"Mastek Limited Q4 & Full Year FY2012 Earnings Conference Call"

July 27, 2012

MODERATORS: **MR. SUDHAKAR RAM – CHAIRMAN, MANAGING DIRECTOR, CEO, MASTEK LIMITED.**
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MR. YASH GADODIA – CHRISTENSEN INVESTOR RELATIONS

Moderator Ladies and gentlemen good day and welcome to the Mastek Limited Q4 & Full Year FY2012 Earnings Conference Call. As a reminder for the duration of this conference all participants' 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 assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Yash Gadodia, Christensen Investor Relations. Thank you and over to you, sir.

Yash Gadodia Thanks Myron. Good evening and welcome everyone to the Q4 and Full Year FY12 Earnings Call of Mastek. Joining us from the Management are Mr. Sudhakar Ram, Chairman and Group CEO and Mr. Farid Kazani, Finance Director and Group CFO. At this point I would like to hand over the call to Mr. Ram for opening remarks. Thank you and over to you, sir.

Sudhakar Ram Thanks Yash and a good evening to all of you on this call. As you would have seen the results for this quarter as well as for the year ended June 30, 2012 has been pretty satisfying for us. In terms of the quarter itself the highlights for the quarter are the fact that the momentum on the insurance business continues. We have added 8 new customers this quarter of which 7 are on the insurance vertical itself so significant wins in the P&C line of business, some wins in the life and annuity business in the UK as well as in the US, so whatever investments we have done in IP and in building this business have started really paying off in terms of a revenue momentum.

We have also had very good feedback from analysts in the insurance market in terms of the quality of solutions which has also helped us win more business in this particular segment. So the quarter itself registered a revenue of 210 crores which is a growth of about 13.5% in rupee terms and just above 5% in constant currency terms. That led to a reasonable growth for the year.

For the year we closed at 724 crores in terms of revenue which is almost a 22% growth over the previous year in rupee terms, 11% in constant currency terms. Where we stand at the end of the year I think we are pretty comfortably positioned in terms of our growth opportunities in the insurance segment. We have made some headway in growing the existing account in government and in other segments. We have added some new relationships and all this puts us in a very good position in terms of growth for this financial year.

A significant leading indicator for us is the 12-month order backlog figure which went up from June of 2011. It was around 306 crores. Now we are looking at something like 485 crores. So there is a significant improvement in rupee terms and in dollar terms the 12-month order backlog has gone up by more than 25%. So that augurs well for us a company.

In terms of our performance across geographies it's been consistent. It's not that any one geography has outperformed. We have had good revenue momentum from each of the geographies. It is also across the lines of business; while insurance is the growth engine even the other lines of business have done well; and the gross margins as well as the cost measures have paid up and we have been able to register a good improvement in the profitability for this quarter which has helped us attain a break-even or marginally positive for the year as a whole in terms of profit after tax.

So all in all I think a year which has gone pretty well for us as a company and it has helped us get back on to our growth track and the growth momentum and are pretty confident that we will be able to maintain this and improve on it going forward in this financial year.

So with that let me hand it over to Farid to take you through some of the financial details.

Farid Kazani

Thank you Sudhakar. Good evening to all and good morning to people in the US. It's been a pretty encouraging quarter for us both from the business point of view and from the financial point of view and one of the challenges that we had is - can we come back to the black at the end of the year? And what we have achieved in this quarter is a pretty encouraging financial performance which has helped us to go back to the black at the end of this year. And as you heard Sudhakar, there is good business momentum that is building up which got reflected in some of the key parameters that we have shared with you. But let me take you through some of the financials which will give you a picture of how we stand at the end of this quarter and at the end of the year.

Total income was 217 crores as compared to 188 crores between Q4 and Q3. That is up 15%. Corresponding numbers in terms of income from operations is 210 crores as compared to 185 crores. That is up 13.7% in rupee terms and 5.3% in constant currency quarter on quarter. And on a year-on-year basis the growth is looking pretty good at 45.7%

In terms of EBITDA for the quarter we did 13.6% versus 9.4% in the previous quarter. That's a 400 odd basis point improvement in this quarter. In the last quarter we did mention that there was a one-time revenue that came in. So in terms of actual EBITDA we did 6.3% in Q3and in Q4, this being the last quarter of the year we have had some year end adjustments on incentives and if we keep that aside then the actual EBITDA is 8.2%. So it is still a 200 basis point improvement in EBITDA in this quarter and that is quite encouraging.

