

MindTree Ltd

Analyst / Investor Conference Call –Kyocera Wireless India acquisition and entry into Mobile Products Business

October 5, 2009, 5:30pm IST

Moderator: Good evening ladies and gentlemen. I am Suresh, the moderator for this conference. Welcome to the MindTree Analysts Briefing Call on the acquisition of Kyocera Wireless India. 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. Sushanth Pai. Thank you and over to you sir.

Mr. Sushanth Pai: Thanks Suresh. Are you able to hear me Suresh?

Moderator: Yes sir, you can go ahead.

Mr. Sushanth Pai: Thanks Suresh. Good evening and welcome to this conference call to discuss the acquisition of Kyocera Wireless India Private Limited and MindTree's entry into mobile products business. I am Sushanth from the Investor Relations Team in Bangalore. We have with us senior management team including Ashok Soota, Executive Chairman; N. Krishnakumar, CEO and Managing Director; Janakiraman S, President and Group CEO, Product Engineering Services; Vinod Deshmukh, CEO, R&D Services; Rostow Ramanan, CFO; Salil Godika, Chief Strategy Officer; Samartha Nagabhushanam who was Managing Director of Kyocera Wireless India and will continue as President and CEO of KWI. The agenda for this session is as follows. Ashok will begin with a brief overview of the strategic intent of the acquisition and Salil will provide further details. 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 Ashok.

Mr. Ashok Soota: Thank you Sushanth. Good evening and welcome to the analyst conference call. On 29th of September, as you know, MindTree announced the acquisition of KWI, the captive unit of Kyocera in India. The acquisition gives MindTree a strategic account of great value in terms of our relationship with Kyocera Wireless Corporation and the Kyocera Group. This relationship alone will make the acquisition attractive in terms of payback period being EPS accretive, etc. However, I am happy to advise that the acquisition has additional leverage and strategy-related benefits.



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The purpose of this session is to communicate these. Firstly, regarding the leverage, we see considerable scope for the new unit to leverage the capabilities and expertise of MindTree's other businesses and growth engines, specifically our R&D Services business and vice versa. Also, the state-of-the-art equipment and labs of KWI can be used by R&D business for meeting additional needs of customers. However, the main reason for the acquisition is the strategic decision by MindTree to make an entry into the wireless and mobility product space. The KWI team possesses the expertise, experience, and capability to make this possible. The purpose of this call is to announce and unveil this new business which will become MindTree's seventh engine of growth. As most of you are aware, the other six engines of growth of businesses are IT services, R&D services, software product engineering, independent testing, IMTS which is infrastructure management and tech support, and finally our most recently launched knowledge services. We believe that the new business will also play a significant role in MindTree's ambition to become a billion dollar company. Our general estimate would be that any business which has the potential to contribute at least 10% of our billion dollar target would be classified as a growth engine. We will also change the name of KWI shortly. The name will include MindTree in it and the new name will come into effect once we obtain the regulatory approvals. Before I do pass this on to my colleague, our Chief Strategy Officer, Salil Godika, I also do want to briefly mention that as far as current business results are concerned, you will appreciate that we are in the silent period, so we will be open to broader general questions in the industry, but we would also like to focus more on the new announcement and the new launch which also, as I mentioned, goes beyond the announcement that we made of the acquisition on 29th September. Thank you and over to Salil.

Mr. Salil Godika:

Thanks Ashok and good evening and welcome everybody to this call. I will provide some of the details of this acquisition. MindTree has made an upfront payment of approximately 6 million dollars and will make further payments linked to revenues in the next two financial years. We expect this acquisition to contribute approximately \$9 million in revenues for the period October 2009 to March 2010 with profit after tax expected to be in the range of 13% to 15%. These KWI numbers will be over and above our guidance announced earlier. KWI has about 600 people and is engaged in wireless product development and software engineering for Kyocera's global product portfolio. With effect from 1st October 2009, KWI has begun to function as a fully owned



