Transcript: Post Q3FY08 results conference call, Mastek Ltd
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Presentation Session

Moderator: Good evening ladies and gentlemen. I'm Gopal, moderator for this conference. Welcome to the post results conference call of Mastek Ltd. We have with us today, the Mastek management team. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Abhinandan Singh, Head – Investor Relations, Mastek. Please go ahead Mr. Singh.

Abhinandan Singh: Thank you and welcome everyone to our post results conference call. Present along with me today at this call, are Mr. Sudhakar Ram, our Chairman and Managing Director, Mr. Joe Venkataraman, the Managing Director of our UK operations, Mr. R. Desikan, our Finance Director, and Mr. Jamshed Jussawalla, our CFO. We will begin today's forum with brief opening remarks by Mr. Sudhakar Ram and after that the floor will be open for questions and answers. After the call ends, within a couple of hours we should have the audio replay of the call also available for you at the access numbers mentioned in the conference call invitations that was sent to you earlier. The transcript of the call should also become available in a few days, which you can access at our website mastek.com. Now I would like to request Mr. Sudhakar Ram, our Chairman and Managing Director, to initiate this call with his remarks.

Sudhakar Ram: Thank you Abhinandan and welcome to this quarterly call. We are pretty happy with the quarter that has just gone by and we have made good progress on several fronts. I think the number one achievement as far as I am concerned is the margin expansion where from an EBITDA margin of 17 odd percent we have gone up to 19% this quarter, and it looks like the productivity, the improvement programs that we have had, are paying dividends, even better than expected and I am pretty confident that these margins are sustainable going forward, which would be reflected in the guidance that we have given for next quarter.

The second is the acquisition of STG, which given that the two verticals that we are in, is insurance and government, earlier Mastek was only doing the life and annuity part of insurance. Now with the STG acquisition, we have built very strong capabilities in the property and casualty space with over 35 customers that STG already has in that space. So we feel very excited about this whole acquisition and its synergies with Mastek.

The third is, in terms of our regular account addition, I think this quarter has added apart from the fact that in number terms we have added 11 accounts, which is more than expected, slightly unusual quarter for us, we have also added some very strategic accounts, which is, in the insurance space we talked about the legal and general win that we had, which is significant direct account for us in terms of the insurance business in the UK, and it has created strong reference to expand the insurance practice within the UK.

The second is, we have always talked about our partnership model in government, and we have been trying to add partners, and this quarter we finally managed to add Thales as a partner on the back of very interesting and very prestigious deal for us, which is the Ministry of Defence contract. I think it is unusual and this is probably the first time that a defense department in the UK has trusted an Indian firm to go ahead and take on such a complex program and obviously it has been influenced by our successes in other large programs in the UK. So the Thales thing is not just a win in terms of one specific deal, we see it as a partnership with Thales's strength in defense, the fact that we are going to co-own the IP, we can take this to other countries and other defense establishments across the globe. So I do see that as a significant addition and a significant win for us.

So like I said, STG the deal happened in March and we already have one significant win on the STG front, large property Casualty Company in the US, so that we are pleased that the acquisition has already started expanding our base of accounts.

So, overall if I see the quarter, the account additions have been good, the top line has been in line with expectations, and the bottom line has been even better than expectations, so overall the team has done fairly well in terms of the quarter and if you look at the guidance for next quarter where we are looking at a 245 to 250 crore top line and 37-38 crore bottom line, I think we are well set and its actually a thing that the model that we have, which is a Wave 3 model where we are looking at high end work being done by Indian companies and very mission-critical strategic solutions being developed, I think that strategy that we have had has started paying off, both from a growth perspective as well as from a bottom line perspective. So, I will be quite happy to take questions at this juncture.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Rishi of Centrum Broking.

Rishi: Hi, may I first extend my congratulations, very buoyant set of numbers. Besides this, I would like to know about your US operations, am I correct to read in the fact that the US operation's segmental EBIT margins have gone down slightly, actually quite substantially…any comments on the flare of this?

Sudhakar Ram: Sure. See in the US, this quarter there was one specific project ramp down, which happened and that had an impact on the bottom line. Apart from that there have been acquisition costs on STG, which are one time costs, because STG was acquired by MajescoMastek, our US subsidiary. So I look at it more like an aberration this quarter and next quarter we will be back on track in terms of our EBIT margins in the US.

Rishi: Otherwise any other aberrations that are happening from other clients, which is one off clients?

Sudhakar Ram: This is a one off situation in the US.

Rishi: And how much of a hit is actually because of this client and if you could break up, and how much is it because of the acquisition?

Sudhakar Ram: We don't have a breakup ready on that, but together these have caused a drop in margin and next quarter it will come back on track.

Rishi: Which means by around 145, 15%, or 12% to 14% of whatever you have been showing so far?

Sudhakar Ram: The US operation has steadily improved its profitability and it will come back on track in line with that.

Rishi: All right, thank you so much and all the best.

