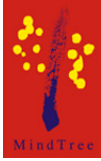


MindTree Limited
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MindTree Limited Q4 FY 2010-11
Earnings Conference Call

April 21, 2011



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Moderator

Ladies and gentlemen good evening and welcome to the MindTree fourth quarter annual ending March 31st 2011 earnings conference call. As a reminder for the duration of this conference all participants' 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 any assistance during this conference call please signal an operator by pressing “*” and then “0” on your touchtone telephone. At this time I would like to hand the conference over to Mr. Sushanth Pai of MindTree Limited. Thank you and over to you sir.

Sushanth Pai

Thanks Farah. Welcome to this conference call to discuss the financial results for MindTree Limited for the fourth quarter and year ended 31st March 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 (PES); Anjan Lahiri – President, IT Services; Vinod Deshmukh – President, Technology and Products - PES; Rostow Ramanan – CFO; and Babuji Abraham – Global Head, People Function.

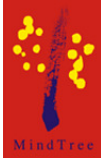
The agenda for the session is as follows: Krishnakumar and Rostow will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session.

We will not provide specific revenue and earnings guidance. However, in line with our philosophy of high transparency, we will provide qualitative information in reasonable details during this call. Please note that this call is meant only for the analysts and investors. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call. Before I hand over let me begin with the safe harbor statement. During the course of the call we could make forward looking statements. These statements are considering the environment 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.

N. Krishnakumar

Thanks Sushanth. In FY11 we have achieved 21.5% growth in dollar terms higher than the industry growth estimates projected by NASSCOM. Our IT services business has posted a strong 31.4% growth with good performance from most verticals. Our wins in UID and large multi-year deals in the infrastructure management business show our capability and confidence to compete and win against larger players. Our R&D services business posted a 2.3% year-on-year growth and our software product engineering business an 8.7% year-on-year growth and overall product engineering services posted a 10% year-on-year growth. I will provide more details on these businesses for FY12 a bit later.

To improve operational efficiency and market addressability we have made significant changes to our organizational structure to help us deliver better targeted results. The focus will



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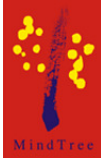
also be on a few verticals where we want to take a leadership position. The key changes are as follows:

We will now have only two market facing businesses to address the market, IT services and product engineering services. Software product engineering, R&D services and our wireless services will be combined as one single entity called product engineering services. With a view to provide end-to-end data and analytics services to customers, data warehousing and business intelligence practice and knowledge services is being combined to form Data and Analytics Solutions (DAS). DAS will become the third arm of our growth drivers, the other two being IMTS and independent testing. These three services lines will help both our IT services and product engineering services to drive for higher growth.

Now let me provide you some highlights of our Quarter 4 results and also results for FY11. Quarter 4 revenues were \$86.26 million representing a quarter-on-quarter growth of 1.2% and a year-on-year growth of 15.9%. Since Kyocera, which was a significant customer for our product engineering services, the revenues declined significantly, there has been an overall revenue impact in Quarter 4. If we exclude revenues from Kyocera, then our quarter-on-quarter growth would be 4%. On our businesses, IT services continues its good traction with a quarter-on-quarter growth of 5.5%. This is after two significant quarters of quarter-on-quarter growth of 12% and 7.5% respectively. R&D services has shown a decline of 1%. Software product engineering had a growth of 3%. We added 39 customers during this quarter. Overall we have 277 active customers. Our \$1 million customers has increased to 67 from 63 last quarter and our \$10 million customers has also increased to 6 from 5. Some of the significant wins during Q4 were:

- The world's leading recruitment advertising agency based in the US. MindTree will provide application development, testing and maintenance services for their business critical applications and websites.
- A leading provider of innovation management software based in the US. MindTree will provide services for their platform upgrades.
- A global banking financial services and insurance company based in UK. MindTree will provide services in the area of solvency 2.
- A global leader of location and navigation solutions based in Europe. MindTree will provide a testing framework and applications in Android.
- A large regional airline based in US. MindTree will provide services in the area of re-architecture of existing applications.

On the people front attrition on a trailing 12 month basis is 25.1% compared to 24.2% at the end of Quarter 3. However, attrition for the quarter annualized is 23.4% and has come down significantly as compared to the last quarter. On a consolidated basis we have 9,547 MindTree minds reflecting a gross addition of 435 people in this quarter.



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The key highlights on outlook for FY12 are as follows:

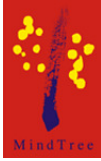
IT services is expected to continue its strong growth momentum with contribution from all the industry groups. We expect some short-term challenges in our product engineering services business as we need to make up for the revenue decline in Kyocera account. However, we expect product engineering services to regain momentum in the later half of the year and show an overall growth in FY12. As per NASSCOM estimates, the Indian IT industry is expected to grow at 16% to 18% in FY12. At MindTree we are confident of delivering a growth higher than the current industry estimates. We have made about 2400 campus offers and laterals will be hired on a planned basis. Overall we expect a gross addition of 4000 people in FY12. We also expect pricing to be stable in FY12 with a positive bias because we are clearly seeing that our conversation for pricing increases has started yielding initial results.

