MphasiS Limited

Q3 FY13 Earnings Conference Call
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MANAGEMENT: Mr. Ganesh Ayyar, CEO, MphasiS
Mr. Ganesh Murthy, CFO, MphasiS

Moderator Ladies and gentlemen, good day and welcome to the Q3 FY13 Earnings Conferences Call of MphasiS Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar of CDR India. Thank you and over to you, sir.

Varun Divadkar Good morning everyone and thank you for joining us on the MphasiS Q3 FY13 Results Conference Call. We have with us today Mr. Ganesh Ayyar - the CEO and Mr. Ganesh Murthy - the CFO. Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3 FY13 results announcement release that has been sent to you earlier. This conference call be archived and the transcript would be made available on MphasiS's corporate website www.mphasis.com. I now invite Mr. Ganesh Ayyar to begin the proceedings of the call.

Ganesh Ayyar Good morning everyone. Today we will discuss our operating and financial performance for the third quarter ended 31st July, 2013. I hope that you have had some time to go through the financial results and group overview document that we have sent to all of you.

Q3 was a robust quarter on all three fronts - revenue, profits and cash flow. On the revenue front, our consolidated revenue grew 9.6% quarter-on-quarter or 3.4% if you net off the rupee depreciation. The overall revenue growth will actually help us in improving margins in time to come. This is because it provides us with a platform on which we can work on the labour pyramid and it also enhances our operating leverage. The growth was on the back of a strong performance in the Direct business which grew 18.3% sequentially or 9.9% net of rupee depreciation. This has led to a significant improvement in the Direct versus HP business ratio to 59: 41 in Q3 FY13 as compared to 54:46 in Q2 FY13 and if you go back to Q3 FY12, it stood at 45:55.

On an organic basis, that is, without including Digital Risk, Mature markets within the Direct channel have witnessed a strong sequential growth of 20.6% or 11.3% net of rupee depreciation. It is gratifying to note that seven out of our top eight clients in the Direct channel exhibited quarter-on-quarter volume growth. In addition, Digital Risk continues to see strong growth trajectory as the large deal win of $102 million in the Forensics space last quarter starts to ramp up. Digital Risk now has an annual run rate of about $170 million. We have set up a new 540 seater facility at Orlando and a 114 seater facility in Denver during the quarter, which is now operational to support our growth objectives in the business. Emerging market business within the Direct channel witnessed a decline of 24% quarter-on-quarter as the company consciously exited its Aadhar and NPR engagements.

On the HP front, revenues have declined 0.7% this quarter to ₹ 644 crore. Net of rupee depreciation the revenue declined by 4% on a quarter-to-quarter basis. At this point of time we are attempting to build further visibility in our HP engagement with multiple strategies. At the same time, we have managed to significantly reduce our dependence on this business. Overall, we have built a robust pipeline and we have seen an improvement in decision-making cycles especially in the US market, reflective of the increased confidence from our clients. We remain focused on growing 1.5 times the industry growth going forward in our Direct business.

Now let me talk about the second aspect which is about profit and profitability this quarter. EBIT margins saw an expansion of 110 basis points this quarter to 15.8%. This improvement in EBIT margins is despite the salary hike which impacted our margins by 200 basis points. We gained around 170 basis points by exiting from low margin businesses, facility rationalization and other operational efficiencies. The weaker rupee contributed to 70 basis points increase in our margins and lower provision for doubtful debt contributed to the balance 70 basis points improvement.

Our net profit for the quarter grew 9.1% quarter-on-quarter to ₹ 193 crore. This was despite a quarter-on-quarter decline of 31.3% in Other income due to mark to market provision on account of reduced net realizable value of certain current investments. Further, there was a 160 basis points increase in the effective tax rate to 26.7%.

On the third front, that is cash, we continue to demonstrate strong cash generation. Cash generated from operations during the quarter was ₹ 313 crore. Cash and cash equivalents increased by ₹ 348 crores during this quarter to reach ₹ 2,688 crore. This was largely driven by sequential improvement of 10 days in the DSO to 75 days in Q3. We are taking a slew of measures in our Go-to-market strategy to provide further impetus to organic growth. We are adopting a ‘named account’ approach and making significant investment in our key accounts and will look to grow our wallet share in these select accounts. We are also increasing investments in presales across several horizontals ranging from BPO, analytics, mobility, CRM, supply chain management, ERP and testing.

