Transcript: Post Q2 FY2009 results conference call, Mastek Ltd
9th January 2009, 12noon IST

Presentation Session

Moderator: Good morning 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 who heads investor relations at Mastek. Please go ahead Mr. Singh.

Abhinandan Singh: Good afternoon everybody and welcome to our second quarter conference call; second quarter, because our financial year starts on July 1st every year. Present along with me today at this call are Mr. Sudhakar Ram, our Chairman and Managing Director, Mr. Joe Venkataraman from UK, Mr. R. Desikan, our Finance Director, and Mr. Jamshed Jussawalla, our CFO. We will begin today's forum with brief opening remarks by Mr. Ram and then we can have questions & 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 same access numbers that are mentioned in the conference call invitation which you would have received. 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 & MD, to please initiate this call with his remarks.

Sudhakar Ram: Thank you Abhinandan and good afternoon to all of you. Thanks for joining in on this call. This is our Q2 results call. As you would have read my statement, this quarter had seen two challenges. One is the impact of the slowdown slowly started getting Mastek also, in terms of some of the clients delaying new initiatives, cutting back on budget, and so on, and we have started facing the impact of that this quarter and I do expect that we will see this impacting our performance over the next two quarters also. Further to that, we got a further hit because of the pound depreciation, where we saw the pound losing 9% just through this quarter, from October to December and that has led to both exchange losses as well as translational losses on the top line. Having said that, I think, overall from a business performance perspective, the growth that we expected this quarter did not happen largely because of the slowdown. So, on a constant currency basis we have been flat in terms of growth and projecting a flat quarter even next quarter. And whatever has been the reduction is largely because of the translational losses on the top line. On the bottom line, against the guidance of 43-44 crore we ended up at 31 crore, but that was completely because of the exchange loss. And if we add back the exchange losses, we go back to a 43 crore profit ticker for Q2. Similarly in case of Q3, the difference is largely because in terms of the guidance, we have brought it from 31 crore last quarter (Q2) to 32 - 33 crore in current quarter (Q3). And there while we are not anticipating further depreciation of the pound, the quarter beginning depreciation itself is contributing to about half that figure and the other half is as we are spending on new initiatives, bringing in new leadership team that I talked about in my press release, we do expect some extra costs during the quarter, which will probably get adjusted over the next two quarters. Fundamentally, I am still very confident about the business model and the prospect as the economy revives.

I have been talking about the fact that our model, in terms of focus on transformational programs, becomes more and more urgent especially given the kind of prices that the financial sector and various other sectors have gone through and we are one of the few players globally committed to building applications, which support our customers with their transformation initiatives. So with that in mind we have actually made a move to reinforce and invest in growth so that we are ready as and when the market opens up. So we have reinforced our go-to-market deals and brought in senior executive leadership.

I would like to talk about John Dowd who used to run EDS Canada. He was brought on board as an advisor last quarter to help us start our entire plan for growth and now I am happy that he is coming on board as the Group President and COO to take over the day-to-day operations. So that transition is happening as we are speaking. This month we have also added senior leadership in different parts of the globe. We have Kees Tan Nijenhuis who has joined us the Head of UK and Europe and he has come in from Wipro where he has been involved and he has seen the journey of Wipro from a few hundred million in the UK/ Europe territory to a couple of billion dollars over the last six years. So he was one of the key leaders in that entire transformation of Wipro Europe and we are very happy that we brought him on board because we have that kind of growth ambition for the company. We also have, given our insurance focus in the US, on board the person who saw Solcorp rising to beyond a 100 million dollars. Solcorp is an insurance solutions company, which has a global footprint. It is part of EDS and we are very happy that Mike Dufton from Solcorp is now going to lead our North American business, as the CEO of the North American part of our operations, as the President of the North American part. And we also have looked at expanding geographically to increase our footprint both into limited parts of Europe as well as Canada. Europe would be done by Kees, while Canada we have brought in a senior person from Cisco, Ross Pellizzari, and he has again joined us just in January. So you can see we are reinforcing the leadership team we do see that the market opportunities of Mastek are pretty strong and while the slowdown has impacted our growth rate, but we remain confident that on a medium to long term basis, we would be able to outperform in terms of growth. So that remains the message that I have had. We have had short term headwinds and all of us are aware that as an industry and as a company, we need to ride these for the next few quarters and as the economies revive, the companies which will emerge strong are the companies which are actually catering to what is the urgent need of our customers and definitely transformation initiatives are going to increase as a proportion of the IT spend going forward. So with that I conclude my opening remarks and I will be happy and our team here would be happy to address questions from all of you.