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

Rostow Ravanan

Thank you KK. Good evening to everybody on this call. In the quarter our fee revenue grew 1.7%. The revenue growth was mainly volume driven. Pricing was flat in the quarter. Coming off from our previous quarter where we had a very strong pricing improvement of approximately 3.6% we are maintaining a strong momentum that we saw in the previous quarter on pricing. EBITDA margins in the quarter marginally declined by 0.4%. The main reasons for the small margin decline was because of the revenue decline from one large customer which KK alluded to as well as small increases in onsite revenue and sub-contractor cost. In Q4 we had an overall Forex gain of \$1.6 million of which about a million was reversal of the mark-to-market provision. Our effective tax rate for the year is 16.5% after adjusting for the one-time issue on the dissolution of the US subsidiary.

As on 31st March our DSO was 70 days broadly remaining the same compared to the previous quarter. Our utilization including Trainees has increased from 69.3% in the previous quarter to 70.9% in the quarter. Another highlight of the quarter also was that the Board of Directors recommended a dividend of Rs. 1.25 per share or 12.5% as the final dividend on the top of the same dividend declared as interim dividend in the middle of the year making to a total dividend of 25% for the year. On an absolute basis the profit of last year was \$45 million which declined to about \$22.3 million for this year on a full year basis. Two broad reasons for the decline in the profits, last year we had a mark-to-market reversal of \$23 million because the Rupee appreciated by approximately Rs. 2 during the course of the year while that led to a mark-to-market reversal of \$23 million or a net exchange gain of \$14 million. Compared to that the net exchange gain this year is only 3 million, so an approximately \$11 million decline in the exchange gain from last year to this year and obviously the mark-to-market reversal of last year was a one-off item. So if you look at the overall PAT decline of \$22 million roughly from last year to this year about \$11 million is explained by the Forex movements. The other big component was that during the course of this year we had to write-off something like \$8



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million at a PAT level on our product investment so those were the two broad reasons for the decline in PAT from last year to this year.

Coming to the outlook on margins for FY12, we recognize that there is a huge scope for improvement on our margins and this is a very strong focus area. Many initiatives are being implemented to drive revenue growth and margin improvements.

On a near term basis we have some short term challenges. For example, there is a planned increase in people cost that is spread between Q1 and Q2 of this year. However, we believe that the revenue momentum that we have plus the other measures that we are taking will lead to a strong margin improvement in the second half of this year and, therefore, that will set us on a good platform for growth for FY13. Our Capex investment for FY12 is expected to be in the region of \$20 million to \$22 million. Effective tax rate for next year will go up slightly compared to this year. Effective tax rate is expected to be 18% for FY12. As of today we have about \$150 million worth of hedges for FY12 at an average rate of approximately 46 to the dollar. In addition we have about \$31 million which are covering the period FY13 and that is at an average rate of about 43. With that I now hand it back to the moderator for Q&A.

Moderator

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

Srivatsan Ramachandran

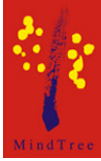
Just wanted to understand the demand dynamics especially in software product engineering, couple of your peers are seeing exceptional growth, confident of north of 25% revenue growth for the calendar year or for the whole year. Just wanted to know is there any client specific issues you are seeing in SPE because if you read through comments from Intel or any of them, is it possible just wanted to understand what's happening there?

N. Krishnakumar

Srivatsan, I will just give you an overview and ask Jani, our Group President for product engineering services, to add. See one thing which you have to look at our whole product engineering services is there is a significant client which we talked about Kyocera which has dramatically declined. So clearly the challenge there is to make up for the revenue decline from Kyocera which is approximately about 14 million and then grow. But overall I think we do see a strong momentum catching up on the whole business. You are right that software product engineering is seeing a strong growth momentum and Jani will talk more about it. Particularly in re-architecting products for the cloud model of delivery we are already in a leadership position in that and we have significant client base as well as potential opportunities in that space. So there will be several growth sort of factors which will drive the growth, Jani will probably expand on this.

Janakiraman

On the software product engineering arena surely we are seeing clear opportunities especially with the cloud and then the mobile, embedded products becoming more and more popular in



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the market. We do see that there are consolidations in the market in terms of acquisitions and mergers that are happening and few of them have led to consolidation where our stake has come down but there are several other places where we have seen the increased traction and then more business coming. We do not see the software product engineering as a major concern area and we believe that it will continue to grow and possibly the growth momentum will pick up. As KK talked about because of the Kyocera you will see short term challenges in the overall product engineering space and that we expect to last maximum of one to two quarters and down the lane pick up momentum and we are very confident of later half of this fiscal year to look much better than what it is today.

