

MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 30 Sep 2009, (Q2 FY 2010)
October 26, 2009, 6:30 pm IST

Moderator: Good evening ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to the analyst call to discuss the Q2 FY10 results of MindTree Limited. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for participants in India. Now, I would like to hand over to Mr. Sushanth Pai. Thank you and over to you sir.

Mr. Sushanth Pai: Thanks Manjula. Good evening and welcome to this conference call to discuss the financial results for MindTree Limited for the quarter ended September 30th 2009. I am Sushanth from the investor relations team in Bangalore. We have with us senior management team including N. Krishna Kumar, 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, Puneet Jetli, Global Head, People Function; and Salil Godika, Chief Strategy Officer. The agenda for this session is as follows. Krishna Kumar and Rostow will begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session. Before I hand over, let me begin with the safe harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically. I now pass it on to Krishna Kumar.

Mr. N. Krishna Kumar: Good evening and welcome to the analyst conference call for the quarter ended 30th September 2009. This quarter has been a good quarter in terms of revenue growth with an industry leading 5.1% quarter-on-quarter growth on dollar terms. This quarter has shown some positive momentum amongst our clients and prospects which is a good sign. However, there is still some caution in the environment and we will need to wait for a few quarters more to see how the environment pans out. There is uncertainty in some of the key segments we operate in like manufacturing, semiconductors, etc. During the quarter, we also announced our entry into a new business namely the mobile



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products business. The acquisition of Kyocera Wireless India called KWI has given us a good platform to kick start this new engine of growth. KWI now renamed as MindTree Wireless Technologies Private Limited will function as a 100% subsidiary of MindTree.

Now, I will provide a few highlights of our Q2 results. Q2 software revenues were US dollars 65.3 million representing a quarter-on-quarter growth of 5.1% and a year-on-year decrease of 9.4%. In rupee terms, this represents a quarter-on-quarter growth of 3.4% and a year-on-year growth of 1%. In terms of our business, IT services has shown a 2.2% quarter-on-quarter growth, R&D services a 11% quarter-on-quarter growth, and software products engineering 6.7% quarter-on-quarter growth. In terms of industry groups, banking and financial services has shown good growth. Amongst geographies, APAC excluding India showed good growth. We added 24 customers during this quarter. In terms of new wins, the noteworthy ones are:

- a leading telecom communication equipment provider in APAC for testing services of its wireless and network products,
- a leading media company in the US for testing and support of its retail and marketing systems,
- a leading products company in APAC for development and testing services,
- a large global airline company in APAC for data warehousing and business intelligence services,
- a large telecom solutions company based in Europe.

These wins have been encouraging and further reiterates our position as a differentiated player in the market.

On the people front, the attrition on a trailing 12-month basis has reduced to 9.7%. This compares to 11.4% in quarter one and 15% in quarter two of last year. The people count at the end of the quarter was 7450 standalone for MindTree alone and 8050 including MindTree Wireless Technologies. This is against 7693 as at the end of June 2009 and reflects a headcount reduction of 243 MindTree minds. Now, let me pass on to my colleague Rostow to share a few financial highlights.

Mr. Rostow Ramanan: Thank you KK. Good evening and good morning to the people on this call. Our fee revenue in dollar terms in the current quarter grew 4.2%. This growth was entirely volume growth. Pricing was flat over the previous quarter, which was the highest amongst the



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best of the reported results so far in the Indian IT industry, both on the percentage terms of revenue growth as well as the fact that ideally we are amongst the few who had completely flat pricing without any pricing decline in the current quarter. Utilization for the current quarter had increased to 64.7% compared to 61.1% in the previous quarter. EBITDA margin for this year is 21%. That is a Q over Q growth of 30%. The increase in the operating margin came because of the increase in revenues. There was a marginal rupee depreciation in the quarter. However, we had an approximately million dollars of reversal of mark to market provision arising out of the contracts that expired in the current quarter. PAT for the quarter was 15.8% of revenues, approximately 499 million rupees, which itself is almost a 34% growth on a year over year basis. At the quarter end, we have 243 active customers, of which 59 were 1 million dollar accounts, 11 were 5 million dollar accounts, and 4 were 10 million dollar accounts. One of the areas where we had a significant achievement in the current quarter was a reduction in our receivables. Days Sales outstanding was 70 days at the end of September compared to 86 days at the end of June. The other noteworthy event of the quarter was that the Board has approved an interim dividend of 1 rupee per share or 10% on the face value of 10 rupees per share for the half year ended 30th September 2009. We will now open the floor for question and answers.

