"MphasiS Earnings Conference Call"

August 25, 2011

Moderator: Ladies and gentlemen, good day and welcome to the MphasiS Limited Q3 FY11 Conference Call. 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. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vihang Naik from MF Global Securities. Thank you and over to you Sir.

Vihang Naik: Good morning everybody. On behalf of MF Global Securities, I would like to welcome you all on the call to discuss the results of MphasiS for the third quarter ended July 2011. We have Mr. Ganesh Ayyar, the Group CEO and Mr. Ganesh Murthy, the Group CFO with us on the call. I invite Mr. Ganesh Ayyar to take the discussion forward. Thank you, and over to you Mr. Ayyar.

Ganesh Ayyar: Thank you. Good morning everybody. I welcome you all to our Q3 2011 Earnings Call. Let me add my thanks to Mr. Vihang Naik of MF Global for sponsoring this call. Let me begin by taking you through the highlights of our financial performance and then share our vision and strategy for the company's growth ahead.

Quickly going to the Q3 performance update, our revenue for the quarter was ₹ 1,294 crores, up 1.1% in comparison to the corresponding quarter last year. Operating profit was ₹ 208 crores for the quarter. Operating margin was 16% as against 21.5% for the corresponding quarter last year. Net profit was ₹ 195 crores as against ₹ 271 crores in the corresponding quarter last year. EPS reduced to ₹ 9.28 from ₹ 12.93 for the same period last year.

Moving to the sequential view, revenue for Q3 was up by 2.9% over the previous quarter. Operating profit was ₹ 208 crores with a growth of 0.3%. Operating margin decreased to 16% from 16.5% in the previous quarter. Net profit decreased by 10.3% over the previous quarter.

A quick update on clients. We added 27 clients in Q3, 18 in direct and 9 through HP channel. 18 happens to be the highest in terms of client addition in the direct channel for the last few years. Over the last few quarters, we have constantly increased the number of direct clients as you know, based on the data that we have provided. We have also increased our focus in direct client addition and the result is in front of you. Just for your information, in Q1, we had 13 direct clients and in Q2, we had 17 new client additions in the direct channel.

Moving on to the business update, as I mentioned earlier, our focus is clearly having a disproportionate focus towards growth of direct channels. Revenue from direct channels witnessed a sequential growth of 2.9% in Rupee terms as well as in US Dollars. The revenue growth was driven by higher volume from existing customers and revenue from customers in both Mature and Emerging Markets. As I mentioned, we added 18 clients in the direct channel out of 27. Part of the company strategy is to explore opportunities beyond HP Enterprise Services which is other parts of HP and the progress in this area has been encouraging. In the current quarter, that is Q3, revenue from our business with HP outside the Enterprise Services grew sequentially by 12.6% to ₹ 358 million. On an overall basis, revenue from the HP channel increased by 2.8%. Revenue for the quarter includes reversal of credit notes which are no longer required, amounting to ₹ 665 million. Also, revenue of ₹ 346 million was not recognized during the quarter due to incomplete documentation. After taking both these into account, net sequential reduction in HP channel revenue is 1.1%. Nine new customers were added during the quarter in the HP channel.

Going on to giving some industry vertical view; our Banking and Capital Market (BCM) business reported total revenue of ₹ 318 crores contributing to 25% of our group revenue. The direct channel in BCM grew by 10.3%. Six clients were added during the quarter, of which one was a fairly large American bank.

Insurance business reported total revenue of ₹ 121 crores. Contributed 9% of the total group revenue. One client added during the quarter. It is an Auto Insurance Company.

Moving on to comment on the Information Technology, Communications, Media and Entertainment (ICE) industry vertical: this vertical reported a total revenue of ₹ 384 crores; contributed 30% of our total revenue.

Moving on to the Emerging Industries. Emerging Industries vertical reported total revenue of ₹ 458 crores, contributing 36% of our total revenue. Thirteen clients were added during this quarter. One of them happens to be a Consumer Electronics Company in the Emerging Market in Asia.

During the quarter, the company entered into definitive agreement to acquire Wyde Corporation which you are aware of. Wyde is an international software vendor and creator of Wynsure- an industry leading Insurance Policy Administration Solution. Gartner rates Wynsure platform as one of the top four in that space. This acquisition gives MphasiS an excellent opportunity to grow innovative services around the Wynsure platform and to grow in the Insurance vertical, which is an area of focus for us and we expect this acquisition to close within two weeks from now.

