Transcript: Post Q4 FY2010 results conference call, Mastek Ltd
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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Rashmiya, 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 would now 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 our post results conference call. The quarter under review is our fourth quarter of fiscal 2010 as ours is a June-ending financial year. Present with me on this call are Mr. Sudhakar Ram, our Chairman and Managing Director as well as Mr. Farid Kazani, our Group CFO and Finance Director. We will begin today's forum with brief opening remarks by Mr. Ram and then we will open the lines for your questions. After the call ends, within a few hours we should have the audio replay of the call available for you at the access numbers that would be mentioned in the conference call invitation that was sent to you earlier. The transcript of the call should become available in a few days and you can access that at our website www.mastek.com. With that, I request Mr. Sudhakar Ram, our Chairman and Managing Director to initiate this call with his remarks. Over to Mr. Ram.

Sudhakar Ram: Thank you Abhi and good afternoon to all those attending this call. This quarter is the end of our financial year 2009-10. Overall I am pretty disappointed with the company's performance through this year as I am sure all of you are. We degrew revenues for the first time in our history of 28 years, by almost 25%, and profits were around half of what we had achieved in the previous year. While there have been economic reasons and the fact that we are a solutions company depending on transformation budget has impacted us, we have also taken stock of the internal reasons and made suitable changes both to the team as well as to the organization structure and alignment going forward. So we have had an intense exercise through this quarter to ensure that we get back on to the growth track within the next couple of years. Among the things that have created a level of positivity during the year has been the recent win that we had in North America with an insurance company. As you are aware, we were looking for an opportunity in the insurance vertical in the US to create an American version of our end-to-end insurance product and this is a good break for us. It's happened at the right time, so that sets us up to start capitalizing on the huge opportunities in the US. Through the quarter we also had a relationship signed up with Genpact and that has started producing some activity in the market place. It is early to get any orders out of it, but we do see that there is a positive interest both from industry analysts and from prospective customers on that. One important milestone in our Capita relationship is the fact that the first Capita site with Zurich has gone live on Elixir4, and they have launched a new product and that new product is out in the market, accepting policies and winning new business. So that's a good breakthrough and Capita as you are aware, has a set of customers who are looking at migrating their books as well as launching new products that are on the Elixir platform. We also had a win last quarter in Asia, on Elixir Asia front. So, on the insurance front, we have made some progress. Insurance today constitutes about 40 odd per cent of our business and we see insurance as a main growth engine going forward.

The government business has been more disappointing, especially after the NHS we have not had too much of a refill there, and given the current situation in the UK with the change in government, there was delay because of elections, and after that the new government has put a hold to many of the large programs. While it could be an opportunity for us in terms of being able to bid directly for some programs, that is not a short lead-time activity. So we have to really wait and see how that part of the business pans out. We continue to look for the partnership approach. Our current partnership with Thales has been doing well on the Ministry of Defence deal. We are looking for more partners going forward.

In the Asian market we have good IP in the area of GST, which is sales tax as well as Food and Civil Supplies and in this financial year we think we can hit some breakthroughs as the government moves towards the GST regime. We are well positioned to win some business out of that.

So, overall as we look at it, it was a bad yearthat has gone past, and we are equipping ourselves to get back on to a growth momentum. Given the lead times in our business, we need to focus on order book first. So the major focus this year would be on rebuilding the order book and ensuring that we set ourselves as a success going forward. The impact of order book on revenue will largely depend on the timing of the order book, because that itself, there is a level of uncertainty and unpredictability there. And it may happen towards the latter part of the year or early part of next year, that is something that we are not able to completely pin down at this point in time, but as the quarter develops we will keep you updated in terms of the qualitative performance of the company and what are the prospect growth both in terms of new orders, new segments, as well as the revenue prospects going forward. In fact, let me hand over to Farid to take you through the financial performance.

