"MphasiS Analyst/Investor Conference Call"

December 03, 2012

MANAGEMENT: MR. GANESH AYYAR – CEO, MPHASIS LIMITED
MR. GANESH MURTHY – CFO, MPHASIS LIMITED

Moderator Ladies and gentleman, good day and welcome to the MphasiS Conference Call. We have with us today on the call Mr. Ganesh Ayyar – CEO MphasiS and Mr. Ganesh Murthy – CFO at MphasiS. As a reminder for the duration of this conference all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference to Mr. Ganesh Ayyar. Thank you and over to you, Sir.

Ganesh Ayyar Thank you so much. I hope everyone had a chance to see the press release that we sent out last night. MphasiS has entered into a definitive agreement to acquire 100% of the fully diluted share holding of Orlando based Digital Risk LLC. They are one of the largest independent providers of risk, compliance and transaction management solutions for the US mortgage industry. We are greatly enthused by the opportunity this proposed transaction offers and believe it plays a vital role in our strategy to drive growth through hyper specialization. This deal brings deep domain expertise and risk and compliance, a high growth area within the Banking and Capital market industry. It also allows us to focus on micro verticals such as mortgage and improve our strength in areas such as forensics and analytics.

Acquisition of Digital Risk is not just another acquisition. Actually it is a proof point of our commitment to build a high value, highly specialized next generation IT services company. Increasingly, the game is not just about revenue but about sustainable quality of revenue. Digital Risk offers market leading technology platforms and analytics driven risk and compliance solutions for the mortgage and banking industry. Digital Risk is a pioneer in analytics driven risk and compliance solutions for these industries. Its proprietary Making Mortgages Safe™ solution suite is deployed by over 15 blue chip clients across key mortgage constituencies, which includes government sponsored enterprises, originators, insurance issuers and investors. Digital Risk is licensed to operate in 46 states in the United States and has a marquee client base across the mortgage value chain providing long term recurring contracts. The acquisition will add about 1,500 highly trained mortgage specialists and increase our presence in the US. We see strong synergies here to expand this expertise into new verticals or adjacencies as you may look at it - commercial mortgage, credit card and other loans, and of course this also presents us with an opportunity to look at other geographies, for example, UK, Australia, Canada etc.

Now let me provide an overview of the transaction in terms of financials and structure. The acquisition is at an all cash deal valued at US$ 202 million including US$ 27 million of earn-out to be paid over 30 months upon achievement of revenue and EBIT targets. The deal is net of cash and debt. Upon deal closure Digital Risk will operate as a fully owned subsidiary of MphasiS. Digital Risk has a compelling financial profile. Digital Risk is expected to register revenues of US$ 127 million in the calendar year 2012. The company has grown their revenue at a CAGR of 70% in the last 3 years. The anticipated transaction closure is on January 31st 2013, subject to regulatory approvals and other customary closing conditions. Thereafter, Digital Risk will operate as a standalone business unit retaining its brand identity. The Digital Risk management team and employees are expected to remain with the company and continue serving the clients of the combined companies.

This is a significant milestone for us. Digital Risk adds a critical dimension to our strong value preposition for the financial services industry. The elements that have led to the success of Digital Risk from its leadership, employee base, to its brand identity and technology platform will be a valuable addition to MphasiS' portfolio. We look forward to working closely with Digital Risk to build an unparalleled financial services offering.

So let me summarize some key benefits or key attributes of this acquisition:

- First of all, it fits in well with our hyper specialization strategy within the Banking and Capital market.
- Second, it has a very strong and capable leadership team and the brand Digital Risk is well known in the mortgage industry.
- Third, they use analytics platforms to provide services to the mortgage industry and that helps them to provide high value services.
- Fourth, this is focused on a very fast growing risk and compliance market in the US.
- Fifth, this significantly increases our Direct business footprint, thereby addressing the concentration risk that we have been having.

Before we begin the question and answer session, I would like to mention that this discussion is being conducted to essentially discuss the Digital Risk transaction. We would be constrained from any other business financial discussions before we announce our Q4 results later this week. So with that I am going to hand over the floor to the moderator and we will be happy to answer any questions that you may have. Over to you.

Moderator Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta Firstly, if you can just share what kind of revenue concentration does Digital Risk have? Is it skewed towards Top 5 customers or Top 10 customers, any matrix along that line will be helpful?

