Transcript: Post Q3 FY2010 results conference call, Mastek Ltd
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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Gopal, moderator for this conference. Welcome to the post results conference call of Mastek Limited. 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 now would like to hand over the conference to Mr. Abhinandan Singh, Head of Investor Relations, Mastek. Please go ahead, Mr. Singh.

Abhinandan Singh: Welcome everyone to the Mastek Q3 FY 2010 conference call. As you know, the quarter under review is our third quarter, because our financial year starts July and ends in June every year. Present along with me today on this call are Mr. Sudhakar Ram, our Chairman and Managing Director and Mr. Farid Kazani, our Group CFO and Finance Director. We will begin today's forum with opening remarks by Mr. Sudhakar Ram and then we will open the lines for your questions and discussions. After the call ends, within a few hours, we should have a replay of this call available. You can dial-in using the phone numbers that are mentioned in the invitations sent to you earlier. You can also access the transcript of this call which will be put up on our website mastek.com. Now I would like to request Mr. Sudhakar Ram to please initiate this call with his remarks. Thank you.

Sudhakar Ram: Thank you Abhinandan. And good afternoon to all of you dialed-in into this call. This quarter has been a bit of a disappointment in terms of our performance that against the guidance of 188 crore, we ended up the quarter at about 172 crore. Just wanted to set the figures in perspective that one of the reasons why we did have a drop was actually the currency fluctuation, where we had adverse pound to rupee as well as modesty adverse dollar to rupee ratio through this quarter. So what we did is 172 crore and that, if we adjust on a constant currency basis, would have been about 179-180 crore against a guidance of 188 crore to 192 crore. We ended up close to 180 crore in constant currency terms. We had two issues in the US that actually contributed to most of this drop. One was delay in closing some contract extensions as well as new deals and existing accounts. And the other was the price cut in one major service account that we have, which was unexpected at the beginning of the quarter. Based on competitive pressure as well as client pressure, we were forced to take a 20% price cut. So that actually impacted us quite badly through the quarter. However, despite all these price cuts and so on, we did manage to improve our EBITDA margins. We had targeted to deliver EBITDA of about 15% this quarter. We ended up closer to 15.9. It was partially helped by the attrition that we had where the industry picked up and we lost people and we had to take a salary increase in Feb to correct it. So, our utilization rates have been pretty good this quarter because of that attrition. Obviously, that is not sustainable going forward. We also had a good cost action taken in terms of discretionary expenses which helped us maintain these margins. Overall we definitely want to take advantage, as I have been saying, of the revival that we expect to happen, in terms of the solutions business and the transformation business, a couple of quarters after the services company start registering growth. This quarter we thought that the services portfolio that we have should start yielding results. Unfortunately, we have not been in as good a position to close the deals as we thought we would. We are taking actions on two fronts. One is in terms of ensuring that on the existing accounts, we intensify our efforts so that we close the deals that we have in the pipeline. At the same time, we also have favorable signals from the insurance companies. And we do see that the markets, especially in the US, are opening to large transformation deals. So, we want to step up our own activities strategically as well as in terms of sales execution, to ensure that as and when these markets open up, we are in a good position to win our fair share of new deals. So, our own expectation is we should get back on to a growth momentum in the next financial year, starting July. And we are targeting to improve our performance in Q1 itself, where we should get a good growth momentum as compared to this quarter in the Q4 that we have targeted. However, we don't see much movement in Q4. We have guided flat in constant currency terms. But because of rupee strengthening, it will be a marginally lower figure in terms of rupees. At the same time, our PAT which is at 15 crore this quarter will come down to 10 to 11 crore for two reasons. One is the currency impact and the second is that we will hire about 300 people to prepare for growth in Q1 of next fiscal. When these people will come on board they won't fully be billable during the quarter and that's again going to eat into our margins for this quarter. But we do see that the momentum in terms of sales should start picking up from Q1 onwards. The opening up in the market for transformation deals is visible now. And we expect to convert all that into order book and revenue for the next financial year. So that's a very broad summary in terms of the financial performance. In terms of account wins, there wasn't much wins. We closed one insurance deal in the quarter. However, we did get into an interesting relationship with a company called Focus Solutions for focus:360° which is in the insurance portal business. They are a UK based IT provider. We have signed up with them to private label that software in US and in Asia-Pac. So in the next financial year, this solution which could be applied across both Life & Annuity as well as P&C type companies. We do expect to see some traction based on this relationship that we have signed up. With that let me just stop on my opening comments and 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. Participants are requested to adhere to one question in the initial round and come back for future questions. If you have a question, please press * and 1 on your telephone key pad and wait for your question to be asked. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

The first question comes from, Mr. Madhu Babu from Systematix Shares.

Madhu Babu: Yes, what led to the 30% drop in the other financial services business quarter on quarter, because it looks very much substantial?

Sudhakar Ram: This was due to delays in terms of signing new deals in these services account, in the other financial services account. So, that was the main reason for the drop.

Madhu Babu: The pricing cut of 20%, does that belong to this vertical?

Sudhakar Ram: That is in our Other Business. It's not in Insurance or Government. So, it belongs to actually the "IT and Other Services" vertical.

Madhu Babu: And regarding Government vertical, this is the biggest spender in IT after BFSI. But after NHS, we are not able to get any substantial big deals. What is the reason for that?

Sudhakar Ram: See our main Government business is in the UK. And there is a bit of a slowdown in terms of deals happening and decisions happening, because of the elections. So, once the elections are done, we would start seeing traction in terms of where the moneys will be allocated. When there is a new Government in place is when deals and some of our existing relationship will start opening up.

Madhu Babu: Okay sir. I'll come for a follow up later.