Farid Kazani: Thank you Sudhakar. We reported revenue at 165 crores for the quarter that just ended, as against our guidance that we had given in a band of 160 to 165 crores. So we have achieved our revenues at almost the top end, but that includes some positive impact because of better accounting rates as the rupee has actually depreciated. As for the profit for the quarter, we have ended up at 2.5 crores as against the guidance of 10 crores. But if you look at the quarter, there is a mark-to-market on account of hedges that we have been having in our books, which has impacted to the extent of close to 5 crores, and if you add that back, we are almost at 7.5 crores. We fell marginally short of our guidance primarily because we have had some impact on account of margins from lower business from the UK and from one-time costs.

For the year, the revenue ended up at 722 crores as against last year of around 965 crores, which obviously shows a drop of 25%, and that's largely to do with the drop in the government business and more so in terms of businesses that did not get filled up as expected from BT, which has been one of our largest clients. In terms of profits for the year, we ended up at 67.7 crores as against last year of 141 crores. During the quarter the EBITDA margins were at 7.7% and the year ended up with 12.8%. We had obviously guided to a lower EBITDA in Q4 as mentioned in the last call that our profit and our EBITDA will be lower primarily because we had anticipated impact on account of increase in salary and the headcount that we would be adding. Some of the headcount increase has happened; we have seen employee strength go up from 3160 to 3243.

From an order book standpoint, we have seen growth in rupee terms from 279 crores to 306 crores; it has also grown marginally in dollar terms. From a revenue standpoint, US has actually seen a growth from 39% last quarter to 41% as a percentage to total revenue. UK actually has gone down now to 52% as against 54% last quarter whereas the Asia-Pacific India market has been more or less at 7%.

From a verticals standpoint, we have seen the insurance business actually going up from 39% to 43%; government has seen an impact from 28% down to 23%, whereas the other verticals actually have remained more or less same.

From a balance sheet standpoint, we have ended up with cash equivalent of 198 crores and a loan of roughly 42 crores at the end of quarter 4. We have decided to give the salary increase effective July, which was announced some time in May, and the average increase is going to be close to an average of 20% for the offshore employees and roughly 3% for the onsite employees. That is going to be effective July and therefore we will see impact on margins going forward. We do expect to mitigate some of the impacts from various improvement initiatives over the next fiscal, so we will see what best can work towards reducing that impact. Our focus will definitely be on growing the order book, which is right now standing at 306 crores for the next 12 months, and also looking at streamlining some of the processes to build in improvements on the revenue stream and cost management. Sudhakar back to you. Thank you.

Sudhakar Ram: Thanks Farid. I think we have in the past been giving quarterly guidance, but at the board meeting today we looked at our track record and we are disappointed that over the last six quarters, we have not been able to accurately guide and meet the guidance, so we have decided, especially given the current economic situation and our unpredictability in the short run, that we will stop the practice of giving quantitative guidance and we will continue to guide all of you qualitatively going forward. And we will review this policy as and when we feel that the situation demands it. So, having said that, another update is that we have brought in new leadership. We have brought in Mrinal Sattawala, who was the COO of Patni when he resigned from there a year-and-a-half back, and he is coming to lead all the sales and business development function, so he comes in as Group President. All the geographies and the business units within the geographies will be reporting to him. We have aligned ourselves into more customer focused, business focused lines of teams in nature of the geography, to ensure that there is end-to-end focus on adding new customers. So there is unified focus in terms of winning new business as well as delivering value to our customers. So, that’s the mantra going forward and with all these moves, we do expect that our order book performance will improve and we should be able to get down to a growth momentum from the next fiscal year given the lead times in our business. So, with that let me throw 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 further questions. 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.

First question comes from Ms. Shradha Agarwal from B&K Securities.

Shradha Agarwal: Hi sir, good afternoon. I do appreciate that you have discontinued your guidance policy given six quarters of consecutive miss on your guidance, but then you have mainly attributed this to macro uncertainty. But if I read from the results of other companies, things seem to be picking up for them. So is there some company specific issues with Mastek, rather than macro uncertainty due to which you have discontinued your policy of giving guidance?

