Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth Quarter and Year ended March 31, 2013.

April 22, 2013

Welcome to possible

Moderator	Ladies and gentleman, good day and welcome to the Conference Call to discuss the Financial Results of Mindtree Limited for the 4th Quarter and year-ended 31st March, 2013. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time, I would like to hand over the conference over to Mr. Sushanth Pai. Thank you and over to you sir.
Sushanth Pai	Thanks Inba. Welcome to this conference call to discuss the financial results for Mindtree Limited for the 4th Quarter and year-ended March 31st, 2013. I am Sushanth from the investor relations team in Bangalore. On the call we have with us the Senior Management team including N. Krishnakumar – CEO and Managing Director; Anjan Lahiri – President, IT Services; Ashok Krishnamoorthy – President, Product Engineering Services; Rostow Ravanan – CFO; and George Zacharias – Chief Strategy and Marketing Officer. 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 Q&A session. Please note that this call is meant only for 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 this call, we could make forward looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically. I now pass it on to Krishnakumar.
N. Krishnakumar	Thanks Sushanth. Financial year 12 – 13 has been a landmark year for Mindtree. In a challenging year we have delivered revenue growth and better margins. We have also delivered consistently quarter after quarter setting up a platform for continued improvements. We have made solid investments in leadership developments, brand building and sales force enhancement. We are confident that all of these will help us create an expertise led organization that delivers a sustained growth and shareholder value. Moving on to quarter 4 and FY12 -13 results, our FY 13 revenues were $435.7 million which was a growth of 8.2% year-on-year. In constant currency terms this growth translates to a 10% year-on-year growth. IT services had a good growth of 14.7% year-on-year. With all industry groups posting double digit growth except for travel which was 8.4%. Our Product Engineering Business declined by 4%. Amongst our service line our Infrastructure management service had a robust growth of 40% year-on-year. Our Q4 revenues were

$113 million, a growth of 2.9% quarter-on-quarter. IT services grew 3.1% and Product Engineering Services grew 2.3%. We have 232 active customers. Our $20 million customer increased by 1 to 5. Some of the significant wins in this quarter are as follows.

- A large deal from an Infrastructure Service Provider in one of the largest emerging economies, in partnership with an existing customer, Mindtree will provide cloud platform support in a multi-year engagement.
- A large hotel chain, Mindtree will provide managed services for application and infrastructure support.
- A renowned nonprofit- non government organization, Mindtree will provide service desk and end use computing services for its users across multiple countries.

On the people front, the attrition on a trailing 12 month basis has come down to 13.4% compared to 15.1% in quarter 3. Quarterly annualized attrition has come down to 11.6% from 13.7% last quarter. We have 11,591 Mindtree minds reflecting a gross addition of 974 Mindtree minds in the quarter.

Now let me provide some key points on our outlook for FY14 – In FY13 our growth was impacted by Product Engineering Services due to volatility in some segments such as semi-conductor and consumer devices resulting in some customer ramp downs. For FY14, we see revenue growth to be better than FY13 at an overall Mindtree level. The confidence arises out of the following proactive interventions. For both IT services and Product Engineering Services we have enhanced our sales team and re-oriented approach to account management to enhance focus on our top 40 accounts. This includes specific investments in our top 21 to 40 accounts. We expect the growth momentum of quarter 4 to continue into quarter 1 and therefore we expect a positive start to the year. Recent deal wins with existing customers of IT services will provide ITS the growth momentum. The assigned orders in Q4 are about $165 million. In Product Engineering Services we have consolidated industry groups to leverage the sales force and also improve efficiencies. With growth coming back in quarter 4, PES is expected to grow also in quarter 1 and hence we expect FY14 to be a better year for PES. This also in the light of certain new wins that we have had in the recent quarter. In Product Engineering Services with cloud becoming a preferred model of delivery for technology companies, we are seeing strong momentum not only in cloud engineering services but also ongoing management of the infrastructure. We are early leaders in this space and we see an opportunity to enhance our leadership position in FY14.