Moderator: Ladies and gentlemen, to ask a question please press * and 1 on your telephone key pad.

Next question comes from Ms. Sheetal Aggarwal from DBS Cholamandalam.

Sheetal Aggarwal: What is the current order book like? And next question is how does the quarter 4 look like? You were talking about growth that would start from next fiscal year, starting Q1 FY11. So what would be the driving forces for bringing growth in FY11?

Sudhakar Ram: If you see our order backlog, it's remained constant in dollar terms and is dropped marginally in rupee terms. So, our order book position was not very strong this quarter. And that's one of the disappointments we have. Our first effort is to set that right and get our order backlog up during this quarter. That is going to be our immediate effort and that would translate to better revenues in the next quarter. Broadly, we are taking measures in terms of execution to ensure that our order backlog gets back into a growth mode and is much larger at the end of this quarter than at the beginning.

Sheetal Aggarwal: And for FY11, can you just like share some, give some color? What kind of a growth and what will drive the growth? Will it be BFSI? Are there some new deals in the Government sector or insurance?

Sudhakar Ram: Our primary thrust will be in insurance. And based on the conversations that we are having in the market, we see that the transformation programs will start getting revived in the next financial year. That is the expectation as we stand now. One key factor is Elixir4, our new version of Elixir. The first production system will go live this quarter with Zurich through Capita. And that's obviously a very key milestone in the Elixir roadmap. When the first system goes live, it gives a level of confidence to other insurance companies. So, on the back of Elixir, we expect to start conversations with other insurance companies within the UK, which will be the immediate beneficiary of Elixir in the UK. And we also had closed an EDM (Elixir Distribution Management) deal last quarter, which we talked about last quarter. We are starting to build up a pipeline in terms of

Elixir Distribution Management in the US. In New Business Underwriting, which we launched, we are expecting to get some wins over the next 2-3 quarters. Those would be the prime drivers for growth. Having said that, in the Government business as the elections get done and the new Government gets formed, we expect some of the things that are in the pipeline from our existing partnership as well some potentially new partnerships to start seeing traction and movement. Prime thing in the next financial year is we are targeting growth, and we do see markets reviving. The revival and the growth will happen primarily in the Insurance and secondarily in the Government sector.

Sheetal Aggarwal: Okay. But for the next quarter do we see a similar trend? This quarter we see a decline in the Government vertical as well. So, would we see a similar trend?

Sudhakar Ram: As we have said, guidance is constant, it's flat revenue in constant currency terms for Q4.

Sheetal Aggarwal: Okay. That's it from my side. I'll come back for the follow up.

Moderator: Next question comes from Mr. Srivatsan Ramachandran from Spark Capital.

Srivatsan Ramachandran: Just wanted to get some updates mainly on the Elixir business in North America. Where are we in terms of winning some new deals for Elixir? Have we been able to break out, move out of just the one deal we won last quarter? Just wanted to get some update there.

Sudhakar Ram: We have not won any other deals. There are conversations happening. That is going to be a focus with our sales efforts in the US to win a couple of more deals in Elixir in the coming quarters.

Srivatsan Ramachandran: Okay. Outside insurance, where do you think we have very strong capabilities for growth? Because we have been hoping to get growth in other verticals, but all the verticals have only de-grown substantially on a considerable basis. And outside insurance, there is no IP play also that we have at this point of time. Are we taking kind of a big risk by just betting on one vertical?

Sudhakar Ram: Firstly, if you take insurance, we are actually two verticals. The life insurance business is quite distinct from the Property & Casualty business, both in terms of business cycles as well as the nature of deals. So, we are playing in both. With the STG acquisition, we have pretty good offerings in the property & casualty business in the US. The other part is that when you look at our Government business, though there is no IP backing it, there is a strong amount of intellectual capital backing it. Very few companies globally, I am not just talking about Indian companies, but very few companies globally can execute large, complex programs on a fixed price basis, especially when they are part of a consortium. It's not individual customer-to-vendor deal. They actually play with many other partners. And we have had an unusual track record in terms of success in that. That's actually what makes us attractive to potential prime contractors. So it's not that we are only depending on Life & Annuity or on Property & Casualty. We have a fairly substantial story in Government. But Government business tends to comprise of large programs. So it tends to be lumpy. You can't win a deal every year. If you win one every other year, you should consider yourself doing a good job. The third part is that we are actually in the process of fine tuning our story even in the other financial services and other services play that we are doing. We are trying to get more strategic focus behind it for exactly the same reason as you are saying that we can't depend on just Insurance or Government. In the other financial services, we are trying to leverage our competencies. We appear very different from the normal competition in the market place. So, there is an effort put on all three segments to get back onto a growth momentum.

Srivatsan Ramachandran: Okay. We have given selective employee salary hikes. Butt we have seen some of the bigger players giving substantial hikes. What's your take on managing people's expectations and attrition at this point in time, given that we have not been having a great performance? So, we will not be in a position to dole out substantial hikes. Is managing people's expectation and salary becoming increasingly a difficult challenge?

Sudhakar Ram: Yes, our normal salary cycle is July. And last year, we did not give any increments in July of 2009. So, when the markets revived, we did see our attrition going up. We did a correction in February only for what we call as the TOV A and B performers. It did not impact salary bill substantially but was about 2% of our salary bill. We are doing a market survey in May because our next salary cycle is due in July, and we can't get away this time by not giving any increment. That's very clear based on market movement. So we have to plan for increments in July. If the majors start giving high increment then we will have to start figuring out how to match that. Now, that actually increases our imperative. See, one of the unique distinctions of Mastek is that we have always had a high return on talent. Our EBITDA per employee, which we track, is pretty high. As much as in some of the tier one players, maybe larger than some of the bottom-end of tier one players. To that extent our ability to pay higher salaries is far more. When the majors increase salaries beyond a particular level it is actually strategic, to squeeze out the mid-tier players who are working on low margin business. Fortunately in the solutions business, that's not the issue that we have. So, to a large extent I don't think that that as a strategy is going to impact us. It's a question of being able to increase our own productivity, being able to manage the pricing and the risk in large programs in the Insurance as well as in the Government business.

