



**Transcript: Post Q3FY2011 results conference call, Mastek Ltd**  
**15th April 2011, 5.00pm IST**

**Moderator:** Ladies and gentlemen. Good evening and welcome to the post results conference call of Mastek Limited. We have with us today the Mastek management team. As a reminder, for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations, Mastek. Over to Mr. Singh.

**Abhinandan Singh:** Thank you and welcome everyone to the Q3 FY 2011 post results conference call of Mastek. It is Q3 for us because ours is a June-ending financial year. With me today I have our Chairman and Managing Director Mr. Sudhakar Ram, along with our Group President Mr. Mrinal Sattawala and our Group CFO Mr. Farid Kazani on this call. As usual we will start the call with opening remarks by our Chairman and Managing Director Mr. Ram and after that we will open the floor for your questions. With that I am handing over the floor to Mr. Ram.

**Sudhakar Ram:** Thank you Abhinandan, and good afternoon to all of you who are on this call. As you are aware the Q3 performance in terms of revenues and profits have been pretty steady as compared to previous quarter and this has been in line with expectations given the fact that our focus has been to improve the order booking and the client acquisitions. What I am happy about this quarter is the fact that the sales team have done an excellent job in terms of adding seven new accounts as compared to the two or three accounts that we add normally in any quarter, so that has been a good performance and it is also indicative of a better traction in the market place that there is a more of an appetite for transformation deals both in the insurance segment and to some extent in the government segment also, so that is a welcome change this quarter. The effort has been that we need to step up both the client acquisitions and order book so that by the end of Q4 which will be June we will close the year with a healthy order backlog which will stand us in good stead in the next financial year, that is what the teams are really working towards, so I think the actual performance this quarter has been in line with that specific strategy and target, so with that let me open the floor for questions.

**Moderator:** Thank you. The first question is from the line of A. Jain. Please go ahead.

**A. Jain:** Sir what is the current outstanding debt on books?

**Farid Kazani:** It is roughly 13 Crores as of March as compared to the start of the year which was 42 Crores.



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- A. Jain:** Are we giving any salary hike to our employees?
- Sudhakar Ram:** Yes we will have salary hike in July.
- A. Jain:** And any expectation how much that range would be?
- Sudhakar Ram:** We will actually see what is the market trend, fortunately our raises happen after the rest of the market does it, so we will look at the trend in April- June and then make a call, so we will be sharing that in our July call.
- A. Jain:** In your press release you have mentioned that there is a decrease in head count, because of that the staff cost has also declined, so what is the reason, has our attrition has increased or something?
- Sudhakar Ram:** The decrease in head count is actually, our bench was higher, our utilization was lower and obviously to that extent there has also been higher attrition but it is pretty much in line with the business that we have on hand.
- A. Jain:** Can you quantify the attrition?
- Sudhakar Ram:** We normally do not quantify the attrition but it is at high level this quarter.
- A. Jain:** What is the status of your Elixir product launch which you are expecting to do?
- Sudhakar Ram:** The elixir product as you are aware is already launched in UK and Zurich which was Capita's first customer has gone live with it. There is a new release which has happened which actually went live this quarter, so that is doing well and we are building up traction and prospect base in the UK. As far as the US goes, we have made the SEG acquisition and late 2011 is when we are going to launch the product to market but we will try out the product in our beta size earlier than that.
- A. Jain:** Can you throw more light on this SEG acquisition which you have done during the quarter?
- Sudhakar Ram:** We shared with it. This is actually a very nice fit to our core Elixir platform because it has all the North American content, the regulations which are state level, the kind of product size which are needed for the US market and it fits nicely with the architecture that we have for Elixir, so we are now integrating the SEG product with the entire Elixir platform.
- A. Jain:** Sir last question from my side, you have said that this company is able to add seven new clients this quarter, so why is the order book not showing the impact of the addition, why order book has a actual decline quarter-on-quarter?



