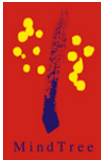


*MindTree Limited*  
*October 17, 2011*

MindTree Limited Q2 FY 2011-12  
Earnings Conference Call

**October 17, 2011**



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**Moderator**

Ladies and gentlemen, good day and welcome to MindTree's analysts' and investors' conference call to discuss the financial results for the 2<sup>nd</sup> Quarter ended 30<sup>th</sup> September, 2011. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sushanth Pai from MindTree Limited. Thank you and over to you sir.

**Sushanth Pai**

Thanks Marina. Welcome to this conference call to discuss the financial results for MindTree Limited for the 2<sup>nd</sup> Quarter ended 30<sup>th</sup> September, 2011. I am Sushanth from the Investor Relations team in Bangalore. We have with us senior management team, including N. Krishnakumar, CEO and Managing Director, Janakiraman S, Group President, Product Engineering Services, Anjan Lahiri, President IT Services, Parthasarathy, President, IMTS and Testing, Rostow Ramanan, 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 begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session. Please note that this call is meant only for the analysts' and the investors'. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call. Before I hand over, let me begin with the safe harbor statement. During the course of the call we could make forward looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically. I now pass it on to Krishnakumar.

**Krishnakumar**

Thanks Sushanth. In our sixth year of operation, MindTree became the fastest Indian IT services company to cross \$100 million in annual revenues. We are now proud to announce that we have crossed \$100 million in revenues and 10,000 MindTree minds this quarter. These achievements are key milestones in the journey to build a differentiated and memorable company. We are grateful and energized by reaching this milestone. In the past, we have delivered great value to our customers through passionate and committed MindTree minds. We realize that this relentless focus is the key for success in the years ahead. We also believe that our ability to reinvent ourselves towards being an expertise led organization, will take us to our next target of \$1 billion in revenues. Q2 of this financial year has been a stellar quarter on all fronts. We saw a robust revenue growth of 9.5% quarter-on-quarter in dollar terms with both our businesses reporting excellent growth. We were also able to improve margins through our operational excellence initiatives and we see these trends continuing for the balance of the year. The second successive quarter of strong performance validates our changed strategy. It has generated tremendous organizational energy to continue the approach of building an expertise led organization. For Q3 we see the overall revenue growth a bit muted as it is a



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seasonal quarter in terms of leaves, the holiday season and clients reaching the end of their current budget cycle. The outlook on the product engineering services business is also marginally soft, mainly because certain segments such as semi-conductor and consumer devices are showing the first signs of headwinds.

Now let me provide you some highlights of our Quarter 2 results. Q2 revenues was \$101.34 million representing a quarter-on-quarter growth of 9.5% and year-on-year growth of 23%. Our IT services business continues its stellar performance and posted a solid 10.1% growth quarter-on-quarter and 38.3% year-on-year. Our product engineering services business also had a good growth of 8.5% quarter-on-quarter. We added 15 new customers this quarter. Overall MindTree today has 270 active customers including 43 Fortune 500 companies. Our \$1 million customers increased by 5 to 72. Our \$5 million customers increased by 3 to 17. Some of the significant wins in the quarter are:

- A leader in the global payments industry, MindTree will provide services in the area of business intelligence and analytics.
- The world's largest broadcasting company, MindTree will provide testing services for multiple platforms.
- A leading global interactive entertainment software company, MindTree is engaged in re-architecting and building platforms for their new customer support applications.
- A leading telecom company based in Europe, MindTree has won a multi-million dollar deal over a five year period in the area of ERP support services.

