MphasiS Limited

Q4 FY13 Earnings Conference Call Transcript
December 6, 2013

Moderator Ladies and Gentlemen, Good Day and Welcome to the MphasiS Limited Q4 FY-'13 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note this conference is being recorded. I now hand the conference over to Mr. Varun Diwadkar of CDR India. Thank you and over to you sir.

Varun Diwadkar Thanks, Inba. Good morning everyone and thank you for joining us on the Q4 FY-'13 Results Conference Call of MphasiS Limited. 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 Q4 FY-'13 results announcement release that has been sent to you earlier. This 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 so much. Good morning everyone. Thanks for joining the call. We will discuss our operating and financial performance for fourth quarter and year-ended 31st October 2013 in today's call. I hope that you have had time to go through the financial results and the group overview document that we have sent to all of you.

I want to view our performance this year in the context of our journey which actually started in 2011 when collectively the leadership team and the Board chose the path which was driven by external and internal stimulus, if I may. We had to develop a value proposition that went beyond the cost arbitrage because that is what we were known for in 2010.

The second thing which we were focused on is to see how we manage the Enterprise risk which was emerging out of concentration risk. Our entire growth was coming through HP as a partner and a customer and our business within Direct channel had stagnated from 2006 to 2010 and we had to address that as a second point. So we decided to create a strategic framework to grow our Direct business aggressively. We chose the path of hyper-specialization and to ensure that our portfolio remains at market level, we also looked at how do we assemble a team, create a portfolio and a value proposition. To convert that strong pipeline into growth we had to transform our go-to-market as well. Now what you see is the result of all that which we started in the last 3-years.

If you look at our Direct Channel growth for FY-'13 we have grown 38% and just to give you a context over the last 3-years in the Direct business we have grown 132%, or in other words we have added roughly about $300 million of Direct business on an annual basis based on the last 3-years.

Now, let me give you a context of our Direct business towards mature markets. Our mature markets revenue grew 63% year-on-year on an overall basis in FY-'13. On an organic basis it grew 22% year-on-year. Net of rupee depreciation, organic growth in mature markets was 12%. This has been driven through volume growth within our top client engagements and is reflective of our named account strategy. Emerging market business within the Direct Channel witnessed a decline of 34% this year as we had made a conscious choice to move away from some of the business which we were doing in the space of infrastructure with the Government of India.

Now, let me move on to talk a little bit about the acquisition. Digital Risk acquisition has been a success story for us so far. The large deal of $101 million which we won last quarter is doing well and we are on track. Digital Risk now has an annual revenue run rate of about $185 million, which is roughly about 50% growth from $127 million run rate which they had when we acquired them.

I am also delighted to announce that Digital Risk has won another deal of $102 million and this is with a large US bank and revenue is expected to commence from this deal towards the end of Q1.

Now let me move on to talk a little bit about our business with HP in the fourth quarter. HP's contribution to our revenue went down further and we continue to explore possibilities of how we could arrest the decline and ignite the growth with HP by focusing on a differentiated value proposition. But at this juncture we have not managed to crack the code and we would continue to explore that possibility and explore how we move forward. At the same time, as you can see the dependence on HP has gone down. Our Direct business has become 60% of our total revenue and HP business stands at 40% of our revenue. As compared to the Q4 of last year the ratio for Direct used to be 46% which has moved to 60% and HP used to be 54% which has become 40% now.

EBIT for the year was 1.6% higher at Rs. 8,888 million. Net profit after tax is at Rs. 7,438 million which is 6% lower than last year. The decrease is mainly on account of lower other income and higher tax provisions.

