

MindTree Limited Q1 - FY 2010-11 Earnings
Conference Call

July 19, 2010



MindTree Limited
July 19, 2010

Moderator

Ladies and gentlemen good day, this is Rochelle, the Chorus Call conference operator. Welcome to MindTree's conference call to discuss the results for the 1st Quarter of the financial year that ended June 30th, 2010. As a reminder for the duration of this presentation, all participants' lines are in the listen-only mode and this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing * and then 0 on their touchtone telephones. At this time, I would now like to hand the conference over to Mr. Sushanth Pai of MindTree Limited. Thank you and over to you Mr. Pai.

Sushanth Pai

Thanks Rochelle. Welcome to this conference call to discuss the financial results for MindTree Limited of the first quarter ended 30th June 2010. I am Sushanth from Investor Relations Team, Bangalore.

We have with us 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, President and CEO, R&D Services, Anjan Lahiri, President and CEO, IT Services, Rostow Ramanan, CFO, Babuji Abraham, Global Head, People Function, Parthasarathy, President and CEO, IMTS and Testing, Ashok Krishnamoorthy, President and CEO, Software Product Engineering, and Salil Godika, Chief Strategy Officer.

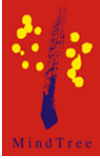
The agenda for the sessions is as follows, Krishnakumar and Rostow will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session.

Before I hand over, let me begin with the Safe harbor statement. During the course of the call, we could make forward looking statements, these statements are considering the environment we see as of today and obviously carry a risk in terms of 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 Krishna Kumar.

N. Krishna Kumar

Thank you Sushanth. Q1 has been an encouraging quarter in terms of revenue traction which has set up a strong foundation for good growth in FY11. We have always been a customer and people-centric organization and this focus will help us enhance business in the volatile environment which exists.

Some highlights of our Q1 results are as follows, for MindTree standalone Q1 revenues were \$72.66 million representing a quarter on quarter growth of 4% and year on year growth of 17%. On a consolidated basis, Q1 revenues were \$76.99 million representing a quarter on quarter growth of 3.4% and year on year growth of 24%. In terms of our businesses, IT services has shown a 5% quarter on quarter growth, software product engineering a 6.7% quarter on quarter growth. All industry groups in IT services and software product engineering except for travel and transportation have shown growth which is a very encouraging sign, even manufacturing where we expected some softness, has shown good growth.



MindTree Limited
July 19, 2010

In travel and transportation, some projects ended and therefore it has shown a decline this quarter. This is expected to pick up and will show growth in FY11 as we had indicated earlier. R&D services has shown a 4.7% quarter on quarter decline, in absolute terms, this is only a \$500K decline mainly because IP licensing revenue has declined compared to Q4 and there has also been a decline in infrastructure systems. However, for FY11, we expect R&D services will show growth.

Next In Wireless with \$4.35 million of services revenue declined 5.6% quarter on quarter, a decline of about \$260K in absolute terms. This business is stable and we continue to have a very good relationship with our key client. We have added 31 customers this quarter. On the people front, the attrition on a trailing 12-month basis is 17.8% compared to 14.1% in Q4. We believe the spike in attrition is a temporary phenomenon because of market momentum and we expect this to be in control and reduce as we go along.

On a consolidated basis, we have 9012 MindTree Minds reflecting a robust headcount net addition of 715 Minds in this quarter. This net addition has been the highest in the last 8 quarters.

Some of the significant wins during quarter one were, a significant win from the Government of India's nationwide unique identification project to provide application development, maintenance and support services, a leading global car manufacturer based out of India to provide services in dealer order management system, an infrastructure management partnership with a large private equity firm. Some multi-year deals which we signed with our existing customers were a large information and communication technology company based in Europe to provide a range of infrastructure management services, application maintenance support for a large global banking and financial services conglomerate based in UK. On Next in Wireless, the update is as follows:

The 4G infrastructure IP, the team has developed and showcased an engineering prototype of a complete LTE based station at the LTE World summit at Amsterdam in May 2010. The engineering efforts included electrical design, mechanical design, protocols stack development, and validating against third party equipments. The demo was highly appreciated. This summit is an important international event for the LTE community and is a good milestone for us. We believe we are on track for the first IP sale in H2 of this year.