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

Rostow Ravanan Thank you KK. In quarter 4, our fee revenue growth was 2.3%. This breaks down to a volume increase of 3.7% and a price realization decrease of 1.4%. However, the pricing decline was mainly because of an increased realization we had in Q3 due to the seasonality effect where Q3 has lower billing days. Contracted pricing continues to remain stable. Quarter 4 EBITDA was 19% compared to 20.4% in quarter 3. The decline of 140 basis points is mainly due to an increase in people cost, decrease in utilization and investments in our front end. For the full year EBITDA margins are at 20.6%, which is a steep increase over the previous year. Forex loss for the quarter was $2.8 million. The rupee appreciated at the quarter end to 54.29 compared to 55 for the previous quarter end. However, for the quarter on an average the rupee depreciated by 0.9% compared to the previous quarter.

Effective tax rate for the quarter is 21.8% broadly similar to what we had in the previous quarter. PAT for the quarter is 12.9% compared to 16.7% in the previous quarter mainly because of the EBITDA decline and due to the Forex loss in Q4 compared to Forex gain in Q3. PAT for the full year was $62.5 million. It is an increase of 36%. PAT margins have increased to 14.3% in FY13 compared to 11.4% in FY12. EPS for the year is 81.75 which is an increase of 51% compared to the previous year. ROCE for this year increased to 36% compared to 29% last year. Utilization including trainees is 69.6% compared to 71.4% in the previous quarter. Utilization excluding trainees was 70.9% compared to 73.1% in the previous quarter. As of 31st March, we have $127 million worth of hedges at an average rate of 57.38. We are happy to announce that all the old leveraged options which we took before March 2008 have completely expired and therefore the volatility in our exchange gain/loss appearing as part of our P&L, going forward should be that much lesser.

Capex for this quarter is $8.8 million predominantly for some of the new facilities that we added during the quarter. Total Capex for this year is $22.5 million.

The Board of Directors have recommended an interim dividend of Rs.4 per share and a final dividend of Rs.5 per share subject to approval by the shareholders at the forthcoming AGM. Along with the interim dividend of Rs.3 per share already declared at October 2012, the total dividend for this year comes to 120% or Rs.12 per share or a dividend payout of 15%. In view of the improved predictability and stability of our operations, the board intends to maintain similar or better levels of dividends pay out over the next few years. However, the actual payouts in each year will be subject to the investment requirements under the operating plans of the year as well as any other strategic priorities identified by the company.

Coming to the outlook for margins of FY14 – Quarter 1 margins are expected to decline slightly mainly because of another batch of Campus graduates expected to join us during Q1 as well as the visa cost which we incur for the visas we filed in April 2013. For the year at an operational level EBITDA is likely to be stable. However, this excludes the impact of currency. Normal Capex for FY14 is expected to be about $20 million. However, there will also be a onetime Capex somewhere in the region of $15 – 20 million towards a large campus we are setting up in Bhubaneswar. The ETR for FY14 is expected to be marginally going up to 23– 24%. With that we turn this over for questions and answers.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta KK if I can understand from you, in the past 10 days business results from tech companies across the globe seem to indicate some deterioration in IT spend versus January. So what are your broader thoughts over there when you have interacted with your clients and what have you picked?

N. Krishnakumar Nitin we have been in close touch with our top 40 customers and we see our conversations with them certainly being positive. We have not picked up any negative signals from these top 40 customers. In comparison with their outlook 12 months back to what the conversations are now, they are looking at investing in terms of making their businesses more effective and consequently being more successful in their markets and hence we certainly do believe that FY14 will be a better year than FY13.

Nitin Mohta Thanks, if I can squeeze in a follow on, I did follow your remark that fiscal 14 will be better on a company wise basis but would you like to break that down between IT services and product engineering? Do you expect both the segments to do better in fiscal 14 or you would want to restrict to companywide commentary?

