MindTree Limited Q1 FY 2011-12 Earnings Conference Call

July 20, 2011

Moderator Ladies and gentlemen good day and welcome to MindTree's conference call to discuss the results for the quarter ending June 30th 2011. As a reminder for the duration of this conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask question at the end of today's presentation. If you should need any assistance during this conference call, you may signal an operator by pressing "*" and then "0" on your touchtone telephones. I would now like to hand the conference over to Mr. Sushanth Pai of MindTree Limited, thank you and over to you sir.

Sushanth Pai Thanks Farah, welcome to this conference call to discuss the financial results for MindTree Limited for the 1st Quarter ended 30th June, 2011. I am Sushanth from the Investor Relations Team in Bangalore. We have with us the senior management team, including N. Krishnakumar- CEO and Managing Director, Janakiraman S.- Group President, Product Engineering Services (PES), Ashok Krishnamoorthy, President – Business and Services PES, Anjan Lahiri, President – IT Services, Parthasarathy, President – IMTS and Testing, Vinod Deshmukh, President – Technology and Products, PES, Rostow Ravanan, CFO, Babuji Abraham, Global Head, People Function and George Zacharias, Chief Strategy Officer.

The agenda for the session is as follows. Krishnakumar and Rostow will bring in 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 that we see as of today and obviously carry a risk in terms of uncertainties 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. Good evening and welcome to this earnings call. This is the 1st Quarter after we had a fairly significant management change. This is also the first quarter after we rolled out our revised strategy to focus on fewer segments and deliver significantly higher value to our stakeholders. I am happy to state that MindTree has reported a robust growth quarter on quarter of 7.3% sequentially. This quarter is also satisfying on two additional counts. We won several marquee clients during the quarter, and this is an endorsement of our revised strategy.

And finally some of these recent wins are large multi year relationships due to the strong capabilities in our chosen segments. We are increasingly seeing large enterprises opt for multi sourcing and partnering with companies like MindTree as viable alternatives. We are also seeing significant traction in cloud and cloud related engineering services.

To illustrate these trends some of the large wins we had during this quarter are:

- For a world leader in computer and software technology, MindTree has been chosen as the sole partner to provide remote support to its cloud computing platforms which enables the enterprises to build, host and scale applications in their data centers.
- For a European headquartered global leader, in the sporting goods industry, MindTree will support a significant part of their IT application portfolio across multiple businesses and technology areas.
- For a leading web services company, MindTree is engaged in a multi-year relationship for services around portal and web products.

Some of the other wins during the quarter are:

- A leading provider of switching gear for data centers targeted for cloud networking applications, MindTree will provide product engineering services to this client.
- A European-based semiconductor company. MindTree will license its single mode Bluetooth low-energy IP to this client.
- A company in the security storage and systems management industry. MindTree will provide product support and enhancements on a revenue share model.

The other area I would like to highlight is that our increased focus on operational efficiency and the revenue momentum has helped us offset the impact of wage revisions during the quarter and enabled us to largely maintain the same EBITDA as the previous quarter. Since we are seeing continued strong revenue momentum as well as benefits from our efforts to increase operational efficiency we expect that our margins will improve further for over the next few quarters, however, the benefits will be relatively muted in Quarter 2 due to the addition of approximately 900 campus graduates during the course of this quarter and wage revisions for MindTree minds whose revision cycle happens to be in Quarter 2.

Now let me provide some highlights for Quarter 1 results. Q1 revenues were $92.53 million representing a quarter on quarter growth of 7.3% and year on year growth of 20.2%. Our IT services continues its stellar performance and had a 10.7% growth quarter on quarter and an industry leading 41.8% year on year. I am also happy that our product engineering services business has returned to a growth mode with a 1.7% quarter on quarter growth. We added 25 customers during this quarter with this we have 283 active customers. Our $10 million customers increased to seven from six in the last quarter. On the people front the attrition on a trailing 12 month basis is 25.6% compared to 25.1% at the end of Quarter 4. On a consolidated basis we have 9577 MindTree minds reflecting a gross addition of 630 people in the quarter.

Now let me pass on to my colleague Rostow to share a few other financial highlights.

Rostow Ravanan Thank you KK, good evening to everybody on this earnings call. Our fee revenue in this quarter grew 7.3%, volume growth was a strong 6.2% and pricing realization increase was 1.1%. A large component of this price increase was due to the cross currency impact.