On the phones business the prototype is ready and the team is on a road show for discussion with prospective clients. We will know some feedback from them by the end of Q2. The initial signs are very encouraging. Also six patents have been filed on product design. Based on the progress, we are on track for the first phone to be in the market in H2 of this year. Since we are seeing good traction in Europe for the above, we will address the US and Europe markets first. However the success of both the IP business and the phones business, will be known only as we progress. Now let me pass on to my colleague Rostow to share a few other financial highlights.



MindTree Limited
July 19, 2010

Rostow Ramanan

Thank you KK. Good evening to everybody on this call. Like KK mentioned the highlight of this quarter was that, we ended the quarter with approximately \$77 million of revenue for the quarter. In itself, this is the highest quarterly revenue that MindTree has achieved in the last 10 years.

Other highlights of the quarter are that overall it was a 4% increase in revenue, which was contributed by an approximate 7% increase on a consolidated basis, 7% increase in volumes, balanced to some extent by 3.5% impact on pricing. But this is realized prices, like we explained in the previous quarter, we had a spike in price realization due to mix and certain changes in the previous quarter if you exclude those items and compare with Q3 of 2009-10, we have approximately 1.5% increase in pricing from Q3 to Q1.

On a consolidated basis, EBITDA had a fall of approximately 5.7% the reason for that, broadly broken up are, a salary increase approximately had an impact of 4%, increase in travel led by the revivals and market traction we are seeing is approximately 1.25%, appreciation of the rupee led to an impact of approximately 1%. Increase in people and other people related costs like change in the gratuity provision, etc., led to an impact of approximately 1.2%. Investment in the products business led to an impact of approximately 1%, all of these adds up to almost 9% balanced by the revenue growth of 3.5% led to an overall EBITDA decrease of 5.7%.

The other accounting highlights in the current quarter was that we booked one time gain from the dissolution of two subsidiaries that erstwhile Aztecsoft had in the US. This number reflects only in our standalone results. This number does not reflect in our consolidated results because the consolidated results had anyway booked this gain from August 2008 itself. So the one-time profit on the dissolution of the subsidiaries would accordingly reflect only in the standalone numbers. The consolidated numbers will only reflect the tax impact because of surplus. This tax impact led to an increase in our effective tax rate for the current quarter. If we excluded this impact then our effective tax rate approximately remains at about 15%-16% which is what used to be even in the past.

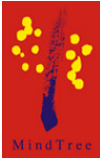
The other accounting highlight in the current quarter was that the rupee behaved in a strange fashion in the current quarter. On an average between Q4 of last year and Q1 of this year, there was a rupee appreciation, but if you look at the quarter end rates between 31st March and 30th June, there was a rupee depreciation. So the EBITDA fell because of the average rupee realization was an appreciation, but the mark to market provision increased slightly by about \$2.3 million because of the rupee depreciation between the two quarters. Net of other foreign exchange gain, this quarter we booked on exchange loss of approximately \$500,000.

Some other highlights are, we have 261 active customers, out of which 62 are million dollar accounts, 13 are \$5 million accounts and 5 accounts contribute more than \$10 million. DSO at the end of the quarter runs at 68 days, same as the last quarter. Utilization has approximately been stable at 70.5% compared to 71.4% in the previous quarter. With that I would like to hand it back to you for question and answers.