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- Sudhakar Ram:** If you see the actual results announcement we have shared that because of the Capita reduction in terms of expected revenues we have actually adjusted our order book down and that expected reduction we announced during the quarter was between 1.2 and 1.4 million pounds a quarter, so that has been adjusted down and so if you take net of that the order book has actually increased.
- Moderator:** Thank you Ms. Jain. The next question is from the line of Abhishek Jain; please go ahead.
- Abhishek Jain:** Can you throw some colour on your contract with Capita; what kind of relationship you share with Capita?
- Sudhakar Ram:** The Capita relationship is almost 15 years old now, it is a longstanding relationship. Capita has standardized on Elixir as a platform for their life and pension business process outsourcing deals and what happened during the quarter was one of the major legacy migration deals, they decided to stop because of various internal as well as client issues and that has impacted our ongoing revenue on the capacity deal with Capita on Elixir, however we continue to do other business on the public sector front with Capita and Elixir continues, it is just that it is at a lower level.
- Abhishek Jain:** Can you throw some light on your Elixir US version?
- Sudhakar Ram:** That is what I just shared, that the US version will get launched sometime late 2011 as we integrate the SEG acquisition with the core Elixir platform and we will also start doing work at the beta site sometime middle of this year.
- Abhishek Jain:** Will any impact come from second quarter of FY 2012?
- Sudhakar Ram:** Not at the end-to-end Elixir, but we do expect Elixir modules which are Elixir Distribution Management as well as Elixir New Business Underwriting, those modules are already launched, so we do expect some traction on that in this quarter.
- Moderator:** Thank you Mr. Jain. The next question is a followup from Ms. Runjhun Jain. Please go ahead.
- Sunil Jain:** We are already running at operating level losses for last three quarters. When are we likely to come back to profit at least at operating profit level?
- Farid Kazani:** In the first quarter of our current financial year, we had an operating loss close to -7% and we improved it by over 400 basis points and last quarter which is December quarter it improved to -2.3%, This quarter there has been further improvement and at the operating EBITDA margins before FX and the exceptional items, it stands at -1.5%. In addition, there is some positive movement in the order book and order backlog which should translate, over the next few quarters, into an increase in revenue. Once that happens, and with the cost initiatives, we should see the company coming back to profitability. So there is a steady trend of improvement.



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However, it is linked to how well we build up the revenue in the next few quarters and also work on doing some more improvements on cost.

**Sunil Jain:** And normally quarter book what you had said around 279 Crores, the time duration for execution of this is how much?

**Farid Kazani:** 12 months. This is the number that we give out for 12 months execution.

**Sunil Jain:** Okay, 12 months. Then, you get some orders during the quarter and because of that the revenue comes at higher level, otherwise is it going to get exhausted not even in two quarters?

**Farid Kazani:** At a particular quarter end date, the order backlog that we declare, which is for 12 months execution is roughly 40% of the 12 month projected revenue, , Significant part of the balance business is built up from additional business from existing clients and the rest from new clients over a 12-month period.

**Sunil Jain:** Any plan to increase the number of employees?

**Farid Kazani:** The employee headcount now is at 2,955 as compared to 3,118 at end of preceding quarter. This quarter we plan to recruit in line with the kind of improvements in the revenues going forward.

**Sunil Jain:** You mean to say we got some excessive employee right now, because the attrition will be there, are you not planning to even replace that?

**Farid Kazani:** Recruitment will happen for some lateral hires and specific skills that we require for meeting our revenues obligations. And whatever bench strength that is there, that will get deployed over a period of time in various projects.

**Sunil Jain:** The important thing is what I feel the revenue growth if that comes then there is a possibility of improvement in the overall performance of the company, is that the key thing what I can understand?

**Farid Kazani:** Yes, that is the objective, we will focus on building the revenues over a period of time and also managing costs much better to come back to profitability as soon as possible.

**Sunil Jain:** So for the revenue side you said that some sales people had done good job, you might have spent a lot of money for doing that on the sales side, any other initiatives you have taken to improve the sales apart from the additional sales whatever that you had done?

**Sudhakar Ram:** We have been focused for almost this entire year on looking at the effectiveness of our sales force very carefully and we are obviously looking at both the level of coverage that we have as well as the effectiveness of the individual sales people, our regeneration processes, and pipeline



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velocities. So I think the fact that you are seeing new customers coming in through the door at a slightly faster rate, that is really a reflection of a lot of these efforts and it is an ongoing effort, so we will continue to make both investments as well as manage our sales force effectiveness at a very close level as we go forward.

**Sunil Jain:** You had said that with this new sales force you can increase the sales. Any other way you can either do that - some additional acquisitions or maybe any other efforts where we can increase the sales possibly?

**Sudhakar Ram:** We are looking at multiple avenues, both from a marketing perspective, direct sales perspective, and working through partner's channel, which is something that we do quite effectively in our public sector businesses especially, so we are looking at all of those channels from an M&A perspective, obviously if we find the right target, we may do something, but there is nothing concrete at the present point.

**Moderator:** Thank you Mr. Jain, The next question is from the line of Rahul Bagri; please go ahead.

**Rahul Bagri:** I would like to know about utilization rate of the company, given that in the first quarter the company had gone for some Freshers recruitment, who were supposed to get into the work in the second quarter, could you just tell me about the utilization rate?

**Farid Kazani:** If you look at the Q3 March ended our utilization rate has actually gone up, on a total basis it is at 81.4% as compared to 79.1% in the last quarter and specific to the offshore number, it is at 75.2% as compared to 72.8% in the last quarter. In the last quarter, we had low utilization linked to higher head count and bench that we carried. This quarter we had a much more rationalized workforce, and have been able to improve the utilization.