N. Krishnakumar Certainly we do believe like I shared earlier our IT services will also have a better year than FY13 on the back of certain recent client wins which we have had particularly with existing customers. On the Product Engineering Services, we do see that there is a strong market momentum particularly in the cloud engineering services as well as subsequent management of this infrastructure. We are early leaders in the space and consequently we do believe even for the Product Engineering Business FY14 will be better than FY13.

Moderator Our next question is from Srivathsan Ramachandran of spark capital. Please go ahead.

Srivathsan Ramachandran Just wanted little bit more details on the increased focus on the 21 to 40 accounts. It would be helpful if you can just delve a bit in detail as to what initiatives like separate account managers or just would be helpful if you can highlight what initiatives have been taken?

Anjan Lahiri As you have seen we have succeeded quite well in growing our top 20 customers over the last year and that was our pilot and we looked at that and we want to extend the best practices. It has to do with improvement in the account management structure and processes as well as certain back end support which we believe resulted in growth of the top 20. This support includes the operational support. But also in terms of services and services access and also relationship management. So that is what we want to grow and expand what we already done for top 20.

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

Manik Taneja Had a couple of questions firstly with regards to the fact that for Mindtree we have seen a continuous increase in our onsite proportion of revenues through the last couple of years. Just wanted to understand how do the proposed immigration listed visa reforms affect that part of the business? Secondly do you continue to expect an increase in onsite intensity in our business and then finally a question with regards to hiring at the gross level and campus hiring for FY14?

N. Krishnakumar Manik I think there are 2 ways to look at it. If you look at our Product Engineering Business, it is far more offshore centric. Once the feature functionalities of a product are frozen then it is far easier to bring back that work offshore. So, we do not anticipate any major change in the onsite centricity except in some new emerging areas like cloud where there will be a need to be closer to the customer. Overall if you look at the increase in terms of an onsite percentage of revenue as well as the billed hours onsite, I think our percentage is far lower than many others but as we get to doing far more business critical work for the customers, the need to be present closer to the customer and to have people who understand the customers business and are able to imagine with them what sort of new solutions which will work for them is increasing and we do see that this trend would continue as we get into more business critical work for the customers. On your last question on the visa and its impact. I think it is still very early days in terms of trying to assess what the outcome of the comprehensive immigration bill would be. Our own experience in terms of earlier suggestions or documents which have been introduced, is that there is a lot of subsequent debate and finally what emerges out of that would be what the right thing to comment on but at Mindtree we have never been over dependent on the H1B visas. We are probably one of the lowest in terms of number of H1B visas which we use. So we do not see this as being a threat on how the business outlook is in FY14.

Rostow Ravanan Last part of your question was on hiring, we have committed to 1700 campus graduates who will join us during the course of the year scheduled as per the training plan outlined for them. All 1700 have been given committed dates for joining. Other than campus graduates we will hire laterals based on business needs from time to time.

Manik Taneja And how much is that 1700 number be, FY13 hiring that we could not complete?

Rostow Ravanan About 800 people offers were made in FY13 that are going into FY14. Part of the reason for the delay of FY13 was the delay in getting our training facility in Bhubaneswar ready, we had originally anticipated that the facility will be ready by June 2013 but delay in the regulatory approvals for constructing that facility led to a delay in the intake of campus graduates as well.

Manik Taneja Any thoughts on wage hikes for this year?

Rostow Ravanan I am handing over to Ravi, our chief people officer for that question.

Ravishankar We are studying the trend in this quarter. So most probably we will be assessing what is emerging in the market and take a call sometime before the quarter ends.

Manik Taneja Normally the wage hikes happen from June 1, so we will continue with that practice?

Ravishankar As I said we have to assess the trend in the market, there is nothing fixed as of now. As the trend emerges we will be taking a call before the end of the quarter.