On the people front the attrition on a trailing 12 months basis has come down to 21.7% and this compares to 25.6% at the end of Quarter 1. Our annualized attrition rate for the quarter is also down to 18%, down from 25% which was at the end of Quarter 1 of this financial year. We have 10,580 MindTree minds, reflecting a gross addition of 1,478 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 and good evening to everybody on this call. Like KK explained, our fee revenue for the quarter grew 9.6% that breaks down to a very strong volume growth of 6.1% and pricing realization improvement of 3.5%. The pricing realization improvement was a combination of normal price realization increase as well as \$1 million in the form of a non-linear revenue that we got in this quarter. In spite of the headwind, adding to approximately 3.2% which was caused due to the wage increase in the quarter, negative cross currency impact and addition of 1000 campus graduates in this quarter, our EBITDA margins increased by 160 basis points in the current quarter, mainly because of revenue growth and operational efficiencies which had a 4.4% impact and the Rupee depreciation which has a relatively small impact on the quarter of 0.4%.

During the quarter roughly one-fourth of our people got their wage increases effective 1<sup>st</sup> July. The wage increases were 10-12% for offshore people and 2-4% for onsite people. Our efforts to improve operational efficiency are expected to continue to bear fruits in the coming two or three quarters, so that should lead to more improvement and operating margins or EBITDA



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margins over the next few quarters from an operational perspective. Additionally, if the Rupee remains at these levels there is likely to be a benefit from the Rupee depreciation as well. PAT margins increased to 12% in the quarter, showing a quarter-over-quarter growth of 56.8% and year-over-year growth of a stellar performance of 142.3% in dollar terms. The Rupee depreciated significantly to 48.975 at 30<sup>th</sup> September compared to 44.7 at 30<sup>th</sup> June. That led to a mark-to-market loss on our old leveraged options about \$3.4 million. However, that was offset by gain on realizations and re-statement of debtors to the extent to \$7.2 million. Therefore, we had a net Forex gain of \$3.8 million in this quarter.

The effective tax rate for the quarter was 16.6%. The tax rate for the half year, i.e., six months ended 30 September 2011, was 15.7%. We expect the ETR to marginally increase in the next two quarters. The effective tax rate for the full year is expected to be in the region of 17-18%. The DSO at the quarter end is 70 days compared to 74 days at the end of Q1. We were able to improve the DSO due to good collections in this quarter. This also led to an increase of our cash position to \$45 million at the quarter end compared to \$33 million at the end of the previous quarter. Utilization excluding trainees grew from 72.9% to 77.7% as of 30<sup>th</sup> September.

Overall on our hedge position, we have \$72 million of hedge for the remainder of FY12 at an average of 45.95 and \$75 million of hedge for FY13 at an average of 45.3. Therefore, the total hedge position is \$147 million. Also pleased to announce that the Board recommended a dividend of 25%, that breaks up into a normal dividend of Rs. 1.5 per share or 15% as the interim dividend for this quarter as well as a special dividend of Rs. 1 per share or 10% on the occasion of MindTree crossing \$100 million in revenues and 10,000 MindTree minds in this quarter.

I now hand it back to the moderator for Q&A.

**Moderator**

Thank you sir. We will now begin the question and answer session. The first question is from Vimal Gohil from Asit C Mehta Investments. Please go ahead.

**Vimal Gohil**

Thank you very much for taking my questions and heartiest congratulations on a very good quarter. Sir, could just repeat your net Forex income gains of 17 crores that you mentioned. You just mentioned the break-up how the calculations comes. So could you repeat that for me please?

**Rostow Ramanan**

The break-up is that we had a loss of \$3.4 million which are mark-to-market losses on our hedges and we had a \$7.2 million of gain because of the Rupee depreciation and the consequent revaluation of debtors. So that is the net impact of \$3.8 million gain.

**Vimal Gohil**

That's all from my side as of now, thank you.



