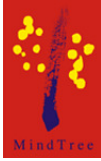


MindTree Limited Q4 FY 2011-12
Earnings Conference Call

April 16, 2012



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Moderator: Ladies and gentlemen good day and welcome to the MindTree's Analysts and Investors' conference call to discuss the financial results for the Fourth Quarter ended March 31, 2012. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sushanth Pai from MindTree Ltd. Thank you and over to you, Sir.

Sushanth Pai Thanks Marina. Welcome to this conference call to discuss the financial results for MindTree Ltd for the Fourth Quarter and year ended March 31, 2012. I am Sushanth from the Investors' Relations team in Bangalore. We have with us the senior management team including N. Krishnakumar, CEO and Managing Director; S. Janakiraman, Chief Technology Officer; Ashok Krishnamoorthy, President, Product Engineering Services; Anjan Lahiri, President, IT Services and Data and Analytic Solutions; Parthasarathy N.S., President, IMTS & Testing and Chief Operating Officer; Rostow Ramanan, CFO; and Babuji Abraham, Global Head, People Function.

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

Please note that this call is meant only for the analysts and investors. In case if there is anyone from the media, I 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. FY12 has been a very satisfying year for MindTree. At the beginning of this year, we faced uncertainties due to leadership change, exit from the phone business, etc. The leadership team adopted a new strategy of building specialization in our chosen verticals, account mining and getting prepared for larger deals. We have made excellent progress during the year on all these fronts, and our strategy is yielding the desired results. We have won several marquee customers and some of the wins were large multi-year relationships.

With these initiatives, I am happy to report a robust 21.7% in dollar terms for FY12 taking MindTree's revenue to \$402.6 million. I would now like to highlight some of the key progress made in FY12 keeping in mind our back to basics approach along with our goal to make



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MindTree a bigger, better, faster and a company closer to our stakeholders' in the years to come. Some examples in FY12 of getting bigger and faster are:

- We achieved our first \$100 million quarter in Q2 along with the milestone of crossing 10,000 MindTree minds.
- We have won large deals and multi-year relationships in the infrastructure management space. Pursuing large deals will be a key thrust area going forward and will significantly strengthen our front-end presence towards getting success on this initiative.
- Our client mining initiative has yielded positive results as follows - number of \$1 million accounts have increased by 10 to 77 during the year, \$5 million accounts have increased by 3 to 17, \$10 million accounts have increased by 1 to 7, and \$20 million accounts have increased by 3 to 4. Top 10 customers have consistently grown ahead of MindTree's growth in every quarter.
- We are in the final stages of completing the prestigious Aadhar project. We are proud to have been associated with it as the technology has been cutting edge and we believe this will be a key game changer in the Indian context.
- We completed our largest campus intake to date having got about 1800 campus minds on board. We have honored all the campus offers we have made till date. We have revamped our training programs to cater to this and this is yielding results by helping push down our weighted average people cost. We intend to continue this approach over the next few years. Our plans to set up a world class training facility in Bhubaneswar will further strengthen our ability to increase campus intake and get them ready for customer deployment quicker.

Some of the initiatives to get better are as follows:

- Our client count has reduced from 277 at the end of the last year to 237 now, which is a part of our discipline of improving the quality of our customer addition and focus on a few segments.
- We have improved the EBITDA margin from 11.2% at the end of Q4 FY11 to about 14.5% in Q4 FY12 on a stable currency of 45-46 due to the operational excellence initiatives in the areas of employee pyramid, control on cost, reducing billing gaps and efficient management of fixed-price projects.
- Attrition on an LTM basis has also come down from 25.1% at the end of last year to 18.2% currently.
- We are using the experts in the field of leadership assessment, customer, and people satisfaction as well as services branding. A comprehensive assessment of our leadership team has been carried out to prepare and create a leadership funnel for larger success. This transition has necessitated some changes, and we have worked on them with speed and empathy. We are also currently working on rebranding initiatives to reflect MindTree's new strategy and focus in the market.



