MindTree Ltd

Analyst / Investor Conference Call –Quarter ended 31 Dec 2009, (Q3 FY 2010)

January 19, 2010, 6:30 pm IST

Moderator: Good evening ladies and gentlemen. I am Vishwanath, the moderator for this conference. Welcome to the analyst call to discuss the Q3 FY'10 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 handover to Mr. Sushanth Pai. Thank you and over to you sir.

Mr. Sushanth Pai: Thanks Vishwanath. Happy New Year to all of you, and welcome to this conference call to discuss the financial results of MindTree Limited for the third quarter ended December 31, 2009. I am Sushanth from the investor relations team in Bangalore. We have with us the 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 Ravanan, CFO; Puneet Jetli, Global Head, People Function; Parthasarathy N.S., President and CEO, IMTS and Testing; 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: Thank you Sushanth. Let me take this opportunity to wish all of you a very happy and successful 2010. In quarter three, we have seen a marginal improvement in the market sentiment and clients have shown encouraging signs in terms of services pending for the future. This is still an early sign but a good sign for MindTree and the entire IT industry. Our new wins announced in the last 6 months have started generating revenues, and we are making investments to mine these accounts. We were once again recognized for our efforts in corporate governance, this time in the global market. We were ranked No.1 Company in India for corporate governance and No.2 in Asia by Asiamoney Poll 2009.

Rostow Ravanan, our CFO, was voted as the best investor relations officer in the same survey. We were also ranked amongst the fastest growing technology companies in Asia Pacific by Deloitte Technology Fast 500 Asia Pacific 2009. This again is attributable to our differentiated positioning as a "summation of specialists". I will now provide a few highlights of our Q3 results. In this quarter, we started consolidating the results of Kyocera India now called MindTree Wireless Private Limited effective 1st of October 2009. Internally, this growth engine is termed as next in wireless, in short form called NIW. On a consolidated basis, Q3 software revenues were 70.44 million dollars representing a quarter on quarter growth of 7.9% and a year on year decrease of 5.6%. In rupee terms, this represents a quarter on quarter growth of 5.4%, and a year on year decline of 8.8%. NIW has contributed to $4.75 million of revenues this quarter. In terms of our businesses, IT services showed a 0.4% quarter-on-quarter growth, R&D services at 3.8% quarter-on-quarter growth, and software product engineering, a decline of 0.7% quarter on quarter. We added 35 new customers this quarter. In terms of new wins, the noteworthy ones are:

- Fortune Global 500 company in Asia Pacific for infrastructure services,
- A large customer in the storage area for testing and engineering services,
- A large customer in the medical devices space for engineering services.

On the people front, the attrition on a trailing 12-month basis is 10.7%. This compares with 9.7% in Q2 and 13.8% in Q3 of last year. On a consolidated basis, we have 8,127 minds reflecting a headcount addition of 41. Now, let me pass on to my colleague Rostow to share few other financial highlights.

Mr. Rostow Ravanan: Thank you KK, and good evening. I would like to welcome you all to this call and also wish you a happy 2010. Financial highlights are that in the current quarter, our PAT grew to 11.42 million dollars, which is 16.2% of revenues. That was 10.3% growth at a quarterly basis and 429% on a year over year basis. We ended the quarter with 253 active customers. We had fifty eight million dollar customers, thirteen 5 million dollar customers which was an increase from 11 in the previous quarter, and five 10 million dollar customers which is an increase of 1 from the previous quarter. Our Days Sales Outstanding had improved to 66 days, which is the best that MindTree has ever completed so far. Utilization has increased to 71.4% as compared to 64.7% in the previous quarter.

Coming to the guidance for the current year, we are revising the guidance for financial year 2010 on a consolidated basis as follows.

Revenues would be in the range of 269.5 to 270.5 million dollars. PAT would be in the range of 40.5 to 41.25 million dollars. This would represent a range between 12 to 33% higher than the previous guidance that we have given in dollar terms. EPS guidance is changed to 48.6 to 49.5, which would be a 9% to 30% increase compared to the previous guidance. This guidance assumes a rupee-dollar rate of 45.5 for Q4 and 47.41 for the full year. Our guidance continues to be sensitive to the exchange rate movements. We are changing our approach for guidance for 2011. Given the environment we see, we are discontinuing this practice of financial year 2011. However, in line with our philosophy for high transparency, we will provide detailed qualitative information in reasonable frequency to help investors understand the trends we are seeing in our business. I will now hand the floor back for questions and answers. Thank you.

Mr. Sushanth Pai: Vishwanath?

Moderator: Thank you very much sir. At this moment, I would like to handover 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 International Moderator.

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. At this moment, there are no questions from participants at WebEx International Center. I would like to handover the proceedings back to the India Moderator.