Srivatsan Ramachandran: My last question is on business and client addition. We had close to 10-11 senior hires in the last 18 months. When we look at last four quarters, client addition put together is some 8-9 client addition. Is this not a bit too low for us compared to what we are chasing?

Sudhakar Ram: Yes, that's obviously far lower than expectation. When we enhanced our own sales marketing team in the front end, we did it with our eyes open. And we have been open with the investor community that despite the fact that there is a meltdown, we felt it was required to go ahead and get the good people. We knew that we couldn't expect immediate performance out of them. Markets did not support it. But now that we see markets opening up, we will see the new team translating to a much higher business than in the past.

Srivatsan Ramachandran: Okay, my last question. How do you see the pipeline? Can you quantify the pipeline as to what it was maybe six months back and now, in terms of number of client accounts, maybe not converted but you are engaging at this point of time and hope to converge. You are chasing ten accounts or you are chasing twenty accounts. Just some quantification as to how is the pipeline?

Sudhakar Ram: Quantitatively, as compared to two quarters back, there are more conversations happening on transformation programs today. But we don't actually quantify the pipeline order or give those numbers.

Srivatsan Ramachandran: Okay. Thanks a lot.

Moderator: Next question comes from Ms. Amelie Thevenet from Jupiter Asset Management.

Avinash Vazirani: Hello, actually this is Avinash Vazirani from Jupiter Asset Management. Gentlemen, can you please comment on the departure of John Dowd please?

Sudhakar Ram: Sure. John Dowd resigned during the quarter. Based on the circumstances, the board accepted his resignation. He had to resign for personal reasons and we felt that it was valid, so we accepted it.

Avinash Vazirani: And that's it. You make a fairly senior appointment and there was a lot of fanfare about, when you appointed him. And there was sort of no announcement during the quarter.

Sudhakar Ram: We did make an announcement during the quarter.

Avinash Vazirani: There was, was that right?

Sudhakar Ram: Right. There was. The moment he resigned, we immediately informed the stock exchanges. Even now in the press release it was mentioned.

Avinash Vazirani: Yes. It seems to me like a revolving door at the top. And I am just wondering, really it's sort of, it's now been quite a few quarters and the numbers, there is obviously some explanation or another at every quarter for sort of below expectation results. And Mastek seems to be the only company amongst its sort of peer group that seems to be disappointing or not able to get the contracts. How long have you given yourselves as a board to sort of settle yourselves? Well actually, we have sort of had enough over here kind of stuff. It seems, I am not sure whether there is light at the end of the tunnel and every time there is light at the end of the tunnel, it seems to be a train coming in the opposite direction rather than something else happening. You mentioned an interesting comment that the UK Government has actually reduced signing of contracts in run up to the election. The press locally has had exactly the opposite views and that the Government has actually been signing more contracts just to make sure that, if they lose the election, the other side actually has to carry through. So, what you are saying actually doesn't quite add up with what the facts are. Putting these comments aside, give us a color on your pipeline a bit, particularly in the UK.

Sudhakar Ram: See, I can understand your frustration in terms of the fact that despite hiring the new team, the growth is not, this year has been probably one of the worst in Mastek's history. Because, we would actually de-grow by quite a substantial percentage at the end of the year and that is something that is shared by me as well as the entire Mastek board. And so having said that, the fact is we are still pretty bullish about the prospects of the company. We remain committed to the solutions business where we have unique advantages, we have unique strengths. They have been demonstrated from time to time, but not at the level of maturity that one would normally expect. So, I can understand and accept your comment. All I can say is that in terms of the pipeline, our focus has been on building up new deals, new relationships in insurance, in both Property & Casualty as well as Life & Annuity. We are looking at more partnerships in the Government vertical. And there are things that we are bidding for, but we don't consider anyone a partner till we actually sign a deal with them. That's been our own policy of the company and we stick to that. We do want to get out of this and get into a much higher growth rate in the coming financial year. We are putting in all the efforts to make that happen as we stand now.

Avinash Vazirani: The new people that you have hired, how much of their compensation is variable in relation to the business they bring in? You are hiring senior people that obviously has a cost to the company.

Sudhakar Ram: All these are sales, senior sales execs and business leaders. And they have a substantial part of their compensation linked to results. So, typically I would say at least 30 to 40 per cent of their total comp would come from actual results produced.

Avinash Vazirani: Right. Thank you. I don't have any other further questions.

Moderator: Next questions comes from Mr. Sangam Iyer from Alpha Accurate.

Sangam Iyer: During your initial comments, you had indicated that in Q3 the miss was primarily due to few of the contracts getting delayed in terms of closing of your service contracts, not getting finalized in terms of renewals etc. So, shouldn't that actually get reflected in Q4, where we are actually giving a guidance of a dip in Q4 as well?

Sudhakar Ram: There are two parts in Q4 guidance. In Q3, we had two impacts. One is the price reduction which will carry forward and then there are delays. We didn't have enough of an order book as we had anticipated, because the order backlog remained constant. So, while we will close some of those deals in Q4, the fact is that it won't be adequate. Net effect is we will still be flat this quarter. We need substantial business to be booked in Q4 to get back on to a growth rate next year. And that is the actual plan, that we should improve our order book in this quarter.

