Mindtree

Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of Earnings conference call
Second quarter ended September 30, 2012 (Q2 FY2013)

October 16, 2012

Welcome to possible

Moderator Ladies and gentlemen, good day and welcome to the Earnings Conference Call to discuss the results of Mindtree Limited for the second quarter ended September 30, 2012. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sushanth Pai. Thank you and over to you, Sir.

Sushanth Pai Thanks, Marina. Welcome to this conference call to discuss the financial results for Mindtree Limited for the second quarter ended 30th September 2012. I am Sushanth from the Investor Relations team in Bangalore. We have with us senior management team including N. Krishnakumar – CEO & Managing Director; Janakiraman S – President and Chief Technology Officer; Ashok Krishnamoorthy – President, Product Engineering Services; Anjan Lahiri – President, IT Services and Data Analytic Solutions; Parthasarathy N.S. – President, IMTS and Testing and COO; Rostow Ravanan – CFO; Ravishankar – Global Head, People Function 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 the Q&A session. Please note that this call is meant only for the analysts and investors. In case, there is anyone from the media we request you to please disconnect as we just concluded the media briefing before this call.

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

N. Krishnakumar Thanks, Sushanth. I am pleased to welcome you all to our new brand identity. This has received a very positive feedback from our internal and external stakeholders. We are confident that this brand repositioning will position us well for the future.

I am also pleased to share with you changes to the Board of Mindtree. The Board today elected Anjan Lahiri – President, IT Services as an Additional Director to the Board. The Board also nominated N.S. Parthasarathy – President and Chief Operating Officer as an Alternate Director to S. Janakiraman.

Coming to Q2, Q2 revenues were $107.25 million, representing a quarter-on-quarter growth of 1.7% and a year-on-year growth of 5.8%. On constant currency terms, the growth is nearly 2.2%. IT Services reported a growth of 1% quarter-on-quarter and Product Engineering Services 3.2% quarter-on-quarter. Though most of our segments showed growth, example, BFSI was 6.3% quarter-on-quarter; Manufacturing and Retail was 3.2% quarter-on-quarter; it was the Travel segment that pulled the growth down with an 8.5% quarter-on-quarter decline.

We continue to see reasonable traction for large deals and we are getting invited to some of these opportunities. We continue to invest and strengthen our capabilities in this area which will improve our chances of converting such large deal opportunities. Since this is a new initiative and cycle times are longer, it will not have any meaningful impact in FY13.

Product Engineering Services continues to be volatile, particularly in the Telecom and Semiconductor areas but the Software Products business is stable and growing. So overall, on the business front, we still see short-term challenges due to an uncertain global environment, resulting in delays in decision-making in some of the areas we operate in.

Earlier, we had indicated a growth of 11% to 14% in FY13. Given how we see the market conditions above, we now believe that we will be lower than 11% for FY13. What is satisfying is that our margins continue to show good improvements. Even on a constant currency basis, we were able to improve margins operationally and we were able to invest into key strategic initiatives, such as rebranding. My colleague, Rostow will provide more details on this later.

Other highlights of our Q2 results are: We added 11 customers during this quarter. With this we have 247 active customers. There is a change in the top customer this quarter. With new wins gaining traction, Microsoft is now the largest customer.

Some significant wins in this quarter are as follows:

- A large manufacturer of high quality value-priced nutritional supplements based in the US. Mindtree has been selected as its strategic IT partner.
- An existing customer who is a large European telecom service provider. Mindtree will provide implementation and support services for their billing and associated systems. This marks the first large win which is domain intensive within the telecom vertical.

On the people front, we are happy to report that the attrition on a trailing 12-month basis has come down to 16.3% compared to 17% in Q1. Quarterly annualized attrition has come down to 14.7% from 16.3% last quarter. We have 10,883 Mindtree minds reflecting a gross addition of 454 minds in this quarter.

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

Rostow Ravanan Thank you KK. To expand on some of the financial highlights that KK outlined in his speech, our Fee revenue growth in Q2 was 1.5% that breaks down into a volume increase of 1% and a pricing increase of 0.5%. Our outlook on pricing within our current customer base indicates that pricing continues to remain stable. EBITDA margins for Q2 ended at 22.1% compared to 20.8% in the previous quarter, this was an increase of 130 basis points. The increase came as a result of our beneficial currency impact of 1.4% due to the rupee depreciation, operational improvements contributed 2.5% increase to profitability, offset by salary increases which impacted profitability by 1.8% and the rebranding initiatives which costed us 0.7% in the quarter.

We are also happy to note that cash generation in the quarter was quite healthy. So overall margins have improved operationally to take care of our investments.