Moderator: Thank you International Moderator. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. The first question comes from Ms Shradha from B&K Securities.

Ms. Shradha Agarwal: Hi sir, sorry for logging in late. I am not sure if you have already mentioned this, but just wanted to check that on an organic basis, your revenue has grown by just 0.6% Q-on-Q whereas the larger companies have shown a revenue growth of 6% to 7%, so wanted to check the reason behind this muted growth this quarter.

Mr. N. Krishna Kumar: I think that number is right, 0.6% on an organic basis. Clearly, if you look at number of working days has been much lower in Q3. We had 63 working days in Q3 in the MindTree context, whereas the number of working days in Q2 was 65. The other key element which we had was that clearly at the end of the calendar year, people tend to take more leave, and that almost impacted 30,000 billable hours which have an impact, and together both the lesser number of working days and the additional leave impacted our revenues almost to 2.5%. The other factor which you have to take into account is if you really take our growth. This is on Q2 and Q3 together, we almost had a 5.6% quarter-on-quarter growth in Q2, whereas many of the larger players had a much more muted growth in Q2, so effectively I think it is not the right thing to look at just a quarter growth, but if you look at the period of Q2 and Q3, the difference may not be substantial.

Ms. Shradha Agarwal: Sir, was there any negative surprise coming in from any of your key clients which was probably not anticipated in the last quarter, I mean apart from lower number of billing days which could be a reason for muted growth.

Mr. N. Krishna Kumar: There is absolutely no negative surprises in terms of any of the clients. On the other side, clearly, the lower organic growth reflects certain investments which we are doing in knowledge transition because we have started off at least two or three large projects which will get multi-year engagements where initially you need to invest in the knowledge transition, but they will certainly have a long-term impact, so that has also partially impacted the lower organic growth.

Ms. Shradha Agarwal: Okay, sir, secondly on margins, despite significant pickup in utilization, which has moved up by almost like 500 bps sequential, your operating margin seems to be flattish this quarter, I mean, any reason behind that?

Mr. Rostow Ravanan: Couple of reasons for that, one is that the rupee appreciated 3.3% in the current quarter, and we also added about 160 fresh campus graduates in the current quarter. Those were the two reasons why the EBITDA margins were flat from the previous quarter.

Mr. N. Krishna Kumar: Just to add one or two more things, if you look at us as a company we have always focused on India as a business. Right from the time we started in August 1999, we focused on India as a business we have had, and in the last 12 to 24 months, we have significantly enhanced our focus on India, which will reflect in terms of results if you look at percentage of India business between Q2 and Q3, that has grown by almost 1.2%. Obviously, the pricing levels in India are low, that to some extent has an impact on margins also, as well as I talked about investments in certain knowledge transitions, that has an impact on margins, but overall in spite of the currency appreciation as well as taking in 160 of the campus recruits, we have still managed to keep margins stable.

Ms. Shradha Agarwal: Right, so what operating margins would Kyocera Wireless would be operating at?

Mr. Rostow Ravanan: Little lower than us at a net margin level, MindTree is at approximately about 15.5 to 16%. Kyocera is about 14 and 14.5%.

Ms. Shradha Agarwal: Sir, consolidating numbers from Kyocera was not the reason for flattish margins?

Mr. Rostow Ravanan: No.

Ms. Shradha Agarwal: Okay, sir, secondly on the guidance. The revised guidance, that is again on an organic basis, it does not include numbers from Kyocera?

Mr. Rostow Ravanan: Guidance which I read out just now is the consolidating guidance of MindTree and MindTree Wireless taken together.

Ms. Shradha Agarwal: Sir, this is the consolidated guidance.

Mr. Rostow Ravanan: Correct.

Ms. Shradha Agarwal: Sir because if I am not wrong, Kyocera, you had mentioned earlier would be clocking revenue of 9 million dollars for second half, and despite that revenue run-rate coming from Kyocera, your upper end of the guidance looks at the same level, so on an organic basis, do you see some ramp down happening from any of your key accounts.

Mr. Rostow Ravanan: Not at all. If you see the MindTree organic revenues, it is somewhere in the middle of the guidance range which was given in the beginning of year.

Ms. Shradha Agarwal: Okay.

Mr. Rostow Ravanan: With MindTree Wireless, I believe, it has helped us to, you know, come closer to the top end of the guidance. Other than that, we are broadly on track for whatever we anticipated for this year. No surprises, either positive or negative on the business.

Ms. Shradha Agarwal: Sure sir. Thank you.

Moderator: Thank you ma'am. Next on line, we have Mr. Srivatsan from Spark Capital. Mr. Srivatsan, your line is open sir. Mr. Srivatsan is not responding. We will move on to the next question. Next on line, we have Mr. Sandeep from IIFL.