A lot of initiatives that we had started off in the beginning of the year and at a point of time we were at almost negative and a break even EBITDA - all that has helped in improving the EBITDA to the level that we have reached in this quarter. At the PAT level we have ended up this quarter at 22.5 crores as compared to 7 odd crores in the previous quarter. The areas that helped in achieving the above profitability i.e. growth in total income, improvements in the operating margins, some of the year end adjustments that I mentioned, the FX rate being better in this quarter and a piece of other income which has been higher in this quarter.

On the business side we have had 8 client wins in this quarter, out of which 5 clients have been in the US. Most of them have been insurance clients, one of them being government. We ended the year with 21 client wins which is again a records of sorts. Last year we did 14 new client wins. So again almost a 50% jump in terms of new client wins and some of the accounts that we have added are pretty strong accounts especially on the insurance side. Sudhakar mentioned our 12 month backlog has increased to 485 crores. That increase compared to previous quarter is almost 20%. We were at 401 at the end of the previous quarter. In dollar terms the growth has been 10% between the last quarter to this quarter end.

We have also seen good increase in the head count, an increase by almost 100 net employees. We ended the year with 3083 employees as compared to 2983 and the utilization levels also have improved marginally in this quarter. Correspondingly we have seen an improvement in our cash equivalent position. We ended the year with 137.8 crores as compared to 129.5 crores in the previous quarter so overall a great performance in Q4 which has helped us to come back to black.

Now if I compare the numbers on an annualized basis for the year, total income was 739 crores up 20%. It was 614 crores in FY11. In terms of total operating income 724 crores as compared 595 crores up 22%, and almost 11% in constant currency. EBITDA for the year is at 5.5% as compared to break even in the last year. PAT, as I said, is back in the black with around 50 lakhs as compared to a huge loss that we had last year of 55.6 crores.

From a service stand point there has been some movement in this quarter. US have shown some increase with the business growth that has happened in the insurance segment. Both US and UK are at around 46.8% in Q4. The India-Asia Pacific region is at 8% at the end for this particular quarter. For the year 2012, the US contributed 44%, UK contributing 48% and India - Asia Pacific 8%.

From a vertical stand point insurance is at 39% for this quarter, government is at 28% and the other verticals have been at 33%. Similar distribution has been there even when I look at it on annualized basis for FY12. In terms of client numbers we ended the quarter with 100 active clients being billed in this quarter as compared to 95 clients being billed in the previous quarter. We will move to reporting the client on a trailing 12-month basis from next quarter onwards and if I use that measure, the 100 active clients will get reflected at close to111 clients. In terms of concentration Top 5 clients contributed 46% and Top 10 clients contributed 61% in this quarter.

In terms of the debt position, we have a debt at the end of this quarter at around 6.5 crores. It was marginally less at the end of the previous quarter. On hedges, we have roughly $25 million which are covered at 49.5 and we have the sterling pound of roughly 7 million covered at close to Rs. 86.

One of the other areas is the product development cost. This quarter has been much lower at 10.3 crores as compared to 12.2 crores in the previous quarter. For the year product development cost has been 44.9 crores as compared to 39.8 crores. In dollar terms it is almost same at $9 million between the two years. In terms of DSOs billed and unbilled included we are almost at around 90 days but in terms of billed debtor at the end of this quarter we are at almost around 70 days. These were the broad numbers that I had to share with you. I am happy to take any questions further both on the business and on numbers.

Moderator Thank you very much sir. We have the first question from the line of Ganesh Shetty, individual investor. Please go ahead.

Ganesh Shetty My first question is regarding the US Insurance business. The solvency two norms are coming into force, and are there any chances that our business can get further scaled up with the existing clients and can we get some more clients during this quarter? Can you please throw some light on this?