Sudhakar Ram: Thank you.

Moderator: Next question comes from Mr. Kunal of Edelweiss.

Kunal: Yes, thank you and congratulations on a good quarter. My question is relating to the employee cost, now as I look at the number I think, sequentially the employee costs have declined by about 1.7%. Is there some one off item that we have written back or why is the employee cost probably so low?

Sudhakar Ram: See, there has been a one time write back on account of the change in incentive policy, so one of the provisions that we have made we have written back, so that's been the main reason. Apart from that, if you look at the organic thing, we have not had head count addition at all; we have improved our top line and bottom line, without adding too much to the head count. And we have been consciously operating on grade mix and so on. So those have also impacted the staff cost.

Kunal: Okay. What would be the amount of that one time write back?

Sudhakar Ram: I think the one time write back alone should be about 6 crores.

Kunal: Okay. The second question pertains to the debt amount. I believe there's 83 crore rupee of debt, which appears. Is that being taken out from STG acquisition?

Sudhakar Ram: Yes, exactly. So this was the debt taken by Majesco to acquire STG.

Kunal: Okay. And what is the plan of returning the same? Immediately, or will that continue?

Sudhakar Ram: No, it will continue. We have a four year repayment in that.

Kunal: Four years repayment schedule?

Sudhakar Ram: That's right.

Kunal: Okay. The third question, how many people have come through the STG acquisition?

Sudhakar Ram: Jamshed?

Jamshed Jussawalla: Around 350.

Kunal: Okay. The other question is pertaining to the number of million dollar clients. I think this number has gone up substantially this quarter from about 24 to 40. So how many are basically from Mastek Consolidated, apart from if we exclude the acquisition related, what would be the increase in like-to-like comparison probably?

Sudhakar Ram: Jamshed, do you have that ready made?

Jamshed Jussawalla: Actually it would be around say 8 on account of Mastek.

Kunal: Okay, organic Mastek would be, okay so that would be about 30. And just your comment on probably the buyback plan, now I just heard on CNBC, probably you mentioned…

Sudhakar Ram: Now that FCCB thing we have postponed, because there were some issues at that, so the buyback process should now start.

Kunal: Okay. So that is expected in 15 days' time period or is that plan freezed for now?

Sudhakar Ram: No, it will be announced. We will have a public announcement once this thing gets cleared and then it will happen as per the normal process.

Kunal: Sure. And one last question from my side. How is the NHS deal ramp-down going to happen in FY09, I believe there is about 17 million pound application work that will come down.

Sudhakar Ram: Yes, see we have done that thing, and like I said over the last one year we have been looking at how to de-risk that part and I think we are pretty set on being able to manage that ramp down. So obviously the guidance for next year we have given July as the beginning of our financial year, but as we stand now, we look well set to continue on a 35% growth rate next year.

Kunal: Okay, 35% in FY09?

Sudhakar Ram: FY09 correct, in dollar terms.

Kunal: Okay, that's all from my side. Thank you and all the best.

Moderator: Next question comes from Mr. Prasad of DSP Merrill Lynch.

Prasad: Good evening sir, just a couple of questions on this margin improvement that we are speaking of here. If we adjust for this one time of 6 crores, actually margin appears to be going down by 60 bps instead of going up by say 3%, 4% that we are talking about. So are our margin improvements actually…

Sudhakar Ram: Clearly, when we give guidance Prasad for next quarter, you would see that the margins are maintained and slightly enhanced.

Prasad: I am talking about this quarter, so…

Sudhakar Ram: I mean there are a set of things which happen in any quarter, with all that put together our margins have now stabilized at a higher level and we feel confident of sustaining a 19% to 20% EBITDA margin.

Prasad: Okay, other than that, just a couple of questions on this STG. Without STG consolidation, what would be our revenue, EBITDA, and profit for this quarter?

Sudhakar Ram: See, revenue, STG has added 16 crores to the revenue. The EBITDA addition has been very marginal.

Prasad: Okay fine and so PAT also will be marginal.

Sudhakar Ram: That's right.

Prasad: Would it be safe to assume zero.

Sudhakar Ram: No, it's not zero.

Prasad: Okay fine, thanks a lot.

Moderator: Next question comes from Ms. Mythili of JP Morgan.13:24

Mythili: Hi, I just had a question on the UK revenue, they seem to be a little flat, quarter-on-quarter, is there any particular reason that this is so in terms of what are you seeing on the demand scenario?

Joe Venkataraman: No, I don't think its, there has been a growth. There has been a growth in this quarter and we are also expecting a further growth in the next quarter as well. If you look at even last year quarter in the same period, we would have grown by approximately 20%; I don't have the figures in hand with me, that's roughly that. And over the last quarter figures, we would have definitely grown by about 5% or so.

Sudhakar Ram: In rupee terms, one impact we have had Mythili is the pound depreciation this quarter has been more…Jamshed?

Jamshed Jussawalla: It is 3%, is the pound impact.