MindTree Limited
July 19, 2010

- Moderator** Thank you very much. Our first question is from the line of Srivatsan Ramachandran of Spark Capital. Please go ahead.
- Srivatsan Ramachandran** I just wanted to understand, in terms of the stated product investment of \$10-\$11 million were diluted, will it be possible to share to what extent of investments was made during the quarter?
- Rostow Ravanan** Sure, I would start and then Ashok will add a few comments as well. In the current quarter the NIW business as a whole the investment was approximately a million dollar.
- Srivatsan Ramachandran** Okay, that's all. Second, just the tax impact, I just was not able to understand as to how standalone does not get reflected or gets reflected or consolidated only the tax gets reflected, so was the tax not booked in previously when we had liquidated the subsidiary?
- Rostow Ravanan** Correct, the subsidiary was liquidated only in the current quarter. So what happens is that the investments are carried in the standalone MindTree books, the investments are carried at cost, but when we previously presented consolidated numbers the difference in the networth of the subsidiaries was also automatically reflected in the consolidated account of MindTree anyway. In the current quarter when the subsidiary was liquidated and the money actually was realized by MindTree Ltd., there was a tax impact on the dissolution of the subsidiary. So the tax impact is the physical outflow of cash to the tax department, so therefore it is reflected as an increase in tax significance in current quarter, but the benefit, i.e., the other income that is shown in the standalone numbers don't reflect in the consolidated numbers.
- Srivatsan Ramachandran** Okay. So what would be actually gain, just to understand what would be the tax of this? Because for matching comparison I just wanted to understand, what is actual gain to those books last year then?
- Rostow Ravanan** The actual gain on the dissolution of subsidiary was approximately 20 crores in INR.
- Srivatsan Ramachandran** 20 crores in INR, so about, okay so 33% of this would have been the tax rate.
- Rostow Ravanan** Exactly.
- Srivatsan Ramachandran** Okay fine. The other question I just wanted to understand in terms of the wage hike that's been given, what is impact of it on the margin?
- Rostow Ravanan** Approximately 3.7%.
- Srivatsan Ramachandran** 3.7% and it's done for all employees, I guess.
- Rostow Ravanan** No, the way our performance management cycle works, the hike is spread between 1st April and 1st July, approximately 60% of our employees got their hikes on 1st April and the remaining people would get their hikes effective on 1st July.



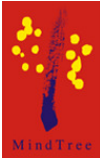
MindTree Limited
July 19, 2010

- Srivatsan Ramachandran** Okay sir, just one last question.
- Rostow Ravanan** The hike covers 77% of our people in first April and the balance will get at 1st July.
- Srivatsan Ramachandran** Okay, just one last question, I have seen a substantial improvement in the headcount whereas the volume growth has been strong, but I just want to see utilization has been more or less flat, how were the utilization of the people employed in the product business accounted for?
- N Krishnakumar** On our services business, most of the capacity addition has also been there as well as product business, again say the reflection of how we see in terms of future quarters ahead on a conscious basis, I think we took a call of enhancing capacity when the talent market is sort of tight, which is why you will see a very robust net headcount addition of almost 715, which is also reflected in the marginal reduction and utilization in the service business about 1.1% decrease in utilization.
- Rostow Ravanan** The other point that I would like add to that is the people who are on the products development are excluded from the calculation of utilization. If you see the fact sheet, we have given separately for MindTree and consolidated, the impact on the consolidated utilization is for the people who are in the services part of the NIW business.
- Srivatsan Ramachandran** Sure, I just wanted to confirm that. Thanks a lot, I will come back later.
- Moderator** Thank you Mr. Ramachandran. Our next question is from the line of Mohit Jain of Alchemy. Please go ahead.
- Mohit Jain** Hi, I have just one question, can you please repeat the extent of investment in the handset business which has been factored into this quarter?
- Rostow Ravanan** This quarter the impact of the products business is approximately a million dollars.
- Mohit Jain** So one million out of 10-11 million which was announced for the half year?
- Ashok Soota** I think may be we should also clarify on that, I think in the last meeting, Rostow had indicated that the overall product development cost would be close to about \$10-\$11 million indicating at that time that it would be done largely in the first half of the year. In response to another question, which had indicated does this mean that we will have a lot more expense in the third quarter, by and large we will take any of the product development cost in the first half. So I think what you need to see this number as it's saying that overall product development cost will be in the same range we had indicated which is about \$10-\$12 million and we will now try and spread this across three quarters during which period we are hoping that the billing cycle will begin as said earlier in Q3 and Q4



MindTree Limited
July 19, 2010

- Mohit Jain** So in the three quarters, the balance 10 million if I assume that the 3 million per quarter will be Q2, Q3, and Q4?
- Ashok Soota** You should not assume it to be uniform, because obviously those numbers will vary as they get closer to the market and we get costs which are beyond the people cost, but cost of prototypes, etc.,.
- Mohit Jain** Okay thank you.
- Moderator** Thank you Mr. Jain. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah** Yeah just on the product front again, I believe NIW 1 million loss also includes the NIW related services revenues which we continue to get even from Q4 of FY2010. What my question is, if you take out that service revenue, as well as a PAT related to that service revenue, how would the NIW business loss look like?
- Rostow Ramanan** Sure the services part of the NIW runs approximately at the same margin levels that our services business runs. The billing rate and cost of people are broadly similar between rest of our services business and the service business of NIW.
- Sandeep Shah** Okay. Because the NIW as per the fact sheet has made close to around \$4.3 million worth of revenues, so what would be the PAT margin on this?
- Rostow Ramanan** The PAT margin will be similar like I said to our services business. If you look at the current quarter, excluding the one time gain from the disposal of the subsidiary, PAT margins was approximately about 12, 12.5%, so NIW business will run approximately at the same numbers.
- Sandeep Shah** Okay. So actually you said one million loss and if we do 12.5% as a PAT margin then the expense in the product business, where commercialization may happen from the second half of this year, the investment would be close to \$1.5 million, is it a correct analysis?
- Rostow Ramanan** Arithmetically correct, but the basis we used when we gave the \$10-\$11 million of the spend is also same.
- Ashok Soota** And also remember that this balance number also includes the investment in the 4G infrastructure also, so it is a combination of both the investments, the 4G infrastructure as well as the phone.
- Rostow Ramanan** Investment is not only in the phone business, it's on the product business which covers both the intellectual property for the 4G infrastructure as well as the hand held phone.