Sudhakar Ram The area of work that we are in is largely in the core operations, the Front end, new business, distribution, the policy servicing, claims and buildings. Solvency two per se doesn't impact our business very much but we see a good momentum in terms of new program initiatives within insurance happening in this year and next year and the analysts are also seeing an increased propensity of the customers to buy and to that extent we see the insurance business growing well for us. Now the market itself is growing and competitively we seem to be better positioned and both are working in our favor to increase our own footprint in this market.

Ganesh Shetty Sir, my second question is regarding government contract. In the past we have had good contracts as far as UK government and Indian government is concerned. What is our position over there? The present situation is likely to win more government contracts from these two countries or where hoping for getting some more contracts from other geographies. Can you please throw some light on this sir?

Sudhakar Ram I think the momentum on government contract in India continues. We have been successfully delivering many large programs for individual state governments. On the back of it we are winning new deals and we keep announcing this from time to time. In the UK we have expanded our footprint in the existing partner relationships where we tend to go to the market with partners rather than directly. Our existing partners are growing and we are adding new partnerships there so both in UK and in India we see a momentum. As of now we have no plans to get into any other country in the government sector.

Ganesh Shetty Sir my third question is regarding our strategy for growth in future. We had relatively very bad seven quarters and you had very low growth for the last seven quarters and went into negative territory and loss. What strategy are we playing now onwards so that these things should not appear in the future at least as far as company perspective is concerned? Macro economic conditions can take us somewhere from growth to de-growth but as far as company is concerned what special initiatives or strategies are we building on or we are thinking from long-term perspective so that these things will not happen in the near future or in the future? Can you please throw some light on this?

Sudhakar Ram From the company perspective as you rightly said we have made significant investments in the technology part. So we have refreshed our technology in PLC. We have acquired new technology in the life segment in the last 24 months and that is what has caused an improvement in performance from the company perspective that we have been able to take advantage of the markets opening up because our technology is now rated as the best in the US. So within the insurance segment our billing product is number one. Our technology is rated as the best so we are seeing the number of opportunities in which we are called to the party and we are able to place increasing because of that. And that is only because we made these investments despite the economic slowdown and despite the tough situation the company itself was in. So as a company we play for the long run. We don't cut corners based on short-term consideration. We think there is a huge market in the segments, both in insurance and government that we are playing in and we see huge market opportunities and we have consistently invested not just in product development but also in building up our brand, building up the sales, marketing, and infrastructure in the various countries that we operate. That is the only way can ensure that the company benefits as and when the economic conditions are favorable.

Ganesh Shetty My last question is regarding our hedging policy, as the rupee is weakening further or the chances of rupee getting stronger is dim at this point of time. Considering this is there any possibility that you can relook into our hedging strategy at least for the next four quarters till the rupee becomes stronger or general perspective regarding rupee becomes stronger?

Farid Kazani Our current hedging policy is Board determined and we cover 60% of the net exposure on a 12-month rolling basis. When you are looking at the year that is the next 12 months we are almost 60% net covered. Ideally we would not want to do anything very different but take opportunistic forward covers for the balance 40%. While we do understand that there could be volatile movements in the FX we are exploring what other options are possibly there for us to look at long-term covers even beyond 12 months, we are yet to evaluate that. We will understand more from market experts and once we come to a particular decision which is safe and secure for us to take any other steps we will keep the market and the analyst group informed.

Moderator Thank you. We have the next question from the line of Amrita Burde from Nirmal Bang. Please go ahead.

Amrita Burde Could you please give me the dollar revenues for the quarter?

