

MphasiS Limited  
Quarter Two Earnings Conference Call – Financial Year 2009-2010  
May 21, 2009

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Moderator: Good morning ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to the MphasiS earnings call for Q2 FY '09 quarter ended April 30, 2009. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. Now, I would like to hand over to Mr. Hitesh Shah of IDFC-SSKI. Thank you and over to you sir.

Mr. Hitesh Shah: Thank you Manjula. Hello everybody. On behalf of IDFC-SSKI Securities, I would like to welcome you all on the call to discuss the results of MphasiS for the quarter ending April 30, 2009. We have MphasiS management with us on the call, Mr. Ganesh Ayyar, the group CEO and Mr. Susanto Banerjee, the group CFO. With that introduction, I would like to now invite Mr. Ganesh Ayyar to take the discussion forward. Thank you and over to you Mr. Ayyar.

Mr. Ganesh Ayyar: Thank you very much Hitesh. Good morning everybody. I am certainly delighted that we are able to connect today, and I want to thank all of you for taking the interest and joining us today as we announce our results for Q2 FY 09 Quarter ended April 30, 2009.

Your company has delivered with consistency for yet another quarter. The revenues crossed Rs. 1,000 Crores this quarter. For the quarter ended April 30, 2009, Mphasis Group consolidated revenue was Rs 1,048.5 crores , a 52.3% increase as compared to Rs 688.4 crores in the same period in 2008. The increase has been both at the topline and an improvement in our bottomline. Our cost prudence and our aggressive client augmenting initiatives have paid off.

Dwelling deeper in the quarter, operating profit during the quarter ended 30th April 2009, was Rs 226.6 Crores as against Rs 66.6 Crores in the same period a year ago, a growth of 240%. During the same period net profit increased by 219.1% from Rs 70.3 Crores to Rs 224.5 Crores. In keeping with the results, EPS increased to Rs 10.74 from Rs 3.37 in the same period last year, recording a growth of 218.7%.

Moving on to sequential numbers, sequential quarter revenue grew by 7.2% compared to revenue of Rs 977.7 Crores in the quarter ended 31st January 2009. Operating profit for the quarter increased by 7.6% to Rs 226.6 Crores. Net profit for the quarter increased to Rs 224.5 Crores for the quarter ended 30<sup>th</sup> April 2009, compared to Rs 210 Crores in the quarter ended 31<sup>st</sup> January 2009, a growth of 6.9 %. EPS increased by 6.9% from Rs 10.05 last quarter. Operating margins improved to 21.6% and net margins were sustained during the quarter

Application business continues to grow with solid growth across all industries - over 5.2% growth quarter-over-quarter representing about 63.8% of our total revenue for the company. In spite of pressures on pricing and solutioning, this business grew, winning new deals in the market place.

Our ITO business has been a sweet spot for us and our infrastructure business saw very strong growth of 18.8% quarter-over-quarter. Bulk of this business came from HP EDS but you will be happy to know that we have been pursuing business independently. The India market looks promising and we hope to garner mindshare among potential clients. ITO now represents 18.7% of our total revenue.

Profits in our BPO business declined by 3.9% quarter-over-quarter. We hired more than 3,000 people to support growth which led to the decline in profits. BPO revenues increased by 3.8% QoQ.

In terms of verticals revenues from Telecom grew 37% quarter-on-quarter, Financial services declined 0.1% while other verticals registered modest increases.

In terms of geography, we see a mixed trend. Revenues from Europe remained flat, share of revenues from USA went up 2% quarter-on-quarter.

During the quarter ended 30th April 2009, the group added 14 new clients including 13 relationships through HP. The client additions include a large airline in USA, an established North American apparel retail chain and a global leader in telecommunication systems. The group now has 109 clients with an annualized run rate of more than USD 1 million including 6 clients in excess of USD 20 Million. The billing rates remained steady

The group's net headcount increased by 3,822 of which 117 were freshers. The Mphasis manpower numbers now are at 33,810. Employee utilization improved quarter on quarter in Applications and ITO. BPO saw a decline due to the investment in additional capacity.

So, in summary, while the external market and the quarter in every sense has been a tough quarter, but so far we have been, working extremely hard to be customer centric, focused on operational excellence and doing it through our entire workforce of 33,000 people. We involved our employees, if you look at our strategies that we have adopted. It is important to comment at this point of time that 75 days ago, we launched a program called Save A Dollar A Day and we got overwhelming response from our employees and it was truly a humbling experience for me to see how committed they are to make the organization successful. So, at this point of time we have good results, but this did not in any sense lull us into overconfidence. We will remain vigilant and we need to remain vigilant and prudent, working on the details - focusing on operational excellence and leveraging on the number of customers that we have and continuing to work with our 33,000 of Mphasisans is going to be our focus. We hope to stay focused on continuing to deliver the results.

With that note, I again want to thank you for your interest and hand you back to the moderator, so if you have any questions and answers, Susanto and I will be delighted to answer.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to WebEx International Moderator to conduct the Q&A for participants connected to WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you international moderator.

International Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please

press \*1 to ask a question. Again, to ask a question, please press \*1 on your telephone keypad. At this moment, there are no questions from the participants at WebEx International Center. I would now like to handover the proceedings back to India moderator.

Moderator: Thank you very much international moderator. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press \*1 now. First in line, we have Mr. Sandeep Shah from ICICI Securities. Please go ahead with the question.

Mr. Sandeep Shah: Sir, congrats on another good quarter. Sir, in this time I believe that the growth has been largely driven by the non-top ten clients. So, within the top ten clients, I wanted to understand what was the behavior. The sluggish growth is largely on account of pricing pressure or the volume pressure. Can you share on that?

Mr. Susanto Banerjee: It is right that this particular quarter we didn't have the growth and the growth over the top ten clients was lower. This happened with one of our BFSI customers in Europe where we had reduced revenue. This is what caused the revenue share of top ten clients to reduce.