Manik Taneja If I can squeeze in one more question, KK could you talk about the large deal wins you said you have seen in IT services in the current quarter and which particular areas would they be and the broad contours of those deals?

Anjan Lahiri In terms of IT services, with the plumbing that we are putting in for managing, winning and executing large deals continues over the last quarter. We have won several large deals but all within our current accounts and our aim is really to build our capabilities in a way that we are able to win large deals with new accounts. We are clearly close to winning a reasonably large deal in a new account. But as far the quarter goes I would say the large deal was significant with an existing account and we are still continuing our efforts and we are getting closer in our ability to win it in new businesses. And this was mainly in the CPG and retail area as well as in the insurance area where we have managed to convert some of our existing relationships into larger visibility.

Moderator Our next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu Could you give us more color on the EBITDA margin outlook for the next quarter and may be for the year as such?

Rostow Ravanan The outlook on margins, in fact we expect the margins to decline slightly in Q1 and due to the combination of impact of visas that we filed in Q1 as well as the new addition of campus batches, joining us in Q1. But on a full year basis we expect EBITDA margins to be broadly stable excluding any impact of currency. At a PAT level the ETR will increase slightly. We are approximately 21% for FY13 whereas the ETR for FY14 will be 23 or 24% range. So all of those are the outlooks that we see for margins for next year.

Madhu Babu Could you give us more color on the infrastructure management services because that is what is driving the growth last couple of quarters, is it within existing clients or we are also chasing new clients/deals in that area?

N. Krishnakumar See clearly the type of opportunities which we are chasing in our infrastructure management continues to be very healthy and like we shared earlier it had a robust growth of almost 40% year-on-year and this has been fuelled both from existing customers as well as new customers. In fact out of the key wins that we had, 2 of them were from new customers in the infrastructure management space. So clearly we are seeing that as service lines which will continue to give us a healthy growth momentum.

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

Hardik Shah Sir this is regarding the margins. Sir currently our margins are 19% and assuming like if we give the wage hike during the year which will have an impact of 150 basis point plus the impact of joinees will be on 50 basis points. So it will come down to 17 – 17.5% whereas the margin for FY13 was 20.5%. So that will be 300 basis points. So how are you planning to cover that margin?

Rostow Ravanan Like KK and I explained, Q1 will see a decline because of the visa and new joinees but overall since the year is expected to deliver a better growth than what we saw in FY13 as well as some of the measures that we put in place in terms of operational efficiency improvement etc. Those are expected to lead the margins to come back overall to be at a similar level where we saw FY13. Again that is on an operating level excluding the impact of currency.

Hardik Shah In terms of SG&A, SG&A excluding the sub-contracting costs was 99 crores. Do you expect it to be stable or there was one-off kind of thing in SG&A cost?

Rostow Ravanan No one off items. Like we explained in Q3, towards the end of Q3 we added new sales people in many of our key markets. So that's what led to the increase in SG&A. Last quarter it had impact only for one month whereas this quarter it will have an impact for the whole quarter. So I think it will remain broadly stable at the same level where we are in Q4 subject to like Ravi mentioned in the previous question that the group in the SG&A will also get salary increases as and when we make up for decision on that. So that is what is going to give you one major impact on SG&A cost going forward.

Hardik Shah And sir 1700 employees. So roughly the joining will be on 400 or 450 per quarter. Is it right sir?

Rostow Ravanan Broadly yes. So new joinees will get spread over various quarters.

Hardik Shah Final question sir. This year are we targeting growth in line with the NASSCOM guidance 12 – 14% or better than that?