As KK mentioned our EBITDA for this quarter remained almost flat at 11.2% in spite of the wage increases that happened during this quarter. 76% of our people were covered for wage increases in Q1. The wage increases were 10% to 12% for offshore and 2% to 4% for onsite. The margin impact in Q1 due to the wage revisions was about 3%. In addition, the Rupee appreciation negatively impacted margins by 0.8%, however, the strong revenue momentum as well as increased focus on operational efficiency helped mitigate these margin head winds and helped us to remain largely at the same EBITDA levels as in Q4. PAT for this quarter is at 8.4% showing a sequential quarterly growth rate of 9.7% and a year over year growth of 120.6% in dollar terms. In Q1 we had an overall Forex gain of $2 million of which mark to market provision reversal contributed $1.3 million. The effective tax rate in Q1 is a little lower at 14.2% due to reversals in some of our tax provisions for our international geographies where the returns were filed during the quarter. We expect this to marginally increase in the remaining quarters of the year. The effective tax rate for the full year is expected to be in the region of 16% to 18%.

Our DSO for the quarter is 74 compared to 70 days on 31st March. While we do not expect any risks on any of our receivables we are working on to bring the DSO down. Utilization including trainees has seen a significant improvement from 70.9% in the previous quarter to 72.5% in the quarter. As of 30th June we have $98 million of hedges for the remainder of this financial year at an average rate of 45.93 and about $36 million of hedges for FY13 at an average rate of 43.33. Total hedges as of 30th June is $134 million. I now hand this over for Q&A.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Srivatsan Ramachandran from Spark Capital, please go ahead.

Srivatsan Ramachandran I just wanted to understand your strategy especially you have given from the fact sheet I am able to infer that the big part of growth came from what you classify as IT Services- others. Just wanted to know what is the strategy there, in terms of focus in that area because the other three verticals it is pretty clear and just wanted to understand what the focus from an overall market point of view would be there are there any sub segments which you hope for it to become bigger over a period so that you can spin it off into separate verticals? And what effectively to the kind of strong growth we saw in that piece?

N. Krishnakumar Srivatsan, I am going to ask Anjan, our President for IT services to answer this.

Anjan Lahiri Srivatsan, in terms of focus we have always been present in certain verticals. The two major messages, we wanted to not expand into any new verticals as outlined in our strategy about six months ago and we wanted to go deeper into the sub segments of those verticals that we are in. So in manufacturing we are very strongly in consumer packaged goods and in discrete manufacturing particularly auto and insurance, we are in property and casualty, in travel and transportation, airlines, hotels and logistics. In BFS, we are in asset management and corporate lending and we are in retail and media. And those are the areas that we are growing stronger in and ITS had a robust growth and we see good market momentum in terms of the customers and area that we work in.

N. Krishnakumar Just to add Srivatsan, you are absolutely right, in ITS others we also look at potentially segments where there will be large opportunities and you are seeing a fairly strong quarter on quarter growth as a percentage on ITS others largely because of a large client win in Europe which is in the area of professional services. So clearly you could think of that largely being contributed by one large account which is growing significantly.

Rostow Ravanan And for your information the vertical ITS others includes the work that we do for customers in the government, media services and retail segments. As of now there is no plan to split it further or to spin them off into independent verticals. The segments would be considered under one vertical at least for the near future.

Srivatsan Ramachandran The other thing I just wanted to tie up your couple of data points that I see. One is a strong growth we have seen in infrastructure management, that coupled with the kind of growth you are seeing on the onsite piece of business that we are having especially on the volume front. Just wanted to understand are there some components of onsite in infrastructure management or is it more temporary knowledge transfer phase which could over the period of time get offshored?

Rostow Ravanan I will ask Partha to add. The increase in onsite in the quarter was not linked to the growth in the infrastructure management business per se. It is just that a few of our customers on anecdotal basis some project required a higher onsite component so the increase in onsite was not linked to the growth in the IMTS business. Partha would separately answer the question on the momentum we are seeing in the infrastructure management business.

N. Krishnakumar After Partha, I will just add one comment on the onsite.

Parthasarathy Thanks Rostow, I think on infrastructure management we have clearly seen good growth. Like we announced couple of weeks back we have signed a large deal. The impact of the large deal we have started seeing in this quarter and we will see more of this impact in the coming quarters. It does not significantly increase our onsite component at all like Rostow pointed out.

N. Krishnakumar Srivatsan, on the onsite growth if you sort of see the way in which we have been positioned, we have always relied on local recruitment as a company even when we started. So we have always had a significant presence of local talent at local markets and we see that as being important in the future. So consciously we have taken a strategy to enhance that capability and ensure that we leverage the increase in discretionary spending which we saw, which is certainly reflecting in both the volume growth of 12.2% on-site as well as it reflects our capabilities because even if you look at the H1 usage, we are amongst the lowest in terms of H1B visas which talks in terms of the strength both from a talent capacity expansion capability onsite as well as the engine to expand capacity onsite which we have and clearly we see that as being an important component of how we grow our business.

