Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth quarter ended March 31, 2014 (Q4 FY2014)

April 24, 2014

Welcome to possible

Moderator: Ladies and Gentlemen, Good Day and Welcome to Mindtree Limited Q4 FY14and Annual Results Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai. Thank you. And over to you.

Sushanth Pai: Thanks, Mohsin. Welcome to this conference call to discuss the Financial Results for Mindtree for the fourth Quarter and Year Ended March 31, 2014. 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;
Ravi Shankar – Chief People Officer;
Rostow Ravanan – CFO; and
Veeraraghavan – Chief Delivery Officer.

The agenda for this 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 I request you to be in disconnect as we just concluded the media briefing before this call.

Before I hand over let me begin with the Safe Harbor statement. During the course of the call we could make forward-looking statements, these statements are considering the environment we see as of today, and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically. I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thank you, Sushanth.

FY14 has been a momentous year for Mindtree. We crossed three significant milestones – half a billion dollars in revenue, $100 million in operating profit, and Rs.100 in EPS. At this juncture I would like to thank all our clients, partners, investors, analysts and Mindtree minds for their immense faith in the company. We have progressed well in our journey to increase our strategic relevance to our clients, and we will continue to aspire to deliver Superior Financial Performance, Innovation, Industry Leadership in our chosen verticals and Social Responsibility. As I mentioned FY14 has been a satisfying year and we closed with revenues of $501.5 million which translates to a robust growth of 15.1% year-on-year.

Q4 was also an excellent quarter, with revenues of $132.8 million which is a growth of 4.4% quarter-on-quarter. Amongst the companies who have declared results till now we believe this is the industry leading growth.

Other highlights of our Q4 results were as follows:

- For the quarter, CPG, Retail and Manufacturing leads with 7.2% quarter-on-quarter growth followed by Hi-tech at 6.1%. From a full year perspective, CPG, Retail, Manufacturing has posted a strong growth of 30% year-on-year followed by BFSI at 18.4%, Travel and Transportation at 16.2%, and Hi-tech at 5.3%.

- From a service line perspective, our Infrastructure Service and Package Implementation have shown good growth in this quarter. For FY14 our Infrastructure Service line has grown 52% year-on-year, and continues to demonstrate strong growth momentum.

- Our client metrics have also shown continuous improvement;
    - We added 15 new customers during the quarter, and with this we have 207 active customers at the end of Q4.
    - Our $5 million customers grew by 2 to 24, and
    - Our $1 million customers grew by 5 to 73.
    - Our largest client along with its associated companies have reached a quarterly annualized run rate of $50 million and this is one of the goals which we set for Mindtree as we entered into FY14.

- We also closed number of multi-year and multi-million dollar wins with the leading global clients during this quarter. Some of the details are
    - Leading global provider of share Registry, Pension Administration, Compliance Reporting, and Analytics Solution chose Mindtree to provide Application Maintenance, Testing and Management Reporting Services.
    - A leading Tele-communications company chose Mindtree as its managed services partner for maintenance of multiple datacenters that hosts its telecom business applications. This is an existing client.
    - A leading global insurance company chose Mindtree to provide Application Development and Maintenance as well as Testing Services.
    - A leading global provider of governance, risk and compliance management solutions chose Mindtree to support its Cloud-based platform.

- On the attrition front, the LTM attrition has increased slightly from 11.6% last quarter to 12.7%, but it decreased as compared to 13.4% in Q4 of FY13.
- We have 12,926 Mindtree minds reflecting a gross addition of 397 Mindtree minds in the quarter.

Now for some points on outlook:

As we enter into FY15 we see a stronger pipeline and momentum. The confidence is due to the following:

- We expect the growth momentum of Q4 to continue into Q1 of FY15, and therefore we expect a good start to FY15.
- Our recent deal wins have been multi-year and multi-million dollars in size and that gives us better visibility.
- We have signed orders worth $133 million in Q4. With this we have signed orders in excess of $500 million in the last four quarters. This is both renewal and new orders.
- With the visibility and market momentum we have, we expect to beat the NASSCOM guidance of 13-15% for FY15.

With this let me pass on to my colleague Rostow to share a few financial highlights.

Rostow Ravanan: Good Evening to all the friends in the investment community on this call.

Like KK mentioned, we had a very momentous and satisfying quarter and full year ended 31st March 2014.