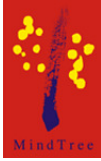
Rostow Ravanan To add to that, in the current quarter our software product engineering business grew by approximately 3% and even if you look at the whole year except for our one off seasonal impact that happened in Q3 the December quarter was the only quarter where the software product engineering business had a decline but otherwise, of the four quarters, in three of the quarters the software engineering business had a good growth momentum even for ourselves.

Srivatsan Ramachandran If you had to look at the segmental margins you report, IT services has seen about 350 bps margin decline on a YOY basis which actually is quite surprising given that you had shown very strong growth in IT services about 25% growth. I just wanted to know how would this pan out for FY12 because that will be a big area of concern.

N. Krishnakumar Srivatsan, I think one of the key things which when we take the segment analysis we also include our knowledge services business which was a new business which was there last year into the IT services because a lot of that services had delivered to IT services clients. Since it was really in a start up mode, the revenue numbers were not very high, it is in the region of about 2-2.5 million but there was also an investment in the business which was close to about 2 million. So that has come into the ITS segment-wise which is why you will find a drop in the segment-wise margin numbers of IT services but if you take that out and look at IT services margin, for the growth I think the margins have improved substantially.

Srivatsan Ramachandran Now going forward for FY12 the margins you are saying you hope to improve it on the second half, just wanted to understand what kind of levers you would have and what kind of confidence do we have on improving margins maybe not to FY09 level but at least to FY10 levels?

Rostow Ravanan Correct. Like I briefly mentioned the reasons for confidence of having a higher margin by the second half of the year are from the fact that we have a much stronger revenue traction. Like KK mentioned we expect the revenue growth to be really strong for us for this year. In the near term obviously there will be an impact because of the cost increases on our people cost but the revenue momentum by the second half of the year will offset that and lead to margin improvement. Also of the overall people additions we are making this year, the large proportion, almost I would say 70% to 80% of the overall people additions in the year will be



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campus graduates. So that will also help bring down the weighted average people cost for the year and that is the other lever we are working on to improve margins this year compared to last year.

N. Krishnakumar One other aspect Srivatsan we just need to keep in mind is, if you look at the average dollar rate in FY10 it was 47.6 and for FY11 it is 45.6, it is almost a 4.2% appreciation of the Rupee. So clearly I think in the context of all the levers which Rostow mentioned, we will certainly show increasing trend in terms of margins and like we said clearly in the short term because of the cost increase there is going to be a challenge but in the later half of the year that trend will start moving upwards. But it would not certainly reach the FY10 absolute levels of 19% because clearly of the Rupee appreciation.

Srivatsan Ramachandran Okay. My last question is on the extent of wage hikes and the impact of it and when are they planned?

N. Krishnakumar I will ask Babuji our Global Head of People Function to give you that answer.

Babuji Abraham We plan to implement a wage hike in across two quarters. In the first quarter we will probably cover about 78% of our people and the rest 22% will get covered in the 2nd Quarter. Wage increase in offshore will be about 10% to 12% and onsite will be about 2% to 4%.

Srivatsan Ramachandran And what kind of impact do you see on your margins because of this?

Rostow Ramanan We do not give a guidance so we would not want to comment on the margin impact in quantitative terms.

Srivatsan Ramachandran Thank you.

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

Mohit Jain I had a couple of questions. First is if you could walk us through the margin decline Q-O-Q because last time there was a one off product write off and we thought IT services margins were close 16% which has now come down to 11.4% or so. So if you could just give us the highlights of the quarter where the costs have increased and why the margin has declined to such an extent? Second is on the volume growth. The volume growth still seems low compared to peers, so what could be the possible reasons given that last quarter we witnessed 0% volume growth which effectively means that number of days may have played an important role in volume growth Q-O-Q this quarter. And third is on pricing. Pricing seems to have declined both onsite and offshore. While the commentary said it is flat. So if you could help me understand why it is so?



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Rostow Ramanan

I'll take all the three questions but not in the same sequence. The volume growth in the current quarter was not stronger, like I said we had an overall growth of 1.7% largely volume growth. So the reason for growth only at 1.7% was because of the revenue decline from one large customer. If you exclude the impact from that customer our growth in the current quarter was 4%. So that is the answer to your second question. Pricing was more or less flat. I think there was a marginal impact because of cross currency otherwise pricing was more or less flat. The point I also covered was that we had an approximately 3.6% price increase in the previous quarter which was flat because we are sustaining the price increase we got in the previous quarter. Those were two points that you asked in question two and three. Coming back to your first question if you look at MindTree as a whole we had an EBITDA margin of 11.7% in the previous quarter that is dropped marginally to 11.3% in the current quarter. So the decline of about 40 basis points, broad reasons for those are number one, the revenue decline from this customer that I attributed to, we lost approximately \$2.5 million of revenue from this customer without any big impact to cost. Cost continued more or less the same but a revenue decline of reasons that was sharp amounts within the quarter. So that was one reason. The other two reasons are that we had an increase in onsite revenue in the quarter. Some of our new wins have initial modules which are more onsite oriented so we see an increase about 1.5% in onsite revenues and some increases in sub contractor cost as well. So those were the three reasons for a small margin decline from last quarter to this quarter.