N. Krishnakumar Hardik I just want to give a perspective, see when NASSCOM gives sort of projection of 12 to 14% ,it covers various segments like IT services BPM, ER&D, and so on. In a way I think since we are not present in some of the segments it is very difficult to give a projection which is in line with what NASSCOM has projected but what we do feel confident is that FY14 for Mindtree will certainly be better than FY13. If we look at the Q1 outlook, we do believe that quarter-on-quarter growth in Q1 will be equal or marginally better than Q4 and the outlook for the rest of the quarters also at this point in time appears to be fairly even except some seasonal weaknesses in quarter 3.

Moderator Our next question is from Gaurav Jain from Alta Vista Capital. Please go ahead.

Gaurav Jain Can you tell me whether depreciation expenses will be higher next year? They have been on a declining trend over the last few years. And if there is more capex next year then should we expect it to start increasing again?

Rostow Ravanan Yes there will be a marginal increase in depreciation next year. Perhaps I think we see bigger increase in depreciation will actually happen a year after because a large chunk of capex that we are planning will get implemented during the course of FY14. So that is available to us in the beginning of FY15. So year-over-year depreciation probably will not change that much in FY14 but the impact is going to be in FY15.

Gaurav Jain Then how should we think about capex over the long run, is it 4% of sales or you had lower capex for the last few years. So is it that now you are going into a higher Capex zone?

Rostow Ravanan No I think on an average our annual Capex will be somewhere in the region of $20 million on a steady state basis. Next year incremental 15 – 20 million for the new facilities we are creating in Bhubaneswar is more of a one - off.

Gaurav Jain And the tax rates of this year, it is going up to around 23 – 24%, should we expect it to keep increasing to 30% over the next few years?

Rostow Ravanan Unlikely to go up that much because if you see our mix we are more offshore-oriented than many of the other Indian IT services companies. So they will progressively increase in may be one more year by 1 or 2% but unlikely to go up to 30 - 31% on an overall Mindtree basis.

Gaurav Jain You mentioned on the visa issue that you are one of the lowest H1B visa users. So is it that more of your onsite employees are local residents. They are Americans. They are green card holders or what are the different kind of visas or residents categorization that exist?

Rostow Ravanan I think the biggest reason why we are a lower user of H1 is because of our onsite proportion is reasonably lower than everybody else. And that's why our requirements for H1 is lower mainly because our business model allows us to execute even complex projects on a distributed basis.

Gaurav Jain Sir could you talk a little bit more about that because the H1 issue is more around the percentage of employees onsite and what is the percentage of those employees that are on H1. So even if the business is more distributed and it is more offshorable. For the onsite employees the issues that other firms face should be similar for you as well?

N. Krishnakumar Just to give you a context I think some of the amendments which are being proposed are also right now in a discussion stage. It might be right to comment on that after we get the final version after it passes through all the hearing but essentially I think couple of things we are focused on is to have a strong brand and a stronger recruiting engine particularly in large markets like the US. So we do have a higher percentage of local residents as well as green cards as a part of our own thing. We also have our US delivery center out of Gainesville, Florida where practically a majority of the Mindtree minds are either citizens or local residents which also helps us to increase the percentage of people who are based out of US but who were not dependent on either the L1 or H1B visa category.

Gaurav Jain Would you like to share what is the percentage in broad ranges of onsite H1 users?

N. Krishnakumar No we wouldn't like to give that number.

Gaurav Jain In terms of the sub-contractor cost do you think that your subcontractors might also get impacted by the proposed regulation changes?

N. Krishnakumar The fact is the final version I think what is going to reflect is going to be very key but either way if you really look at by and large in terms of the subcontracting market how it will evolve will either depend in terms of what sort of principle with whom you are working with and a channel which we are really leveraging.

Gaurav Jain You mentioned that your offshore component is also higher because PES is more offshorable. Could it also have an impact on the utilization rate like your peak utilization is lower than other companies because India offshore business is much lower utilization than the onsite business?

Rostow Ravanan I am not sure if it works that way for our business Gaurav. I think our definition of utilization is amongst the most stringent in the industry. It is actually billed hours by available hours. So I am not sure if it makes that much of a difference between the higher off shore and onshore or onsite on an overall basis. The problem to some extent also is different companies have different definition of utilization and therefore the numbers are not comparable.