Coming to some of the operational excellence areas, utilization rates in Offshore Application Services continues to remain high at 88%, BPO Services witnessed a sequential increase of 200 basis points at 75%, resource optimization has contributed towards the increase in utilization. We continue to demonstrate strong cash generation -- cash from operations for the quarter stood at Rs. 1,735 million. As you can see, DSO has improved by 4 days to 71 days in Q4 which used to be 75 days in the previous quarter. Cash and cash equivalents have decreased by Rs. 1,996 million during the quarter to

Rs. 24,881 million. This was largely on account of repayment of short term loans worth $10 million to HP and repayment of $50 million export credit loan facility. Further, we paid $5.4 million as earn out to the erstwhile shareholders of Digital Risk which is part of the $27 million earn out to be paid over 3 years.

In line with its continued commitment to shareholders the Board has recommended a dividend of Rs.17 per share in FY-'13 amounting to a pay out where 56% of our total profit that includes dividend distribution tax.

In terms of other business updates and way forward, we are taking steps to improve our go-to-market to provide further impetus to our growth. Exceptional talent from outside has been inducted in many areas ranging from BPO to Infrastructure Management Services. We have been strengthening our large deal team and we will continue to focus on inviting top leadership team from outside to join our team. You can stay tuned for some announcement on this front next week and how we are strengthening in this area.

So going forward we will continue our investment in go-to-market and newer generation technologies to drive hyper-specialized growth, both organically and through select acquisitions. Digital Risk will be a key focus area as we will look at improving its margin profile.

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

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session We have the first question from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain **Good Morning everyone.** Firstly, this is the second deal that has come from Digital Risk, upward of $100 million, which I think is quite an achievement considering what revenue run rate they used to do prior to your acquisition. Just if you could tell us what will be the tenure of this deal?

Ganesh Ayyar This deal is a 3-year and obviously, we are beginning to make plans to start delivering it. So very soon you will start seeing it in the revenue numbers.

Rahul Jain So again from the point that this is the second $100 million deal in a very short span of time, is it that we are trying to front phase some of our opportunities in this segment through this brand or this is based on the capabilities of the erstwhile Digital Risk?

Ganesh Ayyar It is completely based on the portfolio that they were serving in the marketplace, nothing artificial has been done, this deal completely belongs to Digital Risk and it is an endorsement of the fact that it has a good leadership team, good offering and the fact is that we spotted it and started doing it and we are beginning to see some market movements in this area. Some of the other companies are also searching for similar companies in the marketplace.

Rahul Jain What was the total acquisition cost at the time of the acquisition and how much is paid and any earn out which is due?

Ganesh Murthy The total upfront payment was $175 million for Digital Risk and there was an earn out component of $27 million which was spread across 3 years. This quarter we have paid the first installment that is $5.4 million earn out and this is the maximum earn out because they have overachieved both on the revenue as well as the profit metrics.

Rahul Jain So $175 million includes $27 million or $27 million over and above?

Ganesh Murthy This $27 million is over and above $175 million, $175 million was upfront payment, $27 million will come across a period of 3 years, spread across 5 installments of $5.4 million each.

Rahul Jain Provided they achieve the desired target?

Ganesh Murthy Yes absolutely.

Rahul Jain And we have exited some of the projects in the emerging market this quarter. So what is left in the existing or is there anything more that has to go out from the books now?

Ganesh Murthy So far as emerging market is concerned it consists of a variety of businesses. We have not exited the emerging market at all, we have only exited the government business and this government business we exited about two quarters ago and in the other areas we still have a lot of non-India government customers which is a growing area.

Rahul Jain So my question is there is nothing more left which we would intentionally exit from this current portfolio now?

Ganesh Murthy There are no projects, because we stopped booking any revenue on these projects at least two quarters back.

Rahul Jain This run rate which we have is it because we have exited or is there anything which can come back as a reversal considering that some of the payments would be due or we have realized most of the payment already?

Ganesh Murthy The current emerging market revenue is net of a revenue reversal of Rs. 256 million, because our accounting policy requires us that if we do not receive the amount within a specified period, we have to reverse the revenue. Going forward we will continue to follow our accounting policy, and if there are debts which are overdue beyond a specified period we will have to reverse them to the revenue.