Mohit Jain

Rostow just as a follow up question, last time we had \$3.7 million of write offs and that number is not there in Q4 which means that we lost almost \$3.7 million plus 340 basis points which you just mentioned.

Rostow Ramanan

Of that \$3.7 million roughly about \$3 million was at an EBITDA level the balance is because of a goodwill write off etc. The \$3 million EBITDA impact of last quarter, that amount obviously did not exist in the quarter but almost the same amount obviously 2.5 million of revenue dropping without any cost reduction corresponding to that so that is one impact. And like I said currently there are smaller impacts due to the \$400,000 increase in sub contractors as well as the impact of about 1.5% increase in onsite revenue so therefore, onsite people cost increase as well. So those are relatively smaller components but approximately the same impact of last quarter continued in the same quarter.

Mohit Jain

If I have to look forward the sustainable EBITDA margin excluding product would be somewhere in the range of 11% to 12% for next year?

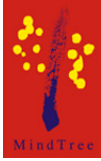
Rostow Ramanan

No, I do not think that is going to be the situation. While we realized that obviously margins are in a problematic area right now but that clearly is an important area of focus for us. If you take March 2010 when we had an approximately 19% EBITDA, one component of that obviously is currency, if you exclude the impact of currency or neutralize for the impact of currency, because that is outside our control otherwise the game plan should bring it back to that level by the end of this year.



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- Mohit Jain** And next is, can you quantify the impact of wage hikes which would be given in first quarter because it seems like it may dip to single digit EBITDA margin.
- Rostow Ramanan** Because we do not want to give guidance unfortunately so I will not be in a position to quantify the impact of the wage increase.
- Mohit Jain** Thank you and all the best.
- Moderator** Thank you. Our next question is from the line of Hardik Shah from KR Choksey. Please go ahead.
- Hardik Shah** First question is as Kyocera revenue has come down drastically so at current run rate it will maintain going forward or it will come down further going forward?
- Rostow Ramanan** Current available indications are, it will not sustain itself. For the year as a whole we got approximately \$14 million revenue for this year. We are not anticipating that revenue to continue. They are in the middle of their budgeting cycle, so we probably will get a clearer picture only by about June, July sort of a time frame but in the plan we have built for ourselves we are not making a big upside out of the Kyocera account.
- Hardik Shah** My second question is in your segmental reporting you have shown IT services margin has come down for December quarter 14.4% to almost 11% whereas at the Kyocera side you said there was no cost decline at best there were was decline in the revenue it should reflect in the product engineering services. So what was the reason for the decline in the margin of the IT services?
- N. Krishnakumar** Like I mentioned earlier when we do a segment-wise reporting our knowledge services which was an independent business last year, is included in IT services and knowledge services clearly was on a start-up mode so on a revenue of little over \$2 million we had a loss of about \$2 million which got reflected in the IT services business. Other than that Rostow also talked about in the current quarter we have had an increase in onsite business and particularly because of the early start which you had to do there has been an increase in sub contractor cost. So both of which is in IT services contributed to the margin decline.
- Hardik Shah** So sir to understand that because your utilization has increased by 160 basis points quarter-on-quarter whether the margin of IT services has come down by almost 340 basis points, so if I assume at least 100 basis points improvement will be there because of utilization plus 340 that is 440 basis points without wage hike decline so that is the amount.
- N. Krishnakumar** No, on the other hand if you take the onsite business has grown up by about 7% which is on IT services and typically the gross margin in onsite if you take is in the lower and mid 20s



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compared to an offshore margin which will be in the high or mid 60s. That itself will sort of account for at least a 150 to 180 basis points in terms of margin decline.

Hardik Shah So even if you remove the 180 basis points, so 440 minus 180 basis points the gap is still there. So what is that gap?

N. Krishnakumar No, the other element which is not taken into account is the increase in subcontracting cost which really explains like I said see if you look at IT services, the quarter-on-quarter increase in revenues has been substantive. In Q2, we had almost 12% quarter-on-quarter growth. The last quarter was 7% and now it is 5.5%. So to sort of map up that sort of a growth, there has been an increase in subcontractor cost which has also led to the margin decline.

Hardik Shah So is it fair to assume because of the subcontracting, our margin came down by almost 250 to 300 basis points quarter-on-quarter?

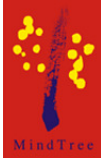
Rostow Ramanan I am not sure how you got your numbers. If you look at the segmental reporting which we did, my IT services margin in December was 14.3% where it has dropped to 11%, but going forward the picture that we see for the margin is that there are lot of focused efforts being put into place to improve margins. So by the second half of the year, we expect margins to bounce back from the level where we are at this point of time.

Hardik Shah Okay sir thank you, that is it from my side.

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

Rahul Jain First of all what do we think would lead the growth in the product engineering space in the H2FY12 so as we reach the level of FY11?

