Srivatsan: Active clients have fallen pretty sharply in this quarter from 261 to 239, is it mainly because we let go some of the small clients or what is the underlying reason for such a sharp drop?

Mr. N. Krishnakumar: No, what we did consciously is clearly we are also doing certain pruning of our own client base. Largely, if you recollect, when we shared in terms of some of the strategies in our product engineering services, both in the software product engineering and R&D services, we work with a number of start-up clients and to that extent, we have consciously taken a thing of pruning over clients where we didn't have any significant strategic revenue impact. So, the drop in clients really reflects that pruning of customer base.

Mr. Srivatsan: Any request for ramp-down from any of our top customers?

Mr. N Krishnakumar: Sorry...

Mr. Srivatsan: Any request for ramp-down from any of our top customers at this point of time?

Mr. N Krishnakumar: No, you would see our top customers continue to be at the same level. Last quarter, it was about 6.7%. This quarter, it is about 7%. The top 10 customers also continue to be at the same level of...

Mr. Rostow Ravanan: While at the individual client level, proportion wise, they haven't changed very much, but the overall revenue reduction led to some amount of reduction in our top 5 and top 10 customers as well.

Mr. Srivatsan: Thanks a lot.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Moderator: Thank you very much sir. I request the participants to use their handsets while asking a question. Next in line, we have Ms. Sudha from Fitch Ratings, Chennai. Please go ahead with the questions.

Ms. Sudha Sundaram: Yeah, good evening. This question is for Mr. Rostow.

Mr. Rostow Ravanan: Go ahead Sudha.

Ms. Sudha Sundaram: Yeah, two things. Just wanted to confirm these figures at your end. Cash FX losses USD 5.5 million dollars, MTM gains you have booked is 60.5 crores and other income of 30.48 basically represents a difference between invoiced and realized rate, is that right sir?

Mr. Rostow Ravanan: Correct.

Ms. Sudha Sundaram: All these three things. The second thing is you have repaid off your term loans and your working capital borrowings have come down. So, going forward, any thoughts on how you would manage external funding requirements?

Mr. Rostow Ravanan: We will take it as it comes. Currently obviously given that we had significant amount of cash accruals coming through after the Aztec merger was completed, we used some of the funds to repay off the loans. Going forward, depending on specific projects and specific needs, we will look at what is the best way of funding those requirements.

Ms. Sudha Sundaram: Right sir, thanks a lot. Yeah, that's it from my side.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Dinesh from Anusha Securities, Chennai. Please go ahead with the questions.

Mr. Dinesh: Hello, hi. Hello...my questions have been answered sir. Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Sujit from CRISIL. Please go ahead with the questions.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Mr. Sujit Joshi: Yeah, hi. One clarification, you mentioned the split on your top decline as 3.4% on volume and 3.8% on pricing, that comes to about 7.2%, but on the rupee side, we see about 9.8% Q-o-Q decline, so...

Mr. Rostow Ravanan: Yeah. The pricing decline...the revenue decline was explained at 7.2% partly in dollar terms and partly this only accounts for fee revenue, so that is the reason for the difference.

Mr. Sujit Joshi: Pardon, I didn't get your explanation, sorry.

Mr. Rostow Ravanan: The decline is counted in dollar terms...

Mr. Sujit Joshi: Yeah.

Mr. Rostow Ravanan: ...and on fee revenues.

Mr. Sujit Joshi: Okay, sure. Thanks a lot. That's it from my side.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Madhu Babu from Systematix Shares. Please go ahead.

Mr. Madhu Babu: Sir, what is the operating margin we are factoring for the next three quarters and for the full year FY10?

Mr. Rostow Ravanan: Currently, we are not giving guidance on an operating margin basis, we are only giving guidance on a revenue and PAT basis.

Mr. Madhu Babu: Okay. Sir, and the other number, I didn't get it clearly, what is the outstanding hedge position?

Mr. Rostow Ravanan: The outstanding hedge position for the rest of this financial year is 94.5 million dollars.

Mr. Madhu Babu: And average rate?