Forex had a big swing in the current quarter. We had a total Forex loss of $7.6 million. The main reason for the Forex loss is because debtors which were booked at various rates in the earlier part in this quarter were rebooked at quarter end because the rupee appreciated at quarter end on 30th September compared to the closing rate on 30th June. That was the largest component of the overall loss. So that is why the Forex loss for the quarter was $7.6 million. The effective tax rate for Q2 was 11.1%. During the quarter we filed the tax returns in India and a few of our international geographies where the revised return showed some reversals in our income tax provision and therefore the effective tax rate for this quarter was lower. We expect the effective tax rate in the second half of the financial year to be in the region of 22 to 23% and for the full year is expected to be in the region of 20%. PAT for the quarter has fallen in dollar terms at 12% compared to 15.8%. The main reason for the decline is the Forex loss as we explained earlier. DSO at the quarter end was 73 days which is the same as what we had on 30th June. Utilization including trainees have gone up to 71.7% compared to 68.9% in the previous quarter. Utilization excluding trainees have gone up to 72.3% compared to 71.5%. As of 30th September we have $82 million worth of hedges for FY13 at an average rate of 52.07 and $54 million worth of hedges for FY14 at an average rate of 57.72. In all, we have $136 million worth of hedges. We had a Capex spend of $6.2 million in the current quarter for some of our new facilities. Expected Capex for the remaining of this financial year is expected to be in the region of $6 million to $8 million.

The Board at its meeting today recommended an interim dividend of Rs. 3 per share for the half year ended 30th September, 2012.

Outlook on the margins, we expect the operational improvements to continue and therefore margins at an EBITDA level due to operations to remain stable in the coming quarters, excluding the impact of any currency because that is outside our control. At a PAT level we expect that if the rupee remains at the same level where we are as of 30th September, or even appreciates to Rs. 50, then the Forex loss for the second half of the financial year will be much lower than what we had in the first half of the financial year. But this is based on the market trend we are seeing as of today. As the year goes, if markets move adversely then there could be a change to this estimate. With that we now throw this call open for questions.

Moderator Thank you. Ladies and gentlemen, we will now begin the question-and answer session. The first question is from Rishi Maheshwari from Enam AMC. Please go ahead.

Rishi Maheshwari My question largely relates to understanding the demand environment. If you could elucidate more on both the divisions individually given the seasonality of the second half, would you expect that the second half, given the order book that you have would be better than the first half or at this point in time it remains fairly difficult to predict that?

N. Krishnakumar Rishi, I am going to ask Anjan and Ashok, after giving an overview comment, we certainly anticipate H2 to be better in terms of the demand environment. What I will ask Anjan to do is to talk about IT Services and Ashok to give his view on how the demand environment is looking up in the Product Engineering segment.

Anjan Lahiri We had eight quarters of 5% plus growth in IT Services. The last two quarters; Q1 and Q2 which is H1 has been quite much more difficult. As KK said, we expect H2 to definitely be better than H1, although sustaining the 5% plus over eight quarters is going to be difficult. But we definitely see H2 to be much better than the current H1.

Ashok Krishnamoorthy This is Ashok from Product Engineering Services. As KK had mentioned, Product Engineering Services showed a growth of 3.2% in Q2 and we expect that the growth in some accounts which started in Q2 will continue through Q3 and Q4, although the headwinds in some other segments like Telecom and Semiconductor will constraint growth. And one of the other factors which is slightly unpredictable is, in Product Engineering there continues to be consolidation with mergers and acquisitions and when such mergers or acquisitions happen with any of our customers, that can impact business growth. But overall, we expect that the second half of the year will be slightly better than the first half.

Rishi Maheshwari Okay, and also if you can highlight the salary hikes that were given, were they effective from 1st July and how many employees have already been covered within the salary hike?

N. Krishnakumar Ravi, our chief people officer will give those details.

Ravishankar The major salary increase was given effective 1st of June in the last quarter. So part of the effect of the salary increase has already happened in the last quarter. Only a small portion of around, 15% of the employees who belong to the middle and senior management salary increased this quarter and the same will be affected. The increase in this quarter due to salary is expected to be less than 1%.

Moderator Thank you. The next question is from Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta Congratulations to the new board members. My first question was on the margin front. A very strong execution by the management. Just wanted more clarity on the 2.5% gain that you have got from cost efficiency, if you can provide more clarity on that and the sustainability of those efficiencies?

Rostow Ravanan Nitin, the two major reasons for the improvement in profitability from an operational perspective was the continuous broadening of the pyramid through getting in campus graduates led to average cost per person for offshore delivery, improvements on that parameter as well as improvement in utilization. So overall we had a 2.5% benefit at an EBITDA level due to operational improvements and the two largest components for that were the pyramid and the campus graduates. At a minor level, there was a small benefit because of pricing as well. Like I mentioned that we had a sequential pricing improvement of 0.5% so to a smaller extent that also created a contribution.

Nitin Mohta That is helpful. And if I can just squeeze a second one, any broad targets that you want to share on the growth outlook for the full year? I understand given the tough environment, 11 to 14% looks difficult but any number that you want to put right now?

N. Krishnakumar Nitin, we do not give a guidance but as we shared, yes, we still continue to see challenges in the environment, particularly in segments which we talked about which is telecom, semiconductor. So overall we do believe we will be lower than 11% but we do not give a guidance.