Mr. Sandeep: Hi, good evening, good quarter. Actually, your Mumbai bridges are down, so I don't know if any of the Mumbai callers are able to log into your call, but few questions from my side. Can you just explain this that I am looking at onsite fee and the onsite billed hours. Onsite fee has increased 3.5% quarter on quarter, whereas the billed hours have declined by about 0.4% quarter on quarter. Was there any kind of a pricing increase or something that has happened over there. Again, the trend is exactly opposite in the offshore, so it seems like a bit of a paradox to me.

Mr. Krishna Kumar: See, Sandeep if you look at the offshore like we have mentioned earlier in this call, partly we see a decline in terms of offshore revenues because the percentage of our India revenue has increased, almost a 1.2% increase between last quarter and this quarter, and India pricing being much lower than our average clearly has had an impact. The other reason in terms of part drop in the offshore billing is like I said we started on a few long-term engagements where the early stage of the knowledge transition, where we put in the effort, but it does not result in revenue has in turn led to the lower realization. So, those are the two key reasons why the offshore realization has dropped. On the onsite, the billable hours have certainly increased because we are in a key project where there is a significant part of the work due to the execution reasons are moved onsite, so there is a team which was moved onsite, so the billable hours have moved, but that is more in the context of a specific large project which we are executing and that work will move offshore.

Mr. Sandeep: Okay, okay, and how should I be looking at your tax rate because it has been pretty volatile this year. This quarter again, I believe, you have 22% tax rate, so what is happening over there?

Mr. Rostow Ravanan: The tax rates are being volatile in the sense like we explained in Q2, we have a reversal of the provision we made for the previous financial year when we had actually filed the tax return for the previous financial year. By and large, we expect in a year, if you look at an YTD basis, we had a 15% effective tax rate is what we think we will continue in the next quarter, so that is where we think it will end for this year.

Mr. Sandeep: Okay, thanks, that is it, but please check your Mumbai bridges, they are all down.

Mr. Rostow Ravanan: Okay, we will just check that out. Thanks so much Sandeep.

Moderator: Thank you sir. Next in line, we have Mr. Sandeep Shah from ICICI.

Mr. Sandeep Shah: Yeah sir, I think as the Mumbai bridges are down, I may be repeating the question. Can you once again let us know about the reply to the previous question, because I just joined right now, in terms of the decline in the offshore billing rate and increase in the onsite billing rates?

Mr. Rostow Ravanan: Sandeep, in terms of the offshore billing, there are two key elements. One is the increase of our India business that almost had a 1.2% increase in the India business, Q2 vis-à-vis Q3, and since the billing rates in India are significantly lower than our average, that has impacted marginally the price realization overall. Second key reason is as I told we started off two long-term engagements where we have the addition sales of knowledge transition where they are sort of executing and understanding the work where billing is not happening but the efforts are being put in, so effectively zero revenue, but efforts are being put in, so that in turn has also dropped the billing realization. Coming to in terms of onsite increase, I just talked about one last project where on the execution strategy we clearly felt that, that piece of the work for the whole team should boot out of onsite, is clearly a better option, so moved in from an offshore execution to an onsite, which has increased the sort of billing rates there because it is at a comprehensive rate, but overall the trend which we see, we see a marginal move from onsite to offshore. Clearly, we are seeing a movement of that.

Mr. Sandeep Shah: Okay, and in terms of your implied Q4 guidance, is it largely due to organic business or is there any growth even in the Kyocera Wireless Business.

Mr. Rostow Ravanan: There is growth in both part of the business in what we are seeing as of now.

Mr. Sandeep Shah: Okay, okay, so we even expect on a sequential basis, the Kyocera business to increase?

Mr. Rostow Ravanan: See, it may just remain at that level, Sandeep, probably its is going to be almost flattish for at least Q4.

Mr. Sandeep Shah: Okay.

Mr. Rostow Ravanan: So, there you might see growth. So you are right that largely the growth next quarter will come from organic.

Mr. Sandeep Shah: Sir, just if the holiday season would not have been there, what would have been the growth excluding Kyocera in this quarter on organic business?

Mr. Rostow Ravanan: See, we had two days impact in terms of the working days. Q2 we had 65 working days against 63 in Q3 as well as being the end of calendar year, the number of leaves days by people increased, by about 3500 days which had an impact of about 30,000 billing hours, so if you take both of this together, it is about 2.5% impact on our revenues for Q3.

Mr. Sandeep Shah: Okay, so 2.5% to the revenue as the impact, right?

Mr. Rostow Ravanan: That is right.

Mr. Sandeep Shah: Okay. So, sir, in that case the guidance for Q4, is it conservative?

Mr. Rostow Ravanan: It is realistic.

Mr. Sandeep Shah: Hello?

Mr. Rostow Ravanan: Sandeep, it is more realistic.

