



Mphasis Q3-FY09 Earnings Conference Call

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Moderator: Ladies and gentlemen good morning, good evening and welcome to Q3 Earnings Conference call of Mphasis hosted by HSBC Securities & Capital Markets. As a reminder for the duration of this conference 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 call please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Yogesh Agarwal of HSBC. Thank you and over to you sir.

Yogesh Agarwal: Thanks. Good morning everybody. On behalf of HSBC I welcome you all to the Quarter 3 earnings call of Mphasis. We have with us Mr. Ganesh Ayyar, CEO Mphasis and Mr. Ganesh Murthy, Group Chief Financial Officer to review the performance of the company for the quarter and address questions thereafter., Before we start the call I would like to extend a special welcome and introduce everyone to Mr. Ganesh Murthy since he took over as a CFO of Mphasis effective 15th July 2009. Mr. Ganesh Murthy has over 23 years of experience working in finance across diverse industries like FMCG, consumer durables, and IT

industry. Since 2004 Ganesh Murthy has been worldwide Finance Director of Global Delivery Application Services at HP. Through his career Ganesh has worked for some of the best known brands in the business such as Wipro, Texas Instruments, Gillette, ITC and Thompson. Welcome Mr. Ganesh Murthy. Now I request Mr. Ganesh Ayyar to make his opening remarks. Over to you sir.

Ganesh Ayyar:

Thank you very much. Good morning everybody. I also want to add a welcome to Ganesh Murthy for his first earnings call and want to thank Susanto who has been doing a fantastic job here..

This is an important call and I am delighted that we have had a very strong quarter and this is also a reflection of sustained results that we have been delivering in Q1, Q2 and Q3, and we continue to stay focused on execution. During this quarter our top customers continued to stay invested with us and we saw the relationship deepened. Building long term and deep relationship remains an ongoing focus for us. Our recent agreement to acquire AIG Systems Solutions is in line with our decision to have greater depth and breadth in focused verticals such as insurance. We will continue our drive to add greater value to our customers. An acquisition like this was made possible due to strong and sustained performance. We have a detailed plan for integrating this business and to maximize the value. We expect the first stage of integration to be completed in the coming quarter or which is Q4 for us.

Before I move on to share the financial highlights, I thought it is important that we share with you our voice of employee survey.. We had a record breaking participation from our employees and it showed a marked improvement in our employee score. That is a very important contributor to our ongoing success.

Now let me move on to key highlights of our financials. Let me start with year-on-year view.

For the quarter ended July 31 2009, Mphasis group consolidated revenue was Rs 1,105.6 Crores, as compared to Rs 776 Crores in the same quarter last year, registering a growth of 42.5%. Operating profit was Rs 240.6 Crores, a growth of 132.8% over the same quarter last year. During the same period net profit increased by 127.7% from Rs 100.7 Crores to Rs 229.2 Crores. EPS increased to Rs.10.96 an increase of 126.9% over the same period last year. During this period ITO

witnessed 86.6% revenue growth while our Applications and BPO services recorded 42.3% and 12.7% growth respectively.

Let us move on to sequential quarter view. Our growth story is marked by the increase in volume despite an appreciating Rupee quarter-on-quarter. Consolidated revenue for the quarter ended 31st July 2009 grew by 5.4% compared to Rs.1,048.5 Crores in the previous quarter. Operating profit grew by 6.2% quarter-on-quarter to Rs.240.6 Crores. Net profit increased to Rs 229.2 Crores for the quarter ended 31st July 2009 as against Rs.224.5 Crores for the quarter ended 30th April 2009 registering a growth of 2.1%. EPS increased by 2% from 10.74 last quarter.

For the nine months revenue grew by 50.4% to Rs.3,131.7 Crores for the period ended 31st July 2009 with ITO revenue doubling during this period. Operating profit was Rs 677.7 Crores an increase of 193.7% over the corresponding period last year. Net profit percentage increased by 191.4%.

Let us now talk a little bit about the lines of business. The Application Services business was steady with the revenue growth of 5.2% quarter-on-quarter. We concentrated on delivering best of these solutions to the market place leveraging on domain knowledge. The recent acquisition of AIGSS falls fully within the application services domain.

Our Infrastructure or ITO business has been the fastest growing business for us in the last few quarters and for Q3 contributed 19% of our business. The business continued to do exceptionally well this quarter too, revenue recording a 8.9% growth quarter-on-quarter. The ITO growth story this quarter is marked by growth in volumes, higher profitability, improved billing rates, due to the mix and improved maintain productivity by 2% to 78%. Our biggest partner and customer in this business has been HP/EDS and we continue to win from this partnership.

Our BPO business is one of our oldest and well established business. The BPO market itself has evolved and Mphasis is reinventing its BPO capabilities to capture customer mindshare. We took a significant decision in this direction. This quarter we appointed our Head of Global Sales Raj Patil as the President of our BPO business. The net profit in

our BPO business grew by 62.8% quarter-over-quarter. BPO revenue increased by 2.6% quarter-over-quarter.

We continue to build capabilities around key verticals. BFSI was our major vertical contributing 40% of our revenue for the quarter ended July 31 2009. Healthcare and pharma now account for 8% of our revenue up from 4% last year.

Share of revenue from USA was at 66% while revenue from Europe remained at 20% range. The APAC, India and Middle East, now account for 14% of the revenue.