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- Moderator** Thank you. The next question is from Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja** Hi, congratulations to the management for good execution. Given that you are indicating that Q3 will see a relatively more muted revenue growth, should that mean a decline in revenue sequentially or some improvement in revenues Q-on-Q? Second question is on hiring, given the strong hiring that we have seen in Q2, what kind of a hiring do we look at for the second half of the year? And similarly the management's comments on margins given that currency can play a big factor in our margins performance going ahead?
- Krishnakumar** Manik, I think very exhaustive set of questions. Just to correct the outlook on revenues, Quarter 3 is a seasonally weak quarter because the number of working days is less by one as well as the holidays and people also take leave during this quarter. Clients also tend to reach the end of their budget cycle, so sometimes if they run out of budget they do put work on hold. But in spite of all of that clearly our revenues will grow during Quarter 3. So we do not anticipate that the revenues will decline. What we do want to share is clearly in our product engineering services, we will not be able to sustain the same high level of 8.5% quarter-on-quarter on growth because this quarter we had a large IP deal which contributed to almost 3% of that growth, as well as two of the segments in the product engineering services, consumer devices and semicon are starting to see some level of uncertainty. So that growth would be muted. But clearly on our IT services we continue to see a good growth momentum, factoring in for the seasonality which is lower number of working days and the holidays. We will have our growth momentum in our IT services business. That is the clarity in terms of the growth related aspect. Babuji for hiring?
- Babuji Abraham** In the first half we had added about 2,000 people gross and we expect to maintain the same momentum in the coming half year, that is about 2,000 people including campus minds, is what is expected in the coming half year.
- Rostow Ravanan :** First part of the question was on margins. Like I mentioned in the call, the operational efficiency improvement will continue to bear fruits. I think some amount of margin improvement will continue to flow through during Q3 as well from our measures to improve operational efficiency. The currency related question is difficult to answer because it is difficult to predict which way the Rupee will go. However, if the Rupee remains at the current levels then there will be an additional benefit to operating margins because of the Rupee depreciation.
- Manik Taneja** So can you just give out your hedge position once again and how would that be split up across FY12 and FY13?
- Rostow Ravanan** Our hedge position as on 30<sup>th</sup> September is an overall hedge of \$147 million. That breaks up as \$72 million for the remainder of FY12 which is at an average rate of 45.95. And the balance of \$75 million is for FY13, which is at an average rate of 45.30.



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- Manik Taneja** Thank you sir.
- Moderator** Thank you. The next question is from Sonaal Kohli from Aim Capital. Please go ahead.
- Sonaal Kohli** Congratulations on a good set of numbers. Assuming the currency remains at these kind of levels, is it theoretically possible for you to go to 18-20% margins in 2013?
- Rostow Ramanan** We do not want to get into predicting this. It is difficult to say what the Rupee will do. If our average rate for Q2 was 45.06 and, therefore, if the Rupee remains at these levels and there will be a corresponding benefit to margins. So since that is out of our control we do not want to predict that. All we can tell you is from an operational perspective we still believe there are few more parameters that we are focusing on and some benefits will come through during the focus on those initiatives.
- Sonaal Kohli** Would it make sense for you to hedge at this current run rate and protect your margins for future or you did not want to hedge 2013 revenues in advance?
- Rostow Ramanan** No, we do not want to do that. Our hedging policy is to hedge 50% of our net exposure on a rolling 12 month basis so, therefore, we believe it is best to stick to that and not increase or decrease our hedges based on spot level of any particular date because it is very difficult to make calls on that front.
- Sonaal Kohli** Considering the currency has moved this way, would you expect some of the pricing momentum you saw in terms of increases in the last two quarters? Would that reduce and it will be difficult for you to get the price increases that you were earlier looking at?
- Krishnakumar** See Sonaal, like we shared in the last quarter thing, we did initiate the exercise of gaining price increases and early during the financial year we did get through some of the pricing increases which you would find in the current quarter, the 3.5% improvement in pricing realization is partly due to IP sale as well as some of the pricing increases which we got in Quarter 1 has really started taking effect this quarter. Moving forward we expect pricing to be stable. Because clearly as a bit of uncertainty comes into the market trying to get a pricing increase is certainly challenging for the second half of the year but we are very confident that we will be able to maintain pricing at stable levels.
- Sonaal Kohli** But you do see uncertainty in the market and IT services?
- Krishnakumar** See in IT services right now we are not hearing any negative tones but I will probably ask Anjan to give his comments on that.
- Anjan Lahiri** There are two aspects to the future, one is what we are reading in the newspapers and the overall macroeconomic situation, and the other is really the traction that we are seeing with



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our customers. In terms of obviously we are very close to all of our customers. We are not seeing our customers react either in a knee jerk way or with overt caution, given the macroeconomic, although everybody is following it. So they are continuing with their investments both discretionary and non-discretionary. Having said that, everybody is watching it carefully. So we are not seeing any slowdown in terms of committed and future investments and plans from our customers right now though the macro situation is, of course, extremely concerning.