Mr. Sandeep Shah: But is there any risk of vendor consolidation there?

Mr. Susanto Banerjee: No, there is no risk of any vendor consolidation there.

Mr. Sandeep Shah: Okay, so in terms of our BFSI, we are still now on the vendor consolidation wherever the decision has been there, we have lost any clients?

Mr. Susanto Banerjee: No, we have not lost any clients yet.

Mr. Sandeep Shah: Okay. Second sir, looking at now the pricing, the rupee is likely to appreciate or it has been appreciating since last one week. So, in such a scenario, can you guide us what could be the impact on the margins and do you expect that the margins are likely to come down with rupee appreciation or do you expect the cost efficiency levers are still enough to fight with the rupee appreciation?

Mr. Ganesh Ayyar: Can we predict how the rupee will move? Yes, it is true in the last one week, the rupee has started strengthening. Will it have an

impact on our results? Yes, it will have an impact, but can I predict my business performance around rupee movement and where it will end up with? I am not an expert in this field, but our commitment is that we have to stay focused on cost optimization, customers, and employees, these three things, and only if we do it, we will deliver results. Are we ready to tackle if there is a significant strengthening of the rupee? I think it is not very tough to do it over one quarter, but the way we are approaching our business is to benchmark ourselves against the industry in terms of our cost structure, and we will continue to drive at that and also focus on the customers to grow our business. Thereby, you know, a combination of our growth and cost optimization and the fact that we won't increase our fixed cost structure that much, hopefully, will give us some strength in the time to come. But I cannot predict precisely how this is going to shape up. Certain contracts, we do have the ability to weather the storm because these contracts do have provisions which gives us in-built hedge, if I mean right, which prevents us from dropping dramatically when the rupee strengthens significantly. So, that is all I can answer, and I invite Susanto to chip in with whatever he has to add.

Mr. Susanto  
Banerjee:

No, I think you have covered it Ganesh.

Mr. Sandeep Shah:

Okay. Sir, if you look at most of our levers like utilization or even on the SG&A, it seems like the levers has been pulled out. So going forward, can you elaborate more what could be the further cost optimization lever?

Mr. Ganesh Ayyar:

Sandeep, I do not believe that at any point of time, we can say we have done enough, right, and I certainly do not believe that we have done enough on the cost front. Yes, we can do more absolutely, and when you talk about relative cost of the revenue, can we do more? Absolutely. So, I certainly wouldn't take the position that we have pulled the lever enough and this is where it stops now and have to look somewhere else.

Mr. Sandeep Shah:

Okay. Secondly sir, this time even the profit growth is roughly around Rs 225 crores and the cash profit also before the working capital changes has also been higher, but the treasury increase on a sequential basis is roughly Rs 44 crores. So, I was just noticing that there is a significant jump in the loans and advances. Can you elaborate why the treasury increases were low?

Mr. Susanto  
Banerjee:

We had to pay the service tax on certain input series which led to increase in loan and advances. They are refundable by the department.

Mr. Sandeep Shah:

Okay, and there is nothing like advance to the employees?

Mr. Susanto Banerjee: No, nothing of that sort. The major portion was only service tax, which we had made a payment on certain transactions. Those are refundable because we are an export-oriented unit and that is sitting in the current assets as of now.

Mr. Sandeep Shah: I have more questions. I will come in the followup round. Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Srivatsal from Spark Capital, Chennai. Please go ahead with the questions.

Mr. Srivatsal: Hi sir. Just wanted to get some sense on what you are seeing especially on the Applications business among multiple verticals. Do you see demand bottoming out in the Applications business, especially in BFSI and manufacturing?

Mr. Ganesh Ayyar: Will the market see overall strong demand, the answer is yes, but do I see demand bottoming out for Mphasis? Absolutely not. Because I believe that if we stay focused we can claim greater share of the pie or in other words greater share of the wallet. But this would require tremendous amount of work and as you start climbing steep, the climb becomes tougher, right. So, to that extent, it will be tougher. But I do not see from Mphasis perspective that the BFSI segment is gone or done with and manufacturing segment is gone and done with. I do not see it that way.

Mr. Srivatsal: Okay. In terms of the broader industry or in terms of what you are reading from your clients in these respective verticals?

Mr. Ganesh Ayyar: So, if you really look at it, the so called discretionary spend around Application have certainly shrunk on an overall basis across the industry. No question about that. So, that I have completely given. Because what was happening around us in the economic climate have certainly affected and has resulted in those decisions.

Mr. Srivatsal: Okay. In terms of the strong ramp-up we are seeing in the BPO, just wanted to get some sense, is it that the pipeline is so robust and what would be the kind of nature of this business be towards?

Mr. Ganesh Ayyar: The BPO business by nature goes through this phase of transition where we have to ramp-up to serve our clients. This is the very nature of BPO business before it becomes a steady stream. So, that is the phase we are in. As far as this 3,000 people ramp-up is concerned, it is clearly against our growth that we are targeting and the wins that we have had. So, it is not a ramp-up in anticipation of something.

Mr. Srivatsal: I will come back later for followup questions. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ganesh from Reliance Equities. Please go ahead with the questions.

Mr. Ganesh Duvvuri: This is Ganesh Duvvuri from Reliance Equities. Good results. My question is on the overall blended margins going forward. Looking at your hiring in the BPO business, it seems like there is going to be significant growth in your BPO business post the next two quarters, and if I look at your ITO business, your utilization is nearing peak levels and your hiring has not been that great in this quarter. So, going forward basis, if the BPO business outgrows significantly your Apps and ITO business, given that the margins are lower or in that business do you see margins diluting in the next year?