We saw a good growth in contribution from our Top 10 clients this quarter. 9 clients now account for annualized run-rate of \$20 million revenue per year.

During the quarter ended 31st July 2009 the group added 7 clients across verticals including a leader in consumer products, a healthcare service provider and an established telecom provider.

The groups net head count was 32,753. The high employee utilization levels of previous quarter was sustained with ITO showing a 2% growth quarter-on-quarter We adopted a cautious approach on hiring especially with impending integration of the acquisition and also focus on growing our profitability around BPO business. This approach is reflective of our focus on people.

So let me just close with some points to summarize. We delivered above market performance 3rd quarter in a row this fiscal year and we have one more quarter to go. We made organizational changes to strengthen our BPO leadership and to improve our revenue and profit growth around this business. We made an acquisition to strengthen our ability to add greater value to the insurance vertical thereby strengthening our largest business which is our applications business. Our ITO business grew from strength to strength with industry leading growth of revenue and profit. An appreciating rupee, economic crisis and uncertainty in the market put tremendous pressure on us. Unwavering focus on execution excellence helped us. People are our biggest assets, managing that with prudence and with the impending integration of AIGSS were reflective of our focus on people. Our cost prudence continued and our cash balance improved quarter-on-quarter.

Cash balance increased to Rs.649.9 Crores as on 31st July 2009 from Rs 355.5 Crores last quarter.

I wanted to share some of the awards or some of the recognitions that we have got for the last financial year., Dataquest rated Mphasis as one of the top 20 IT companies in India and we were the fastest growing among the 20 companies. NASSCOM rated us Number 7 among the top exporters. This business ultimately is about day-to-day executions and very, very granular focus on cost. We are thrilled we have delivered a strong quarter but we do not intend to rest on our laurels and we will continue our focus. We thank you for your continued support through our journey of growth. With that I would like to open the floor for questions. Over to you.

Moderator: Thank you sir. Ladies and gentleman we will now begin with the question and answer session. Anyone who wishes to ask a questions may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use 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 Tarun Sisodia from Anand Rathi. Please go ahead.

Tarun Sisodia: Congratulations on a good set of numbers. I would just like to get some clarification on the taxation issue. It is substantially lower even from the previous quarter now?

Ganesh Murthy: As you know the fringe benefit tax has been abolished so we reversed the fringe benefit tax provision for the month of April so that contributes to a lower tax figure.

Tarun Sisodia: That is the only reason why taxation has gone down?

Susanto Banerjee: There is another reason Tarun. As you know the STPI benefits have been extended by another year The deferred tax assets that we use to recognize has also come down and as a result of which the tax provision has gone up, netted off by the impact of abolition of fringe benefit tax in the recent budget. And if you look at the quarter-on-quarter tax, the variation is about Rs 2 or 3 Crores that it is down by.

Ganesh Murthy: That is right .Rs 2.9 Crores.

Tarun Sisodia: Yes.. The other one was on the business part of it and the BPO last quarter you had done significant addition of people and this quarter there has been a decline. So was there any expected ramp-up or new contract in that you were looking forward to, any color you can throw on that?

Ganesh Ayyar: Let me give you two factors. The first factor is usually you see higher level of attrition during this period due to seasonality because schools and colleges at higher level of education open during this time. So we have typically seen higher level of attrition. We were focused on improving both the growth and profit in this particular business so that focus was retained. As a result utilization rate went up and that was a deliberate move. It has less to do with expected projects not coming through but more to do with how we dealt with the headcount situation and how we focused on improving profit.

Ganesh Murthy: And to add to that you will also see that because of the higher utilization which has gone up by 2%, you will also see higher volumes leading to revenue increase of 2.6% quarter-on-quarter from the BPO segment.

Tarun Sisodia: So you are expecting 2% at the volume growth rate?

Ganesh Murthy: 2% is increase in utilization.

Tarun Sisodia: In the utilization, have effectively the volume portion which would come into picture?

Ganesh Murthy: Yes.

Tarun Sisodia: And can you throw some color again on these clients apart from your top 10 because the top 10 definitely have ramped up quite significantly but what is happening beyond that?

Susanto Banerjee: If you look at the client concentration, Tarun, it is the \$20 million plus clients that have improved on their wallet share. And there have been the increase in the share of \$1 million clients as well. As a result, the overall spread and overall client concentration that we wanted to achieve is moving closer to our targets.

Moderator: Thank you Mr. Sisodia. Mr. Agarwal would you like to go ahead with your questions while we wait for question from participants.

Yogesh Agarwal: Firstly on the pricing I see the pricing was sustained this quarter as well outside BPO and you have been talking about pricing pressure for sometime, just trying to understand what is helping you sustain this pricing pressure and what is the outlook going forward both for BPO and outside BPO?

Ganesh Ayyar: It is actually not. It is a tough balancing act which one has to do. When you read the numbers and when it looks that it remains the same somehow it gives the perspective that things have remained static, that is not true. We have been subjected to the same harsh realities of market like anybody else. Now how do you make sure that your billing rates remain where they ought to be, is about looking at your portfolio mix which adds greater value to your customer and ensuring that portfolio mix get greater share of the pie, thereby the pricing reduction does not result in billing rate reduction if I may and that is about balancing act. And that is what we have been doing. In some cases we have done it better than the other. So I will take an example. If you look at the ITO business, it consists of predominantly - a higher value business, you can classify one as premium, the other one is normal type of value business. So obviously we have pushed very hard to grow our premium business not at the expense of a normal business but more premium business. The moment the shares start going up, your billing rates actually go up - that is what you are seeing in ITO business. So it is about managing the details and also looking at how you can continue to promote business which gives greater value to the customer and greater revenue to Mphasis and as a result greater profitability.