Ganesh Ayyar Their concentration is fairly similar to the industry at large. Most of the companies, if you look at Top 10 customers would be actually generating anywhere between 60 – 70% of the revenue. So they don't have a specific customer concentration risk which is different from the industry as a whole. They do have a couple of large clients and these two clients together contribute roughly about 30% of the revenue.

Nitin Mohta And my second question was just on the Digital Risk's existent management team. I understand that there is an earn-out component but is there any kind of lock in, in terms of existent management teams staying for at least a period of time to ensure that the transition is smooth?

Ganesh Murthy Yes there is a lock in, both in terms of earn-out as well as retention bonuses. We aim to give them the freedom to operate. The management team has demonstrated a track record of significant revenue growth. Their revenues have grown by 70% year-on-year for the last 3 years. So we are giving them the freedom to operate as they were, subject to the overall MphasiS governance and principles and we expect them to continue to remain in the company at least for the next 3 years, if not more.

Nitin Mohta Are there any comparable's or competitors if you can share light of so that people in general can get a better sense of what kind of an asset Digital Risk is? If there are any names you can highlight on the call?

Ganesh Ayyar It is a fairly interesting asset because they have four different service lines. They provide forensic services, compliance and surveillance services, origination and secondary services and analytics services. Now when I say analytics services, they also use analytics platform to provide the other three service lines that I mentioned. So in that sense if you look at somebody who is exactly into all those four service lines probably it's very hard to find. But there are other players who are focused on the mortgage market ranging from Altisource, Clayton, Core Logic. So they may be addressing certain portions of the mortgage markets but the holistic risk and compliance market using an analytics platform covering these 4 service lines is probably hard to replicate.

Moderator Our next question is from Nitin P. of Espirito Santo. Please go ahead.

P Nitin Just wanted to understand if you could give us a sense in terms of how the integration would take place? I understand 1,500 people are predominantly onsite. So I think there is significant room to offshore. How would you see that happening? Digital Risk has grown at 70% CAGR say in the past 3 years, what is the opportunity that you are seeing within this market? And thirdly, is there any other room in terms of margins by way of moving G&A to India etc. If you can just throw some light there?

Ganesh Ayyar So let me address this in a couple of parts, Nitin. Firstly, the model that we are adopting for integrating Digital Risk into the MphasiS' family is a model called 'loosely-coupled and tightly-governed'. What it essentially means is that they are going to be a strategic business unit. They will retain their brand. Their founders are going to continue with Digital Risk and they will have huge amounts of freedom and independence to achieve their objective but at the same time there are aspects where we have corporate services which are kind of centralized and the approach would be that for Finance, HR and Legal. Those aspects will get centralized as per our model. Now let me also highlight one important point. This acquisition that we are making, where they have 1,500 mortgage specialists in the US is not about shifting their job to India. That's not the logic for this acquisition. Our logic for acquisition here is that we want to grow the footprint in the US and enhance the value proposition through off shoring services that we have so we can participate in the growth. So this is not about shifting the employee base from there to India but participating in the growth by complimenting their services, using off-shoring as a service.

Ganesh Murthy Out of the 1,500 people, everyone is based in the US. In fact it's entirely an onshore delivery model apart from about 11 – 12 people in Bulgaria where there is a very small team taking care of their IT. There will be some amount of synergy in the G&A areas because a certain amount of overlap will be there which we will be able to optimize.

P Nitin I was reading a news article on Digital wherein sometime in July 2012, where they talked about adding another facility to add 1,000 odd people. Just wanted to understand, is this incremental to what they already have in terms of head count or is this a new fresh head count?

Ganesh Ayyar Their growth trajectory certainly requires them to add more headcount. Even if you look at our press release, we have kind of a conservative figure of 500 people in the US to grow our footprint. And at the same time within the MphasiS community also we have been growing our footprint there. So yes, there are plans to grow their footprint.

Moderator Our next question is from Deepan Kapadia of B&K Securities. Please go ahead.

Deepan Kapadia We have been alluding to the fact that how acquiring Digital Risk is good for us. But looking at what they have grown 70% CAGR in the past 3 years and their adjusted EBITDA margin is also ~12.5%, what is there for Digital Risk to sell of the business which is on such a high growth to us? I mean what are we adding to Digital Risk which would help the Company grow in the next couple of years and the management to retain itself for the next 3 years?