Mr. Ganesh Ayyar: Thanks for the question. First of all, I would not comment on how the business is going to shape up in the future. Our intent is to stay focused on delivering good profits and good EPS to our shareowners. Now, the mix of business is driven by the market conditions, but we do not look at or focus on one line of business as a compromise against the other line of business. That is not the way we look at our business because while to some extent at MphasiS we bind them together, but the competition and customer requirements are so very different that you cannot look at it in one big bucket. We see them as three different buckets and each bucket is expected to compete effectively and earn their right to be were they want to be.

Mr. Ganesh Duvvuri: Sure. Sir, if I just do the math, you have a 25% increase in employee base in BPO and assuming that they will start billing two quarters down the line, if I just do a simple weighted average, you know, basic calculations of margins, it shows me that your margins now could trend downwards going forward?

Mr. Ganesh Ayyar: I cannot question your math. When we look at Q3 results, hopefully, you can come to a conclusion that sometimes math also does not follow the businesses done.

Mr. Ganesh Duvvuri: Sure. Okay, the second thing is, your ITO business utilization is at 76%. I am not sure if, you know, employee utilization is a parameter to look at in that business, but how much more improvement do you think you can look at in your ITO utilization?

Mr. Ganesh Ayyar: You see, today ITO business is clearly doing well, both in terms of growth and profit.

Mr. Ganesh Duvvuri: Yes.

Mr. Ganesh Ayyar: Our model in business is clearly shifting more and more to outcome based model rather than just headcount based model. That being the case, I think productivity measures would be looked at very differently which will impact our profitability because when it is purely headcount based, productivity measures do not return enough to the company and to the shareholders. So, this is a positive shift that we are seeing and that is going to help our overall business. As far as ITO business is concerned, without going into any forward guidance, the fact that they have grown to the stage they have and we have done aggressive hiring in the prior quarter as well, if we look at how much we hired that shows that we are in a good shape.

Mr. Ganesh Duvvuri: Okay, and lastly on the BPO business itself, the margins have come off over the last three quarters very significantly despite your voice business coming down. So, I mean, do you see the margins bouncing back in that business or has that business changed structurally because of which the margins will remain at these levels?

Mr. Susanto  
Banerjee:

Typically the model of BPO business is such that it has to go through a transition phase wherein we incur the cost and do not get the revenues - so margins will automatically drop and that has been the situation. On the future projections, as you know we do not give any forward guidances, but yes, we have hired these people to cater to the new business and new deals, and hopefully this business is going to grow in the next quarters and time can only say and prove whether we are right or wrong.

Mr. Ganesh Duvvuri: Sure. Okay, thanks. I have more questions, I will come back in queue.

Moderator: Thank you very much sir. Next in line, we have Mr. Tarun from Anand Rathi Financial. Please go ahead.

Mr. Tarun Sisodia: Hello, this is Tarun Sisodia from Anand Rathi here. I just wanted some more highlights. You have given a lot on the logistics and the telecom front and airlines, just what is happening in healthcare because that is also one segment which has shown significant improvement and second is mostly on the bookkeeping side. What kind of rupee-dollar conversion rates that we have used for converting our revenues from dollar to rupee and earlier on you had given in the last quarter some kind of highlight on volume growth rate, if that is also to be highlighted on?

Mr. Susanto Banerjee: The healthcare and pharma business, continued its growth in this quarter. You can see that it improved from about Rs 528 million rupees to Rs 744 million rupees. It also increased the share of business from 5% to 7% among all the verticals. So, healthcare is clearly one of the verticals which is emerging for us and we have

continued to grow in that particular vertical over the past few quarters. On your second question regarding the conversion rate, the average exchange rate is approximately about 50.3 rupees to a dollar. But the impact of the exchange rate from Jan quarter to April quarter was not felt in the quarter's P&L because of losses on forward contract on the future revenue projections matured during the quarter.

Mr. Tarun Sisodia: And the volume growth rate?

Mr. Susanto  
Banerjee: On the volume growth, the total growth in the topline was 7% out of which the volume will be about close to 4%.

Mr. Tarun Sisodia: How would you see the volume growth rates between say Application, ITO business?

Mr. Susanto  
Banerjee: I will roughly tell you the numbers. It is about 5% sequential quarter growth in Apps, BPO is about 3.8%, and ITO is about 18.8%.

Mr. Tarun Sisodia: Right and on the healthcare part, what would have been the key growth drivers on the sequential basis like you said, there was a good airline win, etc. What kind of traction you are witnessing in the healthcare part, numbers of course I have already, thanks on that.

Mr. Susanto  
Banerjee: We have won a few deals on the healthcare side which is being ramped up and this is giving the growth in the healthcare area.

Mr. Tarun Sisodia: Right, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Dipen Shah from Kotak Securities. Please go ahead.

Mr. Dipen Shah: Thanks ma'am. My questions have been answered. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Nihar Shah from Enam Holdings. Please go ahead with the questions.

Mr. Nihar Shah: Hi sir, congratulations on a good set of numbers. I had three questions basically. One was, to know what is the current position of the forex contracts that are outstanding? The second was that your other income seems quite low for the cash on investments that you have on your balance sheet. So, if you could give us

some clarification on that. Where, your money is invested and why the sort of yields are a little low. The third is on the ITO margin. You have seen fantastic growth in your margins to roughly about 40% this quarter. Just wanted to know, what have been the margin growth drivers besides utilizations? That is it.

Mr. Ganesh Ayyar: So, I will take the third one, why don't you take the first two?

Mr. Susanto  
Banerjee:

Okay. Our forward contract position is close to about 375 million dollars. Our other income has definitely grown quarter-on-quarter. We are investing into liquid mutual funds. We have a balanced portfolio mix which is based on a governance framework that we have decided and we park our money both in short-term liquid mutual funds and also on the fixed maturity deposits. Obviously the mix is more towards the short-term liquid mutual funds and thereby you are seeing the growth in the other income.