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. As a courtesy to other participants, in the first round we would request you to please restrict yourself to asking one question and come back later for a followup if necessary.

First question comes from Mr. Pratik Mehta of Bajaj Allianz.

Pratik Mehta: Congratulations on a good set of numbers. Sir, this is regarding the Elixir launches that we are planning to have in the next couple of quarters. Can you just give us some update on how many modules we have launched and what kind of revenue we have booked in this quarter and what we are looking forward in the next maybe couple of quarters?

Sudhakar Ram: What we launched this quarter was the Elixir Distribution Management solution that actually handles the channel management, channel intensive compensation, managing the structures and the incentive program. So this launch is actually a global launch because this module is relevant not just in India, in the Asia Pac, but also the UK and in the US. So the sales effort would start on this. So I don't think we are really targeting to book any orders in the current climate immediately, the next quarter. But over the next two, three quarters we expect to have our first set of price globally for the Elixir Distribution Management. The next module to come in Q3 would be the New Business/Underwriting module, which is specifically targeted towards the US market. The other thing we have already launched, leveraging the asset that we had in the Vector acquisition as well as the Elixir infrastructure in terms of service bridge, which is new technology, high tech frontend to better the system we have launched a product called Vector on the ware, which is targeted at the mid-sized insurers in the US. So that is launched this quarter and we have started building up a profit base. That we may see a success in the second half of the year, which is between January and June, but it is too early to say right now.

Pratik Mehta: So, is it the case that so far we are not booking any revenue from new Elixir platform?

Sudhakar Ram: We are, but only with relation to Capita and the Capita customers.

Pratik Mehta: Okay, all right. Thank you.

Moderator: Next question comes from Mr. Rishi Maheswari of Enam AMC.

Rishi Maheswari: Good afternoon management. From our last conversation, you've been generally reasonably bullish on the government and the IT spend. So can you also give us a sense of where are the pinpoints now emerging from. You have also seen certain cancellations, delays of projects. Which verticals were they catering to and in addition to that if you can also highlight where is this cancellation or delays coming from? Is it towards the development part of the project or is it towards the maintenance part? Thank you.

Sudhakar Ram: In terms of the vertical, the UK government vertical, I think, is pretty much on track. So we did not see much impact of the slowdown on that as yet. Those projects are going pretty much on track. We faced problems in two parts of our business, one is new orders on insurance, where we see delays in terms of new initiatives as well as new product launches and the second is actually on existing accounts. As you are aware, about 25 to 30% of our business is based on services around existing accounts. And there we have seen some impact of budget cuts in large corporations especially in the US. The third part where we consciously made a decision from a profitability perspective to reduce our exposure is in the Asian market, where we have actually cut back on the countries that we want to operate as well as the level of investment that we are going to make. Because in the short run these projects don't tend to be profitable, they are more long term capability building kind of projects. So we are cutting back in terms of top line, so that we can improve on the bottom line and use the money more productively in the developed countries. So that's where, if I were to say, the broad impact is.

Rishi Maheswari: All right, I will come for the followup. Thank you.

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

Kunal Sangoi: Yes, thank you. Sir, if you can touch upon the new management you said. We had hired Mr. Ram Mohan who was the COO sometime in 2007. Is he still with the company or…

Sudhakar Ram: No, we had announced his exit two quarters back.

Kunal Sangoi: And second question is with regards to, of the total revenues, about roughly 44% is government business. It would be helpful if you can breakdown what would be the recurring part of revenue of the balance 55% or roughly 54%?

Sudhakar Ram: That's very difficult ongoing, see, basically I think if you take development to maintenance, our ratio remains roughly 70:30, varies quarter on quarter. So you can broadly assume that 30% is the recurring part of the revenue, though that won't be an accurate statement, but beyond that offhand we will not be able to break it up.

