MindTree Limited
Investors/Analysts Conference Call
(July 16, 2008, 6:30 PM IST)

Moderator: Good evening Ladies and Gentlemen. I am Mohnish, the moderator for this conference. Welcome to earnings conference call of MindTree Limited for the first quarter ended June 30, 2008. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Bhaskar. Thank you and over to you sir.

Bhaskar: Thanks Mohnish. Good evening and welcome to this conference call to discuss the financial results for MindTree Limited for the first quarter ended June 30, 2008. I am Bhaskar from the Investor Relations Team in Bangalore. We have with us the senior management team including Mr. N.Krishnakumar, Chief Executive Officer; Mr. S. Janakiraman, President and CEO, R&D Services; Mr. N. S. Parthasarathy, Chief Operating Officer; Mr. Anjan Lahiri, President and Co-CEO, IT Services; Mr. Rostow Ravanan, CFO; and Mr. Puneet Jetli, Vice President and Global Head People Function. The agenda for the session is as follows. NKK 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. 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 these statements periodically. I now pass it on to Mr. N. Krishna Kumar.

N.Krishnakumar: Thank you Bhaskar. Good evening and welcome to the analyst conference call for the quarter ended 30^{th} of June 2008. On a standalone basis, quarter one software revenues were US dollar 54.3 million representing a quarter-on-quarter growth of 5.4% and year-on-year growth of 39.1%. In rupee terms, this represents a quarter-on-quarter growth of 9% and year-on-year growth of 37.6%. For Q1 of FY09, MindTree Technologies Private Limited which was earlier called TES PV which we acquired in December 07, had US dollar 335K as revenues and US dollar 10K as profits and this has not been considered in the standalone results. In rupee terms, our EBITDA margin is 20.8% this quarter which represents a quarter-on-quarter growth of 20.9% and a year-on-year growth of 78.5%. We have made a provision of approximately US dollar 12 million for Forex losses resulting in a net loss of US dollar 3.2 million or rupees 129.6 million. Rostow, when he speaks later, will comment on this. Given the global uncertainty and the challenging business environment, I am happy that both our businesses have shown excellent growth. In dollar terms, IT Services has grown 4.8% quarter on quarter and 41.6% year on year, while R&D Services has grown 7.7% quarter on quarter and 30.6% year on year. We also see that the overall pricing environment is stable with an upward bias. Amongst geographies, we have seen solid growth in Europe and continue to see considerable traction there. In terms of service offerings, package implementation, infrastructure management, independent testing have shown the highest traction. In industry group, banking and financial services and insurance, travel and transportation have done well during the quarter. In R&D services, we also see good growth in the consumer appliances as well as the storage industry group. We inaugurated our MindTree Chennai facility in late June 08. MindTree Coromandel as we have called it is located in Mahindra World City Campus. It is an SEZ and has a current capacity to house 550 people and we shall ramp the center over time. We have also decided to open our first near-shore center in Monterrey in Mexico. Scheduled to become operational in Q3 of FY09, the Monterrey Development Center will employ approximately 250 people with room for further expansion. Our people brand continues to be strong. On a gross basis, we have added 377 MindTree minds during the quarter. This quarter, we were selected to the list of Great Places to Work in India for the fourth consecutive year. The study is conducted by the Great Places to Work Institute in collaboration with the Economic Times. Additionally, MindTree was also identified the best work place for women in India as a special recognition. The attrition on a trailing 12-month basis has inched up to 16.3% compared to 15.8% in quarter four and 15.2% in quarter one of last year. What is to be noted is that 45% of attrition in this quarter is attributed to two primary reasons - People leaving for higher studies which is 21% and personal reasons like relocating to other cities in India which is 24%. Excluding these, our attrition levels would be single digits and far lower than the industry levels. As you would know, we announced the Aztecsoft acquisition on 5th May 08 and this is one of the largest deals in the IT Services industry. We have formed a program office to manage the MindTree-Aztecsoft integration and are already seeing results in terms of a coordinated and well-functioning sales effort and overall we see the progress as being very encouraging. Now, let me pass on to my colleague, Rostow to share other highlights in terms of our financial results and then we will throw open the floor for Q&A.

Rostow Ravanan: Hi. Thanks KK. This is Rostow and a very good evening to everybody on this call. Firstly, I would like to clarify that the financials presented for this quarter is for MindTree on a standalone basis. In other words, we have not considered the results of our subsidiary MindTree Technologies Private Limited which was the company which we acquired in Q3 of last year and also Aztecsoft Limited. Hence, to enable apples-to-apples comparison, we have presented Q4 financials and fact sheets on a standalone basis, so that Q1 and Q4 will be comparable. As KK mentioned earlier, for the first quarter of this fiscal year, MindTree Technologies revenue is approximately 335,000 dollars and about 10,000 dollars as profits, hence the difference between the standalone results of MindTree and the consolidated results of MindTree with MindTree Technologies is not a very material difference. On a standalone basis, our fee revenue grew 6.4%. Of that, volume growth was 5.9%, realized rates improved by 0.5% which from whatever we have seen of the, you know, industry results declared so far, we believe is amongst the strongest growth rates that people have declared for this quarter. The current quarter, we added 20 new customers, and we have approximately 196 active customers as of 30th June 2008. We have seen very strong ramp-up in client accounts. Our accounts where we have more than 1 million dollars in revenue on an annual basis has grown from 46 to 48 and as compared to, you know, the first quarter of last year where it was 34, we have significantly ramped up from 34 to 48. If you look at our 5-million dollar accounts, that has grown from 6 to 8 and if you look at our 10-million dollar accounts, that is continuing at 2 accounts in that category. We continue to make investments to strengthen our domain capability, improving operational efficiency, productivity, and from this financial year, our IT Services business was broken down into seven industry groups, that is allowing us to get sharper focus and gain operational improvements. Utilization for this quarter showed a very good improvement. Utilization for this quarter is 65.6% compared to 62.8% in the previous quarter. Overall, our operational profits or EBITDA improved by 2 percentage points from last quarter to this quarter. Last quarter was 18.8% and this quarter is 20.8%. The growth is even more significant if you compare with the Q1 of the previous financial year when it was 16.1% to now it is 20.8%. This strong EBITDA growth was achieved through multiple levers. Firstly, like I said, very strong revenue growth of 6.4% comprising both volume and price growth as well as operational efficiency initiatives like improved utilization, etc., and also a very strong growth in Europe which, you know, also contributed to profitability because typically European rates are higher. Lastly, we also gained a certain extent on profitability because of the rupee depreciation during the quarter. Coming to the provision that KK mentioned, effective 1st April 2008, we adopted the principles of Accounting Standard 30 which requires financial instruments to be fair valued and provided for. Certain types of instruments are provided for in the financial statements if they don't qualify as an effective hedge under the accounting rules. That amount on which we provided for is 12 million dollars. For the amount…for the contracts that qualify as hedges, we have made a provision of approximately 3 million dollars. All these provisions would reverse over the duration of those contracts and in that context, we believe, you know, we continue to maintain our guidance for this year, both on the revenue and on the bottom line. So, therefore, we, you know, continue to hold the same guidance, even though we have booked a large provision in Q1, which therefore has pushed the current quarter into a loss, but we believe that will not affect the entire year's results. Let me briefly update the status of the Aztec acquisition. As we had previously announced, we had entered a share purchase agreement on 2nd of May with e4e Holdings which is a Mauritius-based venture capital investor that had 32.57% stake in Aztecsoft. Subsequently the open offer was announced and as of around lunchtime today, we have approximately got about 16% of Aztecsoft equity tendered in the open offer plus we have bought approximately 30% in the market. So, overall we will cross somewhere about 75% to 76% equity in Aztecsoft when the open offer closes. We will now open the floor for question and answers. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the proceedings to WebEx International moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to WebEx International moderator.

International Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press *1 to ask a question. At this moment, there are no questions from participants at WebEx International Center. I would like to hand over the proceedings back to India moderator.

Moderator: Thank you WebEx International moderator. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now.

Female Speaker: You are currently the only participant in this conference. Please press *0 if you have a dial-out for this call.

Male Speaker: Hello…

Male Speaker: Yes.

Rishi Maheshwari: Hi this is Rishi Maheshwari, can you hear me?

Moderator: Please go ahead sir.

N. Krishnakumar: Yes Rishi, go ahead.

Rishi Maheshwari: Right. You have maintained…

N. Krishnakumar: You are from which organization Rishi, sorry, just introduce yourself.

Rishi Maheshwari: Sure. I am from Centrum Broking.

N. Krishnakumar: Okay.

Rishi Maheshwari: And I have been tracking this company quite actively.

N. Krishnakumar: Absolutely.

Rishi Maheshwari: Right. I would like to know you have maintained the same guidance as before. Now, that brings me to the large question about this would be on a run rate of 45 to 50 crores that you will have to maintain in the next three quarters. I wanted to understand that if given the same revenue guidance maintained, how will you actually maintain the same guidance at the net level. Also that you would have to have done something at the EBITDA level, would that be increasing or would that be also at the same level. Earlier this quarter, you mentioned that…earlier in the last quarter, you mentioned that the margins at EBITDA level also will be increasing slightly, how is the scenario now.

Rostow Ravanan: Sure. Rishi, I will answer your second question and then I probably will need to come back to you on the first question, I am not sure if I understood your question correctly, but to answer your second question, as we had mentioned at the end of quarter four, we obviously saw that, you know, with increasing size and our reading of the environment, we believe that greater efficiencies, higher revenue growth, improved productivity, etc., would lead to an increase in margin and like I mentioned Rishi during the start of the call, EBITDA margins grew 2 percentage points from Q4 to Q1 and that came through a combination of multiple factors. Revenue growth, volume growth, price growth, improved efficiencies on utilization as well as, you know, very strong growth in Europe and, you know, factors like that, so that is what led to the margin growth. We continue to see this, you know, positive sort of a bias which is what is allowing us to, you know, have the confidence to maintain guidance. If you could rearticulate your first question, at least I didn't understand the question…

Rishi Maheshwari: Sure. I am sorry, I will rearticulate this. I am trying to understand that given the same revenue guidance, after having incurred a loss of close to 50 crores due to Forex, how do you expect to maintain the same net level. From my calculations, I have understood that 137 crores is what you will achieving at given dollar revenue, rupee at 41.5. Having done a 13 crore kind of… yes, 13 crore kind of loss, you would have to make another 150 crores to do that.

Rostow Ravanan: No, that is not the way the accounting works. This is a provision that was booked on a fair value basis at 30th June period-end rates. Those provisions will reverse itself over the life of the contract, that is why therefore we don't need to make up for that loss per se. I don't need to increase my revenue to make up for those losses. Provision will reverse itself during the course of the year, you know, next few quarters, what would happen is as long as my…as you remember, when we gave the guidance, we gave the guidance at an average rate of 39.4. So, as long as for the year as a whole, I realize more than 39.4, which we believe we are confident of achieving because our hedge itself is at an average of 40.97 and the rupee is, you know, lower than that as of now. So, as long as we realize more than 39.4, we would be able to meet our guidance for the whole year. This provision is just a notional provision, it was booked as of now based on the current prevailing rates, etc., and would, you know, adjust itself on a going-forward basis.

Rishi Maheshwari: You mean to say that the other income…in the course of the next few quarters, you will have seen…we will have to see probably this 13 crore taken back into as profits in the other income, I mean the other income will show a positive of 13 crore.

Rostow Ravanan: We would like to differentiate it from a presentation point of view. This was a provision specifically booked on our exchange gain or loss. So, the exchange gain or loss account itself will reverse. Our other income which predominantly otherwise comprises of interest income, etc., so that will continue. So, it will not reverse back into the other income line, it will reverse back into the exchange gain/loss line.

Rishi Maheshwari: Right. But how about the future loss that may arise as a result of rupee movement in the next two-three quarters, for instance, you have had 90 million dollars of hedge which stands out for this year and another 160 million dollar as a whole, if I am not mistaken, so if again the rupee plays out on a higher note, again depreciating against the dollar for the rest of the year, won't then you will be again seeing a loss in the next quarter, next to next quarter?