Srivatsan Ramachandran My last question is on the margins front we shown pretty good difference. But let's take this quarter as kind of run rate because you do not have any of the products over hang, or the Kyocera over hang how do you see margins shaping up over the next three quarters at least?

Rostow Ravanan One correction. There is a little bit of continued impact of the closure of business and I will ask KK and Jani to explain that. Essentially the ramp down we saw in the Kyocera accounts, corresponding people are still being re-deployed into other accounts at this point of time. So there is a small impact continuous from the Kyocera acquisition. Other than that, the measures we have taken to control the operational inefficiencies as well as the strong revenue momentum should continue to yield benefits even going forward helping us improve margins over the next few quarters.

N. Krishnakumar Just to add to what Rostow said, I think we still have a capacity because of the transition from the product business to the services. Clearly we have had significant traction on acquiring two clients where we have had growth of phone or mobile design business but clearly there is still some capacity for which we are carrying the cost that the business needs to come which, I think, in the next two quarters will clearly, we will acquire new customers, the pipeline is good there. That should certainly start moving even as we get into the next two quarters. Again if you look at Kyocera, I think clearly our reliance in terms of driving growth has certainly expanded margins. So we will continue to focus on expanding and growing faster which will drive margin on margin growth. Clearly we will try to see what we can do on pricing as well as continue to drive operational improvements which again could be margin accretive. On the contrary side, like Rostow said, we will have this additional capacity on the mobile handset design capacity, as well as we are adding almost 900 campus people next quarter. So you will find in the Quarter 2, the margin expansion will be slightly muted but certainly the goal is to continue to consistently show margin improvement as the quarters progress.

Srivatsan Ramachandran Thanks a lot, I will come back later.

Moderator Thank you. Our next question is from the line of Sathya Narayanan from Cholamandalam Securities. Please go ahead.

Sathya Narayanan I just wanted to get an idea that like how do you read the economic situation in Europe and also the demand situation in Europe and US, because your growth is pretty good in Europe and US.

Anjan Lahiri Sathya Narayanan, this is Anjan Lahiri. Regarding both Europe and US obviously there is a macroeconomic environment which all of us are well aware of including developments almost on a daily basis but we do not see that translating into actionable caution as far as our customers are concerned. So we continue to see continued momentum in terms of the projects that we are doing both on the top line as well as on the bottom line. At the same time newspapers are there for all of us to see.

Sathya Narayanan My second question is on your hedging because I just missed your hedging numbers. Can you tell me what is the hedge position, for FY12 and FY13?

Rostow Ravanan As of 30th June, we have $98 million for the remainder of FY12. These are at an average rate of 45.93 and we have $36 million of hedge for FY13 at an average rate of 43.33, therefore our overall hedge position is $134 million.

Sathya Narayanan During this quarter you have added like 25 new clients. Will you be able to classify that by industry verticals and regions?

N Krishnakumar See Sathya Narayan, we do not track that as industry verticals but clearly like we said, we have had a fairly balanced growth across the key segments where we are driving growth. Like in IT services it is in manufacturing, it is in travel and transportation, it is in BFSI. In the product engineering business the growth has come in from portals and web technologies and business applications product. So we are seeing a fairly balanced growth across the six key segments we operate in.

On geographies also we are seeing particularly in Europe we have had a fairly strong growth of a large client whom we have acquired which is starting to grow. So Europe certainly has done well as well as North America has also grown.

Sathya Narayanan Any comments on your effective tax rate going forward?

Rostow Ravanan Like I mentioned in the opening remarks our effective tax rate in Q1 was 14.2% that is because we saw some reversals in the quarter is expected to marginally go up in the remainder of this year. The effective tax rate for the full year, should be in the region of 16% to 18%.

Sathya Narayanan Thank you, that's all from my side.

Moderator Thank you. Our next question is from the line of Vimal Gohil from Asit Mehta Investments. Please go ahead.

Vimal Gohil Firstly I would like the management to comment something on attrition levels, they have been quite stubborn at around 25% to 25.5% odd. So what can be done regarding that because these are at higher levels and when can we expect it to come down?

