Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Third quarter ended December 31, 2013 (Q3 FY2014)

January 24, 2014

Welcome to possible

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call to discuss the 3rd Quarter Results of Mindtree. 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 '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai from Mindtree. Thank you and over to you sir.

Sushanth Pai: Thanks Shyma. Welcome to the conference call to discuss the Financial Results for Mindtree Limited for Third Quarter ended December 31, 2013. I am Sushanth from the Investor Relations Team in Bangalore. Before we start the proceedings, I would like to wish you all a Happy and Prosperous 2014.

On this call, we have with us Senior Management Team:

N. Krishnakumar – CEO and Managing Director

Parthasarathy NS – COO & President, Enterprise Service Lines,

Ravi Shankar – Chief People Officer and

Rostow Ravanan – CFO.

The agenda for the session is as follows:

Krishnakumar and Rostow will begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session.

Please note that this call is meant for the analysts and investors. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call.

Before I hand over, let me begin with 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. Let me on behalf of all Mindtree minds pass on my good wishes to all of you for a very happy, healthy and successful 2014.

Despite a seasonally weak quarter, we have reported revenue of $127 million which is a growth of 2.5% Quarter-on-Quarter and 15.7% year-on-year in dollar terms. If we exclude the seasonality of leave then the growth would have been 1% higher. This quarter also marked achievement of our revenues exceeding a quarterly run rate of half a billion dollars.

Other highlights of our quarter 3 results are as follows:

- All our vertical segments have grown except for Hi-Tech. Travel and Transportation and BFSI led the growth with a 5% plus Quarter-On-Quarter growth. Hi-Tech has been affected mostly by the seasonality of the quarter due to client shutdowns and budgetary pressures and consequently declined by 3% Quarter-on-Quarter. Our Manufacturing, Retail, CPG segment grew 2.2% and from a service line perspective, Infrastructure management continued its momentum with a 12% Quarter-on-Quarter growth.
- What we are particularly pleased this quarter is that our client metrics have shown good progress.
    - We added 9 new customers during the quarter.
    - We have 208 active customers as on 31st December.
    - Our 5 million clients grew by 1 to 22; Our 10 million customers grew by 3 to 13 and our 20 million clients grew by 1 to 6.
- We also won a number of multiyear multimillion dollar wins with Marquee global clients.
    - One of the top 3 global airlines selected Mindtree to provide development and support services for its next generation cargo management system.
    - The world's leading manufacturer of luxury lifestyle home entertainment products chose Mindtree as a sole software development partner in the area of video technologies for the next generation Digital TV platform and future video products.
    - A leading global provider of electronic payment solutions to financial institutions has chosen Mindtree to provide engineering solutions, platform enhancements, testing and test automation services.
    - A leading provider of global information and telecommunication solutions for the air transport industry chose Mindtree to provide Oracle application support for their business critical strategic financial systems. This is an existing client of Mindtree.
- We are also very pleased to share that we continue to make excellent progress on the attrition front, with attrition on a trailing 12-month basis coming down to 11.6% from 15.1% in quarter 3 of FY13. We have 12,992 Mindtree minds reflecting a gross addition of 397 minds in this quarter.

I am also happy to announce the following:

- Mindtree received the 'Most Promising Company of the Year' award from CNBC TV18 in their Indian Leadership Business Awards.
- Apurva Purohit – CEO, Music Broadcast Private Limited (one of India's largest media businesses) has been added to our Board of Directors effective January 1, 2014. The Board also elected Parthasarathy N S as an Executive Director in addition to his role as President, Enterprise Service Lines.

Now for some thoughts on how we see the outlook:

As we engage with our clients to understand their initiatives for FY15, we see a stronger pipeline and momentum. We continue to invest in technology-led solutions as our clients are favorably responding to it and making Mindtree a significant part of their strategic initiatives. Quarter 4 will be a better quarter on growth than quarter 3. Also we think it would be better than the trends which we have seen for quarter 4 in the last 2 years where growth has been between 2.5% and 3%. We have signed orders worth $139 million in quarter 3. This is both renewals and new orders. Given the trajectory and the demand scenario, we are well placed towards achieving a significant milestone of crossing half a billion dollars in yearly revenues.

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

Rostow Ravanan: Thank you, K.K. Once again wishing all the members of the financial community on the call a very Happy and Prosperous 2014.

