



**Mphasis Limited – Q1FY09 Results Conference Call**  
**Hosted by Batlivala & Karani Securities India Pvt. Ltd.**

**27 February 2009**

**MODERATORS:**

**FROM B&K:**

**Mr Rohit Kumar Anand – Research Analyst**

**FROM MPHASIS:**

**Mr Ganesh Ayyar – Chief Executive Officer**

**Mr Susanto Banerjee – Group CFO Interim**

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### **Moderator:**

Ladies and gentlemen, good afternoon and welcome to the Q1 FY09 post results conference call of **MphasiS Limited** hosted by **Bativala & Karani Securities India Pvt. Ltd.** As a reminder, all participants' 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. If you should need assistance during the conference, please signal an operator by pressing \* and then 0 on your Touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohit Anand of B&K Securities. Thank you and over to you Mr. Anand.

### **Rohit Anand:**

Hello everyone. On behalf of Bativala & Karani Securities I would like to welcome you all on the call to discuss the results for the quarter ending 31 January 2009 of MphasiS Limited. We have MphasiS Management with us on the call, **Mr. Ganesh Ayyar**, the newly appointed **CEO** and **Mr. Susanto Banerjee, Group CFO – Interim**. Since this is Ganesh's first address to us as the MphasiS CEO I would like to give you a brief introduction. Ganesh joined MphasiS on January 29 from HP where he worked since 1989 and held several roles in diverse business groups. In 1999 Ganesh was the President of HP India and was instrumental in strengthening HP's position in India. He was the co-lead for pre-merger Integration Planning for HP-Compaq Merger for Asia

Pacific & Japan. Without further ado I would now like to hand over the floor to Mr. Ganesh Ayyar for his comments on the quarter. Over to you sir.

**Ganesh Ayyar:**

Thank you Rohit. Thanks for introducing me. Good afternoon everybody. Thank you for joining us for this quarterly earning call. In Q1, MphasiS executed well in a very challenging market. As you can see our revenue grew by 9.3% Q-on-Q basis and by 58.1% year-on-year basis. Our numbers came from very careful planning in the last few quarters so I am very thankful to the team which has done this planning and execution well and we kept our cost down and continued to grow aggressively seeking business across all channels.

Now actually we are reaping the benefits from expanding our capability, at the same time trimming our cost structure. We have managed our expenses well and we are delivering our commitments to all our stake holders, customers, share holders, employees and the larger community.

So to dwell further, in all this has been a good quarter. MphasiS Group consolidated revenue was Rs 977.7 Crores which was in the quarter ended 31st January 2009. It increased by 58.1% over the same period of 2008. Operating profit during the quarter ended 31st January 2009, was Rs 210.6 Crores as against Rs 60.8 Crores in the same period a year ago, a growth of 246.6%. During the same period net profit increased by 270.4% from Rs 56.7 Crores to Rs 210 Crores. In keeping with the results, EPS increased to Rs 10.05 from Rs 2.72 in the same period last year, recording a growth of 269.5%. I do want to highlight this is the first time we have crossed double-digit EPS in a quarter.

Moving on to sequential numbers, sequential quarter revenue grew by 9.3% compared to revenue of Rs 894.7 Crores in the quarter ended 31st October 2008. Operating profit for the quarter increased by 2.6% to Rs 210.6 Crores. Net profit for the quarter increased to Rs 210 Crores for the quarter ended 31s January 2009, compared to Rs 183 Crores in the quarter ended 31st October 2008, a growth of 14.8%. EPS increased by 14.6% from Rs 8.77 last quarter. Operating margins and net margin improved to 21.5% during the quarter.

Now let us look at our lines of business. Application business continues to grow from strength-to-strength with solid growth across all industries - over 11.4% growth quarter-over-quarter representing about 65.6% of our total revenue for the company. ITO business which is remote infrastructure management business saw very strong growth of 20% quarter-over-quarter. ITO now represents 17% of our total revenue. Our BPO business declined by 1.6% quarter-over-quarter. We have about 51% of our BPO revenues coming from non-voice. We saw good growth in our co-verticals with Healthcare and Pharma improving by 44% quarter-on-quarter and Manufacturing and Retail by 16%. Despite current global situation BFSI grew by 7% in this period. Clients from verticals like Logistics, Transportation, Technology and OEM continue to add to our bottom lines.