Mr. Nihar Shah: Sure. And would most of this money be parked outside India or would it be within India?

Mr. Susanto  
Banerjee:

It is all in India.

Mr. Ganesh Ayyar: Let me take your question on ITO margins. The ITO results are phenomenal, but at the same time, I would like to see some investments into further growth. I mean, there was a gentleman who was asking me a question earlier that do I see the ITO growth trickling down. So, in that sense, I do not believe that the same level of margins can continue. I am not making a forward prediction, but I certainly would like to see that we invest a bit more, so that we can continue the growth.

Mr. Nihar Shah: Okay, thank you. That is all from my side sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Manik Taneja from Emkay Global. Please go ahead.

Mr. Manik Taneja: Good morning sir. Congratulations for the performance. Just had a couple of questions. Firstly, what would be the average hedge rate for our forex covers and secondly just wanted to understand, our unbilled revenues have once again moved up sharply during the quarter. Would you like to comment on that?

Mr. Ganesh Ayyar: I will probably get Susanto to comment on both, and I will chip in if I need to.

Mr. Manik Taneja: Sure sir.

Mr. Susanto  
Banerjee:

As we have taken the positions at different points of time, the average rate is between Rs 47.5 to Rs 48 as of now. On the unbilled revenues, we did reduce the overall DSO. Taking debtors, the invoice receivable and the unbilled receivable together we have got it down by about three or four days, but we continue to work on that and hopefully over the quarter we can bring it down further.

Mr. Manik Taneja:

Okay, and sir, any idea on what are your CAPEX expansion plans for the next year in terms of facilities?

Mr. Susanto  
Banerjee:

Our CAPEX is on a need basis and as such we do not have a number. Our investment in capacities whether it is facilities or whether it is manpower, it is fine tuned to the requirement based on demand projections. Only when we cannot fit them into our existing capacities do we take a decision for expansion.

Mr. Manik Taneja:

Okay sure, thank you sir.

Mr. Susanto  
Banerjee:

Thank you.

Moderator:

Thank you very much sir. Next in line, we have Mr. Nimesh Mistry from MS Global. Please go ahead.

Mr. Nimesh Mistry:

Hi sir, congrats on a good quarter. Just wanted to understand the, the kind of flattish growth, we have put up in Europe. I just wanted to know in rupee terms it is flat, what is the kind of growth you have put up in GBP terms in Europe?

Mr. Susanto  
Banerjee:

On a sequential quarter basis, it has remained flat. As I mentioned as a response to the first question on this earnings call, that has happened because of one particular European BFSI customer, a large one in the top ten, has given us less revenues in this particular quarter.

Mr. Nimesh Mistry:

Okay. Is this going to be the same scenario in the next quarter as well or do you expect the client to ramp-up again or you expect it to be offset by any other new projects picking up?

Mr. Susanto  
Banerjee:

We understand the uncertainties that prevail in the market. The demand situations vary because it varies with the customers' requirement. We work with multiple service lines, multiple service offerings, and multiple geographies, so that one takes care of any of the losses in the other dimension. That has been proved over

the past few quarters. Hopefully it is going to continue to give us the results in the future. We are not going to change our strategy or take away our focus from any of the dimensions that we are working with.

Mr. Nimesh Mistry: Right and my next question is on the billing rates, on-site billing rates in Apps business which had moved up since the last quarter. You had said that it will be or is largely because of some recent ramp-ups. How long do you expect that to sustain or now this is the base?

Mr. Susanto Banerjee: As I earlier mentioned, in this market situation, I cannot predict which is the base because the base keeps on changing, but the fact remains that the increase in the blended onsite rate happened because of Europe growing in the last quarter. However Europe remained flat this quarter, and we held on to the billing rates in this quarter over the last quarter.

Mr. Nimesh Mistry: Right, and finally, on the tax rate. Your tax rate has moved up from 3.2% on PBT to about 7.2%. Can you throw some light on that, I mean, is it going to move up straight again in the next quarter or you feel that this is the base.

Mr. Susanto Banerjee: As I indicated earlier some of our STPI units have come out of the tax holiday period. There are overseas entities that recouped their past losses and became profitable and hence taxable. So, the tax provision line moving up in this particular quarter is as a result of all these factors. Again we also have def tax which plays a role in the tax provision line. So depending on how the def tax plays quarter on quarter, the net tax position gets reported. So I will not be able to project or give you a guidance around what the tax rates are going to be quarter on quarter, but as I mentioned earlier, I think for your modeling purpose you can take about 6% to 7% for the financial year 08-09.

Mr. Nimesh Mistry: Alright Susanto. Thanks a lot.

Mr. Susanto Banerjee: Yes.

Moderator: Thank you very much sir. Next in line, we have Mr. Hiten Sampat from Om Stock Brokers. Please go ahead.

Mr. Hiten Sampat: Hello sir. Congratulations on your good numbers. Just a small question regarding the cash usage. The cash levels are going up, what are the possible usages for this?

Mr. Ganesh Ayyar: Well, we are certainly exploring all options available to us to put it to good use. When we have had a discussion, I will be able to

share it with you. I don't want to get specific because in the month end it is suffice to say that I want to make sure that we are able to deliver sustained results with sustained operational excellence. So we are looking at all possibilities and to ensure that the cash can be a particular lesson for lack of a better term to be used to enhance our accepting competitiveness.

Mr. Hiten Sampat: No, I was just adding to what my other colleagues in the call have been asking, you know, the treasury revenues have been coming down or quite low as compared to the cash levels that you have, so certainly it would be better off taking up decisions with regards to the usage of cash, so that you know the overall shareholder value improves considerably.

Mr. Ganesh Ayyar: So, that is absolutely a good suggestion regardless of the returns that you are seeing because I think that question was answered by Susanto earlier.

Mr. Hiten Sampat: Right.