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subsidiary of MindTree under the continued leadership of Samartha. As Ashok mentioned, this transaction is a significant milestone for MindTree as it marks our entry into the new business area namely NiMo, short for Next in Mobility, the mobile product business. NiMo leverages cutting-edge wireless expertise and couples it with MindTree's chip-to-cloud product engineering expertise. NiMo addresses the complete product lifecycle from concept through delivery leading to Ready-to-Brand or R2B mobile handsets which most of the customers being service provider or OEMs. It presents an opportunity for us to strengthen our nonlinear business model. It will be overall part of the product engineering services group, the PES group and will enhance our leadership in this space. KWI provides a strong foundation for this business. The team has engineered 45 million wireless phones to the global market till date and has extensive experience in 4G technologies such as WiMAX and LTE (long-term evolution). Now, we will open the floor for questions. Thank you.

Mr. Sushanth Pai: Suresh...hello...

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 you Sandrelle.

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. Again, please press *1 to ask a question. Once again, if you would like to ask a question, please press *1. At this moment, there are no questions from participants at the WebEx International Center. I would like to hand over the proceedings back to the India moderator.

Moderator: Thank you Sandrelle. We will now begin the Q&A interactive session for participants for India. Participants who wish to ask questions, please 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, please press *1 now. First in line, we have Mr. Anurag Purohit from Religare.



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Mr. Anurag Purohit: Good evening to the management and thank you for taking my questions. I wanted to know if there would be further cross-selling opportunities from this unit to our existing customer base in R&D services.

Mr. Ashok Soota: Sure. Janakiram who is the President and Group CEO will address these.

Mr. Janakiraman S: See, currently the NiMo business will focus on three things. One is the Kyocera as the strategic customer and in addition to that they will be creating the phones and they will be creating the IPs for the wireless infrastructure, but at the same time the skill-sets that are available in NiMo and in addition to that the infrastructure that is available in terms of the labs and the equipments and tools that are there can be very much leveraged on the existing business of MindTree in the R&D services, both in the handset space as well as in the wireless space.

Mr. Anurag Purohit: Okay. So, but something like...there would be some existing services comparable that we would be offering to the customers or they are services that Kyocera unit brings to us is entirely new?

Mr. Janakiraman S: There are...see, for example, we are already servicing both the handset customers as well as the wireless infrastructure customers in certain horizontal arena like the chip design or the board design or the testing services or providing short-range wireless technologies to them. We were not so much into the core wireless technologies like the 3G or the WiMAX or the LTE so far, but because of the acquisition, we get those skills and we will be able to service our existing customers in those arenas also.

Mr. Anurag Purohit: Okay. And also if you could highlight the next two years revenue-linked payment that probably would happen, any particular figure or percentage that would be in the mind, that would be agreed on?

Mr. Rostow Ramanan: Prashant, right now we are not disclosing that number. It is likely to be relatively small in value terms and since it is linked to revenues for future years, as and when we are closer to those years, it is linked to revenues for 2010-2011 and 2011-2012 and as and when revenues for those years are known, then we will, you know, figure out the payment to be made, but beyond the point that it is likely to be small number, we are not making any other announcements right now.



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Mr. Anurag Purohit: Right, thank you and all the best. I will come up for followup questions.

Mr. Rostow Ramanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Muthangi from IIFL.

Mr. Sandeep Muthangi: Hi, good evening. Thanks for taking my call. It is a fairly small acquisition, but I am just a bit curious on the revenue model. Because you have referred to the term nonlinearity, could you explain to me what kind of nonlinear revenues are you seeing from this acquisition?

Mr. Ashok Soota: I will just address this very broadly and then pass this over to Samartha who is the President-CEO of the business. You know, as you noted quite rightly that the acquisition per se is a small one. I think main thing that we do want to highlight that the strategic objective is the new business that we are announcing and to that extent, that is why we are calling it as a new growth engine for MindTree and we are also saying that it will play an important role in our journey towards becoming a billion dollars. Now, how it becomes nonlinear in itself, I am just going to pass it on to Samartha to respond to you.

Mr. Samartha Nagabhushanam: Sandeep...

Mr. Sandeep Muthangi: Yeah.

Mr. Samartha Nagabhushanam: Actually what we are trying to accomplish here is Ready-to-Brand phones where typically if you look at any other services model, you have revenues which are proportional to the headcount...