Moderator Our next question is from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan I want to understand your optimism in the PES side of the business. You mentioned FY14 is going to be a better year. My question is, is it going to be a better year because of changes you have made in the division and you trimmed several accounts there. Or is it because structurally changed in the business the way clients are thinking about the business and their outlook on spending next year?

N. Krishnakumar See essentially there are multiple sort of things, one is something which we have driven across in terms of focus on our 21 – 40 accounts where we have done specific investments in terms of dedicated account management as well as really driving a much more I would say focused way in which we build accounts. So that is something which has driven commonly across 21 – 40 accounts. Beyond that if you really look at segments I think clearly we see a lot more of positive optimism particularly in the Cloud Engineering segment. So the demand which we see in that segment is also giving us optimism. What we have also been able to do successfully in the last 10 – 12 weeks is not only do the architecting and engineering of a cloud infrastructure but also take up subsequent management and rollout support for that which can be a multiyear type of contract. So we are also addressing follow through adjacent businesses, which we think gives us the confidence in terms of growth momentum. So all these transitions in terms of dedicated account management, reorienting the sales force, bringing in a different type of sales as well as sales management into Product Engineering Services gives us the optimism which in a way is reflective even in our Q1 projection. We do anticipate that in Q1 the Product Engineering Services will grow at a level equal to a better than what they have done in Q4. So overall these are some of the factors why we believe that FY14 will be a better year for Product Engineering Services than FY13.

Pinku Pappan My next question was on your infrastructure services business in one of your peers indicated that there is lot of pricing pressure in this business, what is your perspective on that and what you see in terms of pricing going ahead?

N. Krishnakumar We do believe that pricing in the infrastructure segment for Mindtree will be stable. This is primarily based on an approach which we took almost 3 years back when we started this service was to really invest upfront in a platform which we really use to deliver our services to clients. So clearly I think we have seen a very strong traction for our platform and that helped us drive productivity as well as improvement and increasingly in the infrastructure business we are seeing customers wanting to move to business models where they either price it on a per device or in terms of outcomes which you can give. So in this environment, for clients who are wanting to move to new business models and with an investment in the platform which are seeing strong traction, we do not see any pricing pressure in our infrastructure business.

Pinku Pappan And my final question is on the sales side. Are you looking at increasing headcount for FY14?

N. Krishnakumar We will continue to do that. Like Rostow shared earlier in the call, we did do a significant enhancement in the late part of Q3 which is effectively reflected in the higher SG&A cost during Q4. We will subsequently, sometime in the middle of FY14 go for another enhancement in the client facing, customer facing teams, both account management as well as sales.

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

Dipesh Mehta I have three questions. First just wanted to understand your broad comment about geography wise, how you see different geographies to perform in FY14? Second question is, can you gave us a sales team breakup kind of hunter and farming and how it has changed in last 4 quarters also and last question is about campus data , can you share how many have joined in Q4 and likely to join in Q1?

N. Krishnakumar Just to answer the third one we had about 550 campus joinees in Q4 and like Rostow shared earlier during FY14 we anticipate 1700 campus joinees which will probably get evenly phased out across the 4 quarters. So quarter 1 and quarter 2 might have a marginally higher number. It’s going to be may be 900 and 800 for the second half of the year. Coming to your other question in terms of geos we certainly continue to see good growth momentum both in US and Europe, though Europe is far more client specific. Its not, I would say a secular growth across both UK and Continental Europe or in sub-markets of Continental Europe, we see being driven more by specific clients and their plans to invest. What we certainly see as a growth momentum is in the rest of the world where we clearly see large global customers wanting to roll out new initiatives in markets like Asia Pacific wherein we are part of many of those programs so we will continue to see stronger growth in our Rest of the World markets. In India, we have consciously taken a decision just to focus on very few opportunities particularly opportunities relating to our expertise in UID. So we are defocusing on a broader market in India. So you would continue to see the Indian market being stable or probably having a small decline.