Delving little more details into our financial performance for quarter 3:

Fee revenue growth in this quarter was 2.6%. This breaks down to a volume increase of 2% and marginal pricing realization improvement of 0.6%. Most of the pricing improvement came from benefit of cross-currency movements in this quarter. Contracted rates were largely stable in this quarter. As indicated by KK earlier in last quarter's call, EBITDA margins have a small decline in this quarter. Q3 EBITDA margins are at 19.5% compared to 20.8% in the previous quarter due to the following reasons:

- The last group of our people which forms approximately 20% of our headcount got their salary increases in November this year. That led to a profit decline of 1.4%. Increases in some other direct costs led to a cost increase of 0.7%. This was offset partly by reduction in general and administrative expenses by 0.8%. Overall led to a profit decline of 1.3% in this quarter at EBITDA level.
- In this quarter, we were also impacted by decrease in utilization rate and also a small increase in our onsite revenue mix.

- Forex loss for this quarter was $4.4 million compared to a Forex gain of $3.2 million in quarter 2 because the rupee appreciated to 61.81 at the end of quarter 3 compared to 62.61 at the end of quarter 2.The average realization rate for the quarter was more or less constant. So the main reason for the Forex loss was the appreciation of the rupee-dollar rate compared to Q3 end as compared to Q2 end.
- Effective tax rate for this quarter was 22.6%.
- PAT for the quarter was lower compared to quarter 2 mainly because of the swing in the exchange loss compared to the exchange gain in the previous quarter.
- DSO for this quarter is improved to 73 days.
- Utilization excluding trainees has declined to 68.7% compared to 70.3% in quarter 2. Utilization decline was partly because of leaves that people take in quarter 3 seasonally as well as earlier batches of campus graduates now completing their training and getting into the employee category and no longer remaining in the training category.
- We have updated our hedging policy:
    - Our new hedging policy is to hedge 50% of our net exposure on a rolling 3-month basis compared to a historic approach of hedging on a 12-month basis. The reduction in the duration is to reflect that our receivables are approximately in the 70-75 days. So reduction in the hedging duration brings us more closely aligned to our receivables level.
    - As of 31st December, we have $98 million worth of hedge, of which $44 million is for January-February-March '14 at an average rate of 57.35. $54 million of hedges is for FY15 at an average rate of 62.14. The revised hedging policy will take a few months to transition. We think we will be in line with the new policy by 30th September 2014 because we currently have contracts longer than 3 months. The underlying philosophy of hedging which is to stay neutral to the market and not try for upsides that philosophy continues.
    - Capex for this quarter was $4.7 million.
    - As previously announced, our philosophy is to continuously increase our dividend payouts. In line with that approach, the board has approved a dividend of Rs. 5 for the quarter ended 31st December 2013.

Outlook for margins for quarter 4:

- We expect margins at an operational level to remain stable in quarter 4 outside of any impact because of currency.
- At a PAT level, if the rupee remains at the same picture where we are as of 31st December, then the FX loss in quarter 4 will be significantly lower than the FX loss

we had in quarter 3. With that, we would like to turn this over for question-and-answers.

Moderator: Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Shrivatsan Ramachandran from Spark Capital. Please go ahead.

Shrivatsan Ramachandran: It is nice to hear a very positive demand environment and commentary. Just wanted to get your thoughts on how successful we are have been in entering into traditional IT services in the Hi-Tech vertical given that historically it has been an R&D or engineering services focused offering and what has been the success so far?

Krishnakumar Natarajan: Shrivatsan, I think it is a great question. We announced this change to start addressing as a strategy, traditional IT services within our Hi-Tech segment. It is still work in process. Clearly we see the momentum has been positive. Clearly there are enough opportunities and since we are able to leverage a common team to support them on these pursuits, we would think that it is proceeding along in a manner in which we are happy with it. We will certainly revert back on the progress over the next two quarters, but initial indication is certainly positive.

Shrivatsan Ramachandran: If I can squeeze in one more, just wanted to get your thoughts on margins because some margin trajectory in the last two quarters, it has been slightly lower than what we thought would have been the margin trajectory at the beginning of the year. So just wanted to get your thoughts as to this is the kind of reinvestment you think you need to make to sustain the growth momentum and what kind of outlook you can give on constant currency basis on margins for the medium term?