Moderator: Thank you very much sir. At this moment, I would like to hand over the proceedings to WebEx International moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you Jennifer.

International Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. Again, to ask a question, please press *1.

Mr. Sushanth Pai: Manjula, you can transfer to the India Bridge if there are no questions.

Moderator: Sure sir. Jennifer, I will go ahead with the India participants. Thank you very much. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to



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use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Mr. Ruchit Mehta from HSBC. Please go ahead with the questions.

Mr. Ruchit Mehta: Yeah, hi. Congratulations for a good set of numbers. Just a couple of things, previous quarters you had indicated a revenue growth of somewhere in the region of 255-270 million, your comments on that considering the quarter you have had. And secondly also if you could just, you know, take us through how the FX is going to impact us going forward in the next couple of quarters?

Mr. Rostow Ramanan: Yeah, thanks. So, the guidance for this quarter...the guidance for the year continues like what we announced at the end of Q1. For the MindTree business, it is 255-270 million dollars of revenue. No change on that. Like we announced in early October, with the acquisition of the Kyocera Wireless business, for the second half of the year, that is expected to give revenues of approximately 9 million dollars which therefore gets added to the guidance which we expect to deliver on an organic basis. So, that is the answer for the question on guidance. The question on FX, it is too early and too difficult to tell because the rupee being on an extremely volatile mode and I clearly don't want to make any guesses on how the rupee will shape up either in the near term or even over the next six months. Broadly, the point is that at least for March 2010 we are relatively neutral to the movement of the rupee. If the rupee appreciates, then operating profit reduces to that extent, but the mark to market provision reverses itself and therefore we will probably end up at the same PAT, vice-versa if the rupee depreciates, our operating profits increase, there also we will have an FX loss, but same...more or less at the same number at a PAT level. So, we are relatively insulated against movement of the rupee either way for the rest of the financial year.

Mr. Ruchit Mehta: Sir, in terms of Kyocera, you said you will add 9 million dollars for the second half or 9 million dollars for the full year?

Mr. Rostow Ramanan: 9 million dollars for the second half of this year. So, between October and March...

Mr. Ruchit Mehta: Okay.

Mr. Rostow Ramanan: ...business which is acquired, the mobile products business which came to us through the Kyocera acquisition is expected to deliver a revenue of approximately 9 million dollars.



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Mr. Ruchit Mehta: And what kind of margin does that business have?

Mr. Rostow Ravanan: Based on what we are seeing right now, our expectation is that the mobile product business will be a PAT of approximately 13% to 15%.

Mr. Ruchit Mehta: 13% to 15%?

Mr. Rostow Ravanan: Yeah.

Mr. Ruchit Mehta: Okay. And just finally, what is the CAPEX outlook for the current year?

Mr. Rostow Ravanan: We have an approved CAPEX plan of approximately 21 million dollars, against which approximately 4.5 million dollars have been spent so far. To some extent, we are going to fine tune this as we go along based on how business is shaping up, so that is where it is as of now.

Mr. Ruchit Mehta: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nikunj Doshi from Envision Capital. Please go ahead.

Mr. Nikunj Doshi: Yeah, good evening. Just wanted to know the earnings guidance because the revenue guidance you said you are maintaining, so EPS guidance also we had a very broad range, so we are still with that range or we are giving some narrower range?

Mr. Rostow Ravanan: No, we are going to maintain the same range even for the earnings and EPS guidance.

Mr. Nikunj Doshi: Okay. And in terms of the hedging, you said you have hedged till the yearend, so it is simple future we have taken, simple forward cover?

Mr. Rostow Ravanan: We have a combination of instruments. The leverage option we had in the past which has created the mark to market exposure, that still continues. We have not canceled those contracts.

Mr. Nikunj Doshi: Okay.