Janakiraman The product engineering services, we have done a major restructuring for this year. Previously we were looking at the business as embedded products, then wireless products and software product engineering and now what we have done is we have made the product engineering services to become services business at one end and then the product and IT business at the other end that is one major change we have done. And in this services business what we have done is we have done a vertical integration of the product because we are seeing that more and more the line between the embedded products and wireless products and software product engineering is thinning down, many of our customers are asking for integrated services and we are not so much cross mining because of our structuring earlier and now we are able to start cross mining some of these accounts deeply on multiple fronts both on the embedded side as well as on the software product engineering side and we are seeing growth in some of the areas like cloud computing. We are seeing a significant growth that will happen down the line in the next 2 quarters in the product arena related to the web portals product arena and we are



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seeing a momentum start building up on the wireless space because of the phone business where in the phone arena whatever are the Kyocera ramp downs, we are leveraging and already we have won two major clients and we have started providing services in the Android phone related arena. So overall we expect that we will be able to make good progress in the product engineering services and we will overcome the hump because of the Kyocera ramp down in the next 1 to 2 quarters and the future quarter should look much better than what it is today.

Rahul Jain

So what sort of run rate we are looking at once we achieve the normalcy?

Janakiraman

This again will be a little bit forward looking I do not know if Rostow would like to....

Rostow Ramanan

Some of those initiatives are work in progress. So please give us may be a couple of quarters for us to give you a more tangible update.

Rahul Jain

And similarly on the margin count, how do we see recovery of margins of that extent to achieve a 19% mark in the next 4 quarters considering the challenges also we have on the supply side?

Rostow Ramanan

From a qualitative perspective like I said the two areas on which there is a lot of action that is happening, one is the revenue growth we are anticipating and we are confident of achieving led to the fact that we are significantly impacting the pyramid of the workforce and adding like I said almost 70-80% of the net hiring of next year is going to be campus batches so that will drive down the weighted average people cost from where we are at this point of time. Those are the two main margin improvement levers and unpredictable factor will be currency. If currency remains the same level as what it was in March 2010, the other two initiatives we are taking will get us to the same level of margins for next year.

N. Krishnakumar

Just to clarify, we are not saying that we will reach a number of 18-19% because I did explain earlier in the call that FY10, 19% also at a USD/INR which is almost 4.2% higher than FY11. What we are certainly like Rostow alluded that is one of our key focus areas, for the current year, we continue to have initiated a number of things to keep that improving and as and when we are able to significantly impact and demonstrate that results, we will come back to the more assessed number in terms of what we are likely to end the year with.

Rahul Jain

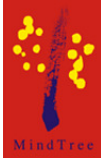
So that is more of an aspiration as compared to some sort of guidance of the exit rate?

N Krishnakumar

We are not giving a guidance of exit rate now.

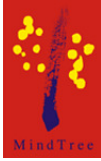
Rahul Jain

And the 70-80% campus composition of the new addition, what was the mix in 2011 and in 2010?



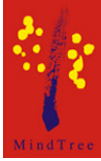
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- N. Krishnakumar** See this year certainly in the context of trying to improve and as a margin lever we typically used to have about 50% of our gross addition, between 50% and 55% campus hires. It is 2400 offers which we have made out of our gross addition of 4000 which we expect.
- Rostow Ramanan** To add to that, I think in March 2011 in previous financial year, of the net hires, campus batches is a very-very small part, roughly about 30% of the hire this year was campus batch. So that is going to significantly increase from this year to next year.
- Rahul Jain** Do we think it could also have some impact in terms of the overall billing or may be the efficiency productivity?
- Rostow Ramanan** Not at this point. The initiatives we have taken are to ensure that there is no impact to either sales or customer delivery but improve the proportion of campus batches to help drive down average people cost.
- N. Krishnakumar** Again one another data point which might be relevant is, I think in terms of our current team, the average experience of the MindTree delivery of the billable team is close to 5 years whereas the industry average is probably in the 2-year plus. So we already have that layer of both the project management as well as module tech lead levels within the organization who will be able to leverage on the increased hiring of campus recruits who come within the organization.
- Rahul Jain** So apart from that, the 18% plus guidance which we are in a way suggesting, is it pertaining to the IT services or the overall revenue?
- Rostow Ramanan** The revenue growth what KK mentioned that the NASSCOM projections are 16 to 18 and MindTree will be higher than that is for our company as a whole, not only for IT services.
- Rahul Jain** So the FY11 number we are talking or excluding the wireless part we are saying?
- Rostow Ramanan** All inclusive. MindTree as a whole accomplished something like \$331 million of revenue for March 2011, that number will grow by higher than 16 to 18% for next year.
- Rahul Jain** Perfect and that is it from my side.
- Moderator** Thank you. Our next question is from the line of Vimal Gohil from Asit C Mehta Investment. Please go ahead.
- Vimal Gohil** Sir I would just like to ask a question on the attrition side. Sir the company has done a good job of reducing attrition quarter-on-quarter, but how comfortable is the company at this point with the attrition because the attrition seems to be a bit higher if we compare it with the peers?