Some of the additional financial highlights are:

- For the quarter, Our fee revenue growth was 4.5%, which breaks down to a volume increase of 2.2%, and an improvement in realized rate of 2.3%.
- EBITDA margins for this quarter improved to 21.5% from 19.5% in the previous quarter, driven predominantly by the revenue growth, including the price realization increase, some improvement in utilization as well as operational cost reduction in a few areas both on the direct cost and indirect cost wise.
- Forex loss for this quarter is $6.9 million, driven primarily by the fact that our debtors translated to a lower value in March compared to the amount in December, because the Rupee appreciated on 31st March to 59.92 compared to 61.81 on 31st December. Average realization in this quarter was more or less constant. For the full year we have a Forex gain of $2 million.
- Effective tax rate in this quarter is 21.4% compared to 22.6% in the previous quarter, full year tax rate is 22%.
- PAT for the quarter improved slightly to 11.9% compared to 11.2% in the previous quarter.
- On full year basis PAT was 14.9%, which is a 19% growth over the previous year in dollar terms. EPS for the quarter was Rs.23.41, full year EPS is Rs.107.6, which is a growth of 31.6% over the previous year, which makes it the second consecutive year where our margins have increased faster than revenues, leading to a validation of the strategies we put in place in 2011.
- ROCE has improved to 38.8% compared to 36.3% in the previous year.

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- Utilization including trainees have increased slightly to 68.5% compared to 67.4% in the previous quarter.
- As of 31st March we have hedges of $54 million at an average rate of 62.14.

A couple of noteworthy announcements for this quarter:

- On the occasion of our 15th Anniversary and because of the fact that our revenues have crossed a significant milestone of half a billion dollars, the Board at its meeting earlier today recommended a bonus share issue in the ratio of 1:1, i.e., one additional equity share for every existing equity share. This is of course subject to shareholders approval. The process will be completed within the statutory timeline after the completion of the regulatory formalities and post that the bonus share will be credited to the shareholders accounts.
- Also, at today's meeting, the Board recommended an interim dividend of 50% i.e. Rs.5 per share for the quarter ended 31st March. In addition, the Board has also recommended a dividend of Rs.5 per share for the year ended 31st March 2014 as the final dividend as well as the special dividend of Rs.5 per share for our 15th anniversary as well as the achievement of the half a billion dollar revenue milestone. It is to be noted that, if the bonus share issue of 1:1 basis is approved by shareholders prior to the date of the AGM, the final and special dividend amounts would accordingly be reduced to Rs.2.50 per share, because by that time the bonus shares would have been implemented.

Some of the comments on outlook for FY15 and Q1:

- As we start the year, there is a strong revenue momentum based on the investments we made in the front end over the last few quarters. Overall, we expect the margins for FY15 on a full year basis to be stable compared to FY14. For Q1 we see some positives, for example, the strong revenue momentum is expected to continue, but some negatives in the form of visa cost, etc., We need to see how the quarter pans out due to these factors, but like I mentioned on a full year basis, we expect margins to remain stable.
- The comment that I made just now does not include any impact of currency fluctuations. Any appreciation or depreciation of rupee will have its impact of 35-40 basis points for every 1% movement of the rupee.
- Our Capex spend expected for FY14 was in the region of $35-40 million; however we ended up with only $26 million because a large expansion in Bhubaneswar was delayed due to regulatory approvals getting delayed. Therefore, we expect total Capex spend for FY15 to be in the region of $45-$50 million which includes the spillover from FY14.
- Effective tax rate for next year is expected to be in the region of 22% to 23%.

With that we turn this over for question-and answers.

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Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Just wanted to get a sense on our growth prospects for the Hi-Tech vertical because we have seen a very solid revenue growth coming in from that vertical after a long gap. If you could talk about both growth prospects from that vertical both near term as well as over the longer term period. That is question #1. Second question was with regards to the business or the demand that we see from our top customers, what one has seen in FY14 is that you have done well in terms of business from top 10 customers which is largely a function of the traction that you have seen in that 6 to 10 bracket while some slowdown in the performance of the top 5, how do you see that going forward?

Krishnakumar Natarajan: On the Hi-Tech, if you recollect about a year back, we sort of shared with the investment community that we are changing the strategy to make it broad-based and not just focus just on Engineering Services but also to address the IT Service line like Infrastructure, business intelligence, Data warehousing as well as Digital transformation. Some of the growth which you are seeing is really the first signs of that strategy working, and clearly we are seeing the pipeline and funnel in that being fairly strong. So to that extent we expect that this will continue to sort of demonstrate good growth. Even if you look at the year-on-year basis compared to a decline in FY13 Hi-Tech has delivered 5.3% year-on-year growth in FY14, and looking ahead on FY15 we do anticipate the growth will definitely be better than what they delivered year-on-year on FY14 also.

Manik Taneja: So would it mean that we will go to a double-digit growth in the Hi-Tech business this year?