Sudhakar Ram: So in rupee terms we do not see that, but in actual pound terms we have grown.

Mythili: Okay, and in terms of the, I will come back for a followup.

Sudhakar Ram: Sure, okay.

Moderator: Next question comes from Mr. Santhanakrishnan of Spark Capital.

Santhanakrishnan: Hi. Just looking at your EBITDA margins the new acquisitions that you have done in STG and Vector, they are basically a low margin business, but you would still see an EBITDA expansion from the current level, just to understand where the EBITDA margin expansion is coming from?

Sudhakar Ram: See, our EBITDA margins are coming out of improvement in productivity, both at the execution level as well as the sales, marketing level, which is what we have been talking about and it's actually happening faster than expected. We were expecting 100 to 150 basis points improvement year-on-year, but this year I think we have done much better than that. Now in terms of the acquisitions, our target is that in about four quarters we should be able to get that acquisition in line with Mastek EBITDA. That's the acquisition objective that we normally set for ourselves. Obviously, initially there will be variations and these are not necessarily high EBITDA high margin company, but with synergies, with efficiencies, we should be able to get it back to Mastek level. And with STG I think by next year we should be able to do that.

Santhanakrishnan: Just to add to my question, is it because of the type of contract that you are in, it looks like a fixed price contract has gone up compared to the last year, so is this like, because you are able to sort of improve the productivity in that part that you are able to expand the margins?

Sudhakar Ram: Exactly.

Santhanakrishnan: Okay. And just to know about the hedging policy, can you just provide an update about the type of contract you have at the moment?

Sudhakar Ram: Jamshed?

Jamshed Jussawalla: Yes, basically in dollar we have 22 million worth of forward contracts, at an average rate of 39.65 and we have around 6.2 million pounds that is pound to dollar contracts at an average rate of 1.98.

Santhanakrishnan: Okay. And what about the miscellaneous income this quarter, has there been any gain from FOREX?

Jamshed Jussawalla: No, actually this quarter we had overall loss in FOREX because of the rupee moving the other way. And basically the miscellaneous income is, we have this dividend income from mutual funds, and recharge of expense to customers.

Santhanakrishnan: Okay and just one final question from my end, regarding your CAPEX in the cash flow statement, does that include acquisition part there?

Jamshed Jussawalla: Yes, it includes goodwill on account of what Vector as well as STG.

Santhanakrishnan: Okay and how do we model the CAPEX going forward, like how much do we expect in terms of facilities and…

Jamshed Jussawalla: See, this year if I am mistaken not, in the first nine months, barring these two items, barring this goodwill and whatever assets came on account of acquisitions, our organic capital expenditure is around 40 crores. So you can, for your modeling you can take around 50 crores average per year.

Santhanakrishnan: And does it include like, having any new facilities in place or is it the existing…

Jamshed Jussawalla: Yes, we are going for the SEZ in Chennai, so bulk of the expenditure would be there, plus we have some space left in Mahape also.

Santhanakrishnan: Okay, thanks a lot.

Jamshed Jussawalla: Thanks.

Moderator: Next question comes from Mr. Ruchit Mehta of HSBC.

Ruchit Mehta: Hi, good evening guys and congratulations on a good set of numbers, just wanted to get a couple of questions in. You mentioned that there was some additional expenditure because of the STG acquisition. Could I get a sense of what the figure was?

R. Desikan: Yes, for example, when we had the fund raising we had spent some money in the form of due diligence and legal and other fees.

Ruchit Mehta: Okay. But if you quantify that please?

R. Desikan: Well, that is total amount that we have taken as a hit in the P&L for this quarter will be 4 crores.

Ruchit Mehta: Okay, so net gain because of extraordinary is just 2 crores at the EBITDA level.

R. Desikan: Sorry?

Ruchit Mehta: The net gain, I mean there was a…

Jamshed Jussawalla: Yes, you are right.

Ruchit Mehta: Okay and just in terms of the STG margins, you mentioned that it has got very less EBITDA margins, but in what time frame, by which quarter should we see the margin uptake happen and come back to Mastek level margins.

Sudhakar Ram: Our plan is to make it happen in the next four quarters, so by let's say March of next year it should come back to Mastek's level.

Ruchit Mehta: Okay, great. Thanks.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Nitin of Mirae Asset Management.

Nitin: Hello?

Sudhakar Ram: Yes.

Nitin: Good evening and congratulations for the good set of numbers. Just wanted to understand, on the top line front if you remove the STG part, the acquisition part, the growth has been very subdued at around 2%, 2 ½%. Is that the case, or I am reading it wrong.

Sudhakar Ram: See, 2%, 2 ½% in rupee terms is correct.

Nitin: Okay. What would be the number in dollar terms?

Jamshed Jussawalla: In dollar terms, it would be around 4% roughly.

Nitin: 4% growth in the top line on organic basis.

Sudhakar Ram: Sequential basis, Yes.