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- Babuji Abraham** Yes, the attrition is higher. At the current moment, we are putting steps to bring that down. We have already seen early results of that in this quarter. We expect it to improve as we go further in the next quarter.
- N. Krishnakumar** See again if you look at, I think this is a very-very clear point of focus for us like Rostow said margin improvement and ensuring that we reduce attrition to a low level. It is clearly a key priority. Here again if you look at, I think a very significant portion of attrition still continues to be in the lower end of the pyramid which is really people in the experience range 1 to 4 years because the industry itself has a supply-demand gap in that space. So for 2 years, almost there was a significant reduced intake of campus recruits. We expect that is going to ease out because last year there was campus recruits so that supply demand gap is going to reduce a bit, that in turn will have a positive impact on the attrition.
- Vimal Gohil** That is fair enough. Now coming back to utilization, your utilization is around 69% right now, is that right?
- N Krishnakumar** 70.9%.
- Vimal Gohil** So you mentioned 2400 fresher offers made. So what do you think will be the impact on utilization because of that and you said that the lateral employees will be taken in as when needed, so what do you think will be the impact on utilization because of more fresher intake?
- Rostow Ramanan** Because we do not give a quantitative guidance, I will only answer on a qualitative basis. The campus batches are spread between 3 quarters. So they have joined in different batches between June and December. So therefore the entire impact will not be taken in one quarter. So it will be spread out and like I said since the revenue momentum is also fairly strong, we believe that the business will be able to absorb people when they join after they complete their training process.
- Vimal Gohil** Right sir, that is fair enough. Thank you very much, that is all from my side.
- Moderator** Thank you. Our next question is from the line of Mohit Jain from Alchemy. Please go ahead.
- Mohit Jain** This is related to Kyocera revenues which we lost in the last quarter. So, this \$2.5 million is the impact of the total revenue loss during the quarter or should we expect it to slightly move up in the next quarter because we lost it somewhere in between the quarter?
- Rostow Ramanan** Like I said in next year's plan, we are not making any assumptions for Kyocera. If you look at it, the full year revenue from this customer was about \$14 million for the year of which Q4 was approximately a million dollar. We are expecting no upside, we are expecting the account to actually contribute very-very negligible amount for next year. So the revenue from this account for next year as a whole is very-very insignificant. The growth for next year is coming



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out of new wins that we have signed up as well as growth in other accounts. So from this account, we are not expecting any growth next year.

Mohit Jain Second the employees who were recruited out, who were working on Kyocera project, so those employees have left the company or are they being retrained for the IT services because we do not see the impact of employees on utilization?

Janakiraman The significant number of employees who are being deployed in the Kyocera account are being retrained in the phone related arena, but much more in the Android space. As I was saying earlier, already we have two customers who are the phone companies where we are building Android related phone software products and in addition to that, Android as a skill is very much useful in our consumer appliance arena also. So we expect that most of those people will get deployed in the consumer appliance and then the phone related arena as we go along and we will be able to absorb them comfortably in the rest of the business and that is why you are not seeing a significant drop in the utilization because of the rescaling and redeployment which is an ongoing process.

Mohit Jain So when these people are on training, they are not counted in utilization?

Janakiraman Yes naturally. Only when they are billed, we count them under utilization and when they are under training, they are seen as unutilized, but we have already covered at least something like 40% of the people as they are ramping down into the other customer arenas and the rest of them are also getting prepared for the need in the market and we will be able to redeploy them comfortably.

Mohit Jain So if I understood it correctly, 40% of the people who were working in 2.5 million gross revenues have already been deployed to some other client and they are now billed?

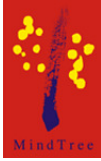
Janakiraman Absolutely. You are correct.

Mohit Jain Thank you.

Moderator Thank you. Our next question is from the line of Anup Upadhyay from SBI Mutual Funds. Please go ahead.

Anup Upadhyay I had just one question that why did we have to increase our subcontracting substantially when we are running at a very low utilization of around 70%?

N. Krishnakumar Again like we said, last quarter because of a few larger projects which we had to start onsite, we had to engage the subcontractors and most of the subcontracting is onsite, not at our offshore location.