In terms of geography we continue to see growth. The revenue from Europe market increased substantially this quarter by 25% with its share in revenues increasing by 3%. USA, India and Middle East grew modestly. During the quarter ended 31<sup>st</sup> January 2009, the group added nine new clients including six relationships through HP. This includes clients in Manufacturing and Retail, Pharma and Healthcare, Banking and Financial Services and Logistics, Airline and Transportation. The group now has 95 clients with an annualized run rate of more than a million dollars including seven clients in excess of USD 20 million. The billing rates remain steady. We continue to pursue excellent corporate governance. You will be pleased to know that we have been awarded the Silver Shield on financial reporting by ICAI for the year ended 31<sup>st</sup> March 2008.

Let me move on and talk a little bit about human resources. The group's net headcount increased by 1,193 of which 554 were freshers. The MphasiS manpower numbers now are at 29,988. To reiterate we are very satisfied with the quarter. We will continue with our strategic initiative to ensure growth despite the difficult business environment. With that let us open it up for question and answer. Over to you Rohit.

**Rohit Anand:**

We will start the question and answer round.

**Moderator:**

Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press \* and then 1 on your touchtone phone. If you want to withdraw your question from the questioning queue, please press \* and then 2 to remove yourself from the queue. Please use only handsets while asking a question. Anyone who has a question may press \* and 1 at this time. The first question is from the line of Mr. Manik Taneja of Emkay Global. Please go ahead.

**Manik Taneja:**

Sir congratulations for the good execution. First just a couple of questions. First of all if you could throw some light on how you are seeing demand panning out for your services across three business lines and secondly just wanted to get an idea on your tax rates because your tax rates have been significantly low over the past three quarters. Just wanted to get a sense on what kind of number do you build in over there. Thank you.

**Ganesh Ayyar:**

Good morning. Thanks for the question. I will take this question in two parts. First let me comment a little bit at a macro level on how I see business panning out and then I will seek help from my CFO Susanto to comment a little bit on the tax rate. Let me move on to talk a little bit about the macro situation in the business. It is no secret that customer's discretionary budgets have been cut significantly because they are facing a difficult climate externally. So from that perspective we are seeing that discretionary projects are being reduced and cut or delayed. So that is the trend which you get to see more in application business and little bit less in infrastructure and BPO business. So that is one trend which we are seeing which is no different from any of the other companies. If I want to sample it with slightly different view we also see opportunity because the customer ultimately wants to look at optimization of cost and MphasiS has the ability to bring all three service lines in front of the customer. So that is an advantage which we have. Simultaneously, we also have an advantage because we have excellent customer cum partner relationship with EDS and HP and that relationship continues to be nurtured well. So that is my kind of macro picture at the level of Application, ITO, and BPO on one hand and simultaneously

looking at our customer scenario including one of our largest customer cum partner Hewlett-Packard and EDS. With that let me ask Susanto to comment on the tax rate.

**Susanto Banerjee:** Hi Manik. The tax rates have been low and it is been low for three quarters now. Def Tax plays a big role in the tax provision line. As we capitalize assets we create Def tax assets as our book depreciation policy is aggressive which nets off the provision for tax. Our overseas entities recouped their past losses and are turning profitable. Some of our STP units are coming out of the tax holiday. Hence the current tax percentage on PBT may not be sustainable.

**Manik Taneja:** So sir somewhere between a 10% to 12% is something that we should build in over the next?

**Susanto Banerjee:** It is very difficult to predict what the percentage of tax is going to be on PBT but it will definitely not be sustainable at these rates.

**Manik Taneja:** Sir, I just wanted to know a couple of your clients who are going in through vendor consolidation exercises. Just wanted to get a sense on what is happening over there - especially an Australian telecom vendor because earlier indication was that it would get decided by end of December 2008. You know we are already entering March 2009 so just wanted to get an understanding on what is happening over there?

**Susanto Banerjee:** We are seeing vendor consolidation across the BFSI vertical. The decisions have not yet taken place but we have not lost any of the customers. We are at the final stages of discussion. Telecom and healthcare is another area where we are seeing RFPs and we are participating on those RFPs. If you look at the manufacturing vertical there are some ramp ups and ramp downs. The only question is when these will get closed and when they will contribute to the revenue stream.

**Manik Taneja:** Thanks. That is all from my side.

**Moderator:** Thank you Mr. Taneja. The next question is from the line of Mr. Pratish Krishnan from DSP Merrill Lynch. Please go ahead.

