



“Mastek Limited Q3 FY15 Conference Call”
January 22, 2015



MANAGEMENT: **MR. SUDHAKAR RAM – CHAIRMAN, MANAGING DIRECTOR & CEO, MASTEK LIMITED.**
MR. KETAN MEHTA – FOUNDER DIRECTOR & CEO OF NORTH AMERICA OPERATIONS, MASTEK LIMITED.
MR. FARID KAZANI – GROUP CFO, MASTEK LIMITED.

MODERATOR: **MR. DIWAKAR PINGLE – MANAGING DIRECTOR, CHRISTENSEN INVESTOR RELATIONS PVT. LTD.**



*Mastek Limited
January 22, 2015*

Moderator: Ladies and gentlemen good day and welcome to the Mastek Ltd. Q3 FY15 Earning Conference Call. As a reminder, all participants' 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 touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Diwakar Pingle. Thank you and over to you sir.

Diwakar Pingle: Thank you Karuna. Good evening, good morning to all of you who have logged into this Q3 FY15 Earnings Conference Call of Mastek. We did send our results about a couple of hours ago. I hope all of you have got it. In case anyone of you has not got it, please do write to us and we will put you on the mailing list.

To discuss the results today and the outlook going forward, we have the top management from Mastek here. Mr. Sudhakar Ram – Founder & Managing Director; Mr. Ketan Mehta – Founder Director and CEO of North America Operations and Mr. Farid Kazani – Group CFO and Director Finance.

So, without much ado, I will first ask Mr. Sudhakar Ram to give a broad overview of the quarter gone past, which will be followed by Mr. Ketan Mehta talking a bit, specifically on the Insurance practice and then Mr. Farid will dive into the financial details of the quarter performance and then we will take the Q&A. With that said over to you Sudhakar.

Sudhakar Ram: Thank you Diwakar and good evening to all of you on this call, thanks for joining the call. As you have seen, the results for the quarter, I think what is clearly emerging is, that we are making good progress both on the Insurance and on the Solutions business, from a revenue perspective but more importantly, strategically I think the de-merger, all the steps taken, phenomenal efforts by the Finance teams to make that happen and they all are on track and we think we are well poised to complete the demerger within the next 6 months or so. Even more important is, the fact that the US team completed negotiations and closure on two acquisitions, of Agile and Cover-All which I would like Ketan talk more about. But completing two of them in a quarter is definitely a significant achievement and among all this, I think the underlying business performance in terms of revenues have also grown, the pipeline is growing and we have reasonable confidence that the growth momentum will continue going forward in both the businesses, Insurance and Solutions. While profits overall have improved, we did take a dip in the Solutions business on account of couple of projects, where these were high end government projects where we had to staff up some security cleared people, more than what was anticipated but we expect the profit picture in the UK, within the Solutions business to get back to normal within next quarter, so it is a quarterly blip that we have. And overall, the client additions have been reasonable; we have added 4 new clients. The teams have been reorganized during the quarter and I think about 90-95% of our staff have been allocated between the two businesses



*Mastek Limited
January 22, 2015*

and there will be a small common team incharge for the infrastructure, the finance and so on, which will continue probably over the next few quarters. So, overall I am pretty happy with how things are growing and I look forward to a better performance going forward, with that let me hand it over to Ketan to take into the Insurance part of the business.

Ketan Mehta:

Thank you Sudhakar and good afternoon and good morning to all of you. We had a good quarter from the Insurance business part of it, we saw continued momentum, especially with some of the implementations programs ramping up as part of the implementation process. Also we have completed the acquisition process for Agile Tech and the integration has already started effective 1st January, 2015, so that integration has initial reactions for both the teams working together a very positive integration part on the Agile Tech has started. As Cover-All acquisition is concerned, we still have to go through some of the regulatory approvals but the process is on track and we are making good progress. So, overall good all round momentum, in addition we had some senior level leadership recruitment also in Majesco, which we have concluded in our release.