MindTree Limited
July 19, 2010

- Sandeep Shah** Okay. So Rostow just to get clarification this one and half which we calculated, if we need apple-to-apple compare that's where you give a guidance of 10-11, so we actually relate this 1.5 at 10-11 which we are guiding in the first three quarters of FY11, right?
- Rostow Ramanan** Correct.
- Sandeep Shah** Okay. And can you once again give us some update about the IP related business both for the 4G network as well as for the mobile phone in terms of how we have reached and when we expect the commercialization and what kinds of clients we are targeting?
- Ashok Soota** I will start with this and may be Jani may want to add on this, there were both the issues that we talked about and. I will again for a moment just highlight that the NIW of MindTree Wireless business does have three components, the services component which is running reasonably steadily and we will also build up accounts, outside of the captive Kyocera business as we go through the year. The second part of the business is the 4G infrastructure and as KK mentioned in his opening remarks, this product and the reference designs and the intellectual property was exhibited at the LTE Summit in Amsterdam which we were one of the only two companies actually exhibiting products, the others had video displays and so on. The response was enormous as the result of that and the traction was good. In that context, we remain very confident about the statements made earlier that we expect the revenues to come in the second half. Obviously the technologies in all IP and licensing deals it takes a few months to conclude contracts. Technologies have to be exposed on the basis of non disclosure agreement and that process has begun. I would say the target markets for this would be Europe and US as well as in India as we go through the developments. In the case of the phone business, which is the WCDMA phone we have reached a stage of having, I think the first design completed. As of now there is a road show which is going on where prospective customers are being shown the product. Initial reaction will be based on earlier specs, the specs which were shared with prospective customers, both in Europe and US were positive. Earlier, we had said that we would launch this product in US and India and we had said that Europe will come later, but given the positive response that we have got from Europe, we would now actually prioritize Europe and introduce the product in both US as well as European markets and are talking to prospective customers in both geographies. By and large, I would say that we are on schedule in terms of statements we have made earlier in terms of when we expect to realize revenues. Jani, do you want to add anything to this.
- Janakiraman S.** I think Ashok has covered everything and on the 4G infra the focus is on the LTE and we have multiple IP offerings in that arena in terms of LTE, LTE stack, customer's reference platforms and the EMS for LTE and targeted primarily the infrastructure OEMs as well some of the service providers globally.
- Sandeep Shah** Okay. And related to the phone, I guess the IP is for the GSM and not for the CDMA, right?