**Sonaal Kohli** You mentioned about slow down in semi-conductor industry. Could you elaborate a bit? What is leading to this?

**Janakiraman** In the semi-conductor industry what we keep hearing from the market is that the inventory pile up is taking place and then there is a slow movement. And normally when such situations happen their R&D investments also get muted. So far we have not seen any direct impact of that, but at the same time we want to be cautious on the trend because there can be implications down the line.

**Sonaal Kohli** Thank you so much.

**Moderator** Thank you. The next question is from Srivathsan Ramachandran from Spark Capital. Please go ahead.

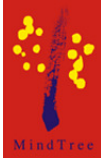
**Srivathsan Ramachandran** Just wanted to get some thoughts especially on the product engineering side. You are just being cautious or you are seeing anything on the pricing front also that our clients kind of re-looking pricing scenarios given this far more susceptible technology cycle, so just wanted to know what exactly we are seeing on pricing front specifically on Product Engineering Services.

**Janakiraman** See we have not seen any pricing pressures at all on the product engineering services till now in our overall portfolio of services. And even on the semi-conductor and consumer which we told that we see a muted growth, that is 20% of the overall product engineering services business which is around 7% of overall MindTree's business and there we do not see the kind of growth that happens in the rest of the sector.

**Srivathsan Ramachandran** My next question is, you added quite a strong addition on the freshers in this quarter. Just wanted to know are more in the pipeline at this point of time in the second half also?

**Rostow Ramanan** Yes Srivathsan, we have added 1000 campus graduates in the quarter and about 600 to 700 candidates are expected to join us in Q3.

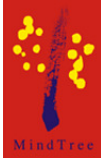
**Krishnakumar** That's it from my side. Thank you.



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- Moderator** Thank you. The next question is from Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.
- Pankaj Tibrewal** Congratulations on a great set of numbers. On the client mining side, can you give us some more confidence on how you are seeing the ramp-up happening on the client side, in terms of, you mentioned about three more clients getting added to the \$5 million bracket. So if you can just help us understand how the client mining part is going on? And one more question Mr. Alroy Lobo has.
- Alroy Lobo** I think what we would like to know is this growth which you have registered, is it coming from active client mining and what is the kind of size of accounts which you can actually grow your existing clients to, number one. Number two is from a management perspective, wanted to know if there is any intent of the management to consider a sell-off of MindTree as the performance improves?
- Krishnakumar** Mr. Lobo, there is absolutely no sort of thought process at all on this. We think we can create a very valuable position for us by being a focused expertise led organization. So in spite of whatever is said, we are enjoying building the company and you will find us continuing to drive on our success.
- Rostow Ramanan** Somehow I think it is also extremely unexpected to raise the question like that on an earnings call. If you have any comments on the number or financial results, that would be appropriate to raise during the call, but to ask a question like that I would say is actually very distasteful. It was not expected of somebody of your stature.
- Krishnakumar** I think very relevant questions on the account mining. Anjan will give his view of the IT services client mining and then Jani will add for the product engineering services.
- Anjan Lahiri** If you look at our whole philosophy has been to work deeper with our customers and increase our traction with our customers. Compared to the quarter ended 30<sup>th</sup> June when we had 283 active clients, quarter ended 30<sup>th</sup> September we have 270 active clients. We have added 15 clients through the quarter but with that our number of \$1 million clients has gone up from 67 to 72. The number of \$5 million clients has gone up from 14 to 17 and our \$10 million clients is steady at 7. So our whole philosophy is to work deeper with our clients, do more by doing less and that is clearly showing up in our numbers. As we go forward we want to be selective in the customers we choose to work with and then work to mine them deeper and establish a mutually significant relationship with them which is what we are clearly doing over the last several quarters.
- Janakiraman** As Anjan said, our prime focus is to mine deeper of our accounts and take multiple services to the same clients. And so beyond the product engineering services we are taking lot more of independent testing and we are getting into the tech support and we are doing the data





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analytics service also for those clients. So we are taking a multi pronged approach in terms of providing multiple services to the same client and expanding the portfolio of services for them. So account mining is a major strategy for the product engineering services in terms of building valuable client size.