Mr. Ganesh Ayyar: And I think I see this as a potential for us to enhance our sustained competitiveness.

Mr. Hiten Sampat: Okay, thank you sir.

Moderator: Thank you very much. Next in line, we have Mr. Hardik Shah from Asit C. Mehta. Please go ahead with your question.

Mr. Hardik Shah: Good afternoon sir. Congratulations on a good set of numbers. My question is can you throw some light on, in terms of competition you are facing from HP India, from getting the business from HP and EDS.

Mr. Ganesh Ayyar: Let me tell you, I am tracking many competitors in my radar screen, and I am not tracking HP India as a competitor. I track HP as a partner, and I don't track them as a competitor.

Mr. Hardik Shah: Okay sir. The second question is sir like in application business in spite of the increasing utilization level, we have seen some decline in the margins, so what is the main reason for that?

Mr. Susanto Banerjee: Yes, it has marginally declined in the application business. It is not on the manpower line, but it is on some of the costs which have come in, in this particular quarter. It is just marginal at 0.7% decrease quarter on quarter.

Mr. Hardik Shah: Okay sir. And third question is like BPO business, in which quarter you are seeing increase in manpower you are having this quarter. In which quarter, the billing will start?

Mr. Ganesh Ayyar: I think it is a great question, but it is in a way asking me to make a forward guidance, which I will refrain from making.

Mr. Hardik Shah: Okay sir. But what is the normal training period in BPO segment, if you are hiring this quarter, what is the training period for them?

Mr. Ganesh Ayyar: On training period, it depends on which area in BPO you are employing in. It ranges from anything from 45 days to 90 days.

Mr. Hardik Shah: Okay sir, thanks a lot.

Mr. Ganesh Ayyar: Yes.

Moderator: Thank you very much sir. Next in line, we have Mr. Kunal Sangoi from Edelweiss Securities. Please go ahead.

Mr. Kunal Sangoi: Yes. Thanks and congratulations on a good quarter. My question is last time you had indicated that you know for some of your top clients vendor consolidation progress was going on. Anything incremental that you can share on consolidation progress?

Mr. Ganesh Ayyar: The only incremental thing which at least Susanto alluded to that we have a lot as a part of vendor consolidation yet. Yes, it can happen, but so far in Q2, we have held our ground.

Mr. Kunal Sangoi: Alright. Second question is with regards to the non-EDS business, believe that we had initiated investments into that by hiring more sales guys. What has been the progress on that, how do you see the non-EDS, HP part of the business currently?

Mr. Ganesh Ayyar: So, let me correct the statement which you made. We did not hire these guys to grow non-EDS business. We hired sales guys to grow our business overall because our sales people do get involved, and they are treated equitably whether it is non-EDS or EDS business. So, our job is to grow our business and so far the fact that we continue to grow and regardless of whether it is through EDS or direct is the testimony that the previous...actually I take no credit for that, the entire management including my predecessors, the choices which they have made led to where we are.

Mr. Kunal Sangoi: Yes sir. My understanding was that probably the focus was more on the non-EDS side, but that was not as you say right?

Mr. Ganesh Ayyar: That was not. Our focus was on growth, our focus was on that we have to grow now in India.

Mr. Kunal Sangoi: Okay, and in terms of the BPO business also, when do you see this transition phase getting over and probably you know stability returning because obviously there have been indications by the employee growth that we have seen, but would you say it will take about 2 to 3 quarters more or probably 2 quarters should be enough for us to get on a growth part.

Mr. Ganesh Ayyar: First of all, I am not going to make forward guidance but we do have work cut out in BPO. We taken a series of steps I am not willing to say that three quarters is good enough or should we do it in one quarter. As agreed all of us would want it to be done in one quarter. But this said there are no inherent underlying problems in BPO business, but we do have our work cut out, so that we can accelerate the growth of both topline and bottomline.

Mr. Kunal Sangoi: Alright, thanks and good luck.

Mr. Ganesh Ayyar: Yes, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities. Please go ahead.

Mr. Sandeep Shah: Yes thanks for the follow up. Sir, just on the pricing, can you comment in terms of the renegotiation has been happened with the EDS as well as non-EDS client because in the EDS we also get to understand that some of the business is coming on a pre-fixed rate card, so in such a scenario is there any pressure coming on the billing rate in both the buckets of the revenues?

Mr. Ganesh Ayyar: Pressure on billing rates, is definitely on. I mean, that is the market scenario, we are not immune to it, and that is forcing us to be even more competitive and so the answer is yes.

Mr. Sandeep Shah: Okay, but has this been fully reflected in this quarter's result or just may be effective from the coming quarters?

Mr. Ganesh Ayyar: I would only be able to tell you that it is completely reflected in current quarter's result if all of us can conclude the economy as it revives. If you tell me the economy has revived, then I can say that it is probably fully reflected because we can't predict, and believe it or not, no customer says okay this is the final and I am not going to come back because they also face a very, volatile market. So our job is to stay on the toes, so I can't even say that it is fully reflected and it won't be reflected in Q3 because the market is such. Sandeep, so I am not avoiding the question, I am sharing with you the reality that we face in this market.

Mr. Sandeep Shah: Okay, but what I meant to say is whatever is renegotiated has been fully reflected in the quarter, that is what you meant to say?

Mr. Ganesh Ayyar: Our books are absolutely clean, so it reflects our state of our business.

Mr. Sandeep Shah: Okay, and second sir, right now, most of the outsourcing coming from HP-EDS seems like coming through EDS portfolio of the revenues, but any decision that HP taking over EDS, and there is a possibility of more ramp-up happening from the HP side of the portfolio?

Mr. Ganesh Ayyar: I don't see HP and EDS as two separate companies because HP has already acquired EDS on a global basis, and now with a country wide integration, I won't be able to comment on how they are doing it, but I view them as one partner, and one customer, of course with different models in place.

