

MANAGEMENT DISCUSSION AND ANALYSIS

(forms part of the Directors' Report of the company's Annual Report FY2008-09)

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Cautionary statement:

This Management Discussion and Analysis of the company's performance and outlook may contain forward-looking statements that set out anticipated performance based on the management's plans and assumptions. Its aim is to facilitate a better understanding of the company's prospects and make informed decisions. We cannot guarantee that any forward-looking statement will be realized, though we have been prudent in our plans and assumptions. The forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management analysis only as of the date hereof. We do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. For any further clarification please contact Mastek Investor Relations (investor.relations@mastek.com).

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Overview of the industry and business environment

The Indian IT industry, which had enjoyed robust growth for several years, has gone through a much more challenging year during FY 2009. The industry, which has been benefiting from its status as an enabler of efficiency and cost saving for client organizations since many years, has seen the sluggishness in its clients' markets translate into lesser demand, lower prices, or both. Additionally, the industry has also had to bear with increased volatility in other macro-economic factors such as foreign currency exchange rates. The impact has been especially pronounced for players that derive a larger part of their revenues denominated in the British pound sterling, as Mastek does, which has undergone significant depreciation against the US dollar and Indian rupee during the past year.

Despite such adverse conditions, NASSCOM reckons that Indian IT Services exports could touch nearly US\$27 billion during fiscal 2009, and if BPO and other services are included then this figure could be as high as US\$ 40 billion in aggregate export revenues. This clearly demonstrates the resilience of the Indian IT sector and its contribution to the country's overall economy.

Yet India's share of the global IT spend remains quite low, with some estimates pegging it at lower than 5%. In order to understand the reasons behind this, it is important to analyze how the industry has evolved and how it is currently positioned. In its initial phase of development the Indian IT industry successfully established the credentials of India's IT professionals in the global marketplace through mostly onsite staff augmentation engagements commonly referred to as 'body shopping'. The second phase in the industry's evolution saw it capitalize upon the offshoring model, achieving its current status as a preferred destination for cost-effective development, maintenance, infrastructure management and related services. Much of this success has been enabled by the availability of a large pool of world-class IT talent in the country at very low cost compared to that in the developed economies. While this has had its advantages, reliance on cost-arbitrage as the key enabler of business growth has also to a great extent commoditized the services offered by the industry and made its business model highly linear – further growth would be in direct proportion to incremental expansion in employee base. This has limited the industry's ability to improve the quality of its revenues and resulted in a rise in the cost of talent acquisition due to wage inflation. Such a model would not have been very sustainable from the long-term perspective in any case, and the prevailing global economic condition has profoundly exacerbated the situation.

In these circumstances, it is critical that the country's IT players focus on penetrating the higher-value consulting, systems integration, strategic application development, and intellectual property (IP) led solutions market where the benefits for customer organizations are much more than merely cost advantages.

In order to successfully make the transition to this third phase of evolution, however, firms will need to invest in creating deeper domain expertise across multiple industries and intellectual property. Enterprise architecture capabilities and large program management skills will also play an important role in such a transition, and these need to be acquired over a period of several years.

Only a few players in the Indian IT industry today possess such a wide range of competencies, with Mastek being among the front-runners on the back of a portfolio of IP offerings (such as Elixir™ and the STG Suite™) and the experience of architecting and delivering nearly 1,000 high impact projects and solutions so far. A 'third wave' model does not preclude access to maintenance-based revenue opportunities, as evident from Mastek's own operations. Mastek's solutions-based business model allows it a presence across the spectrum, from design, architecture, and development to licensing, implementation, maintenance and related services.

Mastek's differentiated business model

Mastek's business model is highly differentiated when compared to that of other players within the Indian IT industry. While most of the firms in the country's IT rely primarily on labour cost arbitrage and scale, Mastek has over the years successfully mastered the craft of designing and delivering high-impact projects and solutions that tend to have an enterprise-wide influence and address customers' business problems.

The distinctiveness of the company's business model gets reflected in both the quality of competition it faces while bidding for new business and in the pricing structure of its engagements. In most of its bids for complex solutions projects, Mastek competes with players based in North America, Europe or those that are local to the market or geography where the potential customer is located.