Ganesh Ayyar A couple of trigger points on why they decided to sell. One had to do with the fact that Century Capital, a Private Equity firm, which owned 39% of their shares, reached the end of their cycle for their investment and they had plans to exit. Secondly, this Company was heavily invested originally through family and friends of founders. They obviously wanted to get some returns. So that was a second trigger. But most importantly, why we have come together from their stand point, first of all it was important for them to realize their dream of building a highly specialized, high value, analytics based services Company that is large and valuable. So it's not just revenue but quality of revenue. They were looking for a partner who shared their point of view, who had a culture, who was going for a highly specialized business. If you look at MphasiS, we articulated our strategy to go towards high value and highly specialized services 2 years ago and we have been at it for the last 2 years. So that sat well with them and the whole concept of 'inch-wide and mile-deep'. Secondly, in addition to their current value proposition, many customers have been looking for growth beyond the norm of services which they provide through onshore. They have been looking at whether they can expand their scale through offshore services. They don't have presence. So we bring that scale and offshore services capability. Last but not the least is the global reach and the scale that we have in terms of our size. When customers are placing more and more business with you, they want to make sure that you have financial muscle to handle that kind of business. So the fact they will be part of a US$ 1 billion family would be helpful for them to get more business from their existing customers.

Deepan Kapadia Another thing Sir, in the introduction you had mentioned that they have licenses for 46 states to do business, could you explain why do they require licenses? Do you require licenses to do Risk business for banks in US?

Ganesh Murthy The US mortgage laws for particularly one service line, Origination and Secondary, require you have to have a license from each State. There are 50 odd states in the Unites States and each one of them have their own rules regarding this. Some states don't require license to do Origination and Secondary mortgage work but by and large the majority of the States require the Company to have a license. Digital Risk has invested in this significantly over the last two years and have acquired these 46 licenses. This is a significant milestone for them and this gives them the ability and it is a significant entry barrier for this kind of work.

Deepan Kapadia Digital Risk has a 25% market share and their closest competitor is half of it. So can we assume Origination and Secondary service line to be a significant mode for this company for growth going ahead? Is this a significant barrier, the 46 licenses that they have got? Would their peers not have the same amount of licenses?

Ganesh Ayyar Getting a license is a process that one has to go through. And to that extent it is a barrier for entry. But if you really look at it, it is a combination of multiple factors which makes it an attractive proposition and barriers of entry. One is the talent pool that they have developed, combination of mortgage specialists, under writers, domain experts, that is number one. Second is, they use analytics platforms to provide their services, whether it is in the area of forensics or in the area of analytics, so that is the second barrier on entry. Third is your brand, they are considered to be a very strong brand in the space that they operate. So the customers know them. They have experienced their quality of service and hence one wouldn't shift the risk in the compliance area to someone else just because they have entered the market. Last but not least, they have licenses and like Ganesh Murthy mentioned earlier it is for Origination and Secondary service only and other services don't need these licenses. So to say that yes, based on license alone others can't come in may be a bit too much. But that is one more barrier of entry.

Deepan Kapadia We have written adjusted EBITDA margins to be 12.2%, so what have we adjusted this for, the other income on the top line?

Ganesh Murthy The private equity firm had certain payments that they took when they were partners. All those have been taken out of their EBITDA.

Moderator Our next question is from Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra You have highlighted that you are expecting substantial cost synergies from these acquisitions because you are looking at the specialization this provides to you. May be you can elaborate for our benefit the nature of revenue synergies , what are the kind of services you potentially can up sell, cross-sell to these customers of Digital Risk?

Ganesh Ayyar I don't know where you picked up cost synergy. As I mentioned, this is a growth-oriented acquisition and cost synergy is not the primary focus for us. One of the reasons why their EBITDA is what it is, is that they have been investing heavily in their growth. So there will be some cost synergies, more in the G&A area but that's not the primary driver for this acquisition. It is actually the revenue synergy which is the key driver for this acquisition. As I mentioned, they have marquee clients in their customer base. We have very little overlap between our customer base. So potentially what it offers is that MphasiS' set of services we can take to their existing clients and at the same time, they can take their services which is focused on risks and compliance in mortgage to some of the clients that we have in Banking and of course some Insurance customers are also in that space. So that kind of synergy is clearly possible. Last but not least, think about the fact that they have been serving their client base exclusively using onshore services. We will continue to use onshore services, we will continue to retain and grow our footprint in the US. But our offshore services can complement their services so that they can complete their value proposition incorporating our offshore services. That's what is driving this acquisition. It is not cost synergy.