Krishnakumar Natarajan: I just want to add another point… part of the very strong growth this quarter in Hi-Tech is also driven by the growth in our IP-related revenues, but certainly a segment and percentage of the Hi-Tech business comes from IP-driven revenues which tends to be lumpy and this quarter has been very good, obviously, you need to sort of watch quarter-after-quarter in terms of sales. I would think FY15, it will be close to a double-digit sort of growth, but it will be definitely better than 5% growth year-on-year which we have delivered in FY14. So overall on the Hi-Tech the change we made is showing the first signs of demonstrating more predictable and manageable sort of growth. Obviously, I think we will never reach the sort of growth rate as in the other segment, but inherent part of the business is certainly volatile, but certainly in FY15 we anticipate that it will be close to double-digit year-on-year growth. And your second question on demand of top customers, you rightly pointed out that our top 10 customers continue to demonstrate fairly strong traction, and we continue to improve both the percentage revenue from the top clients as well as our growth, and I shared one another thing, our top customer and their associated companies on an annualized run rate basis have crossed $50 million. So when we started FY14 we did share with the investment community that by the end of the year we will at least like to have one customer reach a run rate of 50 million and that is what we have achieved. But what we also consciously focused last year was to bring in the same focus on our 11 to 30 customers and I think they are also starting to see good results in that. The quarter-on-quarter growth of our 11 to 30 customers in Q4 was 5.1% and on a year-on-year basis the 11 to 30 customers have grown at 18% which is higher than the Mindtree company growth rate. So overall, I think that is also falling in place and we will continue to put our investments both in mining our top 10 customers as well as enhancing focus on our 11 to 30 customers.

Manik Taneja: This was a question with regards to the shift in business that we continuously seen an increase in our onsite mix of business, I understand that that could also be driven by the fact that we have set up onsite delivery centers in US and some of our clients might be ramping up business over there. In that context just wanted to understand how does our usual margin levers like utilization or broadening of employee pyramids something that we had indicated was a big margin lever for us, which will help us reduce average employee cost, how does that play over the medium term?

Krishnakumar Natarajan: Manik, I think your observation is valid, what we do see is as we get to do more critical work for the customers, the customers want some part of the team to be based close to them, which is how our near-shore delivery center at Gainesville, Florida is helping us. Obviously, it has led to our increase in onsite revenue mix; we have almost grown about 6% or 7% on the onsite business, but we do believe in FY15 the growth in onsite revenue mix is not going to be as high or as sharp as what it was in FY14. So we are through the first phase of putting people onsite, and to that extent it would not be as sharp a growth in the onsite revenues in FY15, and to that extent both our near-shore delivery center as well as the way in which we have driven the business will help us do that.

Manik Taneja: Just a clarification… could you just give us a sense on the kind of service lines that clients are pursuing with regards to work that we are delivering in the near-shore or the onshore delivery centers?

Krishnakumar Natarajan: Essentially, I do not think the service lines are driven by locations, but necessarily in terms of what is it that the clients are investing in. So amongst service lines where we see two big themes – one is really the whole area where people want to optimize the cost which they are incurring in running the business. So clearly, we are seeing strong traction in our Infrastructure Management practice on how they optimize the cost of running their infrastructure and where the approach Mindtree has taken which is really a platform-based approach to drive automation and productivity is certainly helping us win more deals. So that is the theme which has driven through efficiency improvement, cost efficiency. On the other hand, clearly, we are seeing segments like Retail, Consumer Products or even in some parts of BFSI, clients wanting to engage their customers through Digital channels. So there is a lot of discretionary spend which is happening on Digital transformation as well as how do they leverage Data to understand their customers better or can they really monetize the Data which is really getting generated. So, a lot of Data-related services is also gaining some traction, and consequently improvement in discretionary spending.

Manik Taneja: For Rostow, just trying to understand our margin performance in the current quarter as well as the full year, we have seen our SG&A expenses come down in the current quarter, is there some cost write-back, some provision write-back which had helped our margin performance in the current quarter? That is question # one. Second thing despite about 11-11.5% currency depreciation on a full year basis our margins for the full year have actually declined about 50-odd-bps. Understand that there were significant investments that we are making in the business, which will help us in the medium term, but just trying to understand the different moving parts, and how do our margin levers like utilization or more hiring of junior resources play over the medium term?