As Mastek takes complete accountability for delivering, within a preset timeframe, a solution that is linked to business outcome from the client's perspective, pricing for assignments is often in the nature of fixed-bid contracts. This passes on the execution risk of on-time and high quality delivery, and the associated rewards of better pricing and superior margins, to Mastek which is typical of any solutions-led engagement in any industry.

Resultantly, the Mastek business model is characterized by industry-leading gross margins reflecting the superior quality of revenues, relatively higher sales and marketing costs inherent to a solutions-led business, and R&D expenses towards intellectual property (IP) creation.

Verticals focus, Intellectual Property (IP)-led

In order to enhance its sales, marketing, and R&D productivity, about three years ago Mastek sharpened its strategic focus to concentrate on select industry verticals where it either had a strong track record or an existing IP. Today, while Mastek continues to operate in the higher-



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end market of enterprise applications, it does so in its chosen verticals of Government and Insurance.

The company is engaged in some very large and prestigious assignments in both these verticals, and has multiple intellectual property assets and reusable frameworks. Mastek has significant differentiators in each of these verticals in the form of a strong track record and a unique set of intellectual property (IP), proprietary frameworks, and competencies. In May 2009, Mastek was ranked among the Best 20 companies by industry focus in both its target verticals of Government and Insurance in the "2009 Global Outsourcing 100" companies – a list compiled by the International Association of Outsourcing Professionals (IAOP) which includes companies from around the world providing a full spectrum of outsourcing services.

The various IP offerings that Mastek has today are mostly an outcome of pioneering investments made by the company, such as Elixir™. The company has also added IP assets to its stable by way of acquisitions, such as the STG Suite™, or through a co-creative process, such as Swift2Move™ which is co-owned by both Mastek and Thales.

- the STG Suite, comprising the point of sale, policy administration, billing, and claims modules, all designed for the property & casualty (P&C), that is non-life, segment of the insurance industry;
- the Vector Suite, which includes the policy administration and new business/underwriting modules and caters to insurance carriers in the L&A segment.

Elixir™ is an IP created from scratch by Mastek on its own, while the STG and Vector suites came with the acquisitions of Vector Insurance Services (in July 2007) and STG International (in March 2008) in the US. The Vector acquisition added "software as a service" (SaaS) and "process as a service" (PaaS) capabilities to Mastek's existing end-to-end enterprise software solution offering in the L&A segment, and later the STG acquisition expanded Mastek's presence into the non life segment of the insurance vertical.

Government vertical

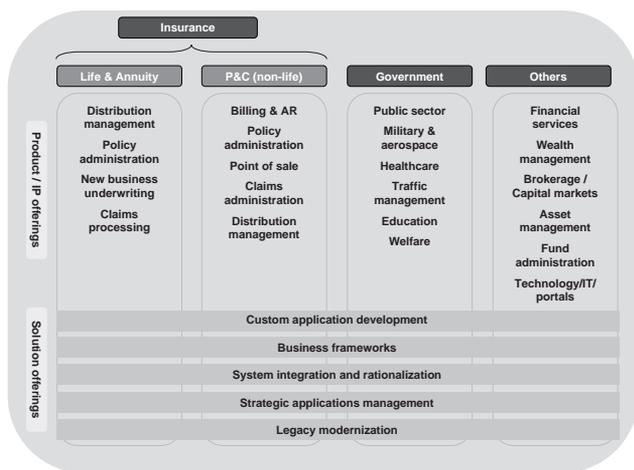
Mastek provides innovative and transformational solutions that help government organizations around the world deliver a wide range of services quickly and efficiently to citizens. The company has been engaged in programs that touch and transform the lives of ordinary citizens. Over the years Mastek has worked closely with governments on large-scale, complex projects that have made a valuable difference to millions of people.

While a lot of the end-use relating to the work that Mastek does within the Government verticals may be varied, there is a consistent set of underlying capabilities that comes into play each time the company undertakes an assignment in this vertical. Mastek's capabilities in the Government vertical enable it to differentiate itself from other peers in a large but highly competitive market segment.