Mr. Rostow Ravanan: After April 2008, we have not done those types of contracts. So, all those are continuing are the old ones. After April 08, all the hedges that are booked are relatively more simpler instrument.



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Mr. Nikunj Doshi: Okay. Okay, thank you very much.

Mr. Rostow Ramanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal Sangoi from Edelweiss Securities. Please go ahead.

Mr. Kunal Sangoi: Yeah, thanks for taking my question and congrats to management for a good quarter. Rostow, I would want...I would just need to get more clarity with regards to the margin outlook for the next two quarters. You said that you are maintaining the guidance, of EPS, earnings up to 37 and 45, is it taking into account some additional investments or expenses that we are going to incur or basically it is just being conservative at this point in time?

Mr. Rostow Ramanan: It is a combination of many factors Kunal. It is our outlook that we have for the business as of now and if you remember at the end of Q1, we gave that guidance which also assumed the rupee value and because we are neither benefiting nor losing on the rupee movement, to some extent if revenues don't change, then profits will also be within the same ballpark that we explained. So, the change to margins will be relatively more impacted because of change in revenue and as of now revenues are within that range, profits will also be within that range.

Mr. Kunal Sangoi: Within that range, okay.

Mr. N. Krishna
Kumar:

Kunal, just one other factor you have to account, like we have always maintained, we are honoring 100% of our campus offers which we made and the last batch of 170 people are coming on board this quarter. So, obviously that will have a thing, but certainly ramp-up going to happen like we mentioned this is going to be ramped up, there are going to be in terms of capacity additions which is why the margin outlook will be fairly stable.

Mr. Kunal Sangoi: Sure, sure, I understand that. Only my question was pertaining because, you know, we have already done 27 rupees of EPS in the first two quarters and, you know, even after taking into account some of the additional costs that we are going to incur because of the fresher intake, it was relatively lower, so that was the question. Okay, my second question, with regards to the tax rate, have we, you know, effective tax rate is just 7%, so has there been any reversal there?



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Mr. Rostow Ramanan: There was a little bit of a gain that we got when we filed the tax return for 2008-2009, we got a little bit of a reversal of the tax provision made for the previous year and that to some extent reduced the ETR for this year. For the year as a whole I think would approximately 15% effective tax rate.

Mr. Kunal Sangoi: Sure. And just, you know, in terms of your outlook for the revenue in the next two quarters and even beyond going into FY11, what kind of trend are you seeing from clients with regards to the discretionary spending because probably we cater to a greater portion of revenues, cater to that spend, so you think that, you know, the current volume growth that we have seen could be sustained going forward as well?

Mr. Rostow Ramanan: I will start and then maybe KK, Anjan, and Jani can also add from their respective businesses. By and large, we expect Q3 to be a growth quarter, but perhaps not the same level of...

Mr. Kunal Sangoi: Hello...

Moderator: Participants are requested to kindly stay connected, the speaker's line will join shortly. Thank you very much. Sir, you can ahead with the questions sir.

Mr. N. Krishna
Kumar: Yeah, Kunal are you there?

Mr. Kunal Sangoi: Yeah, yeah, I am there.

Mr. N. Krishna
Kumar: Sorry, I think we got into a bit of an equipment thing...

Mr. Kunal Sangoi: No problem.

Mr. N. Krishna
Kumar: What I will do Kunal is I will just quickly give you an overview in terms of how we are seeing...you did ask about FY11, then I will ask Jani, Anjan, and Vinod to give their views on the respective businesses. What I do believe is we are seeing the first signs of optimism, but I think it is sort of little early to make a conclusive proof or a call saying that yes, things are back to normal. Typically customers tend to sort of start talking and freezing their budget some time during end of Q3 or the end of calendar year or early part of the...beginning of 2011. So, maybe in a quarter or little after that, we will be in a much more conclusive way to tell you how we are seeing 2011. In some segments, we are still



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seeing challenges, particularly segments like manufacturing, semiconductor, etc. So, what I will do is I will ask Jani, Anjan, and Vinod to give their views in terms of how they are seeing the outlook for demand and customer traction.

