



“Mastek Limited’s Q1 FY15 Earnings Conference Call”

July 24, 2014



**MANAGEMENT: MR. SUDHAKAR RAM – CHAIRMAN, MANAGING
DIRECTOR, CEO, MASTEK LIMITED.
MR. FARID KAZANI – GROUP CFO, MASTEK LIMITED.**



*Mastek Limited
July 24, 2014*

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Mastek Limited's Q1 FY15 Earnings Conference Call. As a reminder, all participants' line will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen. Thank you. And over to you, sir.

Diwakar Pingle

Welcome to all the participants on both the audio line analysts and other shareholders who have logged into the webcast. I hope most of you must have received the results release and the presentation that we sent out as soon as we announced the results in the afternoon today. In case, you are not on the mailing list, feel free to write to us and we will ensure that you get added to the mailing list.

Today to present the results as well as take your questions and answers, we have Mr. Sudhakar Ram – Founder and Managing Director; and Mr. Farid Kazani – Group CFO and Director. We will have a “Brief Summary of the Results Highlight by Mr. Sudhakar Ram” followed by the “Financials” which will be explained in detail by “Farid.”

For the people who are on the webcast, I think there is a separate window which is there, you can ask your questions there, and we will be able to get those questions here, and we will kind of present it to the management on a case-to-case basis. We initially take questions from the people on the audio line and then will go on to webcast. Having said that, I will now hand over the line to Mr. Sudhakar Ram. Over to you, Sir.

Sudhakar Ram

Thank you, Diwakar and welcome to this Q1 call. Let us move to the “Business Update” slide. Let me start with the bad news, which is we did have issue on one of the large insurance projects in North America, where we had to restate the revenues, because the project was going slower than what we thought, and it would take longer to complete. So we have taken a hit of almost Rs.10 crores in this quarter based on that, which was unexpected, and it did skew the results. But, it was one-time kind of an aberration. On the basic business front, I think things have been moving pretty well this quarter on almost all the geographies. We have been continuing our momentum in terms of our Property Casualty business, Insurance business in the U.S. In U.K. we have had some significant wins, which we have been announcing both from a government perspective, and as far as India goes, India has actually done pretty well both in terms of Insurance and Government, that there has been a good momentum in terms of business, in terms of revenues, and in terms of the gross profits from these lines of business.

One interesting update for this quarter is the joint venture we have with “The Law Society”, this is the society for all lawyers in the U.K., where we have decided to come together and set up a separate company called Legal Practice Technologies, which will set up a “Conveyancing Portal.” So for all residential properties, there are many steps involved in conveyancing, i.e., government registration and taxes involved and so on, that entire process so far has been



*Mastek Limited
July 24, 2014*

manual in the U.K. and this system will actually provide a completely automated interface, which will reduce cost of the conveyancing process for the lawyers, and therefore for the buyers and sellers of house property in the U.K. So, this is a very exciting opportunity for us, we are coming together, Mastek is building the entire software solution for this, which is the portal, and all the work flows and legal compliances associated with it, and together we will go to market starting in 2015, and we do expect this business given that it is the only the major such portal operating in the U.K., we do expect to have a significant market share of the conveyancing market over a 2/3 year kind of a timeframe. So this is something that we are particularly excited about.

Overall, while the order book has remained stable, we have added logos, but the typical process has been that these logos start with small team, so its not added a lot to order book but for in terms of a business potential, I think they all are very important accounts, both from our insurance and government vertical perspective as well as retail, which we have added in the U.K., and it will help Mastek continue in terms of the growth momentum going forward. So, that is a very quick update of the quarter. In terms of going through the “Financials”, let me hand it over to Farid.