Krishnakumar Natarajan: Shrivatsan as we shared earlier, we clearly see the markets sort of changing to more demand, creation-oriented market which necessarily means adding significant capability in the front end. So with that, I think we did a significant change beginning of the year by segregating our farming and hunting organization and Scott Staples who is the Co-founder and President Americas took over the charge as the President-Global Sales with the primary objective of driving high quality new logos. Clearly they have had some success on it but that's also initiated investments in the front end. As well as in the account management side to mine accounts more deeply, we have invested in client facing account managers. You would have also seen that we have made the announcements of senior hiring in the markets for both marketing strategy as well as enhancing the field marketing team so that we get quality of leads which are significantly better as well as position ourselves appropriately in the clients. So a lot of those initial investments have been made. Looking ahead, clearly I think there is a little bit of further investments to be done in North America which is our biggest market. Clearly in UK and Continental Europe, we have done only a bit of investments. You would have seen the announcements on us hiring a new head of Europe from Cognizant. So there is certainly some level of investments which is still pending in Europe, Continental Europe as well as in the rest of the world which we will try and do during the next financial year. So overall I think our aspiration is to really try and maintain margins at the current level, but clearly creating and investing in client facing teams as well as continue to invest in automation as well as initiatives which will drive our back-end efficiency. So with those investments, we expect over even a medium term margins to be stable.

Rostow Ravanan: Just to add to what KK said during the course of this year, we probably would have invested maybe somewhere in the region of $15 million plus behind two broad strategic thrust that were outlined some time back. One is to get closer to our customers in terms of account manager, BDM etc. in client facing roles in the markets. So that was one type of investment. Second is behind creating solutions that allow us to demonstrate greater understanding of the domain in line with our approach to be more expertise oriented there. We would say the bulk of what we had planned to do is probably done. Small amounts will continue to be done over the next 1 or 2 quarters. So over the medium term, profits should be stable and over the future period when all of these investments start realizing benefits, then possibly some upside we can expect at that stage.

Moderator: Thank you. We have the next question from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir Utilization is at multi-quarter low at 68.7% excluding trainees. So do we have enough buffer for that next year or hiring can be low and we can utilize these employees that could be margin lever?

Krishnakumar Natarajan: May not be the correct way to look at it. Utilization for this quarter was also low because the seasonal impact, due to leave and holidays and so on and so forth. As we explained before, our definition of utilization is amongst the most stringent in the Industry. It is billed hours by available hours**.** So little bit of that impact is due to that. The second part of the impact is also the fact that we had very strong campus graduates hiring in the previous quarters. Large portions of those graduates have completed their training and now entered into the denominator. Given the fact that utilization of that pool take a little bit longer to come to the overall company level that will also probably have some short-term impact on utilization rates.

Madhu Babu: And second thing, the top 10 clients have been again the growth driver. So we have talked of investing in next set of clients. So how things are progressing there, 10-30 clients, next set of clients?

Krishnakumar Natarajan: Clearly that is still work in process. In fact only somewhere in the middle of quarter one or early quarter two we started identifying high potential accounts which we can grow and have started sort of investing on them. Certainly I think the majority of them are starting to look promising, but what we have seen in terms of our experience even on the top 10 clients is that many times, from the time you make the investments, try and put through rigorous governance process to really try and identify opportunities and win them there is a two-three quarters lag on that.

Rostow Ravanan: And to supplement KK's point, like he covered in the earlier part of his commentary, we have seen that benefit of that goes trickling down to our lower customers as well. For example the $5 million client has grown by 1 to 22, $10 million clients have grown by 3 which are basically the reflection of the strong account mining efforts there and also one new client has entered $20 million bucket. So I would say that it is a very active plan to grow our top 30 relationships and those efforts are really bearing fruit.

Madhu Babu: Sir in this year if you exclude the Hi-Tech vertical I think we might end up like 19%-20% year-on-year growth in dollar terms in IT services. So do we expect that kind of momentum next year or much higher growth in FY15 in IT services piece of business?

Krishnakumar Natarajan: See here like I said, right now I think a lot of our clients are really starting the process of budgeting and to that extent, it is early days, but we would be able to give you more concrete sort of a picture over the next 6-8 weeks. What we are seeing at this point in time is there is certainly positive optimism amongst these clients on how they are planning in terms of budgets. There is certainly a key move from them to try and optimize on their 'run the business investments' and try and leverage those savings into discretionary spends. So we would expect that growth momentum will continue to be strong.

Moderator: Thank you. We have the next question from the line of Pankaj Kapoor from Standard Chartered. Please go ahead.

Pankaj Kapoor: Rostow, just one question again on the margin outlook for next year given that we have done a lot of fresher hiring this year which probably has suppressed the utilization in the interim, but will likely to flow-in in the next year, given that we are looking at a much improved demand outlook. I was wondering that you expect that the margin outside of currency impact obviously, is it possible that the margins can expand from this level or you think that any kind of a gain you will like to reinvest rather than taking the reported margin up?