Mr. Sandeep Shah: Okay, thanks and all the best.

Mr. Ganesh Ayyar: Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Pratish Krishnan from DSP Merrill Lynch. Please go ahead.

Mr. Pratish Krishnan: Thanks and congratulations. This is the client additions. In terms of the service offerings, which areas would this be from, will it be more of a BPO or ITO, and is it possible to split you know in terms of where you have won more deals.

Mr. Susanto Banerjee: It is across the service lines. The 14 client additions that we reported in the quarter is across the three service lines - apps, BPO, and ITO.

Mr. Pratish Krishnan: Yes. You have also listed three specific that North American client, I mean, even this would be across or this would be like a specific vertical or specific offering.

Mr. Susanto Banerjee: No. It is mostly for specific service line.

Mr. Pratish Krishnan: Okay, I am just trying to get a sense of, in terms of the three segment offerings, I mean, where are you seeing more demand or more push.

Mr. Susanto Banerjee: The opportunities are available for all the three service lines. The question is whether we can tap the right opportunities and timely ramp it up after we sign up the deals. The intent is obviously to ramp up and to extend our coverage over clients across three service lines.

Mr. Pratish Krishnan: Sure, and in terms of the hedging strategy, I mean, today, what is the strategy, I mean, do you cover your P&L also?

Mr. Susanto  
Banerjee:

Yes. We do take forward covers on a part of future projected revenues in dollars and we continue to cover ourselves in that framework on a rolling basis.

Mr. Pratish Krishnan: Fine, and finally in terms of the tax rates, you know, what is the tax rate that one should assume for next year? I mean, till what time do you think the benefit of the deferred tax will continue?

Mr. Susanto  
Banerjee:

Deferred tax is a factor of capitalization. Our depreciation policies are very aggressive compared to the income tax depreciation norms. So as we capitalize we keep on adding to def tax assets. But the thing is on the overall tax perspective. If you are talking about, FY '10, - part of the year will be out of the tax holiday as 10A ceases to operate with effect from 1<sup>st</sup> of April 2010. So, part of the year will be a tax holiday period and part of the year will be a non-tax holiday period apart from the SEZ facilities that we have. Obviously the tax burden is going to be higher in the next year.

Mr. Pratish Krishnan: So, any number that you would like to share?

Mr. Susanto  
Banerjee:

We don't have a number because it depends on the mix of the business between STPI and SEZ that we can achieve in the next year. I would rather refrain from quoting a number for FY '10 as of now.

Mr. Pratish Krishnan: Fine. That is it from me, thanks a lot.

Mr. Susanto  
Banerjee:

Thank you Pratish.

Moderator:

Thank you very much sir. Next in line, we have Mr. Raunak Onkar from Parag Parikh Advisory. Please go ahead.

Mr. Raunak Onkar:

Hello. I just wanted to confirm the current position of forex contract number you gave, this is 175 million dollars, right?

Mr. Susanto  
Banerjee:

No, it is USD 375 million.

Mr. Raunak Onkar:

Okay, 375, thank you so much. Just a moment. Sir, this is Jigar from Parag Parikh Finance. Sir, you generally have around 45% of your business coming in from HP EDS and is it like the similar percentage for new contracts also, for the new contracts you have a higher percentage.

Mr. Susanto  
Banerjee:

On an average 40% to 45% of our revenues come from EDS-HP on account of either the captive work we do for them or on account of the sold business that is offshored to Mphasis. There is also another channel that we operate with EDS-HP which is the partnership channel. It is an outcome based model, and it is a market facing model, similar to the risks and rewards of the direct channel business that we have.

Mr. Raunak Onkar: Sir, one more question, journalist question. Sir, when you go and approach a new client, and a perspective client, the client perceives you like an MNC company, a part of HP EDS or does it like compare you more with Infosys and Patni?

Mr. Susanto  
Banerjee:

It depends on who the customer is, what the deal is and what is the play. Is it a global play or is it a local play. The engagement models permit to play our cards appropriately and we play our cards accordingly.

Mr. Ganesh Ayyar: To give you a slightly different perspective. To say Infosys is not an MNC is probably not accurate, right. So, we compete with them and the good news is that our competitors are good competitors, which keeps us focused on delivering quality and staying focused on operations excellence. Now, the advantage which we have is when we work with HP EDS, they are all pervasive in nature, but that business is not given on a silver platter to us, we had to compete.

Mr. Raunak Onkar: Yes, but otherwise, in terms of any perspective, does it really make a difference, I mean, if you can just give us some flavor in terms of what goes into the client's head when it looks at two companies from this perspective, like differentiate the companies from this perspective.

Mr. Ganesh Ayyar: Yes, obviously they see us as more of an offshore player. No question about that, and they also see value when we join hands with HP EDS because you know they are more present in many countries and they have a long established relationship, so to say that the customer views us one way and does it stick to us as positive or negative, yes I mean they view as an offshore from India, with the parentage of HP/EDS.

Mr. Raunak Onkar: Thank you very much sir.

Moderator: Thank you very much sir. Next we have Mr. Yogesh Parikh from LKP shares. Please go ahead.

Mr. Yogesh Parikh: Congratulations on good set of numbers sir.

Mr. Ganesh Ayyar: Thank you.

Mr. Yogesh Parikh: Sir, actually, I would like to know your view, how the things have changed from the HP EDS strategy point of view post the Obama's comment against the restriction on the H1b visas for the foreign MNCs?

Mr. Ganesh Ayyar: Actually, I don't have any specific comment on that because I think that is a big question which you should pose to HP/EDS rather than posing to me.

Mr. Yogesh Parikh: That is it from me, thank you.

Mr. Ganesh Ayyar: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Ravi Bhatia from Aviva Life Insurance. Please go ahead.

