"MphasiS' Q2 FY13 Earnings Conference Call"

May 30, 2013

MANAGEMENT: **MR. GANESH AYYAR, CEO, MPHASIS**
MR. GANESH MURTHY, CFO, MPHASIS

Moderator Ladies and gentlemen, good day and welcome to the MphasiS Q2 FY13 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you, sir.

Varun Divadkar Thanks Marina. Good morning everyone and thank you for joining us on MphasiS' Q2 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 statements made in today's discussions may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q2 FY13 Results announcement release that has been sent to you earlier. The conference call will be archived and the transcript would be made available on MphasiS' corporate website – www.mphasis.com. I now invite Mr. Ganesh Ayyar to begin the proceedings of the call.

Ganesh Ayyar Thank you, Varun. Good morning everyone. Today we will discuss our operating and financial performance for the second quarter which ended on 30th April, 2013. I hope that you had time to go through the financial results and group overview documents that we have sent to all of you.

To begin, I would like to state that Q2 has been a fairly satisfactory quarter, both on an organic and inorganic basis. Our consolidated revenue has grown 11.8% quarter-on-quarter, or 12.1% if you net off the forex impact. The acquisition of Digital Risk is going well. We reached a milestone this quarter in terms of our Direct business. Our Direct business crossed the $500 million per annum run rate and it became 54% of our business.

Let me give you a little more colour on Direct business. Our Direct revenue grew by 24.8% quarter-on-quarter including Digital Risk and 37.7% on a year-on-year basis to ₹ 775 crore in Q2. The Direct channel contribution has now crossed the 50% mark with the Direct versus HP business mix at 54:46 in Q2 as compared to 48:52 in Q1. Mature markets within the Direct channel witnessed a robust sequential growth of 5.2% on an organic basis. Our pipeline continues to be strong in the U.S and we remain focused on growing 1.5x the market going forward. A few quarters ago, we formed a large deal team and I am delighted to report that the team has secured its first large win by winning a contract with an international insurance company. This contract is for $14 million with an upside of another $26 million of discretionary services. Besides, in the current quarter, just in the beginning of Q3 Digital Risk has secured its first major win after the acquisition closure, signing a $60 million contract which is confirmed and with a potential upside of another $42 million based on further volume. Digital Risk now has a run rate of $155 million as compared to $127 million in 2012. I would like you to note that the financials for the quarter under review included 79 days of contribution from Digital Risk as stated in the group overview document.

Let me move on to Emerging markets. The Emerging market Direct business saw a decline of slightly more than 35% in Q2. This is as per plan. We have decided not to grow new business in the government segment because it did not fit in with the model we had in mind in terms of doing business. We will complete all the existing projects and they will get completed over the next two quarters. As far as other type of business in the Emerging geography is concerned, which is BPO or Applications, it continues to be lucrative and focus areas for us. Direct business on an overall basis saw an addition of 10 new logos this quarter, out of which 6 were in our focus verticals of Banking and Insurance - 4 in Banking and 2 in Insurance.

Moving on to the HP front, our revenue saw a decline of 1.8% this quarter to ₹ 648 crore. We do not expect a return to growth in the near future. For the last 10 quarters, we have seen a decline and believe this will continue in some shape and form. Obviously we would like to see this stabilizing and growing but at this point of time our visibility on stopping the decline for this business is not there.

Now moving on to profit and profitability for the quarter, our EBIT margin was at 14.7% as compared to 15.5% last quarter. This is on account of the portfolio mix, due to Digital Risk becoming part of our overall business and they are a lower margin business. Out target is to improve margin profile of Digital Risk to the company level over the next 3 years. Net profits for the quarter came lower at ₹ 177 crore on account of lower other income and increase in the effective tax rate. Other income was lower as funds were deployed towards the acquisition of Digital Risk as well as for payment of dividends. Effective tax rate increased 280 basis points sequentially to 25.1% due to higher tax rate on Digital Risk profits, increase in surcharge by the Government of India with effect from April 2013 and the initial 5 year tax holiday period coming to an end in some of the Company’s delivery centers located in SEZs.

Now for some operational parameters - Utilization rates were up to an optimal level of 88% in the Application's business and 91% in the Infrastructure business. The improvement was on account of some lower utilization due to furlough last quarter.