The company has forged and grown several partnerships aimed at securing and delivering government projects in the UK, including one with Capita (where Mastek has a broader partnership encompassing the Insurance vertical as well), BT (with whom the company is engaged on the NHS programme), and Thales (where the company created and now co-owns an intellectual property "Swift2Move" which is being deployed over the UK's Defence Information Infrastructure). The company believes it has the potential and opportunity to emerge as one of the most preferred software solution partners within this vertical in the next few years, and achieving this goal is an important component of its overall strategic vision.

Others

In addition to the afore-discussed verticals, Mastek also derives a significant part of its business from customers that may not fall within these defined verticals but continue to be focus accounts from either a historic relationship perspective or a long-term growth potential perspective. The kind of work that Mastek does for these clients shares the same qualities and attributes of customized application



Insurance vertical

Mastek partners with insurance carriers across geographies to support their business transformation initiatives through dependable, new technology based technology solutions. The company applies innovative ideas to existing business problems that insurance companies often face, from controlling costs and improving response to market, to changes in competitive and regulatory landscape.

The company's insurance solutions consist of

- Elixir™, Mastek's enterprise platform for the life and annuity (L&A) segment that enables insurers to efficiently administer and launch new products, manage broker-dealer networks and claims processes, reduce costs and grow market share. It covers key modules such as distribution management/channel management, new business/underwriting, policy administration, and claims processing;

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development, legacy modernization, and system integration & rationalization. Experience with some of these clients could also enable the company to add new verticals to its offerings portfolio going forward.

Review of financial & operating performance: Delivering growth despite macro headwinds

Financial performance review

The company's performance for the financial year under review (FY 2009) includes the impact of a slackening demand environment following the global economic crisis, a significantly weakened GBP (£), some forex losses (witnessed during the first-half of the financial year), and ramp-down in the project part of its BT/NHS work.

Despite these challenging business conditions, healthy revenue contributions from both the UK and US operations that now include the recently acquired P&C (non-life) insurance division (STGMastek) enabled the company to deliver a growth-led performance during the year.

The company's total income for FY2009 was higher by 5% at Rs 965 crore compared to Rs 916 crore in the preceding year (FY2008). The company has been able to maintain its profitability through several efficiency improvement initiatives and prompt actions in the form of virtual bench. Resultantly, EBITDA for FY2009 was stable at Rs 159.2 crore, compared to Rs 159.8 crore in the previous year. Profit after Tax (PAT) increased 12% from Rs 125.9 crore in FY2008 to Rs 141.2 crore in FY2009, translating into an EPS of Rs 52.45.

Mastek continues to have a strong balance sheet, with Rs 240 crore in cash & cash equivalents as on 30 June 2009.

Operations review

During the year under review, Mastek was able to leverage the opportunity pipeline that it has built and add new customers. The company deepened its relationships with many of its existing customers in its focus verticals of insurance & financial services and government, and its Elixir™ solution for the insurance industry also gained further traction during the year. The financial and strategic contribution to Mastek's overall operations from the acquisitions made in the previous fiscal too has been in line with plan during the year.

- ***Expansion of front-end leadership and sales team:*** During FY2009 Mastek made some key appointments in its leadership team across various geographies, aimed at reinforcing its front-end business and sales organization and creating the necessary capabilities to extend its presence in new markets in Europe and North America. These appointments follow the expansion of the company's management bandwidth last year with the induction of senior and mid-level professionals in delivery and corporate functions, thus strengthening its back-end operations in India.

Towards that end, Mastek named John Dowd as Group CEO & President in July 2009 to spearhead the company's next phase of growth. Mr Dowd had already been involved in supporting the company's leadership team in its growth initiatives as a senior advisor since September 2008. Mr Dowd brings over 30 years of broad executive experience that includes successfully leading large international operations for technology and business services corporations. His earlier assignments include a senior role at EDS where he led two regions of EDS' global operations, Canada and Greater China / Korea.

During FY2009 the company also inducted Mike Dufton as President of its wholly-owned US subsidiary MajescoMastek and Senior Vice President, North American Business Unit. Among his previous assignments was leadership of Solcorp, an over \$100 million life insurance policy administration software/consulting business, as its President. Mr Dufton has been a key executive behind the growth of Solcorp's international business and has extensive executive relationships within the large insurance organizations across North America and the world.