Mr. Sandeep Muthangi: Yes.

Mr. Samartha Nagabhushanam: ...and here we are looking at a small set of people delivering products and these products are going to...based on the number of products that we sell, we will earn the revenues.



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Mr. Sandeep Muthangi: Products you are primarily referring to IPs or is there any chance you are referring to the actual handsets.

Mr. Samartha Nagabhushanam: We are referring to the actual handsets which are ready to label kind of...white label products that we are going to sell to phone OEMs and operators.

Mr. Sandeep Muthangi: Okay.

Mr. Samartha Nagabhushanam: Okay, and these...once we sell the product and based on the volume of the products that they are going to buy, our revenues will be linked to that.

Mr. Sandeep Muthangi: Okay.

Mr. Samartha Nagabhushanam: So, to that extent, that is the nonlinearity that we are talking about here.

Mr. Sandeep Muthangi: Right. Just a bit curious, does Kyocera sell any white label handsets to global OEMs?

Mr. Samartha Nagabhushanam: No, Kyocera doesn't do that. Kyocera is a full OEM and it sells the phones in its brand name.

Mr. Sandeep Muthangi: Okay. Thanks, that's it.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities.

Mr. Sandeep Shah: Yeah sir, just if we look at the acquisition price versus the revenue and the PAT margin, it seems like we have acquired the company with a multiple...PAT multiple of roughly two to three times. So, is that one should read that the revenues which are coming from this deal for the first six months are not fully recurring in nature or how can you...one should like annualize 9 to 18 million dollars?



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Mr. Rostow Ravanan: Sure. As far as next year's revenues go, Sandeep yes, we are expecting revenues to be annualized. So, that part of your question is correct, but the payment right now to a large extent wasn't linked to revenue or profitability. We were not using that metrics. The current asset base of the entity is approximately \$ 6 million, so that is the way we have arrived at this valuation.

Mr. Sandeep Shah: Okay, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next, we have a followup question from Mr. Anurag from Religare.

Mr. Anurag Purohit: Yeah, thanks for taking my question again. Again, taking forward from the question just a few minutes that was asked, the same model of nonlinear revenues would also be applicable to Kyocera also?

Mr. Samartha Nagabhushanam: No, Kyocera is...this is Samartha here. Kyocera, it is going to be a T&M business or fixed price model and it is going to be very proportional, I mean very similar to our R&D services or any other businesses, traditional services business.

Mr. Anurag Purohit: Okay. So, when we are saying white label handsets for other OEMs, essentially we probably would have some names in our mind which we will be targeting.

Mr. Samartha Nagabhushanam: Sure.

Mr. Ashok Soota: I think more important is we tell you the markets that we address. One, it will be a global business, so it could go to the advanced markets like US and Europe and certainly India is a big opportunity, here is a very large growing mobile market. At this stage, we are announcing the launch of a new business, it is too early for us to give you target names of OEMs.

Mr. Anurag Purohit: Okay.

Mr. Ashok Soota: But obviously in course of time as and when we actually launch products and get wins, we will be happy to share those with you.

Mr. Anurag Purohit: Sure.



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Mr. Rostow Ravanan: But Anurag, to answer the other question is that with Kyocera it will be a services-based engagement model. With all other customers, it will be a nonlinear engagement model.

Mr. Anurag Purohit: Sure. Thanks and all the best again.

Mr. Ashok Soota: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Pranav Bhardwaj from Madhav Securities.

Mr. Pranav Bhardwaj: Good evening sir. Thank you for taking my question. Sir, I have a couple of questions. First of all, what is the mode of payment, is it an all cash deal?

Mr. Rostow Ravanan: Yes, this is an all-cash deal. Like Ashok mentioned earlier, we made an upfront payment of 6 million dollars made in cash.

Mr. Pranav Bhardwaj: Okay sir. And like right now we have around 600 people in Kyocera, so are we even looking at scaling up that in the coming years?

Mr. Ashok Soota: It is too early to say what we would do in terms of the actual manpower there, but remember one thing that what we have really said is that we are launching into a nonlinear model.

Mr. Pranav Bhardwaj: Okay.