**Pankaj Tibrewal**

Thank you.

**Moderator**

Thank you. The next question is from Kunal Sanghvi from Edelweiss. Please go ahead.

**Kunal Sanghvi**

Thanks and congratulations on a good set of numbers. One key question that I have is with regards to the current quarter, we have seen large part of the growth being driven by top two to five clients. Would like to know what is the nature of work expansion, is this new scope of work that we have seen and whether that is sustainable going forward? That is one. And second question is with regards to the account management strategy. Has there been any change over the last three to six months in terms of how you allocate account managers for each of your top 10, 15 or 20 accounts in particular?

**Krishnakumar**

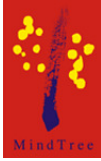
A very relevant question Kunal. I think about 12 to 15 months back we sort of evolved this changed strategy of focusing on the new accounts which led to an overall strategic accounts management process itself where we have identified close to about 14 customers where we have identified not only account managers but also our business consulting group which works along with them to expand our business with them. And that approach of focusing on our whole key accounts is giving certainly a lot of thing. Not only that, coupled with that in the chosen segments in which we are in, we have identified a set of 'must win' customers where we are proactively working to see how we could enter into these accounts. A whole lot of account management related training as well as external talent induction into this team has started delivering results for us in the last two quarters. If you look at excluding our accounts in India, our average revenue per account in March 2011, was about \$1.6 million. That number is moving now a little beyond \$2 million, which is really the result of the focus as well as talent induction which we have done as well as the process which we have put to regularly review these accounts and ensure that we get significant to the customer as well as get a good part of the wallet share of these accounts.

**Kunal Sanghvi**

So in terms of any new horizontal that you are trying to increase your scope within a particular client, could you highlight what other new services that you are trying to, maybe within IT services itself?

**Krishnakumar**

Clearly again from a strategy perspective we do believe we have all the services which are relevant for an enterprise. And we largely are also focusing on what we call the growth services which is infrastructure management as well as independent testing and data and analytics services. So we are not embarking on any new services to expand our pie. We do think we have critical mass and more than that the capability and the competency to compete



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with some of the larger firms to get our share in these services and these have certainly driven our growth.

**Kunal Sanghvi**

If you can share what would be the size of the IMS team that you have currently?

**Krishnakumar**

I am going to ask Partha who is the President to give you those details.

**Parthasarathy**

This quarter the IMS team actually crossed 1000 people mark. We are slightly more than 1000 MindTree minds providing us infrastructure management services to our customers worldwide.

**Kunal Sanghvi**

Thanks and all the best.

**Moderator**

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

**Dinesh Kumar**

Congratulation on a good set of numbers. I have a couple of queries. First is on the IP update. Can you just throw some light on how this digital surveillance and Bluetooth which we were developing is going on and do we own any clients in this two things? And the second one is how is testing and the package implementation is 2 to 3 quarters perspective because SAP and Oracle are posting very good numbers in the last two quarters so this will have impact in the upcoming at least 2 or 3 quarters. So just want to understand how this will impact on MindTree? And third question is, predominantly our growth was led by Europe for this quarter. So not in the next two quarters, maybe in the long term perspective what is our strategy to concentrate on Europe?