**Moderator:** Thank you Mr. Bagri. The next question is from the line of Abhishek Jain; please go ahead.

**Abhishek Jain:** This is just a small followup question. What is the current currency exposure at this point of time and what rate?

**Farid Kazani:** We have over \$40 million exposure which is in the money, at over 47 rupees per dollar. We have covered close to around 6 million pounds, which is at about 74 rupees for the pound.

**Moderator:** Thank you Mr. Jain. The next question is from the line of Abhishek Shindadkar; please go ahead.

**A. Shindadkar:** Sudhakar, could you remind us when was the last time that you added around seven clients in a quarter?



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- Sudhakar Ram:** Our typical rate has been about one to two, frankly in our business model if you add about 10 to 12 clients in a year we are doing well, so off hand I think I cannot remember, it may have been quite some time back.
- A. Shindadkar:** Any color on where are we adding these clients and what type of services?
- Sudhakar Ram:** Actually it is interesting that we are adding them across our focus verticals, so within insurance in P&C and in L&A, as well as in government, it is a mix and it is pretty representative of the kind of business split we have.
- A. Shindadkar:** The other question I had is with the loss of around 6-7 crores in the Capita business, you still managed around 150 crore, which is a sequential jump, right?
- Sudhakar Ram:** The announcement we made is that we will lose that from Q4 not from Q3.
- A. Shindadkar:** You did not lose significant of it in this quarter.
- Sudhakar Ram:** Not in Q3.
- A. Shindadkar:** Okay perfect, just one question for Farid, Farid how far in terms of staff cost can we rationalize, last quarter it was around 78%, now it is close to 72% of your sales, so how far can we go in terms of this rationalization?
- Farid Kazani:** There is some level of improvement that come about especially on the delivery side, with a grade mix improvement and today our bench does consist of trainees and the rest of the tenured guys, so as we deploy more of trainees over a period of time, there could be an improvement in the overall cost structure. I would not be able to quantify it and on the other hand, when you look at it as a percentage to revenue, with revenues going up, the rest of the head count, which is the sales and the corporate function will get leveraged across higher revenue base, so my guess is this number should improve and it should go well below 70% over a period of time.
- Moderator:** Thank you Mr. Shindadkar. The next question is from the line of Ashok Jain from GIM Financial Solutions; please go ahead.
- Ashok Jain:** Sir, just wondering if I could get some colour on what is your order book scenario looking at. I am just looking at the numbers as of September the outstanding order backlog stood at 312, as of December it was 295 and 296 and this time around at the end of March it is 279, so how do you see business for the next 6-12 months how do you see this order backlog growing in terms of coming quarters?
- Mrinal Sattawala:** As Sudhakar explained a little earlier, I think the current quarter itself we have seen ex Capita, because we have adjusted the order book with the projected reduction in the Capita volume, ex-



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Capita we have seen the order book go up. Next quarter again, we are hopeful that we will be able to show some significant improvement in the order book, so I think we are trending in the right direction.

**Moderator:** Thank you Mr. Jain. The next question is a followup from the line of Runjhun Jain from Nirmalbang Securities; please go ahead.

**Sunil Jain:** Sir, you said that debt has reduced from 27 Crores in last quarter to around 13 Crores in this quarter and cash balance has increased from 132 Crores to 141 Crores, so net-net there is a gain of around cash of around 22 Crores or 23 Crores. When we are doing operating loss, how are we able to increase this cash balance, can you explain it?

**Farid Kazani:** I think you need to look at the two figures, which is the investment in the debt mutual funds, and the cash and bank balance. , The cash and cash equivalent in the last quarter was 152 Crores if you add the two up and at the end of this quarter the cash and cash equivalent has fallen down to 140 crores, so there has been a reduction by roughly 12 Crores and that has actually gone towards repayment of the loan, which has fallen down from 27 Crores to 13.8 Crores.

**Moderator:** Thank you Mr. Jain. As there are no further questions I would like to hand the floor over to Mr. Sudhakar Ram, Chairman & Managing Director, Mastek for closing comments.

**Sudhakar Ram:** Thanks everyone for your sustained interest in Mastek. The last 2-3 years have been pretty bad from a company performance perspective and we have seen the revenue slide, although this year we have managed to hold our own and while there is no upswing, there is no downswing either. Pretty much quarter-on-quarter we have remained flat, but I am encouraged by the new client acquisitions as well the pipeline that we have and we are building up the order backlog so that we get out of this flat situation and get back on to a growth track in the next financial year. We will keep you updated in our July conference call. Thanks once again and see you in July.

**Moderator:** Thank you sir. On behalf of Mastek Ltd. that concludes this conference. Thank you for joining us, you may now disconnect your lines.

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  - 3. 1 crore = 10 million*