Mr. Anjan Lahiri: This is Anjan here. In terms of IT services, we have gone through a very tough period, three consecutive quarters of decline and this quarter we did a 2.2% growth and the overall customers seem to be a little more confident about the state of their own business, but it is still too early for them to say that they are out of the difficulties of their own respective businesses. There are some pockets like manufacturing that KK mentioned continue to be in trouble, particularly in Europe, and these things we will have to see over the next two-three months how it pans out, but clearly three quarters of decline itself has been arrested.

Mr. Kunal Sangoi: Sure.

Mr. Vinod Deshmukh: This is Vinod here and talking from the R&D services perspective, it is a similar situation. This quarter has been good, means in terms of the growth, quarter-on-quarter growth of 10 plus percentage. To give an outlook for the coming quarters, I think like we hope to maintain the growth, but it won't be as much as what we have done in this quarter. There are a few segments which are doing good, particularly if you talk about the networking or the energy part of it, the energy management part of it. There are a few others which are still soft like the consumers as well as the VLSI, as KK mentioned, the semiconductor part of it, but things are looking good actually, hope the bottom is behind us now.

Mr. Kunal Sangoi: Sure. Alright, that was helpful. Thank you and all the best.

Mr. N. Krishna
Kumar: Thanks Kunal.

Mr. Vinod Deshmukh: Thank you.

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

Mr. Anurag Purohit: Thank you for taking my questions and congratulations to the management on good results. My question again was regarding the margin outlook, since we have witnessed a very good margin movement this quarter, now is there a possibility that we can



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again move to that 23-24% EBITDA margin level over a period of next three to four quarters?

Mr. Rostow Ravanan: We have to wait and watch frankly speaking because one positive trend is that by and large we expect cost to be under control from where we are and remain more or less flat. With increases in revenues, that will be a little bit of a boost to margins, but on the other side, we are continuously investing in our growth, both in terms of sales, the account management, and other perspectives where we believe are going to be differentiators for us on a medium to long-term basis. So, we are making some SG&A investments as well. So, as we go along, let us see...let's see how both these factors play out.

Mr. Anurag Purohit: The guidance that you are maintaining for FY10, are you building in some amount of margin contraction in coming quarters because considering the first half results, the second half, even if you are I think a little on the conservative side, the second half would be quite easily achieved.

Mr. Rostow Ravanan: Difficult to tell because the first half to some extent we got an upside on currency realistically because we got approximately a 6 million dollar gain in the first quarter because the rupee suddenly appreciated and as all of us know, it has been extremely volatile, so we will have to see, but by and large our view is that the PAT margin that we have given is expected to hold. Like we mentioned a little while back, in this year we are relatively neutral on the PAT level to changes in the rupee. It is more impacted by changes in revenue. So, as long as the revenue remains within the range that we have currently outlined, the PAT will also remain within that same range.

Mr. Anurag Purohit: Okay. And one last question, the guidance still does not include Kyocera consolidation?

Mr. Rostow Ravanan: We gave two numbers. The guidance which we gave for MindTree which is 255 to 270 million dollars of revenue is for MindTree "organic" guidance. For the wireless business, for the mobile products business, we have given an independent number of 9 million dollars. So, that...the combined number is the guidance for the combined business.

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

Mr. Rostow Ravanan: Thank you.



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

Mr. Sunil Tirumalai: Thank you very much sir and congrats on good numbers. I had a couple of questions. The R&D business, if I heard that, had a 10% Q-o-Q growth. Hello...

Mr. N Krishnakumar: Yes, 11%.

Mr. Sunil Tirumalai: 11%. Just wanted to check, I mean was this a surprise because the previous quarter had a decline and what drove this growth?

Mr. N Krishnakumar: Yeah, I am going to ask Vinod to sort of answer this Sunil.

Mr. Vinod Deshmukh: Yeah, it was not a surprise, means I think there were a lot of...there are a few sectors I mentioned in the earlier answer which have opened up. There are two types of things actually. One which is a new business which started happening in the quarter, which took longer time to happen, that is why Q1 had a larger negative growth, but those things got shifted into the Q2, the impact of that, that is about the new business. The second aspect is the existing customers also have started ramping up the business. So, both together gave us a good quarter in Q2.

Mr. Sunil Tirumalai: Okay, thank you. And sir, if you could again go over the hedges impact over the next few quarters, I mean how should we model it for the next two quarters?