Rostow Ravanan: I think Pankaj that in the short term, may be on a one quarter, two quarter basis margins are probably more likely to be stable rather than any major sort of upside in the short term because as KK mentioned given the strategic priorities and given the sort of market dynamics that we see, some investments were kicked off, I would say largely completed but little more needs to be implemented. For example hiring of clients facing team in Europe etc. So I would say short term is likely to be stable. Hopefully all of these investments will start giving a higher growth trajectory as well as greater operational efficiency. So in the medium term probably is when we can expect some upsides on margin front and all of these are obviously excluding any impact of currency and this is a picture we see from an operational perspective.

Moderator: Thank you. We have the next question from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah: Sir basically like last 4 quarters, 85% of the revenue growth has come primarily from application maintenance and infrastructure management which are like 'run the business' kind of thing. So any particular assumption for this like are we focusing on rebid market and we are not concentrating like our clients are not spending much on discretionary spend in spite of the improvement in demand environment in last 3 or 4 quarters?

Rostow Ravanan: Probably it is not the best way to look at it. If you look at our growth, in this quarter for example Consulting grew 10.9%, Package implementation largely remained stable etc. I think some of these metrics partly indicates the seasonality and also this is not the quarter where clients typically kick off new projects and so on and so forth. I think overall we definitely don't see any concerns on the discretionary project kind of activities. Those are typically more aligned to clients own confidence in their business as well as their confidence in vendors which I think is running at a very high level right now. Some of those I think will get corrected when the new calendar year starts and budgets get released etc. as one point of answer to the question. The second part is that we have a conscious focus to grow our pie in the Infrastructure management kind of services. They are traditionally lower penetration of offshore and our story there is very very strong. Some of the differentiating capabilities we have built on that is also leading to high growth. That is the conscious execution from a strategy point of view. Finally to some extent, it is also thrust area for us to get more predictable revenues as a part of our overall revenue portfolio. I think it is a combination of all of those factors that led to that picture.

Hardik Shah: Sure sir, thank you and sir one last question. What kind of growth trajectory you see for the Hi-Tech. Do you see like returning to single digit growth or like low single or double digit growth in the Calendar Year '15? Is it possible?

Krishnakumar Natarajan: Again we do not give a guidance, we may not be able to give you a specific indication of numbers, but if you really break up in Hi-Tech, I think we really focus on 3 key segments. One is what we would call the Enterprise type of segments which is large ISVs who are clearly re-architecting their products from traditional license based software to more a SAS type of software. So clearly the whole cloud engineering space there is both traction and momentum and we would expect the Enterprise software segment to have good growth and there is good traction there. The second space that you focus on is really the consumer devices space. Clearly there if you take an area like mobile handsets, I think the service opportunity there are volatile. In several of the other consumer devices also, because of the short time to market space and if there is a product which has introduced and if it does not do well in the market, the product gets dropped. The demand tends to be volatile. So we would expect probably a flattish sort of thing in the devices space. The third space which we focus on is Semiconductor where clearly after almost 18 months, we are seeing the Semi-Con market starting to project the first signs of a demand revival. So we would certainly feel that for FY15, the Semi-Con demand will be positive. So overall if you look at, certainly we anticipate that after 2 years of decline, Hi-Tech is clearly going to be on a positive momentum in FY15.

Hardik Shah: Sure sir. In relation to that, how much does device segment constitute of the Hi-Tech vertical?

Krishnakumar Natarajan: The device part is approximately about 30%.

Moderator: Thank you. We have the next question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Couple of questions. One if you could give us a sense of the total value of the deals that you have won in the current quarter. That is number one. Second thing once again the trend of continuous increase in onsite mix of business for us, if you could talk about what is driving that which is last quarter you mentioned it was largely driven by some project starts, but if one were to look at a trend for a more prolonged timeframe that is continuous increase for us and I might have missed out few comments on that, but if you could just give us sense on how we should look at margins for us both near term as well as premium term? Thank you.

Rostow Ravanan: Sure**.** I will take the question on margins and then KK will answer the other parts of your question. Like I think we have covered in one of the previous questions on this call. We have a conscious strategy about a year and a half ago which was to pick a few customers and make the investments to grow those relationships where we believe we have the maximum opportunity and also to pick a few verticals, make the investments to go really deep within those verticals. Towards those two broad thrust areas in which probably we would have spent something like I would say $15+ million in terms of hiring people, creating solutions, so on and so forth that had led to the growth this year plus also placed us very well in terms of growth for next year and next few years as well. With all of these together I think immediately over the next 1 or 2 quarters, we expect margins to be stable because a few more things need to be done to complete this initiative that we have started. Beyond that, I think there is a chances of some upside out of these initiatives, yields and results that we expect. Obviously all of the comments I am making are excluding any impact of currency and more from how we see operationally the business to perform over the next few quarters.