**Janakiraman**

I will take the first question on the IP related area. The Bluetooth arena if you take the new emerging trend is what is called as Bluetooth low energy, BTLE, and that is the area where we have made significant investments and that is emerging as a standard called Bluetooth 4.0 and we are seeing most of our new procurements from the market are coming in that arena and we are one of the earliest and leaders in that area. So we had at least something like free wins since the start of this year which is a sizable deal in that space. And in addition to that, in the product engineering services for one of the clients we have taken a total product ownership where the revenue that we create is not based on the number of people deployed, it is rather on the market opportunities that they have. So we have the revenue share model also, so both of them are leading to non-linear growth in the product engineering services.

**Dinesh Kumar**

On a digital surveillance front?

**Janakiraman**

On the digital surveillance side, we are much more focusing on both the video management arena as well as the video analytics. And we are on the verge of winning a major deal with one of our clients which we will be able to possibly share during the next quarter.



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- Dinesh Kumar** You are concentrating on India right?
- Janakiraman** Both global as well as Indian stream. But global is for OEM and India is for system integrators.
- Dinesh Kumar** Thanks.
- Krishnakumar** Dinesh, you had a question on testing which I am going to ask Partha, President of Testing to give you an update.
- Parthasarathy** On the testing side, I think we are seeing robust growth both in the IT services as well as in the product engineering services. If you look at the quarter-on-quarter absolute growth that we have had in testing in Q2, was close to 9%. I think we expect that interest in testing from our customers to continue in the coming quarters as well. And this includes SAP testing as well which is a focus area for us in terms of package implementation testing.
- Krishnakumar** Anjan you want to address the Europe.
- Anjan Lahiri** Europe, as you see we have continuing to grow, we have had robust growth. Europe the key issue is obviously the Europe's own macroeconomic situation. Having said that we continue to see traction and we are continuing to be fairly sanguine about traction in Europe in the coming quarter.
- Moderator** Thank you, sir. The next question is from Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain** Basically I would like you to share some input on the depreciation cost, if we are seeing this cost almost flat and in fact down from what we have been seeing from the last couple of quarters. Can you give more insight on that?
- Rostow Ramanan** By and large the only reason for the change in every quarter is few of our assets get completely written-off, so therefore, the depreciation for this quarter was low. This quarter also shows a Capex addition of only \$2.2 million. We expect additional capital expenditure in second half of this year. Two of our facilities in Bangalore are under construction right now, so as and when they get completed and the interiors for those two get implemented, the asset base will increase and, therefore, correspondingly depreciation will increase. The overall Capex plan for this year is \$20 million and I think it will more or less be close to that. So far in the first half of the year the Capex will be small at about \$5 million. So the Capex will be higher in the second half of the year which will correspondingly add to depreciation as well.
- Rahul Jain** So, in a way we are seeing close to \$15 million of Capex we are expecting for H2?
- Rostow Ramanan** Something like that, yeah.



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- Krishnakumar** It really depends on the facilities to get completed. May not all of that may come but certainly a good part of that will come.
- Rahul Jain** That on the current rate, the incremental depreciation could come only from this part, right?
- Rostow Ravanan** Exactly.
- Rahul Jain** Otherwise the ballpark numbers should remain in the range which we are seeing at the moment?
- Rostow Ravanan** Exactly.
- Rahul Jain** Secondly, on the other income front can you give some more inputs in terms of how we have reached this number?
- Rostow Ravanan** Approximately half of the number that you see in the other income this year came out of interest income from our investments and a half, which was approximately about \$800,000 in this quarter came as a result of a reversal of a liability we created as contingent consideration payable to Kyocera. And just to recap we acquired the captive R&D center of Kyocera in India in October 2009. Part of that acquisition had a contingent compensation payable linked to revenues of this year. Now the account has ramped down significantly and, therefore, the contingent consideration is no longer payable, we wrote back that liability. So half is because of the Kyocera write back and half is because of interest income.
- Rahul Jain** So this Kyocera which you are referring, this you have shown as an income that is the non-operating income position you are saying? What you have classified as?
- Rostow Ravanan** So the other income amount that you see for this quarter has more or less doubled. It was Rs. 31 million in June quarter has grown to Rs. 70 million in the current quarter. So if you look at that Rs. 70 million of other income in the quarter, approximately half was because of interest income, so the interest income is more or less the same amount as the previous quarter. The other half is because of the write back of the Kyocera provision.
- Rahul Jain** If I recollect it properly earlier we had a relatively lower stance on the total write-off and then we came up with some close to 9 or 10 million of write back. So that was in a way over estimated to this extent considering the maximum possible level.
- Rostow Ravanan** No, the two are completely unrelated. The \$8-9 million was our write-off on the product related investment. So that has nothing to do with the Kyocera write back in this quarter. So last year we ventured into the product space and during the course of the year realized that it was not a good strategy and, therefore, we vacated that and took at \$8-9 million charge last