Mr. Sandeep Shah: Sir, just one suggestion, even last time when we acquired Kyocera and the quality of the bridges was not good, in terms of your responses also not so clear, so please have this suggestion next time.

Mr. Krishna Kumar: Sandeep, see we are using a vendor who we certainly believe is the best, but we will sort of certainly think that out, Sandeep.

Mr. Sandeep: Specifically, your voice is not clear, so I think I am done with my question. I will come in the followup round.

Mr. Rostow Ravanan: Thanks. We will try and improve the bridge next time.

Moderator: Thank you very much sir. Next in line, we have Mr. Ritesh Rathod from UTI Mutual Fund.

Mr. Ritesh Rathod: Yeah, hello sir.

Mr. Rostow Ravanan: Go ahead.

Mr. N. Krishna Kumar: Yes, go ahead.

Mr. Ritesh Rathod: Can you just explain this concept where your billed hours, total billed hours are increased by 3.6% sequentially. Pricing has increased 1% sequentially quarter on quarter, but your growth in USD term is 0.6%, so what has gone on this one.

Mr. N. Krishna Kumar: Clearly, let me point out two key facts, if you look at the India business, the billed hours will increase because the percentage of India business has increased substantially, whereas the realization is not at the same level as the other businesses, so that has an impact in terms of lower organic growth. The second key element which I point out is…..

Mr. Ritesh Rathod: Which would have reflected in fee revenue, right, the total fee revenue has increased by 1%. It should have decreased if you are talking of India business having a low pricing point.

Mr. N. Krishna Kumar: Yes.

Mr. Ritesh Rathod: The total fee revenue in your fact sheet shows that it has increased by 1% quarter on quarter.

Mr. N. Krishna Kumar: Yes, it is 1%, that is right.

Mr. Ritesh Rathod: 1 plus 3.6 should actually aggregate to 4.6, but your growth in USD terms says 0.6, so what I am not reading in between?

Mr. Rostow Ravanan: See, the point is our effort has increased by 3 percentage points, but the revenue has increased only by 0.6%, and the reason for that are like what K.K. mentioned, increased in the percentage of India business where our rates are lower, as well as the investments we made on a couple of projects for knowledge transfer.

Mr. Ritesh Rathod: Okay, fine. That is from my side.

Moderator: Thank you sir. Next in line, we have Mr. Hardik Joshi from Voyager Investment.

Mr. Hardik Doshi: Hi guys, this Hardik Doshi from Voyager Investments. I had 3 questions, one was on the implied guidance for the fourth quarter, you know, it kind of implies about at 3.5% sequential growth. Now, if you take 2.5% impact as you mentioned this quarter because of seasonality, that should come back next quarter and plus you talked about some knowledge transition to some of your accounts that you are ramping up, in that light 3.5% quarter on quarter growth, and do you think is it realistic, I mean, what are the other issues that are going on, are there some ramp-downs happening?

Mr. N. Krishna Kumar: Just to correct, you see, this number of lower working days, you have to actually compared this Q2 which was 65 working days and Q4 is not even going to have 65, my recollection is this is in 61 to 62, so even this 3.5 has to be on the context. On other hand, actually all these investments which we have done in terms of knowledge transition and so on are getting slowly into the revenue ramp up mode, which is how we are anticipating a 3.5% sequential organic growth.

Mr. Hardik Doshi: Okay, I mean, this 3.5 still seems a bit lower, you know, if you look at our seasonality or if you look at our peers, so can you give us a general sense of how the different verticals are panning out, and also I believe we had a couple of large accounts that we were going to ramp up, how that is progressing?

Mr. N. Krishna Kumar: Just to correct. See, the number of working days in Q4 is 62, and since our T&M share is higher, compared to Q3 also, it will have an impact, which is why the 3.5 is not conservative sort of number.

Mr. Hardik Doshi: Okay, but can we talk little bit about different verticals and also about, you know, we had a couple of a large accounts that we are ramping up. Can you give us an update how things are progressing on that front?

Mr. N. Krishna Kumar: What I will ask is, I will ask Anjan to talk about the IT services, the segments, where the growth is going to come, and some feel of the accounts, and then Vinod and Jani can talk about R&D Services and Software Product Engineering?

Mr. Anjan Lahiri: In terms of IT services, our major markets are manufacturing BFSI, T&T apart from others, the manufacturing has been tough. It has been a large vertical for us. We have three quarters of tough times. It continues to be tough although there is recovery in terms of at least discussions and some promised project starts, but it is not out of the woods. T&T has always been, has been growing fairly robustly for us, and some of the larger customers there continue to see some positive momentum, and we feel sanguine about it. In the BFSI, we worked with sort of second tier smaller banks, and while we never were hit by as strongly due to the downturn, we are staying even as the return has also come, our banks are steady, our customers are steady, and we are continuing to grow in a moderate path as before. Those are some of our major segments.