*MindTree Limited
July 19, 2010*

- Rostow Ramanan** 3G enabled phones.
- Sandeep Shah** Okay. Because the CDMA, IP was already being there and commercialized by the Kyocera Wireless India when we acquired, right?
- Ashok Soota** Firstly the segments we are talking about is completely different. This is about convergence of technologies which is the old GSM technology and the CDMA technology, which is why it's called the WCDMA platform. What was the address of the Kyocera business in the old days was really mid-market firms on a pure CDMA platform. This is a completely new technology, new thing and obviously directed in a completely different segment which is the smart phones segment. So there is really no commonality between what was done in a base sense but certainly in an intellectual property sense on what was done for Kyocera versus what is being designed here and which is why we have already have progressed in terms of new patent filings that we have done at MindTree Wireless.
- Sandeep Shah** And both for 4G infra and the WCDMA phones, the road shows and the client interests are coming from Tier-1 bunch or how is it...
- Ashok Soota** It is a variety of players and I think it is a little earlier for us to start sharing with you. There is variety of players which are specialized players also as well as the larger players in the business.
- Sandeep Shah** Okay. But already now three months have passed, can we assume that commercialization by Q3 is a definite if not later than that?
- Rostow Ramanan** Like we indicated it is in the second half of the year, it could be either Q3 or Q4.
- Sandeep Shah** Okay. And just last thing in this round and then I will come in the follow-up if I have more, the billing rate Rostow you have explained that last quarter, there was some spike in the billing rate which got normalized, but is there something to read because my offshore billing rate as per my excel sheet, it seems like the billing rate has declined as close to 6% on a sequential basis, so can you give us the constant currency decline as well as reported currency decline which is 5.8. I am getting. And on a YOY also if you look at not on a sequential, this billing rate has been lower?
- Rostow Ramanan** Sure, the impact of cost currency on the current quarter was 0.3% so relatively that was a small impact. The actual impact of pricing was only about 3.5%, so I am not sure where you got a much larger number.
- Sandeep Shah** Rostow, 3.5 I think is on the blended basis, I think the offshore just I am looking at so that is 5.8% which I am getting.
- Rostow Ramanan** Correct. Like we have explained the impact that we got in Q4 of last year was to a certain extent depending on the amount of fixed price projects that we had and the mix change that happened in



MindTree Limited
July 19, 2010

the previous quarter led to some impact on the realized prices and that's what got normalized in the current quarter.

Sandeep Shah

Okay, so there is no...

Rostow Ramanan

There is contractual pricing impact. It's more of price realization change that has happened from last quarter to this quarter.

Sandeep Shah

Okay. So there are no new renegotiations which have happened with the client?

N Krishnakumar

No, nothing. Again, in terms of specific numbers Sandeep if you look at our fact sheet, the realized offshore rate as on December 2009 was 20.7 and the current realized rate is 20.67, so it's been by and large stable.

Sandeep Shah

Correct, thanks and I will come in the follow-up round. -

Moderator

Thank you Mr. Shah. Our next question is from the line of Mohit Jain of Alchemy. Please go ahead.

Mohit Jain

Thanks for taking my question again, my question is on margins, are there any specific margin levers which you are looking at for the next three quarters to offset the investments in the handset business?

Rostow Ramanan

Sure, I think we should see the two businesses as two independent rhythms. The services business the margin lever that we expect to see are broadly overall revenue growth. I think like KK explained in the opening comments, we have built a certain amount of capacity anticipating the growth that we are seeing from our accounts. So when that revenue growth comes obviously we expect to see that growth contributing to margin improvement. On the investments that we are making on the product business covering both IP as well the phone, that's only when the product is launched in the second half of this year, will we be able to make any projections on the margins of that side.

Mohit Jain

So on the utilization side, you are saying you are pretty much at the optimal levels.

Rostow Ramanan

Some little bit of scope for improvement exists because like I said we are looking at revenue increase in the next quarter, but we are broadly within our threshold comfort levels on utilization.

Mohit Jain

As for the revenue growth, are you building in some price increases as well?

N Krishnakumar

See what we have indicated on pricing is right now we are seeing stable environment but in H2 of the year, we certainly have started conversations with customers on pricing increase and we see that the environment is turning out more positive to probably get some price increase during the second half of the year.