Nitin: No, not sequentially, I am asking year-on-year.

R. Desikan: Year-on-year it is 33%.

Sudhakar Ram: No, that is including STG, excluding STG…

Nitin: No, I am looking at the Mastek Group figure, which says an income of 233.34 crores; I am not including the other income against 211 crores. So incremental around 21 crores, out of that 21 crores, I think 16 crores if I am not wrong has come from STG. So only 5 crores has come basically…

Jamshed Jussawalla: Even at our guidance which we had given we had said last quarter we did 215 crores, this time we had given a guidance of 220 to 225.

Nitin: Its fine, I mean…

Sudhakar Ram: Nitin, I think what you are doing is, in the base figure you are including the DCOTG figures, right? So you have to exclude that when you compute the percentage, because when we look at growth that was a joint venture which we exited out of.

Jamshed Jussawalla: Correct price is 195, it includes other income, so I think the base figure to compare is 190 crores rupees or approximately 199 crores I guess, last year same quarter.

Nitin: 195 crores and 215 crores. Is that right?

Jamshed Jussawalla: Yes, correct.

Nitin: Okay. And second, most of the costs have come down on year-on-year basis, but the others, the classification has gone up considerably, from 33 crores to 52 crores. So is there any extraordinary expenses that you have incurred, or is it going to be the way going forward?

Sudhakar Ram: Jamshed?

Jamshed Jussawalla: Which one you are talking about?

Nitin: I am looking at the Mastek Group figures. In this there is a head called others in the expenses, which is up considerably year-on-year, from 33 crores to 52 crores. So is there anything extraordinary or anything…

R. Desikan: No, basically in this others of what you are looking at, the quarter ending March '08, it includes the other expenditure of STG as well as Vector. That is one of the major differences, and then as I said in this particular quarter we had around 4 crores of expenditure on this loan, which we took for acquisition.

Nitin: Okay, so all the STG expenses, is it included in others, or staff expenses.

R. Desikan: No, STG we have done line by line consolidation, so whatever staff costs was there of STG, they have gone there. Now whatever the other expenditures of STG and Vector, they have gone in this particular line.

Nitin: Okay, so if you see from that perspective, your staff cost is 125 crores against 130 crores year-on-year.

R. Desikan: Yes, the other thing which you have, this 130 crores was there in March '07 that included the DC JV numbers also.

Nitin: Okay, how much would be that?

R. Desikan: That we don't have it ready made.

Nitin: Okay fine. Thank you.

Moderator: Next question comes from Mr. Dipesh Mehta of Khandwala Securities.

Dipesh Mehta: Sir, we are going ahead with our buyback plan, and earlier we announced FCCB simultaneously. So now we will postpone it for time being, so will it affect our business plan in any way?

Sudhakar Ram: No, see, even when we planned FCCB, we had a choice between FCCB and debt, so this acquisition we have used debt and we have paid for it, so there is no compelling urgent need to have an FCCB right now.

Dipesh Mehta: So our business plan is as it is, so there are no changes in business plan as it is.

Sudhakar Ram: That's right.

Dipesh Mehta: Okay, thank you.

Moderator: Next question comes from Mr. Nikhil of Edelweiss.

Nikhil: Hi. I have one small question on the margin expansion. If you look at the margin expansion this quarter, primarily one thing is on the write off this thing, on write back of the staff cost. Secondly, is it primarily driven by the top line realizations rather than pure operational levels and efficiencies?

Sudhakar Ram: Sorry, driven by?

Nikhil: Driven by more of your shift in the contracts rather than which is more on a realization part, rather than on the cost efficiencies you gain.

Sudhakar Ram: See the contracts, given the nature of our contracts, that doesn't vary too much quarter-on-quarter, so it is all based on productivity improvements, tighter project execution, better grade mix.

Nikhil: Okay. Sir, my question is coming from, if you are looking at a margin model for Mastek; let's say from here onwards to next one year, which is FY09. We have been looking at around 17 is what you have been looking out in FY06 and which is at a 14 to 17 range. Now you are talking about 19 to 20 going forward, right?

Sudhakar Ram: That's right.

Nikhil: So, my primary question is, what is driving these efficiencies in terms of margin, what are the levels you look at, and what are the sensitivity of external factors, which you see, might be little threat towards this margin in terms of…

Sudhakar Ram: Many of these are pure internal factors, so we are looking at like, in fixed bid projects, you have a control over productivity and execution. Second is the grade mix that you have and third is other discretionary costs and fourth is sales marketing, productivity. With the same team or reduced team you are going to generate more sales. So those levers remain.

Nikhil: And how dilutive is your new acquisition to margins in any case, is it a substantial…

Sudhakar Ram: No, it will not, I think in the short run there is a bit of dilution, but in the next four quarters that will be quite a solid acquisition from a strategic perspective, so I don't see that as…

Nikhil: Okay, thanks.

Sudhakar Ram: Thank you.