N Krishnakumar See, I am just going to give some broad comments and Babuji, who is our Head of People Function will add to that. See, clearly the 1st Quarter is a fairly seasonal quarter on attrition because we complete our performance management process and we have certainly been fairly tight on the way in which we evaluate and articulate expectations to people. So there is certainly a bit of an uptake on attrition due to the performance management process and for almost 77% of our employee base we have rolled out, compensation revisions which are market linked to performance, so there is also a percentage of people who are not satisfied with the revision process or what they got out of it, and then leave. My own conjecture is that as we get into quarter two we should see a marginal down trending on attrition and clearly we are putting in a tremendous level of effort to increase engagement, how do we really assess people in terms of their traction with their job and within their team and overall a number of employee engagement initiatives have been rolled out and we do believe that we have an impact on the attrition. You want to add something more?

Babuji Abraham Clear enough, most of things you have covered. We have put in a new compensation philosophy which is closely linked with performance and market. I think we expect this to bring in marginal improvement in the next quarters.

Vimal Gohil Rostow, if you could just comment something on operating metrics, I am talking about utilization, pricing and volumes going forward how do you expect them to shape up in FY12 and FY13 if you could comment on that please?

Rostow Ravanan Sure. Our utilizations for the current quarter including trainees has gone up to 72.5%, is approximately in the range at which we are comfortable historically. If you look at our trends, this is the range which is sort of broadly in our sweet spot. Q2 this will obviously take the hit because as we mentioned approximately 900 campus graduates will join in this quarter and as they get deployed in the remaining quarters of the year and the utilizations should start trending up after Q2. Other than that on pricing I will ask Anjan and Jani to comment on the trend that they are seeing on pricing.

Anjan Lahiri Regarding pricing as you can see we have had a marginal improvement over the quarter. Again we see pricing firm, we do not see softness in pricing. At the same time where the contracts are expiring or where there is an opportunity we are seeing a reasonable situation where we are able to go and get the required hikes from our customers as and when they are falling due.

Vimal Gohil Specifically to Europe, has Europe seen any softness in the pricing because of the macro conditions there?

Anjan Lahiri No, it has not.

Vimal Gohil Would you expect all these operating metrics contributing to the margins going forward? What I mean to say is if you could just comment on the margin levers, you are expecting margins to expand barring Q2. So after Q3 and Q4 what would you consider as the margin levers that would help margins go up?

N Krishnakumar You see, like I mentioned earlier we have adequate margin levers like Anjan mentioned. We do see a strong visibility of growth momentum continuing in the next quarters. Yes, there are some macro uncertainties which are there which are making people cautious. But that is certainly not leading to customers controlling their budget or even restricting that. So growth is certainly a margin lever available for us. Clearly there is a margin lever which would be available in terms of trying to improve utilization but like Rostow pointed out, in Q2 that is likely to go down a bit because of the large campus additions and that will start trending up in Q3 and Q4 when they go through the training cycle and start getting deployed in projects. The whole area of operational efficiency is something which we are focused and I think we have got a very robust system which drives that and a lot of our order to cash cycle is completely automated. We do believe there is a possibility to drive margin improvement through improvement in the operational efficiency also. So we will continue to drive on these three-four parameters which will help us improve margins. And one of the key things which we are starting to address when we talked about 900 campus recruits, is really that I think there is an opportunity for us to really address the pyramid which today I think we do have not a really a perfect pyramid, we have not added significant campus numbers in the last few years. So this year certainly we have taken that as a strategy and adding almost 1600 campus recruits. And improvement of the pyramid is also going to give us improvement in the margin portfolio.

Vimal Gohil I just missed out on the utilization number, you said that you had 72.6% utilization including trainees, right?

Rostow Ravanan That's right, 72.5%.

Vimal Gohil What about excluding trainees?

Rostow Ravanan 72.9%.

Vimal Gohil Thank you very much.

Moderator Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah I would like to understand can you discuss the levers which enable us to mitigate the impact of wage hike and INR appreciation?

Rostow Ravanan Sure. Like I mentioned Hardik, the two main reasons why we are able to maintain margins in the quarter was one, the strong revenue momentum approximately 7.3% revenue growth of which 1.1% was improvement in pricing realization and that was one margin tailwind that we got. The second is the operational efficiencies including the improvement in utilization. So those were the two major factors that helped us to maintain margins in the quarter.

Hardik Shah Is it possible to quantify it?

Rostow Ravanan It is difficult to quantify that. Like I said, the negative impact was 3.8% due to the currency and the wage revision. And the positive impact was these two, therefore, the net result was almost a flat EBITDA from last quarter to this quarter.

Hardik Shah Our number of trainees has come down drastically. Is it right that only 0.4% of our total employee base is under training?

Rostow Ravanan Correct because what we classify as training are the people who joined us from campus batches. So the previous campus batch joined us in Q3 of last year. So therefore, the amount of trainees left in the system now is small and then one batch joined us towards the end of June. Most of the campus batches will join us during the course of Q2. So that is the trend that we see in the intake of trainees.