Kunal Sangoi: Okay. Thank you.

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

Srivathsan: My question relates to the kind of pricing prices we are seeing in the market. Given that that client concentration is pretty much high, most of these clients will have a high bargaining power and what kind of pricing cuts are they asking, just could you give us some idea on that?

Sudhakar Ram: See, on the solutions part of the business, we don't see much of an issue. In terms of pricing, definitely there is pressure, budgets are tight. But from the Mastek perspective, we don't see too much of an issue on pricing on solutions. But definitely the services contract that we have in the last company, especially this is more in the US, dollar appreciation, they have been looking at price cap typically in the 5 to 10% range.

Srivathsan: Okay. Given the kind of pricing cut and also the low demand on the value, see the confidence for maintaining margins or kind of pushing things forward, is it utilization or any other levers that you are looking at?

Sudhakar Ram: Basically there are two or three levers. One is utilization, second is productivity on fixed bid projects and third is a general sensitivity and awareness to cost. So it's in all the areas.

Srivathsan: Okay. I will come back later. Thank you.

Moderator: Ladies and gentlemen, to ask a question please press * and 1 on your telephone key pad. Next question comes from Mr. Ruchit Mehta of HSBC Asset Management.

Ruchit Mehta: Just on the pricing, could you repeat what's the kind of pressure that you are seeing and what amount of the business is getting impacted due to the pricing pressure?

Sudhakar Ram: See, this is largely restricted on the services business, in our case a couple of clients in the US, that is not large, significant, but in the overall scheme of things it is not something that will impact our margins.

Ruchit Mehta: Okay, so a couple of clients have essentially seen this 5 to 10% of cut.

Sudhakar Ram: That's correct.

Ruchit Mehta: And in terms of the business outlook for the next couple of quarters, you mentioned that in your press release, there is a bit of slowdown and you are continuing going forward as well. What are you seeing, if you can essentially give us a greater clarity on the business environment? Just to get a bit of perspective.

Sudhakar Ram: I wish I had that myself. See, from the beginning of the quarter where I couldn't really see any impact, during the quarter we have seen impact across a set of accounts. And I think the clients are also, it is not that their underlying business is not performing, but everybody is being cautious. So for me to answer that question now will be very difficult ; because the clients themselves are not very clear when their purse strings will open up and when they will restart these initiatives. It could happen in a quarter, it may take three quarters, but I am not expecting it to last beyond 2009 as we stand today. But the situation is just not readable right now at least by us.

Ruchit Mehta: Okay. Then therefore when you are guiding for this third quarter, what is the basic underlying assumption, primarily on the margin front because adjusting for constant currency, your PAT of 43 crores, but then one look at it in the third quarter obviously there is some rupee-pound exchange we assume, but what's the real margin, because you said you are investing some bit of more money into marketing and the new…

Sudhakar Ram: In terms of EBITDA margins, in Q2 we got marginal impetus, you add back the exchange losses. In Q3 we expect the operating margin to go down a bit as we greet in new people, but by Q4 I think that would stabilize.

Ruchit Mehta: Okay. Finally sir, a question on, we have been facing significant low cash balances, but considering the environment we live and people are doubting helter-skelter anybody who is there, so if you can just reassure us that the money is there in the bank.

Sudhakar Ram: We have reassured ourselves and we have completely reassured you also. As far as Mastek goes, one thing that people have never doubted us on is our integrity and the transparency of our financial operations. So, from our perspective we just finished a board meeting and the board has definitely looked into it in greater depth and all of us are completely comfortable that the financial transparency of Mastek. So you don't need to have any fear on that front.

Ruchit Mehta: And PWC is an auditor of ours, any thinking or thought process on what you guys are planning to do with, are you going to retain them, or any idea at this point in time, or is it too early to call?

Sudhakar Ram: Yes, it is. Because we want to see, we can't hang someone just on the basis of newspaper reports. So we have to see what it turns out to. We have also asked them to come proactively and come up with a set of things on how they are going to handle the situation. We will make a call, I don't think, this is too early to react to that.