Sangam Iyer: Right. But, since we are like in April, how have things changed so far in the first ten or fifteen days of this month as compared to the last quarter, which actually gives us confidence? Has there been any new dialogue with the clients which actually gives us a confidence that our products are going to pick up? Or in terms of new order deals, order deal wins are going to come in, in the coming quarter?

Sudhakar Ram: Obviously when we give guidance, this guidance was decided at the board meeting just today.

Sangam Iyer: I am just trying to get some sense on that.

Sudhakar Ram: Yes, so actions and all other conversations are in the pipeline that we have.

Sangam Iyer: Okay. And could you give us some clarity on the probability that we have assigned to the deal wins? Let's say, for example, before last quarter guidance you had assigned a probability of 50 and now it's actually gone up to 75. Could you give us some quantitative outlook? How you are looking at the pipeline in terms of what's actually factored in the guidance in terms of the conversion rate?

Sudhakar Ram: If you look at the entire process of managing a pipeline, each deal has a different probability. And probabilities keep improving over a period of time or the deal gets dropped.

Sangam Iyer: Right. I am just trying to get a blended probability.

Sudhakar Ram: All I can say is, based on the totality of the situation as we stand now, we think we will be flat this quarter. We will have a better order backlog at the end of the quarter and we should start seeing growth from Q1.

Sangam Iyer: Okay. In terms of Elixir, is it completely dependent on order wins coming in from UK?

Sudhakar Ram: No, not really. Because Elixir is not just a complete end to end platform. We also sell modules. Last quarter we won the first Elixir deal in the US, which was EDM, Elixir Distribution Management deal. We have a pipeline of distribution management. We are also trying to win deals in New Business & Underwriting, which is the other Elixir module that we have launched in the US. And now with signing the Focus relationship, Focus again has fairly strong portal capabilities in the channel management area, we are looking at going to market there. That will be a new launch. We can't have any pipeline as we stand now but next year we expect some deals to come out of portal also. Apart from that, we want a beta customer for end-to-end policy admin, which we have been talking about. We have to sign one deal because we don't have complete North American version for end to end. On the back of that one deal, we will start building that capability and demonstrating that track record.

Sangam Iyer: So, what's the current order backlog that we have currently?

Farid Kazani: The order backlog is 279 crore in rupee terms.

Sangam Iyer: 279?

Farid Kazani: Yes, it is 279 crore compared to 296 crore in the last quarter, but in dollar and pound terms, it is almost constant.

Sangam Iyer: And it is executable in?

Sudhakar Ram: 12 months.

Sangam Iyer: Next 12 months, right? Okay. And what would be the tax rate that one should be looking at going forward for the company?

Farid Kazani: There has been a movement in tax in this quarter. What you see is reflective of the effective tax between 18% to 20%. This quarter we have also seen a deferred tax asset release as compared to the first half where we saw a deferred tax asset created and a refund that happened. For the year, we would expect the total tax to be more or less between zero to 2½%-3%.

Sangam Iyer: For FY 10?

Farid Kazani: Yes.

Sangam Iyer: And for FY 11?

Farid Kazani: The R&D tax refund that was there in FY10 will not be that substantial next year. To that extent, the tax rate for the year will be higher. The numbers are yet to be worked out, but it will be good to assume between 12% to 15% as an effective tax rate for next year.

Sangam Iyer: If I were to just go back and just see for the first nine months, our effective tax rate has been approximately, if I am not wrong, 8% or something?

Farid Kazani: If you look at the total tax rate, it has been negative actually. And that's because there was a refund that I just mentioned.

Sangam Iyer: You mentioned it for the last quarter.

Farid Kazani: If you look at Q3, it is high. But if you look at the cumulative number, it is negative 51 lakhs, and that's linked to the first two quarters which had negative tax.

Sangam Iyer: Okay, got it. I'll just come back for further questions. Thanks a lot.

Moderator: Next question comes from Mr. Vishal Desai from Centrum Broking.

Vishal Desai: I just wanted to get a relatable clarity in terms of your guidance that you have given. What you are all telling is you all will be guiding for around 165 crore on the topside in terms of revenue and in PAT you are all saying around 11 crores, right?

Farid Kazani: Yes.

Vishal Desai: So, that makes it, basically if we do the math and if you have a look at your full year, year on year performance for FY 2010, you will be doing an year on year negative decline of 24% and whereas your PAT will be declining by close to around 46%, right?

Farid Kazani: Yes, you are correct.

Vishal Desai: Now my question is, in the current situation where people are actually posting recoveries in terms of Q3 and Q4, probably Q3 for you, but Q4 for others, they are actually posting recoveries and their numbers are improving, their geography mix in fact is showing up a better trend. Europe is doing better eventually, it is kind of still hazy but it is doing better. What is stopping you, what is coming in Mastek's way? That is what I am trying to judge.

Sudhakar Ram: See, about 70%-75% of our revenues are linked to transformation deals. The revival in transformation happens slower than in normal keeping-the-lights-on and incremental investments in existing platforms. Obviously, none of us have gone through a meltdown like this to be able to predict accurately, but our gut feel is that as the services companies revive, with a two quarter delay we should also be able to revive, that people will have the confidence to open their purse strings. What you have to recognize is that when they buy a platform from us, let's say for 10 million dollars, their cost is not 10 million. Their cost is their own transformation cost which often translates to 30 to 50 million dollars of investment for them. So, they are not making a 10 million decision, they are making a 50 million decision. So they have to have the confidence. Obviously there is a business case and business impact, but they have to have the confidence on their own financial performance and growth to be able to take those kind of decisions. That's what our business is linked to.