Cash generation continues to be healthy with ₹ 264 crore generated from operations this quarter. The DSO saw an improvement of four days in Q2 to 85 days and we expect to see further improvement going forward on these parameters.

With regards to the demand environment, we see good traction in the U.S and India markets for our Direct business. Shift in the way IT services are delivered continues to be a very visible factor in the market place. So, the strategy which we adopted two years ago, of hyper-specialization and building next generation services has enabled us to be market relevant and that has helped us to have a good pipeline. Pricing has been stable across all businesses.

So let me summarize. Q2 has been a good quarter. Our hyper-specialized approach is generating positive results in the Direct business. Digital Risk acquisition is doing well. We continue to stay invested in our Go-To-Market activity and improve sales effectiveness. Our focus will be on growing wallet share in select accounts and increase investment in pre-sales activity across all horizontals, whether it is BPO, Analytics, Mobility, CRM, Supply Chain Management, ERP and Testing.

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

Moderator Sure sir. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Manas Singh from Amsec. Please go ahead.

Manas Singh My question is more from an investor point of view. Since the time we have been taken over by parent HP, initially it was the margin contraction that the company saw. Post that we have seen volume declines affecting our company and that is also is reflected in the stock prices in last 4 years. How does the management see this? Is HP eroding shareholder's value with revenues expected to decline further, going forward? So what is there specifically that we are trying to do? I know we are addressing lot of aspects, generating our non-HP business and things like that but any thought process or anything that management has experienced in last 4 years and how does it want to tackle it?

Ganesh Ayyar Let me answer that question in a way it actually transpires. HP is a majority shareholder and HP is a big partner of ours. HP has been absolutely professional about it and there is a Chinese wall between these two relationships. They do not mix their shareholding with the partnership arrangement. Neither do we mix those two things. So when we talk about our business volumes with HP as a partner we focus on them like any other customer. We are keen to see how we grow this business. Now it is unfortunate and I share your point of view, for the last 10 quarters we have been seeing declines. We are attempting multiple things to see how we can arrest the decline. Unfortunately none of those things have produced results and obviously, me as the CEO and the rest of the team within MphasiS, the leadership team and the sales team are very pained that an outcome is not available where we can return to growth on HP business. But that is them as a partner. Now the fact that we do not mix it up with shareholding and neither do they mix it up as a professional company tells me that we should not be discussing their shareholding in the same breath as the business that they are giving. Do we have to go and find a way to arrest this decline and to see this decline returning to stable position and to growth? Yes we need to. We have attempted 2-3 different things over the last 10 quarters. None of them have worked. In some sense, the Q2 decline has been lower than other quarters but is that going to be a trend? No, I cannot confirm that. We will keep trying. But to say that they are destroying shareholder value and is there is an underlying assumption that these two relationships are linked, having been the CEO for the last 4.5 years, I can confirm that HP at no point of time has linked these two relationships and neither do I want them to link it. They have been professional about it and we would want them to continue the same way. Hopefully that answers your question.

Moderator Thank you. The next question is from Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Ganesh, please talk about the deal environment, the pipeline, the kind of deals you are seeing in the pipeline and also the efforts that your large deals team is putting into kind of increasing your win rates and also to get more deals.

Ganesh Ayyar There are two trends which are fairly visible in the market. They were kind of there for the last 6-8 quarters but they are becoming very prominent and very visible and that is what is getting played out in the industry. One is the so-called traditional business that all of us are involved in, in terms of off-shoring and out-sourcing. This is undergoing a fundamental shift because customers themselves, the way they are using IT and IT systems, are shifting to newer next generation models. They have got investment in the so-called old model or traditional legacy systems so they are trying to figure how to exit theirs in a least costly way and enter the next generation model. So it does present an opportunity to all IT services companies in that sense, in the traditional space. However, to play in the traditional space you need to be present in the next generation space. So as a mid-sized company, we made this choice with all the Board’s support and our employees coming together to say that we want to be hyper-specialized and have a portfolio which has next generation services available. That has enabled us to have a value proposition which opens us up for next generation services as well as for the traditional services. In that sense, I clearly see that the U.S market has good demand, if you are in that space. But the European market has not picked up. Our own pipeline is strong. Our large deals team has won one deal; however, it is too early to claim victory because we want to see this as a pattern. We are very stringent about deal qualification. There are deals in the pipeline. We are facing large deals as we speak and the fact that we have already got one win gives us confidence. So in general I see good demand in the U.S market place. European demand is very muted and I believe that that will continue to be the case over the next 4-6 quarters at least.