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Some of the initiatives of getting closer to our stakeholders with our customers and our people:

- The management team is completely aligned to the simple and far more effective structure and a structure which is aligned to our strategy. This will help us execute more positively in the coming years.
- Some key changes in the organizational structure and to the Board - some of which we have already announced are as follows:
- Subroto Bagchi and Dr. Albert Hieronimus have assumed new roles in the Company's Board of Directors as Chairman and Vice Chairman respectively effective April 1, 2012.
- Prof. Pankaj Chandra, Director IIM Bangalore has joined the board with effect from March 19, 2012. Prof. Pankaj Chandra is a respected name in management education, research, and policy.
- George Zacharias, Chief Strategy Officer assumed the additional responsibility as Chief Marketing Officer, thereby combining strategy and marketing.
- Parthasarathy N.S., President Testing & IMTS assumes additional responsibility as Chief Operating Officer.
- Janakiraman S. has assumed the role as President, Products and Chief Technology Officer to provide greater thrust towards technology excellence, enhancing nonlinear revenues and building businesses in emerging areas such as mobility, cloud, and big data.
- Ashok Krishnamoorthy continues to lead the Product Engineering Services as President and will report to me.
- Anjan Lahiri takes additional responsibility of data and analytic solutions and an executive sponsor of a key strategic account cutting across both our businesses. He will continue to lead IT Services.
- In our IT Services business, we have invested significantly in bringing in senior external talent to lead our efforts to prepare for and win large deals. We have announced the opening of our first major US development center in Gainesville, Florida to build a near-shore capability.

The entire management team at MindTree is committed to delivering long-term value to all our stakeholders. To align the interest of the management team with creating long term shareholder value, the board today announced a restricted stock unit and stock appreciation plan. The RSU plan will have 1 million units. Roll out of these plans will be subject to share holders and other required approvals.

Some of the other highlights of our Q4 results are as follows:

Q4 revenues were \$105.04 million representing a Q-o-Q growth of 1.3% and a Y-o-Y growth of 21.8%. Our IT Services business reported a 1.8% growth Q-o-Q. Product Engineering Services business grew by 0.3% Q-o-Q. We added six customers during this quarter. With this, we have 237 active customers including 37 Fortune 500 companies. During Q4, \$20 million



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customers increased by 1 to 4. I am also happy to report that we have improved operating margins significantly by about 140 basis points and today have EBITDA margins of 18.7% as compared to 17.3% at the end of last quarter. Rostow will provide more details on this later.

We have also had some significant wins in this quarter, the details of which we have given in the press release. In the interest of time, I am not repeating the details here. On the people front, the attrition on a trailing 12-month basis has come down to 18.2% compared to 19.4% at the end of Q3. Quarterly attrition annualized has come down to 15.9% compared to 18% last quarter. We end the year with 11,000 MindTree minds reflecting a gross addition of 502 minds in this quarter.

Now let me provide some key pointers on the outlook for FY13 as seen by us as a management team. Overall, we expect to grow higher than the industry growth in FY13. For our IT services business, the growth momentum will continue; however, the growth rate will be slower than FY12 due to our size and caution in certain segments such as BFSI. We are increasing our efforts to pursue large sales; however, we need to see how these will pan out into wins and correspondingly revenues during the current financial year. Overall, the client feedback is that their IT budgets are stable but decisions are getting delayed and visibility is narrower. We expect muted growth in the initial quarters. The product engineering business faces some challenges in form of captives, delayed decisions on product road map and areas like semiconductors and consumer devices are facing challenges. Areas such as enterprise and portal are expected to show increased traction as clients ready themselves for the next version of products and building in more functionality into their current version. We have restructured the product engineering business over the last year and will continue to drive changes during the current year also, and we expect that the product engineering services business will be able to deliver a near double digit growth. However, I need to caution that this business is prone to a high degree of volatility, and we will keep you updated on the progress we are making as we go along.

At a company level, we have made 3000 campus offers; laterals will be hired on a planned and requirement basis. We believe as a management team that our approach of building deep specialization, focus on account mining resonates well with what the customers are looking for and therefore, we are confident that FY13 will also be a successful year for MindTree. 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. Some of the additional points on our Q4 and full year results for FY12 are: In Q4, our fee revenue grew by 1.3%. This breaks down to a volume growth of 4.9% and a price realization decline of 3.6%. However, it is important to note that the price decline was mainly because of the bump up of the realization that we got in Q3 where some of our projects completed the transition phase and went into a steady state, however, if you take an average of Q2, Q3, and Q4, pricing has been stable. Overall, from a market environment perspective also we see pricing as stable.



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On a full year basis, MindTree's revenue were \$402.6 million, which is a 21.7% growth year-over-year. The IT services business declared a revenue of \$264 million, which was a very strong 37% growth in the year. We believe this is amongst one of the best in the industry for this year. The product engineering services has a revenue of \$138.6 million which was basically flat over the previous year, however, if you exclude the impact of ramp down from one of our large Japanese customers in the segment, the growth in the business will be approximately 10%. Given the challenges, this business faced during the year, we believe that this is a creditable performance.