We had Ed Ossie who has joined us as a Chief Operating Officer, Ed is a very seasoned business person. He was the President and Managing Director of Innovation Group, which is the Insurance Software Company and just before joining us he was also an M&A Director in Corum Group, where he was leading the M&A transactions. He has a rich hand experience of M&A deals as well as integration. In addition to Ed, we also had Chad Hersh who is a very well-known name in the Insurance industry. He has been the leading Insurance analyst and a thought leader. He has published number of white papers for the industry. He has been working for the leading industry analyst firms like Novarica and Celent. Chad has joined us to lead the Life & Annuity part of the business and he is also settled down and started operating in full-fledged fashion. And lastly, CEO of Agile Tech, Bill Freitag has joined our leadership team. Bill has very rich consulting experience in the Insurance industry and he has grown Ageil's business and is also now playing a broader role within Majesco, supporting our growth strategies. So, with that overall very positive momentum within Majesco, we feel upbeat about the outlook and profit moving forward, I will now pass this onto Farid.

Farid Kazani:

Good evening to all of you and thanks Sudhakar and Ketan for that brief update. Let me take you through the financials in summary and also give you all some additional information in terms of progress that happened at the Majesco group level.

For the quarter, we ended up with Rs. 273.1 crores in terms of total income as compared to Rs. 251.7 crores in the previous quarter. It is an 8.5% increase in rupee terms and if you compare it with the quarter in the same period last year, it is an increase of 12.7%. In constant currency we have grown this quarter by almost 9.8%, so it has been a phenomenal increase or performance in revenue and that is at the back of both the geographies, UK and US doing exceedingly well. India Asia Pacific was pretty stable this quarter. On an YTD basis for the 9 month period, the



*Mastek Limited
January 22, 2015*

total income was Rs. 752.3 crores as compared to Rs. 704.7 crores in same period last year. It is an increase of 6.7% in rupee terms. In terms of profit for the quarter we did Rs. 8.7 crores, significantly better than what we did in the previous quarter which was Rs. 1.7 crores and at the end of 9 months we had Rs. 11.3 crores as compared to the last year corresponding 9 months from Rs. 40 crores. There has been a steady improvement in the EBITDA also, in this quarter we ended up with Rs. 20.9 crores, which was 7.6% and it is an increase of 120 basis points compared to previous quarter where we did Rs. 16.1 crores at 6.4%. We are trending at 6.2% for the 9 months as of December 2014; however last year we had much better EBITDA which was close to 11%. Thus, seeing a steady improvement, we hope to better out in the next quarter, so that we end up the year at a much better level.

As Sudhakar mentioned, we added 4 new logos, 2 of them came from UK, 1 from US and 1 from India Asia Pacific.

Our head count, we ended up at 3,352 at the end of Q3 FY15, marginally down in terms of headcount, but that is purely because we have been able to manage both in terms of the bench and some of the corporates headcount. Our billable utilization came at 86.2% marginally down compared to 87% in the last quarter. This quarter we spent Rs. 14.3 crores for product development, which was 5.2% of revenue as compared to Rs. 15.4 crores in the previous quarter which was 6.1% of the revenue. Our 12 month order backlog ended up with Rs. 491 crores, a drop of 5.4% as compared to Rs. 518 crores in the previous quarter. The top 5 clients contributed 39.5%, pretty similar to the last quarter and the top 10 clients were 55.1% as compared to 56.6%. We did reflect the exceptional items, especially in the P&L account and in this quarter we spent Rs. 3.9 crores on the restructuring cost and with regards to de-merger in India and acquisition & merger of Cover-All. The previous quarter expenses were Rs. 5.2 crores and that included some severance cost also. There has been good progress on our JV in the UK which is with Law Society which is on building a conveyance portal and we expect to go live by the end of this year or early next year. The current financials also include a share of the JV losses and in this quarter it has been Rs. 3.4 crores as compared to Rs. 3.8 crores in previous quarter.

