Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second quarter ended September 30, 2013 (Q2 FY2014)

October 23, 2013

Welcome to possible

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Conference Call to discuss the results for the second quarter that ended 30th September, 2013. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai of Mindtree Limited. Thank you and over to you sir.

Sushanth Pai: Thanks, Inba. Welcome to the conference call to discuss the financial results for Mindtree Limited for the second quarter ended 30th September, 2013. I am Sushanth from the investor relations team in Bangalore.

On this call, we have with us the senior management team

N. Krishnakumar – CEO and Managing Director;
Janakiraman S – Chief Technology Officer;
Parthasarathy NS – COO & President, Enterprise Service Lines,
Ravi Shankar B – Chief People Officer;
Rostow Ravanan – CFO;
Veeraraghavan R.K. – Chief Delivery Officer;
Paul Gottsegen – Chief Marketing and Strategy Officer.

The agenda for the session is as follows
Krishnakumar and Rostow will begin with a brief overview of the company 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 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 a Safe Harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically.

I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thanks, Sushanth. I'm happy to report a second consecutive quarter of strong revenue growth this year. This was possible with focus on relentless execution of our new strategy.

Q2 revenue was $124 million which is a growth of 5.4% quarter-on-quarter and 15.6% year-on-year in dollar terms. On a constant currency the quarter-on-quarter growth was 5.7%.

Other highlights of our Q2 results are as follows:

- Manufacturing, Retail, CPG led the growth with 8.9% quarter-on-quarter followed by Travel and Transportation at 7.8%.From a service line perspective our Infrastructure Management Service posted a robust 20.5% quarter-on-quarter growth. This is the second successive quarter when Manufacturing, Retail, CPG, and our Infrastructure Service lines are posting strong quarter-on-quarter growth.
- We added 9 new customers during the quarter.
- At the end of this quarter we have 220 active customers. Our $5 million customers grew to 21. We have introduced a new category of $30 million and have three $30 million customers.
- We continue to make significant progress on the attrition front, with attrition on a trailing 12-month basis coming down to 11.9% from 16.3% in Q2 of FY13.
- We have 12,941 Mindtree minds reflecting a gross addition of 1,122 minds in this quarter. The people addition has been strongest for the last several quarters in Q2.

Now, for some points on outlook:

In Q3 due to seasonality of the quarter we expect the growth will be slower. Also, some segments will be affected due to furloughs or "Golden Week" declared by certain clients and this is likely to impact our growth rates. If we take our past trend the growth we had reported in Q3 for the past 2-years was 2.3% and 2.5%. We have signed orders worth $142 million during the quarter; this includes both renewals as well as new orders.

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

Rostow Ravanan: Thank you KK and Good evening to all the members of the financial analysts and investors community on the call.

In Q2 our fee revenue growth was 4.8% which breaks down to a volume increase of 5.8% and decrease in realized rates contributed 1%. This is the second quarter of consecutive strong volume growth. Margins at an EBITDA level in Q2 were 20.8% compared to 18.4% in the previous quarter.

The margin movement comprises the following:

- We got currency benefit of 4.5% and reduction in visa cost incurred in Q1 contributed to 1% improvement in margins
- Compared to that we had some negatives - Shift in the onsite ratio led to a cost increase of 0.6%. Increase in people cost both due to salary revisions as well as new joinees contributed 1.6%. Other SG&A items increased by 0.9%, therefore we had a net 2.4% impact leading to an EBITDA increase to 20.8% in this quarter.
- Since the onsite mix has been increasing slowly during the course of the last 2 quarters, this trend leads to a change in the impact of exchange rate. As of today a 1% movement of the rupee rate would lead to a 35 to 40 basis points impact to margins.

- Forex gain for this quarter was $3.2 million. The rupee depreciated to 62.61 on 30th September compared to 59.39 on 30th June. For the quarter rupee depreciated by approximately 12.5% with 62.08 compared to 55.05 in the previous quarter.
- Effective tax rate for this quarter was 21.9%, a small decline from the previous quarter mainly because of ramp up in some of our new SEZ facilities.
- PAT for the quarter was 16.7% compared to 20.9% in the previous quarter mainly because this quarter had a Forex gain of only $3.2 million whereas last quarter had a Forex gain of approximately $11 million. Therefore, the EPS for the quarter also declined slightly, the EPS of this quarter was Rs.30.74 compared to Rs.32.4 in the previous quarter.
- DSO improved to 74 days compared to 77 days in the previous quarter.
- Utilization including trainees decreased to 65.9% compared to 69.6% mainly due to the campus additions in this quarter. Utilization excluding trainees has decreased to 70.3% compared to 74% mainly because the previous batches of campus graduates have completed their trainings and have moved into the billable category.
- As of 30th September we have $137 million worth of hedges, of which $84 million is for the remaining portion of FY14 at an average rate of 57.57, the balance $53 million is for the next financial year FY15 at an average rate of 62.05.
- Capex spend in this quarter was $8.2 million.