Ankur Rudra At the moment are they using any offshore services, may be on a sub-contract basis at all?

Ganesh Ayyar No.

Ankur Rudra Can you help us understand the terms of the remaining earn-out in terms of thresholds etc?

Ganesh Ayyar We have both revenue and EBIT targets that have been set for them and they will participate. The maximum earn-out over the next 3 years would be $27 million.

Moderator Our next question is from Vinay Rohit of ICICI Prudential. Please go ahead.

Vinay Rohit Sir, you mentioned they have been growing at a 70% CAGR, so if you can tell what is the growth in CY12 and what is your expectation for next year?

Ganesh Murthy We won't be able to comment on the expectations for the next year because that would be more of a forward looking statement. But they grew over the last 3 years by 70% year on year. This year, they follow a calendar year, so if you look at the calendar year, they are expected to clock around $127 million, which represents a 60% growth rate.

Moderator Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah You said the Top 2 clients are contributing closer to around 30% of the revenue, so are they from, which segment, are they from Origination or can you just give some light on this?

Ganesh Murthy Many of these customers span across segments. One of the top customers, for instance, is in Forensics as well as in Compliance & Surveillance as well as in Analytics. So they are present in 3 out of the 4 service lines. Similarly the other big customer is present mainly in Origination and Secondary and to some extent in Analytics.

Sandeep Shah Okay so these are not the typical commercial banks. This could be the regional lenders within those States?

Ganesh Ayyar One of the things which we have to be very careful of at this stage is with the speculation on who this customer is. So I will refrain from answering that question because at this point of time until we close, I clearly want to protect the interest of Digital Risk and their customers.

Sandeep Shah How is the delivery model? Is it the FTE base or it is more to do with transaction based pricing?

Ganesh Murthy It is entirely transaction based pricing; they don't have any FTE based pricing at all.

Sandeep Shah How is the experience in terms of the transaction based pricing moving in the last 3 – 4 years?

Ganesh Murthy They have managed to get increases in the transaction based pricing in many of their customers over the last 2 years.

Sandeep Shah And the 70% CAGR what we talked about, is it largely organic?

Ganesh Murthy It is entirely organic. This company has not acquired any other company.

Sandeep Shah If I am not wrong, this Company also makes a double digit PAT margin. So that means that taxation is not so high. If that is the case why?

Ganesh Murthy This operates as an LLC, as a Limited Liability Corporation under U.S. tax laws. They do not pay taxes on their profits but the taxes on the profits are paid by the shareholders.

Sandeep Shah This will be continuing till what time?

Ganesh Murthy It is not something like our SEZ. It is the kind of limited liability setup. So this continues indefinitely and we plan to continue with the LLC structure.

Sandeep Shah So now MphasiS being a shareholder, the parent may have to pay the taxes on the profit?

Ganesh Murthy Yes. The U.S. taxes will have to be paid on the profits of this LLC. That is correct.

Sandeep Shah As you said the adjustments to the EBITDA is largely the payments made by the private equity. There are no other adjustments?

Ganesh Murthy They also appointed Ernst & Young to prepare their financials as a one-time exercise for this sale. The expenses which Ernst & Young charged them to prepare their P&L and management reports to help them in providing the financials for various buyers.

Sandeep Shah How is the debtor cycle here?

Ganesh Murthy They run with a DSO between 40 to 50 days.

Moderator Thank you. Our next question is from Priya Rohira of Axis Capital. Please go ahead.

Priya Rohira My first question relates to the revenue composition. You mentioned that it is more of transaction based pricing. But are there any license fees embedded in the revenue system? And if you could give the breakup between the license fees and transaction base service offerings?

Ganesh Murthy There is a small amount of license fees for the use of license, but the bulk of it is by and large transaction based.

Priya Rohira What is the cash on the balance sheet which would come from Digital Risk's balance sheet onto us?

Ganesh Murthy This transaction is a cash free-debt free acquisition. Right now the average cash balance over the last three months is around $6 million at any point of time. If they leave the cash behind we would have to pay for it, so it is cash-to-cash.

Priya Rohira Is it possible for you to share some color on client based in terms of any Fortune 500 or 1000 companies which they have more on a qualitative side?

Ganesh Murthy They do have such companies in their client base. But that is where I would stop.