- Pratish Krishnan:** Thanks and congratulations. What was the volume growth during the quarter and I would also appreciate if you can you split this in terms of three segments - Applications, ITO, and BPO.
- Ganesh Ayyar:** What I will do is I will let Susanto comment specifically on the three verticals and the volume growth surrounding that and then take any further questions that you may have. Over to you Susanto.
- Susanto Banerjee:** The overall volume growth is close to about 4%. In BPO we have declined quarter-on-quarter and one of reasons for that is depreciation of GBP against the Indian rupee. Also there have been a few cases of ramp downs which has not been compensated by ramp ups in the quarter. The Apps and ITO grew strongly in terms of volume. Apps business grew by about 11.4% and ITO business grew by 20% quarter-on-quarter. The Apps volume growth was in the region of 6% to 7% and ITO close to about 10% to 12%. The rupee depreciation against the US dollar has impacted the revenue growth.
- Pratish Krishnan:** I see that your utilization levels have dropped by around 400 basis points in Apps. You also mentioned about a lateral hiring in this particular quarter. Is it really part of your strategy or is it planned in terms of the recruitment numbers?
- Susanto Banerjee:** Pratish, we had anticipated that utilization will drop. We had mentioned in the last quarter earnings call, that we have tweaked the utilization percentage to such an extent that it is pretty tight on operations. We needed some flexibility in order to scale up. We also hired freshers in this particular quarter.
- Pratish Krishnan:** How should we see that going forward in terms of the utilization numbers?
- Susanto Banerjee:** Utilization depends on many factors. It depends on the skill sets, on the kind of work we do, how much of managed services that we are able to pull in. It varies from quarter to quarter. We are focused on this operating lever and would like to optimize it with twin objectives of ability to scale and protect margins.
- Pratish Krishnan:** Finally just in terms of the overall revenues from EDS and even HP, what would that percentage be today?

- Ganesh Ayyar:** The EDS-HP revenue is about 45% of our total revenues.
- Pratish Krishnan:** Just broadly Ganesh, if you could give some comment in terms of HP plan for India given that they have these two entities here.
- Ganesh Ayyar:** Are you referring to their Global Delivery Center which is predominantly involved in the application area?
- Pratish Krishnan:** Yes true.
- Ganesh Ayyar:** Okay. So actually we do have a governance model which helps us to distribute work between HP Global Delivery and MphasiS. That is called a governance model and not a contractual model because we really need to demonstrate competitiveness and value in such area. So that is the first filter which is used to see whether MphasiS can play a role. After that we have to demonstrate value and competency to deliver the type of workers they want. So obviously commenting on a slightly different aspect there is immense potential to encash the added strength of HP due the recent merger of EDS with HP. So that is the work which we also want to focus and grow our relationship The governance models are relevant here and it applies in the area of work separation. But that is not legal obligation. It is a guidance and after that we have to prove our value.
- Pratish Krishnan:** Is there any specific area where it is pre decided that probably you would work on certain areas and they would work on certain areas?
- Ganesh Ayyar:** Correct. It is divided based on horizontal and vertical. Horizontal would be horizontal capability where we have a significant competency and customer based and vertical would be industry verticals and goes right down to sub verticals. So this is one format of doing work distribution across but the details on how it is done, I will not be able to share but that is the model which is being used today.
- Pratish Krishnan:** Just on a final one if Susanto can share the segment data for the previous quarter ending October in terms of these three segments? Just the revenues and the gross margin sir.
- Susanto Banerjee:** You will get the numbers in the financials and also in the MD&A.

- Pratish Krishnan:** Yes. Probably I think it is not there. Anyhow I will search that again.
- Susanto Banerjee:** Pratish if you find it difficult to obtain, I can send it to you separately.
- Pratish Krishnan:** Fine thanks a lot. That is all from me.
- Moderator:** Thank you Mr. Krishnan. The next question is from the line of Mr. Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah:** Sir congrats on a good performance in difficult times. Just in the constant currency can you give us the rate increase because despite the cross currency volatility our billing rate has remained more or less flattish or in the terms of onsite it has gone up.
- Ganesh Ayyar:** Let me comment on your question first and then specifically we will attempt to provide to the best of our ability.
- Sandeep Shah:** Yes.
- Ganesh Ayyar:** The external market is volatile and customers are also aware of depreciation of rupee against dollar. So if I take a US customer for that matter - lots of negotiations take place including the currency depreciation finally. We cannot isolate Rupee and its value against dollar. Its an important pricing assumption and hence looking at constant currency growth is not fair. When you convert it into constant currency you may project the statistical pictures which need not be related to operational principal of how we operate. But regardless of this I will let Susanto comment on the currency related issue. Over to you Susanto.
- Susanto Banerjee:** Sandeep, our billing rate is in US dollars and as you know we do most part of our business in US dollars. So there is not much of a currency conversion issue there. You are right that the onsite billing rate went up in this particular quarter because we had increased billing from Europe. On the growth, I think I mentioned about what was the volume growth. So out of 9% growth quarter-on quarter, about 3% to 3.5% will be on account of foreign exchange. The rest will be on account of volume and a little on price.
- Sandeep Shah:** Can you share your invoicing mix in GBP and Euro?