Margins: EBITDA margins in Q4 increased by 140 basis points mainly because of revenue growth and operational efficiency. Currency impact in this quarter was negligible because the average exchange rate for Q4 was almost flat compared to Q3. In the beginning of this year, we had outlined some of the steps we are taking to improve margins, and we have shown consistent improvements each quarter of this year. We are happy to announce that we have reached an EBITDA of 18.7% in Q4 at an average exchange rate of 50.02. If you take a constant currency basis of about 45 to 46 INR to the dollar, our EBITDA would have been 14.5%. Full year EBITDA was 15.3% in FY12 compared to 11.8% in FY11. This again reflects the success of our back to basics approach that KK outlined in the beginning of this call. Net Forex loss for this quarter is \$830,000. Q4 PAT is at 13.1% compared to 11.7% in Q3. For the quarter, PAT has increased by about 14% Q-o-Q and by about 96% Y-o-Y. Full year PAT is at \$45.9 million which has grown by 106% compared to the previous year. EPS for the quarter was 16.8 and EPS for full year is 54.14. EPS has shown a significant growth of 118% compared to the previous year. Effective tax rate in Q4 was 16.5%. The effective tax rate for the full year is 16.4%. Cash position at the end of the quarter was \$62 million compared to \$33 million at the beginning of this year, we have shown a very strong cash flow and cash generation during the year. Utilization including trainees was 67.8% and utilization excluding trainees was 72.1%. We expect the utilization to pick up over the next few quarters. As of March 31, 2012, we had \$154 million worth of hedges at an average rate of 49.07 for FY13 of which we have \$29 million dollars of the old leveraged options and this will completely expire by March 2013.

The board of directors recommended a final dividend of 15%, which is INR 1.5 per equity share for the year ended March 31, 2012.

Coming to the margin outlook for the next year, we are continuing to focus on driving revenue growth and margin increases. There are some short-term challenges like the planned people cost and significant focused investments at the front end to help us win large deals, which should impact margins. However, the initiatives on the operational excellence and other measures to improve margins will continue and therefore, we expect the margins in FY13 to be slightly better than margins in FY12. This outlook is based on our constant currency assumption. Any impact of rupee will be over and above this.



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Our Capex investment for next year is expected to be in the range of \$25 to \$30 million. Our effective tax rate is expected to go up slightly to about 20% to 21% in FY13 as two of our SEZ facilities complete their 100% tax holiday period and get into the 50% tax bracket next year. With that we would like to turn this over for question and answers.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from Nitin Mohta from Macquarie Capital. Please go ahead.

Nitin Mohta Thanks for the opportunity. Last quarter you guys had talked about a milestone payment. If I were to exclude that would it be fair to assume that IT services business grew 3% to 4% in the last two quarters of the fiscal?

Rostow Ramanan Yes, that's right.

Nitin Mohta And the second question is on the cost of revenue, it was a decline of absolute terms on Q-o-Q basis. Can we understand what exactly has driven that?

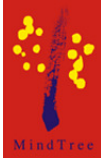
Rostow Ramanan There were some changes to people cost mainly because the gross addition was 500 but the net addition was 66. So, we are getting the benefit of the pyramid broadening. i.e, some of the people who left us were the more expensive people and they have been replaced with younger people in the overall mix. So, that is what led to the people cost movement.

Nitin Mohta Last quarter, you had mentioned that utilization should ramp up as the bulk of the campus batches joined in second quarter and third quarter, but if you look at the fourth quarter utilization has declined again. Was there any slow down that you experienced through the quarter which was not present when we talked last in January?

Rostow Ramanan No it was not so much of that. It is just as the batches finish their training so then they start getting included in the denominator, which is what lead to the utilization to dip. If you see the volume growth in this quarter was quite strong at almost 5%. So, there is no business slowdown as yet; however, the utilization moved mainly because the earlier batches of campus graduates complete training and get counted in the denominator.

Nitin Mohta Are there any thoughts on salary hike that you want to share?

N. Krishnakumar See, clearly the way we see this thing is at MindTree we believe in being competitive with respect to the market on compensation and the process we follow is a fairly structured process of taking assessment of how competitively we have positioned and right now, we are in the midst of completing the market data collection. One other key input to the whole compensation revision will be the performance management cycle where again we have a very robust process and will complete that by mid May and based on these inputs we will take the decision but by and large we will stick to our earlier premise of 75% of our team getting a revision in the next



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cycle and 25% of the people will be subsequent. What would also have a headwind on the margins for the next quarter will be the Visa, where the H1B Visas have to be applied for on the first of April. So, that would also be another headwind which we need to factor in while we look at how the margins will pan out in the next two quarters. But what we overall think is based in terms of an initial assessment of data which we have seen ,which I would think is fairly broad is that the increase numbers are going to be certainly lower than last year.