Rostow Ravanan: Sure. The way the accounting would work is if the rupee remains stable, this provision would reverse itself. If the rupee were to appreciate, the reversal would happen faster. If the rupee were to depreciate, it will reverse slower, but overall basis, my economic loss is only the difference between my hedge rate and the market rate. The provision that is booked on these contracts would reverse itself anyway.

Rishi Maheshwari: Right, right, right.

Rostow Ravanan: So, that is how the accounting would work.

Rishi Maheshwari: Right.

Rostow Ravanan: So, therefore, this would not make a, you know, significant impact to the overall, you know, profit and revenue for the year and that is why we believe the thing, now independently, obviously as a management intervention, we are looking at this at different points in time with updated data. For example, we looked at this fairly closely, you know, a few weeks back and we decided at that point of time to leave these contracts as it is because any intervention would have actually been counterproductive. So, at different points of time, we will re-intervene and depending on what we believe is right for the business, we could also, you know, either cancel these contracts or, you know, otherwise intervene to correct the situation, which if we believe that is the right thing to do, we may do that as well.

Rishi Maheshwari: Right, of course. One more on your increase in investments, while you have taken loans from around 90 crores to 180 crores, this is in rupee terms, your investments have also gone up from 165 to 177, I wanted to understand the rationale behind this, when you already have investments to the tune of 177 crores, why wouldn't you use that as against your…as opposed to taking loans.

Rostow Ravanan: Sure. The loan increase during the quarter was only approximately 80 crores, but in any case the loan was used for operational purposes and the change in the investments you see is because of the investment we have made in Aztec. As we have announced, we have approximately acquired 30.59% of the Aztec in the market and the way the Indian takeover code works is that we had to deposit 20% of the company's value, in the sense the entire open offer value in an escrow account. So, those in the balance sheet are classified, you know, in our cash and investment amounts, so the increase in investment is because of our investments in Aztec.

Rishi Maheshwari: But this is the increase in the standalone. So, this also reflects the increase, because of your value in Aztec right?

Rostow Ravanan: Yeah. In our standalone financials, our investments in Aztec are represented at cost. So, this is what we paid to buy that market purchase of Aztec…

Rishi Maheshwari: Okay.

Rostow Ravanan: …and this is what we have deposited in the escrow account under the SEBI guidelines.

Rishi Maheshwari: Could you distinguish, could you give me a figure on how much you have actually put towards, how much investments you have made from Aztec and how much is accrued from the previous quarter.

Rostow Ravanan: We had approximately 200 crores of investments in the previous quarter, of which on a standalone basis approximately 40 crores is still continuing. We have invested approximately 120 crores in market purchases of Aztec and about 80 crores of money has been deposited in the open offer escrow account under the SEBI guidelines.

Rishi Maheshwari: Okay. If I could just repeat, that is 200 crore of investments in the last quarter you mentioned, out of which 40 crore was continued in this quarter, you said 120 crore was made for the market purchase and the last one for the escrow account you mentioned was?

Rostow Ravanan: Approximately 80 crores.

Rishi Maheshwari: Okay, okay, okay, okay.

Rostow Ravanan: These investments have therefore, in a sense sort of reclassified. Previously as of 31st March, they were in mutual funds and bank deposits, but that now changed largely to reflect our investment in Aztec.

Female Speaker: You are currently the only participant in this conference. Please press *0 if you have a dial-out for this call.

Rostow Ravanan: And balance is the, you know, amount that we deposited in the escrow account.

Rishi Maheshwari: Right, right, right. The one on…just one on your cash that is there in your balance sheet as of date, how much is that?

Rostow Ravanan: One second…cash on the balance sheet is 23.5 million dollars as of 30th June.

Rishi Maheshwari: Okay. Sir, I also wanted to understand primarily about your utilization and though it is improved by a couple of percentage points, but at large, why is the utilization lower in MindTree as opposed to several other companies which would have an utilization popped up to more than 70%.

N. Krishnakumar: Rishi, I am going to ask Partha, our Chief Operating Officer, to give you a perspective on that.

Rishi Maheshwari: Sure.

N. S. Parthasarathy: See, first let me explain, you know, our definition of utilization is probably the tightest in the industry. The way we calculate utilization is actually the actual number of billed hours by available hours. So, if you do an apple-to-apple comparison, probably we will be about 4 percentage points lower than the average in the industry. That is number one. Number two is actually, last year we have had a significant number of campus additions. So, to that extent, I think our pickup in terms of utilization has been slower than what we had anticipated, but we are seeing a good progress. We have already gone up to 65 in our basis of definition, and I think by end of Q2, you will see a much higher increase in utilization.

Rishi Maheshwari: How much do we build in for the utilization for the entire year, what would your estimate be?

N. S. Parthasarathy: The way we have defined utilization, our end of the year utilization, we have made it closer to 70.

N. Krishnakumar: Again, Rishi, I think you have to consider that a company of our size, we are constantly building up new industry groups of practices where the utilization will be running low. In both of our businesses, at least there will be two or three new practices in industry groups which is also one of the reason for the utilization being a few percentage points low. We do see that yes, there is scope for us to enhance that by at least a few percentage points which is what we are aiming to do by the end of the year.

Rishi Maheshwari: Right, right, right. The one…as I am the only caller, if you can permit me to ask a few more.

N. Krishnakumar: Okay.

Rishi Maheshwari: Right. Also that just by visualizing the manufacturing vertical which has de-accelerated in the last quarter, in this quarter I mean, by around 12% the growth has shaven off, any reason why because…we just had two results of Infy and TCS and both of them have shown good growth in manufacturing if not BFSI.

N. Krishnakumar: Rishi, I think frankly this is just a reclassification. There were two accounts because we are building up a new vertical which in Q4 had been classified under manufacturing which have got moved to the new vertical, so manufacturing actually has had a growth if you just look at results on an apple-to-apple comparison. So, it is not that…though the data in the fact sheet shows or gives a perception that it has sort of gone down, actually it has grown.

Rishi Maheshwari: Is it the same with the hi-tech also?

N. Krishnakumar: Yes, both hi-tech and manufacturing.

Rostow Ravanan: It is the same with both also and also with the classification of the Fortune 500 accounts, all of those, for e.g., the Fortune 500 accounts, we used the previous list of 2007 till last year. Now that the 2008 has come out, so we have reclassified our accounts on this basis. So, all of these are sort of, you know, reclassification issue that typically happens in the first quarter of the year when you look at your data and, you know, allocate them to different groups.