Ruchit Mehta: Okay. And just one final question sir. What's the acquisition strategy now, because we have been looking at companies and probably in the current economy you might just find assets very cheap? So what are you looking at? Are you seeing good opportunities coming your way?

Sudhakar Ram: See, earlier plan was to not get any acquisition until July, but now with the market and with the kind of things; we are more open than what we were in the last quarter. There is nothing tangible out there right now.

Ruchit Mehta: Okay. Thank you.

Moderator: Next question comes from Mr. Pawan of Dipen Mehta Stock Brokers.

Pawan: Sir, with government spending expected to increase; do you expect to benefit substantially from the same?

Sudhakar Ram: It is difficult to comment at that level, but definitely there are bids out there, which we are participating in, both in UK as well as in India. So when we say that the government part will remain at about 40 odd percent and we don't see much of an issue from the slowdown on the government side, then obviously we expect the benefit from that.

Pawan: Okay. Thank you sir.

Moderator: Next question comes from Mr. Tarun Sisodia of Anand Rathi.

Tarun Sisodia: It is a good set of results in constant currency terms. So congratulations on that part. I have a couple of questions, one starting out from the guidance; you have given certain guidances based on some currency movement assumptions. It is just a request on my side, if you could preferably give it in constant currency, because it does not make too much of sense for management to give guidance on currency as well.

Sudhakar Ram: We can quite happily give you in constant currency. What we have done -- and we have actually sent this to the stock exchange and sent all of you an update -- basically we have just taken the currency as we stand today in the beginning of January, and the entire numbers this quarter are based on the January numbers, and I can read it out to you. It is 69.60 for the GBP and 48 rupees to a dollar, compared to 75.81 for GBP and 49.41 on the dollar, which was the average realized raised for Q2. So both pound and dollar are actually depreciating this quarter, that's the assumption that we have made.

Tarun Sisodia: I think I am very happy to see that you are also giving lot of details on constant currency part of it and which hopefully would become a benchmark for lot of other IT companies as well.

Sudhakar Ram: Yes, and especially given today's very volatile currency environment, we have been struggling for the best way. First we used to look at the whole year in dollars, then last quarter we changed that to rupees because the pound to dollar equation went haywire while pound to rupees was still okay. And this quarter everything is again changed. So constant currency looks like one approach at least from a top line perspective, but from a bottom line we are puzzled exactly how to report and set expectations in a manner which will be meaningful. So we are trying the best we can.

Tarun Sisodia: The other thing I just wanted to point out on guidance, that in your press release you had also said that for a full year although you don't give guidance, you do expect 10 to 15% kind of jump in revenues.

Sudhakar Ram: In rupee terms.

Tarun Sisodia: Yes. And if I take that and take the implied fourth quarter what is coming out, there is a significant jump which is expected in fourth quarter.

Sudhakar Ram: That's correct.

Tarun Sisodia: So you are really expecting fourth quarter to be very good.

Sudhakar Ram: That's correct.

Tarun Sisodia: But simultaneously your order book position which was there at the end of last quarter versus what it was in December ending quarter, there is a significant decline out there.

Sudhakar Ram: There are two parts to it. One is, half the decline is just because of translation, pound to dollar, the other half is the order pipeline didn't fill up as fast as we expected. There are things in the pipeline, which should close this quarter, but from existing accounts. We are not expecting too much of new account, new business, but existing accounts where it is visible, we know it will happen and therefore the growth expectations are based on what we see in terms of the pipeline as well as the business going forward.

Tarun Sisodia: And just your outlook on how you see the demands especially for smaller set of hidden IT service companies like yourself in the whole scheme of things – do you see, overall in the demand outlook, are you witnessing significant amount of stress on volume growth, leave aside the pricing part of it?

Sudhakar Ram: Yes, overall if you take mid tier there is an issue in terms of growth.

Tarun Sisodia: And within the client set with whom you interact on regular basis, do you see their preference moving towards the larger sized players or any kind of consolidation do you see that happening, any vendor consolidation?

Sudhakar Ram: Not as a broad trend, that is, in our customer base we don't see that as a broad trend, but overall what you say may happen.