At today's board meeting the board approved an interim dividend of Rs.5 per share for the quarter and 6-months ended 30th September, 2013.

Outlook on margins of Q3:

We anticipate some headwinds on the margin front for Q3 such as salary cost increase of about 20% of our people, the slower revenue growth which KK mentioned and some increases in our people cost partly due to increases in our front end customer facing teams as well as full quarter impact of the headcount that was added in this quarter. This would lead to a small decline in margins compared to the current quarter on an operational basis; any currency impact is outside of this.

At a PAT level if the rupee remains at the same levels as on 30th September then we will have a Forex loss in Q3 compared to the Forex gain we had in Q2 mainly because the realizations will be lower than the rate at which revenues were booked in Q2. With that we now turn this over for question-and-answer.

Moderator: Thank you very much sir. Ladies and gentlemen, we'll now begin the question-and-answer session. Our first question is from Anantha Narayan of Credit Suisse. Please go ahead.

Anantha Narayan: This is Anantha from Credit Suisse. Just I had a couple of questions; the first question was you know the revenue visibility that the company seems to have definitely improved quite a bit in the last year or so. So besides you know the client mining initiatives that you had indicated some time back, is there anything else driving this?

Krishnakumar Natarajan: Anantha, a very good question, clearly like we've articulated beyond just client mining I think the key thing which has really helped us is the focus on a few segments and really articulating a set of new customers we want to have. So one of the other changes which we initiated a quarter back was to segregate our hunting and farming and Scott Staples who is the Co-founder and 'President Americas' has taken the role of President of Global Sales. So, clearly the focus in terms of acquiring high quality new logos has also been very, very good. So I think both beyond client mining, the quality of new logos we're acquiring, and the potential for these new logos to grow in future I think have driven the growth rates. Overall also we see that the demand environment is starting to be better like I shared in our last quarter, we had distinctly seen that the conversations which we're having with both our existing customers and prospective clients is far more positive than what it was 12-months back and you would have seen that this quarter Europe had a very distinct growth which was helped by some of the large deals which we got in Europe about 2 quarters back, they really ramped up during the quarter. So, all of this has contributed to a fairly strong growth and more consistent growth.

Anantha Narayan: And just one more question, may be to Rostow, so both the offshore mix and utilization have dropped quite a bit over the past few quarters, I guess the offshore mix is also one reason could be the erstwhile PES business sort of struggling a bit. Now, in the medium term do you expect any improvement in that mix and more importantly where do you think utilization numbers could be?

Rostow Ravanan: I'll take both parts of your question, Anantha. The change in the onsite mix is more because of some project-related anecdotal kind of move, for example, we announced a few quarters back that we've done a very large Cloud-based roll out for one of our large customers in the Asia Pacific region, for regulatory reason that entire project has to be delivered out of the target market segment that we are operating in. So, things like that at an anecdotal project level led to the changes to the onsite-offshore mix. Fall in utilization was relatively less due to the Hi-tech vertical; the Hi-tech vertical itself had a reasonably good growth of 4% in this quarter coming off of approximately 2% growth in the previous quarter, so the volatility in the Hi-tech vertical did not cause dip in utilization, the dip in utilization is more because we had a large campus intake last quarter and a large campus intake in this quarter, we had approximately 640 net additions last quarter and 700-odd net additions in this quarter, both of which had a fairly large amount of campus intake. So obviously people need to complete their training and you know they have to start getting absorbed in business which we think we should start seeing in may be in the next two quarters or so. Like KK mentioned, we have a trend where we have seen sort of volume growth which is what led us to the confidence of additional headcount and therefore we see utilization picking up in one or two quarters.