Rishi Maheshwari: Right, right, right, okay. Sir, one on your R&D, isn't R&D at this point in time suppose to be discretionary and I am coming from the fact that I have attended the annual meet of Wipro where they are little skeptical, they being the leader in this segment, they are still skeptical about the fact that R&D offshoring in this particular year is not booming as fast as it was happening in FY06 and FY07 and as a result, they…specially in the telecom segment, though they still see growth in the consumer electronics, but our diversification has been into all three, primarily consumers, telecom, as well as automotives. Any slowdown in the other two sectors, will consumer electronics be able to ramp up, what is our outlook and vision of the business in that segment.

N. Krishnakumar: Rishi, Jani will give you the…

S. Janakiraman: Yeah Rishi, this is Jani.

Rishi Maheshwari: Yes.

S. Janakiraman: See one is that, you know, surely as you rightly said, consumer appliance is one segment where we have seen a significant growth. In a quarter on quarter basis, we had a 12.2% and then on a year on year at 45.3, but the other area where we have grown is the data networking area which is in the wired and wireless space and we are not so much in the telco space, but we are in the enterprise network space, and there we have seen the year on year growth of communication being a little more than 100% and quarter on quarter being 51% actually. So, we have seen these two segments significantly growing. In addition to that, we have diversified into newer vertical market like medical appliance. We have added two customers in the medical appliance during this particular quarter. What we see is the customers in the R&D space are looking for a good mid-sized segment organization and we are having a right positioning in that area and we are seeing a decent traction in terms of R&D services for MindTree.

Rishi Maheshwari: Okay, right, right. And how does the buyout of Aztec help you, does it help you in complementary skills in geography or the clientele which you do not have, which were not common, were there any intersection in the clientele geography or the skill sets.

N. Krishnakumar: Rishi, I think that is a very interesting question. Let me give you a quick perspective on that.

Rostow Ravanan: One second….Rishi, you know, I think we will take this question and then we should hand it back to the moderator if there are any more questions…

Rishi Maheshwari: Sure.

Rostow Ravanan: …but one other point I wanted to, you know, make on the previous question that you had, I think it would probably not be right to say Wipro is a leader in the R&D services space. I think clearly there are, you know, different people have leadership in different segments…

Rishi Maheshwari: Right.

Rostow Ravanan: …and there are obviously lot of segments where we believe we have a leadership position.

Rishi Maheshwari: Right.

Rostow Ravanan: So, you know, I just wanted to…

Rishi Maheshwari: Sir, I was just talking in terms of the size that they have…4 billion kind of revenue with 25% coming from the R&D services, so I was coming from that angle.

Rostow Ravanan: Sure, yeah, but in our view, it is a specialized business, so the leadership is not only by revenue…

Rishi Maheshwari: Certainly.

Rostow Ravanan: …it is also by capability.

Rishi Maheshwari: Yes, I understand.

N. Krishnakumar: Let me give you a very quick thing in terms of saying, if you have really sort of watched us, what we do believe is the outsource product development market is becoming more a specialized market. Customers there want to engage with companies which are providing that as a specialized service and the acquisition of Aztecsoft has really helped us address the whole value chain in the outsource product development market. In R&D services, we are really in the product realization business where we are really in the hardware and embedded product development, starting from chip design to board design to operating system, building up products, we were doing all of that in the R&D services and like Rostow pointed out, we believe we are in the leadership position in that space. Aztecsoft really brings us the enterprise product development capability and together now we are really addressing the whole value chain of the outsourced product development market. So, anybody who wants to build a product starting… somebody wants a product starting from hardware design to designing the whole hardware and ready to manufacture to somebody who wants to build an enterprise software product can come to us for product development. That is how I think we become very competitive and have a compelling value proposition in that segment. We see that as a fast growing market, growing roughly at a CAGR of about 30% and the interesting thing which you pointed out is, there is very little complementality; in fact, there are just two customers who overlap, which means really addressing entirely different customer segment.

Rishi Maheshwari: Right.

N. Krishnakumar: And with the integration, together we have a customer base of almost 240 customers and the opportunity for MindTree to take IT Services into Aztecsoft customer, there is a huge opportunity. Already within 6 weeks of the acquisition, we have had customer wins where we have already started billing. That really is the real litmus test for the integration. Similarly, we have had Aztecsoft services which are going into either MindTree IT services customers or R&D services customers. So, the customer complementality and the ability to leverage revenue through additional services really is sort of emerging.

Rishi Maheshwari: And when you said 240 customers, this is, if I am not mistaken, there were 55 to 60 customers of MindTree in R&D services.

N. Krishnakumar: That's right, including all the three, in IT services, R&D services, as well as Aztecsoft.

Rishi Maheshwari: Okay, okay. So, 240 will be including all the three.

N. Krishnakumar: Yes, yes.

Rishi Maheshwari: And the last one, when are you releasing on Aztec results, are we looking at a consolidated results from you guys?

N. Krishnakumar: By the next quarter.

Rostow Ravanan: By Q2, we will consolidate and Rishi, if I may request you…

Rishi Maheshwari: Sure sir, it is a pleasure to having spoken to you. Thank you so much.

N. Krishnakumar: Good speaking to you, thanks.

Rishi Maheshwari: Thank you, bye-bye.

Rostow Ravanan: Yeah.

Moderator: Thank you very much sir. Sir, we do have questions from the US speaker end, should we go ahead and take up that question?

N. Krishnakumar: Yeah, yeah, go ahead.

Moderator: The US moderator…

International Moderator: Yes. The question is from the line of Mythili Balakrishnan.

Mythili Balakrishnan: Thank you. I just wanted to understand a little bit about this whole reversal of this provision and what is the current status in terms of the current hedge position vis-à-vis what was achieved, as expected over the next three quarters.

