“Mastek Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen good evening and welcome to the post-results conference call of Mastek Ltd. We have with us today the Mastek management team. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, you may signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Diwakar Pingle. Thank you and over to you sir.

Diwakar Pingle: Thank you. Good evening all of you. Welcome to the Q4FY-11 results of Mastek. I hope most of you got the results in case and if you have not got the results, they can please write to me at dpingle@christensenir.com and I will send it over to you. On the call today, we have Mr. Sudhakar Ram, Chairman and Managing Director and Mr. Farid Kazani, Group CFO and Finance Director. We will have a brief update on the business for the year gone by from Mr. Sudhakar Ram after which also open the question and answer session. Over to you Mr. Sudhakar.

Sudhakar Ram: Thank you Diwakar. Good evening and welcome to all of you in this annual results call. This is the end of our fourth quarter financial year 2010-2011. As you aware, we have had a tough year.

After two years of decline, we have remained pretty flat quarter-on-quarter this year, but the last quarter did see a marginal decline both in terms of revenue and operating margins. The actual profit figure improved without the exceptional items. We did have complete write off of Vector which we took in this quarter based on the judgment of where we will end up in the business next year. So, while we are taking a $5 million write-off in Q2 of this year, we took the last 1 million this quarter and we have written-off Vector which was an exceptional item of this quarter.

Overall, if I review the year, while we did have an impact in our transformational business because spending didn't really open up, discretionary spends did not really open up, we saw the second half being much better than the first half from the openness of customers to engage with us and it reflects in the pipeline addition as well as new customer wins as well as in the order backlog. Though we added 14 customers in this year, 10 of them got added in the last 6 months, which I am pleased with. There is a momentum there which is building up. It also shows the receptivity of the market to invest in transformational deals. We also saw a distinct improvement in our order backlog on the back of new deals, so our 12 month order backlog stands at the end of June at about Rs. 309 crore. So, that indicates a significant improvement over the previous quarter, which is almost a 10% improvement quarter-on-quarter in terms of order backlog.

We have actually continued to make substantial investments even after the SEG acquisition in terms of our North American products, so during the year, we ended up investing close to Rs. 40 crore in product development and with the Rs. 27 crore vector write off that we had that was Rs. 6-7 crore just related to the product that we spent last year, so against that our annual loss of about

Rs. 56 crore. It's actually showing an operating margin of about Rs. 10-11 crore. So overall the investments continue.

We have continued investing in sales. At the same time, we have been very tight in terms of other discretionary spends, other overheads in terms of our own corporate staff and corporate spending that we do. So, overall we did manage to reduce the losses. We did incur a loss, but we take a long term view that these are investments for the future. We have built substantial capability as a company. So we continue to be positive about the opportunities in the target segments.

Insurance, we have seen a distinct improvement in terms of willingness to spend, both in P&C where we saw a deal momentum last quarter continuing on to this quarter as well as an L&A where we have had a pipeline. Our Forester program is doing well from a beta release. We have made one delivery which will go into production there in this half of the year and the second delivery is due there and with the SEG acquisition, we see that some of our L&A products can be out to market much faster and as a lower cost then what we had originally planned. So, that's the positive thing. Even in public sector where we were pretty dry and our public sector revenue which used to be almost 35% of our revenue dropped to less than 25% last year. We see that there are deals which we have won there, new relationships, new partnerships that we have signed; we should get that public sector business back on to our growth track in this financial year 2011-12.

So, on both those lines of business, we do see growth coming back within the next three or four quarters. Having said that, both the revenue and margins are not out of the woods as yet. We will have a salary increase in July, which will impact our margins by almost 3-4% in the July-September quarter. We also have a large deal, which we announced where there will be a transition cost that we need to absorb, and so while the revenues will not ramp up, the cost will ramp up ahead of revenue, so that will also create an impact in Q1, but we should see those situations changing around and in the second half of the year, we should see both good growth as well as good margin improvement as a company. So, overall we have a positive outlook for this year and we are looking at a much better result both in terms of growth and profit in fiscal 11-12. With that let me hand it over to Farid to take you through some of the numbers and give more detail on the financial picture.

