"Mastek Limited Q4 Financial Year 2014 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Mastek Limited Q4 FY'14 Earnings Conference Call. As a reminder all participant lines will be on listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Diwakar Pingle from Christensen. Thank you and over to you Sir.

Diwakar Pingle: Thank you Chitranshu. Welcome everyone to the Q4 FY'14 earnings conference call as well as the webcast for Mastek of year ended FY'14. For those who have logged in onto the audio call I think you have a chance to ask a question by doing the normal operational "*" and "1" while all our other shareholders who have logged into the webcast I think there is a facility to submit your question and we will be picking some of the questions and present it to the management here. To answer your questions and also to give an update on how the year has gone by and how the outlook looks we have Mr. Sudhakar Ram, Founder and CEO as well as Mr. Farid Kazani, Group CFO and Finance Director. Without much ado I will kind of handover the floor to Mr. Sudhakar Ram to give you a brief update on the business and that will be followed by financial analysis by Mr. Farid Kazani. Over to you Sudhakar.

Sudhakar Ram: Thank you Diwakar and good evening to all of you. This is the first time we are doing a joint call that analyst as well as all our investors are participating, analysts over the conference bridge and all investors over the web and this is an experiment to improve our own engagement with our shareholders. We want to see how successful it is and how to take this forward. So since this is the first time we are doing a direct call with the investors also I thought it would be good to give a brief idea about the business model and our strategy and how we have grown in terms of value over the last couple of years before delving in to this specific year and this quarter.

So there is a presentation deck available which will obviously be visible to you, you can also download a copy from the web if you want to. So the whole idea of Mastek is actually to build long-term value, we have been in this business for 32 years now we expect to be in business for decades and we want to see how can we create a huge difference as an organization where an Indian services and solutions firm can create an impact across the globe making a difference to large insurance companies, government and so on. So our strategy is built on the high end, now clearly when you want to bring long-term value one of the key things that Indian industry has recognized is the need for nonlinear growth that long-term value is not going to come based on a linear model where you need more and more people to get more revenue because at some point we will run out of people as an industry and what are the mechanisms to get to a model where you can get into high end solutions, where you can get into some kind of intellectual property and products. So Mastek has been on this journey for a couple of years, three, four years now and we expect to fine-tune our own position in this, so there is a chart there in the slide which talks about how the industry broadly is divided, you can be on the X axis it is broadly services companies and product companies, while on the Y axis it is being a general purpose provider versus being an industry specific provider. Most of Indian industry tends to fall under the general purpose services category; obviously all of them will have verticals and so on but they serve organizations across verticals and very many horizontal services like a data warehousing or testing or application development and so on. For Mastek we decided four five years ago that we will take an industry focus, we have invested substantially in insurance, we have always had strength in large government programs and we wanted to consolidate that position. So our strategy has been to look at the high end solutions which are very close to the business which can actually guarantee business outcome as well as look at high end products where there is a huge investment in IT that we have made over a period of time which I will talk about more. So the positioning that we want is towards creating a completely nonlinear model which can substantially increase value of the company over a period of time and that is the journey that we have been on over the last 24 years.

Just to give a sense of Mastek and our ideas which is in the next slide essentially we want to be an evergreen institution, we want to be there for a long time, it is not something that we want to quickly build up value and sell and go and that can only happen with sustained contribution over a period of time so you would have noticed and obviously many of you have also given a feedback that we are not really focused on a quarter-on-quarter performance, we are looking at long-term trends and how can we build value and how can we do better by our customers over a long period of time that is very important for us.

We also want to ensure that every stake holders wins, so there is as much of an investment in customers and employees as there is in shareholders because that is only way where we can actually build a long-term institution. The focus of this company has been in providing insightful solutioning, we are not just order takers, we don’t just listen to customers and say they say you do this and we deliver that or we maintain a particular piece of core. A lot of our effort has been to actually add value not to be order takers but actually co-create the vision along with our customers. So we have invested in domains, we have invested in technology and our customers really value the kind of solutions that we provide for them and all this in the context of a culture which is collaborative, Mastek is typically if you look at how customers assess us, they see us as very easy to do business with that they say you are simple, you are straightforward, you are sincere, you are easy to do businesses with and that is actually what we value as an organization, so those have remained constant regardless of the strategy and so on, these are the things that we believe are our core ideas and this will actually stand us in good stead over the years.