So let us summarize – Q3 has been a strong quarter delivering a robust volume growth of 3.4% at the consolidated level. Our investment in hyper-specialized solutions and renewed Go-to-market strategy is translating into strong momentum in the Direct channel. Further we remain committed to making the Digital Risk acquisition a success and improving its margins profile going forward.

On that note, I thank you for your continued interest and let me ask the moderator to open the lines for questions. Over to you moderator.

Moderator Participants will now begin the question and answer session. We have the first question from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Ganesh, I just wanted to understand how the deal pipeline is looking. Obviously you have won a large contract in Digital Risk but other than that are you seeing more similar deals there?

Ganesh Ayyar Thanks for asking the question. We are seeing a fairly healthy pipeline in the US market. If you compare the type of pipeline that exists today versus what used to exist, let us say 24 months before, it is quite different. The Emerging services model is increasingly being seen as a value addition that customers are looking for, so the investments that we have made are helping us. So to summarize, there is good pipeline and good opportunity, and we believe that we will stay focused on delivering that 1.5x of the industry in the Direct space.

Pinku Pappan No, my question was specifically to Digital Risk. Now you won a $102 million deal; are you seeing similar such deals in the market, potential to win?

Ganesh Ayyar Digital Risk is a very focused company and they do not look at a number of deals. They are focused on select deals and as far as select deals are concerned, pipeline is very healthy and we see opportunity not only in terms of pipeline but also in terms of adjacencies and so we continue to stay focused on doing that. We have won some deals in the recent past and when we come closer to Q4 we will be able to announce those specific wins. So the answer is, yes we see reasonable potential for Digital Risk to continue to grow.

Pinku Pappan And when are you going to reach steady-state in that $102 million deal?

Ganesh Ayyar It will take between 2 to 3 months for us to reach steady-state.

Pinku Pappan So by next quarter you should be already in the steady-state mode?

Ganesh Ayyar Yes.

Pinku Pappan My second question is on your ADM portfolio; what percentage of revenues would HP be contributing there and what is the outlook of the business outside of HP there?

Ganesh Ayyar I will answer the second part of your question; ADM is still a good area to be in. For you to get invited to bid you need to be in the path of relevance of customers. So if you are in the path of relevance there is reasonable opportunity available in the market. As for the ratio between HP and us on the ADM space I will get Ganesh Murthy to give an answer.

Ganesh Murthy Regarding the breakup of ADM revenues between the Direct channel and the HP channel, 60% of the revenue is Direct channel and 40% is HP.

Pinku Pappan And lastly, you talked about the improving the margin profile of Digital Risk. What is it today and how has it improved since you took it over?

Ganesh Ayyar We don't announce Digital Risk profits separately but it has improved compared to before and we're on track,

Ganesh Murthy I just want to emphasize that we are on track to achieve the targeted goal of 15% EBIT and currently Digital Risk is exceeding targets both in terms of revenue as well as in terms of EBIT.

Moderator We have the next question from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu Could you give us more detail about this Direct Mature Markets growth at 11%, what were the key drivers for that?

Ganesh Ayyar Key drivers have been that we actually started investing big time into a renewed model for Go-to-market and we adopted a named account approach and this has been in place for the last 10 months or so which helped. If you look at my comments earlier, out of our top eight accounts, seven accounts had good growth. This was a major change we made where we also started making investments around specific customers as to presales, domain expertise and so on. Of the many things that we have done this was probably the major driver.

Madhu Babu And in terms of headcount I think from next quarter we would be net hirers because hiring has just started to pick up in some segments and what would be that impact on margins because I think utilization has peaked out now?

Ganesh Murthy We are running at quite a high utilization but we will keep a close watch on hiring. We hire just in time based on the demand requirement and will continue to do that.

Madhu Babu What proportion of the HP revenues is the pricing linked to the INR; we had a part of price which we would re-adjust based on the INR drop?

Ganesh Murthy It is about 40%.

Moderator We have the next question from the line of Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu My question is regarding the margins and their performance looks impressive. I think in your initial comment you spoke about 70 bps gain from currency and another 70 bps from doubtful debt. Could tell us how much is left on the doubtful debt side that could help margins going forward and secondly how should we think of rupee depreciation versus your margins because historically I think you have said that it does not really add a lot to the margins?

