# Transcript: Post Q3 FY2009 results conference call, Mastek Ltd
*9th April 2009, 5pm IST*

*Presentation Session*

**Moderator:** Good morning ladies and gentlemen. I'm Gopal, moderator for this conference. Welcome to the post results conference call of Mastek Ltd. We have with us today, the Mastek management team. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Abhinandan Singh of Mastek Limited. Please go ahead Mr. Singh.

**Abhinandan Singh:** Good afternoon everyone, welcome to the conference call of Mastek. As you are aware our financial year is July to June so the quarter under review is our third quarter. Present along with me today at this call are Mr. Sudhakar Ram, our Chairman and Managing Director, and Mr. Jamshed Jussawalla, our CFO. We will begin the call with brief opening remarks by Mr. Sudhakar Ram, and after that the floor will be open for discussions. After the call ends, within a couple of hours, we should have the audio replay of the call also available for you at the access numbers mentioned in the conference call invitation that was sent to you earlier. The transcript of the call will also become available in a few days which you can access at our website www.mastek.com. Now I would request Mr. Sudhakar Ram, our Chairman & Managing Director, to initiate this call with his remarks.

**Sudhakar Ram:** Thanks Abhinandan and good evening to all of you. Thanks for joining in on this call. As you must have seen in the release that we published, this quarter we are at 233 crore in revenue terms which is down from our guidance of 240 to 245 crore. However, the effort was to maintain profitability and there we did slightly better than the guidance coming in at about 33 crores. Essentially, the main reason for the drop in revenues, apart from a poor demand scenario, was specifically one account where we thought the new program would start in January which got delayed and it has impacted not just in Q3, but we expect the impact to continue over to Q4 and somewhere in this quarter we expect to finalize the deal so that in the next year we would start doing execution on that.

Overall, the essence of the management's focus has been to improve our own pipeline despite very poor sentiments across the different markets. Given that we play in the transformational space, people today are still holding on to their money rather than initiating programs which they thought they would at the beginning of this financial year. Bur we hope that as and when the market revives the sentiment will improve and we will be back on our growth track. Given this objective, we did make additions to our team last quarter, from a front-end perspective we added leadership in both the US and the UK. This quarter we have given a thrust to the Insurance Business and we have brought in Mike Brinsford who is a very senior person from Computer Sciences Corporation (CSC) to lead our Insurance business, the Go to Market end of our business; also, a global product manager to look at the Elixir platform. The bright spot in the portfolio has been the STG acquisition and our property and casualty business which continues to grow and continues to add accounts and this year I think that part of the business will grow faster than the rest of the US operations and I think we would see 25% plus growth in the STG business overall for the year. As we look, we are looking at improving our own positioning in the market place. We have not made cuts in investment in the intellectual property in the development space and we are well on track to release the SOA version of Elixir™ through the calendar year 2009. Some of you may be aware that we did launch the distribution management module, what we call as EDM – Elixir Distribution Management, both in India and in the US. The reason for the US launch was, as reflected also in the industry analyst reports, that if at all there are new budgets and new initiatives, then channel management and improving the customer relationship, improving the demand would be an area where there could be investments made by life insurance companies in the US and that was the reason for launching the Channel Management Module first.

We will close our financial year in June, and in July we will have a better picture -- the economic scenario will become clearer by July and our own new team members would have spent four or five months in their positions and they will have a feel of, even if there are adverse market trends, based on their own abilities and networks in the marketplace, whether we can counter the trend, buck the trend in some manner. So we will be in a position to give a feel for the next financial year only in July. However, this is the position as we stand today. That's pretty much an overall brief of where we stand and now I will leave the floor open for questions.

*Question and Answer Session*

***Moderator:*** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key. As a courtesy to other participants, in the first round we would request you to please restrict yourself to asking one question and come back later for a followup if necessary.

First question comes from Mr. Rishi Maheshwari of Enam AMC.

***Rishi Maheshwari:*** Good evening to the management and good results under the circumstances. My only question was on the order book which has shrunk to Rs 387 crore. If I draw an order book-to-actual sales ratio, that would be around 30% to 35%. But would it be a fair estimate to understand that this same ratio trend may continue? And if you could also elaborate the reason why this order book has come down, is it because of that one account that did not materialize and may spill over the next quarter?