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year. This year was the result of the acquisition related payment. Since that payment is no longer due, we reversed that liability and that led to the other income in this quarter.

**Rahul Jain** So this is something which we have paid earlier and now are getting a reversal of this. This was due and it is not happening now?

**Rostow Ramanan** It was estimated to be due and that payment is no longer due, so therefore, we have reversed it. I think the better way to look at it is our other income in operational terms is more or less flat. It was 31 million last quarter, its 35 million in this quarter. Half the other income of this quarter is a one-off item.

**Rahul Jain** So how it was represented earlier of this 37 million?

**Rostow Ramanan** This 37 million the previous quarter was shown in our other liabilities in the balance sheet.

**Rahul Jain** Okay, got it thanks. That is it from my side.

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

**Hardik Shah** Congratulations on a good set of numbers. Sir, your client addition is only 15, which is the lowest including the financial crisis period, so does it indicate there is a slowdown in the deal pipeline?

**Krishnakumar** No Hardik, in the last two calls, we have emphasized that we are really choosing to be only in a few segments and consequently pre-qualifying the customers whom we really want to add. So this is more a result of the changed strategy which only focuses on few clients and few segments which is why the numbers compared to earlier times seem to be down. You will also see a very interesting phenomenon that we had 283 active customers earlier which has come down to 270. It's again the result of our focus of saying that, if there are a few segments which are not strategic to us then on a planned basis we do change our customer portfolio.

**Rostow Ramanan** Only as a point I would like to add to that is like KK outlined last quarter, the strategy is to mine existing relationships deeper. So that is the approach that MindTree is taking effective this year, which is why we are exiting a few accounts where we don't believe we have a good growth potential.

**Hardik Shah** One bookkeeping question, can you give me the breakdown of operating margin gained in this quarter?

**Rostow Ramanan** The net operating margin increase of 160 basis points. That is a result of our 3.2% negative impact which is due to the wage increase, campus additions in the quarter as well as cross currency, mitigated by a 4.8% positive impact. The 4.8% breaks into a 0.4% gain from Rupee



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depreciation and the 4.4% gain due to operational efficiency improvement. Part of that operational efficiency improvement included the utilization improvement. The utilization increased from 72% to 77% in the quarter. So that is one of the strong reasons for the operational profit of increase.

**Hardik Shah** Going forward you mentioned we are planning to further increase our margins. So can you throw more light, besides the operating efficiency what are the other factors which will help support our margins?

**Rostow Ramanan** Broadly two things, firstly like KK mentioned there will be some amount of revenue growth even in Q3, though the actual growth percentages will be lower due to the fact that we already mentioned in the call. So revenue increase and from an operational efficiency perspective we are continuing to drive a few things in terms of campus batch additions, bulge mix, etc., so that should also lead to some amount of improvement to margins.

**Hardik Shah** Thank you, sir.

**Moderator** Thank you. The next question is from Anup Uphadhay from SBI. Please go ahead.

**Anup Uphadhay** Good evening sir, congratulations for a good quarter. The non-linear revenue that contributed close to 3% in the last quarter, I wanted to understand the nature of the revenue and secondly approximately the margin that we would have earned on that revenue?

**Janakiraman** See the non-linear revenue we had two kinds of revenue growth. One was the IP sales that we have done. Compared to the previous quarter we have done much higher IP sales and that led to the non-linear revenue. And the second one is we have entered into an agreement with one of the customers on a revenue share model for the product engineering services where the engineering fee that we charge is not based on the number of people deployed but based on the success of the product in the market, both of them led to the non-linear revenue growth.