Priya Rohira My last question relates to a little clarification on the EBITDA margins. You have mentioned that it is around 12%. But you also mentioned on some adjustments. So, on a steady state what would be the EBITDA margins?

Ganesh Murthy These are one-time adjustments which were there. For a steady state, we would look at 12-13% EBITDA margins. But the plan going forward is to steadily improve the EBITDA margins over the next couple of years.

Moderator Thank you very much. Our next question is from Vaibhav Dasmana of Barclays. Please go ahead.

Vaibhav Dasmana First one being, considering the nature of the business, you said you are seeing some opportunities in off-shoring and ability to cross-sell. What would these be especially considering lot of work may be government related, considering lot of mortgage restructuring is being driven by the government there?

Ganesh Ayyar First of all, mortgage business is not restricted to the government alone. It has a combination of what they call GSEs and private players. Secondly, this is not just about shifting existing work. Many deals they are not able to do because they do not have scale and they do not have offshore capabilities. In many cases customers have asked and they have turned it down and now with this capability they would be able to leverage it. And last but not least, there are areas where we have to comply with regulations, but there are no known restrictions in its entirety that offshore services cannot play any role there.

Vaibhav Dasmana Another housekeeping question. What is the tax rate like for this entity?

Ganesh Murthy As I mentioned LLC has zero tax rate. The profits will be taxed in the hands of shareholders. So it depends on the tax rates of the individual shareholders.

Vaibhav Dasmana So is it fair to say that MphasiS holding 100%, tax rate would be normalized to what MphasiS would pay as taxes?

Ganesh Murthy The marginal tax rate is 35% in the U.S. at this point of time. But that does not mean that that will be the tax rate - there will be various reductions and depreciation so all those have to be factored in.

Moderator Thank you. Our next question is from Pratish Krishnan of Antique Stock Broking. Please go ahead.

Pratish Krishnan One is in terms of the payout, the entire ~$200 million is this the payout to the owners or is there any investment in the Company as well?

Ganesh Murthy The payout is to the sellers.

Pratish Krishnan Just in terms of the overall structure, it is almost around 85% upfront payout. Did you consider looking at a 50-50 or may be higher earn-outs going forward?

Ganesh Murthy I think it is fairly well balanced. Earn-out is based on the revenue and the EBIT targets for the future. And the base consideration is based on their historical financials.

Prateesh Krishnan Yes, but the overall consideration is quite less going forward for the management to kind of perform going forward?

Ganesh Ayyar The fact that we have reached an agreement shows that both sides are happy with whatever we have agreed. So to that extent I guess I would conclude that the management and founders were happy with the arrangement as well.

Prateesh Krishnan You mentioned that there is a transfer of licenses, is this the same that you have reported, 46 licenses?

Ganesh Murthy That is correct.

Prateesh Krishnan And the transfer is to MphasiS?

Ganesh Murthy There is no transfer of licenses because the licenses are owned by Digital Risk and we are buying Digital Risk. So there is no transfer of licenses required. There is a change of control and because of that in some of the States we need to get approvals. But in many of the states there is only a notice that we need to provide.

Prateesh Krishnan Finally in terms of the overall profile of work, is it fair that there is a largely annuity driven kind of work here or non-annuity kind of work?

Ganesh Murthy It is actually quite annuity driven because if you look at the presentation that we sent you, you will see that out of the long term recurring contracts at this point of time, 94% of the next year's revenues are from the existing contracts.

Moderator Thank you very much. Our next question is from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta First is, can you provide revenue break up from product related or IP related revenue streams? Second is can you provide profitability movement in last 3 years or so? Third question is, in which area of mortgage market it operates, residential or commercial? If both, then what would be the share of revenues?

Ganesh Ayyar Let me take the question on Platform and IP. They do not sell licenses, for example they have two types of platforms. One is called Lusy and the other one is called Veritas. They use this in forensics and other lines of business. They are selling something as a platform and this as a service is very hard to do.

Ganesh Murthy Let me first answer your question relating to product related revenue. It is a very small portion of the revenue and as I mentioned, bulk of their revenue is based on number of transactions. Relating to profitability, their EBITDA has been roughly in the range of about 12-13% over the last two years.

Deepesh Mehta Despite a significant growth rate, margins remain more or less stable. So you expect with future growth rate any improvement in margin? Despite 60% growth in last year I think margin you are suggesting is more or less stable. It is very linear in nature kind of business model?