Pinku Pappan What is the kind of deal sizes that you are seeing today in the pipeline? Are you also seeing many of these rebid deals where clients are looking to move on to different vendors?

Ganesh Ayyar Vendor consolidation is a trend, not only from the point of view that the budgets are shrinking; it is also because they are looking at moving on to the next generation model. So to some extent they want to consolidate vendors in the traditional services and invest in areas in next generation services. So that is obviously creating opportunities. It is a double edged sword so we need to make sure that we are taking care of our existing customers by providing stellar services. The good news is that our customer satisfaction rating has been consistently high over the last 5 quarters which gives us comfort that at least our defenses are well established and it does open up opportunities because we can enter into deals which are being served by other vendors today.

Pinku Pappan And lastly, on margins, you have a salary hike coming up next quarter. Could you just tell us what is the average hikes you are giving and what is the kind of impact that you see on margins - whether you will be able to hold on to current quarter margins?

Ganesh Murthy We have given an increment, both off-shore as well as on-shore. Off-shore ranges between 6.5% – 7% and on-shore is around 2.5% - that is the size of increment we have given. The impact of this will be about 200 basis points on the EBIT margins starting from Q3 onwards and we are planning to offset this. It will largely be offset because of the favourable hedge position that will occur in Q3. As you may notice, adjustments from our hedging reserve have consistently been coming down, quarter-on-quarter. This quarter we did about ₹ 17 crore of losses. Next quarter we expect this to turn positive since these hedges have been contracted more than one year ago. That is one impact. The second impact that will offset the salary increase is the one-time expense of provision for doubtful debts that we have in our P&L. We have charged off ₹ 11 crore in this quarter as provision for doubtful debts which we believe is for a one-time item.

Moderator Thank you. The next question is from Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu My question is regarding your condensed financial statements. There is a point on contingent liabilities where you say that there are claims against the group not acknowledged of about ₹ 5 billion which seems to have increased quite a bit from about ₹ 1 billion, 6 months ago. I was just trying to understand what was the nature of this?

Ganesh Murthy Like any other IT company we have transfer pricing demands on us. There is also a withholding tax demand that has come in recently. We believe that these demands are not valid and that we have been fully compliant with the law and we have taken expert legal advice to arrive at that conclusion.

Abhiram Eleswarapu So this is related to tax claims not claims by some other parties.

Ganesh Murthy It is actually withholding tax claims that have been raised by the Indian Income Tax department. We have consulted legal experts and we believe that these claims are not tenable in law and that we are fully in compliant with the provisions of law.

Moderator Thank you. The next question is from Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah Can you give some update in terms of the efforts on joint Go-To-Market with HP? Are there any signs of revival there?

Ganesh Ayyar We are working on newer ways to see whether we can win some deals. So after a long duration we are happy to share that we won a new logo of reasonable price together with them and this new logo to us is about $9.5 million total contract value. So we are trying it out. Now whether this can be sustained, time will tell. So that is where we are on joint Go-To-Market with HP, Sandeep.

Sandeep Shah If you observe their Enterprise Services for the last 2 quarters, consistently there is a sizable decline in their revenue. So, do you foresee that this could be a risk going forward in terms of any of these businesses been offered from you from the off-shore destination?

Ganesh Ayyar Instead of commenting on their decline, if we look at our last 10 quarters, business of ours with them has been declining and one of the factors which is contributing to that decline is the fact that with customers where we were working together, some of those customers, either the projects went away or the contracts went away and that has caused our business to go down. So as I mentioned, do I feel this business coming to a stable position and growth position in the coming 2-3 quarters, the answer is no.

Sandeep Shah Sir, in terms of the Direct channel Mature market do you believe the growth momentum of 4%-5% as a likelihood to continue and if yes, what is driving that confidence?

Ganesh Ayyar As I said, I would not talk about it quarter by quarter. But if you take a rolling 4 quarters view, or rolling mid-term view, if I may, then our confidence is still there that we will beat the market and we will grow at 1.5x.

Sandeep Shah Sir, when you say 1.5x can you give some more light in terms of number of deals in the pipeline and our win ratio in the last 1-2 quarters for the Mature market Direct channel?