Tarun Sisodia: Okay. The other thing I was just noticing was on your Asia-Pacific side, our interaction with lot of other IT companies seems to indicate that emerging markets, the growth prospect is still okay. Whereas in your case, there is a dip in this quarter, so should we read something in the quarterly, or we should ignore it.

Sudhakar Ram: That's what I said. This part is conscious, we are trying to reduce. Because what happens in Asia-Pacific is that you don't make as much margin as in the UK or US. Given that we are trying to invest in growth in US & UK, and at the same time maintain the margins, we found it prudent to take dollars away from the Asia-Pacific market in the short run. Obviously in the long run we will get back there.

Tarun Sisodia: But given the kind of fact that demand is already under stress, in these times one should really try and focus more on top line than on margin, because the more volumes are sustained out that much of your fixed cost gets portioned away.

Sudhakar Ram: I agree with that. It's a question of where you are investing your dollars. So we are not saying that I will maintain margin at any cost, because obviously growth is important. If you see, that's what I said – our operating margins will come down this quarter, because we are going ahead with all the planned investments in terms of senior leadership, especially the sales & marketing end.

Tarun Sisodia: The other thing I just noticed is in your absolute wage cost, Whether you look at it in constant currency or in the current currency part of it, it has come down. Your travel costs have also come down sequentially. Is there a conscious part or decision by the management to look at cost cutting measures right now? Is it a result of that?

Sudhakar Ram: Definitely. But the wage cut reduction is, I would say more because of incentive provisions being reversed to some extent because part of our variable compensation is linked to company results and since we did not grow as much as we thought, some of those provisions can be relieved, so it is related to that. But the travel part, part of it is just the quarter; part of it is also some effort in keeping the cost under check.

Tarun Sisodia: Okay, and what proportion of your total wage bill on an annualized basis would be variable in nature?

Sudhakar Ram: About 5 to 10 per cent of the delivery staff.

Jamshed Jussawalla: Yes it would be around 8%.

Tarun Sisodia: The other thing, I have also noticed is that your fixed price contracts have really gone up as a proportion though not in absolute terms and generally fixed price contracts are both, like its like a double-edged sword. If you deliver properly you get extremely good margins whereas if you slip out it really impacts your margins adversely as well. How do you see your fixed price contracts being positioned in line of…?

Sudhakar Ram: Our strategy has always been to take on fixed price risks. So almost half our business is fixed price and I would expect this quarter there may be aberrations on a quarterly movement, but generally speaking we will be at about 50% on fixed price contracts.

Tarun Sisodia: But is this move on fixed price driven from clients because they want better visibility on their costs or is it driven as a strategic incentive from your side?

Sudhakar Ram: Both.

Tarun Sisodia: But were you witnessing these kind of client interactions insisting on fixed price earlier on, or this is just a recent trend happening?

Sudhakar Ram: No, it’s not a recent trend. Our business has been fixed price for a long time largely because the government programs tend to be fixed price. Specifically, the solutions business also has a fairly large fixed price component. So it has been a part of our business for many years and strategically we would like to do that because that's a good lever for improving productivity and enhancing margins.

Tarun Sisodia: And on the government part of it, you are still partnering with other majors and then going into the contracts or do you have a single-handed contract as well?

Sudhakar Ram: In government, it is by and large partnership driven.

Tarun Sisodia: So how do you view this government business because I guess the stability out there on revenue should be much higher?

Sudhakar Ram: Overall once you win the contract there is high visibility and high stability. But it tends to be more lumpy as you are winning deals.

Tarun Sisodia: Because if you look at your client list, it seems to indicate though you have added four customers, but net-net you also lost about seven in this particular quarter, seven or eight. Is it something related to the Government issue out there, that contracts come to an end and therefore you wait for the new set?

Sudhakar Ram: None of the seven or eight are actually related to the government, it maybe smaller customers where, and largely on our P&C business.

Tarun Sisodia: So when you say this order book of about 4.5 billion rupees or so, is it mostly government orders that you are talking of when you say this is the order book position?

Sudhakar Ram: No, it would be a mix and I would say roughly it will be the same mix as the other…….

Tarun Sisodia: Okay. So that would be pretty much proportionate to what is happening.

Sudhakar Ram: That's correct.