***Sudhakar Ram:*** Yes, by and large if we had got the order as predicted in January, then our order book would have come back to normal levels. So, it was the delay in that which specifically caused a reduction in the order book. But having said that, we would have liked to improve the order book rather than keep it in the same place. But the overall demand scenario…we still see the demand situation is muted.

***Rishi Maheshwari:*** And which areas within that demand situation do you perceive is still muted? Is it the Insurance or is it the government orders which are coming down?

***Sudhakar Ram:*** See, the government orders have their own cycle. So it is not just the demand scenario, it is the overall scheme of things. They have a nine-to eighteen-months kind of cycle. In Insurance, at the beginning of the year our growth estimates were based on better demand on insurance and the meltdown has set us back on that.

***Rishi Maheshwari:*** Therefore the understanding is that normally this order book is around within the range of 30% to 35% of your next 12 month actual sales. At this point of time as you see it, would it be almost on the same range?

***Sudhakar Ram:*** I would say, 35% to 40% is what we have seen over the last 4 years or so. So, I don't see any reason why that would change.

***Rishi Maheshwari:*** Which will shrink our next 12-months' revenue figures, than what we have seen in the last year?

***Sudhakar Ram:*** Unless we make up for it in this quarter, yes.

***Rishi Maheshwari:*** Thanks so much, I will come back for the follow up.

***Moderator:*** Next question comes from Mr. Ruchit Mehta of HSBC AMC.

***Ruchit Mehta:*** Good evening. I just wanted to have your sense on your pricing environment, how bad is it specially on new deals, what kind of fall in rates have you seen?

***Sudhakar Ram:*** In the solutions part of our business, there is not much pressure on pricing, it is mainly the services where a couple of large customers expected price cuts of 5% to 10% and we have given that and that will take effect in the April to June quarter. So part of the reason why the projections are muted for the April-June quarter are also because of the price cuts coming into effect.

***Ruchit Mehta:*** Have these been backed up by adequate sort of potential future commitments for higher volumes or just straight forward price cuts?

***Sudhakar Ram:*** These are straight forward price cuts but we do hope that eventually it will lead to better volumes, but right now there is no such commitment.

***Ruchit Mehta:*** Okay. Could you give a sense or update on NHS, how it has faired in this quarter, and has the ramp down started happening because from the data that you have given out, the government side business has shrunk in this quarter. So how much would this be purely because of the pound issue and how much would it be because of the actual ramp down of the NHS account?

***Sudhakar Ram:*** Let me take it in another way. Rs 233 crore, if you were to take on constant currency basis, come to about Rs 241, 242 crore. So, in someway you can say pound impact is about 8 crore, but there is also a volume reduction because of the delay in start of a program.

***Ruchit Mehta:*** So specifically in the NHS account, has there been a ramp down in the current quarter or the account remained stable?

***Sudhakar Ram:*** There has been a ramp down.

***Ruchit Mehta:*** Okay, how many more quarters will the ramp down continue to happen?

***Sudhakar Ram:*** Overall, the feel that we had was that the entire project phase will come to an end by June of 2010, and I think that pretty much remains as the way we look at it.

***Ruchit Mehta:*** Finally on your Elixir platform, could you give an update as to what is happening, any further progress on you account wins, ramp ups etc?

***Sudhakar Ram:*** The Elixir™ release is scheduled through calendar 2009 as you are aware and channel management is one module that is the Elixir Distribution Management that is one module that we have already released. The first end to end implementations will happen for Capita customers. They are one of our first customers for the SOA version. This year we would probably see one of the customers going live on Elixir in 2009. That remains on track.

***Ruchit Mehta:*** Okay and any new wins on this through Capita or any new wins for Elixir per se?

***Sudhakar Ram:*** Capita has been doing pretty well in terms of their outsourcing business and Capita's platform is Elixir. So we may not immediately get a win, but when they get a win, over a period of time it will get translated to business for us.