Ganesh Murthy To some extent it is linear, but there is a scope for margin improvement and in the earn-out targets we have provided reflect that increase in margins.

Deepesh Mehta So you expect that range to be broken or your earn-out? The 12 to 13% range what you suggested, would be expecting that range to be broken in future?

Ganesh Murthy Yes definitely we are patterned to improve the margins in the next few years.

Dipesh Mehta In which area does the Company operates – residential or commercial mortgage?

Ganesh Ayyar U.S. residential mortgage.

Dipesh Mehta Just to understand about client side, how many active clients it caters to as of now?

Ganesh Murthy Between 25 to 30 clients.

Dipesh Mehta What would be the typical engagement size because top 2 you said 30%, top 10 is around 60 to 70%? So what would be the typical size of the deal because in one of the answers you said 94% of revenue expects to be recurring? In that you already factored in growth rate for next year. I just want to understand what would be the typical engagement size?

Ganesh Murthy We would not be able to comment on those specific details because there are certain confidentiality clauses relating to the customers but it varies. Obviously for the larger customers the ticket size is quite large and the smaller customers where we have just started growing, the ticket size will be relatively small.

Dipesh Mehta What would be the attrition rate we have seen in that entity? In mortgage residential side, let us say in Top 10 customers how many would be their clients operating in that area?

Ganesh Murthy I do not know the Top 10 that you are referring to, but they have a marquee list of clients. All the well-recognized names in the U.S. mortgage industries.

Deepesh Mehta And attrition rate in the last year or so?

Ganesh Murthy In the last couple of years, they have averaged about say 10-15%.

Moderator Thank you. Our next question is from Hardik Shah of KR Choksey. Please go ahead.

Hardik Shah Sir, how much investment you are supposed to make in the coming year for the growth in terms of capex?

Ganesh Murthy We would not be able to provide those details. Those are sort of forward looking statements. But there will be capital investments because of their rapid growth.

Hardik Shah What is the conversion ratio of net profit to cash flow form operation in CY12?

Ganesh Murthy It is more or less the same because they have quite a good cash flow except for the small amount of capex that they incur.

Hardik Shah So, it is around $10 million per annum roughly?

Ganesh Murthy Yes.

Moderator Thank you very much. Our next question is from Vimal Gohil of Asit C Mehta. Please go ahead.

Vimal Gohil Just wanted to know the salaries. Are the salaries of the Digital Risk employees in line with the onsite salaries with the U.S. or is it more than that? Just a rough estimate would do.

Ganesh Ayyar First of all we must realize that the business that they are in is slightly different from traditional offshore players business. They are more in Analytics platform driven KPO services in risk and compliance area. In some cases the employees have to be licensed as well. So comparison would be a hard one to do and one of the reasons why we are adopting a 'loosely-coupled' approach is so that we do not try and make an offshore company out of them.

Vimal Gohil What would be the debt and the cash on the balance sheet of Digital Risks?

Ganesh Murthy They have an average cash balance of $6 million. They have taken a debt with a revolving line of credit which is about $6.5 million on an average.

Vimal Gohil Just assuming the fact that most of the revenues would be coming from United States and the business model primarily caters to that geography, would you see Digital Risk operating in other geographies like Europe as well? This is a really compliant related business model, how difficult or how easy would you find this business model to carry to other geographies, if you would like to do so?

Ganesh Ayyar There are two vectors on which we could look at expanding their services. One is there are adjacencies within the U.S. Today they are primarily focused on the U.S. residential mortgage market. The adjacencies could range from wherever some form of credit is used, ranging from credit cards or other types of loans. So that is one vector. The other vector is taking it to other geo's. Other geo's would require significant amount of work on the rules that apply to those geo's in terms of risk and compliance. They do have a platform but substantial amount of re-engineering would need to be done to accommodate that. We are looking at both the options in terms of growth and we are going to be very selective in terms of geo growth because what is important is you have those compliances to rules and regulations and certified people. But we are looking at it regardless.

Vimal Gohil Employee and the financial numbers are expected to get consolidated in our numbers by January 31st, right?

Ganesh Murthy That is correct.

Vimal Gohil After all the compliance related issues are done with?

Ganesh Murthy Yes.

Moderator Thank you. Our next question is from Ritesh Rathod of UTI Mutual Fund. Please go ahead.