Rahul Jain During the quarter we paid some debt as well.

Ganesh Murthy There was a small debt of $10 million that we had taken a loan from HP more than 3.5 years ago and that was due for repayment and so we repaid that debt. Similarly, we had taken an export packing credit facility of $50 million and we thought it is not worth it to have this sort of small debt in our balance sheet, so we repaid the debt.

Rahul Jain And was there any major outgo because of some one-time in this repayment in the interest component or is it because of the payment towards the end of the quarter because the interest cost and…?

Ganesh Murthy You are referring to why the interest expense is significantly higher than the last quarter, and that is because of the rupee depreciation, because interest is payable in US dollars and because of the rupee depreciation, as per accounting policy, we need to restate the foreign exchange fluctuation as interest, and that is the reason why the interest expense has gone up, but the interest as such remains the same.

Rahul Jain But after this reduction in the debt what should be the like-for-like interest run rate in next quarter?

Ganesh Murthy We have only one more debt that is there in the balance sheet, and this is a long-term debt which is $90 million that we had taken for the Digital Risk acquisition, and that debt will continue to remain in the balance sheet and the interest on that debt will continue to remain. So essentially what we have done is Q4 we had $150 million of debt, we have changed the debt profile, we have repaid all our short term debt and now we have only long term debt in balance sheet which is $90 million

Moderator Thank you so much. We will take our next question from Ashwin Mehta of Nomura. Please go ahead.

Ashwin Mehta I had a question on Digital Risk. What is the time period that you see for this $102 million deal to reach steady state?

Ganesh Murthy It will take about 3-months to reach steady state.

Ashwin Mehta And in terms of the previous deal which is the $101 million deal, the duration of that deal was it 18 months, and where are we in terms of steady state revenues on that deal?

Ganesh Murthy We should be starting to get steady state revenues in this quarter.

Ashwin Mehta So we should be in steady state by this quarter?

Ganesh Murthy Yes.

Ashwin Mehta And lastly in terms of margins going into the next year what is the targeted range that we are looking at?

Ganesh Murthy We continue to be within the range of 15-18% EBIT margins that is our stated aim, and as you can see we have been maintaining that even this year also.

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

Sandeep Shah Just on Digital Risk to get it more clear, you said that the earlier deal win of $100 million spread over 18-months must also be at the end stages of the ramp ups. So in that scenario it should have added closer to around $10 million to $15 million additional revenue each quarter, but it looks like that the run rate on the Digital Risk does not reflect that. So just to understand the Digital Risk business it is a project-based business where there are some project completion which leads to a revenue leakage which gets replaced with the new revenue. So how should we build into the model because it looks like that the Digital Risk can continue with a high growth going forward, is the right way of looking at it?

Ganesh Ayyar Great question. Digital Risk business is predominantly, I would call it, closer to annuity rather than project, okay? But, at the same time, even in annuity business you will have puts and takes. So adding the new wins completely saying that this has to be the growth would be a wrong calculation. They also have transaction-based pricing model, and when the number of mortgage is dropped, for example, that does result in revenue decline. So the methodology has to be baked in based on last few quarters of growth rate over a mid-term period not on this quarter-by-quarter basis that is one advice I can give you and not to take the every win and say this will be accretive or incremental to the revenue line. Last point which I wanted to make, the objective of sharing these large wins is to share with you that we are confident of the ongoing revenue growth potential of Digital Risk. The idea is not to share these wins and say that the entire amount is going to be incremental on revenue.

Sandeep Shah So you believe that the growth rates of 30-40% are still achievable in Digital Risk in the coming year?

Ganesh Ayyar I would not be able to give you one year analysis but over an extended period of time it would be a key component of our goal to grow at 1.5x the market in the direction.

Sandeep Shah Because I was just asking in Digital Risk. So it can be even higher than 1.5x?

Ganesh Ayyar No, I am saying that our commitment as a company is that over a mid-term our Direct business will track at 1.5x the market, and one of the crucial piece of that strategy is the role that Digital Risk is going to play.