Mr. Ashok Soota: The issue would be to what extent we can get leverage out of the strength that already exists.

Mr. Pranav Bhardwaj: Alright. So, it is more in terms of, I mean using their capabilities and leveraging our own entry into the mobile business?

Mr. Rostow Ravanan: Yeah, that is correct.

Mr. Pranav Bhardwaj: Alright sir.

Mr. N Krishnakumar: Product business like this I think the headcount is not really material, it is really your ability to create a market for yourself and how well you can start leveraging that and this is where I think really the synergy between the R&D services and the NiMo really comes in. These are some synergies and opportunities.

Mr. Pranav Bhardwaj: Alright sir.



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Moderator: Sir, does that answer your question?

Mr. Pranav Bhardwaj: Yeah, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Ashwin Mehta from Motilal Oswal.

Mr. Ashwin Mehta: Yeah, I just was curious in terms of what does Kyocera gain in terms of this...in terms of selling this particular unit because it is getting a valuation which appears to be somewhere in the range of three times of earnings and you would be getting much more synergies out of it by selling these services on a nonlinear basis to others. So, what does...what was the reason or rationale behind Kyocera wanting to sell it?

Mr. Ashok Soota: I will just pass this to Jani, but in one sense I don't like to speculate on why they may do it, but incidentally when we did the announcement on 29th September, Kyocera also did make its own announcement, so the broad rationale is explained there and Jani can and maybe Samartha can add to that on what they see as the objectives there.

Mr. Janakiraman S: See, one of the intention that we have seen in the captive organizations today looking at a third party like us taking over is to convert their fixed cost into variable cost, okay, and in that process, they will be able to scale up and scale down depending upon the market need and we will be able to service them. The second thing is that compared to a captive unit, a MindTree kind of organization, since we service multiple customers, we have much more matured processes and that we call as the QCDS (quality, cost, delivery, and services) and the ability to deliver better QCDS is higher for a MindTree organization compared to possibly the captive organization. So, these are the two things that we have heard from Kyocera and as Ashok was saying that it has been already explained also in the earlier press release.

Mr. Ashok Soota: Samartha, do you want to add to that.

Mr. Samartha

Nagabhushanam: Yeah, again it is part of the press release as well. One of the thing that Kyocera internally was going through is the global integration. Kyocera had acquired Sanyo earlier and it was going through global integration and through this global integration



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process, there were some difficulties and there were some excess resources which were already coming up from Japan, okay. So, that is one of the other reasons.

Mr. Ashok Soota: Sure. And to overall summarize, I think it is a question of getting a strategic partner in the same situation rather than saying we are continuing a captive unit. In reality, that part of the business is not going through a major change; you are absolutely right when you said. It does open up new opportunities for MindTree which is what in effect is the major reason and the strategic thrust for us and which is what we are trying to highlight in this call.

Mr. Ashwin Mehta: Okay. Thank you sir, point taken.

Moderator: Thank you very much sir. Next in line, we have Ms. Sudha from Fitch Ratings.

Ms. Sudha: Hello Mr. Rostow.

Moderator: Ms. Sudha, may I request you to use the handset.

Ms. Sudha: Yeah, hello...

Moderator: Ma'am, we are getting a feedback ma'am, can you use the handset please. Sir, Ms. Sudha's line has got disconnected; we will take the next question. Participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Parag from Shanti Asset Management.

Mr. Parag: Good evening sir. Sir, handset OEMs would be having their own internal captive units or their internal teams for handset design and development, so how do you plan to capture that bit of market that you are talking about, what kind of services would you be providing to them?

Mr. Ashok Soota: Sure. Samartha will address this.

Mr. Samartha
Nagabhushanam: Some of the key movements we are looking at is handset OEM or...