Ganesh Ayyar Well, that is too detailed for me to provide it but in general I would say that the average deal size has climbed up. We have tightened up our process of qualification, so our win rates have gone up. We as a company have decided to focus on named accounts. So we do not chase every deal that moves. That has helped as well. As a result, our client additions are more meaningful and more sustained. Those are the positive signals. The number of large deals in our pipeline has gone up but I cannot provide you specific data with regards to our pipeline.

Sandeep Shah The annualized run rate is now more than $350 million so it looks like that on an ongoing basis, even to grow at 10%, we may have to add $150-$160 million worth of TCV for the new business. So, you believe that we already have the infrastructure to do this?

Ganesh Ayyar I believe that we have the engine to deliver 1.5x growth and the strategy and the portfolio because everything has to come together over a mid-term period.

Sandeep Shah Sir, just further to that, do you believe now, with the improving deal pipeline, the utilization rate has to be curtailed and you have increase the bench to tap the growth which is coming in the Direct channel?

Ganesh Ayyar We do not intend relaxing our operational intensity. When I talk about hyper-specialized model, we also want to see that the hyper-specialized model plays a bit more into the area of IP or newer business models, if I may. While it would not be a predominant portion of our business I clearly see that growing at a faster pace than the traditional business in time to come.

Sandeep Shah Do you believe that the sizes of the deal of hyper-specialization on new delivery efforts are leading to higher size deals for you to grow at a healthy pace because generally such kind of deals are small in sizes?

Ganesh Ayyar If you take the area of mobility you are absolutely right, the deal sizes are relatively smaller. The issue is slightly different. As I mentioned earlier, if you do not have hyper-specialized solutions, you will not be in the path of relevance of your customer and if you are not in the path of relevance of your customer, your ability to become a strategic partner of your customer goes down tremendously and if you continue to be just a traditional player, over time you will get marginalized. So you cannot view hyper-specialization and next generation services in isolation of your traditional business. You need to have it in order to stay relevant even in the traditional business.

Sandeep Shah Sir, in terms of the Direct channel Emerging market, when do you believe that there would be a revenue stabilization because there is an effort from our side to exit some of the India government business?

Ganesh Ayyar In two quarters, we hope to exit the entire part of the India government business.

Ganesh Murthy We have made significant reductions in this quarter. We are not accepting any new business. We have actually refused to participate in three RFPs that were floated in Q2. We will see a minor decline in Q3 and by Q4, we should be having no India government revenues in our P&L.

Moderator Thank you, sir. The next question is from Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira My first question relates to the Infrastructure Management Services. If you could share the break up between HP and non-HP and what is the thought process or strategy going behind rebid market actually?

Ganesh Ayyar I will get Ganesh Murthy to quickly get you some data on the split. Then I will talk about the plans ahead for us to grow that business. Ganesh you have the data?

Ganesh Murthy Predominantly more than 80% of our IMS business is HP channel and Direct channel contributes to about 20% of IMS volumes.

Priya Rohira But what part of this would be India business which we should not take into consideration?

Ganesh Murthy We are talking about this quarter so India government business in this quarter is very minimal.

Priya Rohira Sure. So 20% in IMS would be non-HP in true sense?

Ganesh Murthy That is right.

Ganesh Ayyar Okay, now let us talk about our strategy going forward. First of all, we have a very high quality delivery process and delivery people. In fact we got certified two weeks ago in CMMI 3 for that business which is a welcome move. Second part is that once you have a robust delivery structure, as part of our infrastructure services we built a framework using open source code software, called MOATIS. We have just announced a new version of it and have plans to take it into partnership model and see how we can grow that business. It does open up a new way of doing business and we are exploring that possibility. We stay bullish around that business in the time to come. There is a demand because the infrastructure side is going through commoditization phase and we have an opportunity to enter in that phase.

Priya Rohira Sure and in terms of your selling and marketing team, we have been seeing a good strength being built up. Do you think that we are done with all the key business heads, key geography heads being in place for the non-HP business? Or is there any missing link which you think could be targeted in second half of this year?

Ganesh Ayyar We are not done yet, Priya. What we are planning to do is to invest more in sales and marketing. As part of this transformation we will invest a lot more in domain experts and pre-sales and so on. We are also strengthening our portfolio. We are making investments in those areas, repeatable solution sets. So, are we done? No, we are not done and as far as leadership is concerned the good news is we have a very stable and capable leadership in place. But it is not just the leaders, you need to go beyond, account by account to see how we can stay invested and a lot of work has been done in that space.