MindTree Limited
July 19, 2010

- Mohit Jain** What I mean to ask was probably the revenue growth estimates which you have built in for the margin improvements, do they include impact of price increase or just assuming flat pricing?
- N Krishnakumar** What we are including is some level of price increase during the later half of the year.
- Rostow Ramanan** Other impact in the current quarter on the margins front was because of the rupee appreciation, considering the fact that on the mark-to-market since we have already booked the increased provision, we expect that if the rupee remains stable then that provision will reverse whenever the contract expires, so that to some extent will also help increase our profitability going forward.
- Mohit Jain** Okay sure, can you please repeat the breakup of revenue growth in EBITDA margin impact.
- Rostow Ramanan** Sure, the revisions to salary that was approximately at 3.7% impact, rupee appreciation was 1%, increase in travel was about 1.3%, people additions and other changes to people policies like changes to the gratuity law, etc., was approximately 1.2%, the investment in the products business was approximately 1% all of which were offset by about 3.5% growth in revenue, leading to a net reduction in EBITDA of approximately 5.5%
- Mohit Jain** And the break-up of revenue growth?
- Rostow Ramanan** The break-up of revenue growth was approximately 6.9% increase in volume and the balance was a reduction in realized rates. I am giving all these numbers on a MindTree consolidated basis.
- Mohit Jain** Sure. Thanks a lot.
- Moderator** Thank you Mr. Jain. Our next question is from the line of Kawaljeet Saluja of Kotak. Please go ahead.
- Kawaljeet Saluja** Hi, everyone. My question is around the services business. I was just wondering as to how should I think about the breadth of MindTree's service offerings as well as the maturity of offerings. The reason why I am asking this question is that I was just looking at the revenues from top ten accounts as well as the number of \$10 million account and \$5 million accounts and that has not really grown. So, if I have to get confidence that there is an increasing breadth of service offering as a result of which there would be growth in large relationships, how should I think about that?
- N. Krishna Kumar** Clearly on this if you see as a conscious strategy I think we are focused on a few industry Groups in our IT services, we are focused on manufacturing, we are focused on BFSI, we are focused on travel and transportation, so we are clearly just focused on a few sort of domains and within that we do have large client engagements. Some are in the certainly sense of growth when we shared



MindTree Limited
July 19, 2010

in the last analyst call we have started engagement with a very large financial services and travel company which has the potential to grow. Similarly, even in this year, we did share that we have signed multiyear deals with some existing customers, one which is a very large information and communication technology company based in Europe to provide infrastructure management services; we also signed a large application maintenance support for a large global banking and financial services conglomerate which is based in UK. So many of these you will see transitioning into the \$5 million or the \$10 million thing over a period of time because certainly, you are right, building large relationships is very important but obviously I think it takes time. What we have done over the last several quarters is getting a few of these customers and many of them after the knowledge transition state have got into the revenue state now and they will build up as larger engagements.

Rostow Ramanan

The other way to look at it, Kawaljeet, is that for the bulk of our business, for example, in the IT Services, and areas like custom application development, infrastructure management, testing and data warehousing, etc., I think we have a really strong story, the only possible area where we are not so favorable when compared to other competitors would be in packaged software implementation. If you look at our R&D services business, on the core offerings in terms of hardware designs, as well as embedded software there is absolutely nobody else who can do anything for that segment of customers better than us, both in terms of a number of people and the capability that we have we are probably amongst the top five in the industry on that piece. Similarly, on the other part of product engineering business, i.e., our software product engineering business, our capability for addressing the needs of the customer in that segment are extremely strong. We work with some of the largest players in the segment and we have had extremely high customer satisfaction from those customers. So on the majority of the offerings we have to our customers there probably isn't much that we need to be defensive on.

Kawaljeet Saluja

Right. The second thing is that, you guys always mentioned that your aspirations will be to basically grow faster than your peers, and of course, ahead of the industry as well, but when I compare your performance with some of the larger peers, the growth is still trailing. Is this something which is just a quarterly phenomenon and when do you expect to basically start growing perhaps at a pace wherein it is better than some of your larger competitors as well, in case that is an aspiration?

N Krishnakumar

If you look at year-on-year, Kawaljeet, our growth rates are comparable or

Kawaljeet Saluja

That is an acquisition I think unfortunately...

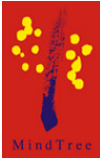
N Krishnakumar

Yeah. But even if you look at on a standalone basis, our volume growth is close to 8%, is amongst the top of the line as far as this quarter is concerned. And like I mentioned earlier in my opening remarks, clearly, we see a strong traction for clients and considering how the talent market is this quarter we have taken a conscious decision of building capacity which again reflects our confidence that we will continue the growth momentum.