Dipesh Mehta And just last about sales side?

N. Krishnakumar On the sales side we have done lot of structural sort of changes and I think lot of that is work in process and like you rightly said we are segregating the hunter and the farmer teams. We are sort of doing many of those changes right now. So probably in a quarter's time we will be able to share with you more details of that.

Moderator Our next question is from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain I would just appreciate if you could share more on the segmental margin because if you look at specific to PES segment the cost level has gone down for over 6 – 7 quarters level and we are incrementally expecting better traction in this segment, so do we see a further margin build up in that particular segment and the overall basis?

Rostow Ravanan I think both businesses have executed well in Q4 and that obviously is reflecting in the margin performance of the businesses as well. PES segment went through major restructuring in the early part of the year. That's what helped them bring their cost under control. Some of these things we will react as to how markets evolve over the next few quarters.

Rahul Jain So still the current level of margin or even for the 12 month basis also we would not be able to say that this is a sustained level of margin for this segment, is it?

Rostow Ravanan My point was Mindtree as a whole will broadly be similar margins in FY14 compared to FY113. So the two businesses will also follow a similar trend. So, nothing is really unusual or peculiar between the two segments. Both the businesses are approximately tracking the same that Mindtree as a whole is tracking for next year.

Rahul Jain Though you are not giving a break but just to understand as you are saying both would be contributing. So I think moreover mix to the growth would be similar for both the segments. And considering PES being relatively a higher margin business I think does it build lot of cushion or still you see based on that the margins are to be in the same band. Or one should expect it to be higher?

Rostow Ravanan I think it will broadly be in the same band because like I said some of the things that are impacting margins on the positive side obviously is a growth momentum that both businesses see but the headwinds like visa or new campus additions will affect both businesses in equal proportion. So therefore Mindtree as a whole and most of sub-segments of ITS and PES broadly remains the same level where we are right now.

Rahul Jain And secondly on the growth thing, one if you could share more from the spread of the growth because I think this year we saw bulk of it coming in Q4. So how do we see the trend in the coming year and what give us confidence I think you have answered this but if you could explain more on that?

N. Krishnakumar Like I said some of the confidence comes in terms of some deal wins that we had with the existing customers and like Anjan shared earlier one or 2 new wins which are also reasonably large in size. That gives us the confidence. What we do anticipate is that growth this year is going to be far more even. Last year even when we started sometime in quarter 1, we did say that we see the growth being back-ended and clearly that's what has happened during the course of FY13 but this year we anticipate growth to be far more even except some seasonal weakness in quarter 3 which is why we are very confident that in quarter 1, for FY14 as we see now is going to be better than growth we have had in quarter 4 of FY13.

Moderator Our next question is from Abhishek Shindadkar of ICICI Securities. Please go ahead.

Abhishek Shindadkar Before I ask a question just wish to clarify that our qualitative commentary that FY14 will be better than FY13 is relative to Mindtree's growth and not relative to the NASSCOM guidance right?

N. Krishnakumar That's right. It's relating to Mindtree's growth and not relating to NASSCOM.

Abhishek Shindadkar The question I had is, could you break your qualitative commentary about growth into volumes and pricing, your assessment about both in FY14?

N. Krishnakumar See broadly we see pricing during FY14 to be stable. We are clearly seeing that in each of our service lines as well as the client segments in which we are in, we are not seeing any negative trends on pricing. So we do anticipate pricing to be stable and consequently as we anticipate growth to be better, we would get to an adequate volume growth.