The management team was also augmented by the appointment of Farid Kazani as Group CFO & Finance Director, who will be based in the corporate office at Mumbai. Mr Kazani has over 18 years of experience in the field of Corporate Finance with core competence in strategic business planning, treasury and fund management, forex, mergers and acquisitions and divestments.

In Canada, a new geography where Mastek established a presence during the year under review, the company has appointed Ross Pellizzari as Vice President and Strategic Client Executive to capitalize on opportunities in that market.

In order to further strengthen its position within the Insurance vertical, Mastek appointed Tom Rogerson as Global Product Manager and Mike Brinsford to play a lead role in the company's global insurance business. Mr Rogerson was Chief Technology Officer (Financial Services division) at CSC's EMEA operation while Mr Brinsford was earlier President and CEO at CSC Asia, and both bring vast insurance sector experience to the company.

These multiple senior-level appointments made during the year under review are aimed at reinforcing Mastek's front-end business and sales organization and creating the necessary capabilities to extend its presence in existing and new markets. All of these professionals bring the kind of proven track record and substantial hands-on business experience that will enable Mastek to attain business leadership in its chosen verticals and geographies.



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- Elixir™ Distribution Management (EDM) launched in UK, USA, and India: During FY2009, Mastek launched the Distribution Management (EDM) module of its Elixir™ platform for the UK market and followed that up with the customised-for-geography EDM aimed at the US market. EDM is a standalone system that allows an insurance carrier to manage its entire distribution landscape.
- Elixir4™ update: Elixir4™ is Mastek's new platform based on service oriented architecture (SOA). Elixir4™ is a unified and single platform that handles "old-age" insurance products as well as "new-age" menu-based products. It is well-suited for insurance carriers in mature markets to undertake IT transformation. Its modules include Distribution Management, New Business Underwriting, Policy Administration, and Claims Processing. The company has prioritized the launch of Elixir4™ for the UK market. Progress on this new platform is on track and the initial implementations for insurance carriers are expected to begin in the new financial year.
- Next generation of Vector Policy Administration system introduced in USA: The company introduced the next generation of its trusted and proven Vector Policy Admin System for life insurance at the Society of Actuaries (SOA) Conference in Orlando, Florida in October 2008. The Vector Policy Admin system is browser-based and supports life and annuity products with a comprehensive, low-risk, cost-effective solution. The system, which has been made more flexible and user-friendly, delivers broad functionality, streamlines a complex implementation process, and easily integrates with existing business models. Insurance carriers can reduce per-policy servicing cost in a predictable manner through Vector's hosted delivery model, in some cases by as much as 30%.
- Insurance operations reorganized for increased market focus: Concurrent with the phased introduction of Elixir4™ and with a view to emerge as a market-driven products and productized services organization, Mastek has reorganized its Insurance operations. Accordingly, an Insurance Products Organization (IPO) and an Insurance Delivery Organization (IDO) have been established. The IPO, consisting of a Product Management Group, Product Engineering Group, and Insurance Practice Line, focuses on creation of products and solutions for customers in the insurance vertical. The IDO, on the other hand, is dedicated to consulting, implementation, migration, and support/maintenance for all insurance products including Elixir™.
- 12-month order book at end of year at Rs 300 crore: The The company's 12-month order book as on 30 June 2009 was Rs. 300 crore, which is lower than a year ago. The decline in order book position was caused primarily by the faster than expected BT/NHS project revenue rampdown and delays in initiation of some projects that thus could not be included in the order book.
- People: For knowledge-driven organizations like Mastek, the key success enabler and most vital resource is world-

class talent. Capital, often perceived to be among the scarcest and hence most critical ingredient for success, does play an important role in the company's operations but the primary growth fuel are its talent pool. The company's differentiated business model and solutions-oriented projects have enabled it to deliver superior returns on talent and it continues to undertake measures aimed at sustaining the same. During FY 2009 Mastek's returns on talent, as reflected in its revenue and profitability per employee (tabulated below), remained at levels superior to most Indian peers of similar size and scale, comparing favourably even with some of the largest players in the industry who enjoy substantial scale advantages.