Sudhakar Ram: Actually, there are two parts to it rather. One is, clearly from services business, there has been a better visibility, but even there, there is a level of uncertainty. But when it comes to solutions part, which is a transmission thing, we have still not seen a complete recovery. We are seeing more positive signals, but it is not clear when it will get converted to orders. But the fact that our business in UK, which is government-based, there is uncertainty in terms of how the new government will look at large IT programs, given the huge cuts that they have taken in their budget. That remains very specific to the company, but specific to the company from a market perspective. Having said that, I don't think that our performance last year can be completely attributable to external reasons; internally we had issues in terms of the sales and in terms of aligning end-to-end. And we put in a considerable effort over this quarter to get our front end, back end teams aligned, to organize ourselves in a way that we handled the internal issues and get a more focused approach to winning new business. We have also brought in the leadership, made some changes in leadership. But for all that to translate to actual performance, will take some time and so it is a combination of external and internal factors, because of which we have stopped giving the guidance.

Shradha Agarwal: Right sir. I do appreciate that there are business head concerns, but then your slashing of dividend straight from 10 to 3.25 at one go, I am really not clear with why this change in dividend policy.

Sudhakar Ram: There is no change in policy. Our dividend policy has been typically to pay out between 20 and 25% of our profits. If I look at the second-half profits, they are almost half or less than half of the first half profits. So this is in line with whatever profits we have made in the second half, in fact it constitutes closer to 25% payout of the second half. So it is very consistent with the policy we have had in the past.

Shradha Agarwal: Sir, but we are still sitting with a cash of close to 200 crores, so does the company have different plans with cash? Are you looking at an inorganic way to probably aid your growth?

Sudhakar Ram: Yes. In fact we are actively looking at inorganic as we have been talking about. So, we have been in conversation, it is very difficult to say when they will close, but we definitely need to conserve cash to fund any of those acquisitions as and when they happen.

Shradha Agarwal: Right. Sir, secondly sir if I can squeeze in one more question. At an operating level normalized for whatever forex losses we had, we are at an operating margin of 7.5% and we have the set of salary hike kicking in, in the next quarter, and we do not have any visibility on revenue at least for the immediate one or two quarters, if I can say that, so where do we really see the company's margins standing now?

Farid Kazani: Shradha, we are not specifically guiding for the next quarter margins. We had in this quarter talked about doing close to around 10-11% EBITDA margin, but we ended up at 7.7%, and yes there is going to be an impact of higher salaries starting from July. But we will see what levers we have within our business, both in terms of productivity initiatives and some of the costs that we can really work on, and try and mitigate some of the impact starting from quarter 1 of FY2011. We will not see the whole benefit of that starting from quarter 1, but we will see improvements building up over the fiscal.

Shradha Agarwal: Farid, I also do not understand that when we do not have a very strong visibility on the order pipeline, why do we still continue hiring people. We had a net addition of close to 85 employees in this quarter. We are creating bench, when we do not have specific visibility on the order book, so what is your take on this?

Farid Kazani: Yes, we have added roughly 85 people and that is much lower than we had expected to add. The difference has been purely because we knew that there has been some sluggishness in the revenue as compared to what we had anticipated. Our strategy is to create a bench today of the required size, not to keep on increasing the bench. So we will recruit based on necessity and where we clearly believe that we will be able to add employees that start billing within a short period of time.

Shradha Agarwal: Thank you.

Moderator: Thank you ma'am. Next question comes from Madhu Babu from Systematix Shares and Stocks.

Madhu Babu: Sir, could you talk about the new account, which we have won in USA, the Elixir deal, and how can it help in scalability of the insurance vertical in USA?