Coming specifically to talking about our positioning as a high end vertical solutions provider essentially we are specialists, so we take a vertical specialization whether it is industry so we have invested heavily in insurance and government and we are adding that in retail now especially in the UK context. We spent over $90 million in building as well as acquiring intellectual property in the insurance domain and this is a pretty large number for a company of our size and as a very prudent financial policy we keep writing off these investments and we do not actually capitalize any of our product investments. So, whatever we have spent in R&D, we have written off over a period of time and that is a big thing that we take on year-on-year from a P&L perspective.

Now many people can talk about nonlinear growth but actually what happens in nonlinear growth is that your staff profile and your cost equation are different from a typical IT services company. We have a high fixed cost and we also have high variable cost unlike the grade mix of a typical Indian company that we call flattening the pyramid or whatever, where most of services tend to have 80% of the staff at very low level that is 2 years minus in terms of experience but for us more than 80% are actually 2 years plus and more than 55% - 60% are five years plus in experience so the entire cost structure is different for a solutions company and that is why when companies find it difficult just to go to a nonlinear or higher the value chain because the cost structures are different. Similarly when you want to invest in intellectual property and products you have a substantial R&D investment to make, it is out of your bottomline, so both these are things we have committed to as a business model and we have been able to execute very successfully to it over a period of time even we had troubled times and we were almost making losses we have managed to continue these investments in products and in building high end resources.

So today we have a full spectrum of industry specific services in insurance and we want to build it, similarly I have the government segment especially in UK where earlier there used to be billion dollar programs, hundreds of million pound programs and so on today the government has a bias towards doing much smaller pieces of work so they want to break it into individual chunks and then give it to small medium vendors rather than the large integrators and that plays very well to Mastek's strength, so we are now an accelerated vendor in G-Cloud which is the government's procurement platform in the UK and we have had core wins on G-cloud in the last six months which is very predictable and we expect to be a leader in G-Cloud based agile development in the next year or so. So that is actually playing very well to our strength as a company in UK and whatever we have built if I take insurance we have to recognize that very few non-American companies have actually succeeded in product business in the US, even European companies have tried and failed, apart from SAP you will actually count the number of companies that have even reached $100 million; there are a handful of such companies, so in that for an Indian company to be rated as the best technology for policy administration system by people like Gartner and Celent and Novarika is definitely a creditable achievement, it is actually based on the good work that our guys have done in building the technology as well as being able to market the technology in a very competitive market like the US, so that is something that our teams are definitely proud of in terms of our position but if there is any RFP for billing we will definitely be there and we will have a very high win rate, similarly in part of the admin systems which are still under development, we will get there soon and we have already had a set of four wins and policy admin and I am sure there will be more wins as we go along which are all very significant and very large deals in property casualty or a general insurance space.

If you look at what is our aspiration, what is our business model we are saying that as bulk of our business almost 85% of our business will be in the top half which is vertical solutions as well as vertical products, high end products for insurance or high end solutions for government and the advantage of being there is these are all high margin businesses, they are all at a gross margin of 50% plus so it definitely has a huge impact on margin and it also has an impact in terms of the reputation that you build and the customer control that you have, the customers depend on you, when somebody is making an investment decision on a policy admin system these are investments with a 15 to 20 year timeframe, so when they select Mastek they are essentially selecting a vendor for the next 15–20 years which is a very important decision for the customer to make and it is a fairly expensive decision because apart from what they pay us for a policy admin system which could be in the tens of millions they have internal costs which are two to three times what they spend on us, so there is a significant amount of investment riding on what Mastek provides as a solution.

We have always been good at building long-term relationship, that has been a traditional strength of Mastek, we think we have a very good shop at being the number one provider as we are a one-stop shop for all tier 2 and below in terms of insurance carrier so whether it is L&A or property and casualty Tier 2 and below not many other vendors are there the other vendors tend to be more expensive, so that is an area where we can gain leadership and be number one, I think that is an effort from a strategy perspective but we do not want to ignore the Tier 1 which is the large top 20 carriers we have had good partnerships, partnership with people like Deloitte and IBM who are helping us get into that market also. So we would use a two-pronged strategy, we will go direct Tier 2 and below and we will use partners to get to Tier 1 and above where there is a significant services play for them and a good IT opportunity for us. In the past we have had a very high reliance on large customers. We have had a high line concentration so with this as we focus on the mid Tier insurance carriers as well as on the direct deals with that UK government through G-Cloud we think we will start distributing our risk and become far more broad based in terms of our customer base.

Another thing which we have done in the past which is worthwhile, we have had a very track record of acquisitions, STG worked very well in the P&C space. The SEG acquisition we did is actually helping us implement the life insurance program we have in the US. We should be able to replicate that going forward and we have invested heavily in agility enterprise as a way of doing our business. Just a quick note on the value progress that we have had that from FY'12 from June of 2012 to March of 2014 we have seen a significant improvement in a percentage of revenue coming from verticals products, which is almost half our business now from about 30% in FY'12 it has come to 46% in FY'14. The solutions business has kept pretty stable but services has taken a drop and it is intended because services is the low margin more commoditized kind of business which is highly linear so that has gone down from 33 to 18 so over the last two years strategically we have made the right moves, things have worked for us. Obviously from a financial perspective we are not that happy because it meant more muted growth or very little growth because while the strategic parts of our business enhance since the commodity business was coming down during the same period we could not actually reflect the whole growth like if I take just a strategic part of our business our growth would have been in the 15% - 20% range and commodity services was reprioritized, the overall growth is lower but I think this is the right move for us strategically to ensure that we build a very robust organization in the medium to long run.

To give you a quick view in the next slide of the products the main product business in North America almost 90% odd business comes from insurance where we have both the property casualty which is the SEG suite which takes care of most front end and back office requirements of general insurers, the policy has been placed annually and similarly in the life and annuity space we have new business underwriting and we have the entire Elixir Policy Admin and this is North America for policy admin.

We have a similar thing in India where we have the Asian version of Elixir which is Elixir Asia as well as Elixir Distribution Management and in UK so for we have been very successful in the group protection space and we also have the policy admin system which is running in a BPO organization and we want to now expand our footprint in UK to cover more of the L&A and the P&C businesses. So this is an overall view of the business model if I just give a quick commentary on the year itself.

We have had good movement this year, we have actually consolidated our position in P&C we are rated very high by the analysts, we have been increasing our deal flow, and our pipeline has improved. I am very happy with the progress we have made in the government space in UK after I moved in there, we have had some breakthroughs in retail but it is yet to really show up in our financial results and if I take the insurance business that needs to step up as far as UK goes and that will our focus in the coming year. The Indian business has performed well it has become more profitable it is growing consistently so with that let me hand it over to Farid to take you through the financials. Over to you Farid.

Farid Kazani: Thank you Sudhakar and welcome to all the participants including the shareholders to this very first webcast that we have put out with a clear objective of engaging very closely with all our investors. Sudhakar did mention that overall it has been a satisfying year with positive movements from a strategic perspective and growth that is happening in the pipeline with good wins both in the government and in the insurance vertical in North America. I will quickly touch upon the financial highlights for the quarter.

If you remember in the last quarter we had announced an anticipated drop in our revenues starting of this quarter Jan - March of roughly around $2.4 million and if you look at the numbers as we ended up in March of 2014 we have clocked in 223.9 Crores of revenue down by 6.8% as compared to 240 Crores in the previous quarter, the drop is equivalent to the 2.4 million which we had mentioned with respect to the reprioritization of a North American client. On a constant currency basis this is a drop of around 8% quarter-on-quarter, the total income has come in at 230 Crores as compared to 242 Crores in the last quarter and if you look at the EBITDA the total EBITDA for the quarter has come in at 7.8% which is 18.1 Crores as compared to 14.8% in the previous quarter which was 35.8 Crores. A The total EBITDA includes other income but if I look at the operating EBITDA it is at 11.9 Crores in this quarter which is 5.3% as compared to 33.6 Crores which was 14%. The gap in the operating EBIDTA is roughly around 18 odd Crores and that can be explained in terms of the drop in the revenue which is 16 Crores and we had anticipated a reduction in our resources linked to the revenue shortfall but we took a decision to maintain the resources keeping in mind the expected growth and the business that we expect to see in the future quarters which is why you see the total manpower cost and the head count remaining constant in this quarter so there has not been a reduction in that area. Hence the entire revenue shortfall has actually flown down to the EBITDA of 16 Crores plus in this quarter we did have various events that led to a higher travel cost of around 3.5 Crores so the balance part is explained because of that. At a net profit level we have ended up with 11.3 Crores which is 4.9% as compared to 18.3 Crores in the previous quarter which was 7.6%, the net profit has come in definitely healthy linked to some other income which was higher in this quarter plus we have had a negative tax due to our tax provision write back so overall in terms of profitability we have done well. If you look at the backlog the backlog has actually grown pretty well in rupee terms, it has grown to 542 Crores which is 5.6% quarter-on-quarter and if you look at it in terms of dollars it has grown to 90 million as compared to 83 million in the previous quarter which is actually a growth of 8%. On the cash and cash equivalent we have seen the total amount at 171 Crores as compared to 249 Crores in the previous quarter. This was after spending 54 odd Crores on the share buyback which we concluded very successfully during the quarter plus there has been some Capex spend and some purchases of around 12 Crores beyond that we have had tax payment of 4 Crores and expenditure including travel as I mentioned of 7 Crores so that explains the gap in terms of the drop in the cash, cash equivalent.

As Sudhakar mentioned strategically we needed to spend on our product to make it as quickly available to our customers, we won four plus clients on the policy admin area, our spends are happening in North America on the product development side, and in this quarter we have actually spent 16.9 Crores which is significantly higher compared to the previous quarter which was around 15.6 Crores. The product spends would remain at closer to this level now and hopefully once we have the product ready at some stage you could see a much better leverage on the product development cost.

At a annual level we have seen the operating revenue at 923 Crores which is a 1.3% increase as compared to the previous year. The 1.3% is after considering the annualization of the nine month period so in rupee terms but it is a 6% drop when you look at it in terms of dollars. The total income came in at 934 Crores as compared to 692 which is a nine month period in the last year. The total EBITDA came in at 10.8% it crossed a 100 Crores as against 66 Crores in the nine month period which is at 9.6%. The net profit was pretty healthy as compared to last year we ended up with 5.5% of revenue at 51.8 Crores as compared to 34 Crores for the nine month period which was 5% in the previous year ended June 2013.

The product cost for the 12 month period was much higher at 58.5 Crores which was 6.4% of revenue as compared to 29.7 Crores in the nine month period ended 2012-13 which was at 4.4%. Ssome of the other highlights for the quarter were - we had total client at the end of

March at 126, we added 3 clients during the quarter. The billable utilization was higher at around 82.7% in the quarter as compared to 81.2% in the previous quarter. Our top ten clients reduced from the 61.7% in the previous quarter to 56.4% this quarter. It was basically linked to the client which was in the top ten where we have seen the revenue getting reduced in this quarter. The total head count has remained more or less same. It was at 3123 as compared to 3128 in the previous quarter. , In terms of other specific information we have had an improvement in our receivable positions has gone down significantly, our billed receivables actually has gone down from 55 days to 42 days and our total receivables now stands at around 75 days.

In terms of our FX exposures we have hedged 24 million at Rs.64.8 to a dollar and the pound is roughly around 12.4 million which is hedged at Rs.104, our policy allows us to hedge around 60% for the next 12 months and we have also been allowed to hedge some additional amount for the period after 12 months.

As mentioned we have had a very successful buyback closure, we bought back 10% of the equity ie.24.8 lakh shares and that was bought back at an average price of Rs.218.

I am happy to announce that the board has recommended a dividend of 55% as final dividend which is Rs.2.75 per share which takes the total dividend upto Rs.4.5 which is 90% for the year as compared to 60% that is Rs.3 declared in the previous year.

In terms of the other updates as Sudhakar mentioned that there is a good traction happening in North America on the insurance side and we are hoping to see some good wins in this coming quarter. The successes on the G-Cloud are shaping up well and that is an area that we are focusing very strongly and both our billing and the policy admin have been rated pretty well by analysts so we are expecting the insurance segment to grow.

As I turn to the next slide which gives a snapshot of the financial trends starting from 2008 and while we did well in 2008-2009 we have seen a significant drop in the revenue right up to 2011 where we ended up at 614 Crores and then we have pulled back to around 934 Crores for this year. Similarly in terms of the EBIDTA where we were at 18% we dropped to almost breakeven and now we have pulled back to almost 10.8% so there has been a positive movement starting from 2011-2012 after we have done work on technology refresh, work on managing our costs much better and we have also shaped up our sales and marketing team to deliver better success in the marketplace.

The profit after tax also is in similar shape we have seen profit which was much higher in 2008-09 at 14 odd percent and we actually ended up with a loss in 2011 which is a loss in the first time in the history of Mastek and since then we have pulled back very strongly in 2013-14 and hopefully we should do significantly better going forward and while we skipped dividend for the two, years period where we had a loss and a lower profit we have come back to dividend list since last year and we have announced much better dividend payout this year.

If you look at the balance sheet, pretty much reflects the share buyback, the share capital is down from 12.3 close to 11 Crores so a drop of 10% of the equity. The equity base has fallen from 2.46 Crores shares to 2.21 Crores shares, corresponding drop has also happened in terms of the reserves. And with profit getting added so the networth has increased from 520 Crores to around 550 Crores.

As I mentioned the receivables have shaped up pretty well as compared to the last year 149 Crores we had 116 Crores so overall the balance sheet looks much stronger. The return on networth has increased from 9.2% and the EPS also is higher at Rs.21 for the 12 month period March 2014.

I will move to the next slide which gives a breakup of how the revenue by the verticals and the geo.

So if you look at the left hand side, insurance was 41% in the last year for the nine month period, it has expanded to 49% in this year, correspondingly we have seen the government which was higher in the previous year 30% it is down to 26% and hopefully both these segment should grow next year and the third segment which is the other financial services and IT services will see some reduction, it has already seen a reduction from the previous year which was 29% put together it is down to almost around 26% in this year. At a geo level the split between UK and US is more or less same, it was 45% in North America and 47% in the UK whereas the India Asia Pacific is close to 8% in the share of business. So it has been a good year barring some impact that we have seen in the last quarter and we are working towards mitigating the drop in this coming year. I will hand it over to the moderator for the questions and for questions to come in from the shareholders on the web chat. Thank you very much.

Moderator: Thank you very much sir we will now begin the question and answer session. First question is from the line of Amar Mauriya from India Nivesh. Please go ahead.

Amar Mauriya: Thanks a lot for the opportunity. Sir my question is primarily related to the revenues even if I knockoff the, first thing is that, what was the drop, I believe the drop which we have seen in this particular quarter primarily because of the reprioritization is higher than what we had assumed because last quarter we had assumed about $1.2 million run rate quarter-over-quarter and secondly even after knocking off this particular revenue on a sequential basis I do not see a growth, is it so, what I am reading here is right or.

Farid Kazani: Amar let me answer that. The drop in the revenue that we had announced wasanticipated at $2.4 million not 1.2 and if you see the drop in the current quarter the drop is almost to that extent, there has been some reduction also on the services bit of the North America business which is why you do not see growth whereas if look at it on a geo level there has been a very marginal increase in the other geos so overall I would conclude that the drop is primarily because of that North America client seeing its reprioritization of business.

Amar Mauriya: But then see this was expected but then it seems that the overall business had not grown in this quarter like if I include that also and also we are ending up to the flat revenue right?

Farid Kazani: Yes it is flat as I mentioned while that particular client saw the drop and that number is equivalent to the 2.4 million that we announced, there was some drop also on the services bit in North America which also added to that whereas some parts of the other business in P&C have grown.

Sudhakar Ram: Whatever part has grown growth has not been major like you rightly said whatever is grown has been offset by drop in this account as well as in services in the US.

Amar Mauriya: Sir one more thing like this was expected but then are we also looking such kind of events also coming in the future also like this is the very…

Sudhakar Ram: Obviously we will discuss that event in the future. So the whole idea of diversifying the base and ensuring that we have a low concentration is that but see the nature of our business is transformation and it is large programs and discretionary programs always have a level of risk associated with them, that is inherent part of the business, it is only with an increased volume more customers and also more annuity revenues coming out of maintenance and enhancements to existing customers that you will be able to derisk this.

Amar Mauriya: Sir one more thing like in this particular quarter I believe the US geography had reported a loss so is it all because of the drop in the client?

Sudhakar Ram: So what has happened is initially we thought that we would be able to take our variable cost out this quarter which is what in the last analyst call when we said there was a 2.4 million drop in revenue but it may not have a full impact on bottom line we would just have 1.2 million but looking at the business pipeline and the prospects we decided not to reduce the head count because even if we carry a bench these are all highly skilled who are working on a major transformation program we did not want to lose that capability so we made a conscious price to hold on to these people so the cost did not come down and because of that and the business did not ramp up in the US they did make a loss this quarter.

Amar Mauriya: Sir my question is, one is on the product development expenditure like I believe last quarter we completed the policy module and launched it also and in fact we had also got a very good rating from the Celent side. Does that mean that product development is complete and no costs are expected in the future?

Sudhakar Ram: No that is not right, see the entire thing in policy admin is it goes line-by-line, there are almost 15 lines of business that you need in the policy admin so we won our award based on one line of business. We have to do more lines of business so this investment in policy admin will continue for another 18 months at least.

Amar Mauriya: And then after that are we also going to spend into claims because I believe billing is ready still we are investing into policy so I should expect there is the product and development expenditure should continue into the same line for another 18 to 20 months from thereon.

Sudhakar Ram: Yes that is right and see in the product business you have to assume that product investment continues but as the base up revenue goes up the percentage spent on R&D will keep coming down so if we take a competitor guide wire in the US which is highly successful they still spend about 20% of their revenues on product development even after almost having a $300 million business in both policy admin and claims which is their main thing and a little bit in billing.

Amar Mauriya: Okay, sir my last question is about this consultancy charges sir this is bit fluctuating quarter-over-quarter basis now I believe this includes lot of onsite and subcontracting expenditure, is it the same or what has that included into this along with this.

Farid Kazani: Actually if you look at the trend in the last four, five quarter it has actually has gone down In the last quarter it was close to 28 Crores, it is more or less the same level at 28.6 Crores this quarter and this expense is incurred in pounds in the UK. You are seeing some difference purely in terms of rupee conversion but the number has remained steady in this quarter.

Amar Mauriya: So I should assume going ahead that this trend should continue or there will be a fluctuation going ahead.

Sudhakar Ram: There will be fluctuation like a lot of our government business that we take in the UK requires what is known a security cleared resources like the new win that we have announced in home office is a highly secure environment so we have a limited number of people who can be security cleared from India so we will need to supplement and augment that as we win these kinds of deals.

Amar Mauriya: So as the UK government deals are going to increase we are going to see the consulting fee charges fluctuating.

Sudhakar Ram: That is right.

Moderator: Thank you. Next question is from the line of Ganesh Shetty, an individual investor. Please go ahead.

Ganesh Shetty: Hello good evening sir and thank you very much for involving all the shareholders through the webcast. Sir my question is regarding our UK business, as the macroeconomic condition in UK is improving can we see an appreciable revenue uptrend in UK in the coming quarters Sir?

Sudhakar Ram: Yes definitely, we are not so dependent on macroeconomic environment but definitely government spending is becoming more streamlined after a period of austerity measures they are now clear where they will spend and they also want to spend more with smaller companies so that will definitely benefit us and given overall economy the business in retail and business in insurance we should see some uptake as our footprint that expands.

Ganesh Shetty: Sir as the Indian economy and Indian political scenario is becoming stable after the election and the anticipated rupee appreciation have you taken any type of measures for higher provision for hedging, can you please explain this sir?

Farid Kazani: I did mention on the call that as per the board directives we have hedged over 60 odd percent in the next 12 months and in terms of breakup $17 million in next twelve months which is roughly 60 plus percent, that is hedged at close to around Rs.64, The pound also has been hedged roughly around 60 odd percent for the next 12 months that at an average of around 102.5. And we have also hedged beyond the 12 months close to 20% The dollar is hedged at Rs.68 and the pound is hedged at Rs.108 so that gives us some kind of protection. There is obviously the uncovered part which is exposed. While we do believe that there could be an appreciation we really do not know which way the rupeecould go. We are following a board directive and the impact to us on the bottom-line is not very significant because while we have our earnings in dollars and pounds we also have our cost in being incurred in the UK and US in pounds and dollars, so the net impact on margin is for every 1% change in the exchange rate we have an impact of around 0.12%-0.13% so we do not see a great upside or a great downside but we will still look at what is best and we will go back to board whenwe need to cover some more.

Sudhakar Ram: So taking a longer-term perspective the whole idea of a nonlinear model is to get less impacted by rupee appreciation because we do expect that the rupee will appreciate over a period of time as our economy improves, so having a model which is not completely dependent on having more people in India is actually going to help and that part of the strategic reason for taking a high end position.

Ganesh Shetty: Sir my final question is regarding our volatility in revenue for last three years we had a very difficult year in terms of operations and profits but after that for the last one year although we are having good revenue and good profitability the volatility has also increased as a lot of software companies have reported steady and robust growth in terms of revenues and net profit during the quarter we are unable to sustain and due to our company specific business and company specific verticals can we expect after a year or two we can say on longer-term perspective can we expect the volatility to go down and they can have steady revenue growth, can you please comment on this sir. Thank you very much sir and all the best.

Sudhakar Ram: The intent is obviously that. The fortunes of Mastek are not are closely related with fortune of other Indian services company purely because we are playing in a completely different segment. So our fortunes are more related toward a Guidewire or a Duck Creek or One Shield or what other government system integrators and government solution providers do in the UK so what happens in other Indian services companies may or may not reflect where we are heading our things at a front but clearly the intent is to reduce volatility and improve level of predictability and have a sustained growth going forward.

Moderator: Thank you. Participants we will now take a question from the web chat.

Diwakar Pingle: First question comes from Vijay Choksey from KR Choksey the question he has asked is why was that need for buyback since it has served no purpose. Could one of the management throw some light on this?

Farid Kazani: Buyback actually is one way to give return to the shareholders and since we had a decent buildup of cash flows in the last 12 to 18 months we did feel it would give the value to the shareholders by doing a successful buyback. This buyback gave a very good return to the exiting shareholders and with buying back shares to the extent of 10% equity at Rs.218 average we have ended up improving the EPS and the return to the remaining shareholders.

There are various means that we would use to return money to the shareholders, one of them will definitely be dividend so we have considered both these options, we did a buyback in this quarter and we have also increased and improved our dividend ratio and payout in this year.