Krishnakumar Natarajan: Anantha, just to add to what Rostow said we had shared with you that clearly we are repositioning the erstwhile PES business as Hi-Tech, with an intention to say that how do we really sort of try and make it on a sustainable growth mode. So there are really four sort of key pillars on which this transition is being driven. One is clearly we are dropping the tail in that business. So you would have seen even the number of customers was dropped in spite of adding 9 new customers, the total number of customers dropped by 4. So the tail customers that really what we had dropped were from the Hi-tech business, which has an impact on revenue. Beyond that I think clearly we are trying to build more predictable service lines as a percentage of revenue in the Hi-Tech group. Last year, service lines like Infrastructure Application Development, Maintenance had about 11% contribution through the PES business, that number this quarter has gone up to about 24% which will bring in more stability in the future quarters. Our goal is to try and see that 24% goes up above at least 35-40%. The third element of the transition is really focus on a few segments as well as mine existing customers far more deeply; this has been a strategy which has worked for us in the other segments. So clearly the focus on few segments is also helping us well particularly in the independent software vendor space, particularly services relating to Cloud Engineering, clearly already we are the leader in that space, that shows consistent growth in the last three quarters. The other segment which is more relating to Enterprise Hardware and Consumer Device has its own seasonal patterns quarter-after-quarter but clearly the mining existing customers will start contributing to a more sustainable growth in the subsequent quarters. And the fourth element of the change is to really drive more IP-led revenues. It is probably not right to compare on a quarter-on-quarter basis because IP-led revenue has certain lumpiness on a quarterly basis of revenue, but we are certainly confident on a year-on-year basis it will give good growth momentum to the Hi-tech business as well as it'll improve the margin profile of that segment.

Moderator: Thank you. Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I wanted to probe a bit more on the outlook of the EBITDA margins. Rostow, you highlighted that next quarter will have a few challenges and margins may not improve but I am asking more in terms of a medium term outlook, you seem to have a lot of buffers, utilization you said are 3-year low, onsite mix is high, there are lot of buffers. So how should we be reading the EBITDA margins over a medium term?

Rostow Ravanan: Sandeep, over the medium term clearly margin will start trending up. One, because we are growing and the scale benefits will come and some of the near-term sort of challenges like I explained in terms of cost increases of people, etc. will get absorbed when the revenue growth comes back. So therefore on the medium term basis it would obviously be a little bit stronger. On an operational front, while we always maintain any impact of currency related swings is outside our control but on the operational front we should expect some benefits of efficiency, scale, etc. as we keep growing.

Sandeep Muthangi: I also wanted to get your thoughts on how much more will the intensity of S&M investments will be? So you seem to indicate that the buffers are more than enough to offset any S&M investments that you have planned in the medium-term?

Rostow Ravanan: That is continuous ongoing process, as markets are evolving, as all sort of conversations with customers keep evolving, as we see that our market opportunities keep coming up, etc. so that will change from quarter-to-quarter.

Sandeep Muthangi: If I can ask one more question, KK I wanted your thoughts on the whole ERP Consulting piece that you have. It's not a large part of the business I know that but you seem to have hired a lot of senior talent lately. Is it reasonable to expect that as a turnaround in the business in the first thing and how big is the focus of Mindtree on this whole ERP/Consulting piece?

Krishnakumar Natarajan: No, I think you raised a very relevant point, Sandeep, just like we talked about the Infra where we invested both in the platform and adding talent and that is starting to really pay for us in terms of very strong growth, clearly, the focus now is to really enhance our credibility in the package application space, and we have started doing senior hiring. So there are really two service lines which we think we need to invest in terms of growth, clearly package applications as well as our data warehousing and analytics. There again we are starting to hire, we'll get some senior leadership as a part of the team which will in turn start helping us drive much more sustainable growth in both the service lines.

Sandeep Muthangi: Okay, so it will not be the traditional ERP, SAP, Oracle implementation piece, but you are talking more in terms of the new demand that is getting generated in this space?

Krishnakumar Natarajan: New demand like SAP, HANA or any of the new generation technologies with respect to SAP is what we are really targeting at.

Moderator: Thank you. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: My question was first of all with regards to the traditional IT Services business where you have focused on select verticals, if you could talk about what you all see across some of those verticals? And the second question was with regards to the Hi-tech or the erstwhile PES segment. Over there the indication from the management during the quarter was that we could actually see some sequential decline. So what's driven the strong growth over there? And my second question was with regards to the overall mix of business. We've essentially seen onsite volumes continue to grow faster than offshore volumes for Mindtree from being 30% onsite business, now you move closer to 40% onsite business. So what exactly is leading to that change in business and how should we think about that going forward because our offshore IT Services business has grown significantly slower than the onsite piece?