Sushanth Pai: Manik, this is Sushanth here. First to clarify there are no one-off instances that are having any write-back or anything like that. So the key factors that have caused the margin improvement of about 200 basis points is basically, one, the revenue growth itself has been good. So if you see Q3 was a little weak quarter because of the seasonality, so those seasonality things are not there in Q4. So one reason itself is the revenue growth. Second like KK mentioned earlier the IP revenues have also contributed which has been a little higher, and IP revenues as you understand is a little bulky in nature, we cannot predict at what point it may come, depends on the assignments that has caused also a bump in terms of margins. And the third factor is certain metrics, for example, utilization has improved by a percentage point to about 68.5%, so that has also caused margin improvement. The other Opex savings are basically in direct cost, about half a percent and about 1.5% in indirect cost. So I think all this put together has caused this 200 basis point improvement in margins. On the full year perspective, you are right, rupee has depreciated by about 11.5%, and if you see on constant currency basis we would have had some margin impact on an overall year basis that is because we have been updating you that we have invested quite a bit on front-end sales and also something on solutions, we engaged with also an external consulting firm to get our validation on strategy. So all these sort of investments have caused an impact on margins last year, but however we think that those investments are required because that is what we think that will drive revenue momentum in the year ahead and also in the future. So therefore some level of investments will continue into the future also, it may not be as large as what we did in the last year. So therefore having put all this together we think margins will remain sort of stable for the whole year on a constant currency basis. Like Rostow explained there will be some headwinds like salary hike which we are reviewing the situation, so we will have salary hikes, there will be visa cost increase; however, the revenue growth momentum and some leeway to improve parameters such as utilization will offset some of those headwinds, and therefore we think the margins will be stable for FY15.

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

S Ramachandran: Just wanted to get an update on the large deals we have been having good success with the existing customers, so just wanted to understand how is the effort on chasing some of the larger deals opportunity, especially in Infrastructure or other areas?

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Krishnakumar Natarajan: Srivatsan, clearly, what we are seeing amongst the four which I shared with you on multi-year, multi-million; one was from an existing customer, the rest were new clients, but what we are clearly seeing is the sweet spot for Mindtree, is obviously in the $20 million to $50 million TCV type of deal which could be a 3-year or a 5-year deal as the case may be. At this point in time, we have not as yet signed anything larger than that, but the funnel overall is also looking healthy, like I shared clearly, there is strong traction in our service lines, particularly, Digital and Data-related services. Overall, between Q3 and Q4 the value of the funnel has gone up by about 50%, but primarily a lot of that is really in our sweet spot, which would be deals which are in the $20 million to $50 million TCV, but there is nothing which is higher than that. So just to clarify, yes, there are new customers which we are winning but it is in this range of $20 million to $50 million.

S Ramachandran: We have seen almost India business falling on a year-on-year basis. So just wanted to understand… is it more of a conscious decision given that the Aadhar deal was more of one-off, just wanted to understand what your plan there?

Krishnakumar Natarajan: Clearly, the thing is we decided to focus our resources on high growth markets. So particularly we have scaled down our sales operations in other centers in India, and only service global customers of ours, who want some services in India. So it is a very conscious sort of effort where we have sort of been scaling down, addressing India-based customers. Also, some of the multi-national companies with whom we have worked with, they have moved some their decision-making from India to maybe their regional headquarters like Singapore and so on. So the services get delivered out of there, so consequently the revenue has also moved to that Geo.

S Ramachandran: A quick question to Rostow, just wanted to understand the hedge book as you said there has been a change in hedge policy, so almost a $64-$65 million of hedge book we have would be effectively for next two quarters, is this the right understanding?

Sushanth Pai: Srivatsan, Sushanth here. We have a hedge book of about $54 million and that covers till June and may be a small portion for July also.

S Ramachandran: And the new hedge policy would be one-quarter hedge policy?

Sushanth Pai: Like we mentioned last time it will take a little time to streamline this, but as we go along it will come to a rolling 3-months basis.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

Ashish Aggarwal: What is the reason for such a huge increase in the authorized share capital?

Rostow Ravanan: Reason for the increase in authorized share capital that came up because we wanted to look at the bonus share issue that the board approved today and current authorized capital does not have the extra headroom to issue bonus shares and so we had to revise it. From a process point of view it is a complicated process, we need to get shareholders' approval, there is a filing process, there is a filing fee, etc., and therefore we did not want to keep revisiting this frequently, and that is why we have done a one-time increase to take the capital up to approximately 10 times the number where we are, but the predominant reason was to look at the bonus issue which the board approved today.

Ashish Aggarwal: Because 10 times looks very-very large, because you have given only 1:1, so that is why?

Rostow Ravanan: If all goes well we may look at similar; approaches to reward shareholders down the line as well. We cannot keep going back to increasing our fresh capital time and time again. So, since we are doing it and like I said there is a cost involved in doing it as well, so we thought we may well do it at one shot for a large number.

Ashish Aggarwal: If I look at your revenue growth on the service line basis, two service lines which has clearly given you good amount of momentum in this year has been the Application Maintenance and the IMS. When you said that you are seeing an increase in the discretionary spending, are we to believe that going forward apart from these you will have all service components also contribute significant to the growth?