Tarun Sisodia: And you said that most of the decline is related to the currency movement, not necessarily absolute decline.

Sudhakar Ram: In the short run, yes. The last quarter and this quarter, in fact the guidance of Q3 would almost completely be explained by currency movement if whatever we projected is what we end up with at the exchange rate.

Tarun Sisodia: Right. Do you have any further capex program? What is the capex done year-till-date and any potential capex expected in balance part of the year and for next year?

Jamshed Jussawalla: This quarter the capex has been down and in this quarter we have done only 6 crore.

Tarun Sisodia: 6 crore in this quarter?

Jamshed Jussawalla: Yes only in this quarter.

Tarun Sisodia: And what would be the year to date?

Jamshed Jussawalla: Year to date would be around 18 crore.

Tarun Sisodia: And for the full year you were expecting at about 40 crores right?

Jamshed Jussawalla: Till date it is 18 crore.

Tarun Sisodia: So full year we have gone also down quite substantially in the expense?

Jamshed Jussawalla: We have a particular purchase, which is paid over a three-year period. So as per accounting standards we will have to capitalize it as and when it happens. So whether we go in for that or not that will depend on whether we will meet this 40-45 crores figure or not. But our normal capex would be around 6 crore a quarter.

Tarun Sisodia: 6 crore a quarter? So no major expansion for this quarter?

Jamshed Jussawalla: No major expansion.

Tarun Sisodia: Just one more thing, the cash that you have right now, about 90 odd crore if I understand correctly and the kind of dividend payout which is there right now with the company, any changes expected in the policy in that front?

Sudhakar Ram: Total cash and cash equivalent are closer to 160 crore, not 90 crore. And the dividend payout, if you have seen, we have taken a more conservative view this quarter because there is a level of uncertainty, so we wanted to hold on to cash. So it is a lower payout than what we had last year at the same time in Q2. Just in case any acquisition opportunity comes up or something, then we will also have the cash available.

Tarun Sisodia: So you don't see any change in payout policy right now?

Sudhakar Ram: Interim dividend payout is lower this year than what it was last year as a percentage of first half profit.

Tarun Sisodia: Okay fine. Thanks a lot, that's it from my side.

Moderator: Next question comes from Mr. Madhu Babu of Systematix Shares.

Madhu Babu: Yes sir, good afternoon. How do we look at the scalability in this government vertical after this NHS?

Sudhakar Ram: NHS as we have been saying was to ramp down this year and now it is ramping down over two years. If you have seen, we have also added new partnerships, so Thales is a partnership. We are adding another partnership in UK. Now we are close to adding a good partnership in the US. So as a strategy, we think it is a very viable strategy which adds to our strength. We are very good at delivering large complex programs. There are many partners out there who need that capability, so that will remain a significant part of our business going forward.

Madhu Babu: So we think that we can come back to the 20% kind of growth post NHS or something, maybe three years down the line in this vertical?

Sudhakar Ram: Definitely, yes.

Madhu Babu: Sir, what are the new geographies we are targeting after the new management additions, you said Canada right?

Sudhakar Ram: We have taken a person directly in Canada to look at the opportunities there and what we have assessed is that the impact of slowdown is lower in Canada than in the US. The second is in continental Europe -- we are looking at specific geographies where our insurance as well as government capabilities could play a role. But the exact countries have not been identified as yet; the new leader in UK-Europe is looking at that closely.

Madhu Babu: Okay sir. And sir regarding the sustaining of the margins for the next year are we looking at any possibility of wage cuts or wage freezers? Would that be a possibility or even for that matter lay offs?

Sudhakar Ram: As an industry, I would say that we would not have the same increment as last year. That definitely I can say, but as to the rest, we will make a call closer to July when our wage increases are actually due. We will see what the industry is doing and then we will make a call.

Madhu Babu: Okay sir. The other financial services vertical was down 19% quarter on quarter in terms of revenues, could you comment on any specific client, where there has been such a significant slow down.

Sudhakar Ram: This was one of the accounts with a large bank in UK, where we expected things to go down and it has gone down. That was factored in the year beginning itself.

Madhu Babu: Do we see this weakness in revenue to happen for another three or four quarters before any improvement in the pipeline starts coming in?