Rostow Ravanan: Sure, Mythili the way the accounting would work for these provisions is, you know, we have a portfolio of instruments as of 30th June on which given the way the closing rates were on 30th June as well as the forward premium were on 30th June, this provision was calculated and booked on that basis and which I said is approximately 12 million dollars which is what we took as a

P&L impact for this quarter. Now, as these instruments get settled, the gain or loss between my revenue rate and my realized rate would anyway flow into my P&L. This provision that was booked on a notional sort of like a mark-to-market basis would keep reversing whenever these contracts keep getting settled. So, therefore, essentially the only…ultimately the impact to my P&L will be what would have been the impact for the year as a whole if I had not done any of these hedges at all, I will only record whatever is the difference between my spot rate and my realized rate based on the hedges.

Mythili Balakrishnan: Sorry, could you explain that last line again.

Rostow Ravanan: Sure. So, essentially the only loss we will incur in the sense of an economic point of view which is what ultimately will get captured in the books is lesser …let us assume if I have not booked these hedges, I could have realized a 42.90 as of 30th June, but because I have booked these hedges, I am only going to realize 40.90. So, in effect, that is the only loss that will flow through my P&L. The notional MTM loss will reverse itself and from our point of view…

Mythili Balakrishnan: This is reversible by the end of the year over the next…

N. Krishnakumar: Over the tenancy of the contract.

Rostow Ravanan: Yeah, the bulk of the provisions will reverse during the course of this year. My guess is almost 85% to 90% will reverse in the course of this year. Some of our contracts, though obviously much smaller in quantity, you know, will stretch in the next I think three years, though a very small tail will continue into the future, but the bulk will reverse itself in the course of this year itself.

Mythili Balakrishnan: Okay. And in terms of your… you also had some loans which were in foreign currencies right, those are covered as far as…

Rostow Ravanan: Correct, those were to…absolutely, they were completely provided for as of Q3 last year itself. There will be no further impact because of those loans. That is only a one time…

Mythili Balakrishnan: Economically at least, that gets covered without any this thing…

Rostow Ravanan: Absolutely, there is no further impairment to those values beyond whatever we booked in Q3 last year and just so that you know, people have the correct data, in spite of whatever provision we booked last year, economically that loan is still attractive for me. My net cost of that loan even after all the provisions that we booked is approximately 8.4% whereas compared to, for example, for the same loan, all the things being equal if I had taken a rupee loan, I would had to pay approximately 11.5%. So, I am still saving 3% interest rate cost, even after factoring in all the provisions that we had booked in Q3 last year, but the way those contracts are structured, you know, there will be no further provisions on those loans.

Mythili Balakrishnan: In terms of your operating margin improvement, there has been quite a significant improvement over this quarter. Could you just give us some of the drivers because I think in terms of the exchange rate realization, the full impact is still not there right, as in you realized your revenues at a much lower rate, so that impact is still not yet to…

Rostow Ravanan: No, we did get some benefit of the exchange rate. For example, this quarter, just give me one second…this quarter, our average realized rate was 40.95 as compared to 39.60 for Q4 of last year. So, a portion of the improvement in profitability came because of better realization, but the bulk of the reasons for the improvement in profitability were because of the strong revenue growth, like I mentioned we had a 6.4% revenue growth, of which 5.9 was volume and 0.5% was price growth. So, revenue growth was one large contributing factor. Second contributing factor was improved utilization. Utilization has improved approximately 3 percentage points from Q4 to Q1. The third factor was strong growth in Europe, which also led to improved profitability because typically rates in Europe are higher and to a relatively smaller extent, like I said was the, you know, better realization also. All of these contributed to improved profitability over the previous quarter. We also got a little bit of a gain because onsite revenues grew approximately 1% from Q4 to Q1 and because we were so strongly, you know, relatively much heavier on offshore, at our current stage, you know, some improvement in onshore revenues actually improves profitability for us, so we gain because of that as well.

Mythili Balakrishnan: And just to get a sense of this, since you are covered in terms of hedges, realized rate for the next quarter will again be…if the rate sort of remains at the current…if the spot rate continues at this current level, what will your realized rate look like?

Rostow Ravanan: See, for next quarter for example we are approximately 44% of our receivables of next quarter are covered. So, on that, average rate is 40.87. So, on 44% of my receivables, I will recover 40.87. On the balance receivables which are unhedged, I will obviously realize a higher rate, so overall there will be a benefit to the P&L.

Mythili Balakrishnan: Okay sir, thanks, that's all from me.

Rostow Ravanan: Thanks Mythili.

Moderator: Thank you very much international moderator. We will continue the Q&A session at India. Next in line, we have Mr. Ruchir Desai from HSBC over to you sir.

Rushit Mehta: Yeah, hi, good evening guys. Just wanted to understand a couple of quick things. On the pricing environment, can you comment as to what you are seeing and do you see any pressure going forward because some of your competitors have mentioned stable and extremely tough environment for prices.

N. Krishnakumar: Yeah, Ruchit I will probably give just a perspective and ask Anjan to give specifically what he is seeing on IT services and Jani to give on R&D services.

Rushit Mehta: Okay.

N. Krishnakumar: What we are clearly seeing is…we have seen our growth pointers come from pricing realization and key element is if you really look at overall for the industry, I think last year rupee appreciation helped because we were able to lock in fairly good price increases last year. If you observed our increases in prices last year, it was certainly substantial, and to that extent, now we certainly see the pricing environment as being far more stable. We are not sensing in either of our businesses red flags in terms of pricing environment becoming negative and the pressure on pricing. I will ask Anjan to specifically talk about IT services and Jani to talk about the pricing environment in the R&D service business.

Anjan Lahiri: The overall pricing environment as KK mentioned in terms of the dollar depreciation had helped us get some pricing improvements, which have continued in terms of our ability to keep away the focus from there. So, we are thinking of bringing on more value, more volume.

Rushit Mehta: Hello…

Anjan Lahiri: Yeah.

Rushit Mehta: Sir, I can't hear you, you seem to be cracking up.

Anjan Lahiri: One minute….you just sort of change this. Can you hear me now?

Rushit Mehta: Yeah, much better.

Anjan Lahiri: So, overall I just reiterated what KK said, we are not seeing any, you know, pressure on pricing. The depreciation of the dollar had helped us, helped us get good price improvements over the last six-eight months. We have not seen people pressure us for prices. I think we are looking at people pressure us for different models of working, different things that they can do, different ways that they can scale volume as opposed to really a lot of focus on pricing.