Vishal Desai: That I get. But what I am trying to again get to is if you see your revenue by service offering and if you compare it on a quarter on quarter basis, normal quarter on quarter growth, in I think Q2, what had happened was you had registered 13%. But, prior to that in Q1 of this current financial year, you all were again down by 14% on a quarter on quarter basis. Then again this quarter, you all are down again by around 13%, that's going back to Q1. So, what is it? Are we like stagnating or was that positive 13% in Q2 s just an aberration?

Sudhakar Ram: We didn't' have any positive growth through this year. We were actually not stagnating. We were declining through the year.

Vishal Desai: No, in development if you see what happened is…

Sudhakar Ram: You are referring to development?.

Vishal Desai: Yes, I am referring to development. Sorry, maybe I wasn't clear. So, in that perspective what would your comments be, considering it accounts to some prices of almost 60% of your revenues?

Sudhakar Ram: The main development part which got over this year was the BT/NHS Spine. So that part got over by Q1, which is what we said it will.

Vishal Desai: Basically, that client is out.

Sudhakar Ram: The client is still there. But the development part on Spine is out.

Vishal Desai: Okay. So, that means there has been no renewal in terms of deal flow from that process?

Sudhakar Ram: Exactly.

Vishal Desai: Alright. Then if you go on to see your Insurance and Government businesses you said, when some one even asked you prior to this, that Europe is shaping up in a better way. But, coming down to Government related contracts, it's showing again a 14% decline which is quite a bit compared to 4% of the previous quarter, still declining further and further. So, what is going wrong? Are Governments not willing to give contracts or is there some problem in any other way?

Sudhakar Ram: You can look at it segment wise. What you have to recognize is that half our business comes out of partnerships. So, this is nothing to do with Government. We have three partnerships in Government - Capita, BT and Thales in the UK. Now the Thales one is a program which is coming to an end. So over the next two quarters, we should be able to deliver everything completely. With BT, the fixed price program got over, but even on maintenance and service deals, we have had delays in terms of continuing on what we used to do. Even in things that we should normally have got, there have been delays in getting those deals now. Capita has been flat, it's not grown too much from a Government business, but the insurance part of Capita has been growing. So, that's the mix there.

Vishal Desai: Okay. If you look at your client mix, active clients that you all have published to us as analysts, it's gone down from 90 to 85.

Sudhakar Ram: These 4-5 accounts are STG accounts which did not have any billing in the quarter.

Vishal Desai: So, basically they are there but it's just that it's not been billed.

Sudhakar Ram: That's correct. So, if they don't have a billing in this quarter then it is taken off the list this quarter. Next quarter it may come back.

Vishal Desai: Okay. You even mentioned that next quarter will be lull. And from Q1 of FY11, you will probably see an uptake in terms of growth momentum. I am happy that it's happening actually, because this year has been practically horrible for you all.

Sudhakar Ram: For all of us.

Vishal Desai: Yes, probably for the entire industry to put it in perspective. But what I am trying to gauge is what do you see going forward with your interaction with clients? Can you give some sort of a quantitative guidance saying that Q1 probably will be a better picture compared to what we have been seeing for the past few quarters?

Sudhakar Ram: Our own inability is coming from the fact that the client revival on transformation is not on fully; we are expecting that to happen in Q4 of this year and Q1 next year. But how fast it will happen, which deals will close, is difficult to predict. We are sticking to quarterly guidance for that exact reason. Even with quarterly guidance, we have had misses. And that's been disappointing personally for me. After having almost twenty quarters of successfully meeting every guidance, now in the last six quarters we have been missing guidance. This is obviously because it's the nature of our business. We are in the solutions business and we are not in an annuity business. This is the path for the course for the solutions business. But obviously as investors, I can understand your expectations for more predictability. We would be in a better position than today to comment on next year in July, when we do the call in July.

Vishal Desai: Alright. And just one clarification, the voice was breaking at that time. You mentioned about the effective tax rate for this quarter, right? May I know what was the figure?

Farid Kazani: The effective tax rate for this quarter?

Vishal Desai: Was it 34.7?

Farid Kazani: If you look at the breakup, look at the current tax for the quarter it is roughly around 5½ crores, on a PBT of 23 crores. And what you see as additional tax out there is a deferred tax charge released.

Vishal Desai: That's 518 lakh, right?

Farid Kazani: That's right. That is the current tax. There is another 272 of the deferred tax asset release that has happened which totals up to 812 in rupees lakh.

Vishal Desai: So that on your PBT would be your effective tax rate, right?

Farid Kazani: Yes, for this quarter.

Vishal Desai: So that is 35, right?

Farid Kazani: Yes, but that's not representative of the quarter or the year. Ideally you should be looking at current tax rate. If you look at the previous quarter, it was a negative tax, because that was linked to a refund of R&D tax that came in.

Vishal Desai: True, you had mentioned that. Going forward in FY11, where do you see your tax rate normalizing or probably stabilizing? Because the current rate the way it is going, the tax rate is really exorbitantly high?

Farid Kazani: Some refund of R&D work that we have done this year is expected next year and will depend upon what amount of claim gets approved. It will be safe to assume between 12% to 15% as the effective tax rate for next year.

Vishal Desai: Okay. So, you are saying around close to around 12 to 15%?

Farid Kazani: That's right.

Vishal Desai: Now coming back to your EBITDA margins, whatever impact was there in terms of almost I think 300 basis points, what was that all due to? What are the factors other than currency appreciation, rupee appreciating and probably a salary hike coming in?