Our cash & cash equivalent has been more or less steady, we ended up with Rs. 173.8 crores as compared to Rs. 173.5 crores, in spite of having paid some initial advance on the Agile acquisition. Asset hedges were pretty well positioned; we hedged close to \$22.5 million at an average of Rs. 67 and roughly £16.3 million at Rs. 108 per pound. The Board today also declared an interim dividend of 30% which is around Rs. 1.50 per share. In terms of the spread of the revenue between Geos, we have seen US which increased from 38.1% to 40.4%, whereas UK was marginally down at 51.7% as compared to 52.4%. At the vertical level that we disclosed separately, the Insurance business has shown an increase from 43.5% to 46.5% and the government has remained steady at close to around 29%. There has been a drop in the



*Mastek Limited
January 22, 2015*

other Financial Services and IT Services. We also shared separately on our website as part of the analyst presentation, a breakup of the financials between Mastek and Majesco.

So, let me just give you a breakup of how the financials are there on Mastek - the total operating revenue for the 9 month period was Rs. 383 crores, with an EBITDA of Rs. 35 crores which is approximately 9.2%. It is marginally down in this quarter and as Sudhakar mentioned this is because there was additional staffing on security cleared resources for onsite project being delivered for the UK government. However, we expect this to improve in the next quarter itself.

On Majesco - the total operating revenue was Rs. 353 crores, with an EBITDA of Rs. 11 crores which is 3.1% and it is much better performance in this quarter as compared to the previous first 6 months. Yes, I think that is all I had from on the financial numbers and summary, I will hand it back to the operator for any questions that you may have and Sudhakar, Ketan and myself will take on the questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Just wanted to understand the drivers behind the margin expansion for Majesco, I mean the contraction IT Services are also there and importantly given that we have so many new moving parts within Majesco, if you were to see recent acquisitions what is the outlook predictability/ sustainability of your margin as far as your product division is concerned?

Ketan Mehta: The margin expansion is primarily driven out of the revenue growth this quarter and as you know we are investing in Majesco foundation to prepare itself for a long term growth. So, we have continued to invest in that aggressively. As we mentioned, we have hired some senior leadership team, we will continue to invest aggressively on products and also on the sales and the marketing capabilities. So, we would continue to see the growth momentum else moving forward as I see the outlook for the business going forward, margins would continue to remain under pressure as we invest aggressively but as the scale builds up, I expect the margins to start showing better results as well.

Farid Kazani Just to add to that this quarter's performance has been better than the previous quarter as Ketan mentioned, it is the improvement in revenue, overall and there are steps being taken in terms of improving the productivity of our operations, so hopefully that should give us some more leverage as we go forward.

Baidik Sarkar: Okay, so should I assume that sustainability of at least margin at the current level is being given?



*Mastek Limited
January 22, 2015*

Farid Kazani: Yes. I think that is the fair assumption, there will be some kind of movement in terms of how revenue builds up and the faster it builds up hopefully we should see margins kind of improving. Ideally we would like to keep the product development expenditure close to around Rs. 15 crores per quarter and this quarter it has been marginally lower.

Baidik Sarkar: Thanks for your time and will you please come back again on your view on IT Services, I mean Solutions Business, sorry I missed your explanation on that.

Sudhakar Ram: Solution business has also grown reasonably well this quarter and we do expect to close the year with decent growth there, better than industry growth. Given, that it's a project business and we do a level of fixed priced project keep fluctuating based on execution and certain cost imperatives that are there. So this quarter, we have had a blip in terms of margins, but all forecast are there, we will make up for it in the next quarter and come back to our run rate on EBITDA margin.

Baidik Sarkar: And which segments growth was this quarter?