Farid Kazani

Thank you, Sudhakar. I will move to Slide #5 which captures the key financials for the quarter and let me start by addressing also the issue that Sudhakar did mention with regard to the impact on the income and the profits. We ended the quarter with Rs.220.9 crores in rupee terms as compared Rs.223.9 crores in the previous quarter, that is a drop of 1.3%, but an increase of 0.7% in dollar terms. Last year in the same quarter, we did Rs.222 crores and therefore we have seen a drop of around 0.6% as compared to the similar quarter in the last year. In terms of total income, we have ended up with Rs.227.6 crores because we have had higher other income as compared to the previous quarter. The total income was Rs.230 crores, so we are actually down by 1% at the total income level. In terms of margins, the EBITDA margin for the quarter has been at Rs.9.3 crores, which is around 4.1% for the quarter as compared to Rs.18 crores which is 7.9%, so it is a drop of roughly around 3.8%. If you look at the impact that project has created, because we have seen the project timelines shifting right, based on the accounting principles we had to restate the revenue by Rs.10 crores. The impact of Rs.10 crores on the top line was also visible on the EBITDA. So it is approximately 4.5%, on the EBITDA. Barring that, the margins would have been much better than the previous quarter. Last year we had a little better EBITDA margin of around 8.2%, where we ended up with roughly around Rs.18.6 crores. At a PAT level, we have ended up this quarter with a marginal Rs.0.9 crores as compared to Rs.11 crores in the previous quarter. As I did mention that the impact of that particular project has impacted straightaway at the bottom line. Last year in the similar quarter we did Rs.7.1 crores. So, not a great quarter from financial perspective, but barring that particular event, we have seen a good momentum on the revenue to specify that we have seen 8 new client wins during the quarter as Sudhakar did mention that the client wins have been across the 3 geos – we have seen 2 client wins in North America, we have seen 3 client wins in U.K. and similarly, 3 client wins in India Asia Pacific.



*Mastek Limited
July 24, 2014*

Let me move on to the next slide which gives you the breakup of the revenue by the geographies and by the business. Because of the impact of the revenue in North America, the North America revenues have gone down in this quarter to 36.8% as compared to 39.9% in the previous quarter, correspondingly U.K with much better revenue and they have grown actually 4.5% in rupee terms, U.K. percentage is now at 55% as against 51.7% and the India Asia Pacific geography has more or less remain constant at around 8%.

We did start giving the analysis of the revenue by the quadrants which is by the Solutions business, the Vertical Insurance Product business, and the IT Services business. We have seen this quarter the Solutions business higher because we had the impact in the Vertical Product Business. So, if you see the numbers, its 46.5% from the Solutions business as compared to 42.6% in the previous quarter. On the Vertical Product because of that impact we have seen that going down to 38.4% as compared to 42.4% in the previous quarter. IT Services business has remained more or less constant at 15%.

Just another point that I would like to mention is while we have taken the impact of the restatement of revenue in this quarter, we do believe that while the project will get completed over the next 18 months, we have certain contingency cost that typically get released over the project. So, as we see successful delivery of milestones you will see some release of that contingency, that will actually offset some of this negative impact and we should have a definitely much profitable project as compared to where we see it right now. So, that will happen in the latter part of the project somewhere around in the beginning next year.

I will move on to Slide #7 where I will just give a quick breakup of the headcount during the quarter. There is good business momentum as Sudhakar did mention as we see it in the pipeline and some parts of the business especially in the U.K. and in India Asia Pacific have started growing. We added roughly around 100 people in this quarter, so we moved to 3,223 employees as compared to 3,123, and correspondingly, we have actually been able to optimize our bench and we have seen a good utilization ratio. We have ended up with 85% in this quarter as compared to 82.7% in the previous quarter.

I will move to the Slide #8 and I will be happy to answer any further questions on the "Financials" in detail in the Q&A. I will now like to hand over to Sudhakar, who can quickly give a snapshot of where we see the business going forward.

Sudhakar Ram

Sure. So, just to refresh people's memory on the strategy, our entire focus is we do not want to be in the lower end Commoditized Services business; we want to be in the high end both from Solutions and Vertical Product perspective. So, our entire strategy has been Vertical, we build strong domain expertise; we have also invested a lot in intellectual property, as you are aware, and that's the growth engine for the company. So, all the movements this quarter have been pretty much in line with the strategy, the wins that we have had in Government as well as in Retail, help us establish ourselves in these segments. The Insurance business, both from a



*Mastek Limited
July 24, 2014*

policy as well as billing perspective have seen good wins this quarter. So we are typically headed in the right direction.

The other part which is go to our business as a long-term partnership, that it is not only partnership with the client but also with integration partners, and that is something that continues to bear results and pay dividends to the company.

In terms of geographies, as you are aware, our North America is almost exclusively focused on Insurance. In the U.K, we have focused both on Government and Retail as well as Insurance and other Financial Services, and we do expect over a period of time that new businesses and new markets will start generating more growth for us, and that is something as we solidify our Product business, that is a fundamental way of opening new territories for us. So, the strategy is actually apart from investing in organic and getting it to a growth momentum of 20% plus, we have in the past been really successful in our acquisition strategy, and we will continue to acquire companies in the chosen verticals as well as the strategy to open new verticals, and there are acquisitions that we are working on, which we expect that something will materialize in this financial year.