Farid Kazani: It was almost a 360 basis points increase from 12.2 to 15.9 per cent. What helped us was lower manpower cost on the back of a lower average head count in the quarter as compared to last quarter. And that has obviously helped in terms of improving margins by approx 2½%. There has been other cost benefits in terms of travel and other areas which have helped roughly around 1-1½%.

Vishal Desai: But that travel part would have happened because of your head count again being low, right?

Farid Kazani: No, it is a combination of things. It's linked to the initiatives that we put in on the travel side, and some of the other costs that we were able to reduce, mainly discretionary costs. The third impact is the exchange gain, where you see 2.6 crores as a gain as compared to 1.5 crores as a loss last quarter. The gain on account of forward contracts that we had as on quarter-end has been roughly 4½ croresoffset by the translation loss of asset liabilities linked to the pound and dollar, as compared to our last quarter which also had translation loss, higher at little over 2 crores offset by a very low gain on forward contracts.

Vishal Desai: Alright. So going forward even in your next quarters, in EBITDA margins you expect these gains to come in, in the form of foreign exchange?

Farid Kazani: Yes. There should be some marginal gain. It's difficult to conjecture what gains could be there. Yes, there will be an impact on account of the forward covers that we have at a favorable rate. It will offset some impact of the top line which will come in lower accounted rate. And if you have to reconcile in terms of the PAT which is 15 crores in this quarter to next quarter, the major impact in terms of drop is actually the head count that is going to get hired with net adds of 300. There are also some initiatives in the next quarter which will have some one-time impact. Besides, the salary increase which happened in Q3, affected two months, and will affect three months in Q4.

Vishal Desai: And what about the fact that if your net adds are coming in and your employee cost is again going to go up. Because I guess there is a period of around 12 months till they become confirmed?

Farid Kazani: 12 weeks is what it takes in terms of getting them trained and becoming productive. So that's going to definitely have a cost burn in the next quarter.

Vishal Desai: They are not going to be on a billable basis for sure, right?

Farid Kazani: Yes.

Vishal Desai: Then going forward, how are you seeing your EBITDA margins? At what levels can we expect your EBITDA margins to be?

Farid Kazani: EBITDA margins beyond the next quarter should improve, barring the exchange impact Second is the annual salary increase which comes in July. We will have to factor in what kind of a salary impact would be there next year.

Vishal Desai: Alright. So, no real quantitative figures in terms of where would you see your range or so, something in terms of EBITDA margins?

Farid Kazani: I can't give you a definite number right now for sure.

Vishal Desai: Rough cut.

Farid Kazani: Our next year's plan will be drawn up by June and I think that would be the right time when we would be able to give a fix on what margins we would ex pect for next year.

Vishal Desai: Alright, not a problem. That will be all from me. Thanks.

Moderator: Next question comes from Mr. Nirav Dalal from Capital Market.

Nirav Dalal: I wanted to know what is the virtual bench at the moment.

Farid Kazani: Virtual bench actually at the end of March was reduced to almost 32 people. But, as I talk right now, the virtual bench is zero.

Nirav Dalal: Okay. So you will be adding new people on board?

Farid Kazani: Yes. As we just mentioned, 300 net adds expected to come in, in this quarter. In fact, we have already added some people this month, almost 60 people came in, in the first week.

Nirav Dalal: Okay, right. Thanks a lot.

Moderator: Next question comes from Mr. Santosh from Share Khan.

Santosh: Over the last four quarters, the company has registered a quarterly growth of somewhere between +1% to -11%. And if you look at the repeat business of the company, it stands somewhere between 96% to 99%. Can we please get a sense of how you would look at this?

Farid Kazani: For the portfolio of revenue that comes, it has been mainly from existing clients. It has been a disappointing year where we have not got significant new name accounts. In fact the amount of business that is stacked up has been largely from repeat business that has come in from the existing clients. And in a year where we would get new name accounts or new clients, typically that percentage should be less.

Santosh: Fine, thank you.

Moderator: Next is a follow up question by Mr. Madhu Babu from Systematix Shares.

Madhu Babu: Within Government, can you just talk about how these consortiums work out? Currently we have only just BT and Capita. Are we planning to sign these consortiums with any other players in US and Canada?

Sudhakar Ram: Yes. Not in the next financial year, but in a longer period we are looking at taking the Government business to the US and Canada also. Right now, the effort is to increase our own footprint in UK with more partners. And in India, having revived the business, we are obviously looking at large Government contracts in India also, direct as well as through partners.

Madhu Babu: Would there be any exclusivity between our agreements? Like we are working with BT, so can we enter into consortium with other vendors also?

Sudhakar Ram: The exclusivity is deal by deal. So, on a single deal we work with one partner.

Madhu Babu: So, can you disclose, if there is any such big project, any other big project, like NHS, in the pipeline which will come up in the Government vertical for us?

Sudhakar Ram: We don't disclose that pipeline. And NHS was an unusually large deal. It is very rare to find deals of that size in the pipeline.

Madhu Babu: Okay. The client concentration is very high for us, at around 70% from the top ten. Just wanted to know what kind of new accounts are we trying to chase and what would be the outlook on the client concentration over the next three year period.

Sudhakar Ram: Client concentration will automatically come down as we start building direct accounts in insurance. Even now, the client concentration figure needs to be seen in perspective because when we sell insurance deals through Capita, in our books it comes us a single client but the fact is that there are different companies like Zurich and others who are actually using the Elixir platform. And they have selected Elixir and they have bought it. It is only billed through Capita. As we get more direct accounts, we should expect the client concentration to come down. And in a three year period I think it should come down to less than 40%.

Madhu Babu: You also said that you are going to prioritize your other financials services and IT and other services verticals. Have we made any key appointments or have we found out the niche areas where we are likely to focus?