***Ruchit Mehta:*** Okay, thank you.

***Moderator:*** Next question comes from Mr. Ravi of Daiwa Securities.

***Ravi:*** Good evening sir, this is Ravi speaking from Daiwa Securities. I just want to know how you are able to bring down the receivable days from 122 in March to 110 given that I am seeing receivable days of most competitors extending.

***Sudhakar Ram:*** That is thanks to Jamshed. Usually our receivables are high in December, and we had to put in concerted effort to bring it down and the finance team has done a good job along with the business unit team there.

***Ravi:*** Okay, that was the only question I had. The other question was of course on the order book, but you have already answered that actually, thank you.

***Moderator:*** Next question comes from Mr. Niraj Somaiya of Rose Red Management Singapore.

***Niraj Somaiya:*** You are almost a Rs1000-crore company. In the next two to three years or five years, what sort of growth would you be happy with. I understand you can't probably give a guidance. Where do you see the additions coming up? Second, in the insurance space, with the big names like AIG all these we keep hearing that things are not doing too great in the insurance space, how do you see the growth for yourself and overall for the business, despite your product coming in, if you can explain that?

***Sudhakar Ram:*** Broadly the strategy of the company is to go after IP-based solutions or large green field programs. There are two verticals that we are focused on today, which is Public Sector, where we deal largely through partnerships like British Telecom, Capita, Thales and then Insurance where we have a combination of partnerships with BPO companies like Capita as well as direct end-user customers. Over the next two-three years we also want to add a couple of more verticals, one definitely in the healthcare space, where we have built up solid expertise based on the NHS program that we have. We have almost 500-600 people who have gained expertise in healthcare IT in the world's largest IT program for healthcare. So we want to leverage it in other parts of the world, especially in the US and we are also looking at wealth management kind of practice. So, we will add more practices. Overall we remain bullish about the prospects of the company because there are very few companies in the world which have the ability to build IP and also comprehensive solutions which are end-to-end. So our play is in IP plus services as opposed to a pure services play, so we have very strong domain expertise, we are bringing in both product management as well as domain experts in each of the countries that we operate. Exactly how much we will grow is difficult to predict especially because we don't know when the markets will revive, but as and when markets revive our intention is to grow faster than the rest of the industry because we are a 'third wave' player and we see that going forward if companies from India have to succeed then they have to adopt the third wave approach.

***Niraj Somaiya:*** By what growth would you be comfortable, may be 20% would be a good thing over the next three to four years?

***Sudhakar Ram:*** Before this global economic meltdown happened, we were intending to grow at 30% to 35% this year. I think that's the kind of growth rate that I would personally be happy with.

***Niraj Somaiya:*** And what chances would you think in the current scenario will change the last quarter, your chances of growing may be by 25% to 30% continue? How confident would you be?

***Sudhakar Ram:*** It is the timing, I think, overall. So when the markets revive…The need for solutions has not dropped. We also recognize that these are all cyclical factors. The fact is that Insurance companies are living with 20-30 years old systems and they can't survive too long with creaking infrastructures. If you take the financial meltdown itself, I think one of the basic reasons has been a failure of systems at the loan origination end and the underwriting end and the risk management end, portfolio management end. It is all because people have been living with old systems and not spending enough to re-vitalize, upgrade and transform their own legacy. So, the need for legacy modernization remains very much there in the world and we play to that.

***Niraj Somaiya:*** Fine, and the cash which you have about 200 crores, what would you do with it? Any particular plans and would we be informed regarding that?

***Sudhakar Ram:*** We will be keeping that for acquisition.

***Niraj Somaiya:*** Okay so you would do some acquisition at some point?

***Sudhakar Ram:*** That's correct.

***Niraj Somaiya:*** That's fine, thank you very much.

***Moderator:*** Next question comes from Mr. Pratish Krishnan of DSP Merrill Lynch.

***Pratish Krishnan:*** It seems like your UK revenues have declined roughly by 15% sequentially in terms of (not sure). Was this primarily driven by the NHS ramp down or any other factors that led to this decline?

***Sudhakar Ram:*** There has been a set of accounts which have declined and this large program that we are talking about the delay in that has contributed major to the decline.