Ganesh Murthy Let me answer both these questions. First of all, on the provision for doubtful debts we do not anticipate any significant provisions going forward. If we anticipate that there is going to be a delay in collection or any difficulty in collecting a particular debt we have to make accruals based on our accounting policy. Regarding your question on the overall impact of the rupee depreciation on our margins, you are right, we have a fairly long-term hedging strategy and the whole purpose of this hedging is to reduce the volatility in our earnings and in our revenues. I think the hedge has done a wonderful job of reducing the volatility but in spite of the hedge we do gain. The gains would be muted but for every 1% rupee depreciation we would add about ₹ 15 million to our EBIT.

Abhiram Eleswarapu And would you also be able to tell us what percentage of your revenue comes in different currencies, so that we'll be able to figure out that for ourselves?

Ganesh Murthy Around 25% comes in Indian rupees and the balance is all foreign currency.

Abhiram Eleswarapu And also costs if you could share given that Digital Risk is fairly on-site business?

Ganesh Murthy Cost of the entire on-site headcount and most of the selling expenses will be in foreign currency.

Abhiram Eleswarapu I was looking at your segmental margins it looks like the Emerging Industries margins seem to have expanded quite a lot where as the other segments probably have fallen. Could you explain the sharp jump in this emerging industry, I think it is the gross margin slide if I'm not mistaken that seems to some 8% or 9% increase?

Ganesh Murthy Yes, and that is primarily because of our conscious decision to come out of the India government contracts. Those were all low margin accounts and since we have no revenue from these accounts in Q3, the margins have improved.

Moderator We have the next question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta Can you let us know what is the outlook on the HP business, do you see some stabilization in terms of the HP business going forward or the declines here could continue and when do we see or what level do we see stabilization starting to happen here?

Ganesh Ayyar If you look at the last quarter the decline was 70 basis points and net of rupee depreciation it was about 400 basis points. Of course we are going with different value proposition etc. At this point of time my view would be that the HP business will continue to decline at least for the next couple of quarters.

Ashwin Mehta Secondly in terms of our ITO business if you look at it there is a decline in revenue in rupee terms as well as close to 20% over the last two quarters. We were trying to reconcile the calculation here because INR has depreciated, headcount is largely flattish, pricing was also flattish and utilization has improved, so what is it that is leading this revenue to decline?

Ganesh Murthy This is again due to the India government contracts. All the India government contracts have been classified as ITO services. We have seen a decline in the last two quarters since we took a decision to exit from this business,.

Ashwin Mehta So basically the pricing there reflects more on our international business in the ITO?

Ganesh Murthy Yes, this is because in the Indian government contracts it is not per hour billing, it is more of transaction-based pricing.

Moderator We have the next question from the line of Sonal Kohli from Resolute Capital. Please go ahead.

Sonal Kohli What would be your organic volume growth for this quarter considering last quarter the acquisition that you did was only for 79 days and secondly how do you expect your margins and pricing to be going forward?

Ganesh Murthy If you want our overall volume growth, that is without considering the rupee depreciation, the overall volume growth was 1.9% positive on a quarter to quarter basis. But I think your question is without considering the Digital Risk acquisition, what was your growth? The Direct channel grew in volume terms by 6.8%; that is without considering the 10 days of Digital Risk on a normalized basis. If you look at the Direct channel Mature market organic growth, as Ganesh Ayyar mentioned, in volume terms, that is without the rupee depreciation and without Digital Risk, we grew 11.3% quarter-on-quarter. Let me also add that Digital Risk, on a normalized basis and without rupee depreciation grew by 10.8% quarter-on-quarter.

Sonal Kohli How was the HP volume growth and how would you expect your margin and pricing to be going forward?

Ganesh Murthy On the volume growth, there was a volume decline in HP of 4% quarter-on-quarter.

Sonal Kohli How would you expect pricing to be going forward, would you expect any pressure on pricing?

Ganesh Murthy There has been no pricing pressure from any of our clients this quarter and we don't anticipate any.

Moderator We have the next question from the line of Akshit Gandhi from Aviva Life Insurance. Please go ahead.

Akshit Gandhi You mentioned about certain mark to market losses on realizable value in investments which got reflected in other income, would you please clarify that a bit?