Manik Taneja: The reason I am asking you this particular question is that over that last 1-1.5 years we have talked about broadening our employee pyramid, reducing our average salary cost, given the mix of business higher onsite mix, will that phenomenon really come into play in terms of helping drive an improvement in margin for us?

Rostow Ravanan: Absolutely, I think the shift in onsite is partly a reflection of the fact that we were very low onsite-oriented in the past. Even now we are probably lower than most of the companies in the industry. But our shift is happening partly by the fact that the kind of engagement we are now delivering to customers is a lot more mission critical, a lot more strategic for the customer and therefore the shift in the type of work will require some changes to onsite ratio. I do not think the campus graduate utilization is that closely linked to the onsite-offshore mix. As we continue to execute and try to get more of the traditional IT services kind of work, the application, maintenance, testing and infrastructure management, etc., and those service lines are growing continuously in our portfolio that will help us deploying campus graduates faster.

Manik Taneja: And if you could talk about the deal wins that we have seen in the current quarter?

Krishnakumar Natarajan: Just to give you a number. We signed $139 million of contracts both on new and renewal contracts during the quarter. Specifically the wins, we won 9 new customers or so. Again just to give you a context, I think like as we shared earlier, today I think our focus is to go after what we call our 'must win accounts' within the segment which we have identified which necessarily means that they will become more high potential quality accounts and some of the wins which we had during the year was one is among the top 3 airlines in the world, we have been chosen to help them develop and support their Next Generation Cargo Management system. This again primarily comes based on the deep expertise we have in the area of Cargo Management. The second win which we are certainly very proud of is one of the leading manufacturers of luxury lifestyle home entertainment products. We have been chosen as their sole development partner for building Next Generation Video Technology. They are coming out with a new range of Next Generation Digital TV platforms and future video products. The third one which certainly is a very good win was a global provider of Electronic Payment Solutions for the financial institution. They have chosen Mindtree to provide Engineering solutions, Platform enhancements as well as test and test automation services. So clearly the nature of clients and the quality of clients is also improving which itself sets up a solid base for us to clearly leverage these accounts and mine them deeper. So all these wins are all multiyear multimillion dollar wins.

Manik Taneja: Sure thank you and if you could also talk about our dividend payout policy. Now we have seen for the last couple of quarters you have announced a quarterly dividend. Should we see that trend continuing that every single quarter will now see Mindtree now paying a dividend?

Rostow Ravanan: That is the general approach that the board discussed and we updated the investor community when we announced the results in April. The feeling is that our business has reached to a certain level of predictability, cash flows have become certain amount of stability, etc. So we like to move to a mode where we pay dividend on a quarterly basis and we would like to keep increasing our dividend payout also constantly. Last 2-3 years back, we have a very small payout of 2%-3%. Over the last few years, it has grown, last year was about 17%-18%. This year it is likely to be slightly higher than that. So we would like to maintain that trajectory of an increased payout and also to pay on a quarterly basis.

Moderator: Thank you. We will take the next question from the line of Priyank Singhal from Bajaj Alliance. Please go ahead.

Priyank Singhal: Rostow you mentioned some $15 odd million or some such number of investments that got made in this quarter, I just wanted to get that number correct actually I could not hear clearly and if you could just explain what those investments which went into which were extraordinary in nature that is specific to this quarter?

Rostow Ravanan: Just to correct the record, that number was not for this quarter. It is for the whole of this year, April 2013 till today. We thought we would have invested a little more than $15 million. The two largest buckets into which our investments went partly was in hiring frontend customer facing people in all our markets, both account management roles as well as sales role. The second large bucket was in terms of creating solutions that allows us to demonstrate our expertise in a more tangible way within the chosen vertical that we have. Those were two large areas in which those investment went but they were over a 9-month period. And both of these are strategic priorities which we outlined a few quarters back and we are largely in line with that. A small amount probably will need to get done over the next 1 or 2 quarters, but I would say on the game plan that we had, we have sort of largely in track with that game plan.

Priyank Singhal: And how much would be out of that $15 million in this quarter, in Q3?

Rostow Ravanan: We do not have the breakup right now.

Priyank Singhal: In the incremental hiring which you are looking at in Europe, etc., is there a ballpark number we can mention how much could that be potentially going forward?

Rostow Ravanan: Again it is a little bit tactical because obviously we have certain targeted profiles that we are looking for and we also have to balance it with availability of people, but we don’t have a specific number but I would say the more important direction will be that those investments will be balanced by growth and other operational improvements etc. So overall at an operating level, profits are likely to remain stable. We do not see those investments will be more than what we will be able to deliver, from an operational perspective.