Rostow Ravanan: Manik, Rostow here, I will take the second question on the onsite-offshore and KK will answer the first question. Like I explained some time back the shift in the onsite-offshore mix was sort of anecdotal way from some of the recent project wins. Like we explained a few quarters back we're doing a very large Cloud-based roll out in a new geography for one of our large customers, for regulatory reasons that entire project had to be delivered from the target country. So things like that have led to change in the onsite mix. And also over the last few quarters the kind of what we've been delivering for some of our customers is a lot more value-added and therefore it requires us to be sort of closer to the customers going up the value chain, etc. So those are one of the reasons why our onsite-offshore ratio change.

Krishnakumar Natarajan: Manik just to add one point on what Rostow said, clearly, I think these two quarters of sequential growth on the onsite revenue was clearly based on a client project start which we did onsite and like Rostow said one key large project due to regulatory reasons had to be done onsite in that market, the percentage improved, and also European clients where it was a large win where the initial phase of the project was done onsite, so that has sort of gone down. So in the next quarter we'll probably start that tapering off but overall clearly when we share our approach in terms of having local delivery centers to address the clients for key requirements that trend we certainly see happening with more mature clients of ours where as we get into the higher end of the value chain doing critical work for customers, they expect part of the team to be in the same time zone which is where our US delivery center at Gainesville, Florida is helping us. We just a week back started another center in Seattle. So both of that will help us address that need as well as particularly in technology companies, the agile mode of development to get product releases out quicker is becoming more popular that in turn will also drive little more of onsite. Now coming back to your other question in terms of segments, you would have seen one of the key things we're really happy about this quarter is that the growth has been a very well-rounded growth, we've had growth in all our four key segments and clearly that's something which is of satisfaction. If you look at the Manufacturing, Retail, CPG segments for the second quarter is delivered very strong quarter-on-quarter growth. Travel which had a bit of softness in the previous quarter has certainly grown very strong 7.8% quarter-on-quarter during this quarter. So clearly I think we're seeing some of the interventions which we've done early in the years are starting to bear fruit and we are getting into that growth momentum. The observation which you made on Hi-tech is clearly this is seasonally a weak quarter for Hi-tech and clearly Hi-tech as a segment there are other enterprise customers who also declare furloughs but Hi-tech tends to get impacted more. The other key reason is certainly there is a percentage of revenue of Hi-tech which comes from IP-led revenues which tend to be lumpy in nature. So that clearly is the reason why we said that clearly there could be possibly flatness or may be a small decline in Hi-tech in Q3. But overall one of the key changes which are driving in Hi-tech is to get service lines which give predictable revenue over the next few quarters that's a big transition we're driving. If you take services like ADM and Infra, only 11% of Hi-tech revenue came from the service line one year back. That number has gone up to 24% during this quarter, and the goal is to move that to about 40%. So as we continue to deliver on that transition clearly you'll find the volatility in the Hi-tech business becoming more manageable.

Manik Taneja: And one last book-keeping question was with regards to the fresher hiring that we have done in Q2 and if you could share your plans for campus additions in second half of FY14?

Krishnakumar Natarajan: I'll ask Veera to answer.

Veeraraghavan R K: Yeah, From the 2012 batch of campus all of them have been on-boarded in this financial year, and from the 2013 batch one batch has been on-boarded, rest of them based on the business outlook we will spread over the quarters and get them onboard.

Manik Taneja: Okay, any numbers that you could share with regards to the campus addition in Q2 and the plan for FY-'14?

Veeraraghavan R K: 437 is the number of people on-boarded in Q2. And for Q3 we are not looking at addition of campus at this point in time.

Moderator: Thank you. Our next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

S Ramachandran: Just an outlook point of view, we do accept that next quarter will be a relatively weak quarter but you had to take a slightly more a 6-month or 12-month perspective how would outlook be now vis-à-vis say may be 3-6-months back in the respective verticals that you guys are operating in?

Krishnakumar Natarajan: See, clearly like we shared earlier, Srivatsan, we see the demand environment being far more positive than what it was 12-months back. I think the conversations with our clients are much more positive. I think clients are clearly starting to reinvest back in discretionary spending and many of them clearly are wanting to get more optimization in the way they run the business budget they have so that they could invest in discretionary spending which is why you see service lines like Infra perhaps has shown significant growth over the last two quarters, every quarter, quarter-on-quarter basis. So these are the sort of projects that into the next 2 to 3 quarters certainly in almost all our segments we see the demand patterns being positive, we clearly see areas like Infrastructure Management and Digital being very key themes where clients are starting to open their budgets particularly on discretionary spending, so overall we see the demand scenario being certainly healthy.