Hardik Shah We are maintaining our gross hiring target of 4000 employees?

Rostow Ravanan That's right. 4000 on a gross basis.

Hardik Shah Final question, basically I am trying to understand our utilization has increased by 1.6% whereas like net hiring was flat and our subcontractors charges are almost constant, but our volume has increased by 6.1%. So can you help me to understand that?

N Krishnakumar See primarily if you really look at it, we stressed on the thing that we have significantly improved operational efficiency through investments in systems which really give us real time visibility on where talent is available. That has helped us improve capacity with the same number of people. So I think that has been a very single large mitigating factor where we have been able to drive operational efficiency which again is reflecting in the utilization which has certainly increased.

Hardik Shah Going forward we are comfortable with this position so most of the hiring will be freshers. So lateral hiring will be how much?

Rostow Ravanan Of this overall hiring, like you said a gross hiring of 4000, about 1600 to 2000 will be campus batches and the remainder will be the lateral hiring.

Hardik Shah Thanks so much.

Moderator Thank you. Our next question is from the line of Sonaal Kohli from AIM Capital. Please go ahead.

Sonaal Kohli Hi, congratulations on your number. I have one query, you mentioned about the margin growth in Q2 would be muted on account of increase in salaries. At the same time you mentioned that the salary increase has taken in Q1. Could you throw some more light on this?

N. Krishnakumar See, what we do is that 76% of MindTree minds, the compensation revision has already been affected from 1st of April. For a smaller group of 24% it is effective 1st of July. So that would be there during this quarter and the additional cost will also be on the 900 campus recruits whom we will take in during the course of this quarter.

Sonaal Kohli These 900 would be spread out through the quarter or would be joining on the beginning of the quarter?

N. Krishnakumar They would be spread out during the quarter. There is one batch which probably has already joined in early July and the balance would join on the 3rd or 4th week of August

Sonaal Kohli You mentioned that about 24% of the manpower will have a salary increase in Q2, would these 24% of the manpower be proportionally contributing to the salary or would their contribution to the salary be higher or lower than 24%?

Rostow Ravanan It will be higher, the people who got their salary increase in 1st April is approximately 60% of our wage bill. The 24% who are going to get their salary increase in 1st July will be approximately 40% of the wage bill.

Sonaal Kohli The salary hike would be almost similar in nature or is it that more of onsite employees are getting a salary increase and hence the percentage increase maybe lower than what you have seen in Q1?

Rostow Ravanan No, both April and July batches have a combination of onsite and offshore people. So, typically relatively the junior groups get their wage revision effective 1st April and the senior group get their revisions effective July. The percentage of increase will be same between the April and the July batch.

Sonaal Kohli Thank you.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Firstly, if you can share some thoughts on the newer initiatives or the deals with Getronics and MWatch?

N. Krishnakumar I am going to ask Partha, President of IMTS to share the details

Parthasarathy Specifically on the last customer deal that we signed with the European customer, we have signed multiple projects with them, most of them have already started yielding revenues in Q1, two of them will start yielding revenues in Q2. So the total cumulative deal size that we have signed for all projects over five years exceeds $100 million in revenues. Specifically, on MWatch I think we have launched MWatch. MWatch is a platform we used to provide service and delivery for infrastructure management. We have already been providing service on this for many of our customers and that continues. We will switch some of our customers into the MWatch platform in the next couple of months.

N Krishnakumar Just one request, I know obviously we have talked about this large European customer we would appreciate if specific client names are not taken because sometimes clients are sensitive to that.

Rahul Jain Okay I can understand that. Secondly, if you can share total revenue coming from SEZ in percentage?

Rostow Ravanan Approximately 50% of our revenues are from SEZ.

Rahul Jain How much of this may be coming closer to the five-year when you have the 100% exception?

Rostow Ravanan Some of our older SEZs started in 2007 so we have still two more years for those SEZs.

Rahul Jain Besides 16% to 18% ETR for FY12?

Rostow Ravanan That is correct.

Rahul Jain So probably FY 14 onwards we would see some upticks starting there?

Rostow Ravanan Absolutely. Over the next 3 to 4 years our tax rate will keep going up marginally maybe one or two percentage points every year.

Rahul Jain What would be the available capacity with us right now, underutilized?

Rostow Ravanan Capacity meaning, people or infrastructure?

Rahul Jain Infrastructure.

N. Krishnakumar We have infrastructure where currently we have completed infrastructure for almost 11,400 people which is an additional capacity of 15%. And under construction we have infrastructure which could be another 3000 plus. So clearly in the next 8 to 10 months we will have capacity for an additional 30% to 35%.