Sudhakar Ram: I wish I knew the answer to that!

Madhu Babu: Okay sir, thank you.

Moderator: Next question comes from Ms. Hiral Sanghvi from Dalal & Broacha.

Ms. Sanghvi: When we are talking about our US operations, the margins there have increased significantly on Q on Q basis. I wanted to know whether it was only because of the forex movement or there was something else also included in it.

Sudhakar Ram: There were two parts. Definitely the forex movement has helped. The other part was on one of the contracts there we had taken a hit. There was a fixed price contract on which we had taken a hit in the last two quarters. We have redeemed that situation, so going forward, that project has turned profitable.

Ms. Sanghvi: Alright. When we are talking about OPM margins to come down in the current quarter, is this on constant currency basis or on the actual margins that we have including the forex losses?

Sudhakar Ram: Margins on a constant currency basis is very difficult to compute, but I would say that in the underlying operation, margins would come down this quarter because we are investing in new leadership, new initiatives which will not be fully offset by the growth this quarter.

Ms. Sanghvi: So we are talking about margins coming down from 15.2%?

Sudhakar Ram: It is very difficult to say it that way. Adding back exchange losses our margins are about 19.6% and it has come down from there. Jamshed do you have a better answer?

Jamshed Jussawalla: Yes, if we take this current quarter that is October-December we worked at 19.6% and that would come down to 17.1% or 17.3%.

Ms. Sanghvi: Okay, that's it from my side thank you very much.

Moderator: Next question comes from Mr. Alpesh Thodia of Edelweiss Capital.

Alpesh Thodia: Is there a hedging policy followed by the company?

Sudhakar Ram: The hedging policy that we have is just to cover a month's receivable on a forward contract basis.

Alpesh Thodia: Do you have any outstanding foreign currency contract as of now?

Jamshed Jussawalla: Yes, basically as on date we have around 5.8 million of pound sterling to dollar at 1.47 and around 9.1 million of dollar to rupee at 47.24 and this covers the known receivables as on 31st of December 2008.

Alpesh Thodia: Are we planning to change this policy to one or two quarters?

Jamshed Jussawalla: Our policy is to cover all known receivables so we know approximately what were the receivables that were there end of January and then we cover them. We will not be taking any forward cover in advance.

Priyank: Sir, my name is Priyank and I am a colleague of Alpesh, just a very quick question as a follow up to this. Considering the kind of losses that we have booked for this quarter on account of foreign exchange and also the increasing volatility in the forex market, are we still not looking at hedging slightly more than just one month forward?

Jamshed Jussawalla: I think that would be more risky as far as the current volatile market is, because if I take a cover today for my receivables of January and if the pound slides further, then I face further loss. So as a conservative policy, we would take the cover on around the last day of the month.

Moderator: Next is a follow up question from Mr. Pratik Mehta of Bajaj Allianz.

Pratik Mehta: Sir, can you please give us again the second quarter's realized rate for GBP and USD and what are the rates for GBP and USD we have factored in the guidance for Q3?

Jamshed Jussawalla: For October-December 2008, GBP-Rupee was 75.81 and USD-Rupee was 49.41. And we have considered for Jan-March, 2009 GBP-Rupee at 69.6 and USD-Rupee at 48.

Pratik Mehta: Are the forex losses of 11.73 crore purely because of the hedges that we have had; the translation losses?

Jamshed Jussawalla: There are two elements, one is the branch translation loss which is around 7.5 crore, and the balance would be the hedges taken in the past and restatement.

Pratik Mehta: In terms of balance sheet, cash & bank balances and investments have gone down by some 25 crore this quarter compared to last quarter. Is it just only because of the increase in the sundry debtors or because we have not done any significant capex or…

Jamshed Jussawalla: One thing is that we paid around 20 crore rupees in dividend as compared to the preceding quarter. And as you have very rightly observed, there has been an increase in sundry debtors from 261 to 285 crore. And just for information purpose, out of Rs 285 crore of sundry debtors that were there, we have already collected Rs 29 crore. So, basically, we are back at the same level.

Moderator: Next question comes from Mr. Sandeep Muthangi of IIFL.