Mr. Ravi Bhatia: Sir, I heard you mentioned about 14 new clients addition of which 13 have come from the HP relationship, is that a correct number?

Mr. Ganesh Ayyar: Yes.

Mr. Ravi Bhatia: Okay, could you just elaborate, is this a first in terms of the number of clients coming from HP is almost the total of the overall, is this something new in this quarter, and has this been the kind of trend that has been seen in the last few quarters as well?

Mr. Susanto Banerjee: We are growing faster in the partnership channel with EDS/HP. We do have new contracts with new customers in our direct channel as well every quarter.

Mr. Ravi Bhatia: And billing to these clients would obviously figure in the non-HP/EDS part of the business or is this an....?

Mr. Susanto Banerjee: I explained the engagement model a little while ago. This is all on account of partnership channel business that we operate. We bill to HP/EDS and they bill to the final customers, but these are all done at the outcome based pricing model, which is market facing, and whereby risks and rewards are very similar to the direct channel business that we have.

Mr. Ravi Bhatia: Okay, and after 45% that comes from HP/EDS channel, how much would be the direct work for HP/EDS and how much would be this partnership model?

Mr. Susanto Banerjee: The 40% to 45% of our revenues is a combination of two channels. One is a captive ranging between 12% to 15% and the

remaining out of that 40% to 45% is the sold business of the EDS/HP which migrate offshore to Mphasis, and there is a third channel over and above this, which is a partnership channel.

Mr. Ravi Bhatia: Okay, alright.

Moderator: Thank you very much sir. Next in line, we have Mr. Krudant from Valley Quest Research. Please go ahead.

Mr. Krudant: Sir, congratulations on a good set of numbers.

Mr. Susanto Banerjee: Thank you.

Mr. Krudant: Sir, just wanted to know you have hedged 375 million dollars at what rate?

Mr. Susanto Banerjee: We have taken these positions at various points of time. The average rate will be about Rs 47.5 to 48.

Mr. Krudant: Rs 47.5 to 48, okay, thank you sir.

Mr. Susanto Banerjee: Thank you.

Moderator: Thank you very much sir. Next, we have Mr. Dipen Shah from Kotak Securities. Please go ahead. Mr. Dipen Shah, your lines are open. You can go ahead with the questions. As there is no response, we will move on to the next one. Next, we have Mr. Gaurav Jain from Barrow Capital. Please go ahead.

Mr. Gaurav Jain: Sir, stock has traded at a discount compared to your competitors for some time. Is there something that you think you can do to narrow the discount considering that you have actually outperformed all of them in the last few months?

Mr. Susanto Banerjee: You need to tell us what is the reason. We can only perform. The stocks depend on other factors beyond our control.

Mr. Ganesh Ayyar: I can also give you a different spin. I think as a team, we are focused in delivering performance and consistent performance, and I would not like to focus on our stock price as an input into our performance because when you start as a CEO or the CFO you start focusing on the stock price, you may not be building a sustained performance model, and whether the P/E ratio is in line with the rest of the industry or not, I think that is dictated by market

sentiments and all experts who are on this call I will leave it for all of you to manage the P/E ratio. We will manage the performance.

Mr. Gaurav Jain: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Murali from Franklin Templeton. Please go ahead.

Mr. Murali: Just a quick question on the compensation for the senior management. Can you give us a color on how you guys are compensated in terms of the stock options? I mean is it through MphasiS stock options or do you have the parent stock options also?

Mr. Susanto Banerjee: We have parent stock option for senior management which is granted on the performance of MphasiS. Also our compensation includes variable incentive which is linked to MphasiS results.

Mr. Murali: Okay, but no MphasiS stock options.

Mr. Susanto Banerjee: MphasiS stock options is not part of senior management.

Mr. Murali: Okay, and may I know the reason for that?

Mr. Ganesh Ayyar: But that does not change our view of our focusing on delivering sustained performance.

Mr. Murali: Okay, thanks a lot.

Mr. Ganesh Ayyar: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Atul from Tata Mutual Fund. Please go ahead.

Mr. Atul: Congratulations for the good numbers.

Mr. Ganesh Ayyar: Thank you.

Mr. Atul: Just for my understanding sir. When you say you have got 13 clients through EDS channel, the work has been shifted from EDS or the EDS Group as a whole got these new clients?

Mr. Susanto Banerjee: We work on the partnership model. So MphasiS and EDS HP has responded together with the customers and have won these deals together. The front-ending is done by EDS HP. The contract is

signed by EDS HP with the customers, and we operate with EDS HP under the MSA.

Mr. Atul: Okay, and is it not like that EDS is already working with these clients, and that part of the existing deals has been shifted to Mphasis.

Mr. Ganesh Ayyar: No, I think as Susanto elaborated, there is a joint partnership which we engage on deal-by-deal basis.

Mr. Atul: Okay, so these are through new deals and not the deals which EDS is already working on.

Mr. Susanto Banerjee: Correct.

Mr. Atul: Okay thanks. And sir, second question is are there any efforts on integration with HP India in terms of realizing synergies in SG&A or other parts?

Mr. Ganesh Ayyar: No, we are a separate company, and we have no such thing. The answer is no.

Mr. Atul: Okay. Thank you sir.

Mr. Ganesh Ayyar: Thank you.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Srivastal of Spark Capital, Chennai. Please go ahead. Mr. Srivatsal, your lines are open. You can go ahead with the questions.

Mr. Srivatsal: The 375 million dollars of hedges we have, what would be the tenure of it as in what is the maximum period when they expire?

Mr. Susanto Banerjee: We do a 12-month on a rolling basis. So currently I think we are covered till about April-May 2010.

Mr. Srivatsal: Okay, sure, and then what proportion of your revenues would be coming in from SEZs.

Mr. Susanto Banerjee: This was roughly about 20% to 25%.