Ganesh Murthy In the month of July, the yield of the Government Securities increased sharply because of the measures taken by the Reserve Bank of India to contain liquidity and because of that the net asset value in many of the debt mutual funds that we invested in has come down. We are supposed to mark to market that so we had to incur a mark to market impact of about ₹ 20 crores. But again I want to reiterate that this is only a notional accounting loss. Once the NAV goes back we will recoup the losses because we have not redeemed these investments.

Akshit Gandhi Also I wanted to understand if you have a net monetary asset then based on rupee depreciation it should get reflected into translation gains, so that also comes under other income, is that correct?

Ganesh Murthy All our foreign currency denominated current assets will be restated and that comes into the exchange gain.

Akshit Gandhi Also two things from my side on the strategy, how do we plan to utilize the cash which is increasing per share?

Ganesh Murthy Since last year the Board has been following a 50% dividend payout policy. So last year we declared a dividend of ₹ 17.00 on an EPS of about 37 which was about 50% payout and our intention is to continue with this policy. That is one way where we can give back 50% of our profits to our investors and the balance 50% will be meant for various capital investments and for growth.

Akshit Gandhi We have been hearing for quite a while rumors about HP trying to sell out MphasiS stake, so your comments on that because it gives a lot of confusion in the market and the volatility also?

Ganesh Murthy We have no comments on that.

Moderator We have the next question from the line of Sandeep Shah from CIMB India. Please go ahead.

Sandeep Shah One clarification, you said that 25% of your invoicing is in the INR and if you look at India as a portfolio it was closer to around 6% so it indicates that closer to 19% to 20% off your export portfolio is built in the INR which could be largely through HP channel, so here with the rupee depreciation will this lead to any change in terms of the INR rate card with the export clients?

Ganesh Murthy Let me point out that when we talk about billing in INR it is billed and will always be billed in US dollars or foreign currency. What happens is that with some clients we have an India rupee rate card and it is converted at a month end exchange rate into USD and then invoiced to the client.

Sandeep Shah So you mean to say that it will not have any impact?

Ganesh Murthy It will not have any impact.

Sandeep Shah Second I think in terms of hedge, even entering into FY-2014 you believe the sensitivity would remain more or less versus what you have said earlier?

Ganesh Murthy Yes it will remain more or less like this. The only thing is that as we move further down the year, because we follow a monthly rolling hedge policy, the hedges that we have contracted are at a higher and higher rate. So you will gradually see that impact increasing.

Sandeep Shah But the current hedges which you are taking now, will those expire in FY14 or may expire beyond FY14?

Ganesh Murthy It will expire beyond FY14 because we do not take any short-term hedges; we hedge one year ahead.

Sandeep Shah So whatever is due to expire in FY14 those hedges have already been taken earlier before the sharp rupee depreciation?

Ganesh Murthy That is correct.

Sandeep Shah Now just the last question in terms of the Direct channel Mature markets business excluding the Digital Risk, the growth last quarter was also 6% this quarter is also 10%-11% and this looks almost highest amongst all the peers including large caps and the mid-caps, so is it a growth driven through one or two deals or are you witnessing growth across most of your clients within the portfolio?

Ganesh Murthy It is actually a widespread growth because as I mentioned out of our top eight customers seven of them have exhibited volume growth quarter-on-quarter. So it is not one or two deals, it is across the board.

Sandeep Shah And those seven accounts, are they largely BFSI based because if I’m not wrong I think BFSI is your largest portfolio within your Direct channel Mature market?

Ganesh Murthy Correct.

Sandeep Shah So what type of growth are you witnessing here like is it more like a non-discretionary portfolio or it is a discretionary portfolio?

Ganesh Ayyar Actually, it is a combination of both and please remember that we also have BPO in that portfolio. In that context, it is not just restricted to APPS, it is extending to BPO as well.

Moderator We have the next question from the line of Shashi Bhushan from Prabhudas Lilladhar. Please go ahead.

Sashi Bhushan There is a decline in the sales and distribution team by 16 members, from 350 to 334, any specific reason or it is just a quarterly aberration because this is the lowest ever we have started reporting this number?

Ganesh Murthy With regard to the decline, we transferred some people to delivery because they wanted to take delivery related roles and become a delivery manager; we transferred 10 people to delivery, so their cost will be reflected in COR and not in selling.