Sudhakar Ram: Government did not get any growth in the immediate quarter, it all builds up over a period of time. But really the momentum has happened out of deals that we have already announced. Things like the Home Office, where we have significant deals for the HSCIC which is the health IT arm of the Government, which is again doing very well for us, the BT account and Capita continue to maintain the revenues. So it is a combination of all the things, all the accounts and the wins that we have announced in the past, the new wins that we have are very small for this quarter but they will ramp up over the next 2 - 3 quarters.

Baidik Sarkar: And the small contraction that we had in our order book, does that worry you or do you think it's just those seasonality and we will probably make up for that in couple of quarters?

Sudhakar Ram: Yes. We should be able to make up the order book. I think there is a good pipeline. In UK, we do expect that the elections are going to slow down order book for the next 2 quarters but other part of the businesses is fairly active. So, we should be able to make up the order back log within the next quarter or two.

Baidik Sarkar: And the last question, from a strategy perspective, are we investing in bandwidths to reduce our dependency on your government led contracts in the UK? Is that something we are constantly thinking of, I just wanted to understand how our growth will evolve in the coming years?

Sudhakar Ram: Strategy actually is to increase the footprint in Government, not reduce because 60-65% of our business is the Government there and we see lot more headroom for growth there given the UK Government declared intend to work more with small medium companies and less with the large system integrators. They have allocated 20% of the budget to be spent through smaller



*Mastek Limited
January 22, 2015*

companies and they found that these contracts are far more successful, they get the programs delivered on time and so on. So we see much better growth opportunities now for us directly. In the past, we used to handle the Government only through partnerships but now our own direct exposure and direct business has grown.

Baidik Sarkar: So what does that mean for our medium-term outlook on margins, is it a 13%-14% or with deepening wallet share in governments, will that evolve as well?

Sudhakar Ram: It will evolve. See a part of things is, as we are doing the de-merger, there are costs of de-mergers, there are people moving here or there, I think once the split happens and when all these things are clean, we should be able to manage our overheads tight, but more importantly the business growth will lead to margin expansion better sales productivity and even on a gross margin level we do expect improvement.

Baidik Sarkar: One last question, from Majesco what kind of tax rate should assume, for FY16?

Farid Kazani: You will have to assume at, at least 35% because business is US centric and there the tax rates are higher, so I would recommend that you consider 35%.

Moderator: Thank you. We have next question from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran: On the Services businesses that I see the Mastek business, we have seen a substantial drop in margins and it does not seem to be just mere drop down but the absolute drop is pretty high. So just wanted to know, is it mainly pricing or it is just utilization. Just wanted to understand what is happening to this kind of a pretty steep decline?

Sudhakar Ram: Like I mentioned, this is extra staffing that we needed onsite and security cleared staff are pretty expensive. We needed to get a face through and therefore the cost went up for the quarter.

Srivathsan Ramchandran: And this staffing was in anticipation of some revenue?

Sudhakar Ram: No, this is for an execution of a current project, a couple of Government projects.

Srivathsan Ramachandran: On the overall growth trajectory, for the Services business, it has been very UK concentrated, so would that be the next, maybe in a 18 month trajectory if you had to look at it, would that be the way you would want to build it or you would look at expanding in some other markets?

Sudhakar Ram: Yes, after the next 18 months our focus will be just UK as well as India, where we have a small Government's business but beyond the 18 month horizon, we are looking at expanding into other geographies.



*Mastek Limited
January 22, 2015*

Srivathsan Ramachandran: And on coming to the Majesco business, it will be helpful if you can just outline in terms if there is a pretty sharp movement on both revenues, on the margins levels, so was there any major licenses booking that led to this kind of performance? And then also wanted to know, do you do licenses on a percentage of completion or a lump sum kind of booking?

Farid Kazani: The improvement has been based on the Property & Casualty (P&C) which showed robust growth in revenue this quarter so there has been a good kind of ramp up that has happened on some P&C projects which has given us that additional revenue. We do the revenue recognition of licenses and implementation based on percentage of completion basis. So whereas last quarter we obviously had a bad quarter, I would say much relatively a low performance quarter, primarily because the Life & Annuity (L&A) business was not too good in the last quarter, so the L&A business has actually stabilized. And therefore you have seen an improvement in P&C business also and in the L&A business.