- Susanto Banerjee:** Across all business lines it would be close to about 8%-9%.
- Sandeep Shah:** Can you share the realized rupee-dollar rate for this quarter?
- Susanto Banerjee:** For this particular quarter it is between Rs 48.5 to Rs 49.
- Sandeep Shah:** So what I was just looking at there is a good gross margin improvement also so despite the utilization rate being down and no major change versus the October realized rate. I was just wondering this is more to do with the off shoring and some more productivity gains even above the SG&A level.
- Susanto Banerjee:** Yes. One is the favourable exchange rate of INR vs the US dollar that pushed the gross margins up. This caused an increase in our revenues in terms of INR. The second reason is that we could optimize some of our costs in the COR level. We pulled back on the travel and saved some of the infrastructure cost. This gave us the benefits in the gross profit line. Our onsite billing rates also improved and coupled with a marginal improvement in off shore rates, helped the gross profit line.
- Sandeep Shah:** Okay and sir the reason for change in the auditor. Can you share that?
- Susanto Banerjee:** HP's auditor is E&Y. They want all the subsidiaries to be audited by E&Y. This helps in their consolidation process and it is a very common practice for MNCs to operate with one auditor across the globe.
- Sandeep Shah:** Okay.
- Susanto Banerjee:** Moreover it is a good thing in this today's situation. We have a fresh pair of eyes looking at your financials.
- Sandeep Shah:** In Obama's speech there is a withdrawal of tax break for the affiliates of the US Company. So now HP India has 100% subsidiary as well as they have MphasiS with around 60% to 61%, so is there any impact which you foresee out of that statement made by Obama?
- Ganesh Ayyar:** If you look at it from the current market there are multiple uncertainties which exist. Now this speech has added one more uncertainty to the market. This has been 48 hours since he made this speech so we dont have clarity enough to unwind the impact.

To be honest at the end of the day if a customer is going to make a decision whether to evoke the contract and to whether to best-shore or not, it will be decided on the net economic benefit to the customer. So the impact is very difficult to analyze but what it does tell us though that during these times what can you do about dealing with so many uncertainties. So two things which we are clearly focused on, one is to look at in plain and simple terms - cost optimization and cost reduction and in this context we are also looking at how do we convert some of our fixed cost into potentially variable cost so we remain nimble. The second aspect is growing our relationship with existing customers and new customers, staying focused in all geographies because that was the strategy which MphasiS put earlier to grow geographies above and beyond United States and you can see EMEA is already paying off. So that is the strategy which we are adopting and we are just going back to the basics, cost optimization and cost reduction on one hand which includes productivity improvement, which includes other aspects of seeing how we can convert fixed to variable as I mentioned earlier and on top of it we are going to our existing customers and working with them to keep our revenue stable and grow their business and Obama speech just adds some more twist to the tale which is incremental to probably another 100 uncertainties that exist in the market place.

- Sandeep Shah:** Thanks and once again congrats on a good set of numbers.
- Ganesh Ayyar:** Thank you very much.
- Sandeep Shah:** Yes.
- Moderator:** Thank you Mr. Shah. The next question is from the line of Ms. Subhashini Gurumurthy of JM Financial. Please go ahead.
- Subhashini Gurumurthy:** I was just trying to understand the differential in the gross margins if I look at it year-over-year. The gross margin this quarter seemed to be around 37% while last year same quarter was around 26%. So am I missing something here or is that a major cost re-structuring exercise which has happened?
- Ganesh Ayyar:** I will get Susanto to comment on it and the numbers that you see are the real numbers so you are certainly not missing anything but

Susanto will take you deeper through the journey because the amount of work done to do this optimization is something which you would hear from the team which had been doing it for the last three quarters. Over to you Susanto.