Farid Kazani: Thank you Sudhakar. I will just start off with the headline numbers for the year; we ended with Rs. 614.2 crore of total income as compared to Rs. 721.9 crore last year, which reflects a drop of 15%. On the bottom line, the net loss for the year was Rs. 55.94 crore as compared to a profit of Rs. 67.7 crore last year. As Sudhakar mentioned, the Rs. 55.94 crore loss in the year included a Rs. 27.2 crore exceptional item on account of the write off of Vector goodwill acquisition. We also spent Rs. 39.8 crore on product development this year and the corresponding spend last year was Rs. 38.8 crore. The product spend has happened for North America. So if you consider the Rs. 55.94 crore loss and add back Rs. 27.2 crore and the Rs. 40 crore, it's a Rs. 11 crore operating PAT for the year.

For the fourth quarter, the revenue stands at Rs. 149.9 crore and the loss for the quarter stands at Rs. 7.7 crore. In the quarter, the Rs.7.7 crore includes the Rs. 6.5 crore on account of the Vector write off and a product spend of roughly Rs. 10.6 crore. Revenue split between geographies is - 49% from the UK, 43% from North America, and roughly 8% from India Asia Pacific. On the vertical split, we have had insurance constituting 40%, the government constituting 25% for the year and the balance came from the other verticals. In terms of the cash and cash equivalent, the number is Rs. 159 crore which has shown improvement as compared to the previous quarter of Rs. 140 crore. There was a positive momentum on the order backlog. Last quarter the order backlog stood at Rs. 279 crore and that quarter it has improved by over 10% and stands at Rs. 309 crore. This order backlog is executable in the next 12 months. In terms of employee head count, we have ended up at 2905 employees and that's the shade lower from the previous quarter which was around 2955 employees. Receivables were at Rs. 163 crore as compared to Rs. 195 crore last year. I am open to answering any questions which you would have on the financials. We have emailed the detailed revenue analysis to all the participants; please feel free if you have any questions on that. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abhishek S. from ICICI Securities, please go ahead.

Abhishek S.: Hi, thanks for taking my question. Farid, could you just say that part again where you said the write off of Vector and the product development cost which is part of the expenses this quarter?

Farid Kazani: Yeah. The vector write off for this quarter is Rs. 6.5 crore and that was the balance goodwill lying in the books. Hence the total write off on vector for the year is Rs. 27.2 crore. On product development, thespend this quarter has been Rs. 10.6 crore and the total spend on product development this year has been Rs, 39.83 crore.

Abhishek S.: Okay, so if I exclude both of those items or at least a Vector write off, probably this would be the first quarter where you have made a profit on the operating margin?

Farid Kazani: Yeah, if you take both the items, there has been an improvement in the overall margins.

Abhishek S. Okay, so within that we didn't had a chance to go through this in detail, but within that expenses line item, what is the employee cost as a percentage of revenue now and where does it stand relative to last quarter?

Farid Kazani: The employee cost is 69% in this quarter at Rs. 104 crore on total revenue of Rs. 149 crore.

Abhishek S.: And what could that percentage would have been last quarter?

Farid Kazani: Last quarter, it was little over 70%, almost 71%.

Abhishek S.: Okay. So, how much improvement do you think we still can make on that line?

Farid Kazani: We expect to make improvements in two areas. We have the bench that we are carrying and as the bench gets utilized with the buildup of the revenues, we will see definite improvement in this line. Secondly, we are looking at grade mix improvement, which helps to improve the overall manpower cost structure.

Abhishek S.: Okay and I believe the comment we see is more positive than probably in the last four quarters that I have heard you so, when do you believe that this commentary would translate into good set of numbers. I know it's a difficult one to answer, but any thoughts on that line?