Moderator Thank you. The next question is from Vimal Gohil from Asit C. Mehta Investments. Please go ahead.

Vimal Gohil Just wanted management's view on what is the fresher hiring strategy and the overall hiring, would you want to put a number to that and what kind of numbers are we looking at to hire in the current fiscal?

NS Parthasarathy Hi. From a campus hiring point of view, I think we have already made, like we said, last quarter we have 3,000 offers we made for the campus batch of 2012. The first batch of people have already joined us, the remaining people will join over the next couple of quarters. For the batch of 2013, obviously, we are assessing very closely the demand scenario. We have already made visits to some of the top colleges and made 1,000 offers. Whether we will make more offers is a judgment call that we make towards the end of this quarter.

Vimal Gohil Okay, so the 1,000 offer that you have given will be joining in FY14 onwards?

N. Krishnakumar Yes, FY14 they will be joining.

N.S. Parthasarathy That is correct.

N. Krishnakumar That is right.

Vimal Gohil So out of those 3,000, how many have joined up till now during the first half?

N.S. Parthasarathy We have more than 400 people who have been invited; we have more than above 2000 offers which are still pending out in the market.

Vimal Gohil So those remaining 2000 will join in the next couple of quarters?

N. Krishnakumar That is correct.

Rostow Ravanan Not all the remaining 2000, approximately another 70 to 80% joining ratio out of the offers that we made. So if 2000 offers are outstanding as of today out of last year's batch, then they will join over the next two to three quarters from now.

Vimal Gohil So gentlemen, you have managed to hold on to utilizations, would my understanding be correct that you will be able to hold on to your utilization even in a scenario of influx of a lot of trainees in the next three quarters?

Rostow Ravanan There will be a quarter-to-quarter impact. In the quarter when the campus graduates join us in large batches, that particular quarter may see a small dip, but over the subsequent two or three quarters when they complete their training and start getting into billable roles, then it will improve. So there may be some quarter-to-quarter impact, but as a sustainable trend we see we will be able to maintain, if not marginally increase our current utilization level.

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

Manik Taneja Hi, sir, just carrying on the question with regards to growth in IT Services, I was just trying to understand what exactly is happening within the three focused verticals for us, primarily Manufacturing, BFSI and Travel and Transportation if you could talk in detail about what led to the sharp decline in the Travel segment for us, and how are you seeing things over the next near to medium term? And secondly, would we be delaying some of that further campus offers that we made for FY13?

Anjan Lahiri As KK mentioned earlier, of all the focused segments actually all of them grew very healthily except for the Travel segment which degrew 8.5%, Travel has always been a very challenging segment as an industry but even within that we have been doing well. A large part of this was related to a particular customer who is our largest Travel customer in where we are doing a very, very large program. That program is now coming to an end and a very large second phase is expected to start but there will be a gap probably of a couple of quarters, but we are unsure, and of course, we have been unable to fill that up with the new wins. But the Travel industry is always tough, but within that I will say it is more related to customer-specific issues within ourselves. If you look at Manufacturing, it grew 3.2%; BFSI grew 6.3% and we do expect both of them and actually Travel to come back to across the board growth next quarter.

N. Krishnakumar Just to add on a few more thoughts from what Anjan said, like we shared earlier, clearly we are putting in a lot of investments and effort into the large deals and we are certainly happy with the traction we are getting on that. But clearly, we are seeing that this is a longer lead time and for impactful revenues to come during FY13 seem small, at the same time, with some existing customers we are pursuing and we do think over the next four to six weeks at least one of that deal will get closed which is why we believe half year two will be better than half year one in terms of revenues. On the campus recruits, which you said, Partha did share that already 450 people have come on board and the rest of them will be phased out based on how we see the business demand, but certainly over the next three to four quarters we will sort of honor every offer, which we have made for FY13.

Manik Taneja Okay, and any thoughts on our dividend policy, is there a change in the dividend policy going ahead. Do we intend to continue with the quarterly dividend and then a final dividend and any thoughts on the dividend payout, because that is a link to the net profit margins for us which is different from what other peers follow?

Rostow Ravanan No, there is no change to our dividend policy. We broadly follow an approach where the dividend payout increases as we become more profitable. For example, last year the dividend payout was approximately 10%, 8% payouts compared to the profitability we had. Every year over the last three or four years we are continuously increasing our dividend. Always had two dividends, one at an interim level in October and a final dividend in March. So, the same approach continues for this year as well. So we have declared an interim dividend for October. The board will reconsider a dividend in March depending on how this year as a whole goes.

Manik Taneja Okay, and any thoughts on the large deals Mindtree was chasing. You did mention that one of the large deals might close in the next four to six weeks, but given the fact that you have formed a large deal team around three to six months back, how are you seeing progress on that front?

Anjan Lahiri As KK mentioned there is a team well in place and they are putting significant efforts and the deal cycles are protracted as you know, and we are still in pursuit of significant deal sizes and we hope to bring those to fruition in the near future, but those are significant learnings for the organization and we are continuing to align the things within the organization that we need to do to position ourselves better as we continue to proceed.