**Susanto Banerjee:** The numbers you see are the real numbers. So you are not missing anything. There are various reasons for our growth in margins. One is we did press hard on the operating levers. The amount of improvement that we achieved on the utilization front in all the three businesses was phenomenal. The billing rates also improved year-on-year and this helped the gross margins. Another significant reason is the rupee has traveled a lot from last year. It depreciated by close to about Rs. 8-9 to a dollar over the last year same quarter. So that also impacted our gross margins favorably because we earn revenues in dollars mostly and we spend in INR. We did optimize on our cost structure to a certain extent. We focused on travel and optimized infrastructure related costs that yielded results on our gross margins.

**Subhashini Gurumurthy:** Has there been any resetting of the salary levels within the company?

**Susanto Banerjee:** We have not reset the salary levels per se. If you are hinting at any salary cuts there have been no salary cuts. We have not exercised that particular option even though that option exists with us. But yes, we will be moving salary to a fixed and variable cost structure.

**Subhashini Gurumurthy:** Sure. Thanks that is all from my side. All the best.

**Susanto Banerjee:** Thank you.

**Ganesh Ayyar:** Thank you.

**Moderator:** Thank you Ms. Gurumurthy. The next question is from the line of Mr. Ruchit Mehta of HSBC. Please go ahead.

**Ruchit Mehta:** Good evening. Congratulations on a great set of numbers. I was just wondering if you could comment a little bit more on the demand environment because obviously you have been saying it is not that good an environment but your numbers tend to be completely contrary to that and more importantly what is the kind of traction we seeing within the HP-EDS side of the business and

on the internal work as well as off shoring of EDS of existing contracts .That bucket of work?

**Ganesh Ayyar:**

Let me comment on HP-EDS portion. We have a couple of different models working with HP and EDS. I mean one model is selling to HP. The other model is selling with HP which is selling through HP family. Now both these models have significant viability but our competitiveness is going to be crucial because large customer like HP-EDS also looks for competitiveness. So that is why the point which Susanto made earlier about bringing cost variability, enhancing productivity, and reducing our cost, all this is going to play a major role in our ability to tap more into this particular channel cum customer if I may say so. In my view there is potential but for that we have few miles to go in terms of cost competitiveness and productivity which we are working on. Did I answer your question or is there another part you need?

**Ruchit Mehta:**

I mean just in terms of the current quarters of revenues if we can get a sense of what was this split which say the business came directly or indirectly through HP, may be internally or through the HP channel and how much it came on our own organic efforts. And quarter-on-quarter what would that breakup have been?

**Ganesh Ayyar:**

Susanto correct me if I am wrong, HP and EDS stood at about 45% and that was kind of holding steady. So if you put it in the context of growth basically that channel delivers almost the average growth rate which you have seen from MphasiS growth if I may. So that is holding steady and that is the current situation. It is about 45%.

**Susanto Banerjee:**

To clarify, the 45% that you see includes the business that we do with HP. Typically between 40% to 45% of our revenues comes from that channel.

**Ruchit Mehta:**

Sir, in the previous quarter 40% came through the HP internal, external or whatever.

**Susanto Banerjee:**

About 42% came from HP plus EDS channel which grew to 45% this quarter.

**Ruchit Mehta:**

In terms of the investment for the year as a whole could you get the sense of what kind of CAPEX have you planned for and the hiring targets if any?

- Susanto Banerjee:** We need Capex for growth. Our CAPEX spend in a way will depend upon the hiring number. We don't have a freeze on Capex and at the same time we do not want overinvest. We are watchful on our demand trends and accordingly call for Capex.
- Ruchit Mehta:** Okay thank you so much.
- Susanto Banerjee:** Thank you.
- Moderator:** Thank you Mr. Mehta. The next question is from the line of Mr. Ram Prasad of Sundaram BNP Paribas. Please go ahead.
- Ram Prasad:** Sir could you just comment on the pricing scenario with your parent and also the other clients whom you work with. In the context of the future sir.
- Ganesh Ayyar:** In the context of the future I mean I do not think we are immune to the discussion on pricing. We are facing the pricing pressure like anybody else and that is why I mentioned earlier we are looking at all factors including our existing cost structure and cost variability so that we can meet the market expectation in terms of pricing and still provide good returns to the shareholders. So that is the work in progress. This is not only in the context of HP-EDS I am saying overall in the market context there is tremendous pressure on the pricing and that is what we are working towards.
- Ram Prasad:** Okay sir. Thanks a lot.
- Ganesh Ayyar:** You are welcome.
- Moderator:** Thank you Mr. Prasad. The next question is from the line of Mr. Kunal Sangoi of Edelweiss. Please go ahead.
- Kunal Sangoi:** Thank you. Susanto, a couple of clarifications here. One is that in the operating metrics that you have disclosed I think the revenue number it sums up to 9,853 for the quarter as compared to 9,777 that we have reported. So may be there is some error there.
- Susanto Banerjee:** I will clarify. It is not an error. You can go ahead with your second question. Then I can answer them together.
- Kunal Sangoi:** Okay that is all. And second is in the earlier question you did mention that HP-EDS is 45% but if I look at the related party transaction wherein the rendering of services to related parties

there probably that number appears to be higher. So if you can clarify that as well please?