Moderator: Next question comes from Mr. Sunil Thirumalai of Credit Suisse.

Sunil Thirumalai: Hello, sir, just a couple of questions, first I just wanted a clarification on the head count; you said STG brought in 350 people.

Sudhakar Ram: That's right.

Sunil Thirumalai: But, then if you remove that there is actually a drop of 30 people, so I just wanted to understand?

Sudhakar Ram: That's right, see the trainee recruitment program that we had, pretty much got completed by December, so there were no trainee additions during this quarter, so when you remove the attrition, actually it was on a, the head count came down, but with the same head count we were able to produce better revenues as well as better profits.

Sunil Thirumalai: Okay, sir and secondly when you said for '09, a 35% is what you are expecting, is that on top line or on the bottom line?

Sudhakar Ram: Top line.

Sunil Thirumalai: Any indication on your bottom line, because…?

Sudhakar Ram: We will give that in July, in July we will give guidance on that.

Sunil Thirumalai: Okay, and how many more such acquisitions are built into that?

Sudhakar Ram: See, right now when we look at 35% for next year, we are only basing it on the acquisitions already in hand.

Sunil Thirumalai: Okay, that's all from my side, thank you very much.

Sudhakar Ram: Thanks,

Moderator: Next question comes from Mr. Ramprasad of Sundaram BNP.

Ramprasad: Hello, good evening sir, congratulations for a good set of numbers.

Sudhakar Ram: Good evening.

Ramprasad: Sir, I just wanted to understand about this Thales partnership and what's the kind of…

Sudhakar Ram: I think you have got to speak up.

Jamshed Jussawalla: Ram, can you be a little louder?

Ramprasad: I just wanted to understand about this Thales partnership and how things are moving and what is the nature of work you do in this partnership?

Joe Venkataraman: See, this partnership has been, let me define our partnership terminology, we have been working with Thales for some time in trying to create a joint IP in this particular sector. While it started sometime ago, we want to announce it as a partnership only when a deal has been signed and that's one reason you get to hear that we have a partnership in place today. So, what we want to achieve out of this is, how can we replicate the success in possibly other defense organizations, that we have in conversation as to how to take that forward.

Ramprasad: Okay and secondly sir, on your buy back plan, is it like you are currently going on net debt of around 11 crores and odd?

Sudhakar Ram: Can't hear you, Ram.

Ramprasad: Sir, you are running out of your net debt that's close to around 11 crores, so you are still on plan to go to the buy back?

Sudhakar Ram: Definitely.

Ramprasad: Okay, thank you sir.

Moderator: Next question comes from Mr. Ashok Kiran of Span Capital.

Ashok Kiran: Hello, good evening sir, congrats on a good set of numbers. I am having a question here; you told about the partnership deal of this defense, can you tell me how the revenue is going to contribute from this partnership?

Joe Venkataraman: I think it is premature to talk about it at this point in time, because the execution is just starting to begin and its all a question of the ramp up, the preparedness of the customer, the preparedness of the partners in taking on this work and so since it is a system integrations job, it also depends on what is the bought out products, are they ready, not ready, etc, so it will be premature to give this guidance, but whatever we believe it is, it is reflected in the next quarter projections.

Ashok Kiran: It is coming to the next quarter, right?

Joe Venkataraman: Yes, some of it will come in the next.

Ashok Kiran: Sir, can you give the numbers on debtor days and cash flows?

Jamshed Jussawalla: Debtors is around 65 days and the total cash is 200 crores.

Ashok Kiran: Sir, regarding the NHS contract which has ramped down, can you tell me what was the reason for this ramp down?

Joe Venkataraman: Sorry, can you repeat that a bit louder, please?

Ashok Kiran: Sir, NHS contract which has been made you told last time …from June spanning through '09 what's happening over there, why the ramp down has come for the order.

Joe Venkataraman: No, see the ramp down is basically because there is some portion of the development work which is at a peak last year, is going to slow down and once that development is complete, then we have to take on and do the maintenance and that's one of the reasons why we wanted to take that into consideration while we have our plan in place to see how to reduce the hit. That has been taken into account as Sudhakar said in next year's projection

Ashok Kiran: Okay, sir, other question is, your US revenue has increased so much geographically, is it due to the STG acquisition only, right?

Sudhakar Ram: That's right, correct.

Moderator: Mr. Ashok, any more questions?

Ashok Kiran: Thank you.

Moderator: Next question comes from Mr. Atul of Tata Mutual Fund.

Atul: Hello sir, you mentioned have mentioned one specific project ramp down in US, can you throw some more light on it, how much was the scale of that ramp down and also some general comments on the US demand scenario?

Sudhakar Ram: See, the ramp down, like I said is just an abrasion this quarter and we will come back on track next quarter and in any solutions business these are part of life, some geographies, some project goes down, some goes up, so I would not be too concerned there. Overall we have not, while obviously the recession is looming in the US, in the segments that we have been involved with, we have not seen an immediate impact and all said and done we are a small company, we are only a 220, 230 million dollar company, so we believe that with better execution, we can still maintain our growth momentum.