Priya Rohira And last question while I appreciate you could not share much on the deals front, but any number on the deals you may be chasing at any point of time and your conversion rates?

Ganesh Ayyar Our conversion rates are in line with the industry and our deal size is consistently going up and we have still some way to go before we get to where we want to reach and I expect at least the first phase of the deal size for us to reach over the next four quarters.

Priya Rohira Could you help us on the team which is chasing this large deal? And the number of members, how it has gone up in the past four quarters?

Ganesh Ayyar We have hired specialized people who have a track record in doing large deals. It is not just the people, it is actually the process that you have in the organization for large deals because the large deals tend to have a very different rhythm compared to your normal run-rate. So it involves solutioning people, bid managers, your pricing team, your entire Go-To-Market approach. So far we have participated in about three deals where we are almost reaching large deal size, and two large deals. Out of the two deals, we won one and we lost one. And those three deals, we won two and we lost one. So the fact that we have won some of these deals gives us confidence and as of now, if I include all these people, roughly about 15–18 people are chasing these large deals.

Moderator Thank you. The next question is from Yogesh Agarwal from HSBC Securities. Please go ahead.

Yogesh Agarwal I have two questions. Firstly for Mr. Ayyar. Ganesh, on the immigration bill, I assume, you guys are not much impacted because of Digital Risk but in your discussions with clients, are they talking about the Bill or what could be the impact on delivery, project structures or the pricing for the coming deals? Secondly, for Mr. Murthy, I just want a clarification again on the contingent liabilities. So, you have around ₹ 7 billion of total liabilities. Is the entire amount of liabilities for the transfer pricing issue or it is only ₹ 2 billion which is for the transfer pricing and the rest of the ₹ 5 billion does not say much in the press release. So, if you can just clarify that?

Ganesh Ayyar I will take the first part of the question. Then I will ask Ganesh Murthy to answer the contingent liabilities question. So, let me answer the first question on the immigration Bill impact, are we concerned? We are watching this space very carefully. The fact that we have Digital Risk is positive, it is good news but we are not taking this lightly. As part of the industry and as a company, we are watching this space very carefully to see how it unfolds. Of course there is a current version which is floating. We will see whether that version is the version which becomes the Bill. Second part of the same question, I spend lot of time with the customers. Not one customer has brought up this issue of Immigration Bill to us. I think it is exercised by the government in the U.S.

Ganesh Murthy About the second point, on contingent liability, you are right - out of the ₹ 7 billion, ₹ 2 billion is relating to transfer pricing and the balance ₹ 5 billion relates to the withholding tax demand that has been levied on us. As I mentioned earlier, we believe, based on legal advice that these claims are untenable.

Moderator Thank you. The next question is from Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja My question with regards to sales and marketing has already been answered. I just wanted to check with regards to the headcount addition that we have seen in the BPO front in the current quarter. If you could give us a sense on what was the headcount addition on account of Digital Risk and on an organic basis?

Ganesh Murthy On Digital Risk, we have about 1,700 people who are added and that is shown as BPO services onsite. The balance increase in the BPO services is international BPO that is delivered off-shore.

Manik Taneja And if you could give us a sense on the HP business, once again. In that regard, when you are talking about decline over the next couple of quarters, just wanted to get a sense on what is happening within HP on the non-ES side?

Ganesh Murthy On the non-ES portion, we did about $13-$14 million in this quarter. We are sticking to our original forecast of somewhere between $55-60 million for the whole year.

Moderator Thank you. The next question is from Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain If you could give the exact contribution of Digital Risk and QoQ and YoY growth for the quarter.

Ganesh Murthy I did not quite get your question. Those details are given in our MD&A - the organic growth and the balance growth is all from Digital Risk.

Rahul Jain Sir, basically if I do the Math, it seems the growth is quite moderate considering its historical CAGR, pre-acquisition. So, if you could comment on that.