Srivatsan Ramchandran: Correct me if I am wrong, just to understand, these are slightly longer implemented cycle businesses so would it be safe to assume that we should see the strength continuing, not necessarily from an absolute growth point of view, but from an absolute dollar revenue point of view, you should see the strength continuing, maybe at least for the next 2-3 quarters.

Farid Kazani: It is not that, you would see the similar jump in the next quarter, you should not assume that. I think but if you take it on a longer term basis, yes quarter on quarter there will be a stepwise improvement, there are investments that Ketan did mention that we are doing in the product development, which is what will happen in the next quarter. There is additional sales guys and the 3 senior leadership guys that have been added to the team, cost that will also hit because of that but if you look at it on a long trajectory basis, I think there will definitely be improvement; both on the top line and bottom line. And that is clearly supported by the pipeline that has shown great amount of improvement.

Srivatsan Ramchandran: And on the cash front that was, this is post payments for Agile or is it before the payment for Agile?

Farid Kazani: There is a very small upfront payment that we made for Agile, it is a million dollar, that has got paid out. So it is after considering that amount.

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

Mohit Jain: Can you share first 9 months growth number on a Y-o-Y basis for Majesco and if you can give some outlook for the next 2 years, what kind of growth you are looking at in the Majesco side?



*Mastek Limited
January 22, 2015*

- Farid Kazani:** If you see the presentation that we have put up on the website, we have reflected the last year full 12 months numbers and the 9 months numbers for both Mastek and Majesco, I can share the Y-o-Y numbers for similar reflection separately to you. I do not have it right now with me.
- Mohit Jain:** Any ballpark will help or else you can give an outlook on FY16 or FY17?
- Farid Kazani:** We are not giving any futuristic numbers Mohit. All we are saying is that there is good kind of build-up on business both on Mastek and Majesco and we see a much better performance as compared to this year on both the businesses. So we are not giving any long-term or medium-term projections.
- Mohit Jain:** On the JV EBITDA, which you mentioned, is my understanding right that your EBITDA should hypothetically be Rs. 3 crores higher if you had not included JV losses in that.
- Farid Kazani:** In this statement that I have given on the proforma financial, this excludes that JV figure because we reflected the JV loss as an exceptional expense. So what you see out there is Mastek's number, it is excluding the JV impact.
- Sudhakar Ram:** See essentially the JV, all these are preoperative expenses, but as a prudent financial thing we write-off all those instead of capitalizing the preoperative expenses. Like Farid mentioned we expect the service to get launched in the April 2015 and after that it will take about 1 or 2 quarters to get the enrollments and revenue should start coming in towards late 2015 and definitely early 2016.
- Mohit Jain:** And I assume cost will be mostly fixed as revenue starts flowing in.
- Sudhakar Ram:** That is right.
- Mohit Jain:** And lastly, when can we see expanding in order book, how many quarters will it take before we see increase in order book in dollar terms?
- Sudhakar Ram:** See the order book will then expand. As the revenue is growing, pipeline is better than the order book should also expand from next quarter itself.
- Moderator:** Thank you. We have next question from the line of Amar Maurya from India Nivesh Securities Pvt. Ltd. Please go ahead.
- Amar Maurya:** Sir couple of questions – number one is, after the announcement of two acquisitions and consolidating the whole business and moving this business forward from one level to another level, are we seeing that the investments which we did today is about hiring senior level employees or the sales people is the only expenditure or going forward there will be further



*Mastek Limited
January 22, 2015*

more expenditures which we are going to see over a period of time in a strategic terms, I just wanted to understand?