Sudhakar Ram: One of the key things in the US market is that the compliance requirements and the regulatory environment is very different from other parts of the world. So it was very important for us to win an account in the US, so that we could Americanize our product and build in all the regulations and compliance framework as well as cater to the unique insurance products that they have, like Universal Life and Variable Universal Life and so on. So we were looking for some customers because it is very difficult to build on all this functionality in our back room, we were looking for our first beta customers there, and so it is a strategically important win for us, because this will help us create the American version of the product and we will be doing it component by component. It is not a Big Bang approach. We are first taking the new business underwriting part, which is already mostly Americanized. We are implementing it for this customer with a customer-specific variation. Then we will take on the policy admin system as that part emerges. So, it will be over a period of the next two years. It won't be a one single Big Bang.

Madhu Babu: Okay, so we see a substantial scalability in the USA insurance business because we got an anchor win now.

So the reference client is there, so would it be easy for us to get new customers, coming year on?

Sudhakar Ram: Once these site go live definitely. Even the fact that they have won and they have selected us, will help us get the next customer, but for it to have a significant impact, they need to be a reference based on actually using the product, not just buying the product, which we expect to have. That one part of the thing will go live in this financial year, so they will become references for us towards the end of the year and it should impact us next year.

Madhu Babu: Okay sir. And sir, could you talk about the deal with Genpact, how does the revenue model work out for us in that?

Sudhakar Ram: The Genpact relationship is similar to the one with Capita in the sense that they take care of the BPO part and we provide the strategic IT platform. So our revenue will be dependent on our value-add, which is the IT part of it, and they will get their revenue based on the BPO part.

Madhu Babu: Okay. So it is not one time sale of the IT platform, we keep getting recurring revenue based on the number of policies handled, something like that?

Sudhakar Ram: That is correct.

Madhu Babu: Okay, fine, and regarding the government vertical, there are lot of deals opening up in India and considering that we are very strong in government vertical, how as a company are we looking to bid for the Indian projects or will we limit ourselves to India?

Sudhakar Ram: Yes, we are taking a specific focus in India. We cannot be all over the place given that while India has the revenues it is not necessarily the best in terms of margins. So what we are trying to do is take replicable solution sets, which is why I talked about our sales tax solutions. We already have a leadership in sales tax with Maharashtra using us and Maharashtra is the largest sales tax collector in India. We also have Orissa and Kerala as our customers on sales tax. With the GST regime coming up, we think that many states will want to upgrade their systems to take care of GST or replace it, so we are poised to take advantage of that. Similarly we have a solution in the Food and Civil Supplies, the Ration Card area where we think we have a good play in this year.

Madhu Babu: On the attrition front, now that attrition has picked up across the industry, how would we counter it and how are we seeing attrition within our company?

Sudhakar Ram: Attrition had gone up in the third quarter and early part of the fourth quarter of FY2010. One reason for giving an unusual jump of 20% was to stem attrition. We gave that in May, and already in June we have seen a positive impact of that in terms of a reduced attrition. So there are two aspects to attrition, one part is the salaries, but more important is growth. As people see us get back to hiring and they see new projects coming in like this North American project and so on, there will be better confidence in people and that should also stem the attrition.

Madhu Babu: Okay sir, thanks.

Moderator: Thank your sir. Next question comes from Mr. Neerav Dalal from Capital Market.

Neerav Dalal: Good evening, sir. Sir, could you give me a breakup of your margin dip, you said that there was a salary hike and then another salary hike on the first of July, so could you breakup your fall in the operating margin into the special points?

Farid Kazani: We had an EBITDA margin of 14% in Q2 and we had given a mid-term salary increase in February, which obviously was considered in our drop in EBITDA margins, which would have been close to 10%-11%, and against that we have ended up at 7.7%. The difference between 10% to 7.7% is largely on account of some of the impact in margins due to some additional cost which got incurred on some of the G&A including travel and other one-time costs.

Neerav Dalal: Okay, for the June quarter it was for all the three months and for the third quarter it was only for two months?