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- Anup Upadhyay** And we could not have moved these employees from offshore to onsite?
- N. Krishnakumar** No, given the current visa regulations, I am sure you would have heard that we want to completely go by what is indicated in terms of usage of B1. So to that extent, we have to be prudent in terms of where we use and that is certainly led to additional subcontracting in the overseas locations.
- Anup Upadhyay** Right sir. Is the visa issue becoming a significant roadblock in terms of movement of these employees?
- N. Krishnakumar** No I think clearly that has become tighter, but at the same time I think keeping in mind our practices which are far more prudent and conservative, clearly we are sort of taking a very measured sort of thing on this and clearly you do not want to maintain a high cost bench also in onsite locations.
- Anup Upadhyay** Okay sir, thanks a lot.
- Moderator** Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.
- Hardik Shah** First question is like you initially announced there were two large contract wins, so the revenue from the same has been reflected in this quarter?
- N. Krishnakumar** No, some of this clearly the knowledge transition and the initial work has started. It is only during the coming quarters will the revenue really start impacting. So there is nothing of it which has been either factored in Q4 or even in Q1, there will only be a marginal impact.
- Hardik Shah** And secondly sir what is your utilization target including trainees going forward?
- Rostow Ramanan** Typically we would like to run at a rate of between 72-73% as our comfort zone because our definition of utilization is amongst the tightest in the industry. You will see from our fact sheet it is the actual billed hours divided by the available hours for the quarter. So in that tight definition, we typically try to be around 72-73 because we always need to have capacity for future growth because in our model, the theoretical maximum utilization you can hit is actually 80%. We need to keep at least 7-8% buffer for growth. So the utilization we would like to have is about 72-73.
- Hardik Shah** Can we expect the subcontracting cost to come down in Q1?
- Rostow Ramanan** May not be possible by Q1, but at least in the next 2-3 quarters, definitely we will bring subcontractor cost down.



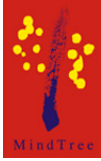
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- Hardik Shah** Another question, are we planning to retrench any employees which were employed for the Kyocera project in coming quarters?
- Rostow Ramanan** No, that is not on the cards at this point of time.
- N. Krishnakumar** Again Hardik Jani sort of alluded that, we certainly see a lot of good opportunities building up particularly in the Android space. So right now I think Jani also talked about the percentage of the people who were used in the Kyocera account, already we have deployed them in other phone company services. We will continue to work on that because we see a tremendous potential and we have a unique advantage and capability in terms of both the team size and the understanding of the phone domain itself.
- Hardik Shah** Sir just to reconfirm, we have 40% deployed is it true sir?
- N. Krishnakumar** 40% of the people who are working in the Kyocera account who got released because of the revenue decline are redeployed.
- Rostow Ramanan** Are in the process of being redeployed, they haven't started being deployed as of yet, but available opportunities in our view will at least consume about 40% of people who are being released from the Kyocera account.
- Hardik Shah** Thank you sir, just the final question. Sir we are planning to hire 4000 employees out of that 2400 is campus offer?
- N. Krishnakumar** Yes.
- Hardik Shah** Okay sir, thank you, that is it from my side.
- Moderator** Thank you. Our next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.
- Dipesh Mehta** I need couple of things. You said about salary hike and you said in Q1 and Q2, it would be effected. As I have not heard clearly, what would be the percentage of employees' salary effected in Q1 and Q2? Second I want to understand our joining ratio. You said we made offer of around 2400. So what would be the historical joining ratio we have observed?
- N. Krishnakumar** I can answer the joining rate and Babuji can answer the thing on compensation increase. See historically we have had from campus joining rates of about 80%. We anticipate that this year it could be marginally lower. We have planned on the basis that we will get between 70 and 75% as joining rates of campus.



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- Babuji Abraham** Regarding the wage increase, we cover 78% of people in the first quarter and the rest 22 in the quarter 2.
- Dipesh Mehta** Sir a last question on utilization, you gave a definition of we are not counting people undergoing training as part of utilization. So when we give employees including trainee that number is kept separately or including training number?
- Rostow Ravanan** The utilization including trainees includes people who are currently on training.
- Dipesh Mehta** So it includes Kyocera related also?
- Rostow Ravanan** Exactly.
- Dipesh Mehta** Thanks sir.
- Moderator** Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.
- Srivatsan Ramachandran** Is it 120 million or 150 million, the hedge book for FY12?
- Rostow Ravanan** The hedges we have as of today is \$115 million for FY12.
- Srivatsan Ramachandran** And just wanted to understand if I were to look at for the whole year, cash generation has been pretty low if I were to compare even what it has been, just wanted to understand has there been some kind of slackening in environment because what we generated cash flow from operations for the whole year, it is one-third of what our operating profit was. Just wanted to understand any specific reason that led to such sharp decline in cash generation?
- Rostow Ravanan** Two main reasons, in the year our overall Capex for the year was approximately I think \$19 or 20 million and the \$8-9 million that was spent on the product business. So those were the two big uses of cash in the current year.
- Srivatsan Ramachandran** Okay sure, thank you.
- Moderator** Thank you. Our next question is from the line of Hitesh Zaveri from Enam Asset Management. Please go ahead.
- Hitesh Zaveri** Thanks for taking my question. Could you characterize the quality of the relationship with your all Fortune 500 customers and your top 25 or 30 accounts. How do you see them growing over the next 2 years that will be helpful?
- Anjan Lahiri** In terms of Fortune 500 customers, we clearly continue to see a trend where even while they are working with 1 or 2 offshore vendors, they continue to look at multisourcing vendor and



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this quarter as well as in the previous quarter, we have seen not only some of our current relationships continuing to grow, but some people coming in for multivendor relationships and very mature customers, very happy with their current vendors looking to add may be second or third vendors either in a particular area or across, but we are not seeing any conservatism in terms of spends and we continue to be quite confident about quality and depth of the relationship.