Krishnakumar Natarajan: A lot of the Digital transformation work will be under development which has shown strong year-on-year growth; it is almost 15% year-on-year growth in our Development Services. Consulting has also grown; if you look at Consulting is also 14.3% year-on-year growth. So, in a way if you look at engaging with any clients on Digital transformation it starts with the Consulting engagement leading to building a solution, which is why both the Consulting and Development service lines have shown strong growth.

Ashish Aggarwal: No, my question was regarding if I look at your Consulting and both the Development work, now, Consulting has shown a substantial increase in the last two quarters year-on-year if I look at it even on a Q-on-Q basis, but some of the Development side Q-on-Q as well as year-on-year basis has started to decline. Is there anything to read into it?

Rostow Ravanan: It is a little bit on a seasonality side, so typically the projects start around this time, the customer gets the budget in January-February kind of timeframe, and then the project start 3-4 months down the line. So, the more correct way to look at it is full year FY14 compared to full year FY13, Development has grown by approximately 15% like KK mentioned. Again, on a full year basis Consulting has also grown by approximately 15%. So that is the more appropriate way to look at it than to look at it quarter-to-quarter.

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

Madhu Babu: Sir, large caps have already started announcing good wage hikes. So, do you see attrition spiking up? And what is our view on the wage hike for our company?

Ravishankar: There is a minor spike in the attrition which we are monitoring and the future trend is showing coming under the control. So, it is one-off spike that we are not worried about it. On the salary hike as the CEO already said that our time is July for major salary hike which covers the majority of the people and the next salary hike is in October. So, we are collecting market data and we will be deciding the course of action and we will announce it sometime in June-July.

Madhu Babu: This year IT Services did around 19.5% growth. So next year if you are saying it is going to be better, so when we look at kind of 22% that kind of growth in the IT Services part?

Krishnakumar Natarajan: We do not give a guidance, but to be very honest, what we are seeing is based in terms of certain areas where clients are continuing to invest and typically I think the demand environment does not remain constant, this year 19.5% has been on the basis of strong 30% year-on-year growth in the Retail, Consumer Products, Manufacturing, and that sort of a growth rate is difficult to sustain, irrespective of what you see in the demand scenario. So, overall if we look at the portfolio of segments in which Mindtree is operating, we certainly see a very healthy pipeline and positive conversations with our customers. We do have good visibility because we have had good order closures, both in Q4 and towards the end of Q3. So, clearly that is giving us more confidence, which is why if we were to convert it into what we see of the environment, we do believe at a company level FY15 will be better than FY14 and we are confident that we will beat the NASSCOM guidance of 13-15%.

Madhu Babu: Are we modeling a scenario where we see a steep appreciation in rupee post this election? And what are the measures we are taking in terms of operating, which are the levers which we can quantify now?

Rostow Ravanan: We consciously taken a stand that we do not want to do anything based on our expectations that the rupee will move this way or that way. Our hedging policy is to hedge 50% of our net exposure on a rolling 3-month basis. So that is the approach we will continue to have, because there is no certainty that the rupee will appreciate or depreciate. So, if I do something and the rupee moves in the opposite direction, obviously, that lead to complication. So we do not want to take any call on which way the rupee will go and therefore we do not want to change our hedging approach as well.

Moderator: Thank you. The next question is from the line of Hardik Shah from KR Choksey, please go ahead.

Hardik Shah: Will it be possible for you to break down like… in this quarter we signed $133 million deal, so how much were the new deals, and how much was renewal kind of thing?

Sushanth Pai: This is Sushanth here. We have not yet started tracking that; we are working on something like this and hopefully, we should be able to update you as we go along, but currently we do not have that break-up.

Hardik Shah: Sir, your other operating expenses was around Rs.170 crores in the previous quarter, in this quarter it was Rs.160 crores. So any one-off kind of thing, I know you mentioned, but still can we expect it to be stable at Rs.160-165 crores going forward?

Sushanth Pai: This is Sushanth here. There is no one-off like I said before. From that perspective, it will remain stable, but we need to see, like Rostow mentioned earlier, what are the headwinds that can impact next quarter and we need to see how the quarter pans out overall, but there is nothing one-off that can create any issue for next quarter.

Moderator: The next question is from the line of Neerav Dalal from SBI Cap Securities Limited, please go ahead.

Neerav Dalal: The decline in the employees, what should we read in it?

Ravishankar: Basically, you would have seen a marginal increase in the utilization. So we are trying to work towards the improvement of the utilization. So hence net addition is marginally very small number; 66 people reduced, and we will endeavor this to go to higher utilization.