Yogesh Agarwal: Right okay. And I do not know how much you will be able to comment on this but there were some news articles yesterday where HP suggested divesting the BPO business. That will be hard for you to comment on their strategy but in case that is for real what is the kind of implications you think would be on Mphasis?

Ganesh Ayyar: I cannot react to a speculative news report and come out with the strategy. So first of all I would not like to comment on whether it is HP's stand or whether it is HP's decision and secondly I have not developed a strategy based on this news report.

Yogesh Agarwal: Okay thanks, that is it from me.

Srivatsan Ramachandran: Just wanted to take your sense on the utilization rates. You have been operating pretty high utilization rates both on onsite and offshore. Do you think this kind of high utilizations rates is sustainable over the next four to six quarters kind of timeframe?

Ganesh Ayyar: Well Srivatsan, it is not easy and so predicting that will be tough. But that is the fundamental of business that we need to manage because you have to manage the utilization, the business mix, so ultimately it is down to basics. Now many a time you know you do not succeed in doing that. Sometimes you succeed so it is about choosing the areas which you can play with and at the same time managing your overall workforce. So it is all about making sure that you are focused on profitable growth and do not end up actually taking out employees because they are our asset and that is what we have done in the last nine months and that will continue to be our focus.

Srivatsan Ramachandran : Okay, just going back to that question on pricing, so if you have to compare on a like to like basis ,service to service if I was doing an ASO based programming or a C+ programming on like to like basis are you seeing pricing drops actually?

Ganesh Ayyar: Yes.

Srivatsan Ramachandran : And is it possible to give some range?

Ganesh Ayyar: No it varies from contract to contract and honestly we are no different from any other player in the industry because we are dealing with the same set of customers and all of us are professional companies. It ranged anything between 7% to 12%. I mean I am giving you a very wide range but it is also about managing the cost. Of course it does not help you with the billing rates but it helps you with the overall profitability.

Srivatsan Ramachandran : Okay. The revenues from top 10 clients have increased pretty well. What is driving the work? Is it incremental wallet share within these clients or are you opening up new tech spend or you are winning deals, more business from grabbing what could have been other offshore vendors business. What is driving the growth especially in the top 10 clients?

Ganesh Ayyar: It is our focus on wallet share and secondly our partnership with HP/EDS. Both are helping. During these times retaining you customer is

very important. So as I mentioned earlier we have remained focused on not losing our customers and so far we have managed to retain those customers despite vendor consolidation and all those activities that has been taking place. So we have gained wallet share from these customers.

Srivatsan Ramachandran : Okay. And when will the AIG acquisition start reflecting in numbers. I mean when do you expect to consolidate your numbers?

Ganesh Ayyar: We do not have a precise date, Srivatsan. We, believe that it will get completed in Q4.

Srivatsan Ramachandran : So from Q1FY2010 we might see it in the numbers?

Ganesh Ayyar: That is my hope too.

Srivatsan Ramachandran : Okay and just one last question is there any major MSA that is coming up for renewals, over the next two to three quarters that could kind of hit the pricing or the SLAs that we have guaranteed?

Ganesh Ayyar: Now price reduction , is not related to MSA during this time , because even customers whose MSA was not coming up for renewals had a very honest discussion with us, to see how we can help them during this crisis. In some cases we have clearly responded where we could, because ultimately we see this as a long-term relationship. But as far as I am concerned this is something which we will always stay on the edge and we cannot run away from it.

Srivatsan Ramachandran : Okay sir, thanks a lot and all the best for future.

Ganesh Ayyar: Thank you.

Moderator: Thank you Mr. Ramachandran. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: First of all, on the acquisition that we have made, if you could just share some financials on the revenues and the margins for that entity as well as is there any assured revenues coming in from that acquisition. And apart from that also wanted to understand the demand environment specifically to Europe and Asia Pac because when we look at your numbers Asia Pac has lead the growth in revenues during the quarter, just wanted to understand that. Thank you.

Ganesh Ayyar: Manik, thanks for asking the question., Let me start with the second question first, which is the geographic growth. We clearly have invested in Europe sales force. This decision was made close to 12 months ago and that is what is beginning to show results. And we have work cutout for us in APAC region. I am glad that we have grown but at the same time I believe that we need to do lot more to get our fair share of business. But I will not say that I am satisfied with what we have seen so far. Let me move on to AIG question., I will not be able to divulge anything relating to the consideration amount and revenue and profitability of that business because we have chosen to stay silent on that. And the reason is very simple. We believe it is a great acquisition in terms of capability and that it brings in the insurance vertical, it is complimentary in nature. It not only gives us greater access into AIG it truly sets us as a major player in the insurance vertical. And I believe that this business is going to have opportunity for us to grow. So I am not commenting on the revenue and let me comment on the one point which you asked, if we have assured revenue from them. Our assured revenue comes from the fact, the type of services that we are providing is not legalistic in nature but it is based on the value that we bring to our customer.

Manik Taneja: Okay. And sir what was the average realized rate, exchange rate for the quarter?

Susanto Banerjee: The average exchange rate is about 47.5.

Manik Taneja: Okay, sir. Carrying on the question that one more speaker asked before me, what kind of tax rate should be building going forward for next financial year as well as for next quarter?