Farid Kazani: Yes, there has been an improvement in the overall business in this quarter with good amount of orders and the backlog improving more than 10% that will effectively translate to a revenue growth not in the immediate quarter. Be mindful of the fact that our year starts in July and we have salary increase coming in starting this quarter. That will have some impact on the margins, but with the revenues then building up, we should see some impact mitigated and hopefully we should come back to probability in the next few quarters.

Abhishek S.: Okay, so have you already finalized the quantum of wage hikes that you would be giving?

Farid Kazani: That's under process and we are working to finalize that in the next few weeks.

Abhishek S.: Okay. Thanks for taking my question and best of luck for the rest of the year.

Farid Kazani: Thanks Abhishek.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang, please go ahead.

Sunil Jain: To be on a broader side, can you throw some light on how you are going to improve the revenue in coming period?

Sudhakar Ram: The basic approach is we are looking at our focus verticals as our main revenue drivers, so it is both insurance as well as government and whether insurance both the property causality end of the business as well as the L&A business. So, if I take each one, the P&C business with a technology refresh has already started seeing a growth momentum and we expect that business to continue growing in the next year. So the second half, the situation in terms of order book was much better and we expect order book to even improve in the year going forward. In the L&A part of the business especially in North America, the Forester deal is where there is most focus right now in terms of getting our first beta site up. But we do see a deal momentum in transformation deals happening on the back of our SEG acquisition because now we have a platform which can actually cater to the North American needs and it has all the content required and a track record of 5-6 customers who were actually using that content. So to that extent, we expect some deals to happen in the earlier part of this year in Q2 or Q3, which should get translated to revenue in this year itself. The other point solutions which are there, which are the new business underwriting module as well as the Elixir distribution management, should also see positive momentum going forward. Last year one significant achievement we had in the UK was our L&G, legal and general go live on the group live - Elixir group live platform - that has created a good impression in the market place because L&G has gone to press and the UK insurance market is small. So there are may be another 5-6 companies, which offer group live, so we have started talking to a couple of them because they are interested in technology reflation platform migration there too, so we expect a momentum there. The second is; the UK government has proposed to introduce a retail distribution review, similar to our IRDA rules here where on some products they will no longer be commission and it will be a fixed fee for the agents. That will mean a lot changes in the front end and in the policy admin system so we are ready with that Elixir module for retail distribution and that because there is a deadline of December 2012, we will start seeing some deals coming in this financial year on that.

Sunil Jain: Okay, and sir apart from this about, this your financial services business, any improvement we are seeing in that?

Sudhakar Ram: Yes in financial services, we did see our current accounts consolidating last year. We have been penetrating them better. So we will see marginal improvement, but we don't really have IT focus there, it is more services and solutions focus in financial services.

Sunil Jain: So, overall how you see the revenue going forward improving from around run rate around Rs. 150 crore. What we can see towards the end of fourth quarter in this year?

Sudhakar Ram: We don't really give guidance in terms of either revenue or profit, but we do see that after two years of decline and last year was pretty flat, we should get back on to a growth this year.

Sunil Jain: Okay and sir in your initial comment, you had said that the first quarter will be impacted by salary and one more reason you had given…

Sudhakar Ram: Transition costs on a large deal, yeah.

Sunil Jain: Okay, fine. Thank you very much.

Moderator: As there are no further questions, I would like to hand over to the management for closing comments.

Sudhakar Ram: Thanks all for your interest in Mastek as you can see we have had a challenging time in the past, but we do see signs of revival and we do expect to get back on to a growth track this year. So as we continue our investor calls through this year, I do expect to keep giving you better news in terms of our financial performance both on a topline and bottom line basis. So we will meet again in next quarter in October. Thanks once again.

Moderator: Thank you. On behalf of Mastek Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.