Rushit Mehta: Okay and how are you seeing the growth environment, I mean obviously you have maintained your guidance for this year, but do you see a potential of just meeting the guidance or is there a scope and possibility of even meeting the guidance?

N. Krishnakumar: See, Ruchit again what we will certainly see now if you have seen, I think in terms of the current growth quarter on quarter, we have had a 5.4% quarter on quarter growth in dollar terms and as we see certainly in terms of visibility like we mentioned we see good visibility in terms of the business and we are confident that guidance which we have given which is between 228 and 238 million in dollar terms, we would meet that guidance.

Rushit Mehta: Okay.

Rostow Ravanan: And also, you know when we give guidance, our philosophy has been to give a guidance as realistic as we think, you know, of environment as of that point. So, we continue to maintain that guidance which we have given and we are confident of achieving the guidance.

Rushit Mehta: Okay. Just to get a sense on your…the, you know, the FX loss that you have reported, if I look at your cash flow statement, you have a negative, you know, cash flow from operations also, have you actually paid that 45 odd crores or it is just a notional accounting thing because otherwise then your cash flow should not have been negative from operations at least.

Rostow Ravanan: No, cash flow from operations is starting off as negative because we are starting from the profit after tax as per the income statement. If you see, it actually reverses itself later on when you look at the cash flow from investing activities, this increase in provision is shown as a reduction of cash. Otherwise, cash overall has actually increased from approximately 13 million dollars of cash as of 1st April…

Rushit Mehta: Okay.

Rostow Ravanan: …ended the quarter with a cash balance of 23.5 million.

Rushit Mehta: Okay.

Rostow Ravanan: So, that is a 10 million dollars increase in cash balance from end of Q4 to end of Q1.

Rushit Mehta: Okay, great. And just also on your margins, have you already taken the salary hikes in this quarter or are they yet to come about?

Rostow Ravanan: Our salary revisions are in October.

Rushit Mehta: Okay. So, it will impact Q3…

Rostow Ravanan: Correct.

N. Krishnakumar: Yeah.

Rushit Mehta: Okay, great. And any outlook as to what that increase is likely to be.

N. Krishnakumar: I am going to ask Puneet who is the head of our people function to give you some outlook.

Puneet Jetli: As Rostow said, we are planning to, you know, effect the salary hikes for all the people in MindTree, you know, across all geographies effective October 1. For offshore, we are planning an average hike of around 14% to 15% and for overseas geographies, you know, it would be in the range of 3% to 5%.

Rushit Mehta: Okay, fine. Thank you so much.

N. Krishnakumar: Thanks Ruchit.

Moderator: Next in line, we have Sujit Joshi from Irevna.

Sujit Joshi: Hello…good evening. Just a couple of quick questions, hiring numbers, any sense on where you would be heading for the rest of the year.

N. Krishnakumar: I will ask Puneet to give you those numbers.

Puneet Jetli: Yeah. For the overall year, we expect to, you know, add on a net basis around 1200 people. So, we started the year with around 5600 people, we expect to close at around 6800 people.

Sujit Joshi: Okay. And what would be the split on fresh recruits and laterals of these 1200.

Puneet Jetli: Yeah, so in terms of, you know, the fresh recruit, we will roughly have around 650 people and the remaining would be lateral hires.

Sujit Joshi: Okay, great. Yeah, I just see that your fixed price contract ratio has like…percentage has fallen out drastically this time around, could you give an idea on why this is so because this is probably one of the lowest that you have had in a very long time.

N. Krishnakumar: Sujit, again, if you really see in terms of fixed price, several times it follows based on specific customer-oriented data points. There are couple of large fixed price projects which have ended. So, we don't see a secular trend in these projects. There are certainly many more in the pipeline which are pursuing and as a conscious strategy, I think we will try and maintain a balance between fixed price and time and material. So, this is not a secular trend we are seeing in terms of drop, but it is more specific quarter-related customer projects which have ended.

Sujit Joshi: In which particular vertical or industry would we be seeing this fixed price drop and…

N. Krishnakumar: It was again across both the businesses, both in R&D services and IT services; we have had a couple of large projects which have ended…

Sujit Joshi: Okay.

N. Krishnakumar: and certainly we are pursuing more in both the businesses. So, you would certainly see a shift in these trends.

Sujit Joshi: So, what would be the optimal mix that you would…

Rostow Ravanan: There is no optimal mix that we are trying to gun towards, it is a function of, you know, specific customer project, what is relevant for that project.

Sujit Joshi: Okay.

Rostow Ravanan: For example, if it is a really well scopable sort of a project where, you know, all the risks, etc., are well understood….

Sujit Joshi: Okay.

Rostow Ravanan: …those we go on a fixed price basis. If, for example, some of those are yet to be clearly defined, we go on a time and material basis. By ourselves, we don't have preference for one or the other.

Sujit Joshi: Okay, great. And one final question on Purple Vision, if you…do you have any revenue numbers from those please.

Rostow Ravanan: Yeah, like KK briefly mentioned, Purple Vision for the current quarter had a revenue of approximately 335,000 dollars and a profit of about 10,000 dollars.

Sujit Joshi: 335,000 dollars and…okay, fine.

Rostow Ravanan: Yeah, thank you.

Sujit Joshi: Thanks a lot.

N Krishnakumar: Thanks Sujit.

Moderator: Thank you very much sir. Next in line, we have Arsha Giri from Span Capital.

Arsha Giri: Hello…

N. Krishnakumar: Yes Arsha.

Arsha Giri: I would like to have some updation relating this ArcelorMittal, your deal size, can you tell me.

N. Krishnakumar: I will ask Anjan, our IT services head to give you this.

Anjan Lahiri: Hi Harsha. You know, ArcelorMittal is quite carry-worried that they don't want publicity on the deal size. Anybody who has followed French politics and French news, they will understand the reason why, but what I can comment is it is a very significant deal which dramatically changes ArcelorMittal's, you know, IT operations and landscape, you know, across Europe, across France, Belgium, Spain, Netherlands. So, they have been quite…although they have been okay with the press knowing about it, but they do not want the numbers to go out for various reasons, but it is a very significant deal for them and consequently for us.