Susanto Banerjee: I think last time we spoke about this. After that the budget announcements came and STPI got extended by one more year. At the same time, lot of our units are coming out of the tax holiday period of 10 years. And there is the growth business that is moving into SEZ. So for your modeling purpose maybe you can take about 10% for FY2010 for the tax.

Manik Taneja: Okay thank you, that is it from my side.

Moderator: Thank you Mr. Taneja. The next question is from the line of Sajit Pisharodi from Kotak Mahindra Asset Management. Please go ahead.

Sajit Pisharodi: Good morning. Congratulations on a very good set of numbers sir. We have acquired a insurance business. You said it is a great acquisition and it fits into our thing. I just wanted to check if there are any gaps you view in any of the verticals or any new verticals you would want to scale up either organically or inorganically. Can you comment on that?

Ganesh Ayyar: I mean, do we have gaps? Absolutely.

Sajit Pisharodi: Which areas would be that sir?

Ganesh Ayyar: We have gaps in many verticals. The question is whether we want to fill those gaps as part of our strategy or not. So do we have gaps? Yes. Are we focusing on certain verticals? Yes, but I would not want to say as to which verticals I am going to go after. What I commit to you is the moment it happens I will share with you the rationale and even in case of AIGSS as we integrate and as we start delivering results that is what we are going to focus on rather than telling the world what we are going to do because that is not the way I want to approach it. I want to deliver results and share what has happened rather than what is going to happen..

Sajit Pisharodi: So the way we want to build up vertical or whichever gaps is there, would we be looking through organic or an inorganic growth?

Ganesh Ayyar: It is always an option whether you want to build or you want to buy, right. And when you buy there are certain risks associated with it. So it's back to basics and that is what we will focus on. The good news is with our strong cash position at least we are able to entertain the Thought. And it gives us an option and we are not averse to any good option.

Sajit Pisharodi: Good, thank you sir, all the best.

Moderator: Thank you Mr. Pisharodi. The next question is from the line of Dipen Shah from Kotak. Please go ahead.

Dipen Shah: Yes I had two or three issues. First of all could you just guide us on how the business has been from HP and the HP led business in terms of the proportion of revenues and how it was in the previous quarter?

Ganesh Murthy: HP business has been pretty good and the proportion of overall revenue is somewhere around the same as previous quarter - around 69%

comes from the HP business. And we have the direct customers which continues to remain at 31%. But HP is an important partner for us and we have the partnership model where we go to market jointly with HP and this has been increasing ..

Dipen Shah: How much of business actually comes from HP itself?

Ganesh Ayyar: You mean as an end customer?

Dipen Shah: Yes as an end customer

Ganesh Murthy: About 10% to 12%.

Dipen Shah: Okay. Right that is one part. The other part is in the BPO we have seen in the previous quarter we have added good number of employees. In your assessment or maybe actual how much of that employee base has become billable and how much do you think should come up in the next quarter. The whole intention is that do we expect some good revenue growth in the next quarter in BPO because our expectation was that we could have seen some better growth in the current quarter looking at the 12% to 13% increase in employee base in the previous quarter?

Ganesh Ayyar: Personally I would certainly like to see BPO business growing and also improving on profit front. It is not the easiest business to turnaround on a quick basis because gestation period of winning a deal to revenue recognition can be anything between six to nine months. So that is why you know some of the changes that I have made is in line with that thinking because I certainly would like to spur this business in a different direction .So all I would say is please stayed tuned and then you will see how it evolves.

Dipen Shah: Okay, alright we will definitely stay tuned. The last part was regarding the volume growth, We have a 5.4% revenue growth. Could you just split it up into volume growth realization increases and the exchange impact?

Susanto Banerjee: The net increase in the revenues is 5.4% and out of which the exchange has an impact of close to about 1.2% net of the hedge and the balance is volume and the mix.

Dipen Shah: Okay, fair enough. Alright thank you I will come back for more later. Thank you very much.

Susanto Banerjee: Thank you.

Moderator: Thank you Mr. Shah. The next question is from the line of Shraddha Agarwal from B&K Securities. Please go ahead.

Shraddha Agarwal: Hi sir just on the earlier question, you said the realized rate for this quarter was close to 47.5 and if I recall right the last quarter's exchange rate was close to 50.3 so there has been a change of close to 5% to 6% on the average realized rate plus still we have managed a revenue growth of 5% so how did we actually manage such a strong volume growth because if I look at the net employee count it has declined by 3% sequentially so what has added to the revenue growth?

Ganesh Murthy: So what has happened is we have experienced higher utilization especially in the ITO space as well as in the BPO space and this has contributed to an increase in our revenue. And just to put it in perspective the effective exchange rate including after the hedging in the Quarter 2 was 49.43 and this has dropped to 47.73 in this quarter.

Shraddha Agarwal: Okay, but that would still mean a 4% to 5% Rupee appreciation against Dollar?

Ganesh Murthy: That is correct.

Susanto Banerjee: So the balance is on account of volume and essentially the utilization we spoke about. The head count did not increase but the mix changed as a result of which the revenues went up.

Shraddha Agarwal: So could you elaborate more on the mix as in what kind of mix changes you have witnessed in this quarter?