Priyank Singhal: The entire impact of onboarding of employees, is that true in this specific quarter as far as margin impact is concerned or some of that is also likely to come in Q4 and if yes in Q4, then is it possible to quantify that specific impact?

Rostow Ravanan: Onboarding of new employees is a continuous process. We have added senior leaders in the April quarter, in the July quarter and some in the October quarter as well. So there could be some amount of incremental impact that will come-in in Q4 because some would have joined us during the course of Q3 next quarter will have the full quarter impact for some of the senior leadership hiring etc. Again I would like to reiterate those are all the sort of part of running the business, we still believe in spite of taking those ongoing investments, etc., our margins are likely to remain stable over the next one or two quarters.

Priyank Singhal: And for this specific quarter for Q3, how much was the impact of that onboarding out of the overall margin decline on a Q-on-Q basis?

Rostow Ravanan: Overall people cost grew by 1.4% in this quarter compared to quarter 2, but that is a combination of salary increases for existing people as well as cost impact of the new joinees during the course of this quarter.

Priyank Singhal: And the salary increase and promotion related expenses are all thru for this specific year, nothing of that will come in Q4?

Krishnakumar Natarajan: No, salary increase and promotion won't come in Q4.

Moderator: Thank you. We have the next question from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Just wanted to get an update in terms of the signings that you all did around 139 million worth of contracts in this quarter. Would you all be able to give us some sense in terms of what would be the renewal versus new order split?

Krishnakumar Natarajan: Vishal, we do not give that split.

Vishal Desai: Just to get a clarity, I was not sure whether I heard it right that time, you mentioned that Hi-Tech is likely to see positive momentum in FY15, but however, your consumer devices segment is likely to see some amount of volatility. The other two that is the semiconductors and the enterprise segment is continuing to see an improvement in demand environment.

Krishnakumar Natarajan: That is right.

Moderator: Thank you. We have the next question from the line of Grishma Shah from Malabar Investments. Please go ahead.

Grishma Shah: Sir just on the Hi-Tech segment, you said that you also have focus on providing traditional services to the client there, what is the reason behind the same. Have we built on more capabilities, etc., and therefore now we are targeting them if you could elaborate that.

Krishnakumar Natarajan: Yes, we do have the capabilities already. If you take areas like Infrastructure Management or Package Applications or Business Intelligence and Analytics, we already have the capability. Our earlier approach was not to take this to the, what we call the technology customers, but now we have identified saying that, that is another approach anyway we have good client relationships with these accounts and in many cases we have the commercial engagement with the client and we would be able to sort of take these traditional services also, so that there is far more stability in the nature of revenues which we get within Hi-Tech.

Grishma Shah: And the other question particularly pertaining to the large ISVs or the enterprise customers. What are the kind of trends that you are seeing in terms of offerings? You mentioned Cloud Engineering as one of the trends or migrating to cloud is one of the trends that you have seen. Do you see the project duration getting shorter, how do you see the trend emerging over the last few years?

Krishnakumar Natarajan: You are saying primarily in the Hi-Tech segment?

Grishma Shah: Yes sir.

Krishnakumar Natarajan: In the ISV segment, clearly the re-architecting to the cloud environment is a very strong momentum which we are seeing. As we get into more devices side, the line between hardware and software is blurring so the ability to provide capability across both hardware design and embedded software is also sort of picking up and clearly we see slight demand revival in the Semi-con segment, we are getting in specific opportunities for VLSI designs, board testing and the related sort of services are also starting to see momentum.

Moderator: Thank you. We have the next question from the line of Nandish Dalal from IIFL. Please go ahead.

Nandish Dalal: Can you tell me the constant currency growth during the quarter?

Rostow Ravanan: Constant currency growth during the quarter was about 1.7%. The cross currency impact this quarter was basically was at about 0.8%.

Nandish Dalal: And could you just help me with the OCI balance as on quarter end?

Sushanth Pai: OCI balance at quarter end was about $6 million loss in the balance sheet.

Nandish Dalal: And just one question. You had a strategy of pruning the fringe accounts in both Hi-Tech and the IT services and which we have already seen decline in active client numbers. So could you just help me to update how far we have reached and how more we can see on this front?