Moderator The next question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

S. Ramachandran In terms of the deal closures that we had during this quarter, or may be the first half, how would this stack up vis-à-vis what we had may be in the last year. Just wanted to know if the deal signings are better, improved, or down on a year-on-year basis?

N. Krishnakumar Clearly, like we mentioned Srivatsan, we are seeing concerns still. While the conversations haven't sort of reduced, I think the pace of decision making is slow. Also, wherever even with existing customers where they have closed large deals the pace of ramp up is also much slower compared to last year, so that has certainly had an impact in terms of how we saw the year panning out at the beginning of this year compared to what both H1 and H2 are sort of turning out to be.

S. Ramachandran The growth we saw in PES this quarter. Is it safe to assume its' more independent software led and given that your comment on the other two, are weak.

N. Krishnakumar Absolutely, I think there has been a very healthy growth in the independent software vendor sort of segment. There are headwinds both on the telecom and semiconductor segment.

Moderator Thank you. The next question is from Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin Just wanted to understand what is that we have factored into when we are looking at a lower growth, you know, from the NASSCOM benchmark because last quarter we said that we should be there within the limit of 14% range. So what exactly have we factored in? Is it just the under performances, this particular quarter because of the travel segment that you mentioned, or is it something else that we are factoring into to look at a lower growth?

N. Krishnakumar Radhika, I think it is a very good question, just like Anjan pointed out, saying that this is a specific thing on this quarter where a large program has ended and the next continuation of that has not happened, which has resulted in this quarter, the travel segment having a fairly significant negative growth, that is one part of what the thing is. Obviously, as we shared the demand environment, particularly in our product engineering services, we are still seeing headwinds both on the telecom and the semiconductor segment though the growth in the ISV segment is good and healthy. The third element, which clearly we are seeing as we are engaged and invested in the large deal team, clearly we are satisfied with the conversations and opportunities which have been called in, clearly we are seeing the lead time for that getting longer because of softness or slowness in decision making and assuming even once a decision gets made and we win some, clearly the ramp up speeds are lower. So, all this have contributed to the outlook which we have shared as we see today, that we will be lower than the NASSCOM guidance of 11 to 14%.

Radhika Merwin Just one last query on the margin performance. I mean, we have seen, you know, significant benefits coming in from Rupee also for the first half and of course we have done exceptionally well on the operational front itself. How are we seeing margins going into the second half? What exactly would be the head winds that you factor in considering that Rupee no longer is a benefit, you know, how much more of scope do we have internally to kind of give tail wind to our margins. Sir, if you could just specify those factors?

Rostow Ravanan The positives we see on the margin front going forward are to some extent the continuous revenue momentum like KK mentioned with the revenues in H2 will be higher than the revenues in H1. So the revenue growth will create a certain amount of margin driver, especially since we are also seeing the pricing environment to be stable and therefore that growth will come predominantly out of volume growth as well. So it is one margin benefit that we expect to deliver. Secondly, like my colleague Partha mentioned, we still have reasonable number of campus graduates expected to join over the next two quarters of this financial year. So that benefit to the employee pyramid will also lead to some improvement in margin. Thirdly, if we are able to maintain the current trajectory, I think we will get a few more percentage points of improvement on utilization as well. Those are the benefits to margin. A couple of possible negative impact, one is some salary increases that will effect to some of the senior people whose increases are effective 1st October, like my colleague Ravi mentioned, there will probably be about a 1% or little lesser than 1% impact, so that I think is a negative impact to margins.

N. Krishnakumar Looking forward since as we see and get more confidence that there are enough of conversations going, in the second half we will also increase our investment in both client facing people at the market as well as we intend adding to the sales force, both of which, but we do believe that the operational levers which we have will help us keep the margin at a constant level as far as currency is concerned, if it does not move negatively.

Moderator: The next question is from Hardik Shah from KR Choksey, please go ahead.

Hardik Shah Sir, what is share of telecom and semiconductor within the product engineering space. How much revenue sharing there?

Rostow Ravanan Those two as a vertical within the overall Engineering Services is approximately 30%.

Hardik Shah And there was a recent news item like you are chasing seven large deals, you already mentioned, like you are on the verge of closing one deal. So, what is the status in the case of the remaining six large deals, like at what stage you are in terms of closure?

N. Krishnakumar See Hardik, I just have to sort of give you the thing, that what we are clearly seeing is, I think, we are positive about the conversations and the opportunities which we are participating. What we are also realizing is out of the seven there are couple with our existing customers and the cycle time for those deals seem to be shorter than entirely new opportunities. So at this point in time what we can share with you is clearly, in the next four to six weeks we think with an existing customer we will close the deal which is reasonably large. When I say reasonably large, in the $25 million range. But clearly, the new ones are taking much longer than what we anticipated and they may not have a material impact in terms of revenue momentum in this current financial year.

Hardik Shah Sir, like our utilization level excluding trainee has increased by 600 basis points whereas our volume growth is only 1%. So I was not able to correlate both the things. Can you throw more light on that sir?