***Pratish Krishnan:*** You mean the additions to the bridge did not happen?

***Sudhakar Ram:*** That's right.

***Pratish Krishnan:*** Okay, and secondly in terms of the Elixir launch in the US, today are you spending any…is there any investment happening to the sales and marketing for this product in the US market?

***Sudhakar Ram:*** Definitely. We have added 7 or 8 top leaders across US and UK. In the US the investments are mainly in the Insurance segment. In the UK it is a combination of Insurance, Public sector and so on. There is substantial investment which is happening. Not just in sales marketing, but also in product development.

***Pratish Krishnan:*** Do you expect this to accelerate in terms of…would the investments be required be pretty much higher later on and all the…?

***Sudhakar Ram:*** No, I think we are operating at peak levels now and we expect that to translate into actual business results. We would be looking at enhancing that one day will see an increase in revenue.

***Pratish Krishnan:*** Okay. Last quarter you had spoken about adding a few more system integrators, any update on that?

***Sudhakar Ram:*** I think that effort continues.

***Pratish Krishnan:*** Okay fine, thanks a lot.

***Moderator:*** Next question comes from Mr. Madhu Babu of Systematix Investments.

***Madhu Babu:*** Salary, staff costs have come down quarter on quarter, could you illustrate the cost cutting measures we are doing, apart from that virtual bench which you have talked about.

***Sudhakar Ram:*** Basically it is a combination of things. It is virtual bench, it is looking at variable pay, it's looking at keeping the travel and other overhead costs under check. So that is a series of measures that we are taking to ensure that we maintain margins at these troubled times.

***Madhu Babu:*** Okay and what is the visibility in the government vertical considering the NHS ramp down? Are we having any big projects in the pipeline which we can fill the gap of NHS in the future over the next one or two years?

***Sudhakar Ram:*** We don't have a project of the size and scale of NHS, but there are many other things which we are working with partners on to help fill that gap and we see that the Insurance part of the business will also grow to also make up for the gap.

***Madhu Babu:*** Okay and the last question is regarding the utilization rates, they have fallen significantly off shore, I think around 66%, so what is the outlook on that?

***Sudhakar Ram:*** This is because people who go on the virtual bench are still on the rolls of the company and so what we will do probably within a day or two is to give you a breakup. Without the virtual bench the utilization is 76%, Jamshed tells me, and we will also change the analysis sheet to show virtual bench separately; so that will come up hopefully by Monday or so (on Mastek website).

***Madhu Babu:*** Okay thank you.

***Moderator:*** Next question comes from Ms. Hiral Sanghvi of Dalal and Broacha.

***Ms. Hiral Sanghvi:*** I wanted to know what was the reason behind the decline in your other income in the current quarter.

***Jamshed Jussawalla:*** One of the components of the other income, is the expenses which we have re-charged to the customer and in this particular quarter there was a drop in the expenses which were re-charged to the customer from the UK, so that has led to a decline in the other income.

***Ms. Heral Sanghvi:*** Can you give me the quantum of the re-chargeable expenses?

***Jamshed Jussawalla:*** Last quarter it was around Rs 3 crores on that account, this time it is only Rs 20 lakhs.

***Ms. Hiral Sanghvi:*** Alright sir and another question was what was the reason behind the forex gain that we had in the current quarter?

***Jamshed Jussawalla:*** This was basically due to more efficient and active forex management.

***Ms. Hiral Sanghvi:*** Alright, I think that's it from my side, thank you so much.

***Moderator:*** Next question comes from Mr. Srivathsan of Spark Capital.

***Srivathsan:*** We have been investing by getting some senior resources and in expanding the Insurance foot print. I just wanted to know from a year and a half or two years perspective what kind of actual market opportunity would we be chasing by this increased footprint and are we following up this increased senior recruitment with further more recruitment on the "on the ground" sales people also?

***Sudhakar Ram:*** The market that we are after is roughly about 2-2½ billion in the US and maybe half that size in the UK on Insurance solutions, I am just talking about the Life & Annuity segment and there will be an equal amount in the Property

& Casualty segment. So, between these two markets let's say it is about 8 to 10 billion dollars. That's a bounteous opportunity. Now, the leader in this segment is CSC and their business here is about 600-700 million dollars. After that there are a number of very small players who are less than 50 mn dollars, some within the 50 to 100 range and some in the 100 to 200 range. So, as a 200-million dollar company, we see ourselves very well positioned to gain market leadership in this segment.