Moderator Thank you very much. The next question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran Just wanted to understand; FY12 was a good year, in terms of managing the priority, what will be the top three priorities for FY13?

N. Krishnakumar Clearly Srivatsan, I think, it is an interesting question like we said, I think , one is to continue the discipline of improving the quality of our business. So, like we have sort of been disciplined on not getting every customer, I think, improving the quality of our business is important. To that extent, the strategy supported by a set of must win accounts which we have ,where we believe we will be relevant and important to that customer. So executing on that discipline of improving the quality of business is going to be a challenge. Certainly, how the currency volatility is going to play out and how we manage that is going to be the second element of thing. The third element is we need to continuously focus on improving our employee pyramid, try to drive the operational efficiency initiatives which we have and demonstrate that we can certainly improve on those. I see these as the top three challenges.

Srivatsan Ramachandran Any specific reason why RSUs and not ESOPs?

Rostow Ramanan We evaluated the mechanism of rewarding our people using some external consultants and understood the legal frameworks, etc. Generally, it was found that the stock option scheme has lost favor with the current and prospective employees and some of the feedback we got from the compensation consultants was to look at the RSUs rather than ESOPs.

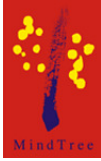
Srivatsan Ramachandran Okay and then Rostow while you are at it, just wanted in terms of the margin guidance you gave us about, margins should improve on a Y-o-Y basis, on a constant currency basis, just to clarify, if you look at for the whole year, we had about 15.3% EBITDA margins at an average rupee of 47.5. So, if you have to assume where we close this quarter which is 50 odd rupees, then we should see a substantial upside to the margins?

Rostow Ramanan I don't want to comment specifically on that question. Qualitatively and from an operational perspective, because that is what is in our control and the currency is outside our control. On an operational basis, some of the initiatives we are taking to improve the margins will continue. So, on a full year basis, we expect that benefit to accrue to margins. Any plus or minus on currency will be over and above that.



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- Srivatsan Ramachandran** Sure.
- N. Krishnakumar** I think, we will give you enough of data and things to make that judgment so that you will find us having being absolutely transparent on sharing with you all the data relating to that.
- Srivatsan Ramachandran** One last data point, what is the average rate you said for the hedge book?
- N. Krishnakumar** 49.07.
- Moderator** The next question is from Manik Taneja, Emkay Global. Please go head.
- Manik Taneja** Congratulations to management for good execution. Just wanted to get a sense on first of all on IT Services if you could break the demand trend across the three business verticals for us and secondly if you could also let us know how would the journey of the 3000 campus offers that we made is spread through FY13?
- N. Krishnakumar** Anjan will answer the question on the IT Services and then Partha will talk on the campus recruitment.
- Anjan Lahiri** In terms of BFSI, it has been a strong growth engine for us last year. Over the last few months, we have seen a little bit of stronger sort of constriction but continues to be, you know, we don't see any panic. We don't see any closing of budgets, but we definitely see a little more caution and delay on the BFSI side, although, it has been a fair cause for our growth. Manufacturing continues to be fairly strong as does travel. So, we expect these to continue with a little bit of definitely stronger headwinds on the demand side that we have seen before, although, we do not hear about customers either canceling their budgets or actually even reduction in budgets but we are seeing a little of bit more conscious delays than we have seen and it might have actually accelerated or become stronger in the recent past.
- Parthasarathy N.S.** On the campus addition, like KK mentioned, we have made 3000 offers, normally our joining ratio is anywhere from 70% to 75% and that we expect will continue this year as well. In terms of the actual joining date, we normally spread them through all the four quarters. We started a small batch in Q1 and bulk of the addition happened in Q2 and Q3. We expect that to continue in this coming year as well.
- Manik Taneja** Sure, the last question is for Rostow in terms of wage increments, you guys indicated that you have still not decided on the quantum, would that be implemented from April 1 itself for 75% of staff?
- N. Krishnakumar** Manik, we are just in the stage in terms of looking at the data so, I would not say today we have made a decision on that. Certainly, as and when we have clarity on that ,we will keep you updated.



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Moderator The next question is from HR Gala from Quest Investment Advisors, please go ahead.

HR Gala Okay, as far as the hedge book is concerned, did you say, it is \$150 million?

Rostow Ravanan \$154 million.

HR Gala That is at an average rate you said of 49.07.

Rostow Ravanan That is correct.

HR Gala Okay, so, does it imply that if the rate remains at the current level of say 51, 52 in the next year we will be incurring MTM losses?