Return on Talent metrics (based on average no. of employees during the year, excluding virtual bench)	FY 2009	FY 2008
Revenue per employee (US\$)	52,380	59,144
EBITDA per employee (US\$)	8,850	10,318
Net profit (PAT) per employee (US\$)	7,834	8,127

- Enhanced Billing module of STG P&C Suite introduced in USA: In FY2009, The company introduced its new STG Electronic Bill Payment and Presentment (EBPP) module enabling insurance carriers to offer online bill payment and viewing to their policy holders. This enhanced product offering provides insurers with a cost-cutting tool that can help them attract new customers, increase customer loyalty and expedite cash flow. It also offers policyholders a self-service real-time bill payment and account viewing option in a variety of languages, including English, French, German and Spanish. The multi-lingual capability should also allow Mastek to penetrate new markets outside the US.

Recognitions and awards

The success of Mastek's strategic focus on providing high-end IT solutions to its global customers was manifested in awards and recognitions during the year under review, as summarized below:

- Mastek ranked among Best 20 in Government and Insurance by IAOP: Mastek was, like in the preceding year, ranked among the Global Top 50 in the "2009 Global Outsourcing 100" companies – a list compiled by the International Association of Outsourcing Professionals (IAOP) which includes companies from around the world providing a full spectrum of outsourcing services – not just information technology and business process outsourcing, but in areas such as facility services, real estate and capital asset management, manufacturing, and logistics. Mastek was also ranked among the Best 20 companies by industry focus in both its target verticals of Government and Insurance, where it has created a strong position for

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itself within the enterprise applications market.

- **2008 Insurance INNovators Awards:** The INNovators Award is a special designation intended to advance the spread of business technology acumen within the insurance industry. Mastek's client Transmerica Reinsurance was named among the runners-up for innovation in the insurance space by the Chicago-based Insurance Networking News (INN) magazine. This was for the mortality management system initiative that Transmerica Reinsurance implemented with Mastek providing IT consulting & services. In the preceding year, for the 2007 INNovators Award, the specialized claims processing solution implemented by the US-based insurance player CUNA Mutual with Mastek providing consulting services was ranked No.1 in the awards list.
- **Maharashtra IT Award 2008:** In August 2008, Mastek was conferred with "Maharashtra Information Technology Award 2008". The company bagged this annual award, given by the Government of Maharashtra's Directorate of Industries, under the category "IT Software".

Business outlook: Well-positioned to capitalize on economic upturn

During the year under review the company has experienced adverse forex conditions, noticeable slowdown in customer demand, accelerated rampdown in the project revenues from its BT/NHS engagement, and pricing pressures, most of which were reflected more in the second-half of the year. At the same time, Mastek has taken quick measures to tackle the evolving external environment and sustain profitability. Concurrently, the company continued to make investments in adding senior talent in sales and account management, and in its new insurance platform Elixir4™. Better control on costs, more efficient processes, continued progress on IP creation, and a stronger sales team clearly positions Mastek very favourably to gain more as the global economy improves and demand recovers.

Internal control systems and risk management

Mastek's Board and management team monitor and make enhancements to the company's systems for internal control and risk management on an ongoing basis. The company's efforts towards this go beyond what is mandatorily required, with active monitoring and review to ensure adequacy of control systems and to identify potential risks as well as recommend or implement measures to mitigate them.

Internal control systems

Mastek's internal control system is adequate considering the nature, size and complexity of its business. The company's internal control systems provide, among other things, reasonable assurance of recording the transactions of its operations in all material respects and of providing protection against significant misuse or loss of company assets. These also enable the company to adhere to

procedures, guidelines, and regulations as applicable in a transparent manner. The company uses an enterprise resource planning (ERP) package that enhances the efficiency of its internal control mechanism.

The company's internal control systems are supplemented by an internal audit program and periodic reviews by the management. Mastek has appointed an independent audit firm as its Internal Auditors, and the Audit Committee reviews its findings and recommendations at periodic intervals.