Abhishek Shindadkar The other question I had is if I look at the segmental EBITDA, the ITS margins are more closer now to the Q3-FY12 quarter which is roughly around 100 basis point less that the Q3-FY12 number despite more or less 7 – 8% depreciation in the average rupee rate. So could you help us understand the moving parts in that business as to what has happened to margins going below the Q3 numbers despite significant depreciation in the rupee?

Rostow Ravanan Part of the reason for that is the investments we made in the front-end like we explained both in Q3 and earlier in this call in terms of new people coming on board to help us get new wins as well as some of the initiatives in terms of large deals and for the SG&A initiative that's what led to the movement in margins from last year to this year.

Abhishek Shindadkar And if I can squeeze in the last one, this quarter the top client seems to have been modest growth or flat. Any key takeaways we should take from this and thanks for taking my questions?

Rostow Ravanan No major trend on the top client. I think that is anecdotal for the quarter.

Moderator Thank you very much. Our next question is from Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan Ramachandran Just wanted your commentary on margin, we used set the target or stated margin of about 18% with Rupee at 47.5, just wanted to know where we are in the journey?

Rostow Ravanan I think we are sort of progressing on that journey. We have little bit of range on that margin target and we don't have like an explicit one single number. But to some extent I think the immediate view is that next year operating margin would broadly remain stable compared to where we are this year excluding the impact of currency. But on a full year to full year basis there obviously will be some ups and downs between quarters or on a full year basis broadly remains similar to where we are excluding the impact of currency.

Srivathsan Ramachandran Any of the top 20 or 30 accounts that you think are in relatively bad macro environment exposures for various parameters/factors outside our control, would any of the top 15 – 20 or 30 customers can have a bad time?

Anjan Lahiri As KK mentioned we are entirely in close touch with out top 20 - top 40. And no information we have right now and our understanding gives us any indication that there should be anything that we should be worried about. We continue to mine the accounts. Their own businesses seem healthy despite the macro-political situation, the economic situation within the organization and the countries seem to be in control. So we don't have any particular thing. As we have said earlier, there is one particular account in the travel industry which has a planned ramp down over the few quarters but the relationship is strong and we know it is a large program which is ending and some new programs will start. But that has been going on a little bit other than that we have no other information.

Srivathsan Ramachandran My last question is on Package Implementation and we have seen small growth in the last 2 quarters, just wanted to which pocket of Package Implementation are we focusing on and it will be helpful if that is what is the plan there?

Anjan Lahiri As you have seen percentage of increase in Mindtree ,it has increased by a more than a percent point in the last couple of quarters and we have had a focussed initiative to increase in our package particularly around the ERP and more specifically the SAP within that. And we have hired some external people and those are beginning to bear fruit we are hiring quite aggressively in that space and also beginning to pay our efforts. So our focus is on the ERP piece and we hired some management people from outside so that is beginning to bear fruits. There are a lot of variants in package we want to grow in ERP but SAP is the central part.

Moderator Thank you. Our next question is from Ankit Pande of Quant Capital. Please go ahead.

Ankit Pande I just had a couple of clarifications. One is when we mentioned that margins will stay stable in FY14, were we referencing that to the Q4 margin or full FY13 margins?

Rostow Ravanan Full year margins.

Ankit Pande And couple of other data points. One is how many days did we work more in Q4 onsite and offshore?

N. Krishnakumar 3 extra days offshore compared to Q3.

Ankit Pande And onsite no movement as such?

N. Krishnakumar No.

Ankit Pande Would you like to share top 40% of revenues how much do they contribute?

Rostow Ravanan We don't share that data. We only share the largest customers, top 5 and top 10.

Ankit Pande And just one more data point, how many freshers did we hire for full year in FY13?

Rostow Ravanan FY13 was approximately 800.

Ankit Pande 800 full year?

Rostow Ravanan Yes.

Moderator Thank you very much. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the floor back to Mr. Sushanth Pai for closing comments.

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

Moderator Thank you very much. Ladies and gentlemen, on behalf of Mindtree Limited that concludes this conference call.