Rostow Ravanan There won't be MTM losses, there will be normal exchange gain or loss, because the bulk of it like I explained are qualifying hedges, so that will be an exchange loss on this portfolio if the rupee remains where it is right now on the hedged amount. However, the unhedged amount will give us a benefit of depreciation.

HR Gala Now, how much is the exchange loss or gain we are carrying in the balance sheet?

Sushanth Pai On the OCI, the exchange loss is about \$4.9 million, on the OCI.

HR Gala Yeah, another question is you mentioned in the answer to the first question that excluding milestone revenue of ITS, sir, can you just throw more light on that, how much was the quantum?

Rostow Ravanan Sure, we explained this in the last quarter as well. The issue was not the quantum of the revenue. The issue was that was a milestone based revenue that was recognized on a project, which was transitioning from knowledge transfer to steady state billing.

HR Gala Yeah, that was in Q3.

Rostow Ravanan Correct, so therefore the impact was to realization, not to revenue because revenue that belongs to the quarter, but it got completed at lower efforts than originally planned, so therefore it has boosted the realization for the quarter, excluding that, the pricing between Q3 and Q4 is more or less flat.

HR Gala What is the Capex in the current year that ended, FY 12.

Rostow Ravanan Little less than \$10 million. I think it is about \$9.5 million of Capex of this year. The main reason why the number was slightly lower than what we originally planned, at the beginning of the year, we thought it would be somewhere in the \$15 million to \$17 million Capex for this year, but it ended with slightly lower than that because one of our large campuses that we are



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building in Bangalore has got stuck for some regulatory approval, so we couldn't complete the project on time and therefore that amount is getting shifted from this year to next year.

HR Gala That is why in the next year, you have guided that it will be around 8 to 9 million?

Rostow Ramanan Next year's Capex, i.e. FY13 Capex is likely to be in the region of \$25 to 30 million.

HR Gala So that will include this spillover.

Rostow Ramanan Exactly.

Moderator Thank you. The next question is from Dipesh Mehta from SBICAP Securities, please go ahead.

Dipesh Mehta Sir, you have suggested about the employees pyramid which led to this absolute decline in salary. Can you provide at the beginning of year what would be your employee pyramid, 0 to 3 years or any other quantifying number you can provide and what is at the end of FY12?

Rostow Ramanan Sure, more than the employee distribution, I think more important would have been that of average costs of person for offshore was Rs. 700,000 in the beginning of the year that has dropped to 677,000 at the end of the year but if you have to look at your specific question, beginning of the year, less than three years experience were 30% of the population, now it is 36% of the company.

Dipesh Mehta And do you expect that 36%, still some scope is there where we can increase it further?

Rostow Ramanan We are sort of tracking it based on the business requirements. Like we explained that some of these initiatives are long-term, so there are planned campus additions for next year like KK explained as you know, we have already made 3000 offers. Some of these are expected you know to play out over the next two or three years.

Dipesh Mehta Okay, in medium term, let's in the next three years, considering our service mix and our overall portfolio, you expect this 36% to be stable at the current level or you see to increase by further 5, 6%.

Rostow Ramanan Difficult to predict an exact number, but this initiative is a long-term initiative. We are continuing to implement this over the next two to three years.

Dipesh Mehta Can you provide a comment about geography wise whether we have seen any difference in US and Europe from last quarter what we have suggested or any other comment if you want to add about any geography-specific?

N. Krishnakumar See, clearly we are starting to see like Anjan explained there has been a momentum and US has sort of come back into the growth mode. Europe was largely driven by a few key large accounts



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that we won and like Rostow explained that we had a significant number of multi-year deals getting into from a transition to a steady-state mode, Europe has been largely flat during the current year. So by and large, we do anticipate that yes there are delays in decision making caution on sort of some of the decisions but there is no sign of negativity or panic in both these major markets.

- Dipesh Mehta** And sir, delays what we are seeing are largely from US customers or it is very broad based.
- N. Krishnakumar** It is broad-based.
- Dipesh Mehta** I just missed old hedges, how much we have still outstanding, out of 154 million?
- Rostow Ramanan** \$29 million.
- Moderator** The next question is from Hardik Shah from KR Choksey, please go ahead.
- Hardik Shah** Sir, you mentioned like in Q1, you are witnessing almost a muted growth . Are we seeing any ramp down or any particular reason for the same, in particular client case?
- N. Krishnakumar** Except one or two clients we are not facing any key ramp down, like we mentioned I think we are in fairly closed touch with our top 50 customers and except one or two clearly we are not hearing any negative messages and again the ramp down is largely focused in terms of some large technology clients in the Product Engineering Services business. In the last few weeks in BFSI, certainly we have started seeing far more caution than what we saw earlier in the quarter.
- Hardik Shah** Within BFSI you are seeing concern like Capital Markets or Insurance or Financial Services itself?
- N. Krishnakumar** No, it is not any specific segment but I think it is fairly broad-based.
- Hardik Shah** We are not seeing further spending in like stoppage of the work on new regulations something like that.
- Anjan Lahiri** From a trend standpoint as we have mentioned in the last quarter also, we see that unlike, you know, even if there is a little bit of a trend or making, unlike the previous decisions 2008 to 2011, capital spending continues to be a priority so people are definitely not pulling back based on our own experience. Having said that they are being a little more circumspect before the ramp up or speed up as they might have planned three-four months ago.
- Hardik Shah** Volume has increased by 5% but our utilization has come down and where our net addition is more or less muted, so what is the reason for the same?