Susanto Banerjee: So it is both in terms of the business mix as Ganesh Ayyar earlier explained. It runs off the premium business and not so premium business. Also in the T&M business the mix of levels changed and as a result of which you see a great increase in the ITO business by a Dollar which is primarily on account of the mix. So that has increased the revenues

Shraddha Agarwal: Okay. Sir and could you elaborate more on your hiring policy for FY2010 as to what is the number of gross adds you would want to add and on both the BPO front and the ITO front?

Ganesh Ayyar: I do not have a hiring policy along those lines. My hiring policy is when I hire I should not be hiring with a near term financials in mind because ultimately employees make us successful. So even during the crisis we have refrained from doing any retrenchment. So in that sense we will hire based on demand pattern, rather than setting a goal for our selves that we are going to be so many employees by next year.

Shraddha Agarwal: Sure sir, that is helpful. Thanks.

Moderator: Thank you Ms. Agarwal. The next question is from the line of Sandeep Shah from ICICI Securities. Please go ahead.

Sandeep Shah: Yes sir, congrats on a good set of numbers. Just on the pricing can you once again elaborate in terms of the pricing scenario on the contracts which are MSA related and on the contracts which are not related to MSAs?

Susanto Banerjee: Sandeep it is all contracts, basically the MSA govern all the contracts. I am sorry, I fail to understand your question that you intend to put forward to us.

Sandeep Shah: Yes what I just wanted to know is actually you said that, different mix of services is able to give us the kind of a flattish billing rate scenario. So I just wanted to check whether all the renegotiations are behind us or the full impact has been reflected on a like-to-like pricing in this quarter or this maybe. If the mix does not improve further on then there is a likelihood of the billing rate on a blended basis may come down in the coming quarters?

Ganesh Ayyar: So I think there was an earlier question as well My answer is we need to be prepared for renegotiation every quarter because this is not the type of situation which any one of us have faced. And so from that perspective I am better off if I am prepared for it than to be shocked by such a development and that has been our experience at least in my tenure in the last three quarters. And that is what we will continue to do. Am I worried about such a thing happening? I cannot worry about what seems to be a normal market phenomena, because I have chosen to be in this business.

Sandeep Shah: Okay. And just further on this whatever, renegotiation which has been happened, it is been fully reflected in this quarter number?

- Ganesh Murthy:** If the renegotiation takes effect this quarter it is automatically reflected. If it is to take effect from future quarters then it will be adjusted in that quarter's financials.
- Sandeep Shah:** Okay. And just on the BPO. We have been given that 69% of the consolidated revenue comes from the HP related channels so can you breakdown the same for the BPO business?
- Susanto Banerjee:** The 69% which Ganesh Murthy talked about was the overall group revenue. The BPO business from HP/EDS I think we can take it offline with you Sandeep as I do not have the exact number for this particular quarter.
- Ganesh Ayyar:** Let me paint a broader picture, ITO has significant benefit of our relationship with HP/EDS followed by Apps and BPO is the third. So you can in that sense relate it to what percentage of the business comes from this particular area, partnership.
- Sandeep Shah:** Yes this is helpful. Just the last thing on the AIG if I am not wrong we said that likelihood of the consolidation would be in the 1st Quarter of next year?
- Ganesh Murthy:** There are certain statutory and legal formalities to be undergone before we can achieve closure of the deal. So we expect this to happen in the next few weeks from maybe this quarter or if it does not happen in this quarter it will happen in next quarter.
- Sandeep Shah:** Okay. And whenever we give the matrix, on the employee as well as on the billing rate it would be including this whenever we consolidate?
- Ganesh Murthy:** Whenever we consolidate it is included. We always present consolidated financials including all our subsidiaries and once the closure has been achieved this would become a fully owned subsidiary of Mphasis and it would be incorporated in our financials.
- Sandeep Shah:** Okay, thanks and I will come in the follow up round. Thanks and all the best.
- Ganesh Ayyar:** Thank you.
- Moderator:** Thank you Mr. Shah. The next question is from the line of Shekhar Singh from Goldman Sachs. Please go ahead.

Shekhar Singh: Sir just two questions. One is on the application side, I have seen a significant increase in onsite employees. And this is very different from all the IT companies which are seeing a significant decline in the number of onsite employees. So is it an indication of new project ramp ups which are happening?

Ganesh Ayyar: When you say significant I do not know in what context, if you are referring to number of employees that are onsite in application business you have seen a movement of about 95 employees more on to onsite. So I am not sure whether that is big enough to signify a trend. And that is also not probably big enough to compare us with the industry average.. But you know fundamentally if you really look at it, our ratio of offshore versus onsite is at the higher end of the industry. So you know this does not significantly change that pattern.

Shekhar Singh: Sir in a sense like 6% increase in onsite employees roughly whereas everybody else is actually reporting almost like a 7% to 8% decline?

Ganesh Ayyar: That is what I am trying to say. A one project during the transition phase can result in some people moving. So it is not a strategic shift, but maybe it is relating to more of a tactical issue relating to a project or something like that. So that is what I was trying to get at.

Shekhar Singh: Sure. Sir second thing is on the pricing side, there were some very important remarks made on the pricing, now it seems the market and most of the investors are fearing, that at some point in time, there will be a step function fall in pricing as and when HP decides to cut billing rates. Now the comments which were made at the beginning of the call, it seems like okay there has been billing rates reductions which have already flown through and that is because of the mix change and the way we manage the business that is not shown up in the reported numbers, so just wanted your views on this?