Farid Kazani: That's right.

Neerav Dalal: Okay, thanks a lot sir.

Moderator: Thank you sir. Next question comes from Mr. Vihang Naik from MF Global.

Vihang Naik: I just had this question on insurance, in your insurance vertical particularly, am I audible?

Sudhakar Ram: Yes.

Vihang Naik: Yes, your insurance vertical has grown from say around 60 crores in around three quarters ago to 70 crores now, about 5% growth quarter-on-quarter, how are you looking at this vertical, I mean, do you really see a good opportunity here?

Sudhakar Ram: Definitely, I think, we look at insurance as one of our growth drivers. More importantly we see a huge opportunity in the market place, that over the next three years we can be among the top three global players in insurance solutions, so we are building up towards that. Now CSC in insurance has a 700 to 800 million dollar base in insurance. Most of the other competitors at that level are just in the 100 to 200 million range, so if we can cross 200 million level in insurance in a three to five year time frame, we can clearly be #2 in insurance, so that is the aspiration of the company in that segment.

Vihang Naik: Okay and in government kind of, as you have always said we have continued to see de-growth in this particular segment, where do we basically see these revenues stabilizing or probably growing from here on and what are the initiatives we are taking for this to happen?

Sudhakar Ram: We have put in a specialized government team, which is focused on adding new partnerships, so there will be two approaches to market, one is to go through partnerships, second we see a positive impact of the government trying to stop big size deals and go for smaller deals in IT, which means that the smaller deals Mastek can bid for directly. Plus in UK we have worked only through partnerships, now we also see a chance of bidding for a 20, 30 million pound deal on our own. Given our size that is the size of program that we would be allowed to bid for, so both those are opportunities for us. Now, how these deals will come up and how fast that will mature is currently not very predictable given the state of the market. All the vendors are going through that confusion on their own, even our partners are not fully clear how this thing will pan out for them, but I think over the next quarter or so there will be better clarity there.

Vihang Naik: But, has there been a prior instance where smaller vendors like ourselves have actually bid and won about 20 to 30 million dollar deal? Given the fact that the smaller deals are into favor just now, there might not be precedence towards it, but is there an initiative by other competitors of yours in that segment as such?

Sudhakar Ram: See, there are smaller local players within UK who have a track record of winning 20, 30 million pound projects; it is not that there are no such deals. As I said in the past we were focused on working only through partners, so it is not that government has not done small projects and they do only large projects, there are obviously mixes of projects and there have been successful local players who have taken part in the lower end of the market.

Vihang Naik: Okay, and the surge in the order book this time to 306 crores from last quarter, what is the composition of this basically and how do you see the order pipeline going forward? I know you could not give me a number, but qualitatively.

Farid Kazani: The growth in the order backlog has come in from North America and primarily from the insurance and the other IT services business, so we don't give specific breakdowns on the 306, but the growth has come from these areas.

Sudhakar Ram: And going forward I think all we can say is that insurance is the thrust, so in the next two quarters new wins will happen around the insurance business both in UK as well as in the US. Government will take longer, because even if we have partnerships or we are bidding for deals ourselves nothing will get closed in a six month period.

Vihang Naik: Right and I just missed, when Farid explained that the reasons for the margin decline from 14% to 8%, the broad contours of this 600 basis point decline, can you just give me that?

Farid Kazani: The 14% in the last quarter was from having just close to one and a half months increase in salaries, and in the fourth quarter we had full quarter impact of increase in salary and some headcount increase that happened in the quarter. We had already anticipated that and actually guided to a EBITDA margin of close to 10%-11%. Against that, we ended up with 7.8%. The drop is largely on account of margin impact from a lower volume from UK and some of the travel and one-time cost that got incurred during the quarter, as I earlier mentioned.

Vihang Naik: So, almost 300 basis point of this margin decline is probably due to a one-time cost, which might not recur going forward.