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- N. Krishnakumar** No, I think, one obviously you are right in picking up there is a volume growth has been strong, the utilization drop is fairly because of a very aggressive thing we have on trainees. Every campus recruit after 90 days is considered as a part of the billable manpower and since the first two batches of campus training completed the training the denominator has grown, which is why you find that utilization has dropped but if you really look at that is clearly the reason why the utilization excluding trainees have seen a marginal drop.
- Moderator** The next question is from Shraddha A from B&K Securities, please go ahead.
- Shraddha A** If I understood right you said Product Engineering is expected to grow at a double digit in FY13 and you also mentioned that you have witnessed some cautious delay in the demand environment. So what gives us confidence that PES would perform better than this fiscal compared to last?
- N. Krishnakumar** No, I just want to correct, I said near double-digit, so it is not that one is committing a double-digit, I also qualify saying that this is the business which is prone to volatility and we will continue to update you. I think we are doing a number of things here to try and change the business in the context of what we see as big changes in the market itself. I think the product engineering services market is changing dramatically with the advent of captives, with uncertainty in the economic environment, so we are evolving an entirely new approach to see how do we become relevant and valuable to our customers and in the context of what we hear from some of the key customers in the product engineering services business, we are still confident that we will deliver near a double digit growth or obviously I think we need to watch in terms of how the next one or two quarters pans out and we will keep you updated on the progress.
- Moderator** The next question is from Omkar Hadkar from Edelweiss Securities, please go ahead.
- Kunal Sangoi** Hi this is Kunal Sangoi. My question is with regards to the Forex loss that we have reported, 40 million. Rostow, if you can throw some light with regards to breakup between what is a translation loss and what is actual incurred loss.
- Sushanth Pai** The translation loss is about \$5.9 million and the MTM gain is about \$5 million. So approximately, the loss for the quarter is \$820K.
- Kunal Sangoi** And this MTM gain, so basically these are AS 11 hedges.
- Sushanth Pai** MTM gain is basically the leveraged options, since it was marked to market 53.10 at the end of last quarter and now the mark-to-market has been at 50.88 there has been a gain on the MTM of leveraged option.



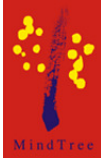
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- Kunal Sangoi** Okay, because last quarter you had commented that there were \$44 million worth of hedges at 46.3 which will mature in Q4?
- Sushanth Pai** See there are two types of hedges. On the leveraged options, whatever mark-to-market comes, the gain or loss comes to the P&L which I have mentioned again. On the others, whatever you do mark-to-market does not come to the P&L and is parked in the balance sheet, which is at about \$4.9 million in the OCI. So the loss that I am talking about is \$5.9 million is basically the loss on the actual Forex realizations during the quarter as well as any debtor revaluation impact.
- Moderator** Thank you. The next question is from Dipesh Mehta from SBI CAP Securities, please go ahead.
- Dipesh Mehta** Sir, whether we are seeing any project cancellation or deferment or ramp up is not happening as per schedule during the quarter?
- N. Krishnakumar** See like I mentioned earlier, yes in a few clients in our product engineering business, we have seen ramp downs. Clearly there have been delays in decision making so start dates have got delayed. There is more scrutiny before decisions are being made. So if there is a certain sales cycle time, which would have anticipated earlier that cycle time is elongating and there is more scrutiny.
- Dipesh Mehta** Okay and just to understand Forex again, translation loss amount you said is around 5.9 million.
- Sushanth Pai** No, what I said is the translation loss is not only the translation loss. The total Forex loss, which is translation as well as the realizations in the quarter that is \$5.9 million and the leveraged option MTM gain is \$5.1 million, so the net impact is approximately \$800 K.
- Dipesh Mehta** So can you bifurcate between translation and realization loss out of 5.9 million.
- Sushanth Pai** No, we don't have the breakup of that currently.
- Moderator** Thank you. The next question is from Madhu Babu from Sunidhi Securities.
- Madhu Babu** Sir, could you talk of any large deals that we are pursuing?
- Anjan Lahiri** In terms of deals just to give a macro picture, according to ISG, TPI, obviously a large number of smaller deals are coming up. So the larger deals are getting broken up. So our sweet spot is deals in the \$25 to \$50 million range and over the last six to eight months, one year, we have seen us being considered for a much larger number of them than we have traditionally been in the past. So we have done a lot of things to enable to compete in them more effectively as KK has mentioned, we also have put in a stronger frontend team for that. So we are pursuing them, but of course, the way it contributes to growth and our ability to convert is still work in progress.