***Srivathsan:*** Okay in terms of the kind of an opportunity and the number of clients you need to have to kind of go up in the picking order, what would that number be?

***Sudhakar Ram:*** Today if you see, we have hundred customers for insurance across the globe, so it is a fairly impressive list even today and I would say if you add maybe another 10 to 15 customers a year over the next three years, it also depends on what is the size and scale of the customers. If you get the top tier customers it is even better, if you take tier II, it is slightly lower revenue expectation. So it will be a mixture of client mix as well as the numbers.

***Srivathsan:*** In terms of our target group which would be your sweet spot?

***Sudhakar Ram:*** Tier II and tier I. Initially Tier II and later tier I.

***Srivatsan:*** Just wanted to get a sense, have we changed the hedging policy as of now? As of now we are practically zero hedges.

***Jamshed Jussawalla:*** Earlier we were doing a hedging of 3 months forward, now it is only based on the crystallized receivables. Once the receivables crystallize on 30th, on 1st of the month we take the covers. This is the position which we have given as on 31st.

***Srivatsan:*** So what will be the levels as of end of March?

***Jamshed Jussawalla:*** It could be around 5 million pounds and 7 million dollars.

***Srivatsan:*** Thank you, I will come later.

***Moderator:*** Next question comes from Mr. Neerav Dalal of Capital Market.

***Neerav Dalal:*** Good evening sir, I just had one question. I just wanted to know whether the virtual bench is included in your 4023 the employee count.

***Sudhakar Ram:*** Yeah, it is and like I mentioned earlier in the call, by Monday we will try and split the two and show virtual bench separately.

***Neerav Dalal:*** And going forward would you see any further dip in the employee count?

***Sudhakar Ram:*** The dip will be based on the demand scenario. We have a mechanism in place and so align ourselves constantly.

***Neerav Dalal:*** What about the utilizations? You mentioned 76% -- is that the utilization rate?

***Sudhakar Ram:*** Yes, usually utilization rate has been in the 75% to 80% range offshore; onsite is much higher.

***Neerav Dalal:*** Okay thank you.

***Moderator:*** Next question comes from Mr. Ram Prasad of Sundaram BNP.

***Ramprasad:*** Good evening sir, just one question. Your virtual bench, if you were to quantify in terms of your revenue, how much does it contribute for this quarter going forward?

***Sudhakar Ram:*** Virtual bench does not contribute to revenue. They are all on the bench.

***Ramprasad:*** On the cost front sir, how much cost savings you are going to expect this student virtual bench?

***Sudhakar Ram:*** We have put almost 350 people on the virtual bench so you can compute. These are all offshore resources. They are lower grate resources; they are trainees and grade 4. So you can get a feel based on that.

***Ramprasad:*** Next question is for Jamshed. What is the kind of yields we are getting on the money part and the FDs and the cash?

***Jamshed Jussawalla:*** Basically on the mutual funds we are getting 6.8%.

***Ramprasad:*** On the deposits per se?

***Jamshed Jussawalla:*** Basically major deposits are in the UK where we have got around 2½ %.

***Ramprasad:*** Is it the company policy to maintain it in the UK or is it that we can shift back to India where it remains.

***Jamshed Jussawalla:*** Whatever can be transferred to India as per transfer pricing policy, that we are bringing to India. Balance is left in the UK for working capital requirement.

***Ramprasad:*** Okay, because out of the 120 crores roughly about 85% is in the UK.

***Jamshed Jussawalla:*** Yes, that is because they also have to maintain cash for their expenses.

***Ramprasad:*** Okay fine sir.

***Moderator:*** Next question comes from Mr. Tarun Sisodia from Anand Rathi Financial Services.

***Tarun Sisodia:*** I just wanted to know, of your total cost that you are running currently how much of it would be denominated in foreign currencies?