**Susanto Banerjee:** With respect to your first question we had given a clarification statement just before the number table in the MD&A which says that the revenue numbers that you get to see in the MD&A tables are gross of the hedge impact. The hedge impact for matured forward contracts during the quarter is adjusted in the final revenue number. This is in line with AS 30. I hope that clarifies your first question.

**Kunal Sangoi:** Yes, perfect.

**Susanto Banerjee:** With respect to related party transactions 45% is the combination of the captive work that we do for EDS or HP plus the sold business which gets migrated into MphasiS. There is another bit over and above the 45% which is the business that we partner with HP or EDS, wherein we partner in terms of giving a sales pitch and we fix the market prices for that particular business. The market facing channel is as good as a core channel or the direct channel we have. The risk and rewards in both cases are very similar.

**Kunal Sangoi:** So, the billing would happen to HP or EDS as the case may be right?

**Susanto Banerjee:** Correct.

**Moderator:** Thank you Mr. Sangoi. The next question is from the line of Mr. Ashwin Mehta of Mangal Keshav Securities. Please go ahead.

**Ashwin Mehta:** Congratulations on a good set of numbers and one question regarding your onsite contribution, which seems to have gone up by almost 600 bps over the last year. What exactly is contributing to it? Is it staff augmentation which is happening or these are longer term contracts which will get transition to offshore in the subsequent quarters?

**Susanto Banerjee:** You are absolutely right. In the typical model of a project business, the first part of the project business is onsite and then the work transitions to offshore. The increase in onsite is primarily because of these new projects.

- Ashwin Mehta:** Another thing was in terms of our ITO component, we saw an onsite contribution coming in there as well. So, what does that relate to and would that be a continuing thing or is that one off ?
- Susanto Banerjee:** We had some projects, which had a long term transition involvement because of which we had the onsite ITO. Right now we will not be able to say whether this is a trend or not. But this will occur as and when we are looking towards managed services work and towards the market facing channels of ITO business.
- Ashwin Mehta:** And just one last question on our ITO. Have we had success in terms of being able to sell our ITO purely on our own except from what comes through EDS or HP channel?
- Susanto Banerjee:** We are exploring these options. We have developed this capability over the past 3 years now and so we are geared to take up this challenge going on our own to the markets. But as you know EDS or HP for that matter is big in ITO business and there is immense potential to explore and get business from EDS or HP. So that will remain or continue to be our primary focus.
- Ashwin Mehta:** But wouldn't the HP and EDS business be on a cost plus basis?
- Susanto Banerjee:** We have negotiated rates on an arms length basis which provides the commercial framework for the migration or the captive business .
- Ganesh Ayyar:** Let me add a two steps strategy here. One as also we are exploring how the migration model or the market facing model can move more towards managed services as we have articulated earlier. This is with HP or externally.
- Ashwin Mehta:** Thanks a lot.
- Moderator:** Thank you Mr. Mehta. The next question is from the line of Mr. Nitin Padmanabhan of Centrum Broking. Please go ahead.
- Nitin Padmanabhan:** I just wanted to know what would be the effective tax rate going forward moving to next year, once the sunset clause comes in?
- Susanto Banerjee:** As I mentioned earlier it is very difficult to predict tax rate moving forward because there are lot of variables, which play on the tax provisional line. We have our overseas entities who have become profitable and recouped their past losses and they will be taxable

in their respective countries. We also have STP units coming out of tax holiday in a short-to-medium term and thereby the tax provisional line is likely to increase. However there is the deferred tax element, which nets off that additional tax. So it is very difficult to give you a number as of now.

**Nitin Padmanabhan:** But if you could give some sense of how much increment business is now moved over to SEZs?

**Susanto Banerjee:** Close to about 20% to 25% of the businesses comes from SEZ. We have SEZ in Pune and we have SEZ in Chennai.