Ketan Mehta:

I think as we prepare Majesco for the growth opportunities out and build a foundation for the growth, the leadership team is one part of the investment. It is not just 3 people, we need to add a bandwidth within the sales team as well, and as well as create the additional budget for the marketing. We will continue to invest in product aggressively as we want to create a market-leading product and we want to maintain our edge in the product side itself. So we will continue to invest aggressively to really take advantage of the growth opportunities out there. So it will show up both in the product as well as in SG&A buckets in terms of additional investments.

Amar Maurya:

But then after this whole process of merger and de-merger, how long we will be likely to be into the investment phase from thereon according to your estimate?

Ketan Mehta:

I would expect next 6 quarters or so would continue to see continued increase in the investments, by that time we should start seeing some tail benefits as well, then an investments should stabilize.

Amar Maurya:

Sir what is the current sales bandwidth for the Majesco level and what is the structure overall, if you can?

Farid Kazani:

We have a total strength of close to 50 people which constitutes the sales guys – the pre-sales and the support team across the Majesco Insurance businesses and most of them are in the US, as +80% business is in the US. What Ketan said is, the additions that are going to happen is purely the hunters that he would like to add. There is enough bandwidth in the presales and the support team right now. Now, once Cover-All also comes in another 6 months' time, that team also will get added so hopefully we should have I think fully kind of resource team by June – July 2015.

Amar Maurya:

So Sir combining the Cover-All as well as the Agile as well as the Majesco, what would be the sales bandwidth?

Ketan Mehta:

Once we combine all the operations, it would add up to around 60-65 people across all our operations.

Amar Maurya:

Second question is, after this announcement of two mergers and acquisitions, what is the change in the perception of our existing client per se from the Majesco side? What you are hearing the first hand information from them? Are we likely to see that now the scale has moved from one level to another level, do we see the additional opportunity of a business which is now on the table?



*Mastek Limited
January 22, 2015*

Ketan Mehta: Absolutely, clearly there has been a very positive reaction in the industry based on some of the announcements of both the transactions which we have made. Clearly the client look at this as a sign of our commitment to the Insurance industry. They know that we are aggressively investing in the Insurance industry, building capabilities, and enhancing capabilities. Through Agile acquisitions, we really added consulting capabilities in our portfolio, which is also very well-received as the client says that in addition to our core capabilities of strong products and Services, we now also have consulting capabilities. So the client sees that as a sign of commitment and bringing additional capabilities to them. Now the Insurance industry is conservative and the platform decisions are long-term in nature, so they really want to work with partners who can support them for long period of time bringing all the capabilities they need. Clearly with the size and scale which we are building it up, that puts us into a leading edge into the industrial aspect.

Amar Maurya: Second thing is, after doing these acquisitions, what is the kind of addressable market share which we see probably coming from the client mining per se from the overall business? I mean any quantum, probably the business mapping which you did, the cross-selling which is going to happen across the platform from Majesco to Agile, Agile to Cover-All and Cover-All to Majesco, what are the kind of addressable market share which we see probably could capitalize over a period of 3-4 years?

Ketan Mehta: And I think that is one of the rationales for both these acquisitions is our ability to cross-sell because as we are building up our portfolio of capabilities, we will go after our existing customers and offer them the enhanced range of capabilities and we now have a pretty strong base of over 150 customers in Insurance and strong feet of capabilities. Clearly, we have plans to do cross-selling, many of the Cover-All customers would need billing systems, many of Majesco customers would benefit from BI platforms which Cover-All has as well as all our customers will benefit from the consulting capabilities which Agile has. So we expect that those cross sales to generate some of the growth coming up in next year or so.

Amar Maurya: So this opportunity is going to trigger much faster than any other.

Ketan Mehta: Yes.

Amar Maurya: Sir as a kind of any quantum like if you can give, kind of addressable market which you see probably \$100 million, \$200 million, or \$300 million by this?

Farid Kazani: There is enough statistics available in terms of the overall market size and the addressable market. In our estimate market is anywhere between \$3.5 billion to \$4 billion in terms of the P&C market and there are various players in that market.