Farid Kazani	The dollar revenue for the quarter is 38.3 million operating revenue and 39.6 on total income.
Amrita Burde	And in the last quarter it was 37.1 if I am not mistaken.
Farid Kazani	37.1 on the operating revenues and 37.8 on the total income.
Amrita Burde	And how do you see the margins going forward? Would the double digit margins be sustainable, if yes, what would be the levers?
Farid Kazani	I did explain that in this quarter though we have reported 13.6% in terms of the EBITDA margins there is a year-end adjustment on account of incentives Every quarter we have an estimation and provide for that incentive. At the end of the year based on the achievement of the target, likely achievement, we have a year end adjustment. So that's being an incentive adjustment in this quarter. If I take that off actually our real EBITDA is around 8.2% to 8.3%. To your question that the margins will improve next quarter, our expectation is that we will keep on improving both in terms of top-line and in terms of cost to expand the margins but keep in mind that from the next quarter onwards we have a salary increase which is the start of the year there will be an impact of salaries and this is a phenomena that happens every year. So the 1st quarter will have an impact of the salaries and hopefully our initiatives to manage the cost and improve the revenues as to mitigate the impact of the salaries over the next 2 to 3 quarters. Our expectation is that there will be impact on account of salary increase. But exact impact will be known once we freeze the salary increments in the next couple of weeks. There is also a point that I would like to notify is that we have had a pretty significant deal that we have won and we announced in the last month. And we are working on transitioning that deal and recruiting people for that. There will be some amount of cost for building that business and transition in that. So to that extent there will be some cost for that but hopefully with the revenues improving with that deal and with other business we do see improvement in the margins beyond the quarter 1 of next year.
Amrita Borde	Sir when would the wage hike be given you said? Which quarter?
Farid Kazani	It starts from Q1 which starts in July.
Amrita Borde	Q1 starting from July and how much will the wage hike be?
Farid Kazani	As I said this is yet to be finalized. I will not be able to give you the exact figures but all I cay say is that it will be in line with what the industry is giving. We do understand the industry is in the range of around 8% for offshore and roughly 3% for onsite.
Moderator	We have the next question from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

Abhishek Shindadkar Could you talk about the pricing trends that you are seeing in the market?

Sudhakar Ram From the pricing trend perspective we have not seen any shift upward or downward in this last quarter or so. It is pretty stable.

Abhishek Shindadkar Is it possible for you to break the dollar revenues into volume growth and the impact of pricing?

Farid Kazani We don't do that Abhishek; as we have mentioned that the pricing has been stable if you compare the dollar numbers that I have given in the last quarter vis-à-vis this quarter.

Abhishek Shindadkar In terms of US, US EBIT margins have jumped significantly this quarter. How far can we go from this level given that we have signed a huge large deal or if you can talk about the quarterly performance of FY13 specific to US geography?

Farid Kazani This quarter the margins have improved for two reasons. One is US actually has shown a very good growth in this quarter and the growth has come in from the insurance business both on the P&C and on the L&A side. That has helped improve the overall margins.

Secondly the product development cost also which we have incurred in the US in this quarter is lower than what we incurred in the last quarter so that has also helped the segment profitability.

Going forward as I mentioned there is going to be an impact on the salary which will also impact the US. But with the momentum that is there in the insurance business the margins should remain at that level minus the salary impact. Also, this quarter when you look at the margins there has been a favorable exchange which was around Rs. 54.5 average compared to Rs. 51 in the last quarter. So that has also helped this quarter when you look at the segment profitability on the US side. So if the same effect is maintained hopefully we should have decent margins going forward.

Abhishek Shindadkar Okay and a quick question on the sales headcount. Are we increasing our sales headcount in the US or what typically are we doing to target more such large deals specifically in the insurance space?

Sudhakar Ram Sales headcount by and large is stable. We may have a few key hires coming in, one or two people in the US but nothing substantial. Similarly in the UK we have a strong team. We may add a few heads. Because the sales marketing investments we have made over the last 2 years have been with a longer term perspective. So the people are in place. We are not going to increase that too much.

Moderator We have the next question from the line of Ankit Pandey from SBI Cap Securities. Please go ahead.

Ankit Pandey How should we read into the figures of Top 5 decline and also decline in European figures QoQ?

Sudhakar Ram Top-5 account on percentage decline?

Ankit Pandey Yeah correct.

Farid Kazani The Top 5 has remained stable but since the overall revenue has actually gone up, ,the percentage of Top 5 is down. It is down to almost around 46% - 47%. The other account increases have happened in the P&C segment In addition there has been some change in the top 5 client on a quarter on quarter basis, with one client moving into the top 5, this quarter and one moving out.

Ankit Pandey Any correlation with the European decline as well?

Farid Kazani Nothing related to the Europe issue or crisis because we are in UK only. And if we look at the UK revenue it is up in Rupee terms but it has been stable as compared to the previous quarters in Pound terms.