Hitesh Zaveri

Could you provide some color about growth in their IT spend in the offshore locations and also with you that is one and secondly a broad question with regard to the NASSCOM industry growth numbers for FY12 and though they are not yet talking about it for FY13 as well, you know the kind of differentiations that you have built in your company, how do you see yourself growing over the medium term in the context of how the offshore business should be growing?

Anjan Lahiri

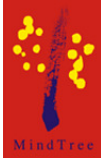
So we continue to strongly position ourselves and be recognized as the best mid-sized services player. Now people if they are working with some of the large players, they come to us for larger access, attention, agility and for our capabilities in certain areas and we continue to see that. Regarding overall growth and capital spend, obviously Gartner or somebody will be a better number but from our standpoint, I can say that people seem to be not cautious about the growth in the coming year. I think NASSCOM numbers for next year are about 16-18%, and those are the NASSCOM numbers and we believe that we should be able to grow substantially better than those numbers.

Hitesh Zaveri

I do respect about what you said about the short-term with regard to profitability of the business, but over the medium-term either the industry practice or on the services side, what kind of initiatives you think could be a better drivers for margin whether there is scope for some innovation there?

N. Krishnakumar

Clearly like we said that is one of the key focus areas for us and in our context like we said, clearly improving utilization is clearly a very-very key margin. Again I did talk about as a company, we have a very significant experience base, our average experience is 5 years vis-à-vis the industry level of 2.2 years or so. So we do have a margin in terms of enlarging the bottom of the pyramid which is one reason why you will find that this year because we have got basic foundation in place, we now have the ability to expand our campus recruits and enhance margins. Clearly being a very focused player, in specific areas we can demand a premium where we deliver services like if you look at areas like digital marketing and large transactions in terms of web application like the application work which we do for Aadhar, there are similar such very large applications where we have unique capability where we can demand a premium. So essentially the margin levers will come from one certain level of operating efficiency which you can improve which is utilization which is expanding or balancing the pyramid which we have and through unique services where we have world class



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capabilities for which we can demand the premium based on the value add which we are able to demonstrate.

Hitesh Zaveri Sure, thank you very much and best of luck.

Moderator Thank you. The next question is from the line of Abhishek Kumar from Centrum Broking. Please go ahead.

Abhishek Kumar Sir just one clarification, what was the revenue loss in Q4 from the Kyocera's client?

N Krishnakumar 2.5 million.

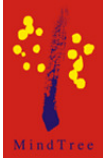
Abhishek Kumar Because I just heard that it was 1 million somewhere.

N. Krishnakumar No, 2.5 million, it sort of had an impact about 3% on our quarter-on-quarter growth, little less than 3%.

Abhishek Kumar Another question is one of the larger peers today announced the wage hike to be in 12 to 14% range and their attrition is significantly lower than ours. So do you think 10 to 12% offshore salary hike is enough to stem the kind of attrition that we have or will there be scope of further revision?

N. Krishnakumar We do not anticipate, just to answer the second point on attrition, clearly as a philosophy we have never approached the philosophy of having employee related bonds like for our campus recruits, we do not have a bond. If we send a person on overseas assignment, we do not have a bond. So I do not want to comment on others but what we understand in terms of the company which you are referring to, there is a significant level of what you could call other things which we do not believe in but we will also do not think that clearly we need to work in terms of what are the environmental factors within the organization we need to address in terms of controlling attrition and many times I am not even sure whether it is a comparable sort of numbers also. We are not sure in terms of what is it indicates attrition. Coming to in terms of wage hikes, we follow a fairly structured process of having an organization look at our competitive positioning in the market. We look at compensation numbers with respect to various roles and job families which we have and ensure that we are competitive in terms of compensation. In the context of all those inputs which have come in, we believe a 10 to 12% increase on offshore is an appropriate thing and we do not anticipate any other increases during the coming financial year.

Rostow Ramanan The other point to keep in mind also is that even if you see between Q3 and Q4, there is a sharp decline in the attrition even without any compensation increase. So the sharp increase in attrition, I would say between Q2 and Q3 was more because of the business restructuring that we did and the consequent impact on people, etc. Going forward, since there is a good revenue



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momentum and relatively sort of stable business performance primarily will be one important reason to reduce attrition and the planned cost increases we are continuing to make would position us competitively when it comes to talent.

Abhishek Kumar

Okay sir that is helpful. One last question out of the 4000 gross hires that we planned for this year, how much is to cover for attrition. How much will be for growth if you can split that?

Rostow Ramanan

At this point of time, it is difficult to say that, so let us watch during the course of the year how attrition pans out.

Abhishek Kumar

Okay sir, that is it, thanks.

Moderator

Thank you. As there are no further questions, I would like to hand the floor back to Mr. Sushanth Pai for closing comments.

Sushanth Pai

Thanks Farah. Thank you all for joining this call. We look forward to speaking with you in the coming months. 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.