*Mastek Limited
January 22, 2015*

Amar Maurya: I am not talking about the overall market size, I am just talking about the 150 clients which we are having today what is the kind of addressable market share which we can tap over a period of time.

Farid Kazani: I will probably recommend you to use one benchmark which is on an average the company spend roughly 3.5% of their net written premiums on IT spends and that is spread out between what they spend internally and what they give out to vendor, it is difficult to give you the answer to your question straightaway but I think you can use this benchmark for making an estimation.

Amar Maurya: Sir last question is what is the mix of P&C and L&A business into the overall Insurance revenue, in this particular quarter as well as the year?

Farid Kazani: On a global basis, the P&C is almost 70%, the L&A is roughly 30%.

Moderator: Thank you. We have next question from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran: On the System Integration piece, is there any clear cut incentive or is there somebody internally who is going to drive that relationship because we have seen a recent small M&A on the System Integration front, even within one of the Indian vendors to acquire capabilities on Duck Creek and Chameleon, so that is going to be increasingly becoming a large component of growth, so wanted your own thought process. We do not allowed an IBM our system integrators but in terms of are we investing to build capabilities, are there any presales investments from their side, so just wanted your thoughts on it?

Ketan Mehta: Absolutely, they are both Deloitte and IBM are investing in building capabilities on our platforms and both the teams are working collaboratively to approach the targeted clients, so yes there is a joint presales collaboration from both teams to go after the select list of clients. So, that is currently taking place.

Srivathsan Ramachandran: Any update on the Cover-All merger process, not from an operations or regulatory point of view, but from an integration on sales or in terms of people understanding each other's products better, unification of UI or anything of that sort or we would wait till officially you get the regulatory approval for all the mergers.

Farid Kazani: The US is a regulated market where SEC does not allow us to engage in any firm. So what we have is we have an understanding of what their product lines is and we understand their customer list also. So internally we are doing some preparations work to see how best we can quickly think and put out our plan but on the ground we are not able to do anything until we get the go-ahead from the regulators to start working together. So, we do not want to enter with



*Mastek Limited
January 22, 2015*

some legal issues by doing anything at the ground level at this point of time. As far as timing of completing this merger, there is a process where we are going to file the S4, it will happen in the month of February'2015 and it will go through an SEC review which will take 2-2.5 months' time, once that gets cleared then there will be a stockholder meeting, once the shareholders approve that, we can then make the application list on the NYSE market and then we are done to go ahead and start working together and integrate.

Moderator: Thank you. We have next question from the line of Amar Maurya from India Nivesh Securities Pvt. Ltd. Please go ahead.

Amar Maurya: Farid just wanted to understand more about the R&D expenditures which is almost like Rs. 15 crores per quarter, so do we expect this R&D to continue for a longer period of time and at what percentage of revenue you are comfortable? Today it is almost around 6% of the revenue, so I expect as the revenue cycle improves or turnover improves, the percentage is going to go decline, so in long run what is the comfort rate?

Farid Kazani: Yes, so Amar it will be better to review this metric from total product development expenditure to the Majesco revenue and that percentage is roughly 13% today. Yes, the product expenditure will continue as Ketan did mention, at least for the next 6 quarters we will up the investments because we need to be ready with certain product plans that we are putting in place to deliver to some of the clients that we have already acquired and also prospects that we want to win. As a percentage, this 13% is definitely high because of a lower revenue base, I think it will come down to over the next 2-3 years, to closer to 10% odd and that is where we will get some improvement in overall margins through a leverage.

Amar Maurya: So, over the period of 3 years you are saying that we could reach to 10%?

Farid Kazani: Yes and the faster we build revenue, the faster we will see that happening.

Amar Maurya: And secondly, when one of your closest competitors is also having 12-13% kind of R&D and that is from a very long time, so I mean just wanted to understand is that this R&D expenditure is the part of Operating expenditure which is going to continue for a very long period of time, as this business requires sometime and this is kind of business requirement for this kind of business, or how it is? Just wanted to understand on that part.