Mr. Rostow Ramanan: Sure. The way to look at it Sunil is we have approximately...for the next two quarters, we have approximately 15 million dollars of the leveraged options which creates a mark to market problem and we have approximately 60 million dollars, six-zero million dollars of the normal options for the next two quarters which are simpler options. So, overall we have 75 million dollars of hedges for the next two quarters. Other than that, obviously for longer than this year, we still have the old options which are approximately 100 million dollars of cover in the next three years from now till 2013. Put all that together, our assumption, sort of our scenario right now shows that for next two quarters we are relatively neutral to movements of the rupee at a PAT level. If the rupee appreciates, then to that extent, operating profits get reduced, but the mark to market provision which we have booked gets reversed and therefore the PAT remains neutral. Vice versa, if the rupee depreciates, then operating profits increase, but we



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may have an exchange loss on the options. So, both cancel each other irrespective of which way the rupee moves.

Mr. Sunil Tirumalai: Okay. And sir, lastly just wanted to check Kyocera will be consolidated from 1st October?

Mr. Rostow Ravanan: Correct, on 1st October.

Mr. Sunil Tirumalai: Okay. Thank you very much.

Mr. Rostow Ravanan: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities. Please go ahead.

Mr. Sandeep Shah: Yes sir, firstly congrats on the good set of numbers. Just one more clarity, you said that we reiterate even the rupee EPS guidance, so I assume that the rupee EPS guidance also does not include any PAT accretion through Kyocera.

Mr. Rostow Ravanan: Absolutely. So, the guidance that we gave on revenue and PAT and EPS for MindTree is standalone. Those are on MindTree basis and whatever comes through the Kyocera acquisition gets added to these organic items.

Mr. Sandeep Shah: Okay, okay. Sir, now we have just entered into Q3, with our nature of non-annuity revenue being higher, whether Q3 organic revenue growth excluding the Kyocera would be lower than Q2?

Mr. Rostow Ravanan: Absolutely yes. In terms of the rate of growth, Q3 will be lower than Q2. Like I think KK explained some time back, Q3 we are affected by two seasonal headwinds. One is that there are lower billing days in Q3 and similarly also it is a quarter in which we have noticed in the past where more people tend to take leave. Those two factors by itself could, you know, impact somewhere about 6-7% on revenues, so the rate of growth will definitely be lower. However, having said that, we still believe Q3 will be a growth quarter. Though it will get impacted by these two headwinds, it will still be a growth quarter.

Mr. Sandeep Shah: Okay. But when we are saying growth quarter, excluding Kyocera?

Mr. Rostow Ravanan: Excluding Kyocera, absolutely, yeah.



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Mr. Sandeep Shah: Okay, okay. And sir, this time if you look at both the R&D services and the product engineering, software product engineering has grown much higher, so is there included any IP sales which may not repeat in the coming quarters for the foreseeable near term?

Mr. N. Krishna
Kumar:

I am going to ask Jani to sort of respond.

Mr. Janakiraman S: The IP revenue had been almost similar like the previous quarter. There had been no significant difference in terms of increase or a decline.

Mr. Sandeep Shah: Okay, okay. So, that means that increase in the margin is more to do with a recurring nature rather than an IP-related sales?

Mr. Janakiraman S: Exactly. So, we did both, you know, addition of something like 6 clients in the R&D services segment which have added to our revenue and as well as some of the accounts which were sort of bottoming out have started recovering and then new projects have started coming. So, it is a growth which have led to a better margin also, better utilization and better margins.

Mr. Sandeep Shah: Okay, okay. And the last thing is on a Q-on-Q basis, the attrition rate has gone down, but if you look at the...on a quarterly basis, the number of employees who have left has been higher versus in the past quarters. So, is there any involuntary attrition which has also impacted the employee decline?

Mr. N. Krishna
Kumar:

Yeah, Sandeep, I am going to ask Puneet who is our Global Head of People Function to answer this.