Mr. Vinod Deshmukh: Yeah, this is Vinod, and I am talking about the R&D services part of the business, and as you would know, in this part of the business, we had tough time, you can say in the first quarter, calendar quarter this year 09, but subsequently from the Q2 Financial Year, we have done reasonably well in terms of the growth. It started growing from the Q2. Q3 also, there is a good growth momentum, and we have grown reasonable in this quarter. I see this momentum to continue going forward in Q4 also for the R&D services. If I have to take the specific segment which is R&D services, the segments that we address are networking and storage, which is on the growth momentum. Similarly, the consumer as well is growing. The only segment that would see a little bit of flattish thing is in the industrial automation side, and we hope actually with budgets coming in for our customers in this quarter, we will see some moderate growth in that as well.

Mr. Janakiraman: This is Jani. On the overall product engineering front, there are two segments. One, already Vinod has covered, which is the R&D services, and the other one is software product engineering which is primarily focused on the ISP segment and there we are addressing three markets. One, we call as the Tools and Platforms, and second is the Portals and Web, and third is the Business Application Product, and in this, what we see is the business application product, and in this what we see is that the Business Application Product and Portals and Web had been steady and strong. The Tools and Platforms is the arena where you know there had been a churn when the overall platform market was in a churn earlier, but now since the servers and storage and those kinds of arenas are stabilizing, the application platforms which are built over that are likely to stabilize, especially the opportunities like cloud can give us is a new growth engine in the Tools and Platforms arena. So, overall software products engineering arena which is addressing the ISP segment, I feel that there is a growth opportunity from next year onwards.

Mr. Hardik Doshi: Okay, and in terms like you know, you said you are doing some knowledge transitioning which is what impacted the revenue this quarter, I mean, we expect that to continue next quarter, or when it will start contributing from next quarter itself?

Mr. N. Krishna Kumar: Some of that will certainly sort of continue, but two probably will sort of transition into revenue, which is why we are just doing a little bit of detailing. We actually anticipate the organic growth next quarter should be about 4%.

Mr. Hardik Doshi: Okay, okay. Alright, and then in terms of our hedges, now the rupee is at 45, quarter closer to 45.8, so I mean, is that all recognized in the other income, or you know, will we be recognizing further gains in the future quarters as well from the hedging, what is the hedging stands currently, how many quarters recovered?

Mr. Rostow Ravanan: The effect of the FX hedging will be shown in the foreign exchange gain loss item, so that is the accounting treatment that we have on our FX hedging. Currently, we are covered for the next 12 months, so that would be approximately 100 million dollars that we have covered on the leveraged options which have already been mark to market, and about 40 million dollars is covered for the remainder of this financial year.

Mr. Hardik Doshi: What is the total outstanding hedges that we have?

Mr. Rostow Ravanan: Total outstanding hedges, 158 million dollars.

Mr. Hardik Doshi: Sorry, can you repeat that?

Mr. Rostow Ravanan: 158.

Mr. Hardik Doshi: 158, out of which 100 million is the leveraged option, which are already mark to market.

Mr. Rostow Ravanan: Correct.

Mr. Hardik Doshi: So, the remaining will be…the gains on the remaining will be recognized over the next 3 to 4 quarters as and when the revenue is recognized.

Mr. Rostow Ravanan: Definitely yeah.

Mr. Hardik Doshi: Okay, and then, this lastly, you know, on the margin side, our utilization, as somebody mentioned, increased by 700 bps, and that also includes trainees, so it includes the, you know, freshers that we added, but in spite of that….and the realized rupee rate has been about, you know, appreciated by 2% to 3%. So, what are the other major contributors, would it be possible to break that down?

Mr. Krishna Kumar: See, one, clearly, the rupee appreciation was almost 3.3% in terms of realized, so that has certainly contributed to the margin thing, and I think the 71% which we talk about is excluding trainees, which is 65.4 to 71, which is the 6%, it is including trainees….., okay which is the 6% sort of change in terms of our utilization. So, the primary process in terms of the margins is both the currency appreciation as well as the addition of trainees during last quarter.

Mr. Hardik Doshi: Okay, I mean, at current rupee levels, what do you think is the sustainable margins going forward?

Mr. Krishna Kumar: See, the goal is to maintain at these levels, and EBITDA margin of 18% to 20% is what is our goal to maintain and not sort of also compromise on investments which we really continue to do on client facing positions, which is either enhancing key account managers or enhancing sales force and revenue generating positions for new service lines. Those investments we will continue to make.

Mr. Hardik Doshi: Okay, thanks a lot.

Mr. Krishna Kumar: Thanks.