Neerav Dalal: Any guidance for the next year on how do you see the employee addition?

Veeraraghavan: Overall, as Ravi had mentioned, primarily, we had a utilization lever in our hand to improve. So that is why we controlled on the overall intake in this quarter that is why you see the very marginal dip in the absolute headcount. Looking ahead for the year, based on what we are planning for the next year, which KK indicated higher than NASSCOM guided number, in-line with that we will plan for the year.

Neerav Dalal: Any indicative number?

Management I can give you the campus part of it, which has already made, so we have 700 more people from the campus to join through the financial year, and we have also taken a strategy based on the demand outlook, we will go off-market and recruit campus and that is the strategy we are planning to apply.

Neerav Dalal: What was the campus hires for this year 2014?

Veeraraghavan: FY14 we have 2200 people joined, that is two years together, because there was a backlog of people joining.

Neerav Dalal: So 2900, out of that 2200 have joined, 700 are pending.

Moderator: The next question is from the line of Ankit Pande from Quant Capital, please go ahead.

Ankit Pande: I just had a question around your kind of deal wins, are they sort of very competitive or have you sort of found your niche, because that is what the objective of the company was a couple of years ago? You were focusing on micro verticals in your particular niche. So what were the kind of win ratios here and do you see yourself breaking through critical mass in certain accounts, where you do not have to invest so much in sales and marketing?

Krishnakumar Natarajan: Clearly, if we look at our top 10 accounts we are probably present there in sort of along with maybe one or two of the top 6 services providers. So it is a competitive scenario where every contract which is ending in terms of all the preferred service providers, and we win our share of deals, which is why the top 10 accounts continues to show a fairly healthy growth both quarter-on-quarter as well as year-on-year. As far as new discretionary spends are concerned, many times because of the expertise we bring in, in the Digital transformation space, we get called into deal .clearly, there again we compete with the larger players, our win ratio is probably more closer to maybe 12 months back 1:6. That has clearly moved, today it is running at a little less than 1:5, which I think clearly demonstrating that through the expertise we have built, we are able to win more number of deals when we are competing with the larger players.

Ankit Pande: But I also want to understand your strategy towards the Product Engineering vertical or the Hi-Tech vertical kind of deal. In the past you used to give some updates on Consumer verticals, could you just give that breakup again, and could you just give a highlight of what service lines that are catered to particularly?

Krishnakumar Natarajan: Absolutely, I think we shared with you our approach is saying that in the Hi-Tech segment which largely used to be Product Engineering, starting from last year April 1, 2013 to the segment of Hi-Tech customers, we started taking services like Business Intelligence, Data Warehousing, Infrastructure, Package Applications, Digital Transformation and so on. And that is showing the first signs of promise, we have won a few deals there, and that will also give a consistency of revenues because otherwise the Product Engineering per se

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Technology Services tend to be a little more volatile. Now within the Product Engineering Services, clearly we see three sub-segments in which we have target segments – one is clearly the Consumer Hi-Tech, which is really consumer devices and related space. Clearly, the demand momentum there is probably flattish; it is not appearing to sort of go out of the roof, at the same time it is not declining. On the Enterprise Hi-Tech, which is largely ISVs which are changing over from license-based software to more multi-tenanted sort of architecture, we are seeing strong momentum for Cloud Engineering Services, both Architecture and Engineering Services, and clearly Mindtree is a leader in that space, we continue to see strong growth there. The third segment which I am addressing is the Semiconductor segment, which tends to be off and on lumpy; in the last six to eight weeks we have seen positive movement in the Semicon space, one of the largest semiconductor vendors of Product Engineering Services did a large RFP and have chosen four preferred partners, of which Mindtree is one of the four preferred partners. So hopefully we anticipate that Semiconductor will also come on to a little more growth model in FY15. I hope that gives you a picture of the sub-segments in Hi-Tech.

Ankit Pande: I just also have a question a little bit on your margins side. Now given that we can still improve so much on the utilization front, we have operated about 400 bps higher. Do you see that as a priority at all?

Krishnakumar Natarajan: Priority for what?

Ankit Pande: For margin management.

Krishnakumar Natarajan: Clearly, that is a lever which we have, which is why Rostow in his opening remarks said, we anticipate in FY15 that we would probably have a stable margin like what we had in FY14, but we will continue to make investments because last year we made significant investments in client-facing teams in North America, this year clearly we would like to focus on Europe as well as in UK. Clearly, with the type of deals we are fighting, we need to significantly enhance our marketing spend. So we are going to invest in brand building, marketing so that we win the right deals, and then the infrastructure also needs to be funded. So apart from the Capex that we are incurring, we are significantly enhancing the infrastructure in our other locations, like Chennai, Hyderabad, and Pune. So that is also going to be a certain investment anticipating that there is going to be demand, which we are confident of. So, these investments clearly are going to be the one which we think is right in the context of business which is why we anticipate that margins by and large as far as the currency does not play spoilsport, is going to be stable.