From overall financial perspective, we had a not so satisfactory performance and in many ways it was lackluster, but we do want to improve the fundamentals of the business model so that it starts reflecting in robust profitability. So the attempt is both to get more predictable on growth as well as improve our margins and improve the predictability of profit. I think this is something that we have not yet really translated to reality in terms of our financials, but I do expect over the next few quarters, we will start progressing on this dimension. So, that's a very quick summary of our way forward. We will now throw the floor open for questions.

Diwakar Pingle

I think we can take questions from the audio line first, and in case there are other people on the webcast, I think there is a window open up for you, so in case there are specific questions, please do send it to us and we will relay to the management and then they will be answering your questions.

Moderator

Thank you very much, sir. Participants, we will now begin the question-answer session. First question is from the line of Hardik Mishra from ICICI Securities. Please go ahead.

Abhishek

Hi, this is Abhishek. Farid, you mentioned that the contingency will be released as and when the timelines of the project gets executed. So, what is the timeline that you expect the amount will be released – can you give us a schedule in terms of quarterly payments that will be or the amount which will be the least?

Farid Kazani

Abhishek, just to answer your question, there is a particular plan in terms of total cost to complete on that project, and the delivery of the project will be over the next 18 months, and typically what we do is, as we get nearer to the completion, and we are certain in terms of that there is no further cost that will add on the project, we will go ahead and release the



Mastek Limited
July 24, 2014

contingency. So there is no upfront plan that I can say that contingency will be released in percentage terms right from the start till the end of the project. Typically, it will be towards the end, and I guess it will be in the last 2 quarters, positive impact will be there actually in the next year.

Abhishek The second question is on the revenue growth from whatever we had in the first quarter, what is our outlook for the full year in terms of growth? I know you would say you do not give guidance, but what is your sense that how would we fair for FY15 as a whole?

Sudhakar Ram Let me address it in a different way, so if you really see this Rs.10 crores which was removed from the revenue, the base growth was decent this quarter, it was not great, and we do expect the growth rate to step up in the next few quarters. The pipeline is building up, order backlog is there, and we should be able to execute better. So the growth this quarter, the rate that you have, if you gross up this Rs.10 crores, will give you a thing that next quarter can be better than that.

Moderator Thank you. Next question from the line of G. Daniel from Corporate Database. Please go ahead.

G. Daniel Sir, I just wanted to understand you had a \$2.3 million problem with a particular customer which you are going to take every quarter now. Is this the same customer or this Rs.10 crores rate, or is it some new other thing that has come up?

Sudhakar Ram This is a different one, this is where the program is already running. There was the program actually halted and we are waiting for it to restart. Yes, this is an ongoing transmission program, where it is proceeding along. It is only going to take longer than what we thought, and to that extent we had to tone down the revenues that we have taken execution credit for so far.

G. Daniel So that \$2.3 million issue still continues, I mean, that order which you had budgeted in has not come true?

Sudhakar Ram It has not yet restarted. While we are building up other businesses, their accounts are slowly starting to ramp up.

G. Daniel What is the amount of R&D expenditure that you incurred this quarter?

Farid Kazani: This quarter we incurred Rs.16.7 crores and it is almost similar; last quarter we did Rs.16.9 crores. We are trending at around that same level and that is our continued focus because we need to deliver the product for some of the customers that we have already bagged and hopefully we should see the fruits of this investment in future years.

Diwakar Pingle Is there any participants on the webcast who want to ask questions, please punch in your questions onto the screen, we will be happy to take any questions.



Mastek Limited
July 24, 2014

Moderator As there are no questions, I would now like to hand over the floor to Mr. Diwakar Pingle for closing comments. Please go ahead, sir.

Diwakar Pingle I will hand it over to Sudhakar Ram; he will make the closing comments.

Sudhakar Ram Thanks, Diwakar. So, like we said, I think the quarter has not been great, it has been disappointing for us, but the underlying business fundamentals remain good, and we do expect to have better results next quarter. But during the quarter, if you want further details, feel free to contact Mr. Farid Kazani or Mr. Diwakar Pingle. Thanks for your interest in Mastek and looking forward to see you next quarter. Bye for now.

Farid Kazani: Thank you.

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