Moderator: Thank you sir. Next in line, we have Mr. Bhuvnesh from Credit Suisse. Mr. Bhuvnesh, you may proceed sir.

Mr. Bhuvnesh: Hi sir, very good evening to you all. My question is more medium term for you all, not the immediate quarter, but you know like we have about 14% EBIT margins. I was wondering what plans does the company have that these margins will go up from the current levels, or do you think that…..(voice disturbance). Hello?

Mr. Rostow Ravanan: Hello.

Mr. Bhuvnesh: Hi sir. Sorry, there was a bit of noise in between, but you know, I was more trying to understand your medium term view on your EBIT margins, where do you think next 2 or 3 years, you want them to be, and what are the plans for the same?

Mr. Rostow Ravanan: Bhuvnesh, this is Rostow. The plan is as we grow generally the economies of scale would kick in, so therefore, as we grow, growth should relate to improvement in margins because scale efficiency like I said would kick in. In spite of all the additional investments that we would continuously make in maintaining the business trajectory, maintaining growth, maintaining the higher value-added services that we deliver to our customers, by and large in spite of all of this, growth in business should lead to growth in margins.

Mr. Bhuvnesh: You know, Rostow, if you look at our margins now, they are broadly at a similar level as what they were in March 2007 year, and rupee this year, we are expecting to be 47.5, that time the rupee was 45.3, so we have 5% rupee depreciation also to help us, and the size of the company also from then to now has doubled, so what exactly is the problem that we are not able to get this margin ramped. Like last year, we had a decent margin, but this year again, whatever rupee and whatever reasons they have come off, so where exactly is this plan not coming through correctly?

Mr. N. Krishna Kumar: Bhuvnesh, just to clarify, I think this year we have significantly invested in our customer phasing positions. We have added several key account managers overseas. We have created a whole new sales and pre-sales force for our independent testing as well as infrastructure management service. Again, it has just not been the major markets like North America, but also in Europe we added. We have certainly invested in our industry groups in terms of domain experts, so our thought, is like Rostow said, I think make investments in areas where we think which will drive or help us accelerate the growth model. To a large extent, yes, a part of what you said in terms of 45 to 47 in terms of the 5% thing has also gone in, in terms of making these investments, and we are clearly seeing the sort of result which will come by, even though I think it is just about 6 to 7 months since these investments have been made.

Mr. Bhuvnesh: If I may, you know, try to just get more color over there. See, if we expect, let us say, over the next 3 years or 4 years or whatever the time period, our revenues double from the current levels, what sort of margin leverage would I expect?

Mr. Rostow Ravanan: The idea, Bhuvnesh, as we grow like I said, you know, our ambition as well as our plan would be to help get a margin expansion, so if over a period if you say that revenues are close to doubled, then we should at least be able to give a 2 to 2.5% improvement to EBIT margins along with that revenue growth. After making in these investments that we need to deliver that growth, and in that assumption we are assuming currency not to play spoilsport. I am assuming currency remains constant, revenue growth should lead to margin expansion.

Mr. Bhuvnesh: So, Rostow, the other way to put it is that from FY'07 to now, we have nearly doubled in size, so there should be 250 basis point advantage which should have come from there. Currency has moved 5%, so that should give us another 200 odd basis points advantage in margins, so we had invested that 450 basis points in margin, but unfortunately, in terms of growth, it has not….maybe last year was a different year, but so if I try to build a model for the company over the next 3 years, should I build a faster than the industry growth rate which we are expecting to be 20 odd percentage or the larger companies which we are expecting to be 20 odd percentage, should we build a faster growth compared to them for you and also build a margin improvement, would that be a right way to look at the company over the next 3 to 4 years' period?

Mr. Rostow Ravanan: The answer to your first question is unfortunately the margin expansion from 2007 to now possibly got impacted because we had the swings between the years, we had reasonably good growth rate in 2008, where we grew in dollar terms approximately 21%, whereas the rest of the industry probably grew 12% to 13%, and then when the downturn happened in line with that catastrophe, we did not resort to attrition or any other short-term people oriented measures, so to that extent, that you know blip happened between the last 2 years, but going forward, clearly yes, the ambition is to deliver a higher than the industry growth rate. If you recollect, we also announced our ambition to be a billion dollars by 2014. So, if you were to calculate the growth rate from that scenario to sort of plan with which we are guiding MindTree and by and large, yes, increase in revenues should lead to a margin expansion for us at that level.

Mr. Bhuvnesh: A billion dollars in revenues would be approximately 4 times the current levels. So, we should also build somewhere like 400 to 500 basis points margin improvement there. Would that be the right way to look at it?

Mr. Rostow Ravanan: Broadly, you know, I have not done that level of detailed arithmetic for this level of margins, but if you remember, the way we have outlined our vision for 2014 is not only to be a billion dollar in revenues, but also to be among the top 20 in our industry globally on profitability, both measured by PAT as a percentage of sales, as well as ROCE, so those are the parameters on which we are driving the business right now.