Mr. Puneet Jetli:

Yeah, so, you know, two or three things in terms of the overall headcount and why it has come down by 243 in terms of numbers in the last quarter. Firstly, as we have said, you know, three months back that our hiring will be very, very need based and clearly we did not have any campus batches which were expected to join us in Q2 and that is why the, you know, net hiring has been only additions which have been required to fulfill business needs. Secondly, you know, even at 10% levels with a base of 8000, it does translate to around 200 people every quarter. So, even that reduced attrition numbers that we are talking about does translate to that kind of reduction. And third is that, you know, every year when we finish our performance management program by around May-June, you know, we will identify certain people who are not measuring up from a performance standpoint and, you know, their



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separation would happen and typically since people would have certain notice periods, they would end, you know, their employment in Q2. So, all of these factors have combined together to actually reflect in the headcount that we have.

Mr. Sandeep Shah: Okay, okay, okay. Just last thing, Rostow, can you repeat about the tax rate what you said and can you quantify the reversal which has been there in this quarter?

Mr. Rostow Ravanan: The tax rate for this year is expected to be approximately 15% effective tax rate for the year as a whole. In the current quarter, the reversal of the previous quarters, previous year's provision was approximately 90 million rupees.

Mr. Sandeep Shah: Okay, okay, thanks. If I have more questions, I will come in the followup round. Thanks.

Mr. Rostow Ravanan: Thank you.

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

Mr. Kawaljeet Saluja: Hi. This is Kawaljeet from Kotak. Congrats on a good quarter. My question is related to the quality of client additions. Can the management talk about, you know, the quality of client additions which you have seen in the first half and any of those client additions which can meaningfully contribute to the growth in fiscal 2011?

Mr. N. Krishna Kumar: Yeah, what I will do is I will ask Anjan, Kawaljeet, to give the client additions in IT services and then Vinod and Jani to give the PES as well as RDS additions.

Mr. Anjan Lahiri: You know we have had some good client additions this quarter. The discussions have been going on for a while. We have said that we have added a large global airline company. It is a significant airline company and a significant, you know, initial project with the hope of, you know, further mining into that account. We have also started a relationship with another organization in the financial domain, which is also a significant win. With large enterprises and good additions, we will have to see how we continue to mine them and grow them.

Mr. N. Krishna Kumar: Vinod, you want to add the R&D...



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Mr. Vinod Deshmukh: From the R&D side, actually we have had very a good client addition for which you could term as a growth client. In the consumer side, set top box, one of the largest set top box vendor became a customer for us. Same thing, on the networking side also, one of the largest telecom provider is a customer, which we got a customer as a huge potential for the growth. Apart from that, another one in the Europe side, again in the service provider area, and also we have seen actually the customer additions in the energy sector, for the energy management and those areas. So, two large leaders in the energy side also became our customers. So, those were the main additions.

Mr. Janakiraman S: On the overall product engineering side including what Vinod talked about, we had almost 10 customer addition in the product engineering arena and in the software engineering areas, there are four customers, out of that, two customers resulted because of professional services we provide on the platform what we develop for our customers actually. So, that means we are working the customer's customer as our customer during this year and that has been the new avenue of opportunities that are happening. In addition to that, the markets in terms of the portal arena as well as in the tools and platform arena are reasonably stable and we have started adding customers in those areas also. The SPE overall as a business if you look at, it includes Microsoft and Microsoft continues to remain a solid customer for us and we are seeing new projects coming in from there.

Mr. N. Krishna
Kumar:

Kawaljeet, this is KK. I just want to give one other perspective which we see, as a strategy, it is starting to work for us. I think we had launched independent testing as a focus business which in turn supports the ITS, RDS, and the SPE business to sell more to new clients and to existing clients and the ability to combine these domain expertise with testing excellence is certainly starting to give us a larger portfolio of customers. It is also getting us entry into opportunities which we would not have been called earlier and some of the wins which we have got during the quarter is really a reflection in terms of how we have been able to go to the market, position ourselves as someone who has deep domain expertise apart from the testing excellence and knowledge which we bring in, which we think is a very significant change on new customer acquisitions during the quarter. Apart from that, there are two customers which the testing business itself has made as an entry, which in turn will help us enlarge the business with those customers.



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Mr. Kawaljeet Saluja: And this number of Fortune 500 customers went up from 32 in the last quarter to 37 as of 30th September 2009. Anything to read into that and any customer which can again contribute in a big way to growth in all the avenues?