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- Madhu Babu** Sir and when we are talking of industry growth, we are saying we will grow higher than the industry growth. Are we talking about this NASSCOM growth currently, which is 11 to 13%.
- N. Krishnakumar** NASSCOM is just an estimate but whatever is the final end result of the industry growth is what we think will exceed.
- Madhu Babu** Okay, so it is not more than 11 to 13%.
- N. Krishnakumar** No.
- Madhu Babu** Okay and third thing is we are doing some onsite hiring, so what that impact will be on the margins?
- N. Krishnakumar** Clearly I think, as you have seen our announcement, I think we are getting prepared for the environments where we need far more predictability in the way in which we deliver our business and you would have seen an announcement that we are opening a center in Gainesville in Florida, which will be a near shore option because that is one of the key requirements of the customers. So some of this will clearly drive our business and deliver in an agile manner to our customers, but like Rostow mentioned in the early part of the call, we have factored in all these factors and still believe that we will be able to deliver improvement on margins on a constant currency basis.
- Moderator** Thank you. The next question is from Ashish Agarwal from TATA Securities, please go ahead.
- Ashish Agarwal** Just two questions from my side. First of all sir, have we seen our visibility deteriorate as compared to starting of the quarter?
- N. Krishnakumar** See I think caution is certainly continuing and the caution is resulting in the visibility getting narrower. I won't say there is a big transition from what was there in the beginning of the quarter. Though the last three weeks, yes the caution may have marginally increased.
- Ashish Agarwal** And sir, you also said that there has been some project delay, etc. Are these project delays being more than what we expected at start of the quarter and if it is then is it able to quantify, we can quantify that?
- N. Krishnakumar** See, we would not be able to quantify specifically what this is but I'll be able to give you qualitative comments that certainly in our product engineering services some delays and ramp downs were not anticipated in the beginning of this quarter.
- Moderator** The next question is from Abishek Shindakar from ICICI Securities, please go ahead.



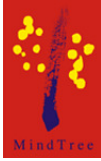
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- Abishek Shindakar** Sir, just to follow up with the growth rates, you suggested that you might top the industry growth, but you also suggest that Q1 will be muted, so are we expecting growth to be back half-ended?
- N. Krishnakumar** Yeah, currently the way in which we see customers having conversations with us, I think we do expect that as the year progresses the growth will also enhance.
- Abishek Shindakar** And if you can also elaborate I mean, are you seeing that for both IT services and PE services?
- N. Krishnakumar** Yes for both the business the initial quarters the growth is expected to be muted.
- Abishek Shindakar** Okay, and just to follow up with that, any comments about the top client contribution and sequential revenue momentum for the top client.
- N. Krishnakumar** See like we mentioned, last time was the first time when we had a new top client and Rostow in the call earlier mentioned about a key transition which we did, which increased revenues of that top client during that quarter and consequently this quarter the top client is showing a marginal decline. There is no big impact of the business itself, but just the business has reached a steady-state.
- Moderator** Thank you. The next question is from Sandeep Muthangi from IIFL, please go ahead.
- Sandeep Muthangi** I was wondering if you could give me some insight into the large deal initiative that you are doing. First of all would be , you mentioned that you are seeing an increasing acceptance of MindTree in lot of RFPs, etc. What you attribute this to? Is it because your mining within the key clients have increased or are you also witnessing increase in traction from some of the new clients that you may be after?
- Anjan Lahiri** A couple of things, I think there are some psychological barriers I think when we crossed the 1000 people mark, people stopped saying that we are a start up. Similarly I think after we crossed the 10,000 person mark, I think people just psychologically believe that now we are okay to compete for deals in the \$25 to \$50 million range that combined with some of the you know very important and unbeatable metrics of companies in our size in terms of dependence on any top customer, the contribution of top five customers to our revenue, the contribution of top 10, our focus on certain verticals, our unmatched delivery excellence and capability and improvement that we have done is really proving to be getting us over the consideration hump. Now we are putting more investments into the frontend, which would further enhance and improve our ability to engage with customers in that range of \$25 to \$50 million deal range.
- Sandeep Muthangi** Great, any specific industries where you are focusing your investments on?