Mr. Bhuvnesh: Thanks a lot sir. Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsan from Spark Capital. Mr. Srivatsan, your line is open sir. We did not get any response from Mr. Srivatsan. Participants who wish to ask questions, please press *1 on your telephone keypad.

Mr. Rostow Ravanan: We should have the Mumbai bridge back on line now?

Moderator: Yes sir. We have Mr. Ruchit on line from HSBC.

Mr. Ruchit Mehta: Hello?

Mr. Rostow Ravanan: Yes.

Mr. Ruchit Mehta: Can you hear us?

Mr. Rostow Ravanan: Yes.

Mr. Ruchit Mehta: Okay, evening sir, just to better understand your guidance, I mean, if we look at your full-year PAT guidance effectively that would imply now you are looking at pretty sharp drop off in your EBITDA margins. Is that correct?

Mr. Rostow Ravanan: Can you hear me clearly?

Mr. Ruchit Mehta: Sir, you are breaking up in the middle.

Mr. Rostow Ravanan: Yeah, we are not anticipating a change in the EBITDA level, PAT difference is because this quarter we had USD 5.6 million of MTM reversals. We are not anticipating the same level of reversals. So, our operating profits will remain the same, the change will be at PAT level because of mark to market.

Mr. Ruchit Mehta: Okay, I mean, given the wide fluctuating MTM issues that we have, from a core operating perspective, what is the EBITDA margin one would look at, I mean, does one look at 18% to 19% that we do before on the FX issue, or is it the 20 to 25 mark because I am going into next year, I mean, if rupee remains stable, where would you margins essentially be at?

Mr. Rostow Ravanan: What we would like to do is maintain our 20% EBITDA margin levels.

Mr. Ruchit Mehta: 20%?

Mr. N. Krishna Kumar: 18% to 20% is what we want to maintain

Mr. Ruchit Mehta: Okay, thanks.

Mr. N. Krishna Kumar: Thanks.

Moderator: Thank you sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities.

Mr. Sandeep Shah: Yes sir. Can you once again disclose the Kyocera's EBITDA margin in this quarter?

Mr. N. Krishna Kumar: Marginally lower than the MindTree, 16% to 17%.

Mr. Sandeep Shah: 16 to 17?

Mr. N. Krishna Kumar: Yes.

Mr. Sandeep Shah: Okay, and just once again on the tax rate, can you once again disclose because, you know, the first quarter, the tax rate was 13% and the next two quarters excluding the write back, it has jumped to almost 22 to 24%, so?

Mr. Rostow Ravanan: Full year effective tax rate we expect it to be 15%. The reason for the change from last quarter to this quarter was last quarter we got a reversal of our tax provision for March 09, when the tax return for March 09 was actually filed, so that was the reason for the change from last quarter to this quarter.

Mr. Sandeep Shah: So, you are guiding for 15%?

Mr. Rostow Ravanan: 15%, yeah.

Mr. Sandeep Shah: That includes the write-back or excluding write-back.

Mr. Rostow Ravanan: Including the write-back. The full year effective tax rate for this year is expected to be 15%.

Mr. Sandeep Shah: Okay, thanks.

Moderator: Thank you sir. Participants who wish to ask questions, please press *1 on your telephone keypad. We have a question from Ms. Shradha who is from B&K Securities.

Ms. Shradha Agarwal: Hi sir, followup from Shradha Agarwal from B&K Securities. Any indication on the gross hiring for the next quarter and probably for FY'11?

Mr. Puneet Jetli: On the overall plan for the next around 12 months or so, right now, we are in the process of recruiting at the campuses for the 2010 batch, we expect 500 plus offers to be made for that batch. Similarly, you know, 50% of our hiring would come from the lateral side, so assume a similar number, so around 1000 plus people.

Ms. Shradha Agarwal: Right, and on the wage inflation part, I mean, when do you plan to give salary increment to employees, and in what range would that be?

Mr. Puneet Jetli: We definitely will go ahead with the increments in the next year, but the quantum as well as the timing would be decided by the specific benchmarking study that we are undertaking with one of the consulting companies. Those results will be out with us in the last week of January, and will get factored in the plan and we can share the specifics with you next quarter.

Ms. Shradha Agarwal: Sir, right, on the utilization, I mean, do you believe this utilization, I mean, do you have a further scope of improving utilization from these levels or where do you see utilization heading forward?

Mr. N. Krishna Kumar: Shradha, if you really see, I think we are reaching optimum levels of utilization because at our sort of size and thing, we need to have the capacity to sort of start work quickly, so I don't think there is any leverage, additional leverage on margin improvement due to utilization.