Sandeep Muthangi: I have a couple of questions on the demand environment. When you are speaking of volume delays or decision delays from the client, can you highlight a couple of anecdotes, of course without taking the client names, of what kind of delays they are?

Sudhakar Ram: Let me take an example of a client who is willing to go in for Elixir™ Distribution Management in the UK this quarter. Basically their board has slammed down on any new expenses and they want to review the situation after a quarter, but prior to that we have done a GAP analysis, we have created the business scales, it was clear that we were the winner and they wanted to go ahead. So we know that we will get the deal. Now it is the question of when they will re-open the budget.

Sandeep Muthangi: Okay, have you also seen any instances of on-going project cancellations?

Sudhakar Ram: In on-going projects we have not had any instance of cancellation.

Sandeep Muthangi: Just a word on the pricing scenario over there, what are the sound bites you are hearing from your clients as far as the pricing cuts or sustainability is concerned? Have you witnessed any pricing cuts so far?

Sudhakar Ram: That's what I said earlier. In a couple of clients we are under pressure to cut it by 5% to 10%.

Sandeep Muthanjee: What was the maximum cut asked by any client?

Sudhakar Ram: The client can ask anything, but this is the kind of thing we are looking at and some of these actually are related to the fact that when the rupee appreciated, we had got price enhancement from then and now that the rupee has depreciated and the dollar is strengthening, they have a good case to come back to us on making up some part of it.

Sandeep Muthanjee: Understood, thanks that's all for now.

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

Sujit Joshi: Just one question, if you could give us any number for your hiring?

Sudhakar Ram: Actually we are not really going strong on hiring. As you have seen, our net addition last quarter was just nine. As the business environment remains flat, we would rather re-use existing people rather than hire fresh unless there is a specific skill mis-match which is there which we need to go out for.

Sujit Joshi: Okay, because last quarter you had indicated about 1,000 net additions and….

Sudhakar Ram: I think that was based on the 30%, 32%, and we are re-looking that number.

Sujit Joshi: I just came in, I know I am a bit late, but would you kindly explain the decrease in the guidance in terms of total income growth that you had mentioned?

Sudhakar Ram: We can take it offline, as we have already covered it.

Sujit Joshi: Okay, sure. That's it from my side.

Moderator: Next is a follow up question from Mr. Srivathsan of Spark Capital.

Srivathsan: I just wanted to get a sense of the break up between pound billing and the dollar billing that you have. Is it safe to assume that all UK operations are billed in pounds?

Sudhakar Ram: Yes actually that is correct.

Srivathsan: And then in terms of cost how would that be?

Sudhakar Ram: Cost means?

Srivathsan: I mean the total forex expenses as an overall percentage of revenue or something that you can give us some idea about?

Sudhakar Ram: Not really.

Srivathsan: Okay fine, thank you.

Moderator: Next is a follow up question from Mr. Madhu Babu of Systematix Shares.

Madhu Babu: Sir, within the government vertical have we entered any partnership in the US?

Sudhakar Ram: Yes, we are just in the process of doing that in the US.

Madhu Babu: Could you name the leading players who typically do this work in the US sir, the common projects?

Sudhakar Ram: All the system integrators do it in the US…IBM, Accenture, CSC….I mean everyone you can think of does government work in the US.

Madhu Babu: Okay. Even in Canada we are targeting the government vertical or the insurance vertical?

Sudhakar Ram: Both government and insurance.

Madhu Babu: Okay sir, thank you.

Moderator: There are no further questions. Now, I hand over the floor to Mr. Sudhakar Ram, Chairman & Managing Director, Mastek for closing comments.

Sudhakar Ram: Thanks all of you, for your continued interest and support of Mastek. Like I said in my opening remarks, while we are facing some headwinds and some short term pressures, overall the kind of model that we have is very relevant and very important from the third wave perspective. We are also bringing the leadership to exploit this potential that we have, to leverage the assets that Mastek has on a global basis, especially in the developed markets. So, I continue to be very optimistic about Mastek's future that once the economy opens up and the situation provides that we will be able to step up our growth rate. In the meanwhile, I look forward to your continued support of Mastek as we stand now. Thanks.

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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