Moving on to Cash Management. MphasiS generated ₹ 165 crores in cash for the third quarter and generated cash from operations amounting to ₹ 276 crores during the quarter. We exited the quarter with ₹ 2,029 crores or approximately $ 459 million of cash. In million dollar terms, we have added $ 37 million to our cash kitty, which is approximately $ 12 million per month. A comment on human resources. This quarter the group recorded a net head count decrease of 475 to take the total manpower number to 41,264 and our attrition rates decreased.

Finally, I just wanted to share with you that we look at our success in terms of client additions in the direct business. It has been a good quarter for us. We are focused on complete preparedness, enhancing our ability to grow further in those verticals that we are focused on. At the same time, we are ensuring that we develop our business outside Enterprise Services within HP. Our cash position continues to be strong. We have a good strategy in place for acquisitions. So that will continue to be our focus. I thank you for all your support. Let me pass it back to the moderator for any questions that you may have. Over to you.

Moderator: Thank you very much Sir. We will now begin the question and answer session. Participants who wish to ask a question may press '*' and '1' on their touchtone telephone. Participants are requested to use handsets only while asking a question. A kind request to participants to please specify if the question is directed towards Mr. Ayyar or Mr. Murthy. We have a first question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Hi, wanted to check with you in terms of what's the outlook on demand in the HP channel and what was the reason for the decline in Apps Onsite pricing? And secondly, in terms of the ₹ 66 crores of revenues which has been recognized in this quarter, how is that distributed across ITO, APPS and BPO?

Ganesh Murthy: So let me answer these questions, Ashwin. The first thing is the way it has been distributed. The ₹ 66 crores has gone to APPS because it relates to the APPS business. Then about the price decline in the Applications Onsite rate. There has been no decrease or increase in the APPS Offshore rate, but ITO Offshore rate you would have noticed that it has increased, the realizations have gone up by $ 1 from $ 20 to $ 21 an hour. The APPS Onsite rate has decreased marginally because we have commenced a program to replace our contractors in the US. In the US a large portion of delivery was with contractors and these contractors were earning a margin of only 10%. So in order to improve our gross margin, we replaced them with our own employees and because of that; we have had a lower realization effectively.

Ashwin Mehta: This ₹ 34 crores of revenues which has not been recognized in this quarter that also largely relates to APPS?

Ganesh Murthy: Yes, it largely relates to APPS.

Ashwin Mehta: Finally, in terms of negotiations with HP on pricing, what is the status on that? Are they still asking us for any pricing cuts and what is our stand on the same?

Ganesh Ayyar: We are in extensive discussions with HP and our stand has been that rate reductions are not possible. Our focus on HP from our point of view is to see how do we unlock the growth accelerators for HP. At the same time, our position is that we can't afford rate reduction.

Moderator: Thank you. The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: I think HP has sounded off some changes in its strategy and outlook. They also have a new head for the Enterprises Services side. I think one of the expectations was that we probably get a sense of the strategic directions going forward once that happens. Could you throw some light on whether you had any communication from HP regarding that? That is one. Second part of the question is, again HP's outlook on the Enterprise business margin seems to be a lot lower for the next few quarters. How do you expect to counter the pricing pressure that you are likely to get and will that mean that you will sacrifice volumes for pricing?

Ganesh Ayyar: So let me take the second part of the question Diviya if you don't mind, which is the discussion about pricing. I think it is not beneficial to MphasiS as a Company and our shareholders at this point of time to offer rate reduction. So that position is very clear. Now, the consequences of that position is something which we are prepared to bear as a Company. That will continue to be our position. Our focus is on how do we work with the HP Enterprise Services to unlock the growth potential which the market may be offering because of the unique strengths that we have. So that is where we would like to focus. But ultimately, it is two sides who need to agree. At this point of time, as you know, we have not offered any rate reduction and we have not reached any conclusion on that front. Coming to your strategy question, the strategy has just been announced and a new person has been appointed to Enterprise Services. I've had some initial contact with him. We have not invested or had the time to discuss about the new strategy for Enterprise Services because obviously that person needs to have a little bit of time before he can articulate the strategy. We have plugged into the network and we will certainly connect with him. I fundamentally believe that the increased focus in software clearly opens up opportunity for all services players including MphasiS because software focus goes hand in hand with services to form a total solution for the customer. Our ability to have a compelling value proposition around HP software will define our growth in the software business and that is what we are focused on. We have also had some successes with the HP software Professional Services Organization which is outside Enterprise Services. That is the current status on HP strategy and our synchronization with HP strategy. At this point of time, I would also like to clarify, as I saw some reports in the media and otherwise that MphasiS has an exposure in the HP's PC business that. I want to clarify we do not have any business whatsoever with HP's PC business.