Ms. Shradha Agarwal: Right.

Mr. N. Krishna Kumar: Puneet, just pointed out that we are starting a whole hiring, and we have already even in the last quarter, we had hired people, so clearly we will go through a stage where we will create capacity both through the campus recruit schedule and hiring laterals, and continue to work on this thing, but clearly even now, it is at a level where it is fairly optimistic.

Ms. Shradha Agarwal: Sure, that is it sir, thank you.

Moderator: Thank you ma'am. Next in line, we have Mr. Anurag from Religare. Mr. Anurag?

Mr. Anurag: Good evening gentlemen, and thanks for taking my question. My question was regarding the per capita cost in this quarter because it seems that it has risen by 10% in US dollar terms. If I am reading right and this is in particular considering that you had campus recruits in this quarter?

Mr. Rostow Ravanan: Part of the…(background noise). Anurag, can you hear me clearly?

Mr. Anurag: Yeah, now I can hear you clearly.

Mr. Rostow Ravanan: The part of the reason for the cost increase was the rupee appreciation.

Mr. Anurag: Okay, and when would be the salary hikes be taken in FY'11?

Mr. Rostow Ravanan: Can you repeat your question?

Mr. Anurag: Any particular quarter that you have considered for salary hikes in FY'11?

Mr. Puneet Jetli: As I just told you Anurag that we are still in the process of deciding as to how and when and what quantum of salary hikes we would do for fiscal 11, and once the plan is finalized, we will be able to share that with you, so we are sharing the specifics with you next quarter.

Mr. Anurag: Okay, thank you and all the best.

Mr. Rostow Ravanan: Thanks.

Moderator: Thank you sir. Next in line, we have Mr. Ritesh Rathod from UTI Mutual Fund.

Mr. Ritesh Rathod: Sir, can you give us more light on what kind of business you do in India, why is the revenue booking is so volatile from India region specifically?

Mr. N. Krishna Kumar: See, India as a market is clearly not the conventional type of market where you get annuity revenues based on maintenance type of work. Clearly, there are a lot of large Indian enterprises engaging service vendors like MindTree. To look at fairly key strategic type of work, so it is a very project centric sort of business, which is why you will find volatility in the India business because the large project clients, they may not be an adequately large ones immediately sort of start off. Clearly, we have been working with some of the key clients in manufacturing, in travel, in banking and financial services, and lately government, certainly we have been doing lot of work, so we see India as a big market. Right from the time we started, we have been focusing on India, and we have invested a lot in India in the last 18 months, we have brought in a very senior leader to run our India business to enhance the sales force in India and done the right investment, and we do see tremendous growth opportunities in India.

Mr. Anurag: Are there any sort of hardware booking which is done in this revenue number?

Mr. N. Krishna Kumar: No, there is zero hardware booking. We are still not into system integration.

Mr. Anurag: Okay, and sir, your change in guidance policy, you mentioned that it changes in the external environment, so would it be fair to read that environment is deteriorated further which is leading into discontinuing this practice or what has changed in environment which is asking you to do this?

Mr. N. Krishna Kumar: It is not a deterioration in terms of environment, it is more a certain assessment in terms of what do we see as some of the best practices world-wide because many times I think you need to look beyond the current market to see what are the best practices and how is it that we need to do. Like we have stressed, I think we will maintain the highest level of transparency to give both relative as well as assessment oriented information on state of our business, but clearly a guidance is something based on best practices we believe is the thing we should move away from. It is more I think a medium, long-term decision for us.

Mr. Anurag: Okay, so you won't again take a review on this decision, I believe even the environment improves, you would continue with your policy?

Mr. N. Krishna Kumar: It is not a question of environment, I think this is more a very fundamental re-questioning and rethinking we have done. We have looked at world-wide companies and their best practices, and this is really an outcome of that.

Mr. Anurag: Okay, thanks from my side. That is it from my side.

Moderator: Thank you sir. Next in line, we have Mr. Srivatsan from Spark Capital.

Mr. N. Krishna Kumar: Yes, Srivatsan.

Mr. Srivatsan: (speaker inaudible).

Mr. N. Krishna Kumar: His phone is on mute or?

Mr. N. Krishna Kumar: Vishwanath, I think either may be phone is on mute or, hello?

Moderator: It is okay from our end, but he is not responding.

Mr. N. Krishna Kumar: Then, we can continue.

Moderator: Fine sir. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Sushanth Pai for final remarks.

Mr. Sushanth Pai: Thanks Vishwanath. Thank you everyone for joining this call. We look forward to speaking with you the next quarter. There was some issue in the Mumbai Bridge. Sorry for the inconvenience. Thank you again.

Mr. N. Krishna Kumar: Thanks.

Moderator: Ladies and gentlemen. Thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines.