"Mastek Limited Q4 FY-15 Earnings Conference Call"

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MODERATORS: **MR. DIWAKAR PINGLE – MANAGING DIRECTOR - CHRISTENSEN INVESTOR RELATIONS PVT. LTD.**

Moderator: Ladies and gentlemen good day and welcome to the Mastek Limited Q4 FY-15 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you sir.

Diwakar Pingle: Thank you Darryl. Good morning and good evening to all of you. Welcome to Q4 FY-15 Earnings Conference Call of Mastek Limited. Joining us on the call today are Mr. Sudhakar Ram – Managing Director and Group CEO, Mr. Ketan Mehta – Founder and CEO – Majesco, Mr. Farid Kazani – Group CFO and Finance Director.

The structure of the call will be as follows: Mr. Sudhakar would give a brief overview about the performance of the quarter and the full year gone past which will be followed by a brief business highlight of the North America and Insurance practice by Mr. Ketan Mehta and Mr. Farid Kazani will then delve into the financials for the quarter and full year. We will then throw open the floor to questions and answers session. I hope all of you have got the results. For those of you who have not got it you can also look it on our website at www.mastek.com. It has the Press Release, the Investor Presentation, as well as the Revenue Analysis Sheet which has been put up there. Having said this, I hand the call over to Mr. Sudhakar, over to you sir.

Sudhakar Ram: Thank you Diwakar and good evening to all of you. If I look at the year, I think it's a year of a lot of strategic movements in the company. As you are well aware that having of the Insurance part of the business into a separate demerged entity, Majesco, has been a very important move for us both from the perspective of serving our customers better, giving a clear career path to employees as well as unlocking value for shareholders and changing the risk profile of their investment in the two entities, so I think that was one major exercise that has consumed us through the year and we have already started operating in that manner of Mastek which is the Solutions company and Majesco which is the Insurance company. Though for the legal clearances to happen and for the things to take effect it may well be July or so before we can really operate legally in that fashion but internally we have been operating in that fashion. So that was important and from that perspective the Insurance business has already picked up momentum in terms of making acquisitions which help consolidate our position and drive us towards leadership in the marketplace.

The performance in terms of revenues has been much better than our own expectations this year but profits have been below our expectation, given a couple of unfortunate incidents during the year with one client terminating a program and another client currently under some kind of a negotiation on what will happen on the program. It will hit our bottom-line this year and also the demerger expenses that we have had which are one-time expenses, it also hit our bottom-line this year. So that we are less pleased about but revenue I think I am pretty happy that we have managed to exceed our own internal budgets in terms of revenue and we are starting FY15-16 with a much stronger backlog, much stronger pipeline.

Let me just say a few things about the Solutions business which is largely UK-based and a little of India, Asia and then hand it over to Ketan to give us more color on the Insurance business.

Solutions business, as you are aware we started with focus on government and health well established on the G-Cloud platform which is largely a UK government initiative to make smaller deals and procure directly through the small medium players rather than go on for large huge programs which have had a high failure rate, so that plays to our strength and we did when multiple deals on the G-Cloud program and through the year we have also delivered and some of those have gone exceptionally well, the clients are very happy especially in the home office, in the HSCIC area as well as the monitor and I think it bodes very well for us in terms of building the moment. We have also got a team in place for that. Currently things are a bit stalled because of the UK elections which will happen in May but we expect the momentum to start picking once the new government is in place and the initiatives get restarted in some form. So I think August-September timeframe is when we will start new deals in this area.

Other thing in Government and Health which worked very well for us is the JV that we have had with The Law Society which is called Legal Process Technology (LPT). So we are in the process of launching the platform which is a conveyancing portal called Veyo. It should happen in the next couple of months, by Q1 of this financial year we should be able to launch that platform and we have had a good interest from the solicitors, the conveyancing solicitors who turned up and expressed interest far more than what we anticipated to begin with, so that's again something that we think was a worthwhile investment, though it did impact our profitability this year, we believe that that's something which is quite valuable as a SaaS Model as an ongoing industry utility where with the credibility of The Law Society and the need for a better transparency and quicker turnaround in the entire conveyancing process, I think the Veyo portal should do very well in terms of getting a good market share of all the real estate transactions happening in the UK.

On the retail front, we have started with a couple of accounts, Morrison being our strong account but we have ended with a good base of another three Tier-1 accounts that we have closed. It's still small deals so it's not some huge backlog but opening these accounts is a significant milestone and we think that we can start building up on this in the year ahead.

On the financial services front, at the beginning of the year a lot of our focus was on Insurance but given that the Insurance part of the UK business is now under Majesco, UK, we have had to re-strategize and focus on the area which is our strength and based on our past customer base, we are focused on the micro-lending, the not prime kind of customers, serving them. So there are companies who serve the less than A-rated customers and we have got strong value proposition for these, we have built expertise over that last 5 to 6 years. So that's one segment that we have started winning deals on. We already have three more customers in that area added this year and we think that's also going to grow over a period of time.

From the India perspective, I think our momentum got a bit slowed down last year with the elections and so on but we know that the new government is focused on IT, we are bidding in large programs and there is a realization that you can't just do a huge system integration and BPO and IT deal and software deal together. That more and more government deals are getting unbundled very similar to the UK model where software, only your software with a little bit of bought out components are being tendered separately and that plays to our strength so we are bidding in quite a few such deals and we do expect to grow that part of the business in this financial year.

So overall, the focus of the Solutions business is our strength, is the major program. We have successfully delivered large complex programs for many years at least 20 years in the UK and we all know about our successes and places like the NHS and in the Education segment, in the congestion charging and so on. So that is one aspect. The second aspect is with increasing digitalization, people are looking at more and more non-standard unstructured kind of areas that they want to differentiate themselves from their competitors, competitors who are typically either dot com upstarts or even the established players who have made major investments in creating digital assets and digital platforms. So that plays to Mastek's strength because a large Tier-1 company cannot take on non-standard applications and do innovation and deliver it in a predictable agile fashion and that's an area which we have done for a living for the last 30 years. So Mastek's strengths are very uniquely positioned to be able to take non-standard programs and do agile deliveries, live agile deliveries but at an Enterprise level rather than just at a point solution level. So we see ourselves uniquely positioned to take advantage of the digital thrust which most of our customers are going through and the markets are slowly recognizing us in this area. Obviously as we get out of the Insurance business which goes to Majesco, we will start focusing more on these digital capabilities and we may make some acquisitions in this area because that's an area that we want to establish ourselves and grow over a period of time. So that is broadly the Solutions business. Let me hand it to Ketan to describe the Insurance part of it in a bit more detail.

Ketan Mehta: Thanks Sudhakar. From a Majesco, our Insurance perspective this has been a foundational year. As you know we are exclusively focused on Insurance. We are an Enterprise software company serving the global Insurance market both, Product & Casualty (P&C) as well as the Life and Annuity (L&A) Industry. Now the whole story of an exclusive focus on one vertical as for Insurance has been received extremely well by the industry, by analysts, by our customers as well as internally by our team. I could see the momentum building up very quickly. Now as you know we have invested heavily over the last multiple years to build a strong intellectual property on the policy admin, billing, claims, and other assets which an Insurance company need to run their core platform. We have invested over US$110 million over the last multiple years both including acquisition as well as our internal development. And based on that we got a very good recognition in the industry. In fact if I look at the last few months we are increasingly getting better and better recognition through analysts. One of the our key point has been that Gartner who is the leading industry analyst recognize our policy admin platform in the **P**&C industry to be in the Leader Magic Quadrant, Leader Category with only two other companies in that segment. So these positions are to be one of top leading company in that segment which is a very fast growing part of the industry.

If I look at the last quarter, one of the important event has been that we successfully integrated, Agile team. The deal was done on 1st January 2015 and the team started working as part of the Majesco Consulting Division. The combined story was received very well by the customers; the team started working well together. We opened many new opportunities on our customers, their customers, as well as the new prospects in the industry. So I feel very good about the integration taking place with the Agile team.

Overall if I look at, the deal momentum is picking up. I feel very good about the overall deal moment as well as the pipeline build up which is taking place with us. The one area which I feel very good about is how we are able to cross sell some of our IT services and other broader set of services to some of the existing customers. So we opened a few more opportunities and closed few deals on that count where we sold IT services to some of our platform customers. So broadly speaking I see the excitement and momentum building it up. As I said, we are already recognized as one of the leaders in the industry. For most analysts and customers we are recognized as among the top three in the industry. I feel based on all the acquisitions which we are….some of them are made, some of them are in the process, we have a significant size and scale for us to really take this up to a next level. Combined all together we have over 150 customers and over US$100 million in revenue which will place us into a very strong position in the Insurance industry from where we can build up for a very strong growth momentum. So feel very upbeat about the opportunities within the Insurance sector and I'll now pass it on to Farid for sharing his perspective.

Farid Kazani: Thank you Sudhakar and Ketan for the update on the business. I'll run you through the financials for the quarter and for the year. But just to describe the year, it has been a year of strategic moves and value creation for all stakeholders and we are very pleased to have achieved the results at the end of the year. I think lot of amount and time has got invested in creating these rightful strategies to build both the businesses independently and aggressively.

If you look at how the year has panned out we have seen growth on the revenue quarter-on-quarter and that has been based on the amount of investments that we have made in the businesses both in the UK and US through the sales marketing team and creating good and strong visibility on the pipeline. This quarter we have ended up with Rs 276.1 crore as compared to Rs 268.7 crore in the previous quarter. It's an increase in rupee terms by 2.8% but in constant currency it's an increase of 4.7%, so that's a pretty good performance from our topline perspective.

On a year-to-year basis, if you compare the quarter in the same period last year it's a growth of almost 23%, so on a year-on-year basis the quarter looks very good.

As far as the total year is concerned, we have crossed the Rs 1000 crore mark, the first time in the history of Mastek, so that's been a milestone actually for us in this year. We have ended up with Rs 1012.5 crore for the year March 2015 as compared to Rs 923 crore in the previous year. It's an increase of 9.7% in rupee terms and 8.1% increase in constant currency.

In terms of the EBITDA, we have seen certain impact, but I'll run you through one-by-one. If you look at the Other Income line we have had a lower Other Income in this quarter at Rs 1.2 crore as compared to Rs 4.4 crore. Last quarter we had a higher Other Income because we had some interest on the Income Tax Refund that we got about roughly about Rs 1.9 crore.

Overall the Total Income was at Rs 277.3 crore as compared to Rs 273.1 crore which is an increase of 1.6%. On the Profitability, we have seen the EBITDA margins at 5.3%, so we have ended up with Rs 14.8 crore in this quarter as compared to the 7.6% which was Rs 20.9 crore in the previous quarter. There has been one specific impact of a project that we have taken conscious decision and as an abundant caution to provide for that. That amount is Rs 8.6 crore and that is related to a project which is operating in the India Asia Pacific market and we will be happy to kind of give you more details when we get into the Q&A but that itself has impacted the margins by 3.2%.

When I look at it on a year-to-year basis, we have ended up with an EBITDA of Rs 61 crore which is around 6% as compared to Rs 101 crore in the previous year which is around 10.8%. The year actually had a lot of spends that we have taken through the P&L. Sudhakar mentioned we have spent on the restructuring that is roughly around Rs 11.6 crore. We have also invested in the LPT JV that Sudhakar talked about and that's an investment for getting a buildup of our business which should give a good revenue stream and profit stream in for this Mastek Solutions business in the coming years. If I add both these specific exceptional items, it's roughly around Rs 23 crore, so we would have ended up with an EBITDA of Rs 84 crore which would have been close to around 8.3%.

In terms of Profit after Tax for the quarter, we have ended up at Rs 6.4 crore. We have been able to get certain Tax Credits in the UK which has helped the profit and the bottom line and the tax is actually at Rs (-3.5) crore. Against a Rs 6.4 crore we had Rs 8.7 crore in the previous quarter and basically the difference in the profitability between the quarters is primarily due to the project impact that I did specify earlier. For the year we have ended up at Rs 17.7 crore as compared to Rs 51.8 crore in the previous year.

I will run you through some other highlights in the quarter. We have been able to add three new clients in the quarter, two of them in the Insurance and one in the Solution. Our total client base is now at 153 after adding clients that have got acquired through the Agile Technologies which came in in this quarter. Our Head Count actually has remained flat whereas our Billable Utilization has seen a little drop to 83% as compared to 86%. That is primarily because we ended up recruiting some trainees in the quarter. That increased the overall headcount but overall we are seeing a flat headcount because we have seen that replacing the headcount at higher grade levels.

Our Product Development Expenditure in this quarter was Rs 17.1 crore and this is required for the investment as Ketan mentioned for building out our co-platforms on the billing and claim side in the P&C business. That Rs 17.1 crore is roughly a 6.2% of the revenue. We had a much lower Product Expenditure in the previous quarter which was at Rs 14.3 crore which was 5.3% so an additional 1% impact on the profitability in this quarter because of the investment that we made in the Product Development Expenditure.

The Total Expenditure for the year on the product side was Rs 63.6 crore as compared to Rs 58.5 crore. One of the good achievements in this quarter has been the order booking and the closer in terms of our backlog. Our 12 month backlog now stands at Rs 527 crore which is an increase by 7.3% as compared to previous quarter and in constant currency by 11% and the growth has come both in the Majesco side and Mastek side. We had committed to give the break-up of this figure. The Majesco Insurance backlog stands at Rs 312 crore and the Mastek Solution is roughly Rs 215 crore.

With the addition of clients and also the increase in revenue we have seen the top five client revenues going down marginally from 39% to 35.5%. Top 10 clients also have marginally reduced in terms of concentration at 52.8% as against 55.1%. In this quarter the Exceptional Expenses have been for the restructuring which was Rs 2.64 crore as compared to Rs 3.9 crore in the previous quarter. And the share of the loss from the LPT JV which is obviously the buildup in terms of their start-up, that amount has been Rs 3.74 crore in this quarter as compared to Rs 3.3 crore in the previous quarter. We stand pretty good and well on our assets hedges at the end of the year. We have hedged roughly $23 million at Rs. 67.3 on an average and close to £16 million is hedged at Rs. 107.7. The hedges are over a 12-month period and we have also hedged some marginal amount for the period beyond 12 months.

In terms of the cash position there has been a pretty good performance. We have been able to reduce our Working Capital and convert the Receivables into cash. Our DSO now stands at 62 days as compared to 74 days in the same period March 2014 and has helped to increase our cash and cash equivalent in terms of gross cash its Rs 214 crore but net of debt, the debt has been taken to fund the acquisitions in the US because we chose to take a low-cost debt in the US to fund the Agile acquisition, so we have taken a debt in the US and if I net the debt out from the cash, we end up with a net cash of Rs 185 crore, the corresponding net cash balance was Rs 172.5 in the previous in quarter.

In terms of the progress on the demerger and merger we have the High Court approval which are expected by mid-May and typically after getting the High Court approval there is a process to close that out with SEBI, with Stock Exchanges and then submit the info memo to the Exchanges before we get to a listing stage. It will be a period of roughly around two-and-a-half odd months after mid-May, so I am expecting by July end or mid-August is when we should be listing the Majesco entity in India. However, I will put a disclaimer that this is subject to the timeliness in terms of approvals that you would get from the various regulatory authorities.

There is good progress on the merger in the US with Cover-All. We are going through the SEC review and we have an update with a second round of comments and hopefully we should be able to close that out in the next 15-20 days. We will then be able to call a stockholder meeting in the US and then we should be getting to a listing stage around 30-40 days from thereon. We expect that by June and early July we should be able to close the merger of Cover-All and list the US entity.

I have shared in the presentation which has been put up on the website certain other information reflecting the Profit Before Tax before Exceptional and After Exceptional. The Profit before Tax in this year was Rs 22.3 crore as compared to Rs 67 crore in the previous year and if I add back the Rs 23 crore of the Exceptional Items we would have been at a PBT of Rs 45 crore as compared to Rs 67 crore.

There is also the split of the brief of summary financials on Majesco and Mastek given separately. Mastek revenue has ended up, when I think Mastek it means Mastek Solution which includes the UK and the India dominant business, the Operating Revenue has ended up Rs 513 crore as compared to Rs 416 crore that is a growth of 23% whereas the EBITDA has been at 10.8% as compared to 14.4%. You would be aware in the last quarter we had an impact on account of onsite resources where we had to hire security cleared resources and we had to kind of over manage the accounts in the UK, however that is now streamlined in this quarter so hopefully we should see a better EBITDA in Mastek going forward.

On the Majesco side, we have ended up at close to Rs 500 crore as compared to Rs 507 crore in the previous year. That reflects the drop of 1.5%. However, these numbers included the pure IT services in both the years. Last year the pure IT services was much higher, say if I have to kind of exclude that number then there is a growth of 2% on the Operating Revenue in the Majesco side.

At an EBITDA level with the investments that have gone into the business we have ended up at 2.1% EBITDA before exceptional expenses for Majesco as compared to 5.9% in the previous year and if I look at it before the product development expenditure we have ended up at 15% as compared to 17.3% in the previous year. There has been a marginal shift actually in the revenue by region so as compared to the previous quarter where we had 40% coming from North America this quarter it has been 41.6%, UK was 51.7% in the previous quarter it is at 49.6% and the India Asia Pacific Geography was at 8% last quarter, it is at 8.8%. With Agile coming in, we are seeing the Insurance business growing in this quarter and therefore the Insurance vertical and this is not Majesco in that fashion this is in the vertical format which we have been reflecting and reporting every quarter. The Insurance vertical has 49% as compared to 46.5%. The government has been at more or less at the same level at 28.9% and the other verticals have seen a drop from 24.6% to around 22%. That concludes my summary information for the quarter and for the year and I would like to throw the floor open for questions. Moderator can you please open the floor for questions.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. Our first question is from the line of Srivatsan Ramchandran from Spark Capital. Please go ahead.

Srivatsan Ramchandran: I have three parts of questions, just wanted to focus first on the Mastek Solutions business. This year we have seen a good growth on the back of strong deal wins, so just wanted to get your thoughts in terms of what are the plans for next 12 to 18 months kind of a time frame in terms of positioning or the verticals you would focus or the geographies we would focus and also just wanted your thoughts on the margin outlook?

Sudhakar Ram: As I had covered our prime vertical is the Government and Health in the US and in India it is mainly the Government. We are also focusing on the Retail and Financial Services which are emerging verticals which will grow over the next 2-3 years. So we see a robust pipeline in all these three verticals and we think that with our story of being able to deliver complex Transformation programs, which are at an Enterprise level in an Agile fashion, we are one of the few people who combine Agile with Enterprise capabilities and Transformation capabilities so that is the unique capability we have which the customers are recognizing. So that is our differentiation in the marketplace so that will continue to be a major differentiation. As there is a slowdown in the Government deals because of elections in the UK as that opens up, I think we will get back at deal momentum. We had a very good growth this year and we hope to have a continued growth as we go forward in both these distances. But as we have originally said the Solutions business is not likely to be as a strong growth story as Insurance because Insurance the opportunities are different and that is the reason we have demerged the companies and Insurance we expect to grow faster, the market opportunities will crystallize much faster, the Solutions business will be at a better than industry but it will be lower growth rate.

Srivatsan Ramchandran: And on the margins Mr. Sudhakar?

Sudhakar Ram: Margins should improve. I think this year a lot of things have been moving around and even in the solutions business we got hit with a need for more than expected security cleared onsite resources. Those things are stabilizing now and we do expect the margins to start inching up. Now Mastek being the parent company as Majesco resources are transferred to Majesco there will still be a lot of other overheads remaining in Mastek which we will have to absorb and handle over a period of time. So margins will improve over a period of time.

Srivatsan Ramchandran: And on the LPT JV, will be just helpful in terms of what would be the revenue model of this JV be and how do you see it progressing over the next 18 months. Is there any milestone that you are looking at?

Sudhakar Ram: The revenue model is simple; it's a transaction fee per conveyancing per real estate transaction conducted so the buying lawyer and the selling lawyer pay a fee and there is a business plan which starts generating revenue towards the tail-end of this financial year as we build up the base and as more deals get done in the platform. But over a period the entire thing works on a significant share of real estate transactions in the UK going through the Veyo platform which is our conveyancing platform and as that happen it can be a significant business for us.

Srivatsan Ramachandran: And just on the fee bit would be flat fee per conveyancing or is it more related to the value of the transaction?

Sudhakar Ram: No, we can't do value because we are only providing a transaction service so it is a flat fee per deal.

Srivatsan Ramachandran: And in terms of the competitive for this, is there any meaningful service?

Sudhakar Ram: Not really.

Srivatsan Ramachandran: On the Insurance piece just wanted to understand how the demand environment because if we have to go by the commentary of the larger traditional services players Insurance has not been the best of verticals in terms of demand pipeline so just wanted to get your thoughts in terms of where the funnel is, what are the sub-segments within Insurance where we are seeing growth?

Ketan Mehta: Let me talk about P&C line of Insurance which is a major part of our business. So what we see is a very vibrant demand environment in that part, typically most Insurance carriers will look at modernizing their core platform once in 10 years, 15 years and now we are in the cycle where a majority of the Insurance carriers are going through that replacement evaluation so we find number of different opportunities coming through for the modernization cycle. So we believe that we are in a phase where the legacy replacement initiatives will continue for next five years or so. There are very strong business drivers for that to happen, primarily as you look at it the Insurance industry is becoming very competitive where the carriers need to bring out new product, innovative product on a regular basis and the legacy platforms do not support them at the same time they also have a strong need to provide a better customer and agent experience and better collaboration with the customers and agent which again their legacy that form find it challenging. Thirdly, we also find that carriers want to use the data very effectively to do the underwriting and claims analytics and those types of decisions effectively, again they have a challenge on the legacy platform which cannot enable those types of data driven decisions. So given all that there is a strong demand driver. There have been many successes based on the people who have taken those replacement initiatives so I certainly see a very robust demand taking place. In fact we do consider that its once-in-a-lifetime modernization initiative cycle we are in middle of and we see that going through in next 3 to 5 years.

Srivatsan Ramachandran: In terms of quantification would it be possible at some level broadly give as to what would be the TCV of deals that we have seen maybe not in the quarter but maybe last 12 months, what it would have been maybe in FY14?

Sudhakar Ram: Deals, we have won deals in the market.

Srivatsan Ramachandran: For the Insurance business we would have won.

Farid Kazani: Srivatsan, I don't have the details right away but at some stage I can give some information on this and we can have a one-on-one meeting.

Srivatsan Ramachandran: I will follow up off-line and on the timeline is there any restriction from structure point of view that India entity needs to be listed before the US entity is listed or vice versa?

Farid Kazani: No Srivatsan, I think just to let you know that to complete the merger of Cover-All with Majesco in the US and to list that entity the two primary conditions that I have to complete the reorganization and demerger in India which typically will get completed once we have the High Court approval and file with the ROC and the second condition is that I should be able to get the NYSE clearance for listing. So just to let you know we have got the preclearance from the NYSE to list obviously subject to conditions that we will have to comply, which we will do and once I have the High Court approval in India. I'm as good as almost ready to close the Cover-All merger with Majesco. It is obviously subject to the Cover-All stockholder approval so that will happen in the last stage which is around the May-June time and we should be able to close. The way I see it is, it is quite likely at this stage when I see that the Majesco US entity may get listed first and then the India entity.

Moderator: Thank you. Our next question is from the line of the line of Hardik Patwa from ICICI Direct. Please go ahead.

Abhishek: I think in the earlier question you mentioned about the growth rates for the Services business, you said it will be better than industry average so would it be fair to assume that we will be able to do better than what NASSCOM has guided for FY16?

Sudhakar Ram: Yes that's what we mean by better than industry average.

Abhishek: And the second question is regarding the product development expenses. Now what is the steady state number for that and when will it be less volatile as we have been seeing that number especially between the quarters?

Farid Kazani: If you look at the product expenditures that happened in this year it's around 6.3% of total Mastek consolidate revenue. As a percentage to insurance revenue it will be close to around 13%. I do expect that this percentage between 12% to 13% will be maintained at least in the next 18 to 24 months and once we have got our products at a ready stage we would see a tapering and then we would see the percentage coming down. To answer your question what should be the steady-state, it can be anywhere between 9% to 10% of the revenue on a base that we will achieve after three years let us say.

Moderator: Thank you. A next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Pooja Swami: Firstly on the yearly profit even after we are addressing on the adjustments related to the restructuring cost and all we don't see a profit growth this year so what is the reason for this?

Farid Kazani: As I mentioned, there is this Rs 23 crore on account of the restructuring and the JV investment that we made. There is obviously an increase on product development expenditure by almost around Rs 5 crore that has happened. Then unfortunately we had certain hits in this quarter and the 1st Quarter. If I attribute the few hits that we had in the 1st Quarter and in this quarter you can add another Rs 10 - 11 crore which has impacted the financial. The other thing that I look at it when you look at net profit the depreciation was higher in this year at Rs 37 crore compared to Rs 32.8 crore. That's because after having acquired the Agile business we are supposed to write-off the goodwill which is over the five years' period so there is an amortization figure that is coming in this quarter of roughly around Rs 2 crore and as compared to when you look at this quarter there has been obviously a bearishness on the UK Pound and that would have taken off roughly around close to Rs 70-75 lakhs.. But if you add all this back we made better profits than the last year.

Pooja Swami: But all these are like one-time hits you are saying including few of them like R&D cost and all.

Sudhakar Ram: I would term those project related issues as one-time hit him, R&D costs as I just mentioned earlier that it will be a continued investment that is require till the time we have the product ready and the Pound is obviously not within our control though the hedge pretty well in our business today.

Pooja Swami: Related to this R&D for this product development as well and what would be the timeline? You are saying these expenses will be incurred till the product is developed but roughly what would be the timeline you could suggest for this?

Ketan Mehta: The way we look at it in our business we have to keep our product ahead of the competition ahead of what the industry need. So I would expect it's not that one-time activity where we develop product and we are done because industry is constantly evolving, market needs are changing so we will have to continue to invest in products to keep the leading edge which we have.

Pooja Swami: Secondly, as you had mentioned in your opening remarks about Majesco, after demerging look at it like its overall Insurance business can do about $100 million of revenue similarly on solutions can you give us some outlook after demerger how do you see that business panning out in terms of revenue?

Farid Kazani: If you look at the revenue in this year it has been Rs 513 crore for the Mastek Solutions. Sudhakar did mention that if we are doing better than the industry norm which is shared by NASSCOM between 12% to 14%, you consider that a little better growth rate compared to that and you will get the figure for next year.

Moderator: Thank you. A next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Few questions, one is on the revenue reversal - this thing has come up in this particular quarter. So what is the status there, should we expect more reversals next few quarters or this rate is completely written-off in this quarter itself, that's one. Second, you talked about Depriciation & Amortization (D&A) with amortization going up sharply so what should we expect in terms of D&A for the next full year?

Farid Kazani: On the first question, we have taken a conscious decision and as an abandon caution to provide for a project in India Asia Pacific market where we have taken a hit in the cost line item of around Rs 8.6 crore and this is with regard to the discussions on delivery and milestones that we are having with the client and if we don't come to a mutually acceptable solution between the client it could result in termination. We didn't want a situation where we end up with hit and not having a provision for it. So we have consciously made a provision in this quarter itself which is the entire accrued revenue a 100% provision not even 50%, we have decided to take that hit that consciously. However, we are working with the client and see how we can kind of resolve the issue and if things improve we may see a positive around that cost item. I don't think we are expecting any such hits in the future and I'm not saying that it will not happen but having 150 clients that we are working with one of projects will have such kind of issues.. Depreciation – this is an additional roughly around Rs 2 crore that came in this quarter because of the Agile goodwill that is got accounted and that has again amortized over the 5 years' period from the quarter, Rs 2 crore got added which we will have an amortization of Rs 8 crore of roughly for the year.

Mohit Jain: You are referring to some one-offs because of currency I guess or some other factors in D&A, what should we expect this to be the run-rate going forward?

Farid Kazani: This will be the run rate for Mastek going forward so when you see the company split in the next year between Mastek and Majesco so there will be a depreciation figure which should be completely different in Mastek and the depreciation figure separately for Majesco that we will share once we have got the splits done here.

Mohit Jain: And the restructuring charges are completely off?

Farid Kazani: There is some which will happen in the next quarter and hopefully it should not be a very big amount.

Mohit Jain: So more or less you are done with it?

Farid Kazani: Yes, I think by June we should be done with it because that would be kind of more or less having got to a listing stage at both the US and India entity.

Mohit Jain: How much Agile revenues did you add in this particular quarter?

Farid Kazani: We added roughly around Rs 14 crore.

Mohit Jain: For 2 months is it or for the entire 3 months?

Farid Kazani: It's for the entire three months.

Mohit Jain: And also I saw this one item in other income which has turned negative this particular Quarter.

Farid Kazani: Other income has been lower.

Mohit Jain: Yes, lower because of that particular item. It says interest income on others which is loss of Rs 50 lakhs.

Farid Kazani: Yes, let me get back to you on that Mohit.

Mohit Jain: Sure and second I noticed that debt has gone up and interest rates consequently have gone up, any specific reason for taking this debt?

Farid Kazani: We have cash with us Mohit but the cash was obviously lying in India and then in fixed earnings securities and deposits. We thought it's better to take a low-cost debt in the US against US acquisition which is Agile that we have taken. We've actually funded the initial amount that we paid to the Agile promoters through our debt in the US itself.

Mohit Jain: This long-term borrowing that we are seeing here that's purely because of the Agile acquisition?

Farid Kazani: That's purely because of Agile.

Mohit Jain: And it is in US dollar denomination.

Farid Kazani: Yes.

Mohit Jain: Short-term borrowings should go off or that's the current portion?

Farid Kazani: That short-term borrowing is purely based on the gap of working up and depending upon how the stated cash position is in the US but the better way to look at how we performed in terms of cash. If you look at the net of debt so we are at around Rs 185 crore as compared to Rs 172 crore in the previous quarter even after paying the Agile promoters.

Mohit Jain: Anything on the Majesco margins for next year?

Farid Kazani: We are not giving any specific guidance Mohit. The fact is that it is a business that we want to grow aggressively and therefore there is going to be investment. Investments are going to be in safe marketing which is gone to be in the product development and depending upon how deals come through within the business. We should see improvement in margins but just keep in mind that when we list in the US there is a different method of accounting for certain items like stock based compensation and then once we acquire Cover-All there will be amortization of the goodwill of Cover-All also so there will be some non-cash items so I don't want to give any figure right now and I think it will be best that we will get a feel of how things progress and then we can probably give some update.

Mohit Jain: Is it safe to assume it will remain positive?

Farid Kazani: You are putting words in my mouth; I will not give answer to that Mohit.

Moderator: Thank you. A next question is from the line of Amar Mourya from IndiaNivesh. Please go ahead.

Amar Mourya: If I exclude the Agile part of the Insurance revenue in this particular quarter, during this quarter also Insurance revenue has de-grown, right?

Farid Kazani: Yes, if you exclude the Agile there has been a little de-growth.

Amar Mourya: So any specific reason for that?

Farid Kazani: It's purely based on the certain projects getting completed and the right shifting of the order book and hopefully we should be announcing some good deals in this quarter. It's just I would say month-on-month aberration but there is nothing to worry.

Amar Mourya: Secondly, if I see the employee increase during this quarter, in US part there has been the increase in employee and there has been significant addition into the BPO base so is that we are looking for some new deals probably in the solution side?

Farid Kazani: No it is not BPO, I think we should recapture that as the consulting which is the Agile Consulting route so while in our revenue classification we did state consulting in BPO because BPO was a term that we were using earlier. I should knock off the BPO; it's actually consulting group that came in.

Amar Mourya: So that is the Agile employee?

Farid Kazani: Its Agile so we will correct that, Amar thanks for pointing out.

Amar Mourya: Now after this like our active client base in Insurance is now 150 around, right?

Farid Kazani: Closer to 120 because we would have 100 Insurance plans out of Majesco and 20 clients out of Agile.

Amar Mourya: And the 30 will be coming from..

Farid Kazani: The Cover-All, we should add another 30 approximately.

Amar Mourya: Most of my questions have been answered. Just referring to the last colleague about the Majesco revenue run rate and the margin, if you can give some flavor about because since we will be integrating two companies at least if you can share what would be hearing from your existing clients what kind of cross-selling opportunities you see, what is the flavor probably if you can share something on that since Agile is already integrated that would be great.

Ketan Mehta: Clearly we do see fair amount of cross-selling opportunity and I already talked about in my earlier remarks that we have closed couple of deals last quarter in terms of cross-selling services to our existing clients so we will expect that to continue, we will expect that to even get better as we go forward. However, as we look at our investment which is required for both product and sales in terms of the really strong growth opportunities that will continue to happen as well so as we will see cross-sell opportunities which will certainly leverage our current SG&A but we are also really stepping up our investment in other areas to create a foundation for the strong growth.

Amar Mourya: When we say that Majesco is going to grow faster than the solutions business so that means what we are saying here is Majesco as in business is going to grow say double of the industry average?

Ketan Mehta: Amar that's not the way to look at it. I think we're functioning in a different market where the competitions are completely different, what NASSCOM gives you a completely different picture. This market is completely different in US so all we are saying is that there are great opportunities for us, we are among top three players in that segment and we expect and based on the assumption that we are making this we expect to grab good share of that market so it is important that if you want to grow aggressively and that means you have to grow faster than the others you have to make investments.

Amar Mourya: That is right.

Moderator: Thank you. A next question is from the line of Depak Poddar from Saphire Capital. Please go ahead.

Deepak Poddar: My first question is on Majesco R&D on product development cost. So we are currently at about 13% our Majesco revenue and maybe you are guiding for about 10-11% in next 2 to 3 years so do you think this is the optimum kind of investment that we are doing in product development or do you think that are higher than this is what might be warranted?

Farid Kazani: Let me just correct you, I mentioned this earlier that the investment is going to remain at 12-13% in the next two years and then steady-state we would expect around 10%. And the way I look at it if you look at competition and we have in this case Guidewire which spends 20% on product development expenditure, we are much lower and we are lower primarily because of two reasons, one is because they have an off-shoring model and second we are not in markets where Guidewire is there and Guidewire needs to spend that much additional and Guidewire has onsite kind of product development cost. So to answer your question yes, I think it will be fair to assume that on a steady-state digit could be closer to a 10%.

Deepak Poddar: But is it enough as compared to like Guidewire is currently spending 20%?

Farid Kazani: No, if we go to a new market then we have to go and build fresh content and other stuff and therefore the product expenditure will have a step increase if we enter into new market.

Deepak Poddar: So currently no such plans of entering new market?

Farid Kazani: We are not saying that right now.

Deepak Poddar: And my second question is that in our previous interaction like we have been told that this Guidewire we can look at last 5 year kind of projections what they have been doing in terms of how the gross margins or profitability of Majesco can shape up in next five years so like Guidewire is currently doing about 57-58% of gross margin so do we envisage that from 41% currently we would be targeting +50% or +55% kind of gross margin?

Sudhakar Ram: Yes that's actually good question and directionally absolutely that is what we would like to do which is constantly our gross margin would improve and directionally that's exactly what we are targeting.

Deepak Poddar: So basically in the 3 to 4 years our gross margin of 55%, is what we would like to target?

Sudhakar Ram: Yes.

Deepak Poddar: And in terms of revenue growth also they have been doing about this 20-25% CAGR growth so a similar kind of model is what we can also expect over next four years?

Sudhakar Ram: Basically you will have to take the revenue growth as they also have global business and our thing is dominantly US and we are still very young in the global part of TLC so we will have a temperate based on that but we do expect good growth rates in Insurance.

Deepak Poddar: 15% to 20% kind of range is the more?

Sudhakar Ram: You can quote any figure that's your choice but 'good' is what we can say.

Deepak Poddar: That's it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Diwakar Pingle for closing comments.

Diwakar Pingle: Thanks everyone for joining in. I just would like to hand it back to Sudhakar for his closing comments.

Sudhakar Ram: Thanks everyone I think it's been a significant year for Mastek. Like I said a lot of developments have happened. As we go forward hopefully the next Earnings Call we should be able to do separate one for Majesco and Mastek if everything happens like the clockwork on demerger and merger. If not we will have one more Consolidated Earnings Call before we do separate call but looking forward to your continued interest and engagement with Mastek. Thanks everyone.

Moderator: Thank you very much. Ladies and gentleman that concludes the Mastek Limited Conference Call. Thank you for joining us and you may now disconnect your lines.