Diviya Nagarajan: One last question. Excluding for the one-time adjustment HP seems to have declined a bit this quarter. How do you see this trend going forward? Do you expect that HP would come back to the 1-2% sequential growth momentum or do you think there is some risk to that?

Ganesh Murthy: This 1% decline is a normalized decline quarter-on-quarter in the HP channel. It is primarily because HP Enterprise Services where we get the bulk of our business, their APPS revenue declined by 2% quarter-on-quarter and that is essentially the reason. We are subcontractors to HP so if their revenues decline, obviously it has an impact on our revenues. So that is the main reason. Now it is very difficult to say in the future what the expectation is from the HP channel, primarily because it is sort of interdependent with how HP sees its own revenue growing in the Enterprise Services.

Moderator: Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran: Just wanted to understand the provisions that we have been writing back could continue for some more time to come because it is now almost three quarters and if I were to see close to ₹ 125 crores of provision over the three quarters that's written back, just wanted to understand if it is going to continue or some more time to come? And where are all these provisions in these financials? Is it reflected in balance sheet at any point of time? I am looking at the Balance Sheet and I do not see any numbers of this size at all.

Ganesh Murthy: Let me tell you about these write-backs. Some of them are event-driven accrual reversals. The reversal of the credit note was because of certain reasons where we had ultimately reached a decision with HP which is why we wrote it back. So it was essentially event-driven. There are certain operational areas where we have written back certain provisions and we are focused on reducing the incidence of that. So Q4 onwards you will see very little of these kind of write-backs.

Srivatsan Ramachandran: Sir, this statement that you are making with respect to adjustments for this provision write-back has seen about EBIT minus of 12 to 12.5%. Just wanted to know what your thoughts are on broad margins given that you are talking HP might or might not do pricing pressure. Just wanted to get your outlook on margins because it has fallen dramatically over the last year and then you are going to see more pricing pressures, wanted to get your thoughts.

Ganesh Murthy: Reduction in margins are not necessarily due to pricing pressures. We have also announced a salary hike for all employees from the beginning of Q3 onwards. So it is a combination of both these factors that has resulted in the reduction. Also, if you look, our PAT has declined primarily because of the removal of the tax holiday. Now, if you look at our EBIT margins, I agree on normalized basis, 12 - 12.5% are the EBIT margins if you take out the one-offs. We are trying to improve the EBIT margins and trying to retain that within a band of 15-18%. But it will take some time to grow the EBIT margins towards the upper end of the range. This is primarily because there are various actions in terms of cost containment and improvement in utilization. It will take some time to materialize over a period of the next two quarters. But if you really analyze it, even though we gave a salary hike which impacted our margins by around 2.5%, our actual EBIT margin on a normalized basis has come down only by around 1.5% from the previous quarter. That has been the result because we have started improving the utilization in ITO.

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

Dipen Shah: Just one thing this, ₹ 35 crores of revenues, are you going to accrue it in this current quarter?

Ganesh Murthy: You mean Quarter 4, don't you?

Dipen Shah: Yes, Quarter 4.

Ganesh Murthy: Yes, this will accrue in Q4 if the documentation is completed and we are expecting to get it completed. The reason why we have mentioned it is very clearly just to make you realize that the costs relating to the ₹ 35 crores is already there in the Q3 P&L and fully booked but the revenue has not been booked.

Dipen Shah: And Wyde will be consolidated with effect from September?

Ganesh Murthy: We are hoping that Wyde will close within the next two weeks i.e. the closure of the transaction. Of course, as you are aware, it depends on various documentary items as there are various closing conditions. We are on track relating to the closing and we expect to consolidate from September onwards.

Moderator: Thank you. The next question is from the line of Sandeep Shah from RBS. Please go ahead.

Sandeep Shah: Just wanted an update in terms of the hedge booked, because this quarter if you look at the realized Rupee/Dollar similar to the spot rate average for the quarter, looking at the Rupee depreciation and your current hedge position, will it be PAT neutral or can you give some color on this?

Ganesh Murthy: If you look at our hedge position, we have approximately about $500 million overall, which is our hedge position in various currencies and the average so far as the USD hedge rate is concerned, is around 47.15. It is difficult to predict how the Rupee/Dollar exchange rate will pan out in the future because we have seen a lot of volatility there. But we really do not expect it to cross areas of 47 and beyond. Having said that, we do not cover our entire revenue on hedges. We cover only 70% of our net exposure through our hedge mechanism. So, if it crosses 47, there will be a positive impact also on the revenue because the un-hedged portion of the revenue will see an upside.