Atul: Okay and my second question is, when you say 35% growth rate in FY09, is it adjusted for the NHS ramp down?

Sudhakar Ram: That's right.

Atul: Okay, thank you.

Sudhakar Ram: Thank you.

Moderator: Next question comes from Mr. Hardik Doshi of Voyager Capital.

Hardik Doshi: Hi, I had a question regarding the FY09 guidance of 35%, you said that includes acquisition that you completed already, see excluding that, would you be able to estimate what the organic growth rate would be?

Sudhakar Ram: I mean, why is it relevant?

Hardik Doshi: Well we just want to know weather it leads to acquisition; we would be getting a flavor of what your existing business…

Sudhakar Ram: See, even our existing, whatever we acquire, we want to grow that part also at 35%, so as far as we are concerned, we are not making roll up acquisitions, we are making strategic acquisitions, which add capability, which synergize with Mastek.

Hardik Doshi: Yes, but then, I mean, your acquisition just contributed to one quarter this year, versus contributing for four quarters next year, I mean, the two quarters this year versus the four quarters next year, so that obviously makes a difference in terms of your actual growth rate on existing…

Sudhakar Ram: But, that's part of our growth strategy.

Hardik Doshi: Okay, alright and then may be just separately, I guess, given the macro environment, can you just give some more color on what kind of visibility do you have on this growth (not sure) like I guess almost…

Sudhakar Ram: See, actually, let me say that this is more indicative, we will give a guidance in July, at that time we will be able to throw light on some of the questions that you are asking. At the beginning of the financial year may be more appropriate for some of these discussions.

Hardik Doshi: Alright, thank you.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Sujeet Joshi of CRISIL.

Sujeet Joshi: Good evening, gentlemen. One question that I have right now is on your order book size, could you specify as to how much of this order book growth that you have seen is on account of the STG Mastek?

Sudhakar Ram: Jamshed?

Jamshed Jussawalla: See, STG Mastek is around 15 crores, in this quarter 6 crores.

Sujeet Joshi: No, the incremental of that 15 crores has come in, right, so…

Jamshed Jussawalla: Yes, so if you remove then it is at 390 crores.

Sujeet Joshi: Okay, Yes and what was your attrition rate this quarter, if you could specify a number?

Sudhakar Ram: Jamshed, do you have that?

Jamshed Jussawalla: Yes, it would be around 17% and this includes trainees also.

Sujeet Joshi: Okay, Yes and one clarification, could you give us the dollar revenue number for the last year, excluding the JV that you had with Deloitte?

Jamshed Jussawalla: It was 165 million for the full year.

Sujeet Joshi: Okay, that's it from my side, thank you very much.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Kunal of K.R. Choksey.

Kunal: Yes, congratulations for the excellent results. I had a couple of question here, firstly how do you see the property and casualty insurance business going forward, do you expect it to perform better that the annuity insurance?

Sudhakar Ram: See, these are two separate cycles, so I can't really predict at this stage about overall market, but we expect both the insurance segments that we are in to grow quite significantly in the next three years.

Kunal: Okay, are you considering any more acquisitions in the soft property and casualty front?

Sudhakar Ram: Yes, if the right thing comes along, which adds to our solutions capability, we will look at it.

Kunal: Okay, and just one more question about the new clients you added, it is more like a macro economic question here, do you see any changes in the pattern related to the duration of the contracts and the size of the contracts, considering the economic slowdown going on?

Sudhakar Ram: Not really.

Kunal: Okay, that's it from me, thank you.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Sandeep of IISL. Mr. Sandeep?

Sandeep: Hello.

Moderator: Sir, you can go ahead with the question.

Sandeep: Okay, I was just wondering about the decreased tax cost, I overheard something about a tax write backs over here, can you elaborate on this, please, what kind of tax write back were they?

Sudhakar Ram: There was no tax write back; these are just changes in incentive policies which led to write back with some provision.

Sandeep: Right, what kind of, can you elaborate a bit more on these please, was it a decrease in bonus or what kind of write backs were they?

Sudhakar Ram: Incentives, basically the incentive provisions got written back.

Sandeep: Okay and are these expected to be reversed for the next quarter, so could we see a jump in salary cost in the next quarter?

Sudhakar Ram: Definitely, the salary cost will go up next quarter because this provision reversal will not be there, it's a one time thing for this quarter.

Sandeep: Okay, thanks a lot.

Moderator: Next question comes from Mr. Ruchir Desai of Pioneer Invest Corp.

Ruchir Desai: Hi, good evening, just a question on your previous comment on the ramp down in the first few client in the US markets, you said its an aberration, so I guess, it was unexpected, but could you just specify what's the reasons for this ramp down and also which vertical is this client operating in?