Rostow Ravanan Capacity is not a constraint for growth. Between all our facilities in Bangalore and Chennai at least the two large SEZ locations now there is sufficient capacity available for us in the combination of both owned and rented premises, the capacity is not a constraint for growth.

Rahul Jain So in that way the incremental capacities are also part of the SEZ?

Rostow Ravanan All incremental business effective maybe 2008-2009 has always been in SEZ.

Rahul Jain So that has been to certain extent quite proactive in terms of the percentage of revenues we are getting from there?

Rostow Ravanan Absolutely because of the younger company we are able to react little earlier on some of the schemes and so therefore all incremental growth, like I said, maybe from 2008 if I remember right are in SEZ facilities.

Rahul Jain If you can share some of your thoughts in terms of the flow or trend in the margins over next seven to eight quarters. You may not necessarily put in numbers but in view of the expected volume traction in the coming period?

N. Krishnakumar See, Rahul it is very difficult to sort of give a seven eight quarter perspective particularly in the context that we are seeing the recent events, there is that level of I would say blurriness there in the environment, be it the high unemployment rate in the US or the elections coming or even what could be a potential crisis in Europe, if Greece fails and so on. Clearly what our goal is to say that quarter after quarter, by focusing on a few segments we drive growth which is higher than the industry average and consequently have that as one of the key margin levers. We continue to focus on consistently improving our operational efficiency so that gives a certain leverage both on utilization and reducing any base in other operating costs which we have. And certainly look at providing better value and consequently better pricing from customers. We do see all these three margin levers as being fairly implementable and we could show consistent progress on this, quarter after quarter.

Rahul Jain What could be the desired kind of a utilization level for us?

Rostow Ravanan We are reasonably in the sweet spot as we would like to be right now because we are a more project oriented, more new development oriented kind of a business, so typically about 70 to 73, is the comfortable level of utilization that we would like to run the business at.

Rahul Jain In that way there is not much lever there for the margin improvement?

Rostow Ravanan From where we are utilization is not a large margin improvement. Like I mentioned at least in the near future there will be a hitch to utilization because of the new joinees from campus in

Q2. The larger margin lever for us would be the revenue momentum that we are seeing as well as the efforts we are making to reduce the employee pyramid.

Rahul Jain So, on the employee pyramid side where we think, we are a little off the shape, on the base?

Rostow Ravanan As of now the average experience of our MindTree people is at 5.8 so try and bring that over the next few quarters to significantly increasing our campus hiring, that is the game plan.

Rahul Jain Don't we think the conversion would be little longer because if we are looking towards newer initiatives and putting people fresh from the campus, that total learning curve would be a little longer and we going a lower on the overall experience?

Rostow Ravanan See, that is a process that we have done reasonably well on. We adequately had planned for this transition in the beginning of this year. So a lot of measures have been put in place in terms of training and all the measures taken to bring them industry ready very quickly, we worked with some of these campuses already, so we are confident that we will be able to make these batches productive very early given the resource business momentum we are seeing.

N Krishnakumar I think you are absolutely right, this is not a transition which can happen in a quarter. We are seeing it as a transition which will happen over the next several quarters, maybe six or seven quarters it could happen. But again to us it is a great source of advantage because when we talked about our large European vendor whom we mentioned where we have scaled up, that is because we had the right amount of experienced people who could get into the engagement and start ramping that up. We talked about a win with a large European sports goods manufacturer, where they are clearly wanting to multisource, there again I think we were able to scale the engagement because we have the experienced people at the base. And now with these sort of additions there is certainly the right platform there for us to enhance with the campus recruits whom we are bringing in. But the transition is not a one or two quarter transition.

Rahul Jain Lastly, if I can squeeze in one, if you can share is there any terms of a client or key people attrition post the development that happened at the top management?

N. Krishnakumar To be very honest, Rahul I think like we shared we have had significant momentum on the clients and certainly we do not see any threats. People, of course, yes, there will be a few people who leave, but like we have always maintained we have a strong leadership bench, we continue to see positive growth and momentum on our businesses and clients, so we do not see that as being at all a deterrent in terms of how we will grow our business.

Rostow Ravanan For the quarter we have only lost two people and zero customers.

Rahul Jain That is it from my side and best of luck for the coming period.

Moderator Thank you. The next question is from the line of Dinesh Kumar from Aditya Birla Money. Please go ahead.

Dinesh Kumar Congratulations on a good set of numbers. Actually I have got a couple of queries. One is actually growth is mainly led by in the vertical side that is BFSI, just want to get a clarity because MindTree's specialized area is in manufacturing as well as from software product engineering but still it is on a subdued mode kind of a thing. When do you see these vertical will see uptick in this upcoming quarter? Can you give an overall perspective about this for our understanding purpose?