MindTree Limited
July 19, 2010

- Rostow Ravanan** Broadly the comment that we opened this year is that we expect this year our growth will be higher than the industry averages projected by NASSCOM at 13% to 15%, we are still on track to achieve those growth numbers.
- Kawaljeet Saluja** Okay. But presumably you would not be happy with that alone...
- Ashok Soota** If NASSCOM increases then we can say that we still grow faster than the industry.
- Kawaljeet Saluja** Okay. And my final question is on margins. Even adjusting for the million dollar investment in the product business, your margins have come down quite a bit and that is even after absorbing only 60% of the wage increase which you are supposed to give out, how should one think about margins if you just basically exclude the product investment, does the management have confidence that there would be basically some recovery of margins and if yes, what would be the drivers for it? In addition to that, of course, there was some spike-up in SG&A expenses as well, so was there any one-off item in it?
- Rostow Ravanan** Firstly, I think I corrected myself, approximately 77% of our people have completed the wage revision as on 1st April...
- Kawaljeet Saluja** 77% of wage bill or a number of people?
- Rostow Ravanan** 77% of the number of people have got.....
- Kawaljeet Saluja** For wage bill?
- Rostow Ravanan** Even in terms of the wage bill it will be approximately the same break-up. So about 3/4 have already completed and about 1/4 is still left to complete on the salary revision. That is more to corrections because I had made a wrong comment in the past. Going forward, like the comment which KK made in the beginning of the year on the services business on a full year basis, we were expecting to maintain the margins more or less stable from last year because at the beginning of the year, the Rupee looked like an appreciating trend. So assuming currency does not create a volatility we were expecting to maintain EBITDA margins for last year to this year more or less stable, this year on the services business, it is broadly to be on the same trajectory, unless like I say, currency plays either a benefit or an impact. On the products business it will all depend on when the products are launched and what the impact of it...
- Kawaljeet Saluja** But Rostow, what will drive the improvement essentially what was as improvement in the subsequent quarters? You are already down to 13.5% adjusted for product investments in terms of EBITDA margins, so what will it take to take the margin back up to 19% which was the case in the previous year?



MindTree Limited
July 19, 2010

- Rostow Ramanan** One large impact of that would be revenue growth and to some extent things like improvements in utilization, etc., which is why we believe the EBITDA margin on a full year basis, will be comparable to last year of the services business.
- Kawaljeet Saluja** Any one-off item in the SG&A expenses?
- Rostow Ramanan** To some extent like I said there was a spike in travel expenses because of the increase in market traction we saw in the current quarter, hopefully, we will bring that under control going forward.
- Kawaljeet Saluja** Thank you.
- Rostow Ramanan** Thanks, Kawaljeet.
- Moderator** Thank you Mr. Saluja. Our next question is from the line of Yogesh Agarwal of HSBC. Please go ahead.
- Yogesh Agarwal** Hi, sir. Just a couple of questions. One was, for the last quarter you mentioned this quarter there will be spend on \$3 million to \$4 million on the products. I am just wondering was that a reactive stance to cut down on the investments upfront and maybe see how the product is doing and then in invest mode. And secondly, if I look at segmental growth for this quarter, development or most of the discretionary services were either flat or negative. Do you expect these to improve faster than the annuity maintenance revenue going forward?
- Rostow Ramanan** Let's take the second question first and then we will come to the product business later. I think some of the changes in terms of development expenditures, project expenditure, etc., were anecdotal quarterly movement. On a broader trend, I would like Anjan, K Ashok and Vinod to explain the trends we are seeing in the respective business.
- Anjan Lahiri** Overall business as Rostow said there is no major difference between development and maintenance, we continue to increase our share of maintenance, which is increased by about 0.6%, but overall, we are seeing a sustained momentum in this part of the business and the slight increase in maintenance and a continual growth in development.
- Ashok Krishnamoorthy** In the software product engineering segment of customers, the growth is significant in new product development. As more and more companies are adopting, there is a new SAAS and cloud architecture, there are increasing investments in the new product development so that is the trend we are seeing.
- Vinod Deshmukh** Vinod here. If I were to add from the R&D services part of the business we certainly see the new product development particularly in the communication networking segment and in the VLSI side. And that is, more and more business and more and more new development is happening.