Sudhakar Ram: No, the ramp down was not unexpected, but we expected the transfer to a new program to happen in the same quarter, that's happening in the next quarter.

Ruchir Desai: Okay, so the client is still, there is still lot of plans to ramp up going forward with you in the contract?

Sudhakar Ram: Yes, that's correct.

Ruchir Desai: So, which vertical is this client in, if you can specify that?

Sudhakar Ram: Yes, this is in the wealth management vertical.

Ruchir Desai: Okay, and also your top five and top ten clients are seeing some sluggish growth last couple of quarters, could you just elaborate on that?

Sudhakar Ram: Why do you say there is sluggish growth?

Ruchir Desai: In terms of rupee terms, in absolute numbers we have been growing, I mean, it's more in the company growth, that's my calculation if I am not mistaken.

Sudhakar Ram: We need to check that because I feel that the top customers are growing well.

Ruchir Desai: Yes, top five and top ten customers as per your data given in your fact sheet, I was just elaborating on that and are you seeing any pressure on the financial services vertical in the US or the European markets in terms of delays of projects or execution of projects?

Sudhakar Ram: See, our main exposure there is insurance and some broad asset management type companies, so, in both those we don't see much delay. Insurance is growing pretty strong and even the wealth management, asset management type companies, whatever we had planned for the year is happening.

Ruchir Desai: Okay and any specifics on head count addition plans for the next quarter, if you can elaborate on that?

Sudhakar Ram: Our business is not head count driven.

Ruchir Desai: I agree, but if you have a rough estimation on what do you all have?

Sudhakar Ram: We don't have a rough estimation.

Ruchir Desai: Alright, thanks.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Neerav Dalal of Capital Market.

Neerav Dalal: Sir, all my questions have been answered, thank you.

Sudhakar Ram: Right.

Moderator: Ladies and gentlemen, to ask your question please press * and 1 on your telephone keypad. Next is a followup question by Mr. Nitin of Mirae Asset Management.

Nitin: Hello.

Sudhakar Ram: Yes, Nitin.

Nitin: I was wondering on one subject, this staff cost has come down, just wanted to understand what kind of write backs you have done and secondly I will put some numbers, if you see addition of 350 people in the US and even if you take 15,000 dollars a quarter as pay, which is the minimum, you add around say 20, 21 crores rupees in the staff cost, if you add that then your staff cost come down to about 105 crores?

Jamshed Jussawalla: No, see of this 350, only 75 are additions in US, balance are all in India.

Nitin: Okay, so how much incremental staff cost, okay let's say it is 12 crores.

Sudhakar Ram: Nitin, I am saying that all that taken into account, we have given you guidance for next quarter, where we are saying that the profit will be at about 37 to 38 crores. So, all these are already factored in into that projection.

Nitin: Okay fine, I had one other question, in the balance sheet I see cash investments of close to around 200 crores and you have debt of 82 crores, so net cash is somewhere around 120 crores, so, I mean, with such a low balance of cash and with say 40 crores of investments to be made, why are you pursuing the buy back?

Sudhakar Ram: Because we believe that the stock is undervalued and it will be in the investor's interest to invest that surplus rather than in a mutual fund than in our own stock.

Nitin: Okay and that is a very general answer, but is there any significant pick up in the business that you are seeing over next two, three years, I mean, if you see long term…

Sudhakar Ram: Nitin if 35% growth in today's terms, if it is not significant then what is significant?

Nitin: No, I am looking for next two, three years, how do you see the business panning out?

Sudhakar Ram: Yes, so we are saying that we are going to grow at 35% at least over the next three years.

Nitin: That will be all organic, I mean…

Sudhakar Ram: It will be a combination of organic and inorganic.

Nitin: Okay, and if you can add on to this that, where this growth will be driven from and, I mean, just if you can just give a commentary on how the business is going to pan?

Sudhakar Ram: Our strategy is to operate on the third wave, which is, being a strategic high end solutions provider from India, it's a vertical focus. We talked about our strategy, we are currently focused on insurance, we are focused on government, we will add some more verticals, we will reinforce our position and consolidate our position in the existing verticals and we see that getting us to a 35% plus growth rate over the next three years.

Nitin: Okay fine, thanks.

Sudhakar Ram: Thanks.

Moderator: Next question comes from Mr. Tejwinder Singh of Arihant Capital.

Tejwinder Singh: Congratulations for a good set of numbers, my question pertains to acquisition of, there is a JV with the Thales UK and do you have any plans for entering into Indian defense segment, as we know that already the Rolta Thales JV is there?

Joe Venkataraman: See, what I want to say is that it is not a joint venture that we have established with Thales, if that is the communication you have received, I don't think that is right. What we have is a partnership, is an arrangement by which we have jointly created a solution of which we can go on the intellectual property. Now, both of us have the right to go and possibly market this solution to any country that is all we have. Now, at this point of time it is premature to discuss, who those prospects are and this has nothing to do with the Rolta relationship, which is completely different and it has been setup for a completely different purpose.