**Anup Uphadhay** If you could share the margin that we would have earned on the 3% of revenue?

**Janakiraman** The margins are surely much higher, it is something which is a non-linear revenue where the investments have happened in the much earlier quarters. So it will be very difficult to say that.

**Anup Uphadhay** So would it be fair to assume that almost the entire revenue would have flown to the bottom-line?

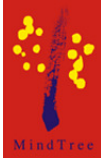
**Janakiraman** Not, the whole revenue. Slowly there has been expenses but not like the regular project model where you would have had a 40% or a 50% margin, it will be higher than that.

**Anup Uphadhay** Thanks a lot for your answers.



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- Moderator** Thank you. The next question is from Ritesh Rathod from UTI Mutual Fund. Please go ahead.
- Ritesh Rathod** Just wanted to know what's our strategy on the operating cash flow because if I see FY11, we generated somewhere around 43 crores of operating cash flow versus an EBITDA of 175 crores approximately. In the last two quarters we had an EBITDA of 100 crores approximately and we generated 60 crores of operating cash flow. Going forward would we see some big jump in operating cash flow or what is the ideal conversion ratio which you look internally? And even in this quarter we had a strong operating cash flow of 60 crores but if I see in the balance sheet items, most of them is coming from other current liabilities. Current liabilities have taken a jump of 140 crores to 200 crores. So can you just highlight me on that?
- Rostow Ramanan** Last year the big, I would say, impact to cash flow was the investment in the product business, given the fact that is unlikely to happen henceforth, so we will no longer have the impact on cash flow because of business related impact. Going forward, I would say the business continues to be on a very good traction. Like we mentioned before, I think over the next few quarters, we will continue to do what is required from an operational perspective to improve margins. So that should obviously automatically lead to improved cash flows. The investments in terms of Capex and working capital are likely to be normal. There are no big spikes over the next few quarters on any cash flow perspective. So I think we should continue to show good cash flow improvement over the next few quarters.
- Krishnakumar** As you have seen that we have also improved our days of sale from 74 to 70. Clearly the effort is also to try and push that maybe at least by a few days further down, which will also improve the operating cash flows.
- Ritesh Rathod** But given the high base, when you said you have taken onetime expense in last year's numbers of operating cash flow of 43 crores, so this year the ideal conversion ratio what you are targeting? Is it something like 70%, 75% or is it in the range of 50-60% kind of thing? When I am saying ideal conversion, I mean the P&L EBITDA number and the operating cash flow number in the cash flow statement.
- Rostow Ramanan** From our perspective we do not track that. It is more from an operating cash flow. And where are the cash flows being invested, as long as they are being invested in productive purposes, either in terms of increased Capex which is an investment for the future, or it goes into higher working capital, as long as the receivables do not come with a higher risk, so monitoring the health is what we are more focused on.
- Ritesh Rathod** Anything on the current liability jump in this quarter because this quarter we had a 60 crores of operating cash flow but current liability jumped by 40 crores, so anything on that you can help me out?



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- Rostow Ramanan** Reason for that is because of our hedge reserve changed from a positive hedge reserve in Q1 where the Rupee was appreciating to a Rupee depreciating environment, so the hedge reserve went from an asset to a liability. So that is the only big reason for a change in the current liabilities.
- Ritesh Rathod** The 1000 fresher addition, were they in the last month of the quarter or were they equally spread out during each month in the quarter?
- Parthasarathy** They came in two batches. One batch came in July, the largest batch came in middle of August.
- Ritesh Rathod** Thank you, that's all from my side.
- Moderator** Thank you. As there are no further questions from the participants I will now like to hand over the conference back to Mr. Sushanth Pai for closing comments.
- Sushanth Pai** Thanks Marina. Thanks everyone for joining this call and we look forward to speaking with you in the coming months. Thank you. Good night.
- Krishnakumar** Thank you.
- Moderator** Thank you. On behalf of MindTree Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.