Arsha Giri: Okay. How many people you are expecting for this year to hire.

Rostow Ravanan: Puneet gave out the number once before, but I will ask him to give it again.

Puneet Jetli: Yeah. As I had mentioned, we expect a net addition of around 1200 people during the course of the financial year.

Arsha Giri: Okay, okay. Okay sir. Sir, can you give the top line growth for the…sorry to ask you, I forgot to…top line growth for this….

Rostow Ravanan: Top line growth for this quarter…

Arsha Giri: Yeah.

Rostow Ravanan: Overall revenues grew 6.4% fee revenue, total income grew 3.4% in dollar terms. In rupee terms, software revenue grew 9% and total revenue grew 6.9%.

Arsha Giri: Okay, okay. Sir, can you give the consolidated numbers for this quarter?

Rostow Ravanan: Yeah, like I said, you know, there are some accounting issues which is why we didn't present consolidated results, but our revenue was 54.3 million dollars for the current quarter and Purple Vision had a revenue of approximately 300,000 dollars. The number was relatively not a very large number.

Arsha Giri: Okay. So, for Q3, you will be able to consolidate this Aztec.

N. Krishnakumar: Q2 onwards, we will consolidate.

Rostow Ravanan: Partially for Q2, we will consolidate Aztec.

Arsha Giri: Regarding this hedge cover, you have given a provision of 12 million dollars, you have any average realization for this?

Rostow Ravanan: Yeah, our average realization for the year is 40.97.

Arsha Giri: It will be covered for the period….hello…

Rostow Ravanan: No, the average rate for our period as a whole on the hedge contract that we have is 40.97…

Arsha Giri: Okay.

Rostow Ravanan: …and the average realization in Q1 is 40.95.

Arsha Giri: Sir, any orders you are having for this next fiscal?

N. Krishnakumar: Sorry.

Arsha Giri: Order books…any order book.

N. Krishnakumar: We don't talk about order books, but clearly like we mentioned earlier, we see the demand environment as being stable. We are seeing good visibility and to that extent, we are confident in terms of meeting our guidance which we have given.

Arsha Giri: So, next year the top line growth of 6% can be expected right, 6% top line.

Rostow Ravanan: No, no, no, our growth in the current quarter was 6.4%, now for the year as a whole, our guidance would, you know, lead to 24% to 29% in dollars terms over the previous year and usually almost 85% of our revenues come from existing customers. So, therefore we have a good amount of visibility into our revenues going forward as well.

Arsha Giri: So, margins can be…

Rostow Ravanan: Margins like I said we have guided to margins in our guidance… guidance is 31 to 33 million dollars for this year. So, we expect to maintain that margin.

Arsha Giri: Thanks sir.

Rostow Ravanan: Thank you.

Moderator: Thank you very much sir. Sir, we have one more question from the US, should we take it?

N. Krishnakumar: Oh yes, sure.

Moderator: The US moderator…

International Moderator: Yes.

Moderator: Please go ahead.

International Moderator: Your next question comes from the line of Ajay Nandanwar of India Capital.

Ajay Nandanwar: Hi, good afternoon.

N. Krishnakumar: Good afternoon.

Ajay Nandanwar: I had a couple of questions. What is your target EBITDA margin of the whole year?

Rostow Ravanan: The plan for the whole year is approximately 22% EBITDA.

Ajay Nandanwar: 22% EBITDA?

Rostow Ravanan: Correct.

Ajay Nandanwar: Okay. And the depreciation would stay at same, 4.5% to 5%?

N. Krishna Kumar: Sorry, we didn't get you.

Ajay Nandanwar: Depreciation…

Rostow Ravanan: Yeah, depreciation is approximately about…yes, about 4.5% to 5%.

Ajay Nandanwar: Okay. You know, I was trying to understand you seem to have, it seems like, you know, you have added some customers, one customer in the 5 to 10 million account range, but, you know, what is your target say two-three years down or even today let's say, you know, the ideal customers, what is your ideal customer size or target customer size.

N. Krishnakumar: See, again if you really see the growth in terms of thing, we have seen a consistent upward trend in terms of customers growing from the 1-million dollar customer. Three years back, it was about 28, today we have 46 customers which are greater than 1 million and typically these take about 12 to 18 months to grow to the next level which is between 3 and 5. So, you would have seen that growth in terms of customers who are above the 5 million mark which is roughly at 7 or 8 now. We have two customers who are greater than the 10 million and like somewhere we pointed out clearly, we see one of those customers exceeding a 15 million run rate now and we anticipate that they will cross 15 million. So, in a two- to three-year time span, we believe many of these customers who are in the 10 to 15 million clearly will reach that level of being in the 25 million dollar mark. That's really what we see is an ideal customer profile.

Rostow Ravanan: Hi, this is Rostow, sorry, I just want to, you know, give one correction. The way we had worked out our plan for this year is approximately an EBITDA of 20%, but that plan was worked out on an assumption of rupee-dollar at 39.4. We will have to wait and see how future quarters pan out, you know, how the whole year is going to be, but the way the plan was worked out on the basis of which we have given the guidance was an EBITDA target of 20%.

Ajay Nandanwar: Okay. Coming back to your…thanks, thanks for the information. Coming back to your account size, say if you look at the customer base 18 months ago, you know, 1 million size to 3 to 5 million, could you talk a bit about the accounts which you have been able to convert and what went right there and accounts which, you know, you could not convert from, you know, 1 million to 3 to 5 million and what are your learnings from those.

Rostow Ravanan: Sure, you know, I will give you the numbers, this is Rostow, it will be difficult for us to give client specific details of, you know, which account grew, which account did not grow because those are client confidential information, but I will give you the data first in terms of how the numbers have moved and then Anjan, Jani, KK, etc., can give you the qualitative details.

Ajay Nandanwar: Yeah.

Rostow Ravanan: In Q1 last year, we had 34 customers who were at a million dollar run rate. That number grew to 46 by Q4 last year and to 48 in Q1 this year. If you look at our 5 million dollar customers, there were four such customers in Q1 last year which became six in Q4 last year, which became eight in Q1 this year. So, that sort of gives you the trend rate of how accounts have grown and like I said we won't be able to tell you which account grew there, but qualitatively in terms of what we went well, how we were able to grow in terms of trends, etc., that, you know, I will first give it over to Anjan to, you know, talk from an IT services point of view.