S Ramachandran: My next question is on the large deals team that we'd assemble, we've been trying to create any update on that or what's the success, any inputs you can give will be helpful?

Krishnakumar Natarajan: Srivatsan again, good question. We, for the last the 4 to 5 quarters, focused on large deals, and like I shared last time clearly I think we are starting to work or we have participated in deals which are greater than $50 million but have not won any of them. What we do see is clearly the sweet spot for Mindtree is TCV deals of $10 to $30 million, and you would recollect last quarter we shared saying that we had 1-2 such deals and clearly they are starting to reflect in terms of growth in the current quarter. At this point in time we do have in the sweet spot which is $10 to $30 million a few deals, and we are confident that some of them will be able to translate into revenues for the next one or two quarters.

Moderator: Thank you. We'll take our next question from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta: Sir, I have two questions; I just want to understand SG&A investment, because if we see this quarter we added close to 78 people in sales and support. So if you can help us understand in which area we are making such investment and what kind of traction we might see in near future, may be two quarter kind of scenario? And second question about TCV you said around $142 million. So what would be the breakup between renewal and new deal win?

Krishnakumar Natarajan: On the sales and support, clearly, like we shared I think we see the demand environment being positive and to that extent clearly we are investing in the front end client facing teams. We'd shared our strategy of saying that our focus on mining our top ten accounts has given us good results so we are clearly extending the account mining from our 10 to 40 accounts, so clearly a good number of additions have come in, in client-facing account managers. We have segregated our hunting and farming teams. So clearly we have added business development managers who then look for high quality new logos and we have also got senior person from our senior management team, Scott Staples, who used to be the President – Americas, driving globally our sales operations. Also, since we're focusing on a few segments and we are positioning ourselves as expertise-led we are putting in new investments into pre-sales solutioning which has also come as a part of this addition. And clearly, because we want to be expertise-led we need to attract talent from other larger companies and one thing which we are very happy about is our ability to sort of attract talent from some of the well-known names, you would have seen announcement which we made about two weeks back for hiring a senior person from competition. You will see a couple of announcements like that in the next maybe a few months or so. So clearly that is really an area of satisfaction that we have been able to really attract high quality talent from competition which will then help us to deliver sustainable growth.

Dipesh Mehta: And on TCV?

Rostow Ravanan: We don't give that break-up, but so this is a total value of orders signed in this quarter, so, Dipesh this is a mix of renewal as well as new contracts.

Dipesh Mehta: Last quarter $95 million what we said is also including renewals?

Krishnakumar Natarajan: Yes, it is renewals plus new orders.

Rostow Ravanan: We started reporting this metric from the April quarter onwards, so in April quarter we had an approximately $140 million of contract signed in that quarter, so about $165 million of contract signed in the January-February-March quarter, $95 million approximately in the Q2 and about $140 million of contract signed in this quarter.

Dipesh Mehta: Okay. Last question is about, I just want to understand if we see professional charges, from last few years it was close to 1 percentage of revenue kind of thing, in last two quarters it inched up. So if you can provide some color on that part?

Rostow Ravanan: The increase in professional charges is mainly in terms of some of the recruitment that we have done and related fees for that etc.

Moderator: Thank you. The next question is from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain: So I was saying that we were talking about tail accounts which have been exiting. So what is the total revenue pending in that?

Krishnakumar Natarajan: I think if you sort of observed us for the last 3 to 4 quarters, this is the consistent exercise we have been doing. About 5 quarters back our total number of customers were 336 that number is down to 220 now. So it is constantly a balance between balancing out what is not making sense to us, but at the same time we have to do it in the interest of the client, without in any way sort of putting them to inconvenience. So we will continue to do that, but clearly I think we have done a majority of it, there is some bit of tail still left.

Rahul Jain: Okay, but you can say that most of it has already been done?

Krishnakumar Natarajan: Yes, majority has been done.

Rahul Jain: And you were also mentioning impact of furloughs and "Golden Week" in this quarter. I think as far as "Golden Week" is concerned I think it's already happened. And what could be the total like-for-like impact versus Q2 which you see on account of these two factors?

Rostow Ravanan: The impact of the "Golden Week" and furloughs typically affects us will be October-November-December quarter, so we didn't have any impact of that in the current quarter. As of now, we are still sort of in discussions with our clients to estimate that impact. So we don't have a precise number we have heard from our customers for that, but all inclusive we believe the growth rate in Q3 will be slower than the growth that we had in Q2, but the quarter will still have positive growth.