Sudhakar Ram: Yes, we are in the process of doing that.

Madhu Babu: Okay. Can we disclose anything sir, on the other financial services? Is it like BFSI or is it?

Sudhakar Ram: Next quarter, we will talk about it.

Madhu Babu: Okay, fine. That's it from my side.

Moderator: Ladies and gentlemen, to ask a question please press * and 1 on your telephone key pad.

Next question comes from Mr. Pratish Krishnan from Bank of America.

Pratish Krishnan: This is about your guidance. If I look at your pound assumption and the dollar assumption, you are assuming a 3% appreciation or 2% appreciation currently, whereas the revenue guidance is sort of at 5% decline. I am just wondering, is there any further project ramp downs which are happening?

Farid Kazani: Basically we have given 160 to 165 crore and that considers a discrete rate for the pound at 66 and a discrete rate for the dollar at 44, that's the only assumption. So it is roughly around 3½% reduction in the exchange rate from a discrete rate that happened in Q3.

Pratish Krishnan: Okay. And what is the reason for this 30% decline in profit? Almost 30% decline.

Farid Kazani: When you are looking at 15 crores to 10-11 crores, it's 30%, but as I just explained sometime back, the reasons are additional head count that will come in this quarter which is roughly a net add of 300 people, exchange led impact, offset by some exchange gain that will be there, and some one-time initiatives cost that would be there in this quarter. That would be the basic difference between the last quarter and the next one.

Pratish Krishnan: Is it possible just to quantify the employee side of things? What impact can it have? Just the manpower hiring, how much of an impact?

Farid Kazani: Can I can come back to you on this?

Pratish Krishnan: Okay. Thanks a lot.

Moderator: Next question comes from Mr. Ankit Shah from B&K Securities.

Ankit Shah: Just a question regarding the Elixir4 platform. So, what kind of revenue contribution does this product have for the total revenues? Elixir as a product, or the older version and the new version combined, what kind of a revenue contribution does it add to the top line?

Sudhakar Ram: Insurance totally is about 38% of our top line. And I would say, about 25% of that is through IP. And that is a combination of Elixir and STG billing.

Ankit Shah: And especially for Elixir, because we are very much positive for the future regarding the Elixir product, what kind of revenue is it now contributing?

Sudhakar Ram: Elixir4 revenues are only through Capita, while other markets still use ElixirAsia, Elixir 3 and so on.

Ankit Shah: Okay. So, right now Elixir4 revenue contribution would be very miniscule compared to the total revenues?

Sudhakar Ram: No, not miniscule. But there is a single customer.

Ankit Shah: Okay. And in terms of the margin outlook, we expect around 300 people or 300 new employees to join for the next quarter. And rupee appreciation is going on. In the past, we were talking of clocking margins in the range of 18% to 19%. When do we expect again to reach at that levels?

Farid Kazani: We were expecting last quarter to come in at 15% and it has come in at 15.9%. Obviously, it is difficult to predict what would be the exchange and to achieve an 18% EBITDA margin will definitely take some effort. Right now, maintaining the 15% at the current exchange rates is something that we will work towards.

Ankit Shah: Maybe by FY11 would we target the margins to clock around 18% to 19%, what we were expecting in the last few quarters?

Farid Kazani: It's too early to predict that. We'll have a fix of where the revenues are and how the cost adds up for next year by end June. And we will be better placed in July to come back to you, to give you a fix on both the top line and probably the margins.

Ankit Shah: In terms of revenue performance, we expect that most of the IT companies would be clocking around 12% to 15% of revenue growth for FY11. Mastek already has de-grown by around 18% to 20% for FY10. So do we expect that we would be able to reach that kind of revenue target which is predicted by NASSCOM?

Sudhakar Ram: Obviously when NASSCOM predicts 12% to 15%, that's something we ourselves would like to achieve. Once the budgeting cycle is over, in July is when we will be able to talk. We may still not be in a position to give an annual guidance, but you will get the indication of that in the first quarter feed.

Ankit Shah: Okay, fine. Lastly in terms of your tax rates for this year, what can we expect to be the effective tax rates for this year? What is the effective tax rate that we can expect?

Farid Kazani: Yes, Q4 we can assume effective tax rate of around 15%.

Ankit Shah: Thanks a lot.

Moderator: Next question comes from Mr. Shekar Singh from Goldman Sachs.

Shekar Singh: Just wanted to understand, you mentioned that these transformational deals, they haven't been coming in. But in terms of size you were mentioning something like what will be the total spend for the client and what is it that you will get out of it, if you were to get a transformational deal?

Sudhakar Ram: Sure. We have talked about it. Typically it's 1:3 to 1:5, so if the external spend with an IT or software vendor is about 10 million then the total budget including all aspects, fringe management, end user all that put together will be between 30 and 50 million.

Shekar Singh: So, if you are saying like you get a 10 million dollar deal, the actual that client has to spend will be 30 to 40 million.

Sudhakar Ram: 30 to 50 million.

Shekar Singh: 30 to 50 million, okay. And there was also a mention of one more client which will be getting over in the next two quarters, Thales. Can you just elaborate on it?

Sudhakar Ram: With Thales there is a deal which we booked one and a half years back. Now it is closer to two years. So, that project is a Ministry of Defence project. It will come to an end as we finish our delivery.

Shekar Singh: Okay. And how big is that, in the sense like, of your current revenue?

Sudhakar Ram: We didn't disclose that, because we don't disclose individual deals. But the total deal to partner Thales is about 27 million pounds. We had a component of that.