Ganesh Ayyar: So I think like any other customer I respect HP as a customer and they are a large customer and they will negotiate the price and we will have to react accordingly. So the function of profit is going to be not just maintaining billing rates but at the same time cutting cost. So in case that average billing rates start dropping we will have to intensify our effort to cut cost so that we can produce the profit, which pleases you and the shareholders. So that is what we will do.

- Shekhar Singh:** And when you refer to HP in the statement of yours are you referring to the 10% to 12% of revenues which directly comes from HP or are you referring to the 70% of the revenue which is through the channels?
- Ganesh Ayyar:** Yes so my bigger mindshare and focus is on the bigger piece.
- Shekhar Singh:** So you mean to say there is a possibility that for that 70% of revenues there can be a set function fall in billing rates at some point in time?
- Ganesh Ayyar:** Possibly yes and whether we will manage it you will have to stay tuned and see.. But honestly if you really ask me do I see that as the biggest risk right now, I would say that that is not the biggest risk right now.
- Shekhar Singh:** Sure, thanks a lot sir.
- Ganesh Ayyar:** Yes..
- Moderator:** Thank you Mr. Singh. The next question is from the line of Amish Kanani from JM Financials. Please go ahead.
- Amish Kanani:** Yes hi. I just wanted to get a sense on this hiring slowdown that you had mentioned, which you said is probably pending integration. So was wondering whether the pending integration was the HP/EDS integration you are referring to or the new acquisition that you referring to?
- Ganesh Ayyar:** We are clearly referring to the new acquisition. It has nothing to do with HP/EDS., We were talking about AIGSS.
- Amish Kanani:** Okay. And if you can update us on the global HP/EDS integration and the local one?
- Ganesh Murthy:** So that is beyond our scope because we are not involved in that. That is something that you have to address to HP and EDS.
- Amish Kanani:** No, if you can just update on a global, if I remember in one of the previous calls you said that the global integration between HP and EDS has not begun, so you know if you can at least on the global side, update us on what is the status there?
- Ganesh Ayyar:** No I do not think we ever commented on anything relating to HP/EDS.

- Amish Kanani:** Fair enough. And on the FX hedges side, if you can update us on what is the status?
- Ganesh Murthy:** Sure, we have a policy of hedging a major portion of our US Dollar exposure and in this quarter we have seen that hedges have been favorable as compared to the appreciation in the Rupee. So even though the Rupee appreciated about 5% to 6% we have been able to offset this to a large extent through our favorable hedging policy.
- Amish Kanani:** Okay, but would you be giving some numbers there in terms of what are the total FX hedges outstanding .
- Ganesh Murthy:** That is there in the financials.
- Amish Kanani:** Okay .
- Moderator:** Thank you. The next question is from the line of Pratish Krishnan from DSP Merrill Lynch. Please go ahead.
- Pratish Krishnan:** Yes hi, congratulations. This is on ITO, I mean if you look at even this particular quarter your utilization levels have improved further. I am just wondering to what levels can you take this up further?
- Ganesh Ayyar:** So right now my focus on ITO is to grow the revenue and not necessarily the focus on growing the utilization. ,We have been growing at a rapid pace and that too we have been growing with reasonable profits so my focus is not rate improvement and profit, but focus will be on growing the top-line.
- Pratish Krishnan:** Okay and this should be driven more by employee additions or it would be more ...?
- Ganesh Ayyar:** Well if I am focused on revenue growth and not necessarily improving the rates profitability rate or utilization rate, obviously it will be reflected in employee hiring as well.
- Pratish Krishnan:** Sure. And generally you know how fast is it easy to a ramp up? I mean like is it equivalent of a BPO or this could be faster? In terms of ramping up, is there a lag between you recruit and you start billing them or it could be on a faster cycle?

- Ganesh Ayyar:** It is faster than BPO but there will always be a lag depending on which part of ITO service that you are talking about. That range is between 46 days from the date of hiring to billing to anything upwards of around three months.
- Pratish Krishnan:** Okay. So should we assume that given that hiring has not happened and maybe you know your focus will be on utilization one could expect a slowdown in terms of revenue for next quarter?
- Ganesh Ayyar:** I will not expect anything as slowdown or speedup for next quarter. All I would request is in the next call as well we can discuss whether we have slowed down or not.
- Pratish Krishnan:** Okay sure. And just my last question, in terms of the CAPEX any guidance?
- Ganesh Ayyar:** We do not give any CAPEX guidance. We have not done that so far.
- Pratish Krishnan:** Okay fine .Thanks a lot
- Moderator:** Thank you Mr. Krishnan. The next question is from the line of Kunal Sangoi from Edelweiss Securities. Please go ahead.
- Kunal Sangoi:** Yes thank you. Congrats on a good quarter. Ganesh my question is with regards to the BFSI. I believe that this quarter also it has grown by almost 8% and further you know as your comments indicated you have gained some incremental wallet share from your top clients. What kind of services do you see here, is it more ITO, because at least the numbers reflect that. But my question is if you can offer your comments on whether you see some kind of development activity, application development work also incrementally flowing through?
- Ganesh Ayyar:** Our application business has also grown fairly well in the last quarter. It grew in excess of 5.2% on sequential basis and year-on-year basis also it saw a pretty good growth. So it is not just ITO, Apps business has also grown reasonably well. We are pretty strong in the Apps space as far as BFSI is concerned . Whereas ITO is approached as a horizontal rather than industry vertical when we go and talk to the customer. So both will play together and let us not forget that BPO also has tremendous capability within our organization to grow in BFSI. So we will try and grow on all spaces, but BFSI is probably one of the most affected industry. So in that sense we have to be careful where we

choose to grow and where we want to focus. So in that troubled industry looking for revenues for growth becomes slightly challenging but we will continue to do that.