Ganesh Murthy No, I would not say that. As Mr. Ayyar mentioned in the opening remarks, in the last calendar year they did $127 million of revenue. This entire quarter they clocked revenue of $39 million. But of course, the entire $39 million is not reflected in our financials because we consolidated the transaction only on the 11th of February. So we have consolidated only 79 days of revenue and profits. Based on the full quarter, they did about $39 million which gives you a run rate of about $155 million. So that already in the first four months represents a 23% growth year-on-year. I would not call that as very minor. I think there is tremendous potential and Mr. Ayyar also mentioned about the large deal that Digital Risk has won. This is the largest deal in Digital Risk's history. That gives us huge potential for further growth.

Rahul Jain Okay, can you give us anything on the Q4 FY12 number for Digital Risk?

Ganesh Murthy I do not have those details because we were not consolidated at that time.

Rahul Jain What would be the margin for this company?

Ganesh Murthy We do not provide detailed margin information but on overall basis, an EBIT margin of roughly around 11% in this quarter and our intention is to drive up the EBIT margins across the next 3 years to about 15% which is the company average.

Moderator Thank you. The next question is from Sumit Podar from Birla Sun Life Insurance. Please go ahead.

Sumit Podar Sir, just had a question on this long-term borrowings. Why have they gone up from almost nil to ₹ 484 crore as on 30th April, 2013?

Ganesh Murthy I will answer that question. That is because we took a $90 million loan to partly fund the Digital Risk acquisition. That was primarily taken as sort of a tax shield. That is the only reason for the increase in borrowings. We have not taken any further fresh borrowings.

Sumit Podar But tax shield in the sense, would it still be there or it is just for a short term period?

Ganesh Murthy No, it is a long term loan that we have taken, it is not a short term loan. We were able to get this loan at a very attractive rate of interest. So it also represents a potential for interest arbitrage as well as an effective tax shield.

Sumit Podar And even other long term liabilities have gone up to ₹ 96 crore. Is it a similar thing or is it something different?

Ganesh Murthy We had taken a $10 million loan from Hewlett Packard which has been re-classified as a liability. The financials of Digital Risk acquisition are also coming to the picture.

Sumit Podar Sir, what would short term borrowings basically be for?

Ganesh Murthy It is for packing credit facility that we have availed of. Since, we are export oriented, we have a $50 million loan of packing credit which we took a couple of years ago and this is a short term, 90 days of packing credit facility that we keep renewing every 3 months.

Sumit Podar Sure and just a book keeping one, what is the current cash yield that we are having on investments?

Ganesh Murthy Net of tax, we are getting about 6.5%.

Moderator Thank you. The next question is from Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah Can you quantify the further dip in the revenue from government projects in India in Q3 FY13?

Ganesh Murthy Most of the decline has already taken place in Q2. In Q3, there will be a marginal decline, maybe $1 million or so and in Q4 we should be exiting out of this business completely.

Hardik Shah So there will be another $1 million impact in Q4 further?

Ganesh Murthy Probably yes.

Hardik Shah Sir, book keeping question about G&A. G&A has increased by almost 70%. Is it primarily totally because of the Digital Risk or there was one-off item in Q2?

Ganesh Murthy This is primarily on account of Digital Risk because you need to understand that for Digital Risk the entire G&A is on-site. So, that is why they have a much higher G&A than the rest of the company.

Hardik Shah What is the capex plan for FY13?

Ganesh Murthy The capex plan is very minimal. We have been engaged in some capex in Digital Risk because of the large deal that we have won. We will invest in workstations and fit-outs to deliver this increased demand that we are seeing. Apart from that it is going to be very minimal routine capex.

Moderator Thank you. The next question is from Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan I just have one question on the Digital Risk contract that you won. When do you expect to hire the people for that contract and how many people are you looking to hire? Is that going to be primarily on-site?

Ganesh Murthy It will be primarily on-site. This is a 15 month contract. Based on the current trend, it looks like about 500 additional people will be hired and it will take some time because we need to set up facilities, we need to train these people into the loan review etc. So it will take at least three months before the revenue starts coming in.

Pinku Pappan Lastly, Mr. Murthy can you give us the OCI position currently?

Ganesh Murthy It is ₹ 144 million, credit.

Moderator Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand over the conference back to the management for their final remarks.

Ganesh Ayyar Let me chip in with my appreciation to all of you for your support, your questions, because that also helps us to shape our thinking process. So once again, we look forward to connecting with you next quarter. Thanks a lot.

Moderator Thank you very much. On behalf of MphasiS, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.