Sandeep Shah: And Sir, just on the EBIT, if I look at the normalized EBIT, looking at the adjustment to the revenue both on the one-time revenue as well as considering the delay in the invoicing plus the cost reversal, then I look at an EBIT of close to around 10% versus what you mentioned as 12.5%.

Ganesh Murthy: It is around 12.5%, if you really take all the figures into account.

Sandeep Shah: Why the reversal of credit notes has been shown as addition to the revenue and not the cost reversal?

Ganesh Murthy: This is because initially, 1.5 years ago, when we passed the credit note, we debited revenue. And so, when we have reversed the credit note, the credit also has to come in the revenue.

Moderator: Thank you. The next question is from the line of Pratish Krishnan from Bank of America-Merrill Lynch. Please go ahead.

Pratish Krishnan: I just wanted some clarification on the Onsite rate cut. I am not very clear as to why the shift from the subcontractors to own employees should lead to the cut in the Onsite rate?

Ganesh Murthy: First of all, I state very emphatically there has been no price reduction either in the HP channel or in the Direct channel. Now, the reason why the realizations have come down by a couple of dollars is because contractors were billed at around $110 an hour and we used to be making a 10% margin. When you replace that with employees then you are billing at around $ 70 or $ 75 per hour which is a much lower rate but margins are much higher.

Pratish Krishnan: When you said you replace that, this is through Offshore or this is still Onsite?

Ganesh Murthy: Onsite. Essentially it is a margin improvement exercise.

Pratish Krishnan: But at a much reduced rate, I mean --?

Ganesh Murthy: That is right. Reduced rate but margins are higher.

Pratish Krishnan: And second is on the BPO side, if you can just explain as to what is happening there because we are seeing that after two quarters of good addition in the employee head count, a reduction this time.

Ganesh Murthy: The reduction in the head count is essentially due to two reasons; one is Santander. We exited out of the Santander account and there has been a net reduction in the employee base because of that. The second reason is because of the domestic BPO, in the last quarter or so, we had staffed at higher than the forecast and the forecast actually reduced. So we had decided then to reduce our overall staffing. A combination of these two factors has resulted in the head count dipping.

Pratish Krishnan: What is the outlook here in terms of both the revenue and the margins, any outlook you can provide?

Ganesh Murthy: We expect revenues to be stable, not any significant growth in the BPO revenues. So far as margins are concerned, we are making a loss in the Javelina business because of the expenditure on product development and product enhancement and if you take that impact out, we are actually making our margin of 19.4% in the BPO business and we expect this margin to continue.

Moderator: Thank you. The next question is from the line of Srishti Anand from Angel Broking. Please go ahead.

Srishti Anand: Just one question as to the head count reduction in ITO business. Is it due to the strategy of increasing utilization and also if you can give us the numbers of what is the billable position in APPS and ITO?

Ganesh Murthy: You are absolutely right. It is clearly directed towards increasing the utilization. We brought our bench down from 500 people to 150 people on the bench, primarily to drive the utilization and improve the realizations and the gross margin and you can see the results reflected in the ITO segment profits. Regarding your second question on the open positions, in Applications, we have 825 open positions and in ITO, about 600 open positions.

Srishti Anand: And just a follow-up to that, as in what kind of target utilizations that you are looking at in APPS and ITO?

Ganesh Murthy: We are striving to look at least a 2% increase in the Offshore utilization in APPS. In ITO, perhaps since we have already increased utilization maybe another 1% utilization will be handy. Another area of focus for us is to improve the Onsite utilization. We believe that is on the lower side and we are striving to increase it.

Moderator: Thank you. The next question is from the line of Abhiram from BNP Paribas. Please go ahead.

Abhiram: First question is on a comment in your release which talks about Master Services Agreement having expired and is expected to be renewed on completion of ongoing negotiations. Could you just please talk a little bit on that? What is the current status of that renegotiation?

Ganesh Murthy: This particular note has been there in our previous accounts. It has been there for a number of quarters and this has got nothing to do with our Master Services Agreement with HP. That is still valid and that expires only after 1.5 years. This is sort of what we call a reverse Master Services Agreement, where we obtain services from HP and these services are in terms of software, licenses and software tools that we procure from HP, the network usage that we take from HP and this had expired on the 30th of April. We are negotiating on the renewal of this agreement. We are still using those tools. So we have accrued for them based on the past trend but it will be renewed very shortly.