Ankit Pande: Just a couple of quibbles with Rostow or Sushanth, could you just give me the statistics for Pyramid?

Sushanth Pai: Pyramid is currently somewhere close to 28% in the 0-3 years' experience.

Ankit Pande: The campus hiring, if I got the numbers correctly was 700 from previous year, and how much in this ….

Veeraraghavan: No, no, 700 people offers made for joining in the current year FY15.

Moderator: Thank you, the next question is from the line of Atul Soni from Macquarie, please go ahead.

Atul Soni: I would like to get your thoughts on the strong PES growth that you have shown during the quarter, is this something that we can take as a sustainable run rate?

Krishnakumar Natarajan: No, I did share earlier that 6.1% quarter-on-quarter growth in Hi-Tech segment was also driven by a good IP run which we had in Q4. So clearly a 6% quarter-on-quarter growth in that segment is not sustainable. IP tends to be a lumpy business, for all you know I think in Q1, the same momentum in IP may not be there, but what we do believe is that there is a change in approach and the strategy we are putting in and the initial results we are seeing, it will get back to what we think is more practical and what we could call as an acceptable growth, which will be closer to the double-digit year-on-year growth.

Atul Soni: In terms of annual number for PES, any outlook for FY15? This year we have done 5%, so just your thoughts.

Krishnakumar Natarajan: No, like we said, we do not give segment wise guidance, but it will be better than what we have done in FY14.

Moderator: Thank you. The next question is from the line of Anubhav Jain from CIMB, please go ahead.

Sandeep: This is actually Sandeep here, Anubhav's colleague. Maybe asking or repeating this question, can you share the outlook for the margin for FY15 as well as for the coming quarter?

Rostow Ravanan: Like I mentioned in my opening remarks, we expect the margins for FY15 to be stable on a full year basis compared to where we are on FY14. Coming to the immediate quarter, there are some positives, for example, revenue momentum like KK mentioned, we are opening the year with very strong run rate, so any momentum would be margin positive, but for example, visa cost would be impacting us during the quarter, we need to figure out during the course of this quarter how both of them shape up. But on a full year basis, we expect the margin to be stable. Assuming currency remains constant, any change in currency obviously will have its own impact which is non-operational. The reason why we are unable to accurately predict the quarter profitability is because we do not know what the ultimate outcome of the visa process will be because the actual applications are more than the ceiling and therefore it will get into a lottery process.

Sandeep: The commentary for the first quarter margin in terms of what you are comparing with the fourth quarter margin or again the first quarter margin we are comparing with the full year of FY14.

Rostow Ravanan: Comparing with respect to the fourth quarter margins. So like I said, there could be some positives, could be some negatives. So we will update you probably when the quarter ends.

Sandeep: And just in terms of tax rate, what are we guiding for the coming year?

Sushanth Pai: For the full year we are guiding 22-23% as ETR.

Sandeep: And can you share the treasury yield for FY14 for our cash and cash equivalents?

Rostow Ravanan: A little above 6% of post-tax basis for the full year FY13-14.

Sandeep: And on the wage inflation right now, we are not looking to change our cycle and we will discuss or quantify the same in the coming quarters?

Krishnakumar Natarajan: We are not intending to change the cycle, we are very clear, we will implement in July and October.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities, please go ahead.

Dipesh Mehta: Just wanted to understand our onsite and offshore mix, how do we expect it to change over the next couple of quarters, and maybe if you can provide some medium term kind of thing, because this year growth is largely driven by onsite; one reason could be relatively weakness in PES, but if you can provide some color? Second question is if you can provide some data about hedge book position and how it would be distributed over the coming quarters? And last is what would be the expected Capex for FY15?

Veeraraghavan RK: On the onsite/offshore mix, as you have seen in the Financial Year '14, we had a significant increase in the onsite focus that is primarily implementing the strategy of working in the focused verticals and working more closer to the business on certain transformational initiatives. That resulted in FY14 earning a significant jump in the onsite mix. As K. K had mentioned earlier for Financial Year '15, we are definitely not looking at that kind of jump, it will be much lower than the shift which you saw in FY14; it is likely to be 1 to 2 percentage points going up through this year.

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Dipesh Mehta: So you expect onsite continue to increase as a percentage?

Veeraraghavan RK: Yes, the slope will become much low compared to last year.