Rahul Jain: And just to understand this a bit more, are we seeing this furloughs beyond Hi-tech and Manufacturing and do we see "Golden Week" beyond Asia or how are these things panning out?

Rostow Ravanan: This "Golden Week" is introduced by clients in US and Europe in the current quarter around the Christmas kind of a period, and we think it could be a cross-section of clients. Obviously, the clients in the Hi-tech vertical will be a very large component, but this could happen in other clients as well, we are sort of monitoring this at this point of time.

Rahul Jain: And there were some mention of we getting acknowledged a Circle Partner for Windows Azure platform. So if you could give some more flavor in terms of what is the kind of opportunity, current size, competitive landscape, and our role in the segment?

Krishnakumar Natarajan: Rahul, Partha will just give you the response.

Parthasarathy NS: Clearly, I think the work that we have done at Microsoft has helped us get recognized as a partner for Azure. So this is going to result in an increase business for our Infrastructure Support business, and Microsoft increases the Azure potential is to enterprise customers that will result in larger business for Mindtree going forward.

Rahul Jain: And in terms of what could be current size and opportunity, any number if you could share?

Parthasarathy NS: We don't share client-specific details, Rahul.

Rahul Jain: No, no, I mean to say from the segment, do we see more Windows as an opportunity you are looking at on the implementation side of it?

Parthasarathy NS: It is more from an Azure support point of view.

Rahul Jain: So it's we are considering it as one client kind of an opportunity?

Krishnakumar Natarajan: No, it will continue because once somebody enters as support is likely to be beyond a year, it is likely to be maybe 2 to 3 year support type of engagement.

Rahul Jain: And if you could give what could be the effective tax rate for FY14 and '15?

Rostow Ravanan: The effective tax rate for FY14 as a whole is likely to be in the 22 to 22.5% kind of range.

Rahul Jain: For both '14 and '15?

Rostow Ravanan: The estimation we have is for FY14, currently we have not sort of looked at the estimate for FY15.

Moderator: Thank you. Our next question is from Hardik Shah of KR Choksey. Please go ahead.

Hardik Shah: Sir, we have seen strong momentum in top ten clients in the first half of FY14. So how much potential is still there in the top ten clients and do you believe it to grow in the same growth rate in line with the company's average or to grow at lower than the company's average going forward?

Krishnakumar Natarajan: See, clearly, I think you rightly pointed out, this has been a key strategy for us in the last two years and it's worked very well for us. Again, it depends on the mix within these top clients. Certainly, in some of the clients I think we are a part of the multi-sourcing strategy. So we clearly see a headroom with respect to the other players who are there because the overall budgets of the clients itself is high which is why you see that we've had a very strong 8.8% growth on top 10, and we do believe there is little more juice in growing the top ten. But other conscious efforts which we have taken, which we have shared in the past of why the sales and support numbers have gone up in terms of people is that we are now extending this account mining approach to our 10 to 40 accounts and we certainly think there is potential there, at least in a certain percentage of the clients to mine better.

Hardik Shah: And sir last question, your Capex is around roughly $15 million in first half FY14 and usually you mentioned like you are planning to spend around $35 million. So can we expect $20 million spending in the second half of FY14?

Rostow Ravanan: The Capex we spend in the first half of this year was approximately $15 million, a little bit of this is dependent on how the construction progress happens at our campus in Bhubaneswar which is slightly sort of behind schedule as of now due to the cyclone in Bhubaneswar. Assuming everything goes on track it will be somewhere in the $10 to $15 million over the next four quarters.

Krishnakumar Natarajan: Again, probably beyond the Capex what I think you also need to know, I think we've had very strong free cash flows this quarter, almost conversion efficiency of close to 80 to 85%. So in spite of the Capex spend I think still the free cash flows would be strong.

Moderator: Thank you. The next question is from Shashi Bhushan of Prabhudas Lilladher. Please go ahead.

Shashi Bhushan: Just a little bit on the client pruning exercise that tail trimming that we are doing so. Are we pruning some of the recently added clients as well?

Krishnakumar Natarajan: No, that is the metrics which we track very closely, Shashi, in fact, one of the key things in terms of segregating our farming and hunting team and the metrics by which the hunting team is measured is the attrition of clients. So they go after a set of what we call, "must-win accounts" and clearly we monitor the percentage of attrition which happens on new clients. Obviously, there will be some percentage of attrition but clearly it's not at any number which we need to sort of feel bothered about. Clearly, the potential in terms of some of the new wins which we're getting I think their ability to grow in future we're very bullish about.