N. Krishnakumar Yeah Dinesh, Jani our, Group President for Product Engineering will give you this.

Janakiraman On the product engineering side if you take totally we are on the sixth verticals, out of the six verticals three verticals have grown significantly during the quarter whereas the other three verticals had muted growth. And one other factor that we need to consider is that we talked about a Kyocera ramp down and that we are able to absorb and over and above that we are able to deliver 1.7% quarter-on-quarter growth and if you exclude Kyocera both from the Quarter 4 as well as the current Quarter 1 then the product engineering services business has grown 4.8%.

Dinesh Kumar This is a combined growth you are saying 4.8%, right?

Janakiraman Absolutely. So overall in PE services I can see it is picking up the growth momentum and if you see that from now we should be able to deliver better results.

N Krishnakumar Anjan will add on the BFSI part which you have.

Anjan Lahiri Our BFSI has shown strong growth, Dinesh as you have observed. Manufacturing has grown very strongly for four quarters and we have had a couple of very strong customer acquisitions this quarter. We expect both manufacturing and travel to resume the growth momentum in the subsequent quarter.

Dinesh Kumar Second query is regarding our attrition rate. Still it is on the higher side of 25%. Just want to understand whether it is on the mid-level employee side or it is in an entry level employee side? Predominantly the attrition is on a which side of a thing?

Babuji Abraham The highest attrition levels are still at 2 to 5 year segment, typically at the entry and mid level.

Dinesh Kumar You have already clarified about this, you didn't lose any client to previous top management company, right?

N Krishnakumar No.

Dinesh Kumar So do we see any fear about this whether they will take our clients kind of a thing? When you talk with your clients right now, so is there any observation? Can you throw some light on it?

N. Krishnakumar See Dinesh, very clearly with our revised strategy of really wanting to be the best in a few segments, to be honest if we look at our clients wins for the last one or two quarters, our competition has been the best in class. We have competed with Tier-I companies and won. We have competed with IBM, Accenture and won. So really the competition for us is these Tier-I players and IBM and Accenture. To be honest I think there is zero fear in terms of any start up with has started and we don't face any competition at all from them.

Dinesh Kumar Touch up on the same issue actually Ashok Soota sold half of his shares. This was bought by our earlier investment company GTV. So will this give you some kind of a stability to your company? Can give your take on it actually?

Rostow Ravanan It is extremely heartening for us that our existing investor especially long term oriented investors like Global Technology Ventures, who has been an investor in MindTree since 1999, they have not sold a single share out of their holding since 1999. So, somebody who is strong, stable, supportive and long term oriented, an investor like that coming in and buying those shares is a huge sort of a vote of confidence for the management team.

Dinesh Kumar Lastly, I want to get a clarity regarding this, in the vertical basis you mentioned others as in vertical which has grown around 20% in this quarter. Can you give a split up of what this other segment signifies, with the verticals which are there inside this others?

Anjan Lahiri This others includes media, retail and also services business which is where we had a lot of growth in infrastructure space. So media, retail and services.

Dinesh Kumar That's all from my side. Thanks for taking the call.

Moderator Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod My question is, you have hired 30 employees in this quarter and next quarter you are going to hire freshers and your utilization is already in that sweet spot. So how are you going to capture the demand because you already had good deals wins, product engineering is turned around. Are you going to stretch your utilization levels?

Rostow Ravanan For the quarter we actually have a gross hiring of approximately 650, the net hiring for the quarter was 30, a large part of the demand for the quarter was met by improving utilizations. So we are on a reasonably strong footing as of now. There is no concern we see at least for the rest of this financial year on the demand side and therefore, like KK mentioned, there is a very strong plan to hire campus graduates and it is also a part of this year's strategy to increase campus graduates to the proportion of the overall hiring to help die down the employee pyramid and so the new additions that are required from a business growth perspective would be met through campus hiring and that is a part of conscious strategy for this year.

Ritesh Rathod Yeah but that won't be immediate for Q2, right? Q2, are you going to do a strong lateral addition or are you going to stretch your utilization levels? What is the plan on Q2 because those guys would take time to build, whatever fresher hiring in Q2?

N. Krishnakumar See, essentially if you look at I think Partha alluded earlier in the call on some of our large client acquisitions, already the experienced people have been deployed, the transitions are being done and they are moving into the revenue mode where you really don't need the experienced people, they are already there and starting to scale up revenues where the campus recruits would be used. Clearly, yes I think on the growth for Q2 there is an opportunity to improve, maybe a percentage point or so, on the experience lateral hire to drive the growth for Q2, that capacity is still there within the system.