Sandeep Shah And just some of the book-keeping questions, just wanted an update about the Indian rupee invoicing right now within the overall portfolio? So how much within the HP channel INR invoicing and how much within the Emerging channel the INR invoicing happens?

Ganesh Ayyar Let me ask Ganesh Murthy to give this answer in a broader term as to what percentage of our billing takes place in rupee rather than specifically saying anything about any client.

Ganesh Murthy Our entire India revenues are obviously in rupees. So India business is about 4% in this quarter of our total revenues, and on the balance it would be around 20% of our revenues.

Sandeep Shah So roughly around 24-25% of our revenue would be in the INR invoicing?

Ganesh Murthy That is correct.

Sandeep Shah So the balance 20% is largely because of some portion of HP channel where you have INR billing rates?

Ganesh Murthy I would not like to comment on any particular customer because we are bound by confidentiality agreements with various customers, but it pertains to some customers.

Sandeep Shah And just a last question, what is the OCI loss; I think you have given in the balance sheet, just for an update?

Ganesh Murthy OCI losses is about Rs.109 crore.

Sandeep And what portion of this would include a premium which may not occur when the contract matures?

Ganesh Murthy These are balance sheet items which will be absorbed over the next 2 years.

Sandeep Shah And you believe predominant portion may come in the coming year?

Ganesh Murthy Our hedging policy was 70% for the first one year. So obviously, 50% of these losses will happen in the next 12 months.

Moderator Thank you. The next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu What is the kind of volume decline we are looking in HP channel over the next one year perspective?

Ganesh Murthy We would not be able to comment on specific customers. As Mr. Ganesh Ayyar mentioned, it is volatile and there may probably be a decline in HP channel, we have declined over the last several quarters, but we lack the kind of visibility to give a precise estimate.

Madhu Babu Sir, and we have mentioned that 8 of our top 12 accounts in the Direct channel mature markets have done a volume growth. So at least top ten accounts on the Direct Channel mature markets, what is the outlook and what is the kind of volume that we are looking there?

Ganesh Murthy The 12 key accounts that we monitor, this is the second quarter where most of them have grown quarter-on-quarter in volume terms. And the outlook for us is we are focusing on these key accounts and definitely we expect above market growth in all of these key accounts.

Madhu Babu And BPO, there has been some steep reduction in headcount. Where are those areas and is there scope for further reduction in employees in that part of the business?

Ganesh Murthy The reduction in the headcount in the BPO is primarily in the emerging market. In fact, in the emerging market as Mr. Ganesh Ayyar also mentioned we are looking at various portfolios and we are exiting portfolios which do not fit into our overall strategy or which are low margin portfolios.

Madhu Babu And sir, lastly, what is the view on acquisitions? Now Digital Risk is doing well. So maybe in the near term would we look for further acquisitions there?

Ganesh Murthy We are always on the lookout for acquisitions but it is not just acquisitions for the sake of revenue growth. The acquisition has to fit into our overall strategy, it has to fill in the gaps in our offerings. So once we see the right target, we will look at it. But at this point of time, we are in the process of looking at various targets but nothing specific.

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

Hardik Shah Digital Risk, what was the revenue run rate in this quarter?

Ganesh Murthy The revenue is about upwards of $45 million.

Hardik Shah So it roughly contributed around $3 million in this quarter, is it right sir? In incremental terms, revenue from Digital Risk is $3 million?

Ganesh Murthy Yes, that is right.

Hardik Shah And sir, what is the margin currently of Digital Risk?

Ganesh Murthy We do not disclose business wise margins but the margins have improved and they are on the track of achieving the overall company margins.

Hardik Shah So just want to know is it like below the company's margin or like in line with the company's margin?