Shashi Bhushan: Why I was asking this question is that the client addition that we are having, are we cognizant that these clients are going to grow and add to our top line significantly and not just stay as a half a million or a million dollar, that's the reason why I am asking this question.

Krishnakumar Natarajan: No, I think very relevant question. One of the parameters in which the global sales head is measured is the quality of accounts we're getting and what percentage an account can grow beyond X million dollar. So we are very, very conscious about that. We have set up a very rigorous sort of client acquisition metrics. There is only a set of accounts which are prequalified, which we go after. So certainly I think the client attritions in future will be low. Clearly, a good percentage of the clients we acquire have the potential to grow.

Moderator: Thank you. The next question is a follow up from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: Rostow, I had a quick follow up question on the Capex. You know you've indicated earlier that this year the Capex is going to be a bit high, Bhubaneswar facility and some of the other facilities, but the large facility that you have planned, that's part of this high Capex or are we going to see Capex continuing to be high in '15 and '16 also?

Rostow Ravanan: No, the bump up in Capex is pretty much current, I would say next 3 or 4 quarters, by that time Bhubaneswar facility should go live. Our target is to get it ready by June 2014. So the incoming campus batch in July 2014 gets trained there. The only unfortunate part is weather and other regulatory issues outside our control but barring any of those we would like to complete it by June 2014. So that extra $10 to $15 million of Capex should get completed in the next 3 quarters.

Sandeep Muthangi: And because this new Capex is not, I presume, in the SEZ facility, what should be the outlook on the tax rate going forward?

Rostow Ravanan: All our new facilities are in SEZ. I think we started moving into SEZ somewhere in 2007 or 2008. So since then all our incremental facilities have been in SEZ. Bhubaneswar facility is also an SEZ. Now, we have run a situation where many of our older SEZ have completed their 100% tax holiday now get into the 50% tax holiday which is why over the last 1 or 2 years you have seen our tax rate increasing, about 2 years back our effective tax rate was 16 to 17%, now it is about 21 to 22%. So that increase reflects the SEZ getting into the partial taxpaying mode. None of our recent increases over the last 2 or 3 years have been in STPI facilities.

Moderator: Thank you. The next question is from Ankit Pande of Quant Broking. Please go ahead.

Ankit Pande: I had a question around your realization. So, last couple of quarters there has been certain softness. So how do we interpret this, is it merely because of the change in mix or any other factors play in, have we seen pressures in pricing in certain areas?

Rostow Ravanan: Last quarter was a small increase and this quarter is about a decrease in 1%. A little bit of this contributed by the change in mix. Like I said one large project is ramping up in Asian geography. So not a pricing decline with the customers. It was sort of anecdotal client compliance sort of changes between quarters.

Ankit Pande: So am I to interpret this has no real pressure as such on pricing per se going forward?

Krishnakumar Natarajan*:* No, we see the pricing environment is fairly stable.

Ankit Pande: And can you also highlight a little bit on your dividend strategy, you have increased from 30% to 50% this year. So do we expect some kind of payout target, how do we look at your dividend payout strategy?

Rostow Ravanan: Like we announced in April, the board sees that as our operations have become more predictable, more stable, the general intention is to increase our dividend payout. Over the last 2 to 3 years we have done that; about 2 years back our payout was about 8 to 9%, last year it was about 18 to 19%. So we expect to sort of maintain that trend going forward, and assuming business runs as we expect also move to a quarterly payout mode, we did one payout in April, another payout in July, and we are doing another payout now. So we expect to keep increasing the dividend payout and to move to a quarterly payout mode.

Ankit Pande: Can you just highlight what's your onsite hiring strategy is because the onsite percentage has gone up last couple of quarters, so what is the level of onsite utilization that we are running at, and if we can compare that QoQ and YoY?

Veeraraghavan R K: Our onsite utilization typically we operate at 92 to 93 percentage level and we will continue to maintain at that level. And regarding onsite hiring we have strengthened our capability to recruit talents in onsite, and that is also reflected in the way the last two quarters are.

Ankit Pande: Can you please share the subcontractor numbers?

Krishnakumar Natarajan: Normally we don't share that kind of a split. We don't share the subcontractor numbers but certainly like Veera said with the increased delivery from onsite, one, I think inherently the capability to add to our team there has sort of delivered what results we've got, but of course, there are short-term subcontracting specifically in skills where we don't want to maintain that skill.