Ritesh Rathod Were there any instances of future deferrals or deal ramp up which was expected to take up in last quarter, didn't take place because of the client specific issue or some macro issue or some other issue?

N. Krishnakumar No, nothing as of last quarter except the one that Jani has talked about Kyocera, this ramp down has been happening from last quarter.

Ritesh Rathod On your offshore pricing, what is the outlook over there? I believe this quarter it was down and if you take it on constant currency it was again down on Q-O-Q? So what is the outlook over there going forward?

N. Krishnakumar Clearly we see the pricing environment as being stable and like Anjan alluded earlier in the call, wherever there are contract renewals we are able to increase the pricing. So we do expect the pricing environment to be fairly stable in the coming quarters

Rostow Ravanan And even the decline in the offshore pricing I think in the current quarter was very small and it was not like a huge impact on the quarter anyway.

Ritesh Rathod Thanks, that's all from my side.

Moderator Thank you. The next question is from the line of Vishal Agarwal from Citigroup. Please go ahead.

Vishal Agarwal Firstly on the salary hikes, you did talk about the margin impact in Q1 to be about 300 basis point? Similarly, if you could give some quantification of the margin impact that's going to come in the 2nd Quarter from the salary hikes?

Rostow Ravanan We would like to avoid that for the time being Vishal because we do not want to give a quarterly projection.

Vishal Agarwal But will it be fair to say that given the offshore and onsite hikes being similar across both quarters and given the proportion of the wage bill that you have shared some time back, it will be along those lines, is it fair to assume that at least?

N Krishnakumar Absolutely, that is right, Vishal.

Vishal Agarwal Secondly sir, you did talk about the fact that you are going to hire about 900 freshers in the next quarter. I am wondering if you could share the similar number for lateral hires. The reason I am asking this question is that in Q1 we had good volume growth and especially onsite the volume growth was fairly significant but the net addition was fairly muted about 30 odd employees. So, I am just wondering where the expected growth is going to come for in the 2nd Quarter?

N Krishnakumar Vishal, like I mentioned, clearly there are some large clients where there is an initial transition work for which experienced people are required so those are the sort of activities which are completed during Q1 which has led the both volume growth in Q1 and improvement in utilizations. So essentially we get into a stage where we require more people who are of a lower experience base which will come through the campus recruits as well as other people in the 0 to 2 years which we recruit from the market. So the volume growth will essentially come from large clients from whom we have ensured transitions and who are on the ramp up phase.

Vishal Agarwal Any numbers you could share there in terms of the non-campus hires that you are going to take in Q2?

Rostow Ravanan To a large exent it will be driven by business requirements, it will be driven by the partly the areas where we are losing people and attrition replacement for those skills as well as areas where we are winning new projects. So it is not a number that we would like to share it now. At the end of the quarter we will update you on the actual hiring of lateral during the course of the quarter.

Vishal Agarwal Thank you.

Moderator Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah What was the impact of Kyocera, it was in last quarter was $1.72 million so what was the revenue from Kyocera in this quarter?

Rostow Ravanan Revenues from Kyocera in this quarter was approximately $800,000.

Moderator Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran I want to understand the number of Fortune 500 clients have declined by 6, it was 48 last quarter but this quarter showing as 42. Just wanted to know if there is any client loss or is it some typo?

N. Krishnakumar Srivatsan, it is again in line with what we rolled out as a strategy to focus on a few areas and wherever we are not strategic to the clients, where there are marginal revenues, I think we have taken a conscious step of not trying to enlarge those clients. So clearly this decline in Fortune 500 accounts are clients where we were doing some marginal work where the project has ended or the work has ended where we are not putting an effort because that is not a segment which we have chosen to focus on.

Rostow Ravanan For the data purposes it also included one customer who is no longer the Fortune 500.

Srivatsan Ramachandran My next question is we were alluding a lot of the margin expansion to the overall impact of revenue growth. So just wanted to know what proportion of your cost structure would be what we can take broadly we can take fixed cost wherein even if you have to see revenues grow by 20%, you don't see that proportion of cost may be growing at a similar pace or at a far lower pace?

Rostow Ravanan I am not sure if we have that number. I don't think we track our business on that basis and this is not a number that is readily available.

Srivatsan Ramachandran Okay. Thank you.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Pai for closing comments.

Sushanth Pai Thanks Farah. Thank you everyone for joining this call. We look forward to speaking with you in the coming months. Thanks once again.

Moderator Thank you. Our behalf of MindTree Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.