Rostow Ravanan The volume growth was impacted partly because the billing days in Q2 was lower than the billing days in Q1.

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

Rahul Jain Firstly, if you could share why we had this tax credit in the quarter?

Rostow Ravanan I mentioned we completed the tax return filings for India and two of our large international geographies in the current quarter. When the final tax workings were prepared we found that provisions we made were more than the actual liability. So when those calculations sort of finalized, that led to a reversal in the current quarter.

Rahul Jain That is related to FY12 only?

Rostow Ravanan That is related to FY12, yes.

Rahul Jain And secondly, how come the realization has been high at 55 plus. Can you share the receivables maturity during the quarter; is it more towards beginning of the month or quarter?

Rahul Jain So referring to your realization rate in terms of rupee/dollar in the quarter, it is an upward of Rs. 55. So can you share, what is the receivable maturity, is it more towards the beginning of the quarter or month?

Sushanth Pai The way we calculate the rupee/dollar average for the quarter is we take the previous month end rate and apply it for the current month. So, for example, for August, we take 31 July rate and apply for August. So therefore since the rupee depreciated throughout the quarter, the quarter average has been at 55.59.

Rahul Jain So that way, the revenues in September are booked at end of August rate?

Sushanth Pai Yes.

N. Krishnakumar That is right.

Rahul Jain And most of the appreciation has happened after that?

Sushanth Pai Yes so that appreciation, since 30th September ended at 52.86, that rate will apply for the October month.

Rahul Jain If you can share how things have changed in a way revising a guidance considering the fact, it was already sort of tough to assume when we were saying that we are not confident about PES segment, we were not confident about H1, but still we said we would do a NASSCOM kind of growth and now after reaching the half distance now we sort of revised it down and what is the confidence that we would do 3% plus run rate for the rest of the year?

N. Krishnakumar Overall, Rahul, I must say that like everyone has been talking about, the global environment has been fairly volatile and challenging and it is obviously, our effort to try and give a qualitative picture as we see it. So to that extent when we started the year clearly, a number of the conversations which we are having on large deals had started. Clearly, the sort of headwinds we are facing both in the Telecom and Semiconductor segment of the Product Engineering business was not anticipated in April. So at this point in time clearly we are saying that even as of Q3, even though Q3 tends to be a more challenging quarter in terms of "Golden Week" in the "Product Engineering" business and so on, we clearly see that the growth momentum is going to be better than Q2 and also currently, we do see the Q4 is also trending to a similar thing. So, it is really our assessment at this stage based in terms of whatever we have seen in terms of the market and factoring in some of the uncertainties which are there, that we will be lower than the 11% which we had indicated earlier.

Rahul Jain So in a way what we were perceiving for H2, it is still lower than what we were anticipating in this six months back, right?

N. Krishnakumar True. Yes, we were expecting a far more back-ended H2.

Rahul Jain Which is still the case, but not to the extent what we were anticipating?

N. Krishnakumar That is right, you are right on that. Absolutely.

Rahul Jain If we look at this client addition kind of a data though, I mean, which is very misleading also because any client could be big or small but we have seen this net addition per quarter being getting little softer of late last three, four quarters considering the run rate which we were doing earlier. Is it because the kind of mix we are chasing is different or it is just a number?

N. Krishnakumar The client additions in a way particularly in Mindtree's case will be a little misleading because on a very conscious basis based on the strategy of getting to a few segments, what we call our "back to basics" strategy, we have also been on a plan basis exiting out of some clients. So, if you go back to the number of clients which we had on 1st April, 2011, we had 287 customers. So we have been on a very conscious and plan basis moving out of some clients. So to that extent net addition of clients maybe a bit of wrong indication because some of them would have been exits which we have actually initiated.

Rahul Jain Sorry to interrupt but I am indicating toward the client addition which is not net but the actual figure.

N. Krishnakumar Yeah, it is certainly slower and softer because decision making clearly is getting delayed.

Rahul Jain Right. So probably we were looking for much better a number but we are closing lesser deals than considering the pipeline we have, the closures are much slower?

N. Krishnakumar No, but on the other hand clearly because we are focusing on a few segments, I think we are also qualifying the customers with whom we want to work with. So we do anticipate that the quality of customers which we have got is certainly better than our earlier approach, and to that extent I think it will only pan out as the environment becomes far more stable.

Rahul Jain And just as we build in more than 4% kind of a sequential growth for rest of the two quarters, so is it more driven by the conversion of the existing deal win or more focused towards the one which are in pipeline and will also get executed?

Rostow Ravanan One small comment, Rahul, this next two quarters growth rate, officially we do not give guidance. All we can estimate is that the overall revenue in H2 will be higher than the revenue in H1. So the actual growth rate in Q3 and Q4 we are not commenting on that right now.

Rahul Jain Okay, yeah.

Moderator Thank you. The next question is from H R Gala from Quest Investment. Please go ahead.