Mr. Rostow Ravanan: Average rate of 47.33.

Mr. Madhu Babu: 47.33?

Mr. Rostow Ravanan: That's right.

Mr. Madhu Babu: Okay sir, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next,



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

we have a followup question from Mr. Viju of Edelweiss Securities. Please go ahead.

Mr. Pratik Gandhi: Hi, this is Pratik, Viju's colleague. Sir, my question is regarding the outlook on the H2 which the company is saying that they are more optimistic on the H2 or probably backend recovery. Can we know what makes the company so confident, is it a strong deal pipeline or any large contracts from some of the top clients? Thank you.

Mr. N Krishnakumar: See, like we mentioned Viju, clearly in the segments we operate, we continue to see uncertainties and challenges. Consequent to that, even though we have had these 3 large client wins, we are seeing ramp-up to be far slower than what we would have normally expected. So, the revised guidance really in a way factors in our current realistic assessment of how these new wins ramp up as well as what we see as existing deals and visibility which you see with customers with whom we are working with.

Mr. Pratik Gandhi: Okay. And my second question is of the total pricing decline of 3.8%, most of which came from the fixed price contract, so are we going to see the similar kind of trend in the pricing front or it will be more flattish kind of thing, trend on the pricing front? Thank you.

Mr. N Krishnakumar: See, Rostow did share with you that the actual pricing decline is about 0.5%. We do see in the subsequent quarters of similar such pricing sort of environment. We see the pricing environment being more...lot more stable like what it has been even this quarter.

Mr. Pratik Gandhi: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have a followup question from Ms. Sudha of Fitch Ratings. Please go ahead.

Ms. Sudha Sundaram: Yeah, Mr. Rostow, three points. Going forward, what instrument would you continue to use for hedging, what timeframe would you cover, and would you also forecast future sales?

Mr. Rostow Ravanan: Sure. From April 08 onwards, we only use forward contracts for hedging and the rate at which we book is, you know, we review it on a rolling 12-month basis, so we book those contracts every month based on our estimate for the remaining 12 months at whatever market rates are available at that point of time.

Ms. Sudha



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Sundaram: Right sir. Thanks.

Moderator: Thank you very much. Next in line, we have Amish from JM Financial Service. Please go ahead with the questions.

Mr. Amish Kanani: Yeah, hi. Your India and APAC business also is showing a huge decline, you know, which you would not expect in general as a business from emerging markets and stuff like that going. So, if you can just throw some light there in that area, what is happening?

Mr. N Krishnakumar: See, clearly what we see is the India business is a combination of both our software product engineering out of the product engineering services and the IT services. So, if we look at the IT services business, the business has certainly sort of stayed where it is and has marginally grown. Clearly, we see demand in new opportunities in the government. The commercial opportunities continue to be strong and to that extent, that business has been there, but whereas in the software product engineering as well as in the R&D services business, primarily in terms of segments like semiconductor where there has been a significant change where we are working with MNCs who are headquartered out of India, there has been a decline which is reflected in terms of overall results. So, really the decline in terms of India is largely relating to the product engineering services whereas the IT services business in India is healthy and certainly looks poised for reasonable growth.

Mr. Amish Kanani: And about APAC business?

Mr. N Krishnakumar: In terms of APAC, again primarily I think some of the markets certainly we have seen good growth which is really markets like Middle East and markets like Australia. I think in some markets, again we have been saying and particularly coming back to the overall decline which we talked about in the product engineering business, I think markets like Japan and so on have had decline in the product engineering business which is again reflected in terms of the geography is showing a decline.

Mr. Amish Kanani: Okay. Yeah, thanks a lot.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Madhu Babu of Systematix Shares. Please go ahead.

Mr. Madhu Babu: Yes sir. As a part of vendor consolidation, have any of our clients moved towards the top 4 IT providers from India?



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Mr. N. Krishnakumar: See, clearly like I said, we have uncertainties with our customers, but during the quarter, we have not had any client where we have sort of lost business because of vendor consolidation.

Mr. Madhu Babu: Sir, but do you expect this to be a big challenge for our scalability.