Mr. Srivatsal: Okay, thanks a lot.

Moderator: Thank you very much sir. Next, we have a followup question from Mr. Ganesh of Reliance Equities. Please go ahead.

Mr. Ganesh Duvvuri: Yes, thanks again. Just one question, do you jointly work with the HP India captive on any assignment?

Mr. Ganesh Ayyar: Let me answer the question slightly differently. How HP and EDS distribute the work is they have a competency model based on which they distribute the work. So when you are talking about HP India in perspective of referring to the HP's Global Delivery Center and not HP India which is focused on domestic business, am I right?

Mr. Ganesh Duvvuri: Right. I am talking about the global center here.

Mr. Ganesh Ayyar: The global center has a model based on which the work gets distributed. It is based on competency and track record, which is what HP uses to distribute the work.

Mr. Ganesh Duvvuri: Okay, so there are no assignments on which you two work jointly.

Mr. Ganesh Ayyar: No. But that is facilitated by HP depending on where the deal is, right. So if a deal requires a set of competencies where Mphasis has earned the right to do business, and at the same time there are certain competencies which they need from the Global Delivery Center in India from HP, they will combine both, and then we work jointly.

Mr. Ganesh Duvvuri: Okay. So, you both don't have to bid against each other for any assignment?

Mr. Ganesh Ayyar: There was a question, I think, I don't know who asked me whether I look at HP India as a competitor, am I tracking them.

Mr. Ganesh Duvvuri: Yes.

Mr. Ganesh Ayyar: I look at them as a partner, and anyway the Global Delivery Center directly does not work on deals. The deals are worked on in HP model in the country where the sales force is and Global Delivery Center has some good competency and capability and track record, which gets pulled into the delivery model of HP.

Mr. Ganesh Duvvuri: Sure, thanks a lot.

Mr. Ganesh Ayyar: Yes.

Moderator: Thank you very much sir. Next, we have a follow up question from Mr. Tarun of Anand Rathi. Please go ahead.

Mr. Tarun Sisodia: I am uncertain on that ESOP component, while I am sure its in your targets asset only, Mphasis on all, I just wanted to understand legally how is the Mphasis able to give HP stocks, stock option.

Mr. Susanto Banerjee: Mphasis board does not give HP stock options. It comes from HP to the senior management. So from your perspective the answer is that we are targeting ourselves on the Mphasis results and numbers, and that is how our variable portion of our compensation is tied up and that is a substantial portion. Moreover these stocks are granted based on Mphasis performance.

Mr. Tarun Sisodia: Right, and HP board gives you the ESOP, so it means you are reporting there also?

Mr. Susanto Banerjee: No, our numbers obviously get consolidated to the HP numbers as well. So it is just a part of the consolidation process that HP performs at their corporate office. Obviously our numbers will impact HP results to a certain extent, but to what extent does it impact, I don't know.

Mr. Tarun Sisodia: Okay.

Mr. Susanto Banerjee: But it does impact.

Mr. Tarun Sisodia: Sure. Thank you.

Mr. Susanto Banerjee: Yes.

Mr. Ganesh Ayyar: Let me just add one more point. If you look at previous few quarters, and the results, the compensation model has not changed. Coming back to the fact that the behavior of senior management is focused on delivering results, and earlier when this question was asked, I said I don't know, the reason is that you know it has not changed any one of our outlook or behavior around focused on results.

Mr. Tarun Sisodia: Sure. No, I just wanted to understand from legal perspective how is Mphasis able to allot HP stocks, that is why.

Mr. Ganesh Ayyar: Okay.

Mr. Tarun Sisodia: Okay, fine, thanks.

Moderator: Thank you very much sir. The final and the followup question comes from Mr. Sandeep Shah of ICICI Securities. Please go ahead.

Mr. Sandeep Shah: Yes sir, just on the Apps side, I think we have outperformed the industry during the past several quarters. Just wanted to check whether the pipeline on the Apps side is remaining versus our

earlier quarters, or there is an expectation that now going forward because of the macro challenges, we may also need to caution about in terms of our Apps business.

Mr. Susanto  
Banerjee:

I would not comment specifically on Apps business and my point is that the markets remain uncertain. Remaining prudent is important and the fact that we have grown today should not make us overconfident in one way or the other. So, we intend staying focused. Our focus would be to continue to deliver profitable growth to our shareholders.

Mr. Sandeep Shah: Sir, any growth pattern has been changed versus comparison one or two people in the quarters gone by.

Mr. Ganesh Ayyar: No pattern. I don't see any significant difference except the fact that the positive news is that ITO has been growing significantly over the past few quarters.

Mr. Sandeep Shah: Okay. Sir, now, one can assume that the Apps may be the following behind the ITO or in terms of growth rates in the coming quarters?

Mr. Ganesh Ayyar: Sandeep, I can't help you with your assumptions. I can only help you with results.

Mr. Sandeep Shah: Okay. Thanks and once again congrats on a good quarter.

Mr. Susanto  
Banerjee:

Yes.

Mr. Ganesh Ayyar: Thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Hitesh Shah for final remarks.

Mr. Hitesh Shah: On behalf of IDFC-SSKI, I would like to thank Mphasis for getting this opportunity to host the call, and also thanks to all the participants for dialing in. With that, I now hand over the call to management for the closing remarks.

Mr. Ganesh Ayyar: Thank you very much. I do take the opportunity to once again thank everybody, who joined this call. I see this as a close partnership. I did take lot of learnings and feedbacks from the type of questions that you have asked. As I said, our commitment would be to stay focused on operational excellence and focused on profitable growth, and obviously I am thrilled with the fact that we have exceeded Rs1,000 crores in the last quarter, and this has been made possible by 33,000 people in Mphasis, so I am very,

very thankful to them as well. So, thank you very much once again, and have a great day.

Moderator:

Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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