H.R. Gala I just did a small arithmetic. I am not sure if you can correct me. We are saying that in FY13 our revenue will grow at 11% or may be less than 11%.

H.R. Gala If I assume that it is 11% over last year, we should have an annual turnover of something like 2126 crores.

Rostow Ravanan Just to set the records straight, what we meant was 11% in dollar terms, so dollar terms of revenue was approximately 402 million in FY12, we expect to grow less than the NASSCOM estimate of 11% in FY13.

H.R. Gala So, you expect on 402 million 11% growth or less than 11% growth.

Rostow Ravanan Correct, that is right.

H.R. Gala That clarifies the position. I thought that you are talking in terms of the Rupee as I was wondering that we have already done a 33% increase in first half, so do we plan to have lower sales in the H2 as compared to what we had in last year.

Moderator Thank you. The next question is from Madhu Babu from HDFC securities. Please go ahead.

Madhu Babu Sir, offshore volume is weak last two quarters. I mean this quarter and the previous quarter, could you elaborate on that?

N Krishnakumar Clearly, there are a couple of elements. I think as the business becomes more critical because like we sort of shared this approach of focussing on a few segments, we are also clearly saying that we would sort of pick up the sort of work, which is more critical to the customer and as you think of critical work, there is a content which is larger done closer to the customer, which is why you will find our onsite volumes have grown in the same period and consequently in relative terms the offshore volume has come down. The other key element is, if you look at our Product Engineering business that is a very offshore centric business typically almost 90 to 92% of the work that gets done offshore with a soft growth in the Product Engineering Services business; the offshore volumes have not grown.

Rostow Ravanan This is Rostow, the only other point I would like to add also is that if you specifically look at Q2 this year versus Q1 of this year, we also have the impact of lower billing days in Q2 so to that extent that would have also affected the offshore volume growth in the current quarter.

Madhu Babu Okay, and sir in this Product Engineering, Telecom and Semiconductor, are we losing out to smaller boutiques in Bangalore or what is that, because what I heard is that some smaller boutiques have come in Bangalore, which are taking share from us?

Ashok Krishnamoorthy Competition is always there from both small and big players, but our adverse impact is more because that segment itself is very flat.

Madhu Babu And the last question, within the new deals how is the pricing? because our competitors are indicating that within BFSI at least the pricing is aggressive in the new deals, could you elaborate on that?

Anjan Lahiri I think pricing is aggressive, but I would not say that we are seeing any change from what is normal, in larger deals lot of the focus goes to risk as opposed to pure price risk in model, so there is no special information on the pricing front I would say.

Moderator Thank you. The next question is from Sonaal Kohli from Resolute Capital, please go ahead.

Sonaal Kohli Firstly, what is the expenditure on the rebranding exercise and if any of that portion be recurring in the coming quarter. Secondly, on your revised guidance was there any particular deal, which you were trying to close this quarter, which has not got closed, any particular one deal which you were confident about winning in the quarter which has gone to some other player?

Rostow Ravanan I will answer the question on the spend on marketing and my colleague would answer the question on the deal that you referred to. On marketing, I would say pretty much the major cost that we were planning to incur on rebranding has already hit us in Q2. A very small portion will continue for us in Q3 and the impact of that on Q3 profitability is expected to be very, very negligible.

Sonaal Kohli What was the number for Q2?

Rostow Ravanan The amount was approximately $1 million about 0.7% of revenues for the quarter.

Anjan Lahiri In terms of new deal you mentioned, yes we put a large team in place about six to eight months ago and as KK said it is a long-term capability building. We had hoped to be able to either announce or sign a deal this quarter but clearly it is taking longer than we would have wanted it to take.

Sonaal Kohli None of the deals, where you participated you are confident about, you lost it because of the delay in the cycle or is it that because of pricing you lost any of the large deals you were banking upon?

N. Krishnakumar See like Anjan shared earlier, clearly Q2 growth has been muted because specifically in one of our large clients, there is a large program, which has ended and the next program is taking some time in terms of kick off, which clearly led for the negative growth of the Travel segment, but we have not lost any customer or new prospects, which in a sense we had factored while guiding.

Moderator Thank you. The next question is from Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi I appreciate that the demand environment is challenging and things in general are taking time, but I am also starting to wonder if companies are getting increasingly dependent on a few larger deal wins for growth and if this is true then should one expect this pattern of somewhat inconsistent growth to continue.

Anjan Lahiri There are two aspects to it. As a company gets bigger, obviously in order to show growth, you will have to have a few large deals. What large deals will give you is growth, the size will keep increasing as you become larger. It was okay for us at $5 to 10 million say three to four years ago, now it is $30 million deal and same thing for larger companies will be $100 million deal, but as a total percent of the total portfolio, I think if we do the math it won't be any different. You know, if you talk of a 30 to 40 million deal, which is what we say is our sweet spot and these deals are three to four year deal, so these are 2 to 3% of your revenue and this number would have stayed the same as we grow. It is just the size increases, so I won't say that we are dependent on it. They actually contribute to only certain part of your growth in fact, it will contribute less than 6 to 10% of your revenue for the year and of course, hopefully, larger part next year. The key is that the large number of singles needs to keep happening through the year.