Abhiram: The other question is slightly more strategic in a sense. I read in the press that HP has a plan to move to a global hub model for its services business and to have some five or six hubs globally with India being one of them and that I think the release also says something about HP Labs in India and MphasiS being a leverage for that. I was just checking to see how much of that are you involved in, how much of that could impact your business and MphasiS shareholders in the long-term?

Ganesh Ayyar: Now, let me talk specifically about Enterprise Services. They are clearly building CoEs across the globe in specific areas and we are actively participating with the HP-ES team to bring our expertise in the CoE. At this point of time, we do not have any interaction with the HP Labs.

Abhiram: From your perspective, let us say hub model does come in, how does it impact MphasiS, particularly the shareholders?

Ganesh Ayyar: Hub model does not have any net negative or net positive impact in our business model. Our business model with HP-ES would be dictated based on our ability to unlock the growth potential. At the same time, as you are aware and which I often spoken about, is the rate card the strategy for which I shared with you at the beginning of the call. So that is more of a factor rather than the CoE because they have had this in place and what they are doing is they are creating an interconnection between various hubs to generate a greater value to their customers.

Abhiram: That means MphasiS will continue as a standalone entity? This hub thing does not impact it?

Ganesh Ayyar: In terms of shareholding?

Abhiram: Yes.

Ganesh Ayyar: I am not aware of any interconnection between hub and HP shareholding in MphasiS.

Abhiram: And just one more question on the margins. You have already spoken a little bit about that. But if I just take a look at the EBIT margins totally adjusted, there has been a significant fall over the past let us say six or seven quarters or so, what used to be around let us say 21-22% is now around 12%. So how much of that do you think you can recoup, which are the areas that are reversible, in a sense that the cuts or the loss of margin, how much of that do you think you can get back?

Ganesh Murthy: I think there are various levers that we have. We also spoke, if you recollect about ₹ 16 crores of losses that we are incurring in this quarter on the Javelina product development. So once that product stabilizes and the product development is almost over we have that lever to use. Utilization is a lever that we have used quite effectively and our focus in this quarter onwards will be to improve the APPS utilization and also the Onsite utilization. So this is the second lever. As our CEO mentioned “Preparedness Is Our Watch Word” and we have taken all the steps to control discretionary spending and hiring of non-billable folks which will now help to enhance our EBIT margins.

Abhiram: Actually, my question also had another aspect, which is if we just look back and see how much of the margin was lost due to certain factors, let us say pricing, wages and so on, are any of those parts reversible? Because now you are talking more about the operational side, utilization, investments and Javelina and so on. So that is also another part if you could just clarify a little bit?

Ganesh Ayyar: I think this is a very broad question. One is how do you increase your pricing power. That is part of the answer, so that is where you look at how to add value to the customer and revise your rates and increase the top of the pyramid utilization. That is more from a rate perspective. Secondly, there is an element of how do you manage your pyramid; where mid-size of the pyramid can be replaced with the bottom of the pyramid, which talks about pressure, induction and all that. So that is on the customer and delivery front. The second aspect is how do you take costs which are directly attributable to billable people and reduce them to improve your margins, so that is the second aspect which includes all elements of cost, ranging from real estate, transportation, energy and all of the above, and that is work in progress. And last but not least, how do you bring some kind of non-linearity in your business which is not directly proportional to the number of head count. The Wyde acquisition is one aspect of it, where we enhance the value and take IP and surround IP approach to the business. So, I am giving you a sense of a very high level view of what are the actions that we are taking, so that we can get into the space which is a stated position of between 15-18%.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sushil Finance. Please go ahead.

Dhananjay Mishra: Just one question, could you break out revenue EBITDA in terms of volume growth, ForEx gain, and pricing?

Ganesh Murthy: If you look at our total revenue growth it was 2.9%. Most of it is a volume impact. We had a minor exchange gain of 0.1% and we had a total volume impact of around 3%, out of that if you look at the actual volume impact it is 1.3% and the balance is those one-off cases.

Dhananjay Mishra: And would you be able to share the pricing to fund Wyde Corporation at this point in time?

Ganesh Murthy: You mean the acquisition cost, is it?

Dhananjay Mishra: Yes.

Ganesh Murthy: Acquisition cost it is between 2.5 times to 3.5 times of revenue.