Shashi Bhushan And what is surprising is that the S&M costs have gone up by 13% quarter-on-quarter even though the currency depreciation is nearly 7% to 8% only?

Ganesh Ayyar We are making investments in marketing spends and have enhanced investments in various portfolios; this is reflected in the selling. It is part of our plan to increase our selling; we believe that our selling expenses are slightly less than what we want to them to be.

Moderator We have the next question from the line of Kunal Tayal from Bank of America. Please go ahead.

Kunal Tayal I just wanted to go back to the outlook in your Mature market direct channel, you mentioned that 7 out of 8 clients are witnessing growth, could you talk about what kind of expansion in pipeline is that leading to and secondly outside of your existing clients is there also success in terms of winning new accounts here?

Ganesh Ayyar Let me take the second part of the question on new logo wins. Yes, we have had some success in new logo wins. As you know, we have added 15 clients overall out of which 10 were in the Direct space, so we did have new logos but at the same time if you analyze the entire industry you would realize that new logos tend to contribute anywhere between 2% to 4% of the revenue in a given year, and our profile would not be significantly different from that unless we clock a very very large deal. So I do not have any significant large deals to report other than what we have mentioned with regards to Digital Risk. And the portfolio growth with these accounts in the pipeline, as I see it is that we do see good pipeline, good projects in the stream but some of these projects are more in Emerging services than just the Traditional service.

Kunal Tayal So does it also time with the fact that you are talking about improved decision-making because some of the emerging services could be projects of a shorter duration and hence may be that is why it is easier to take decisions?

Ganesh Ayyar Not really, because the business model is different. Let’s talk about mobility, data and analytics. Mobility deals tend to be much smaller, so in that context the decision-making becomes easier but because there are too many players in the market you need to have very specific value. The moment you talk about data, deals can be fairly large and significant and it has a widespread bearing on the organization so it takes a longer time to decide on these deals, and when it comes to analytics, depending on what type of analytics the deals can be decided, the deal size can be smaller or larger and the decision-making cycle fluctuates accordingly.

Kunal Tayal Last question, just continuing on decision-making so net-net would you think that decision-making is better both in terms of deals that are both short cycle in nature as well as long cycle or for now concentrated towards short cycles?

Ganesh Ayyar Right now I would say that the smaller deals tend to have faster decision-making and longer deals will have a bit more scrutiny. While everybody is exuberant about the growth coming back into US, I would say that they are still cautious having gone through tough times before. Europe is still very soft, so the current exuberance seems to be more around rupee depreciation which is causing it but if you take that out, the challenges that we are facing haven't gone away completely.

Moderator The next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Firstly, if you could share the effective date of the wage hike and the quantum?

Ganesh Murthy The wage hike was effective from the 1st of May, so we have had the full impact of the wage hike in this quarter. The amount of the wage hike is approximately 7% for offshore employees and about 3% for onsite employees.

Rahul Jain And secondly, considering the fact that HP revenue share is coming down and we are exiting the India business, do we expect our EBIT margins to expand here on significantly?

Ganesh Murthy It has been our intention to keep our EBIT margins between 15% to 18% and we have done that. In the short-term, somewhere between 15% to 16% is where we look at our EBIT margins because we will continue to make investments in sales.

Rahul Jain So that I agree that the gains should be reinvested but considering the fact that the rupee denominated revenue is coming off and considering the currency we are into and also I think some of the business which we have exited would have lower margins than the rest of the portfolio which we have now, so on the like-for-like basis what could be the gain there?

Ganesh Murthy We have various levers. First of all we have already got out of many of the low margin projects; we continue to remain focused on that and we very aggressively either renegotiate rates or we come out of those projects. The other lever for us is actually pyramid management which Mr. Ayyar also referred to because once you are exhibiting a net overall growth you have the opportunity to actually go for campus hires and then widen the shape of the pyramid.

Rahul Jain I completely agree, in fact my question is that in my understanding considering the low margin business is out, I think we have substantial scope of margin improvement going forward, so do you agree to that?

Ganesh Murthy No, I'm not commenting on that specifically. All I'm saying is that whatever gains we make both in rupee depreciation as well as from profit improvement strategies, we will continue to reinvest in the form of sales investments.

Moderator We have the next question from the line of Pratish Krishnan from Antique Stock Broking. Please go ahead.