Diwakar Pingle: Thanks Farid. The next question possibly this could be addressed for Sudhakar this comes from Ankit Pande of Quant Capital. His question reads can you please highlight the opportunity in the retail sector and the P&C opportunity in the UK?

Sudhakar Ram: So the opportunity in the retail sector as you know retail is going through a big kind of a disruption because the meat now is omni channel most retailers are extremely scared of someone like Amazon which earlier used to do just books getting in to all kinds of groceries and provisions and other items, so how do they actually compete with the likes of Amazon whose cost structure business model are very different so there is a big need in retail, the retailers never knew who their customer was except for a few who used loyalty cards, today we need to know the customer because Amazon knows their customer in a very detailed and in depth manner, so that is the kind of challenge that people are addressing now, our expertise in retail is actually towards customer insight, we have build up a strong equities on Morrison and the data warehousing business intelligence space and we are expanding that to other retailers in the UK so over the next two three years definitely retail needs a lot of investment in IT especially in the analytics and customer insight space and even in terms of being able to predict their behavior so I think that is a good segment for us to be in.

Diwakar Pingle: One question Adithi Devakar from business standard. The question she is asked is can you throw light on the deal pipeline for FY'15 geography wise and also some color on the hiring for FY'15 and any wage hike that you planned right now?

Sudhakar Ram: No, we do not really share the deal pipeline expect that I can say that the pipeline is looked up both in UK and in US as we stand and India it is a small part but it is also has a fairly robust pipeline the hiring plans in our business are not particularly we cannot predict it because it is based on the business given that we need senior people we have enough senior people in the company who should be able to take on new projects we will hire for specific skills and there will be plant trainee recruitment year-on-year but I do not expect any major employee addition next year except for some refills we have made a substantial investment increasing the agility within the organization so a new method called agile and we do expect that to pay dividend both in terms of delivering much better value to our customers as well as improving the throughput and productivity for existing staff. So we will not see much employee addition next year.

Diwakar Pingle: One more question this comes from Ramesh Bansara of Mastek. He wants to know whether company is thinking of any rights or bonus issues.

Sudhakar Ram: Not really, we do not need additional funding now so there is no need for rights. As far as bonus goes I think in today's market I do not think bonus really makes a difference so we are not looking at both.

Diwakar Pingle: The other participants have logged on to the web chat please do keep sending questions we would be happy to kind of take them offline too. I will hand it back to Chitrashu he can there are other participants on the audio line I think we will take question from them.

Moderator: Thank you very much sir. We now take our next question from the line of Aishwarya K from Spark Capital. Please go ahead.

Aishwarya K: Hi thanks for the opportunity. I have two questions one I just want to get an update about the large P&C deal you guys won in US few quarters back.

Sudhakar Ram: No there is no update on that specifically.

Aishwarya K: How is the deal ramping up?

Sudhakar Ram: That is something we cannot really talk about due to confidentiality reason so there is no specific update on that deal.

Aishwarya K: The second question which I had was you guys had a JV with Genpact I think somewhere in 2010 so can you just give me an update on that.

Sudhakar Ram: We did not actually have any JV, we were just trying to go to market together, there was a dealing agreement to explore the US market together, and we did not find any opportunities which we could address together. So there was really nothing much happening with Genpact right now.

Aishwarya K: I know you guys are making a conscious decision of investing more into the product business so right now I talking about the service business does it mean that you guys would not go aggressively for new deals or you guys are even looking at your existing portfolio and looking at which is profitable and only carrying it ahead and exiting it in a substantial span of time.

Sudhakar Ram: No, we are aggressively looking at deals but we are looking at deals where we have a substantial value add and therefore it leads to better margins where the customer is expecting us to provide a solution not just a set of people so that remains and we have not focused on low end deals which are just purely related to providing specific skills. So we can already see that part of the business is ramping down and it will continue that trajectory.

Moderator: Thank you. Next question is from the line of Ankit Panchmatia from Dalal & Broacha. Please go ahead.

Ankit Panchmatia: Hi, thanks for taking my question I just wanted to know about the four deals which are being won by the company so the kind of deals and the kind of how the company will do I just wanted to get a flavor of it?

Sudhakar Ram: I cannot actually share too much about Home Office deals. It is a secure platform that we are building for the Home Office. It is actually taking up on the expertise we had on the National Health Service in the UK in terms of messaging platforms and actually looking at the infrastructure for handling large amounts of data so the core infrastructure is being built by us and then on top of it there are various applications which will get built.

Ankit Panchmatia: You have announced four deals right one is the e-government deal in UK and one more in the insurance sector.