Kunal Sangoi: Right, okay. And could you explain more in terms of the ITO business we have seen sequential margin improvement there, operating margins and if I compare the last two quarters from 38.5 it is gone up to almost 44 now, what is driving the margin improvement in the ITO?

Ganesh Ayyar: Actually a combination of factors. Utilization has improved.

Ganesh Murthy: Also as we discussed earlier the mix has improved. We have gone into more of a premium service or rather than the normal service and that has led to effective rate increase which has resulted in higher revenues and higher operating profits.

Kunal Sangoi: Okay, alright, thanks and good luck.

Moderator: Thank you Mr. Sanghoi. The next question is from the line of Deepak Radhakrishnan from UNIFI Wealth Management. Please go ahead.

Deepak Radhakrishnan: Most of my questions have been answered, I just wanted to understand why there has been an increase in the cash levels?

Ganesh Murthy: So we are generating favorable cash balances We are investing these funds in various fixed deposits, banks and mutual funds. And these form part of our cash surpluses.

Deepak Radhakrishnan: And one more thing, I understand how different is Mphasis from HP's global development centers in India ?

Ganesh Murthy: So it is completely different. We are under separate management entirely.

Deepak Radhakrishnan: In terms of operation is it similar to your kind of business.

Ganesh Ayyar: No. So let me address that. First of all there is a work distribution guideline which we have worked on with HP/EDS to say what work goes to HP what comes to Mphasis. Secondly fundamentally we are very, very different organization that is part of greater HP. We are a separate independent company and dictated by shareholder value and profit, if I may for our shareholders. So it is fundamentally different and so far we

have continued to grow the business in every focused fashion and HP has been fairly professional about it.

Deepak Radhakrishnan: There is no overlap that is what I wanted to understand?

Ganesh Ayyar: To say no overlap would clearly be an over statement, but the overlap is not large enough to cause anguish.

Deepak Radhakrishnan: Okay fine thanks a lot.

Moderator: Thank you Mr. Radhakrishnan. The next question is from the line of Ashwin Mehta from Motital Oswal Securities Limited. Please go ahead.

Ashwin Mehta: Congratulations sir on a good set of numbers. My question was in terms of our strategy and targeting the HP portion of business, because it seems most of our business largely comes form the erstwhile EDS piece of business. So what are our strategic moves in that direction?

Ganesh Ayyar: It is a great question Ashwin and that is why when I opened I said that there is significant opportunity for us to grow our business with greater HP not just EDS part of HP. This is a market which we want to tap into, it takes time, it does not happen overnight. So we are focused on it. Time would tell whether it brings in results but clearly that is a potential which we have to scale up to.

Ashwin Mehta: And secondly in terms of the business which is either HP originated or where the sales channels involves HP, what is the scope of increasing fixed bid there in case pricing renegotiations happened?

Ganesh Ayyar: Fixed bid, as in, your question is whether we can insulate ourselves from rate card reduction?

Ashwin Mehta: Yes.

Ganesh Ayyar: Yes so I mean that is, deal by deal, project by project work which is being done. And also many people will feel that fixed price is a great thing to have if you do not have proper risk management. That it is a double edged sword. So one has to be looking at what value do we bring to the customer, our ability to execute and then get involved into that activity. Is this something which we have thought of and are trying, the answer is yes. At the same time we are doing it based on contract by contract rather than an overarching focus in this area.

- Ashwin Mehta:** Okay, but in terms of the business there is a possibility that your ITO business which is as of now on a per person basis can be moved to a fixed bid ?
- Ganesh Ayyar:** First I want to correct your perception if you think that the ITO business is all about headcount. That is not true. And we do have outcome base business in ITO.
- Ashwin Mehta:** Okay thanks a lot.
- Ganesh Ayyar:** You are welcome.
- Moderator:** Thank you Mr. Mehta. The next question is from the line of Priya Rohira from Enam Securities. Please go ahead.
- Priya Rohira:** Hi, good afternoon to the management team and congratulations on a very good set of numbers. My question more relates to you know the strategic call which you would want to take on ITO, what sort of investment you need to make in order to be able to do offshore work, end-to-end for HP related infrastructure services for whom you know the top line around \$3.9 billion, which are the offerings where you would want to make investments and as your rightly said that you know it is not a people to people link. So what could be the maximum upsides to margins you could go through in this business?
- Ganesh Ayyar:** So Priya, I mentioned my focus is on now growing volume in that business rather than growing profitability because it is almost reaching level of profitability which is technically unhealthy. Also you maybe starving the business. So we are focused on that. We are looking at adding competency and portfolio into areas which are adjacent to what we already do. So ITO is getting full attention from us. Are we getting into very capital intensive type of business within ITO which is where you go and buy data centers. As of now that is not our focus because personally my view is when you do heavy investment in real estate the gestation period and Return on Investment takes a long time. So in that sense I am not focused on building and buying data centers, I am focused on building related competency where I could use automation and our current capability and extend it beyond and that is what we will be doing.