Tejwinder Singh: Okay, right, thank you very much.

Moderator: Next question comes from Mr. Yash of ICICI Direct.

Yash: Good evening sir, good set of numbers, as far as your Thales relationship is concerned, suppose you now take the product or the application that you have developed outside the UK, is there any kind of sharing of revenues or any payment that has to be made to Thales on this front?

Joe Venkataraman: I think the best is to describe not the commercial relationship at this point in time because what best is to describe it is that, the both of us want the ID and one of us have to lead, so we have to decide who is in the best position to lead the solutions and if it is a large government deal in the UK, they are the best player to lead that, so they are the lead consortium, so we will work out a commercial arrangement by which the next deals are won and the revenues, how it is shared.

Yash: So, this will hold true even if you win deals outside the UK?

Joe Venkataraman: Yes, that's correct.

Yash: Alright, thanks a lot.

Sudhakar Ram: See, just to set the context, this IP is in the process of getting built, its not already there, so its what, an 18-month program and only at the end of 18 months can we actually have something which we can take somewhere else, so…

Yash: Okay, alright, thanks a lot.

Moderator: Next is a followup question by Mr. Santhanakrishnan of Spark Capital.

Santhanakrishnan: Hi, this is just regarding your utilization rates, like if I just look at your utilization rates, its almost flat for onsite and its slightly deceased for offshore, so I was just wondering whether we can expect any further improvement in the utilization rates and already it should have improved in this quarter given that you have not added any head count, so I just wanted to clarify on that?

Sudhakar Ram: See, you have to understand that in the solutions business; going too much on manpower statistics will be misleading. Actually utilization is not a big lever for us from either a top line or a bottom line perspective, obviously it has its impact, but it's not the major driver, its productivity which is the major driver, so the same set of people, are they producing x dollars or x+y dollars.

Santhanakrishnan: Okay, how is the utilization given in the analysis sheet calculated then, I mean, how do you go about calculating this?

Sudhakar Ram: The way any other utilization is calculated, so these are people who are on project versus people on the bench, but my thing is, if people on the project, they can produce 10, they can produce 15, they can produce 20 and because of the nature of the solutions business and the fixed price component, we have a better lever there than 1%, 2% changes in utilization.

Santhanakrishnan: Okay and I also wanted to know something about the pricing pressure, do you find any pricing pressure in this current environment or how do we find the pricing to be?

Sudhakar Ram: I think the customers have been quite, I mean, the pricing situation has been quite comfortable, there is no issue.

Santhanakrishnan: Okay and about your debt, is it possible to give me some more details about your debt, the interest rate and where you have taken the loan from and hypothecation details?

Jamshed Jussawalla: Well, we have taken it as a commercial loan on a LIBOR plus basis from a foreign bank, the loan has not been taken in India, it has been taken outside India.

Santhanakrishnan: Okay, so it is pounds, basically?

Jamshed Jussawalla: No, in US dollars.

Santhanakrishnan: And what about the BPO business, like it's declined about 50% year-on-year, so is there any chance of growth there or are we going to look at discontinuing the business?

Sudhakar Ram: We do not see BPO as strategic to us, but wherever customer commitments are there, we will continue to service it.

Santhanakrishnan: Okay and last final question, how much of your acquired business revenue is development and maintenance, any rough estimates?

Jamshed Jussawalla: It would be around 50:50.

Santhanakrishnan: Okay, thanks a lot.

Moderator: We have our last question coming from Ms. Mythili of JP Morgan.

Mythili: Hi, sir, I just wanted to check with you on the buy back, could you give us some indication of what time lines you are looking at for doing it?

Sudhakar Ram: See, now that the FCCB is off, we are starting the buy back process actively and there are some steps which we need to do, we need to come up with a public announcement and the moment we come out with that, there is a natural time, which is indicated there. So, it is fairly soon, overall.

Mythili: Okay sir, thank you so much.

Moderator: Now I hand over the floor to Mr. Sudhakar Ram, Chairman and Managing Director, Mastek for closing comments.

Sudhakar Ram: Thank you all for participating in this call. As I have always mentioned in the past, the Mastek business model is different, that we are a solutions company, the drivers for us are fairly different from a services company and to that extent head count driven things, utilization driven things could be misleading as a way of analyzing the Mastek results. Overall, in terms of the strategy that we have followed, we see that consistently over the last 12 to 15 quarters, we have been able to execute to that strategy and improve our metrics in a very systematic manner and I continue to think that the market segments that we are addressing as well as the execution and strategy that we have in place are going to put Mastek in a leadership position in the strategic solutions end of the business in the vertical solutions end and we are pretty optimistic about our future as a company. I know that all of you have been analyzing and supporting Mastek over a long period of time and I expect that you would continue to extend us this support, understand our business model better and propagate the Mastek message across. So, thanks for that and look forward to meeting you all in July. Thank you.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, have a pleasant evening.

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