Dhananjay Mishra: So at this point in time you are not able to share the exact amount you are going to spend?

Ganesh Murthy: No, it also depends on whether; there is a working capital and cash because we have taken it on cash free/debt free basis. If there is any cash left behind then there will be an adjustment suitably for that. We will know that only when we are closing the transaction. But it is between 2.5 times and 3.5 times of the trailing revenue and the trailing last year's revenue was $30 million.

Dhananjay Mishra: What is the PAT margin?

Ganesh Murthy: PAT margin is around 14.5% and gross margin is around 40%.

Dhananjay Mishra: But Sir you earlier had said that this acquisition is going to be EPS accretive, but if you pay even at three times and this 14% kind of PAT margins, I do not think it is going to be EPS accretive.

Ganesh Murthy: It will be marginally EPS accretive in year one because we will have some integration expenses but from year two onwards it will be significantly EPS accretive.

Dhananjay Mishra: Can you comment on our insurance vertical, we have seen some margin pressure as well as some decline Q on Q, can you comment on the business environment?

Ganesh Murthy: On the insurance vertical the margins have declined from 27% to 17%. Primarily, there was a ForEx clause in one of our contracts with one of our major customers and as a result of that there was an adjustment that we had to pass on to the customer because of the change in the ForEx.

For another customer we had a knowledge transfer so we sent people for the knowledge transfer and because of that there were three months costs that we had to absorb as part of our contract was knowledge transfer cost had to be absorbed by MphasiS. These are the two reasons why the margins have come down in this quarter.

Dhananjay Mishra: It will now arise from next quarter onwards?

Ganesh Murthy: It will definitely go up from 17% in the next quarter.

Moderator: Thank you. The next question is a follow-up from the line of Ashwin Mehta from Nomura. Please go ahead.
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**Ashwin Mehta:** Sir, what is our expectation on tax rates for this year and the next? And what is the OCI gain that is sitting in the balance sheet currently?

**Ganesh Murthy:** OCI gain sitting in the balance sheet is ₹ 46.5 crores and regarding tax rates, we expect it to be around 23-24%.

**Moderator**: Thank you. The next question is from the line of Omkar Hadkar from Edelweiss Securities. Please go ahead.

**Kunal Sangoi**: Hi, this is Kunal Sangoi. My question is with regards to new wins in the direct channel that we had this quarter about 18. Could you talk about what are the kind of size of deals and maybe if you can give details about the largest deal win there?

**Ganesh Murthy:** I do not think we can disclose client details but just to give you a perspective, there were in the banking and capital markets six customers that we had and some of them are medium-sized banks in the US that we won and there were also a couple of medium-size deals in the Emerging Industry segment in the Infrastructure space.

**Kunal Sangoi**: Anything about the size of the deals more or less, if you can share that?

**Ganesh Murthy:** Size of the deals vary. Our TCV value ranges between $1 million to $ 10 million.

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

**Shradha Agarwal**: Just adding on to the previous question. While we have been seeing a healthy addition in our Direct channel, the revenue growth has not been really very encouraging; this time around we grew by 3%. Just wanted to check what is our internal assessment on what kind of CAGR can we expect from the direct channel and what is the traction especially given the recent global uncertainty?
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Ganesh Ayyar: The global uncertainty is a very broad question. Because at this point of time I do not know whether anyone can accurately say whether it will translate into demand reduction and if it is going to result in demand reduction, then how much.. There is obviously a lot of discussion on discretionary spend and whether that will be cut down or at least it will be reduced. I will park that question aside but let me comment on the Direct business growth. Prior quarter, if I recall correctly, we grew about 8.5% sequentially in the Direct business and this quarter we have grown about 3%. So if you take a six months view, we have grown roughly about 11.5% and when you annualize it, that reflects about 24%-25% growth on an annualized basis. That is not a bad growth because the market is growing anywhere between 15-18% and on an annualized basis this gives us a growth of 25%. Now, subject to market conditions, obviously, in the direct space because our footprint is smaller, so percentages can get overstated in that sense but we are striving to grow anywhere between 3-5% on sequential basis.

Shradha Agarwal: And would you be in a position to comment on the pricing outlook in your Direct channel? Any interaction you had with your clients till date and any indication on any pricing cut if at all?

Ganesh Ayyar: At this point in time, I am not aware of any discussions which is leading to price cuts in the Direct channel and that also includes from our standpoint that we are not planning any pricing cut on the HP-ES contract as well. So for the first portion i.e. for the direct, I am not aware of any discussion which is leading to price cuts.