Farid Kazani: No, part of it will not recur next quarter, yes.

Vihang Naik: Right, okay thanks.

Moderator: Thank you sir. Next question comes from Mr. Pratish Krishnan from Bank of America.

Pratish Krishnan: I just want to understand what was the one-time cost incurred during the quarter and what was it for?

Farid Kazani: We had some separation cost that we incurred in the quarter,.

Pratish Krishnan: Okay, for the senior management or…

Sudhakar Ram: Yes, senior management.

Pratish Krishnan: Okay, and Mr. Sudhakar now you spoke about increments to the team. Can you elaborate in terms of what has changed there and over the last one year we have also seen a lot of churn in the senior management, like John Dowd joining and leaving, so what is your view on that?

Sudhakar Ram: John came on board when the economic situations were much better. I mean, he came on in September 2008, just before Lehman and the idea was to build the company up to the next level of growth. So it is unfortunate that he came on and the markets did not quite favor us at that point in time and his own aspirations versus his strategy what we needed at this point when we were de-growing was different, so the basic change was, I mean, he was running the company till March and I took over in April just to refocus us, get us back on to a growth momentum. There were some parts of the team that we had built up assuming that we are going to become much larger and we could not carry those costs, so part of the one-time cost this quarter have been because we have realigned the team, brought it to the right size that we need for growth, so we are not making compromises, we still have confidence in the basic business in the market opportunity. We have continued to make investment in the product itself, like this win in North America will mean product investment for the Americanization, but we have planned that and we want to go ahead and do it, because there is a great market opportunity in insurance that we think we are uniquely positioned to capitalize, so we are not compromising based on short-term considerations. So, there will be short-term margin impact that we have faced this quarter and we are willing to take a long-term view as I am sure some of our larger share holders are that they would like the company to succeed in the long run and our strategy is based on that premise.

Pratish Krishnan: Okay, fine, yes that was quite helpful. Should we expect more investments in terms of beefing up the senior management or are you through with the…

Sudhakar Ram: I think what we have now can take the company up to a fairly sizeable level. We will obviously beef up mid level people and junior sales staff as we go along, but we have a solid base of senior management capabilities now.

Pratish Krishnan: Sure and thanks. And just to clarify, the hike that you have proposed, which is 20% offshore, that will implement in this quarter, right?

Sudhakar Ram: Yes, it is effective July 1^{st}.

Pratish Krishnan: Okay, fine. Thanks a lot.

Moderator: Thank you sir. Followup question comes from Mr. Madhu Babu from Systematix Shares & Stocks.

Madhu Babu: Sir would there be any regulatory prohibitions for us to win the smaller deals of 20 million to 30 million in UK. I mean, would there be any regulations that we should require some onsite presence, etc?

Sudhakar Ram: Not on things which are, I mean, you know that even what we do for Thales, is a highly classified defense project and we are the only Indian company which is executing a defense program offshore and we have been certified to do that. So if programs like that can come offshore I don't see a problem in regular government things, so I don't see any regulatory issue there. In fact I see a positive momentum that the need for IT has not gone away, but they want to do it at much lower cost and typically Indian companies don't like to take on 20 million, 30 million fixed priced programs, because they have never had the track record of delivering such large fixed price programs, they don't have the risk management and the program management capabilities to do that, so we think we have a unique strength in being able to do a 10, 20, 30 million pound program, which few companies in the world are today doing, not many companies actually are into fixed price Greenfield complex programs, so…

Madhu Babu: Okay sir and the other thing is regarding the financial services vertical, we have talked of carving out a strategy on that last quarter, so could you speak anything on that?

Sudhakar Ram: See, we continue to focus on financial services, I mean, some of our major accounts in the US and UK are financial services companies and we are bringing in engagement expertise and domain expertise to consolidate what we know and to make a concerted effort to grow these accounts and also win new business in this segment.

Madhu Babu: Okay sir, thanks.