Mr. N. Krishna
Kumar:

See, couple of them is like what Anjan talked about as well as what Vinod talked about. Certainly we see opportunity. With one, we have started some SAP-related services. We have started, like Jani said, professional services on specific package where we have extensive experience, at least two large clients. So, obviously the way in which we look at it is these are opportunities for us to enter into these accounts and now they really have to ensure that we put in the right investments to expand on these accounts.

Mr. Kawaljeet Saluja: Right. And Rostow, was the tax write-back in the current quarter approximately 90 million rupees, is that right?

Mr. Rostow Ramanan: Correct.

Mr. Kawaljeet Saluja: Okay. Okay, thank you.

Mr. N. Krishna
Kumar:

Thanks Kawaljeet.

Moderator:

Thank you very much sir. Next in line, we have Mr. Hardik Doshi from Voyager Investment. Please go ahead with the questions.

Mr. Hardik Doshi:

Hi guys. Congrats on a good quarter.

Mr. Rostow Ramanan: Thanks Hardik.

Mr. Hardik Doshi:

I do have a question, you know, in the first quarter we talked about some delays in some, you know, fixed price projects and which I guess got deferred to the second quarter and which is why I guess you see the EBITDA margin 16.6% in 1Q and now they jumped into 21%, so, I mean is that the right way of looking at it, is that why the margins have increased so much and if that is the case, then going forward, you know, can we expect the margins to come back a little bit, am I looking at it the right way?

Mr. Rostow Ramanan: Not fully. There are two parts of your question, the fixed price projects which created some amount of struggle for us in the previous quarter as of now are more or less on track. Like KK explained in the previous quarter, having realized some headwind



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in those projects, we have put in a lot of measures to bring them under control and things look like they are under control as of now. The margin improvement you are seeing in the current quarter has been more driven by the fact that you had revenue growth, approximately like I said about, you know, 5% our revenues have grown and that has led to the margin growth because costs have remained more or less flat from the previous quarter.

Mr. Hardik Doshi: Okay. Sir, I guess the R&D, the big swings that we are seeing in the R&D side, was that where...is that where the fixed income, I mean fixed price projects were there?

Mr. N. Krishna
Kumar: No, those are on the IT services.

Mr. Rostow Ravanan: The fixed price projects were on the IT services side.

Mr. Hardik Doshi: Oh, they were in the IT services side, okay.

Mr. Rostow Ravanan: Yes.

Mr. Hardik Doshi: Alright, thanks a lot.

Mr. N. Krishna
Kumar: Thank you.

Mr. Rostow Ravanan: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep from IIFL. Please go ahead.

Mr. Sandeep: Hi. Good quarter, congratulations. I was just wondering on the pricing movement during the quarter, did the pricing improve in 2Q quarter on quarter?

Mr. Rostow Ravanan: No, the pricing was flat.

Mr. N. Krishna
Kumar: Flat Sandeep.

Mr. Sandeep: Okay. And considering the demand environment, you have also been saying there are increasing signs of...there are signs of improvement, how do you see the wage situation panning out, some of your larger peers have already given wage hikes, so what is your outlook for wages?



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Mr. N. Krishna
Kumar:

Sandeep, I think what we certainly do is we keep tracking this on a very close basis, we continue to look at how the business is panning out, how the hiring environment is, and we will continue to do what is right for the business. What we have certainly sort of come back is all our promotions and so on are back on cycle. So, we will continue to track it closely and see and do what is right for the business.

Mr. Sandeep:

Okay. And just one more question on the employee rate, in terms of your lateral additions, are you facing some tightness in the environment over there as far as lateral hirings are concerned?

Mr. Puneet Jetli:

No, you know, I think it was more constrained by our need and only, you know, people who did not have with us or, you know, kind of skill areas where we did not have people with us, we actually went out to the market to hire, but, you know, we have not witnessed anything where we see a constraint in terms of being able to hire lateral talent from the market.

Mr. Sandeep:

Okay, thanks, that helps.

Moderator:

Thank you very much sir. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next in line, we have Maheshwari from Enam. Please go ahead.

Mr. Rishi
Maheshwari:

Hi. Thanks, all my questions have been answered.