**Nitin Padmanabhan:** Right. Thank you.

**Moderator:** Thank you Mr. Padmanabhan. The next question is from the line of Mr. S. Ramachandran from Spark Capital. Please go ahead.

**S. Ramachandran:** I just wanted to get some sense in terms of the kind of deals that we are seeing in application business. The nature of work is more on the maintenance side or is it from the development side? If on the maintenance side, what kind of cost savings are clients looking at or a size of deal you could give any colour on that?

**Susanto Banerjee:** It is seen more on the maintenance side. Typically the customers are looking for fixed price multi year productivity driven solutions from the vendors. They are calling for mid term/end term reviews trying to bring down the number of vendors in the play ensuring their overall spend reduction to the tune of 10% to 25% and in turn giving larger share of business to each vendor. On the development side it is the smaller projects, typically non discretionary that lower investments which are being offered to empanel vendors.

**S. Ramachandran:** In terms of the price differential I think because of the EMEA becoming higher component there were some improvements in price really. What will be the differential between Europe and US in terms of pricing?

**Susanto Banerjee:** There is a difference. The cost of living is different between US and Europe, but again in Europe various countries will have different cost structures leading to different price structure as well.

**S. Ramachandran:** On the ITO side, at this point of time because I believe most of our work is coming from HP and EDS in terms of work. From a

growth point of view would this be a bigger growth channel at this point of time over applications and BPO?

**Ganesh Ayyar:**

If you look at the base of our business and if you compute in percentage terms obviously it holds greater potential for growth as the base is smaller. The apps business holds 65% share of the pie whereas the infrastructure business holds about 17% share of the pie. So in that context, I certainly believe that there is the percentage wise yes. But in absolute dollar terms no because I do believe that application business still have some miles left ahead. But it is certainly facing lot more pressure than infrastructure business if I may.

**S. Ramachandran:**

If we are to just broadly outline the risks you see mainly to your revenue growth or in terms of the lack of visibility what would be the areas where you would have lack of visibility for you to kind of say that my revenues might fall or have a risk of being I am sitting at extra supply, what are the areas you see that risk at this point of time?

**Ganesh Ayyar:**

The major risk which happens is in relation to certainty - around when the deal will be closed and whether it will be closed because especially in the areas of project business I believe that it is a little bit more unpredictable than usual. This is because the economy is behaving the way it is and probably for getting pulled off or not more deliberation takes place internally within the customer to justify return on investment on these projects. So that is clearly one area. Secondly we also need to see how this whole currency goes, but right now we are seeing that the Indian rupee which continues to depreciate, today has crossed Rs.50. The question is how long will this be because one of the factors, which we saw earlier - part of the improvement is coming through the Indian rupee depreciating against US Dollar. So those are the two broad areas that I see as the issues. Both of them are relating to the market uncertainties. Not to say the fact that what happens to customers' overall IT expense, whether the BPO business will take off versus the application business. So those are added uncertainties, which we have to deal with but broadly speaking these are the two areas from my perspective I am concerned about.

- S. Ramachandran:** In terms of any targets you are chasing for fresher hiring because I understand we had to stop fresher hiring for sometime in prior to September quarter and we reverted back this quarter. Any number of offers that are being made for the coming calendar year?
- Ganesh Ayyar:** One of the things which I have worked with the team earlier when the markets were good there were discussions about how much hiring and what will be the employee size. In the current market condition we should refrain from making projections on hiring plans. Obviously depending on the type of project we certainly would like to see our labor pyramid having an injection of freshers because that is a good strategy to deal with the cost competitiveness but it depends on the type of business which is flowing in. So as a factor we will not be in the current climate until the market really settles down and everything starts becoming more predictable. As a policy I would not want any of us to be making prediction on hiring plan.
- S. Ramachandran:** Thanks a lot and all the best.
- Ganesh Ayyar:** Thank you.
- Moderator:** Thank you Mr. Ramachandran. The next question is from the line of Ms. Divya Nagrajan from JM Financial. Please go ahead.
- Divya Nagrajan:** I am trying understand there was a sharp spike in your onsite rates this quarter. I am trying understand what were the components of this hike and what has led to the increase.
- Susanto Banerjee:** It got triggered off by the increased billing from Europe. Europe typically commands higher onsite billing rate compared to US. If you look at the Europe share of revenue - it increased by about 2% or 3% and the growth was close to about 25% quarter-on-quarter.
- Divya Nagrajan:** What was the cross currency impact that you had on your revenues this quarter. Would you quantify that please?
- Susanto Banerjee:** I will not be able to quantify that but obviously it has impacted. Our BPO business especially, has been impacted because of the pound depreciation.
- Divya Nagrajan:** Right thanks.