Shradha Agarwal: Any color on what kind of work do we actually do in the HP Non-Enterprise segment?

Ganesh Murthy: In the Non-Enterprise segment, if you see, our growth has been quite good and in the last quarter we grew by 13% and we have a quarter-on-quarter growth of 12.6%. We are doing work for Product Engineering Services work for the HP servers business. We are doing work for their Technology Services and their Software Services. We have also started doing work for their Networking Services. So we provide Remote Network Management activity services for HP's Networking clients who have bought networking equipment from HP. We provide the Remote Monitoring Services for them. So that is growing at a very healthy pace and we are actually looking at something like upwards of 50% growth year-on-year in this area itself.

Shradha Agarwal: Right, and secondly, one data point. Could you give us the attrition numbers for this quarter?

Ganesh Murthy: The good news is attrition has come down across all the towers. We are reporting trailing 12-months attrition. So if you look at our attrition in Q3, Applications is around 25% as compared to 27% in the last quarter. ITO is around 26%. Since we are reporting trailing 12 months, it means that the July attrition is lower than that.

Moderator: Thank you. The next question is from the line of Pinku Pappan from Nomura Securities. Please go ahead.

Pinku Pappan: I was interested in knowing your inorganic strategy. Are you finding more opportunities in the market and would you be inclined to using your cash more for M&A opportunity rather than anything else, just wanted to know your thoughts about it?

Ganesh Ayyar: Our inorganic strategy has been consistently focused in areas which we chose as we have already said that we will have disproportionate investment as our focus. So we already made an acquisition for Insurance. Right now our focus is in three areas; one is something around Banking and Capital Markets, the other one is Emerging Markets and third is we are also looking at potentially new and emerging technology areas, whether we need to participate or not. Do not take this as if I am announcing that these are the areas where we are ready to do an acquisition in the next couple of weeks or months but this is where we are looking. We have an M&A team which actively manages this pipeline and this is one of the areas where we will be utilizing cash. We are obviously looking at other utilization areas for cash also and the Board will make an appropriate decision if the other areas become more attractive than the elements.

Pinku Pappan: Any update on the buyback that you are planning to do sometime? Previously, you were in discussions on buyback.

Ganesh Ayyar: This is something which is clearly one of the utilizations of our cash as I said. So Buyback, Real Estate, Dividend etc forms part of our cash strategy and at this point of time I have nothing to share in terms of Buyback. As and when the Board has a discussion on that, obviously we will be sharing it with the industry at large but it is part of our strategy to see what brings the best return to our shareholders and it is clearly one of the elements that we look at on a regular basis.

Pinku Pappan: Can you share the outlook on Javelina? I mean would the expenses on the development product continue in the near-term, when do you expect it to complete and is there a significant investment that needs to be done there again?

Ganesh Ayyar: I do not foresee significant investment because this has to do with some of the things which we got as feedback from the customer, which we need to work on, and Javelina is clearly a platform which we would like to see growing and it has been rated well by the industry. In fact, Gartner has rated it as a promising product in that space, which is very interesting because it is a small business and a small product but Gartner choosing to rate it as a promising product does open up some new opportunities. But from a financial standpoint, we do not foresee that this will continue for few more quarters like it has been. But operationally, we need to transform Javelina platform quality into revenue and profits. That is the work which we will focus on.

Pinku Pappan: My last question is on the transferring of Onsite contractors to own employees. Is more of that yet to come in the coming quarters or are you done with that kind of movement?

Ganesh Murthy: There may be some other cases where we see an opportunity to improve our margins and we will then exercise that opportunity. But by and large I think the major portion is over.

Moderator: Thank you. The next question is a follow-up from the line of Sandeep Shah from RBS. Please go ahead.

Sandeep Shah: You mentioned that regarding the Wyde Corporation acquisition, there would be some adjustment to be done for the cash which is lying. So last time you said it was $ 10 million. So is it like, it would be distributed as dividend before the transaction is concluded?

Ganesh Ayyar: The consideration that we have agreed on is based on cash free/debt free basis. So the question is when we are doing the closing, some of the excess cash which they have, whether we want to buy that cash and that is what Ganesh Murthy was referring to earlier and it is just a matter of a week or so when this will get finalized.

Sandeep Shah: So that means 2.5-3.5 times revenue is only a consideration for the business excluding the cash?

Ganesh Ayyar: Absolutely, because this acquisition was based on cash free acquisition.

Moderator: Thank you. The next question is from the line of Adesh Doifode from Systematix Shares. Please go ahead.