- Priya Rohira:** Sure and is it possible for you to highlight certain areas where over the next three years you would make an investment without quantifying anything over there?
- Ganesh Ayyar:** Yes so we are clearly looking at managed services around the servers. We are looking at managed services around security and some of the elements already exist. What I am talking about is enhancing certain more services in that area to make it holistic.
- Priya Rohira:** Sure. And given the fact that ITO has it can have a growth trajectory equivalent to what ADM offer basically looking at around 40% to 50% growth rate, I mean ex-currencies part of it. Can there be a potential to this to that level?
- Ganesh Ayyar:** Amongst the three lines of business , ITO is the fastest growing market. If you look at remote infrastructure management and all that and we certainly would like to participate in that growth market.
- Priya Rohira:** I mean since we mention that it is not a like to like people related business, is it possible for you to share in terms of you know instances of pricing models which you could typically adopt in ITO?
- Ganesh Ayyar:** We have pricing model which ranges from just people related pricing to an outcome based price and to almost going into device based. So we have all these ranges available and depending on the customer need we have used those methodologies to win the business.
- Priya Rohira:** What percentage would be people based if you could share that?
- Ganesh Ayyar:** I do not think we have that data, I mean honestly we do not have it and this is something which we are beginning to track and as and when we decide to publish it, I will certainly share it with you.
- Priya Rohira:** Sure. And just on two data points, technology and OEM segments has been a little off drag for the industry perse, are you seeing some signs of pickup because from what some of your competitors are indicating that at least the maintenance related R&D spends seems to be like a comeback now?
- Ganesh Ayyar:** Yes so I mean that is even during the crisis if you look at application maintenance business ,that was the least affected business whereas the discretionary project related business was the worst effected business.

So I think it is not only true sign of saying that whether it is coming back, it is just that true sign that it is not as dispensable as other line of business. And as far as whether the market is rebounding and whether the market is going to grow and whether we will be back to good old days my view is no. I do not think that one could conclude that the market has rebounded. At best I would say that it has stabilized but I do not think I am seeing any signs of rebound but even during crisis we delivered good result so that should not dampen our spirits to keep going for more business.

Priya Rohira: Sure, thanks very much and wish you all the best.

Ganesh Ayyar: Thank you very much.

Moderator: Thank you Ms. Rohira. The next question is from the line of Jigar Walia from Ohm Stock Broker Private Limited. Please go ahead.

Jigar Walia: Good evening sir and congratulations for the great results. Sir my first question is that you have seen a marked increase in the fixed priced contracts, gradually some trend line emerging over there, just wanted to know there is new contracts you are getting fixed priced bidding more on the ITO front?

Ganesh Murthy: There is not a significant increase in the fixed price contracts. From Rs.882 million it has gone up to Rs.985 million so just a 1% increase in the overall mix.

Jigar Walia: Okay.

Ganesh Murthy: You see there is a huge substantial increase in our revenues from, Time & Material.

Jigar Walia: Okay.

Ganesh Ayyar: But if I can answer the framework question which I answered earlier many people are big fans of fixed priced contracts because it insulates you from rates reductions discussion. But on the other hand if you get into something which you are not ready you do not need rate reduction to bring your profit down - you just need a fixed priced contract to do that for you.

- Jigar Walia:** Okay, sir just a few other clarifications questions Your receivable days seems to have increased, is it like including the unbilled revenues as well?
- Ganesh Ayyar:** That is correct.
- Jigar Walia:** Okay. Just want to know there has been considerable amount which comes in your unallocated expenditure and capital employed .Also if you can highlight little bit as to what is this regarding?
- Susanto Banerjee:** You are referring to the segment numbers, right. So it is basically the expenses which we cannot allocate to a particular business, we keep it in the unallocated numbers.
- Jigar Walia:** Okay, there has not generally been a shift in terms of something which was part of a segment earlier is now a part of unallocated nothing like that.
- Susanto Banerjee:** No nothing like that. It is normal expenses, which cannot be allocated directly to the business is disclosed as unallocated.
- Jigar Walia:** Okay sir just to know for your three divisions when do you normally do the wage revision or is there a policy there?
- Susanto Banerjee:** The wage related is done on a quarterly basis. It is not a yearly spike that we have. So we have been following this particular policy for a long time. So it is on a quarterly rolling basis.
- Jigar Walia:** And sir just one last question as to if you can indicate how much of the ADM business say would be on annuity, I mean more than 50%?
- Susanto Banerjee:** You can take most part of the maintenance business will be annuity business , in terms of every year they can be renewed.
- Jigar Walia:** Okay sir, thanks a lot sir.
- Moderator:** Thank you Mr. Walia.
- Ganesh Murthy:** We have kind of reached the limit. We have crossed midnight here so many of us have to catch the flight but I am delighted that I had such a call with all of you. Thank you for your time and with this we can do a wrap. And I certainly look forward to catching up with most of you over

the coming quarter if not over the quarter and certainly in the next earnings call.

Moderator: Thank you. I would now like to hand the floor back to Mr. Yogesh Agarwal for final comments. Please go ahead sir.

Yogesh Agarwal: Well on behalf of HSBC I would like to thank Mphasis management for giving us this opportunity to host the call. And thank you all for dialing in today. Once again thank you Ganesh Ayyar and thank you Murthy.

Ganesh Murthy: Thank you.

Moderator: Thank you gentleman of the management, thank you Mr. Agarwal. Ladies and gentleman on behalf of HSBC Securities and Capital Markets that concludes this conference call. Thank you for joining us and you may now disconnect your lines.