- Susanto Banerjee:** Thank you.
- Moderator:** Thank you Ms. Nagrajan. The next question is from the line of Mr. Sujeet Joshi of Crisil. Please go ahead.
- Sujeet Joshi:** Just one number that I have been looking for. Could you give me the depreciation amount for the quarter ended October?
- Susanto Banerjee:** We have compared the year-on-year in the financial. We do not have a comparison on quarter-on-quarter. So I can give you that particular number offline.
- Sujeet Joshi:** Okay great. Just one more quick question. You have on the BFSI, Technology and OEM, Manufacturing, and Healthcare these are the four things that I can see growing really strongly during the previous quarter. Could you just give us some sense on which service lines the growth is coming from?
- Susanto Banerjee:** On the BFSI it was mainly from Apps. On the Technology and OEM it is from ITO mainly. On the Manufacturing it was again from Apps and ITO combine and from Healthcare-Pharma it is Apps.
- Sujeet Joshi:** Thank you very much.
- Susanto Banerjee:** Thank you.
- Moderator:** Thank you Mr. Joshi. The next follow up question is from the line of Mr. Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah:** Yes. Sir this time the recruitment is roughly around 1,200 employees versus we still have a headroom to improve the utilization. So does one indicate that the short term visibility is better than the long-term visibility?
- Susanto Banerjee:** First of all the addition of 1,193 employees included freshers. They do not get inducted into the delivery straight way. They will take some time. The second thing is that utilization always depends on the skill set. The kind of skill set that is required by the market and what we have in our bench may not be exactly correlated. So as a result of which we need to go to market to hire people. So that is another reason that you get to see hiring and utilization dropping at the same time.

- Sandeep Shah:** Okay but any correlation to a short-term visibility or this is just keeping the manpower with the required skill?
- Susanto Banerjee:** We did decide it was a strategy that we have taken that utilization last quarter was too tight to manage scale. So we did want to build up our bench looking at the capability that may be required in the market place. That is one of the reasons that you get to see the utilization numbers drop in this particular quarter.
- Sandeep Shah:** Just one last thing. The onsite utilization if we look at it is one of the lowest amongst all the peers in the industries. So what is the rationale for keeping this at around 85%?
- Susanto Banerjee:** Sandeep it is not that we are keeping it at around 85%. It is the number, which comes from the actual operations. The second thing is that the utilization numbers may not be compared with the peers because every company computes the utilization numbers differently. So they are not comparable.
- Sandeep Shah:** Okay thanks and all the best.
- Susanto Banerjee:** Thank you.
- Moderator:** Thank you Mr. Shah. Ladies and gentlemen we will take one last question for the day. The last question is a follow up question from the line of Mr.Ashwin Mehta of Mangal Keshav Securities. Please go ahead.
- Ashwin Mehta:** In terms of our wage hike cycle - would that change under HP or it will remain the same?
- Ganesh Ayyar:** Currently the wage cycle remain on a quarterly basis which is what we are doing and this is what we will be evaluating later. At this point of time there is no decision made whether they get along with HP annual wage cycle and I think there is also a question of how much of actually fixed wage cycle we will increase. So there is another element of the question which we are working on as of now.
- Ashwin Mehta:** Okay and in terms of number of hours that we bill onsite and offshore has there been any change or that remains the same?
- Susanto Banerjee:** No, there has been change.
- Ashwin Mehta:** Okay. Thanks a lot.

- Moderator:** Thank you Mr. Mehta. I would now like to hand this over back to Mr. Rohit Anand for final comments.
- Rohit Anand:** Thanks. On behalf of B&K Securities, I would like to thank MphasiS Management and all the participants. I would now like to hand over to the MphasiS Management for closing remarks.
- Ganesh Ayyar:** Rohit first of all thanks for moderating this discussion and holding it for us. I appreciate it. This indeed had been a very privileged quarter and a very good quarter for MphasiS. Lot of work has gone into it, a lot of planning. On one hand we are clearly delighted about reaching the EPS into a double digit. So that has been a phenomenal performance. Moving forward our focus will continue to not take any quarter for granted and we are working feverishly in the areas of looking at cost structure and cost optimization as I mentioned. This will be our endeavor so that we can continue to demonstrate good results. The business climate is tough but the team is determined to work harder at it and we will continue to communicate our progress as we made with all of you. Thanks for joining us for this call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of B&K Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.