Ketan Mehta: I do not know which company you are referring to but yes in this business; this is a normal product expenditure. The only difference we have in our business model is that in addition to a product and product-related business, we also have non-product related but Insurance-focused Services business as well. So as we grow that part of the business, which would have no product investment needed, the product R&D cost as a part of our total revenue may come down.



*Mastek Limited
January 22, 2015*

- Amar Maurya:** So are you saying like, the growth of the consulting business from hereon is one amongst the lever which you are talking about that might not include lot of cost.
- Ketan Mehta:** Correct, consulting as well as IT Services which is not product related. So that part of the revenue as that grows and picks up that does not need the product investments.
- Amar Maurya:** Sir one last question, probably a very high-end kind of question; one amongst your closest competitors like Guidewire, did they have the scale of around \$350 million, now talking about Majesco overall, it has a potential which is clearly visible, so what is our aspiration to reach that level and in how many years?
- Farid Kazani:** Good question actually. If you look at our positioning right now; in the billing we are number 1 and in the policy admin, we are now at number 3, so hopefully we should be looking at improving our positioning and our strength but in the Claims part we are actually far behind and I think, that is why we will be also start making the investments to kind of build from there. See there is a market buoyancy right now clearly and we are not saying that we will catch up with Guidewire at some stage but we also obviously want to kind of grow faster and that will all depend upon how we are able to kind of make our investments work for us and have a sales team kind of deliver on the top line.
- Amar Maurya:** That means you do not want to answer this.
- Sudhakar Ram:** You got it.
- Amar Maurya:** One last question sir, I see Majesco business as an annuity business, once client is in, I mean it is going to stay with you for a long term. So, in this business, what is the kind of EBITDA margin and the PAT margin you see at least in the span of 3-4 years?
- Farid Kazani:** I think then Amar if you go through the 7-8 years of financial history of Guidewire, you can build a model around that and see how Guidewire margins have improved when they were at around a \$100 million and how they have seen expansion in margins and they reached \$350 million.
- Moderator:** Thank you. Ladies and gentlemen that was the last question and I would now like to hand over the conference back to Mr. Diwakar Pingle for closing comments, over to you sir.
- Diwakar Pingle:** Thanks Karuna, I will let Sudhakar do the closing comments, so over to Sudhakar.
- Sudhakar Ram:** Yes thanks everyone for your continued interest in Mastek. As you are aware that as a policy, while we are completely transparent about past what our thinking is there is a limit to which we can set in the expectations about the future because as a policy we start giving guidance about 3-4 years back, so we should respect that in terms of the questions and in terms of the policy



*Mastek Limited
January 22, 2015*

that we have. Having said that, I think the growth momentum continues. I think the strategy in terms of taking a sharper focus on Insurance, sharper focus on Solutions, you can see that it is already started to build momentum. I would say it is still early days, over the next few quarters we will see the whole strategy shaping up and the strategy getting translated to better results. The drivers for both the businesses are different, like what Ketan shared in Insurance there is a huge market opportunity, next 5-7 years will determine who are the real leaders in the Insurance space, especially P&C. So our opportunity is to go and get market share and like you rightly said, once you get a customer, he is a customer for a long period of time because we are doing very strategic mission critical policy administration and billing and claim systems for them. So, it is market shares grab time now. The markets are opening up and while we will remain profitable, our focus will be on growth. In the Solutions business, it is not as much growth as profitable growth that we will continue margin expansion, we will continue to grow, expand territories, and establish ourselves in a leadership position in the high end transformation programs, which is what we have been very strong at in the past. Government is a vertical which looks like really expand in terms of providing opportunities for us. So, with that, let me close Q3 and look forward to meeting all of you in Q4 in April. Thank you.

Moderator:

Thank you very much sir. Ladies and gentlemen on behalf of Mastek Ltd. that concludes this conference. Thank you for joining us, you may now disconnect your lines.