Ankit Pandey And can we just get a heads-up on what kind of industries have we gained exposure with the new deal wins. I believe you are looking at some new order wins from the retail side and other segments as well. So can we just get some idea from that perspective?

Sudhakar Ram Like I said, out of the 8 deals we won this quarter 7 of them insurance so the thrust is on insurance.

Ankit Pandey And can I just get an idea on the growth outlook for the next year?

Sudhakar Ram We don't provide any growth outlook but what I would urge you to look at is the fact that the order back log - if you take the historic position of the 12-month order backlog what does it translate to in terms of next 12-month revenues, you would get a reasonable picture of the growth outlook for next year.

Ankit Pandey And from some of the latest deals wins which that we have announced especially in June couple of large deal wins, have they booked any revenues in this quarter?

Sudhakar Ram Could be very marginal. They all take time to ramp up and to deliver. There would be revenues but it would be small.

Ankit Pandey Couple of bookkeeping questions, can you just share the OCI losses and the tax rate going forward?

Farid Kazani As you are aware that we have moved to AS-30 and all the mark-to-markets for forward covers beyond the quarter are reflected in the hedging reserve. We have roughly 16.8 crores in the hedging reserve. If we had not adopted AS-30 and if we had continued with AS-11 we would have had that impact in the P&L. The reason for adopting AS-30 was to reflect the real profitability for the year and for the quarter The forward cover impact which is mark-to-market has been reflected in the reserve side as part of Balance Sheet.

The tax rate this year has been lower, as we have been able to get some R&D credit and there has been some tax provisions which were not required to that extent. And also had some carry forward losses which have helped us. Going forward the tax rate is going to be closer to around 25% as there is no additional credit that we expect in the coming years. There will be some marginal credit but on an overall basis the effective tax rate on PBT will be higher anyway closer to 24% to 25%.

Ankit Pandey Can we have an idea of what the adjustments are, that you made for the margins this quarter?

Farid Kazani As I mentioned, we have incentive provisions that we make every quarter because the incentives get paid out at the end of the year. The incentive provision is being done on the clear assumption of achieving the target which is our internal target. There has been short fall on achievement of our internal targets and at the end of the year we need to make an adjustment to the incentive provisions and it is based on expected payout The impact has been little over 10 crores. After adjustment, the EBITDA margins would be actually close to 8.2% to 8.3% compared to what we reported as 13.6%.

Ankit Pandey The actual cash outflow will happen only in the next year or in the next quarter.

Farid Kazani The cash outflow will happen in Q1. The payment actually happens in the 1st quarter of the next year.

Moderator Thank you. We have a follow up question from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty Sir that market has recently completed 30 years of existence and good business practices has now come into black and also we are foreseeing profits in the near future. Can we be able to have some dividends payouts during the year?

Sudhakar Ram We will definitely look at it. In the past when the company has been profitable we have sometimes given interim dividend so during the financial year we would be looking at it, not in the first two quarters but after that.

Ganesh Shetty Sir my second question is regarding our attrition rate and whether it has improved from our previous rates or could we actually stabilize that or is there any more attrition at the upper end of the management or at the lower end, can you please explain it?

Sudhakar Ram Actually the attrition rate has come down quite significantly over the last four quarters and it is well in line with the industry averages now.

Ganesh Shetty Can I get the numbers please, sir?

Sudhakar Ram Annualized last quarter attrition; we would be at about 15% - 16%.

Moderator As there are no further questions I would now like to hand the floor over to Mr. Sudhakar Ram for closing comments.

Sudhakar Ram Thank you everyone. The results show the patience that many of you have had in terms of following the company's slowly started to pay off. At the start of this new year, I am pretty optimistic about the prospects of the company. Strategic decisions we made in terms of our industry focus, in terms of product investments, the sales, marketing are definitely I think it is likely to pay off. The market itself is opening up. It is expanding and the annum is, other competitors in the market place are also seeing a good growth within the insurance solution segment and we also see ourselves to be a very significant player in these markets going forward. So I hope to come back next quarter with an even better set of financial numbers. Thanks and stay tuned.

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