Moderator: Thank you. The next question is from Varun Bang of Pramerica Asset Managers. Please go ahead.

Varun Bang: My question is how do you see pricing going ahead since there was a decline in realization in this quarter?

Rostow Ravanan: Varun, this is Rostow, just to continue from where KK made this comment to a previous question as well, we expect pricing to remain stable and none of our customers have given us any indications that there is likely any pressure on pricing for many of our customers or anything like that. The change in realization to some extent is sort of a quarter-to-quarter movement depending on which clients ramped up in this quarter, etc.

Moderator: Thank you. The next question is from Abhishek Shindadkar of ICICI Direct. Please go ahead.

Abhishek Shindadkar: Sir, could you also specify what are next 12-month order backlog is?

Rostow Ravanan: We don't give out that number at present.

Moderator: Thank you. The next question is from Basudeb Banerjee of Quant Capital. Please go ahead.

Basudeb Banerjee: This is more on a strategic aspect rather than the quarter. As you said that the whole industry is going through a phase of poaching and you are also targeting some talent from your competition at a senior level, so under current juncture how much important do you see as the person being the prime interface and being responsible for getting the new large size deal rather than brand Mindtree and ability of brand Mindtree per se?

Krishnakumar Natarajan: I did not make a mention that there is poaching. What I said was Mindtree's own ability to attract high quality talent from competition has improved and we are able to attract such talents. So, by no way it should be perceived that we are poaching from others. I think people want to come and be a part of really making Mindtree an admired and memorable company and I think we are able to provide them possible exciting options, this is where I think the transition is happening. Clearly, what we see is like we shared earlier, the business is moving away from just a focus on cost to what expertise the company can bring in. So that expertise is reflected in terms of Mindtree brand because unless we are known to be an expert in a specific area the client doesn't even call us for the opportunity. So the brand and what you are good at and what is it that you do to impact the client's business is very important and that's a process which is a continuous process, brand doesn't get built in a day or two or in a quarter or two. The person clearly is becoming very important because clients want to talk to people who understand their issues and are able to translate that into meaningful technology solutions, which is why some of our focus in hiring talent who has been in the market and understands the business so that they are able to message our offering to the clients in the right manner is actually significantly strengthens our competitive positioning.

Moderator: Thank you. The next question is from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta: Just stretching further on TCV side, if we see in H1 and our burning rate, it appears to be almost similar. So how one should read it because if it includes renewal and all the opportunities what we won during that period, and it is not providing comfort in terms of how the growth trajectory might be in future?

Rostow Ravanan: Dipesh, Rostow here. I am not sure how that conclusion came about, We had started reporting this number only from April quarter and our feeling is that we are able to continuously win very high quality customers and very solid set of revenue momentum. In the April quarter we had announced that we had signed approximately $160 million worth of contract, in the April-May-June quarter we had got about $95 million of revenue and new contracts or whatever renewals in that quarter and $140 million of orders signed in this quarter. So I think we have a good momentum right now. So we don't see that as a concern. We believe that the growth momentum building up quite well, this year we expect much higher growth than what we had last year, and as we can see we sort of think we will maintain that momentum even going forward.

Dipesh Mehta: I understand, if we see H1 number, because Q4 of last year $165 million was very sizeable deal win, but if I refer H1 of this year and I see the burning rate, in H1 we reported revenue of close to $240 million and TCV was also close to $240 million. So I was referring to these two numbers only.

Rostow Ravanan: It is difficult to correlate like that, see, January-February-March is typically the time when customers budget their release and that's when more orders typically get approved at that point of time, and then the momentum picks up again during the course of the year, so that's the reason. It's not that the orders which we signed in January have all been booked as revenue immediately. Even the order signed in January-February-March will be over many quarters.

Dipesh Mehta: So in deal win we've seen some kind of seasonality as you mentioned in Q4 you see relatively higher portion to be booked kind of?

Rostow Ravanan: Yeah, usually, that is a fact that more of our customers budgets would get approved towards December-January, so which is why January-February-March quarter would typically see most contracts we sign.

Moderator Thank you very much. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Sushanth Pai for closing comments. Over to you sir.

Sushanth Pai: Thanks, Inba. Thank you all for joining this call today. We look forward to speaking with you in the coming days. Thank you.

Moderator Thank you members of the management team. Ladies and gentlemen, on behalf of Mindtree Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.