Mr. Samartha
Nagabhushanam: Okay, some of the movements that we are looking at the handset market is the handset OEMs are focusing more on enabling more



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and more services going forward and they are also looking at recurring revenue models, so it is...the handset OEMs are looking at post the sale of the handset getting more and more...providing more and more services on the handsets and getting more revenues, recurring revenues after the sale and towards their value focus, it has slowly moved up. Earlier they were focusing more on the devices per se where the industrial design of the user experience or the reliability, mechanical electrical reliability of the phones was very important for them, but now they are moving up and focusing on what is the kind of applications that are enabled on the phone. So, this enables that they are...if we are able to provide a good phone with good reliability and with good user experience, they will be able to take that particular product and we will be addressing their pain areas of developing the...delivering the devices and they will be focusing more on providing the services on the devices. So, that is the way we are looking and they are trying to focus their R&D, they are investing more R&D in providing services on the devices rather than the devices per se.

Mr. Rostow Ramanan: In a broader context, this is the same issue that other product engineering services customers of ours feel and we have always been able to win and execute business successfully in that segment, the same should apply to this segment as well.

Mr. Parag: Okay, fine. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press * followed by 1 on your telephone keypad. I repeat again, participants who wish to ask questions please press * followed by 1 on your telephone keypad. Next in line, we have Sharda Agarwal from B&K Securities.

Ms. Sharda Agarwal: Hi sir. Just one question, do we have any minimum revenue commitment from Kyocera for this deal?

Mr. Rostow Ramanan: Hi Sharda, this is Rostow. There are no minimum revenue commitments from the customer for this transaction.

Ms. Sharda Agarwal: Thanks.

Moderator: That answers your question ma'am?

Ms. Sharda Agarwal: Yeah.



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Moderator: Thank you very much ma'am. I repeat, participants who wish to ask questions, please press * followed by 1 on your telephone keypad.

Mr. Rostow Ramanan: Suresh....

Moderator: Yes sir.

Mr. Rostow Ramanan: If there are no further questions, we can close the call.

Moderator: Sure sir. Sir, we have a last question from Mr. Rohit.

Mr. Rostow Ramanan: Sure.

Moderator: Mr. Rohit, your lines are open, please go ahead.

Mr. Rohit: Hi sir. This is Rohit from UTI PMS. Just one quick question, you mentioned about this nonlinearity of revenues, how soon do you think we will have a product ready on this aspect, do you think it is an FY11 thing or FY12 thing?

Mr. Ashok Soota: Sure. To broadly state this quite quickly, this is just announced today as distinct from a launch of a product, we expect a product rollout within 12 months.

Mr. Rohit: Within 12 months. And do we have any significant gaps in the product, you know, because I would imagine going from a...do you think as we stand today, where the Kyocera unit today is, do you think we have to put some more service offering in place before, you know, this whole thing works out?

Mr. Rostow Ramanan: Not in any major way right now Rohit. From a capability standpoint, broadly we have most of the capabilities. If there are any, you know, small investments that are required further, we will continue to look at it as the business demands. From a capability standpoint, no major investments are anticipated right now.

Mr. Rohit: Okay. And does this require any significant...this is again twelve months into the future, does this require any significant CAPEX from our perspective?

Mr. Rostow Ramanan: Not at this point of time. Based on what we have right now, we believe we are reasonably okay for I would say 12 to 18 months, but it is a fast evolving segment. As we go along, we will keep evaluating it, but it will all be business driven.



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Mr. Rohit: Okay, thanks.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Sushanth Pai for final remarks.

Mr. Ashok Soota: Yeah, before we close this and Sushanth makes his closing remarks, firstly I would again like to thank all of you for being on the call and once again I would like to emphasize that, you know, on 29th September we announced the acquisition of KWI and the reason why we have in a way segregated that and this announcement today is because we see them as two radically different things. This announcement today is to let you all know that we are launching into what we call as the R2B which is the ready to brand market for mobile handsets as we go ahead, which is a nonlinear business and therefore something completely new and different for MindTree and which constitutes our growth engine. So, we have talked a few days ago about a captive acquisition which a lot of you have seen both the rationale of and this becomes the additional strategic objective and you can see that through this acquisition we obviously get inorganic growth through the acquisition of a strategic account, but in the longer run, we get higher organic growth through the creation of our seventh growth engine. So, I just thought I will give you this one perspective and then hand this over to Sushanth for the closing remarks.

Mr. Sushanth Pai: Thanks Ashok, thanks Suresh. Thank you all for joining this call. We look forward to speaking with you in the coming months. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