Sandeep Muthangi Also given the general weakness in the demand environment, are there any areas probably service lines or geographies or even other investments that you are considering that will be able to compensate and probably give a bit of tailwind for growth?

N. Krishnakumar See clearly Sandeep you have seen that where we see opportunities, we continue to increase investments like for the third quarter in succession our infrastructure management practices had a quarter-on-quarter growth which is probably in double digit, so we will continue to be bullish on that segment. Clearly, areas like data warehousing and analytics again is another service line which we see as being a growth driver. On geographies clearly as we shared in terms of the overall environment, yes, though we see some conversations and positive signs still both US and Europe continue to be challenging whereas in Europe, it is far more a broader sort of thing. It is dependent on the clients, which you have done. If you have really seen with the clients, with whom Mindtree has worked I think there has not been a great impact, our Europe revenues have grown, so it is very client specific in Europe.

Moderator Thank you. The next question is from Abhishek Shindadkar from ICICI securities. Please go ahead.

Abhishek Shindadkar Sir, one question regarding the margin improvement which we saw in the PES business approximately 330 basis points if I am right and then how sustainable is this improvement in the PES business?

N. Krishnakumar I will give some comments if Ashok wants to add something he will add. See clearly one of the key things we see in that business because it is largely project driven that will continue to be a quarter-to-quarter volatility, but overall I think over a longer period of time, there are enough opportunities for having a business which grows. So to that extent, I think a number of margin levers in terms of trying to keep ourselves focused on a few segments, which in a way resulted in us exiting out of almost 30 to 40 customers and really changing the margin profile in terms of giving services, which in a way add to the value. Consistently revenues which come out of different business models which are not necessarily linked to people, we have been trying to drive that and today, I think that is also contributing to the margin improvement. What I think we would like to do is to continue to drive the different business models, which will help us improve margins, because the operational improvements, which are done there I think is by and large 80 to 90% done, there is only little left there, so the next stage of moving on is to change the model where we have already got the first few wins, and I think our ability to duplicate that will really dictate how the margins improve.

Abhishek Shindadkar Okay, that is helpful and the second question is on the revenue side, could you help us give a data point as to what is the impact to a lower number of billing days in the Q3 on the revenue?

NS Parthasarathy If you look at our profile of projects, there are some projects which are dependent on the number of working days. There is a significant percentage of projects that we have, which are either fixed price projects or what we call as fixed-monthly contracts. If you look at the balance of things, I think between both the businesses, we are fairly comfortable in terms of the number of working days that we have in Q3 compared to Q2. The only concern which we are working on is as KK pointed out some of our customers, they end up having a golden week towards the later part of December, but that is the only difference that will happen compared to Q2.

Abhishek Shindadkar And on the guidance perspective, our visibility on not achieving the NASSCOM guidance deteriorated during the quarter from the start of the quarter or it was more towards the end of the quarter?

N. Krishnakumar It is more towards the end of the quarter.

Abhishek Shindadkar Lastly, a bookkeeping question on the revenue number for the Q1 in the unaudited financial statements, it is 561, but in the press release it is 563, so could you help us understand which is the correct number for the modeling perspective?

Sushanth Pai I think you are referring to the unaudited which is IFRS. IFRS revenue could be a little lower. That is the IFRS translation, so if you look at the standalone numbers that we have published that will still be the same number.

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

Pinku Pappan Couple of questions on PES really. We talked about rationalizing on your tail customers in the PES business, do you think that those tail customers rationalization is over or you think there is more to come there?

N. Krishnakumar There is a couple more, because clearly I think our approach is while we are changing our strategy, we would not like the customers to be inconvenient, so there is a plan which have worked out in consultation with those customers. So there will be a few, but a majority of that transition has been done.

Pinku Pappan Does the sharp dip in your $1 million client this quarter from 78 to 73 is that largely to do with this tail customer cleanup in PES?

N. Krishnakumar Not largely I think there are about three of them, who were at a $1 million run rate who have dropped out.

Pinku Pappan They dropped because of what reason?

N. Krishnakumar They ramped down because I think we are for the period sort of exiting out of that accounts.

Rostow Ravanan Just to clarify two of the accounts in the million dollar category, completely ended and they were in the PES segment. A few of the customers overall which have fallen from the million dollar bucket, it's just lower revenues for the trailing 12 months as of now, because some of those projects have ramped up and customers continue but it is just that they are no longer in the million dollar bucket.

Pinku Pappan And on the PES business, do you still stand by your earlier guidance of being flat in FY13 year-over-year?

N. Krishnakumar To be honest, at this point in time, if you have to take a call, we will be marginally lower than last year.

Pinku Pappan I know it is a bit early, but do you have any sense of how FY14 budgets are going to be from clients, as you have been talking to them, do you have any thoughts there?