Pratish Krishnan Just wanted to understand the Digital Risk, it seems like that revenue growth has been almost 13%-14% in the quarter, so is this largely dependent on the $100 million deal win that you had during the quarter or is it yet to play out over the next one or two quarters?

Ganesh Murthy It is a combination of both. We actually grew in volume terms on a normalized basis. So if you disregard the 10 days extra effort that came in this quarter and you go on a normalized basis in terms of volume we grew by 10.8% quarter-on-quarter in Digital Risk. We have also taken 650 seats across two facilities as Mr. Ayyar mentioned and we have already started delivering revenues from July onwards from the large deal win. So it is a combination of two factors and going forward we still continue to see strong growth in Digital Risk.

Pratish Krishnan And the nature of work here, should we assume that once the deals have ramped up they will be more or less it will grow as annuity kind of business or it should be prepared for some ramp downs at some point of time?

Ganesh Murthy This is based on the number of loan files that we review and it is also related to the mortgage industry growth rate, it is not really projects specific. So, as and when the financial institutions or banks have more mortgage files to review, they will pass it on to us and our revenues will grow.

Pratish Krishnan And lastly on the capex, are you seeing capex kind of increasing over the last two quarters, any number that you want to give for the full year and even for the next year?

Ganesh Murthy Nothing very significant. Increase of capex this quarter was largely because of Digital Risk expansion. As I said, we took two new facilities, so we have invested in that but otherwise I don't find any significant capex plan.

Moderator We have the next question from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta Just wanted to understand improvement in DSO, what impact would be there because of exit of India business and whether this would be sustainable kind of DSO considering India business used to have higher DSO?

Ganesh Murthy It is not only India DSO. India revenues contributed a small proportion of the total revenues, that is, about 5% were the Indian government revenues; we have seen improvement in DSO across various clients and across various business units.

Dipesh Mehta So we expect it to be sustainable current levels?

Ganesh Murthy Yes, between 70 to 80 days is a good level to have.

Dipesh Mehta Second question is about the margins, considering rupee depreciation you suggested a range of 15-16% in short-term and now in short-term rupee is much weaker, so you maintain that 15-16%. Even if we compare the current quarter benefit to where the rupee is today, do we still hold short-term 15% to 16% kind of view?

Ganesh Murthy Yes, because the idea is that we want to continue to reinvest in sales and in portfolio management. Hence, we believe that we need to continuously reinvest so at least a portion of the gains will be ploughed back.

Deepesh Mehta So can you just give more detail about what kind of investment we are looking at because the gain what we are seeing from currency appears to be sizeable, so if you can help us understand what kind of investment we are looking at in short-term to improve our overall offering?

Ganesh Murthy There are multiple investments. As I mentioned the last time, we have formed a horizontal sales team called the Specialized Market Unit and we are hiring sales experts in this to sell various identified portfolios like Testing, BPO and CRM, Analytics and Mobility. Further, for each of these portfolios we are investing in preparing various frameworks and various solutions. So that is one of the investments. The other investment is we have a named account approach and we have segmented the market into various platinum accounts and gold accounts, and for these accounts which are our key accounts we will be making significant investments in the form of on-site solution architects and delivery leaders.

Deepesh Mehta And the last question on effective tax rate, what are we looking for 2013-14 effective tax rate because it appears to have increased this quarter?

Ganesh Murthy Yes, it has increased this quarter as I mentioned because of the full impact of the 5% surcharge plus the full impact of two out of our six SEZ units now finishing their five year tax holiday. Going forward, in Q4 we will see our effective tax rate at around 26-26.5% i.e. around the same range. Next year we will probably see a slightly higher tax rate of around 27% assuming the surcharge continues to remain.

Moderator We have the next follow-up question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta Can you just let us know what the OCI loss is that is sitting in the balance sheet?

Ganesh Murthy It is about ₹ 135 crore as of 31st of July.

Moderator Participants that was the last question. I would now like to hand the floor back to the management of MphasiS Ltd for the closing comments. Thank you and over to you.

Ganesh Ayyar Thank you. Once again thanks to everyone for being supportive and being interested. We will continue to strive to deliver superior results and if we don't meet face to face, we will meet again on the next quarter call. Thank you so much.

Moderator Ladies and gentlemen on behalf of MphasiS Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.