***Jamshed Jussawalla:*** Roughly around 60%.

***Tarun Sisodia:*** 60% of your total cost would be in foreign currency?

***Jamshed Jussawalla:*** Yes.

***Tarun Sisodia:*** And it would be majorly in pounds?

***Jamshed Jussawalla:*** It would be a mix of pounds as well as dollars.

***Tarun Sisodia:*** Right. So if you have roughly about 45 odd million dollars kind of running run-rate and you said you have approximately in dollar terms somewhere about 15 million dollars worth of hedges, is that right?

***Jamshed Jussawalla:*** Yes.

***Tarun Sisodia:*** So your hedge policy is going to be only on month to month basis or how does it work out?

***Jamshed Jussawalla:*** It will be on month to month basis.

***Tarun Sisodia:*** So every month you will take a call how much is the hedge to be done or every month you hedge your next month's revenue, how does it?

***Jamshed Jussawalla:*** The hedging is done only based on the transfer pricing policy that means whatever Mastek Limited will bill to its subsidiaries. Whatever the figure comes to, that is hedged.

***Tarun Sisodia:*** I have two small questions related to your accounts. One is on your effective tax rate which is somewhere about 10% right now. How do you see that going forward?

***Jamshed Jussawalla:*** I think it would remain more or less stable even in the next one year. It may stabilize around 12% to 14%.

***Tarun Sisodia:*** So 10% will remain and then it will go up to 12% to 14%.

***Jamshed Jussawalla:*** Generally it runs at round 12% to 14%.

***Tarun Sisodia:*** But this currently you are having about…

***Jamshed Jussawalla:*** When we did some acquisition we had some losses, we are utilizing it.

***Tarun Sisodia:*** Okay right. So operationally the tax rate is already a 12% or so?

***Jamshed Jussawalla:*** Yes.

***Tarun Sisodia:*** And on capex how much has been incurred year-to-date and how much…?

***Jamshed Jussawalla:*** 27 crore has been incurred.

***Tarun Sisodia:*** What is it likely to be expected for?

***Jamshed Jussawalla:*** Normally it would be around Rs 5 to 6 crore a quarter.

***Tarun Sisodia:*** Okay, any major expansion plan apart from what we have here?

***Jamshed Jussawalla:*** No.

***Tarun Sisodia:*** So most of it is fairly routine in nature?

***Jamshed Jussawalla:*** Yes.

***Tarun Sisodia:*** Thank you very much.

***Moderator:*** Next question comes from Mr. Prashant Tavse of Mehta Equities.

***Prakash Tavse:*** My questions have been answered but there is a small question. Sir, in the public share holding pattern are there any changes in the institutional side? Like FIIs, have they decreased?

***Abhinandan Singh:*** Over the past couple of years or so what we have seen is that total FII holding has remained stable. The Insurance holding has increased quite a bit. But you see in our FII holding, a good chunk is actually with two-three institutional investors who have been long term holders and apart from Insurance companies the rest is with mutual funds and public. Public is about 13% to 14% and mutual funds will be about 4%or so.

***Prakash Tavse:*** According to last December, FIIs were around 28.69%, any particular number for this quarter?

***Abhinandan Singh:*** As of 31st March it is around the same. You can go to our website under the Investor Sections, check on other investor information and shareholding patterns. You will see our 31st March shareholding numbers already put up. We normally do it in the 1st week of the next month, we are pretty quick on that.

***Prakash Tavse:*** Sure, thank you.

***Moderator:*** Next is a follow up question by Mr. Madhu Babu of Systematix Investments.

***Madhu Babu:*** Currently the larger IT vendors are talking of vendor consolidation. So is that impacting tier 2 vendors like us in getting new clients and new business from the existing clients?

***Sudhakar Ram:*** See, in the services business there has been vendor consolidation, but in solutions business, it goes by expertise and the IP that you have. So in the segment that we play and we have a unique role and we are considered as a strategic supplier or a strategic player. So we have not faced that as an issue.

***Madhu Babu:*** Okay sir, thank you.

***Moderator:*** Next is a follow up question by Mr. Tarun Sisodia of Anand Rathi Financial Services.

***Tarun Sisodia:*** I just wanted to know, amongst the top five clients, how have things been moving, because this quarter sequentially specifically there has been a decline overall. So what would you attribute that to? Number one is that. And number two I would also like to get a sense of overall on this order book position that you are having currently and whatever you are currently pursuing. How do you see the visibility going ahead and what kind of tractions are being observed there?