Management of risks and concerns

Mastek's risk management framework is designed to ensure continuous monitoring of the external and internal environment and identification, assessment and preemption or mitigation of potential internal or external risks. Some of the key risks and concerns, and measures aimed at mitigating them, are discussed in the paragraphs below.

- **Growth management:** The company's strategy for business growth and revenue expansion entails broadening its client base in existing markets, entering new markets and geographies, and investing in intellectual property development and R&D. The company also needs to attract and retain world-class talent that can support its growth plans. A highly competitive environment creates several challenges like attracting and retaining talent and succeeding in new or even existing markets. Any inability to manage growth in its chosen geographies or in maintaining a highly-skilled workforce may have an adverse impact on the company's performance. To an extent, Mastek does have a natural advantage over its peers with regard to attracting talent or retaining its market position due its solutions focus and IP-led differentiation. In addition, the company has a strong human resources management system and competitive compensation schemes (that include ESOPs).
- **Macro-economic factors:** Due to the global nature of its operations, the company's performance is influenced by macro-economic factors such as economic cycles in its various markets and volatility in foreign currency exchange rates. This risk is mitigated to some extent due to the company's presence in multiple, diverse markets from Europe and North America to India and other Asia-Pacific nations.
- **Potential fluctuations in operating metrics:** Mastek's focus is on vertical enterprise applications, which is a high-end, solutions-driven market. The company's success in delivering healthy operating matrices such as revenue growth, margins expansion, employee and resource productivity, and earnings enhancement are subject to many factors that include the ability to execute projects, win new project orders, and effectively deploy capital and other resources. The company has been taking efficiency and productivity enhancement measures to drive improvement in operating matrices, and these efforts are likely to continue.



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- **Risks related to tax concessions:** As the company operates within a sector that enjoys favourable government policies that include tax benefits, any shift in these policies can have an impact on the company's business. The Indian Union Budget presented in July 2009 indicated the extension of certain tax benefits by one year.
- **International operations risk:** The company is engaged with customers in Europe, North America, Asia-Pacific region, and India. In view of the company's operating presence in multiple countries, any inability on part of the company or its employees to comply with international laws and contractual obligations can have an impact on overall performance. In order to mitigate such risks, the company provides training on compliance related issues to relevant employees from time to time.
- **Client risks:** The company's strategy is to engage with certain key customers and build long-term relationships with them. Any shift in customer preferences, priorities, and internal strategies can have an adverse impact on the company's operations and outlook. Mastek does have the benefit of being very entrenched with many of its customers, involved in their critical and strategic initiatives. Therefore, client concentration related risks are mitigated to an extent.
- **Technological risks:** Mastek is a player in the higher-end vertical enterprise applications market, where access to intellectual property and capabilities in cutting-edge technology are key enablers of longer term success. Any significant barriers in the company's ability to develop and/or align and adapt to new technologies can have an adverse impact on overall operations. The company does have technical teams that keep a track of emerging technologies and trends in order to ensure that it remains aligned to changes in the technological landscape.
- **Contract and delivery related disputes:** The company's operating performance is subject to risks associated with factors that may be beyond its control, such as the termination or modification of contracts and non-fulfillment of contractual obligations by clients due to their own financial difficulties or changed priorities or other reasons. Mastek does have mechanisms in place to try and prevent such situations, as well as insurance cover as necessary.
- **Competition:** The IT services and solutions market is highly competitive, with several players based in India and elsewhere. While the company has strong domain expertise, robust delivery capabilities, and significant project experience, there is no guarantee that it will always get the better of competition.
- **Dependence on key personnel:** Mastek has been augmenting its global leadership team over the past couple of years with several senior professionals joining the company across geographies, and today the company has one of the best management teams in the industry. This will be a critical enabler of its operating success and any loss of personnel through attrition or other means may have an impact on the company's performance. Mastek does endeavour to have an effective succession plan in place to mitigate this risk.
- **Risks associated with possible acquisitions:** The company's growth strategy includes the exercise of inorganic options and it may make well-considered, properly evaluated acquisitions. The company would undertake all due care and diligence in the process of making any acquisition although there is no guarantee that an acquisition will produce the business synergies, revenues and profits anticipated at the time of entering into the transaction.