Ganesh Murthy No, when we acquired the company Digital Risk, they were operating at around 10% EBIT margins. The plan over a three-year period is to bring them to 15% EBIT margins which is the lower end of the company's EBIT margins. You must also appreciate that this business is done entirely out of the US and you will not be able to expect offshore margins in this business.

Hardik Shah And sir, you have mentioned that HP non-Enterprise business has increased by 9.5%. That is in constant currency terms or it is in INR terms?

Ganesh Murthy HP non-Enterprise business has recorded about 4% growth in volume.

Hardik Shah Currently, the net will be on $50 million of HP non-Enterprise business?

Ganesh Murthy This year we did about $55 million.

Hardik Shah Sir, any major deal currently in the pipeline which is on the verge of completion in next one quarter?

Ganesh Ayyar We do have a good pipeline for especially around larger deals. And these deals are such that only after you win do we know that we have won. So I cannot predict that it is going to happen or not. We are working towards it. Some of these decisions will get made over the next 3 months.

Ganesh Murthy This year in Q4, we have new logo wins and these are new customers, of total TCV value of $115 million.

Hardik Shah And sir last question book-keeping. Your gross block of asset has come down roughly by Rs. 50 crore in this quarter. Is there any reason for the same?

Ganesh Murthy We do a process of physical verification of all the assets. Our physical verification program is such that we cover all the assets over a period of 3 years. So this year we selected certain assets – computers and leasehold improvements, and those assets that are completely scrapped, we take it out of the gross block and there was zero net block, that means these assets were completely depreciated in the books, so there was no financial impact. So while we removed Rs.150 crores from the gross block there was absolutely no impact on the net block.

Moderator Thank you. Our next question is from Pratish Krishnan of Antique Stock Broking. Please go ahead.

Pratish Krishnan Just in terms of the client additions you had around 17 of them. Any color in terms of good strategic accounts or in terms of higher sizes account that you had in the quarter?

Ganesh Ayyar I think as we highlighted that we have won some large deals totaling to $115 million of TCV in fourth quarter but I wouldn't be able to comment customer-by-customer for obvious reasons because we have confidentiality clauses with these customers. But our increasing focus is to not go for new logos with a finite number in mind. We will go for new logos who are able to give us sustained business and certain size of business. Ganesh Murthy, probably if you have something to add you can go ahead and share with us.

Ganesh Murthy I just wanted to throw a little bit of color there. I think one of the important wins is a US-based BPO client that we won in the BFSI space and that's an important win for us because our focus is essentially on certain portfolios like testing and BPO and analytics and mobility, because these are all high margin portfolios so we are pretty upbeat about this win.

Pratish Krishnan Sure and the $115 million that you mentioned, does this include the Digital Risk value also right, I mean?

Ganesh Murthy Yes, so out of that $102 million was Digital Risk for a large bank.

Pratish Krishnan But generally in terms of the project sizes that you win, I mean have you seen any meaningful change over the last maybe two to three quarters on a sequential basis in terms of the size of the deals that you are winning or getting invited?

Ganesh Ayyar The focus is for us to shift towards mid-size and larger deals so hence we are seeing movement in average deal size that is not a market phenomena that is the qualification phenomena of MphasiS because market will continue to offer very small deals, small deals, midsize deal and larger deals so our focus is to not focus on micro deals anymore.

Pratish Krishnan And lastly in terms of the people I mean like we have seen a further reduction in the employee size even this quarter, when should we expect you to kind of come back to net increase in employee additions?

Ganesh Murthy I think we should be bothered more about revenue growth rather than looking at headcount. I think you will appreciate that if you are able to maintain increased revenue with the same amount of headcount that will actually add to the margins and that will reflect a non-linear growth. It has got a direct correlation to the margins also. If we have only headcount growth without revenue growth that will impact our margins so our headcount additions will be completely in line with our requirement.

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

Pinku Pappan Ganesh I wanted to get a sense on the growth outlook in your named accounts. You earlier gave a target of growing faster than the industry in your direct channel business. Over the next one year how do you see these top accounts growing and do you think you can be closer to the target that you mentioned earlier?