MindTree Limited
July 19, 2010

- Parthasarathy** Sure. This is Partha here. Specifically, on the testing and infrastructure side, on the testing side I think we have been seeing fairly stable growth, I think the percentage remained almost constant between the last quarter and this quarter. On the infrastructure management side, clearly, some of the wins that we had in the last quarter yielding revenues this quarter as well as some of the wins that we are seeing in this quarter we will start yielding revenues in the next couple of quarters.
- Ashok Soota** Should we go to the product question, your question really was there any sort of cut back so that we were holding it back till we were more confident or closer to the results. Actually, in reality is we just looked at the total developmental cost which has not changed from the sort of numbers we had indicated and said that, it is better we have spread it across the three quarters and incur as much as we can, closer to the launch and then found that we are able to do it without jeopardizing our launch and having done that we really phased our expenses accordingly.
- Yogesh Agarwal** Right and the last one can you just disclose the hedge book today as of today? Thanks a lot.
- Rostow Ramanan** Sure. We have overall about \$200 million worth of hedges as of 30th June, of which approximately \$116 million is a hedge for the remainder of this financial year and the balance covers for next two years.
- Yogesh Agarwal** Thank you very much.
- Rostow Ramanan** Thank you.
- Moderator** Thank you Mr. Agarwal. Our next question is follow-up from the line of Srivatsan Ramachandran of Spark Capital. Please go ahead.
- Srivatsan Ramachandran** Hi. I just wanted to get an update on the hedge book position and the expiry schedule?
- Rostow Ramanan** Sure. Like I mentioned, we have overall \$202 million worth of hedges, of which about \$117 million is for the remainder of this financial year and the balance is spread over the next two financial years, i.e. 2011-12 and 12-13.
- Srivatsan Ramachandran** Okay, of the \$170 million, \$20-odd million will be the old 40 point odd hedges, right?
- Rostow Ramanan** Correct. Of \$117 million, about \$25 million is the old leveraged options. The balance are newer contracts.
- Srivatsan Ramachandran** Okay. What will be the average rate of the newer contracts?
- Rostow Ramanan** The average rate of the newer contracts is 47.01.
- Srivatsan Ramachandran** Okay. Just wanted to get back on the taxes of the dissolution of the subsidiaries. In terms of the profits that were booked it was booked in FY10 numbers on consolidated P&L?



MindTree Limited
July 19, 2010

- Rostow Ravanan** This number that we are talking about in the current quarter is the change in the network of the subsidiaries so that in the consolidated numbers that MindTree declared for effective 2008-09 onwards, the revenue and the profits were consolidated from Q2 of 2008-09 onwards.
- Srivatsan Ramachandran** Okay. Thanks a lot.
- Moderator** Thank you. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah** Sir, just a follow-up to earlier asked question. In terms of the margins if we exclude the product impact is it that this quarter's margin is below or above the management earlier estimate at the end of Q4FY10 results or the margin impact been higher through maybe higher than expected wage inflation which might have been given because of higher attrition. I just want to compare is it been surprising to management or is it as per estimate?
- Rostow Ravanan** No, this is broadly as per the plan that we have for Q1. So the wage revision like we explained at the end of Q4 was expected to be 13% to 15% offshore and about 2% to 4% onsite, and what we actually implemented has been within those ranges. So we did not have to make a higher than expected wage revision.
- Ashok Soota** The only thing is being the higher capacity which has come in, which has been done in anticipation of future growth.
- Sandeep Shah** Okay. And when you say that the IT service business where margin can be close to around 19% to 20% then the exit rate Q4 the margin should be much higher for the services business, so....
- Rostow Ravanan** Let us see how this shapes up. What we commented was that for the full year the margins on our services business will be comparable to the full year of last year at an EBITDA level.
- Sandeep Shah** Okay. And so Rostow whether the SG&A of 763 million includes any product related expenses or purely services related SG&A?
- Rostow Ravanan** If you look at the consolidated numbers, yes, the SG&A that we have would include the SG&A of the product business as well.
- Sandeep Shah** Okay. Thanks.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Hardik Shah of Asit C Mehta. Please go ahead.
- Hardik Shah** Hello sir. Sir, in last quarter, our growth volume growth was impacted because of lower number of working days which was around 61. So what was the number of working days in this quarter?



*MindTree Limited
July 19, 2010*

Rostow Ravanan This quarter we have three working days more than last quarter.

Hardik Shah And what were the impact of that on the volume?

Rostow Ravanan Overall, our volume growth on a consolidated basis in the current quarter was 6.9%.

Hardik Shah Yes sir, but what the impact of higher number of working days on the volume sir?

Rostow Ravanan 1.5%.

Hardik Shah Okay. Thank you, sir. That is it.

Moderator Thank you Mr. Shah.

Rostow Ravanan If there are no further questions, Rochelle, then we can end the call.

Moderator Yes, there are no further questions at this time. Would you like to add closing comments now?

Sushanth Pai Hi Rochelle thanks. Thank you all for joining this call. We look forward to speaking to you in the coming quarters. Thank you once again. Good night.

Moderator Thank you Mr. Pai, thank you gentlemen on the management team. Ladies and gentlemen on behalf of MindTree Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you