Krishnakumar Natarajan: Primarily on the segments like Retail, CPG, BFSI and travel and transportation, I would say 90% of pruning has happened. Across all the three segments, there might be, may be 10 to 12 customers who might still be actively being considered for pruning. In the Hi-Tech segment I would say that thing has really happened to almost 70%-75%. There could be another tail of may be 15-20 customers which would over the next 2 quarters probably get gradually phased out. So overall at company level, I think this is tracking somewhere between 20-27 customers for pruning.

Nandish Dalal; Will you able to quantify how much impact this could have on Hi-Tech during the quarter in the pruning of accounts?

Krishnakumar Natarajan: More than the pruning of accounts, pruning of accounts could have been marginal, may be a percentage or so, but clearly what impacted Hi-Tech during Q3 was the furloughs as well as certain ramp downs because clients had run out of budgets and to that extent those ramped down. So that certainly got in this minus 3% decline in Hi-Tech.

Moderator: Thank you. We have the next question from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee: I joined the call bit late. So please excuse me if I am repeating this, but if I have heard you clearly mentioned that in the one or two quarters, margins can remain stable ex-currency, but over the next 4-6 quarters, the margins can basically improve. If you could just highlight the initiatives that you are taking which will result in improvement in margins because if I understand correctly, there will be more onsite revenues and onsite efforts. So it will have a negative impact on the margins, so just wanted to get a sense of this disconnect?

Rostow Ravanan: I will start and then may be KK can add a little bit as well, this is Rostow. The reason why we believe margins over the medium term have some room to improve. I would say broadly things that can help us drive greater revenue growth like all the investments we have made in the frontend both on sales and relationship management, etc., should help us to get faster revenue growth when markets are reviving quite well. That obviously will lead to improvement in margin. Also on the operational front, the continuous addition of campus graduates to bring down the average cost per person as well as over the next few quarters with some of the traditional IT services kind of service lines also growing to allow us to deploy campus graduates faster into projects. All of those would help us to also increase the profitability over the medium term. Shifts in onsite-offshore ratio partly are dependent on client project wins, etc., and that could give negative impact. Also once in a year, existing employees will go through salary revisions so that will be a negative impact, but overall we believe the positives will outweigh the negatives.

Soumitra Chatterjee: We have started giving the deal wins that we sign every quarter for the last 5 quarters now. I do not want any specific numbers, but for the last 5 quarters if you could give me a trend as to whether the renewals has been higher than the new contracts or the new contracts have been higher than renewal that trend could be a bit useful.

Krishnakumar Natarajan: Again it is dependent on quarters clearly. Again if you were to compare on a Quarter-on-Quarter basis, probably this quarter our new deals have certainly been quite satisfying. So it is certainly dependent on the deal wins during that quarter and also the nature of the engagements as to how long because clearly there are contracts which could if it runs into 3 years the value of that could be higher.

Soumitra Chatterjee: Thanks and just one last question. What is the proposition of people in our workforce with experience level in 0 to 3 years bucket and more than 3 years bucket if you could give me that.

Sushanth Pai: In 0 to 3 years' experience, it would be somewhere close to 30% and so therefore the balance is over the 3-year bucket.

Moderator: Thank you. We have the next follow-up question from the line of Priyank Singhal from Bajaj Alliance. Please go ahead.

Priyank Singhal: KK this question is to you actually. I have two or three related questions. One is because we have consciously pruned the number of clients and have cut down on the tail clients, this cumulatively say in 9 months of this year and say in FY13 if you have the number handy would have resulted in a growth come down by what percentage? Had been not prune those accounts, what additional revenue growth would be probably have seen in the 9 months of this financial year? Would you have that number?

Krishnakumar Natarajan: Priyank I do not have the number, but I tell you that key thing there is what we were realizing was pruning these 30-40 accounts, there is additional bandwidth which we got, which we invested in investing and mining current accounts. So that gave us some positive. So overall if you really ask me, yes it could have resulted in very marginal decline in revenue growth rate, but I think we are very happy in terms of being focused on ensuring that we have as clients, people to whom we are relevant as well as they consider us a strategic partner because that really sets the foundation for the future growth.

Priyank Singhal: So basically you are saying that net-to-net, the revenue loss would not have been much because of same resources got utilized in getting higher revenue share from existing clients.

Krishnakumar Natarajan: There would have been a marginal impact, but it is not substantial.

Priyank Singhal: So then what could be the reason that despite all the investments we have been making company level growth rate is still lower than the industry growth rate? So I just wanted to understand that with the investments that we have been making over the last few years start yielding results in terms of at least the growth rates matching the industry given that we are also relatively smaller-sized player and therefore growth opportunity should be relatively higher for us.