***Sudhakar Ram:*** I will answer the second question first. That definitely the demand scenario has been challenging given that we play in the new initiatives budget. And people have been postponing new initiatives till they see a better economic scenario. The first one, I think the top five, partly the UK delay that I was talking about is the top five customers, so that's why it has gone down this quarter and we expect that in a couple of quarters it will come back on to (not sure). Having said that, we also want to add more customers, so in the longer time frame, two to three years, we would like the top five to come down.

***Tarun Sisodia:*** The other thing I wanted to know on this whole issue of virtual bench, you just indicated somewhere about approximately 350 people would be of virtual bench and they would be part of this 4023 number, which has been declared in your factsheet. Is that correct?

***Sudhakar Ram:*** That's correct.

***Tarun Sisodia:*** And when you came out with this scheme, how many people was it offered to?

***Sudhakar Ram:*** It was offered to 425 people and 85% accepted it.

***Tarun Sisodia:*** Okay. Which means that given the fact that you still have a 220 people decline on a sequential basis, a significant number of those who have left the organization are outside this virtual bench. Is that correct?

***Sudhakar Ram:*** I would say that about 75 people would have come from the virtual bench and rest would be normal attrition.

***Tarun Sisodia:*** That would be normal attrition, because it seems on a slightly larger side of number.

***Sudhakar Ram:*** It's obviously lower than the previous quarter.

***Tarun Sisodia:*** And just a related thing, taking your wage bill into consideration, it has on an average come down quite significantly. Apart from this virtual bench, would there be any other measures, which have been taken by the company on cost reduction on the wage side?

***Sudhakar Ram:*** Partly this is due to variable cost, I mean, obviously when the profits are lower than what was originally targeted in the beginning of the year, there is an impact on variable costs also.

***Tarun Sisodia:*** How much of the wage bill would we virtually paying through variable process?

***Sudhakar Ram:*** It is difficult to exactly quantify it. It varies in front end to backend, delivery to sales kind of a thing and different levels.

***Tarun Sisodia:*** So, roughly it would be about 10% to 15% or so?

***Sudhakar Ram:*** No, it will vary. At the sales level it would be 10% to 15%, on the delivery level it would be closer to 5%-6%.

***Tarun Sisodia:*** Okay fine. Thank you very much.

***Moderator:*** Next follow up question by Mr. Ruchit Mehta of HSBC Asset Management Company.

***Ruchit Mehta:*** Yes, going to your fourth quarter, what are you assuming in terms of EBITDA margins, obviously weakness on top line will remain, but do you anticipate to be able to maintain margins going forward as well?

***Sudhakar Ram:*** Yes, obviously when we have guided almost a flat profit on a lower revenue, we are assuming that EBITDA margins would be maintained and marginally improved.

***Ruchit Mehta:*** Okay. And going forward do you see all things being equal as you expect, you can be able to improve the margins going even further than this or this is probably the best step you can do given the current circumstances?

***Sudhakar Ram:*** No. See, basically we just want to ensure that we are roughly in the same level of profits, even if the demand scenario is bad, because that's what we can control. But if we see the markets reviving, then we would increase investments in other parts to take advantage of the market opportunities. You can expect some variability in the EBITDA margin depending on the demand scenario.

***Ruchit Mehta:*** And when do you see demand scenario recovering back, even from a regional perspective probably most people are facing, is the issue of seeing not even quarterly but monthly budgets, so how does one plan, or look at growth, or even plan for anything in this current year? So, from your perspective, given whatever your aiming in your industry, your customers, everything put together, should one then look at December quarter or March quarter next year?

***Sudhakar Ram:*** I think the best time for us to answer this question, like I said in my opening comment, is July. But let's be clear that in July we may come with an equally uncertain kind of a scenario, purely because these are challenging times and nobody seems to have an answer. So we are doing the best we can, but we definitely think that given the leadership team we have put in place, and given the fact that we are small, a few new deals here and there could completely change our picture. So we remain optimistic about the future. But being able to predict anything right now looks difficult.