Moderator:

Thank you very much sir. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next, we have Mr. Rathod from UTI Mutual Fund. Please go ahead.

Mr. Ritesh Rathod:

Yeah, hello sir, this is Ritesh. One question, you said you maintained your guidance, but when you gave last quarter, you had a conversion rate of somewhere around 48, so what rate you are using, rupee-dollar conversion rate if you are maintaining the same number?

Mr. Rostow Ramanan: We are still maintaining the same rupee-dollar rate because we have not changed our rupee-dollar assumption. So, therefore, if at all the rupee-dollar changes, to some extent that will make a difference to revenues numbers in rupee terms. Like we explained earlier in the call Ritesh, that at a PAT level, we are less impacted by changes in the rupee, so therefore that is the reason



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to hold our PAT and EPS in rupees terms within the same range which was given in the past.

Mr. Ritesh Rathod: And what kind of sensitivity you have on a pure business level, one a 1% rupee appreciation, how the margins move on your side, assuming you don't have any hedge on a case basis, so what kind of...

Mr. Rostow Ravanan: Yeah, 1% change in the rupee is a 0.5% impact to PAT.

Mr. Ritesh Rathod: Okay, okay. And this 48.4 when you said, how much of your hedges which are remaining would get expired in second...next half?

Mr. Rostow Ravanan: 75 million is the hedges that we have for the second half of the year. Ritesh...

Mr. Ritesh Rathod: Yeah.

Mr. N Krishnakumar: Yeah, 75 million is the hedges which is there for the balance two quarters.

Mr. Ritesh Rathod: And at what rate would be this average hedges?

Mr. Rostow Ravanan: ...weighted average is 47.8.

Mr. Ritesh Rathod: 47.8, okay, okay. Fine, that's from my side. Thanks.

Mr. Rostow Ravanan: Thank you Ritesh.

Mr. Ritesh Rathod: Thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. Next in line, we have Mr. Krishna from Newswire Rating. Please go ahead with the questions.

Mr. Krishna: Sir, can you please repeat full year guidance once again?

Mr. Rostow Ravanan: The full year guidance for MindTree on an organic basis is 255 to 270 million dollars of revenue, PAT of 30.4 to 36.8 million dollars, and an EPS of 37.4 to 45.3 and this is for the MindTree business. For the mobile products business which we acquired on 1st October, we are expecting a revenue of 9 million dollars with a PAT somewhere between 13% to 15%.



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Mr. Krishna: 9 million is for full year right?

Mr. Rostow Ravanan: Sorry...

Mr. Krishna: 9 million dollars for full year for mobile business right?

Mr. Rostow Ravanan: 9 million for the second half of the year because the acquisition was effective 1st of October, so the period 1st October 2009 till 31st March 2010 we expect a revenue and a PAT like I said of 9 million and 13% to 15%.

Mr. Krishna: 255 to 275 is for full year right?

Mr. Rostow Ravanan: That is correct. 255 to 270.

Mr. Krishna: Yeah, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital. Please go ahead with the question.

Mr. Srivatsan: Hi. Just wanted to get, you know, most of the mid cap companies and large caps are going out and giving hikes, what is our take on it at this point of time?

Mr. Rostow Ravanan: As explained some time back by Puneet who is our Head of HR and KK who is our Managing Director, we have got to wait and, you know, watch and do what is right for the business based on the environment that we see.

Mr. Srivatsan: Okay. Just in terms of this mobile business, what would be the kind of capital outlay this mobile products business will entail, will there be any significant Capex outlay?

Mr. Rostow Ravanan: We are evaluating this currently. As of now, this is something which is under discussion. So, the moment we have more details, we will share with you.

Mr. Srivatsan: Sure. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Ms. Saranya from BNP Paribas. Please go ahead with the questions.

Ms. Saranya: Hi. Congratulations on the quarter. All my questions have been answered. Thank you.

Mr. Rostow Ravanan: Thank you Saranya.



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Moderator: Thank you very much ma'am. I repeat again, participants who wish to ask questions may kindly press * followed by 1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to hand over the floor back to the speaker for final remarks.

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

Mr. N. Krishna
Kumar: Thank you.

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