Dipesh Mehta: Then it would have some implications on margins, that is right, or do you expect it unlikely to have material impact on margins?

Krishnakumar Natarajan: With a small increase it will not have any material impact.

Sushanth Pai: On the hedge book, we have about $54 million for FY15, and these hedges expire by July. So the broad breakup is approximately $45 million for this quarter and the balance $9 million is for July. So like we mentioned earlier, we have moved to a rolling 3-month basis, and therefore slowly we will streamline that, and finally we will have a quarter sort of hedge book as we go along.

Dipesh Mehta: And what would be the average rate for these hedges – $45 million and $9 million?

Sushanth Pai: 62.14 is the average rate for whole $54 million and on Capex when we gave guidance for FY14, we said we will have Capex somewhere in the range of $35 million to $40 million, but we ended up spending only $26 million. That is because for one of the facilities we had delays in getting regulatory approvals. So therefore some spillover of that will happen into FY15. So we think the Capex for FY15 will be somewhere in the region of $45 million to $50 million.

Dipesh Mehta: And if you can provide broad level breakup, where this $45-50 million would be largely spent on?

Rostow Ravanan: The biggest component of that will be on infrastructure, like Sushanth explained, one of our training facilities, we are planning in Bhubaneswar, expected to complete in FY14, has spilled over into FY15, as well as some additional capacity, we are creating between Bengaluru, Chennai, and Hyderabad. So the largest component of the Capex would be in the physical infrastructure that we are adding.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital, please go ahead.

Rahul Jain: Sorry for sounding a little repetitive, but the margin outlook of stable margin is also seen in context of the current realization. So the current rupee/dollar which is 60.4 is similar to what we had average for the full year in fiscal '14, and when we have a much positive view on the volume, do we not think we should ideally add margin on like-to-like basis?

Krishnakumar Natarajan: But clearly like I mentioned earlier, there are investments which we will need to do both in creating physical infrastructure or adding on a lease basis additional office capacity, as well as there is more client-facing front-end people to be completed in North America, but not as high as what it was last year, but particularly, UK and Continental Europe, we would be investing in the front-end. The second key thing which is client-facing and which will bring in more clients is really our additional spends and investments we will be making into marketing, so that clearly we can compete in the type of deals which we would like to win. So, by and large these investments coupled with the thing would really give us the ability to reinvest back in the business, and ensure that margins are stable. Partly like Veera said, there will also be marginal increase in the onsite mix, which will also have a small impact on margins.

Rahul Jain: This investment commitment which we are talking off, do we maintain this irrespective of if there is any change in the kind of the deal success factors and all, which we are trying to build, because we are seeing that one of the biggest factors for us in terms of volume momentum is our success ratio turning from 1:6 to 1:5?

Krishnakumar Natarajan: No, I think that gives us the optimism, and honestly in the two major markets, I think we will go ahead and make the investments, because fundamentally I think as long as we feel we have the capability and confidence to go and compete in the marketplace, we need the right frontend to make those deals happen. But beyond all the investments, there is also the compensation increase, which we talked about which will be implemented in July and October, that will also have an impact on the margins.

Rahul Jain: When we talk about this better year and beating the NASSCOM kind of number, so apart from the deal success conversion which is a key factor, are there any other factors which we can say is specifically adding to our confidence?

Krishnakumar Natarajan: One is clearly the pipeline, I did share that the value of the pipeline between Q3 and Q4 has gone up by almost 50%, so that is really the existing funnel of opportunity which we are competing, that coupled with the improvement in the winability, I think gives us the confidence. Beyond that even the deal closures which we did in Q4, which is $133 million, certainly gives us the momentum in FY15, and that closure which we did in Q4 will translate into revenues in FY15.

Rahul Jain: Sorry, I did miss the numbers… have you shared the numbers on the pipeline?

Krishnakumar Natarajan: Pipeline, we do not share numbers, but the contract signing we do share; contract signing was $133 million in Q4, in the last four quarters, the contract signing has been a little over $500 million, which includes both new and renewals.

Rahul Jain: That breakup, again we are not sharing?

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Krishnakumar Natarajan: We do not have the breakup of new and renewals.

Rahul Jain: But then when we say that it adds to 15% growth then there is a good mix of new deals definitely in that?

Krishnakumar Natarajan: Yes.

Moderator: Thank you. Ladies and gentlemen, due to time constraints no further questions can be taken. I now hand the floor back to Mr. Sushanth Pai for closing comments. Over to you.

Sushanth Pai: Thank you all for joining this call. We look forward to speaking with you in the coming days. If you have any questions do reach out to me. Good Night and thank you once again.

Moderator: Thank you. On behalf of Mindtree Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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