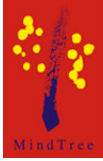
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- Anjan Lahiri** Again, we have tried to sort of focus on that, our main industries are BFSI, Manufacturing, Retail and CPG and Telecom and then Media and Travel. So they continue to be our main industries and we are continuing to focus on that.
- Sandeep Muthangi** We have seen some of the commentary even from the larger vendors indicating a confidence in the pickup of business during the second half. I am seeing a similar commentary even from you. So what is giving you this confidence when you expect the first two quarters will be muted and recently you have been mentioning that things have worsened. So where is the confidence coming from our second half pickup?
- Anjan Lahiri** A very good question. You know in all our conversations, we are in very close touch with our customers as well as if you read Gartner's and Forrester's surveys, global CIOs are not talking of any cut in budgets, they are saying it is flat or marginally positive at the same time as KK mentioned, in the last month or so, we are beginning to see a little bit of more, more stronger caution than we did last quarter, so the budgets are constant, people are continuing their commitments to capital projects as well as IT investments, at the same time, we are seeing a little bit of a caution, but projects are not being shelved or cancelled. They just getting into more details and more discussion, so we believe the work is still there, will continue to be there, but might get pushed out a little bit.
- Moderator** Thank you, the next question is from Ankit Pandey from SBI CAP Securities. Please go ahead.
- Ankit Pandey** I just had to clarify one thing around the top customer. So I think last quarter, we mentioned that the top customer changed from the second to the first. Now has it flipped back?
- N. Krishnakumar** No, the top customer continues to be the large European telecom company.
- Ankit Pandey** Okay, so basically the difference of \$0.7 million is the absence of transition revenue.
- N. Krishnakumar** That is right
- Ankit Pandey** Okay, and what will be the one-offs in the employee cost quarter-to-quarter from Q3 to Q4 or in both of them, because it does seem low so I was wondering is there any one-off discount from there.
- Rostow Ramanan** There are no one-off between the two and the main benefit that we got between Q3 and Q4 to a certain extent was that the benefit of the employee pyramid getting broadened. We have about 500 gross addition and a net addition of about 66 effectively therefore some of the more experienced people who are leaving are getting replaced with younger people so that is what led to the cost to be more or less flat between last quarter and this quarter.



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- Ankit Pandey** I was just wondering around couple of the large infra deals that we signed last year, so how is the ramp up progressing in those areas?
- Parthasarathy N.S.** Most of the infrastructure deals that we announced have all got into steady-state right now, but for some small deals which we will expect the transition to be completed in the next month or so.
- Moderator** Thank you. The next question is from Anurag Jain from Irevna, please go ahead.
- Sandeep** Yeah sir, this is Sandeep here, sir, just in terms of furtherance to what Sandeep Muthangi asked. Sir, you said last three to four weeks, there is an increased caution, so based on your interaction with your top 50 clients, what are the key reasons for this caution. Can you give some idea on the same?
- Anjan Lahiri** I think the key reasons, whatever reasons we give, I think you will come up with the same reasons. I think people have gotten a little more concerned whereas the US has come back into a growth phase.
- Sandeep** Yeah that is my question because macro issues are little turning stable.
- Anjan Lahiri** They are actually at one level stable, company's profits continue to be strong, but in the last couple of weeks, again, this is just a conjecture, I think the European situation might have caused a little more concern across and people just tightened up. It is just a reflex action but basic corporate performance there is no reason to be any more concerned than before and the only change I would say was may be the European situation which seems to be just something which is coming back.
- Sandeep** Okay and this pattern you see in both on your development side which is discretionary as well as in terms of outsourcing which is more like a cost takeout project?
- Anjan Lahiri** You are right except for unlike in past cases where we saw a very clear disengagement of development projects, we are definitely not seeing that. In fact people are taking extreme care to communicate that their commitment to the development projects remain strong.
- Sandeep** So even in the outsourcing projects, there are some kind of delays.
- Anjan Lahiri** Outsourcing projects are actually in tough times so they save costs, so they remain strong for sure.
- Moderator** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand over the conference back to Mr. Sushanth Pai for closing comments.



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Sushanth Pai

Thanks, Marina. Thank you all for joining this call and we look forward to speaking with you in the coming months, thank you.

Moderator

Thank you very much. On behalf of MindTree Limited, that concludes this conference call.