***Ruchit Mehta:*** And with regard to acquisitions, you have a reasonable amount of cash holding in your balance sheet, are you seeing good offers on the table, are you seeing valuations improve? I think earlier we were close to getting some acquisitions in place, over the next 12 to 18 month time frame, would you anticipate some regional side acquisitions to come fall in place?

***Sudhakar Ram:*** Yes, we do. And we are building up a pipeline of candidates and we have the cash, so we definitely want to reinforce our position in the insurance sector. We want to also see if we can accelerate entry into Healthcare using an acquisition. So those are the set of prospective targets that we are talking to.

***Ruchit Mehta:*** Any particular geographies you would look at?

***Sudhakar Ram:*** Mainly US and UK.

***Ruchit Mehta:*** Okay, thank you.

***Moderator:*** Next question comes from Mr. Ravi Aranke of Tactica Capital.

***Ravi Aranke:*** You have been mentioning that you are part of the so-called third wave of IT services and that's certainly commendable and you also mentioned on the call that you are into the business of offering solutions, and hence you cannot really be compared to plain vanilla services vendors. But I don't think that is very well appreciated by the investor community, so maybe could you elaborate a bit on what would be the differentiation between you and the other midcap IT services vendors, specifically what metrics would I look at to say that this company is breaking out of the bag and they are doing something different?

***Sudhakar Ram:*** We have been sharing this in the past. I think one of the metric that you can use when you look at quality of revenue is gross margin. Typically, companies, which have a high value and at a firm level tend to command higher gross margins than companies which are plain vanilla. So if you see our own gross margins, they tend to be top of the pack that we are at the higher end of Indian, top two or three, quarter-on-quarter there will be variations, but that should be one measure that you take. Second is return on talent. See, at a $200-230 million level we operate with 4000 people. Let's say, if you take out the virtual bench, we are talking at about 3600-3700 people today. Now, a company of our size, similar size, would probably have 60% to 80% more staff than we do. So that is another indication of the kind of work that we do. We have a higher proportion of senior people and therefore our billing rates, the nature of work that we do, tends to be at a higher end. So number of people and what I call 'return on talent' is another measure that you could use in making this kind of a comparison. The third is, essentially what is the level of intellectual property a firm has, what is the level of accountability that a firm takes? Is the firm accountable for giving people, is it accountable for a specific project or a specific monthly deliverable or is it taking long term specific kind of risks in ensuring certain overall deliverables that it is taking accountability for. So there are four or five different things that you should look at when you want to evaluate services front.

***Ravi Aranke:*** Okay, excellent. Thank you. Earlier you used to give out your fixed price ratio…

***Sudhakar Ram:*** Even now we have given that.

***Ravi Aranke:*** Okay, thank you.

***Moderator:*** There are no further questions. Now I hand over the floor to Mr. Sudhakar Ram, Chairman and Managing Director of Mastek for closing comments.

***Sudhakar Ram:*** Thanks everyone for your active participation and interest in Mastek. As you are aware that times are challenging, we are doing the best we can. We remain very optimistic about the business model that we have and the future prospects, because the need for solutions in the globe, I think, will increase and not decrease. It is a question of timing; it is a question of when customers have the courage to make the investments, where they see an improvement in their own business outlook and prospects.

We are making the investments required to take advantage of an upturn whenever it happens, and to buck the trend even in a downturn. So some of these costs, which we talked about in January, significant costs that we are taking on as a company going forward and bringing in new leadership, in developing IP, we are doing so because we think that that is a way to differentiate ourselves and grow in the future. I really appreciate that analysts and investors continue to track us and take interest in Mastek. Over a period, more and more have realized that Mastek is unique and the business model that we have is very different from that of others. One of the concerns of this business model, obviously it is not like a labor arbitrage or outsourcing model, it does depend on new initiatives. We have been always open and transparent about that. We continue to maintain the highest standards of governance and ethics, which you are aware of. So, I think what today's stand calls for is patience, it calls for continued investments, it calls for ensuring we maintain the relationships and keep our positioning alive at the market end and at the customer end. Thanks.

***Moderator***: Ladies and gentlemen, this concludes your conference for today. You may disconnect your lines now. Thank you and have a pleasant evening.

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