N. Krishnakumar To be very honest, I think a number of the clients are even thinking about this year's budgets. I think it is very early to start the conversation for FY14. Right now, we have no visibility on how that is going to pan out.

Pinku Pappan And the top client in Travel & Transportation where you saw a program ending, how soon do you expect that program to start, when do you see it start?

Anjan Lahiri I would love to be able to answer that question. It is a large program with a lot of interdependency. These are exceedingly critical program for the customer themselves. So there is a lot of focus and we are hoping that it should not be a very significant gap, but I do not have a clear visibility which I could share.

Pinku Pappan And lastly, just a bit on the onsite pricing dip, anything particular there or is it just a quarterly aberration?

Rostow Ravanan It is just an anecdotal movement, nothing to read as a trend in that.

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

Dipesh Mehta Only one question, can you say data of the pyramid movement? You said one of the margin levers was employee pyramid. Can you say the QoQ, YoY number of pyramid?

NS Parthasarathy I do not have that YoY number ready, but I think what we do is actually we track an average offshore person cost and that has seen a significant dip compared to last year. And going forward, I think the way we are looking at hiring is at every point in time we want to ensure that the business has the right mix in terms of lateral experienced people as well as campus hires. And that is the model in which we are ensuring that the campus minds come on board going forward.

Dipesh Mehta Can you say only for this quarter if previous quarter's numbers are not available? What would be the current mix overall?

Sushanth Pai You are talking about the pyramid?

Dipesh Mehta Right.

Sushanth Pai 0 to 3 years experience is about 32%. Last quarter was a little higher at about 33%.

Dipesh Mehta So just coming on that part, if I see QoQ it appears to be working against us rather than helping us?

NS Parthasarathy No, I think that is not the only way you can look at it because it is also a question of how the overall total cost of all the offshore employees, how does that pan out. It is not just only because of the campus hiring. That is why I said if you look at the average offshore cost of all the people including the campus hires, that has seen a downward trend between last quarter to this quarter.

Dipesh Mehta And just one thing, we have total 3,000 campus offers. You said 450 joined in H1 and you said 2000 is still open for remaining quarters. So out of 1000, only 450 joined? That was the joining ratio?

NS Parthasarathy Let me rephrase that. I think we had invited about 350 people, about 250 people have joined. We have about 2500 offers pending. Our joining ratio is approximately 70%. That is why we said we quoted at 2000 numbers who will be invited to join us in the next two to three quarters.

Dipesh Mehta So in H1 only 250 have joined?

NS Parthasarathy Correct.

Moderator Thank you. Our next question is from Nihar Shah from Enam Holdings. Please go ahead.

Nihar Shah Just wanted to understand the reasons why you have such a big Forex loss this quarter and how do you see that sort of panning out into the rest of FY13 and FY14 at the current rupee/dollar rates?

Rostow Ravanan The main reason for the large Forex in the current quarter was the restatement of our debtors for revenue that were booked in the early parts of the quarter when the rupee was in a 55 plus sort of an exchange rate. So when those debtors were restated at the quarter end at a lower exchange rate that led to the largest component of the loss. And going forward, let us assume the rupee maybe appreciate say to Rs. 50 for example, for the second half of the financial year, we will actually have a very, very small loss, so it will be a relatively small compared to the loss we booked in the current quarter.

Nihar Shah So essentially you have the remaining hedges for this year at about 52.07, right?

Rostow Ravanan That is correct.

Nihar Shah And for the next year you have it at 57.72?

Rostow Ravanan That is correct.

Nihar Shah So if the rupee remains at this way, then in FY14 you could actually see a Forex gain coming out of your hedges?

Rostow Ravanan Absolutely. If you look at from an accounting standpoint the OCI balance sheet is approximately a million dollar positive reserve that we are carrying. So the rupee remains exactly where it is as of now that gain will flow through the P&L over the next 12 months.

Moderator Thank you. Our next question is from Soumitra Chatterjee from Espirito Santo. Please go ahead.

Soumitra Chatterjee First is on the large deal that you are expecting to win over the next three weeks. Could you just give me the tenure of that deal? And second question is on the number of working days. Could you help me with the number of working days that we had during this quarter?

N. Krishnakumar Let me just give the first thing because I sort of added that, this is from an existing client, it will be a three-year sort of work we do for them.

NS Parthasarathy I think the number of working days offshore between Q2 and Q3 is the same which is 62 working days.

Soumitra Chatterjee	On this client band of six to ten, there has been a dip sequential as well as YoY. Is it largely because of the Travel client or you are seeing pressures in a couple of clients also in that band?
N. Krishnakumar	The Travel client could be amongst our top five clients, the six to ten reflects what we had shared on the Product Engineering Services where there is headwind in the telecom and semiconductor. So it reflects some ramp-downs in those clients.
Moderator	Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference back to Mr. Sushanth Pai for closing comments.
Sushanth Pai	Thanks, Marina. Thank you all for joining this call. If you have any questions please reach out to me. We look forward to speaking with you in the coming months.
Moderator	Thank you very much. On behalf of Mindtree Limited that concludes this conference call.