Anjan Lahiri: You know, in terms of accounts to grow them, 1 million dollar accounts, you can grow, you will have to have different strategies from 1 to 5, 5 to 10, 10 to 20 and one of the key factors is to have all the various, you know, service lines that the CIO is interested in and be able to grow in that. Over the period of years, I would say as of last year, we have grown sufficient depth in all the major areas that a CIO of an organization will be interested in and we have seen that we have been able to move in through one particular service line, whether it be testing or internet technologies or SAP and then grow and sell them, the other service lines. The other is obviously to be able to create the right relationship at the right level. You know, typically, either you go in at a project level or you go in at a relationship level and if you go in at a relationship level, it becomes that much more…you get that much space to pitch some of your other service lines. So, we are seeing increasing traction with our own increase in size and ability to continuously differentiate ourselves as the best mid-sized company and be able to provide all the various services that a client would be interested in. We are seeing, you know, increased ability to hold on to the basic percentages of, you know, top 5, top 10 contribution to revenue while we are continuing to grow our own revenues. I will pass it on to Jani for R&D services.

S. Janakiraman: Yeah. In the R&D services, surely we are adding clients and many of them are moving into the above 1 million dollar range and some of them are moving into the 5 million dollar plus range.

Unlike IT services, you know, I don't see possibilities in terms of, you know, multiple 10 million dollar accounts, but at the same time I see many critical accounts where we will be working on key technologies and having a high stickiness in terms of what we do and then having the 1 million dollar and then 5 million dollar kind of accounts growing in numbers over a period of time. So, we will be one, mining deeper the existing accounts and growing them into the higher size and second, we will be equally adding many mid size accounts which will have a potential to grow long term.

Ajay Nandanwar: Regarding IT, you said that you are trying to attract all the areas CIO-lead services, but one of the areas you have a somewhat weaker presence, that is what the number says, package implementation, would we expect to see some of kind, you know, inorganic activity in that domain?

Anjan Lahiri: You know, package implementation, you picked up a good point, it is a very niche market, crowded market, you need, you know, a fair amount of volume to be able to grow there. Our own strategy has been to pick a few clients and focus on them and try to growth them and also few areas as you realize package implementation is really an ocean. Shall we look at inorganic growth, I think we will continue to constantly look at, you know, all ways in which we can, you know, deepen our ability to grow in those areas. Obviously, we can't comment on any particular area, but we will constantly look at ways where we can strengthen our abilities and all of our identified areas.

N. Krishnakumar: Just to add a few more perspectives, if you have tracked the percentage of package revenues for us, I think quarter after quarter it has grown and in the last two years, we have had 100% growth though on a small base. So, it is consistently showing that we have the capability to grow it in a large manner. Strategically, we have decided to just focus on SAP as a thing, though we have fairly unique capability in one of the, what one would call traditional ERPs like BPCS. We are probably one of the few vendors in the Indian market who can do a BPCS sort of ERP, support as well as transition from BPCS to SAP. So, strategically, that also gives us an advantage to convert own BPCS customers into SAP. And obviously, the third option which you said, certainly scaling up in terms of critical mass through a well integrated inorganic option, is also an option which Salil, our Chief Strategy Officer is pursuing.

Ajay Nandanwar: Sorry, what is BPCS?

N. Krishnakumar: BPCS is one of the old packages which is now owned by a company called Infor. It is primarily in the manufacturing segment, has over I would say 5,000 installations, but very few people who have the capability to support and enhance it. We have a team of almost 300 people working on BPCS alone. Companies like Unilever, a number of manufacturing companies still continue to use BPCS extensively.

Ajay Nandanwar: Are they looking to move to SAP?

N. Krishnakumar: That transition will happen, it positions us lot more competitively to play in that transition space.

Ajay Nandanwar: You know what, that brings to the next question of, you know, the impression that I get you guys are trying to do things which are less crowded which by definition becomes a niche, and you know, this may not have secular tailwind for a long time. How do you look at that versus you know, of course that is not true of all your revenues, but how do you look at, you know, like BPCS manpower, right, which is the 3000 installations or 5000 installations but, you know, once people start migrating to SAP, how does your manpower become portable, you know, what do you with….

N. Krishnakumar: See the functional con….

Ajay Nandanwar: …it would not come up for the next five years, but…

N. Krishnakumar: Yeah, see the functional consultants are always portable and the value on many ERP implementations is not just understanding the package but the customer's business. If we are supporting and sort of running a BPCS implementation, we know the customer's business lot better than anybody else who can come in to understand that business. So, it actually gives us a significant advantage because again like you rightly pointed out, we don't have a large critical mass in SAP. So, if were to go in as an SAP implementer, I think we would not sort of stand a very competitive chance against a much larger SAP player. So, this certainly gives us an understanding because we know the customer's business well, we have functional consultants who know the business well, transitioning them in some of the packages like BPCS or SAP is a far lesser challenge.

Bhaskar: Hi Mohnish, this is Bhaskar. Hello…..

Moderator: Yes sir.

Bhaskar: I think we will probably…we are running out of time…

Moderator: Sure sir.

Bhaskar: What I would recommend is if there are people who have questions, they can probably reach out to the IR team at MindTree…

Moderator: Sure sir.

Bhaskar: later today or going forward. So, at this point, probably we just have to conclude the call for today.

Moderator: Sure sir. At this moment, I would like to hand over the floor back to Mr. Bhaskar for final remarks.

Bhaskar: I am done. Like I said, I think we had a good session today. . Thanks everyone for joining the call and we look forward to speaking to you later.

Rostow Ravanan: If people have questions, please send an e-mail to investors@mindtree.com and we will make sure that the queries are answered. Our apologies for, you know, having to curtail the call, but we had scheduled one hour for this and people have other engagement plan for the rest of the evening. So, therefore, unfortunately we will have to curtail at this stage.

Rostow Ravanan: Thank you so much.

Moderator: Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a pleasant evening.