Shekar Singh: Okay. And you used to have some portion of the revenue that you will book towards the end of the deal, in the sense that the contingency linked revenues. So, have you already booked that portion of the revenue, will that be coming in the subsequent quarters?

Sudhakar Ram: It is at the end of the deal. We keep assessing what is the risk remaining on the project and every quarter-end we book that. So, when the project comes to an end there will be a contingency available to both. But it's not some lump sum only at the end. This is something where we continuously evaluate every quarter.

Shekar Singh: Correct. And lastly what is the long term tax rate that you are looking at? For FY12 onwards?

Farid Kazani: I think post STPI, the rate of tax would be anywhere in the region of 22% to 25%. However, it is contingent upon the use of our SEZ unit in Chennai. If we are able to build business there which covers a substantial portion of our revenues, that will help us in reducing overall taxation. It is difficult to comment right now on what that would be for Mastek. But, not assuming SEZ, it would be anywhere between 22% to 25%.

Shekar Singh: Okay, sure. Thanks a lot.

Moderator: Next is a follow up question by Mr. Sangam Iyer from Alpha Advisors.

Sangam Iyer: Yes, could you just give us some more clarity on the one-time initiative that you were talking about and to what would be the extent of expenditure over there?

Sudhakar Ram: As we start the new year, you get strategic planning, work shops, you get external facilitation and so on. All that will be concentrated through this quarter.

Sangam Iyer: Wouldn't you actually say that, combining these one-time expenditures and the incremental cost because of the 10% increase in employee base coming in in the next quarter, if the impact on your operational cost would be increased by 5% or 6% approximately, would that be something adjusted for the other things?

Sudhakar Ram: No, it is difficult to do.

Sangam Iyer: To what extent would your margins be impacted, if you could give some clarity?

Sudhakar Ram: They won't have much billing but we expect when we have 300 people, it'll not be all trainees. There would also be some lateral hires. They will get into billing in the next quarter.

Sangam Iyer: Okay. So would you be able to quantify in terms of the percentage impact on the margins front, going forward?

Sudhakar Ram: That we will give you a guidance in July in terms of what is the impact next quarter.

Sangam Iyer: I am talking about Q4.

Sudhakar Ram: Q4, we have already given. When we look at 10-11 crores PAT, that's factoring all this in.

Sangam Iyer: Okay. Thank you.

Moderator: Next is a follow up question by Mr. Nirav Dalal from Capital Market.

Nirav Dalal: Thanks, but all my questions have been answered.

Sudhakar Ram: Moderator, we need to log out now.

Moderator: We take our last question from Ms. Sheetal Aggarwal from DBS Cholamandalam.

Sheetal Aggarwal: I'll quickly ask this. You mentioned earlier that there was a 20% price cut in one of the contracts. So just wanted to understand; does it give any sense on the pricing scenario? Can we see these kinds of things happening for the other verticals as well? You mentioned I think that it falls in IT & Other Services.

Sudhakar Ram: See, that is a services account. And normally services accounts constitute only about 20-25% of our business. We had thought we were done with all price cuts when we gave price cuts last January, in 2009 January. This was an unusual thing which we had not anticipated. Hopefully this is a one-time event.

Sheetal Aggarwal: Okay. And on the UID project, we saw that among the ten companies which were shortlisted, Mastek was one. Do we have any pie from that project building into the next financial year?

Sudhakar Ram: We have been shortlisted. And there are ten companies that are shortlisted. They will do a technical evaluation and then a price bid. So, it's very difficult to comment on that right now.

Sheetal Aggarwal: Okay fine. Thanks.

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

Sudhakar Ram: I think this has been, as I mentioned, a trying year. And I thank all of you for your patience and continued support for Mastek. While we have had a bad year and we would de-grow by more than 20% as compared to the previous financial year, I think there are certain things where we are strategically stronger at the end of this year than where we were last year. One is in terms of the Elixir execution, the fact that we got into a new deal with Capita. The fact that it would actually finally go into production is a significant milestone that we think will add to our long term capability in this area as well as the growth prospects. Second is, we had our first win of ElixirAsia last quarter and that implementation has started. So, during the next fiscal we should see that implementation complete and on the back of that we do expect to win more deals for ElixirAsia. The first win of Elixir in the US, which is the Elixir Distribution Management which happened last quarter, is again an important milestone for us in establishing Elixir as a product in the US market. We have built up a prospect base across EDM as well as the New Business Underwriting modules. We expect some level of growth momentum starting to pick up from next financial year on the Elixir front. We have been talking actively on Government partnerships and expect the partnership efforts to start yielding results in the next financial year. And on the current accounts, though we have a handful of services account, we are sharpening our own value proposition and differentiation. We should be able to execute some new strategies in the market, which will improve our own share of wallet in these accounts. Those are the things that we are putting in place as part of our planning process now in this quarter. And all these are targeted towards getting back on to a growth momentum. If the industry is growing at 15%, we have to see how we can do better than the industry going forward, and these are all steps in that direction. Regarding long term prospects, obviously as a solutions company we are not fighting the Indian services companies in most of our customer base. We are competing with the local service providers and the local solution providers in each of these markets. In a simple term, India today operates at about 5% market share of the global IT market. We are not really competing for that 5%. We are looking at where to compete in the other 95%, which has always been a strategy of ours. As these products come out and as we gain customer traction along these products, I think our strategy will start yielding results. It will yield results not just in terms of revenue growth, but also in terms of better margins in the era of rising costs, varying foreign exchange fluctuations, and so on. We would be in a much stronger position as a company. Overall, I am pleased with the level of capability we have built this year. I am disappointed with the financial performance this year. But we are pretty optimistic that we should be able to translate these capabilities to performance in the next financial year. Thank you once again and see you next quarter.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

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