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

Ankit Shah: Yes, just a couple of questions. Sir, first can you give me a breakup of revenues in terms of volume and price, what was the volume and what was the pricing impact?

Farid Kazani: There has been no pricing impact either negative or positive in this quarter and we don't give revenue separately in terms of breakup of volume vis-à-vis pricing. One of the indicators that I can give you is in terms of employee utilization.. If you see the utilization, it has gone down from 87% in the last quarter to close to 85% and that drop in the utilization is being largely in the offshore, where there has been a drop from close to around 84% to a little less than 81% on account of the headcount that has been added in this quarter, which is going to be right now in the training stage and then move to production in the following quarter.

Ankit Shah: Okay and sir, in terms of your hedges, what I recollect from the last quarter we had hedges of US dollar 2.5 million at 48 and a pound of around 5.35 at 77, sir I fail to understand how come we have so much of losses on the book?

Farid Kazani: No, actually you missed out the hedges that we have on a long term contract which is close to around 44 million dollars beyond the normal hedge that was there. As on the end of June, we have 55 million worth of US dollar contracts, including the long term contracts and we have close to 7 million pounds that has been hedged. The dollar hedge is roughly at around 46.70 and the pound hedge is close to around 74 rupees.

Ankit Shah: That means our US dollar hedges right now is 55 million at 46.7?

Farid Kazani: Yes, 55 million that is close to almost around 46.7.

Ankit Shah: And the pound hedges are 7 million at the rate of 74?

Farid Kazani: Close to 74, yes.

Ankit Shah: So, we have increased our hedges from 2.5 million to 55 million in this quarter?

Farid Kazani: Yes, we have added on some more normalized hedges from $2.5 million that you talked about to $10 million. And including the long term hedges they add to $ 55 million In addition, pound hedges are 7 million.

Ankit Shah: Okay and sir in terms of tax rate, how do we see FY11 panning out like, because quarter-on-quarter we are seeing quite a good amount of variation in the tax rate?

Farid Kazani: The tax for the year has been almost practically nil and that has got aided by two things, one is the UK tax R&D refund that we had in the first half, okay and that was a substantial amount and there has been a creation of deferred tax asset, which has helped us in a few quarters. Going forward there is going to be practically nil R&D tax refunds for FY11, there is going to be normalized tax so we could expect the tax rate to be close to 20% for FY11.

Ankit Shah: And sir, in terms of margins, sir in the last call what we had projected was we would attain a margin of 18% by FY11, but this quarter we are at 7.7, next quarter I think we will be impacted by the salary hikes of around 20%, so that leaves us with three more quarters to reach a margin of 18%, which are almost twice of what we are reporting right now, so are we still on that target or…

Farid Kazani: I think it is definitely a tall order to reach in the next few quarters and we will work towards seeing how best we can get the margins up every quarter. The salary impact is definitely going to impact margins in the next year and we will see how best we can get to at least in the low teens in terms of EBITDA margins going forward.

Ankit Shah: Okay, fine sir. Thanks a lot.

Moderator: Thank you sir. 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: Thank you everyone for your participation and your continued interest in Mastek. I do realize that some of the performance indicators so far have been disappointing and this is not the best possible result that one could declare to the market. Having said that, I think we do realize that we are in tough economic situations, we are changing our own model of approach to the market, we are intensifying the efforts and you can rest assured that we are leaving no effort unspared in terms of ensuring we get back on to a growth momentum as a company. The markets that we are involved in as well as our fundamental technology, the quality of our people, quality of customers and deliveries have been impeccable, so it is a question of ensuring that we orchestrate and get our act together, at the same time there is a level of opening of the market that we require, which will help drive from the business performance. We remain confident about our prospects in this industry, we think we have a good shot at getting back a growth momentum in the next financial year and renewed thing in terms of expanding our market share, revenue and profits going forward. So thank you once again and see you next quarter.

Moderator: Ladies and gentlemen, this concludes the 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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