Krishnakumar Natarajan: Again if you were to look at it on a segmented basis already in some of our segments like If you take CPG and Retail, our growth rate would be far ahead of the industry growth rate. So you are seeing first signs of the investments bearing fruit which would be equally true even in segments like Travel as well as BFSI. Yes in Hi-Tech, we are going through a fairly large strategy transformation starting this April, we have repositioned this as the Hi-Tech segment which will address and try and get client business in more stable type of traditional IT services as well as continue to differentiate through the high value technology services which we are delivering. That is still work in process. The segment itself has been volatile. So we have been trying to get sharply focused on the three segments which I shared with you earlier and the good part is at least at this point in time we are seeing in two of the segments, the growth momentum coming back which certainly points out to the positive outcome that FY15 for Hi-Tech will probably get back to a growth mode after 2 years of consistent decline.

Priyank Singhal: Right and you mentioned that there are 25-27 more accounts that you would be actively considering for further pruning. All these pruning efforts should result in some margin improvement, is that the correct understanding since resources get the redeployed to more profitable accounts?

Krishnakumar Natarajan: Not necessarily. Some of these are good margin accounts. So to the extent they have not just the revenue impact, they also have a margin impact. But the fact is that we are looking at it in terms of long-term view of which are the clients that are strategic to us, which are the clients which can grow to a critical mass for us. That is really the sort of thing, but some of these accounts have been steady accounts with probably minimal investment. They have continued to stagnant at a certain level, but at a pretty reasonable margins.

Priyank Singhal: And last question in terms of the sales structure, could you help understand what is the current sale structure between hunters and miners and secondly how the number of sales people would have grown in the last few years given that we have been making investments in sales and marketing?

Krishnakumar Natarajan: I am going to off the cuff give you that but it may be a slightly of the mark. If you look at the sales structure, the primary driver now is to get high quality new logos because they really become the growth engine for the future. So starting from April this year we have a dedicated global organization which just looks at high quality new logos based on what we call accounts which are identified in consultation with the industry groups. So they are not going around and shooting wherever they can, but going after a set of identified accounts. That approach is certainly looking good for us. Like we have shared in the last 3 quarters results we have been winning every quarter some high quality new logos and that is headed by Scott Staples who is the Co-founder and President Americas, so Scott globally drives the hunting team across the globe. The industry segments which are BFSI, Hi-Tech, Travel &Transportation and Retail & CPG primarily look at existing accounts and the account management structure is a part of the industry group. So that they make investments to learn the client's business well and try and mine those accounts deeper and you would see that the results for that reflecting on how well our clients metrics have grown. Our $5 million customers have grown, our $10 million customers have grown, and our $20 million customers have grown. So all of these is reflective of the investment which has been put in the account mining. Overall, if you look at it is not just the account managers and the hunting team, but there is also a team which supports them in the sales process which is really the subject matter experts and the presales support people. In the field 12 months back approximately we would have had about 80 people that number is about 185 which includes BDM, account managers and presales people.

Priyank Singhal: And how would that number has changed in the last 2 years?

Krishnakumar Natarajan: That is what I said. About 15 months back, that number would be 80. Today that is 185.

Priyank Singhal: 80 has become 185, is it?

Krishnakumar Natarajan: Yes.

Priyank Singhal: So that is the kind of investments you have made in sales.

Krishnakumar Natarajan: This is BDM, Account managers as well as presales people.

Priyank Singhal: This includes Account managers also.

Krishnakumar Natarajan: Yes includes account managers also. Anybody who has a revenue generating target and somebody in the market who is supporting them to make that happen.

Moderator: Thank you. We have the next follow-up question from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah: Sir if I am not wrong, you have given campus offers for 1700 people. So how many people have been hired so far and what is the remaining portion?

Krishnakumar Natarajan: Campus batches, we have honored every offer which we made in FY13. Of the offers which we have made for this financial year, almost half of them have come on board and to that extent for next year, we would really sort of start making the planning process. I think we have made about 700 offers till now.

Hardik Shah: Sir you mentioned like, half of the people have joined for FY14. So out of 1700, still 800 people are left to be joined?

Krishnakumar Natarajan: No, 1700 was the number of offers which we made previous year and every one of them have come on board. Whatever we have made in the previous year, all of them have come on board.

Hardik Shah: And we have made 700 offer for the coming year?

Krishnakumar Natarajan: For the coming year.

Moderator Thank you. Participants that was the last question. I now hand the floor back to Mr. Sushanth Pai for closing comments. Thank you and over to you sir.

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

Moderator: Thank you. Ladies and gentlemen, on behalf of Mindtree that concludes this conference call. Thank you for joining us and you may now disconnect your lines.