Adesh Doifode: Sir, any update about the ₹ 250 crores service tax refund?

Ganesh Murthy: Service tax refund has been a big problem in the IT industry. All the IT companies have this issue because we are primarily export-oriented and we depend upon the Government to give us the refund of the service tax which by law they are required to give it to us. We have been following up on this very consciously with the Government. In fact, tomorrow, we have a meeting with the Chief Commissioner in Bangalore where we will bring this topic up again and we are also receiving a lot of support from NASSCOM on this. So we are hopeful that the Government will listen to us, because we have very valid justifications and reasons for the refund.

Adesh Doifode: And any update about the leased SEZs in Pune, Chennai and Bangalore and what will it add on to the EPS in coming quarters?

Ganesh Murthy: In the last quarter, we have added three SEZs, two in Bangalore and one in Pune and this will help us of course to reduce our effective tax rate but we are pretty cautious on this because there are only new projects that can be put into this SEZ. You cannot of course transfer existing projects. So for that reason, it will only be new projects which we can start using the SEZ for. Currently, about 23% of our export revenue is through SEZ.

Adesh Doifode: And Sir, the Company is in discussions for Buyback or delisting is on cards around the first quarter next year?

Ganesh Ayyar: I am not aware of any delisting plan and obviously this is not disclosed at MphasiS or the MphasiS board level. The share buyback is looked at as part of the cash strategy as we look at what makes sense and that gets discussed on a regular basis. If we are taking it formally at that stage, we will certainly be informing the Stock Exchange before we do that.

Moderator: Thank you. We have the final question from the line of Priya Rohira from Enam Securities. Please go ahead.

Priya Rohira: Just wanted an explanation on the Offshore movement transition, which you have seen from 68% to 72% this quarter. Is it linked more with the Banking and Financial Services clients or is it a broad based transition which you have seen?

Ganesh Murthy: There is no transition as such. Essentially, the reduction in the revenue in Onsite is because of the transition from the subcontractors to own employees and that is the reason.

Priya Rohira: It is not a business transition per se?

Ganesh Murthy: It is not a business transition. No.

Priya Rohira: And could you also highlight on the weakness which you have seen in the Banking and Capital Markets?

Ganesh Murthy: The weakness is primarily on account of HP channel. If you take the Direct channel, we have actually grown by 10.5% quarter-on-quarter and the weakness in the HP channel as I already mentioned is because HP Enterprise Services worldwide have reduced their overall revenue. It has gone down by 2% quarter-on-quarter.

Priya Rohira: And the third thing is more if you could just give us some insight into what you are seeing from your European clients and more so in the Banking and Financial Services?

Ganesh Ayyar: As I said, today we are in touch with all our top clients to see what it is we are planning as a result of uncertainty which people are seeing in the marketplace. At this point of time, the only indication which we are getting is not specifically to the Banking and Capital Markets. It is cutting across the Industry because that is one of the things which is probably, if at all that is going to result in demand reduction, it may be more broad-based than just relating to some specific Industry. And right now, I think the focus is on the preparedness on customers' part. As a result, they are looking at what they can do around discretionary spend. So that is where they are. We have not seen tangible actions which are falling into demand reduction but we have seen discussions around the discretionary spend. That is not just restricted to Banking and Capital Markets, that is across the Industry.

Priya Rohira: And just a follow-up on the ITO people trend. We have seen a decline. While Mr. Murthy did highlight on the increase in utilization rate being a focus and reduction in bench, this is an absolute decline. So just wanted to get a little more color over there?

Ganesh Ayyar: Are we adding new clients? Is that the question?

Priya Rohira: I am referring to the employee base actually.

Ganesh Ayyar: The employee base reduction has to do with utilization improvement and nothing else. There is no systemic change in the business factors on ITO.

Priya Rohira: Just one last data point. Your volume growth is around 2.9%. Is it in line with the top-line growth right?

Ganesh Murthy: I mentioned already, that if you take those one-off items out of the equation then it is around 1.3%.

Moderator: Thank you. I would now like to hand the floor over to Mr. Ganesh Ayyar for closing comments.

Ganesh Ayyar: Thank you very much. First of all, I appreciate all of you joining us in this call. Our journey around growing our Direct business continues. We are clearly focused on operational excellence and preparedness as I mentioned earlier and our partnership will carry on with all of you. I look forward to connecting with you at the end of the fourth quarter.

Moderator: Thank you. On behalf of MF Global Securities, that concludes this conference.