Ritesh Rathod You mentioned net margin rate is 7% in the LLC. There is no tax in the LLCs. So as a cost to the company, you will need to pay tax on that 7% assuming the marginal rate is somewhere around 30-35% right?

Ganesh Murthy Yes. But the effective tax rate will not be 35%. It will be much lower than that.

Ritesh Rathod Depending on the detection what you have talked, it could be in the range of 25-35%?

Ganesh Murthy Yes. At the range of 25-30% effective tax rate.

Ritesh Rathod When you said 7%, is it on adjusted basis or we need to adjust it again, because your EBITDA margin you keep talking on the adjustment basis?

Ganesh Murthy On an adjusted basis it would be around 8.5% because obviously you cannot take all the payments that were paid to the private equity and certain one-time expenses that were paid to Ernst & Young.

Ritesh Rathod What kind of a depreciation policy does this Company follow? Is it in line with the industry or something different on their expenses, intangible or other IP related stuff?

Ganesh Murthy They are more or less in line with the depreciation policy that MphasiS has been following.

Moderator Thank you. Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah If we assume 7% as a PAT margin and that too before the tax, then even on that basis it looks like a marginally EPS dilutive deal. So why we believe so it is an accretive deal in year one?

Ganesh Murthy That is because you are looking at the current profits of the Company. As I mentioned there are opportunities to improve the margin significantly over the next few years. So we believe that as soon as we acquire the Company we will be able to make certain increments and this is factored in based on the revenue in EBIT targets that we have provided in the earn-out.

Sandeep Shah As of CY12, it would be marginally EPS dilutive before the tax?

Ganesh Murthy CY12 it will not be consolidated to our Company at all.

Sandeep Shah I agree. But if I just look at a like-to-like basis?

Ganesh Murthy But we are talking about CY13 onwards. It would be sort of breakeven or slightly EPS accretive for the first year. And after that it would be EPA accretive.

Sandeep Shah And CY13 when you say breakeven, that is before the tax adjustments. So if you consider the tax paid by the parent, it would be a dilutive?

Ganesh Murthy I am taking everything into account. I am taking into account the tax and everything and we believe that it would be around breakeven or slightly EPS accretive.

Sandeep Shah Even after considering the parents taxation on this?

Ganesh Murthy That is correct.

Sandeep Shah That range you said could be on a best case 25-30% despite the marginal rate at 35%.

Ganesh Murthy Yes, because there are depreciation allowances on their capital spent.

Sandeep Shah What is the difference between the 12% EBITDA margin and the 7% PAT margin? Is the depreciation so high and that means that they are largely running through their own premises?

Ganesh Murthy EBITDA versus profit, there is adjustment depreciation plus there is interest. As I mentioned they have a $6.5 million revolving line of credit.

Sandeep Shah Are they actually running the operations through own premises or leased premises?

Ganesh Murthy They run the operations through leased premises. They do not own any premises.

Sandeep Shah That is why I wanted to understand why the difference is so high in terms of EBITDA versus the PAT margin of almost like 5%.

Ganesh Murthy It is a combination of interest and the amortizations.

Moderator Thank you. Our next question is from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain I am still trying to work out how is that EPS breakeven at the moment considering the 6% odd yield which we have and the 1.5x of sales which we have would be paying off upfront.

Ganesh Murthy The EPS as I mentioned will be near about breakeven in the FY13 and once the various margin enhancement activities or initiatives are triggered off, it will be an EPS accretive.

Rahul Jain Any other synergetic advantage which we see apart from the cross-sell which you have already mentioned?

Ganesh Ayyar As I mentioned, there are both possibilities for growth through revenue synergies and there are opportunities also in terms of margin improvement. And both have been factored in and a set of targets have been established for earn-out, which take that into account. And the confidence level around this earn-out is fairly good.

Rahul Jain Any overlap on the client, which we may be having at the moment?

Ganesh Murthy Very limited overlap.

Moderator Thank you very much. As there are no further questions form the participants, I would now like to hand the floor back to the management for closing remarks.

Ganesh Ayyar Thank you very much. Once again I would like to thank all of you for having come to the call on such a short notice. We are excited about this definitive agreement we have signed. We will certainly keep you posted with more details once we have done the closing. So look forward to staying connected. And once again many of you would be joining us again when we announce our fourth quarter results. So look forward to that interaction within the next 72 hours or so.

Moderator Thank you very much Sir. Ladies and gentlemen, on behalf of MphasiS, that concludes this conference call.