Sudhakar Ram: Yes, that one is not life insurance that is actually property and casualty that is a midsized mutual company which is Oregon Mutual where they have actually given us deal to look at all their lines of business and end-to-end from policy to billing to claims to be implemented over the next three years or so. So that is a really significant win for us which we announced last quarter so that will depend on the STG platform and it will mean building out many lines of business out of the 15 I think they will need about 7 or 8 which needs to be built out for them.

Moderator: Thank you. Next question is from the line of Amar Mauriya from India Nivesh. Please go ahead.

Amar Mauriya: Thanks a lot for the opportunity again. Sir number one question is can we get some flavor about the order book like how it is placed.

Farid Kazani: We have given the 12 month back log which was around 542 Crores. In terms of giving you some flavor the backlog is covering the deals in the insurance segment and in the government 55% is in the insurance and roughly 32% is in the government and the rest in the other verticals.

Amar Mauriya: Sir one more question like the deal which we had won during this quarter primarily into the insurance space can we get what is the size of that deal or how it is a long-term deal or primarily more about the deal in terms of the qualitative aspect.

Sudhakar Ram: Like I said it has to be implemented over a three year period and on a software as a service mode so if I remember right it is a 7 year deal for us so it will take three years they will start implementing from 18 month onwards but it will take 36 months to finish all their likes of business but it will be over the next seven years that we will run it for them.

Amar Mauriya: So some bit of revenue contribution is likely to come from the next quarter or like the overall implementation will take…

Sudhakar Ram: Yes definitely, as we build out then there will be revenue contribution from there.

Moderator: Thank you. Next question is from the line of Jay Daniel from Corporate Data Base. Please go ahead.

Jay Daniel: Sir I just wanted to know this cut back from this US customer will it flow into the next quarter also and what would be the impact?

Farid Kazani: We expect this to pretty much we have not anticipated this restarting in this financial year the impact will continue at about 2.5 - 2.4 million a quarter but we may expect other businesses to grow and make that up over the next two or three quarters.

Jay Daniel: So this impact will be similar which we saw in this quarter would be similar in the coming quarter also.

Sudhakar Ram: That is right.

Jay Daniel: And would this mean that for the year we would see a negative growth?

Sudhakar Ram: Hopefully not.

Jay Daniel: Because guidewire has guided towards subdued growth in the US so I just wanted to, is the market there getting challenging or what is happening?

Sudhakar Ram: Guidewire is different they serve the large customers and there is a particular trajectory and they have already booked a lot of business that needs to be executed. In the BTA segment that we are focusing on we definitely see a robust pipeline, we do not give guidance.

Jay Daniel: No I do not want guidance but on an overall basis considering the impact that has been seen in this quarter and expected in the coming quarters what do you see for a year do you see sales growth being sustained or you will see a considerable hit happening.

Sudhakar Ram: Like I said in every quarter you will see an improvement over there now how far that improvement how much is the improvement is will determine the position at the end of the year.

Jay Daniel: But are you optimistic or you will see this year to be more subdued consolidation kind of the year?

Sudhakar Ram: Basically if we have hit two quarters it cannot be a very optimistic year for us.

Jay Daniel: And this product investment of 17 Crores which you spend for quarter that will continue.

Sudhakar Ram: Yes in fact that may even step up as we win more business because we may win business across new lines of business so this year we want to be aggressive in terms of product and ensure that we get as much of it done in this financial year as possible.

Jay Daniel: So that on an overall basis that would put quite a lot of pressure on margins.

Sudhakar Ram: Yes in the bottomline but we expect the other growth to take care of it but this is the part of this game that if we have to keep up with guidewire especially in a thing where they have slowed down a bit this is an opportunity for us to build out our lines of business and particularly there is a set of lines of business called ISO where we can be a leader and ISO is typically used by the midsized firms.

Jay Daniel: So on an overall basis for the year is going to be quite a challenging year for you both on margins as well as growth?

Sudhakar Ram: Yes definitely there are challenges this year.

Moderator: Thank you. As there are no further questions I would now like to handover the floor to Mr. Sudhakar Ram for closing comments.

Sudhakar Ram: Thank you all for attending this call. Like I said we are going through a transformation as a company we have turned around but the entire turnaround is not completely over and there are huge opportunities in the insurance space that we are paying in the investments that we have made over the last few years definitely paying off in terms of revenue we expect the growth to continue and sustain itself and the core capabilities of Mastek in building large complex application is being of value in the UK where we are winning government business and we are playing for the long run and we will continue to invest we will not take a quarter-on-quarter view but we do expect to build substantial value as we go along in the next few years. Thank you all for your interest and commitment to Mastek and see you again next quarter.

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