Mr. N. Krishnakumar: See, to be very honest, I think we are seeing more environments where large customers are bringing in a mid-tier vendor like us in specialized areas where we are coming into the preferred list and one of our key customer wins during the quarter is an exercise where the customer has expanded his preferred list apart from the large ones to induct a midsize vendor like us. So, what we are seeing in the market is more what we call multi-sourcing where clients are willing to bring in a midsize vendor like us and to that extent, we don't see consolidation as a threat for us to scale.

Mr. Madhu Babu: Okay sir. Sir, as a midsize vendor, so I would assume that we would bring more like a value proposition and better attention to the client compared to billing rate right?

Mr. N. Krishnakumar: Yeah.

Mr. Madhu Babu: Okay, thanks.

Moderator: Thank you very much sir. Next, we have a followup question from Ms. Sudha from Fitch Ratings. Please go ahead with the question.

Ms. Sudha Sundaram: Yeah, this question is for Mr. Puneet. Sir, during the last call, you had mentioned that the employee additions for FY10 would be at around 600 people, so is that...does that continue and what about campus recruitments, how much would that be and at what point of time you look at that?

Mr. Puneet Jetli: Yeah Sudha, I am not sure if we mentioned at the end of last quarter that, you know, we will have a headcount addition of 600. What we had mentioned was two things. One is that we have a batch of campus people who will join us in October and that number was between 250 to 300. That stands and we had said that on a lateral side, based on business needs, we will hire. So, we will not be hiring, you know, because we are running a certain utilization, we don't need to hire people in anticipation of the demand and therefore it would be need based and we continue to maintain that. So, there will be a batch of campus people joining us in October. That is the committed headcount addition.



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)
July 20, 2009, 7 pm IST

Ms. Sudha Sundaram: Okay.

Mr. N. Krishnakumar: And Sudha, with the batch in October, we probably will be one of the few companies which has 100% met our obligation on all the campus offers which we made.

Ms. Sudha Sundaram: Right sir. Okay, thank you.

Moderator: Thank you very much ma'am. I repeat again, participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next, we have a followup question from Mr. Sujit of CRISIL. Please go ahead.

Mr. Sujit Joshi: Hi. Just wanted a number on your year on year comparison for your manpower based, I mean employee based on a comparable quarter last year, 1Q 09?

Mr. N Krishnakumar: Sorry Sujit, just to understand, you want a comparable year on year manpower numbers, right?

Mr. Sujit Joshi: Yes, I mean, this was 7693 in this quarter, what was it in 1Q 09?

Mr. N. Krishnakumar: Yeah, Puneet is just going to...he is just fishing out the numbers, he is going to give you those.

Mr. Sujit Joshi: Yeah.

Mr. Puneet Jetli: Yeah, we were 6091.

Mr. Sujit Joshi: 6091, okay. And how much of that was in the delivery side?

Mr. Puneet Jetli: 5670.

Mr. Sujit Joshi: 5670.

Mr. N Krishnakumar: Sujit, just to clarify....

Mr. Sujit Joshi: Yeah.

Mr. N.Krishnakumar:...these numbers Puneet read out does not include Aztecsoft because these were MindTree standalone.

Mr. Sujit Joshi: Okay. So, you do not have the consolidated numbers?

Mr. N. Krishnakumar: If you want, we can send it to you, the Aztecsoft numbers sort of being in the...



MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 June 2009, (Q1 FY 2010)

July 20, 2009, 7 pm IST

Mr. Puneet Jetli: We will send the exact number to you.

Mr.Rostow Ramanan: But just to...Aztecsoft acquisition was done in July and consolidation started only in August and we actually did not have the Aztecsoft business as part of the MindTree business.

Mr. Sujit Joshi: Okay, yeah fine. Yeah, thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Sushanth for final remarks.

Mr. Sushanth Pai: Thanks Manjula. Thanks everyone for joining this call and we look forward to speaking with you in the coming quarter. Thank you.

Mr. N. Krishnakumar:Thank you.

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