Ganesh Ayyar Yeah, I mean absolutely we are striving to. I cannot call it a forecast but I can call it as an objective. We are definitely, definitely focused on named accounts and named accounts into our top accounts and our focus is definitely to grow it at 1.5x.

Pinku Pappan So, right now these named accounts are the top 12 accounts or there are more than 12?

Ganesh Ayyar The top 12 are at the top of pyramid in the named account space. We had selected named accounts and this has been operational since beginning of FY13. So key accounts is some 12 numbers and named account is wider population.

Pinku Pappan I am just trying to understand that you probably have separate account manager for each of these accounts so how are you progressing about going and trying to mine these clients for more revenue?

Ganesh Ayyar Yes, so I think the pipeline is there. We have demonstrated over the last two quarters so we can grow into our key accounts and named account as well, so I remained excited about the potential these named accounts and key accounts hold for us.

Pinku Pappan And how many of these named accounts would be from the HP channel and outside of them?

Ganesh Ayyar This concept which I just described key accounts and named accounts, I am referring entirely to the direct space.

Moderator Thank you. Our next question is from Srivathsan Ramachandra of Spark Capital. Please go ahead.

Srivathsan R. Just wanted to get an update on the large ATM deal we had won quite some time back, India focus business, so how is it ramping up, when can we see it contributing meaningfully to overall business?

Ganesh Ayyar The traction on ATM deal is good. We now have sufficient critical mass to do analytics and focus on transaction based model. We are continuing to work with the banks to go for higher transaction areas of ATM. It is beginning to show up in to our revenue and in terms of profitability in time to come it will take slightly longer duration because the whole objective of this project is slightly different. So in that sense now we have reached more than 5,000 ATMs.

Srivathsan R. It will be helpful if you can just give an update on the non-HP channel, what kind of demand we are seeing across our service lines specifically infrastructure management which is relatively stronger capability. I just wanted to know what you are seeing that's the space where we are seeing lot of rebid so how would our capabilities there stack up vis-à-vis most of the competition we typically face or what kind of win rates we are having?

Ganesh Ayyar In direct channel we are seeing good traction across the service lines and we are also seeing traction where we could go with an integrated model, instead of the old concept of infrastructure, apps and BPO separate. In both these areas there is a good demand. The fact that our infrastructure services business has a very small footprint today opens up tremendous growth opportunity for infrastructure services.

Moderator Thank you. Our next question is from Urmil Shah of May Bank. Please go ahead.

Urmil Shah Just taking the question on TCV of the large deals forward, so out of $115 million, $102 is from the Digital Risk deal so of the balance deal wins you see a potential of any of these clients becoming larger clients?

Ganesh Ayyar Absolutely, no doubt about that.

Urmil Shah Would it be possible to give an indication as to which all the sectors these deals have come from?

Ganesh Murthy One deal is from insurance and other deal is from the banking capital markets. Both are our chosen verticals.

Moderator Thank you. Our next question is from Deepesh Mehta of SBI Cap Securities. Please go ahead.

Deepesh Mehta For Digital Risk the last two large deal wins, whether we required any kind of incremental capital investment, capex or something of that sir?

Ganesh Ayyar Yes, of course so in fact in the last quarter because we won the large deal for $101 million, we have added about 540 seats in the US.

Deepesh Mehta So that would be sufficient.

Ganesh Murthy We have started a new facility in Florida in Orlando and there is a new facility in Denver and we will have to continue to add seats for the new deals that we have won in this quarter.

Deepesh Mehta For next year what would be the capex for company as a whole?

Ganesh Murthy Roughly around overall capex will be very minimal. Roughly maybe about $10 to $15 million.

Deepesh Mehta It includes requirement for Digital Risk also right?

Ganesh Murthy Yes, it includes that requirement of Digital Risk, because we are not investing really in any real estate as such, we are just investing in fit outs and computer equipment.

Deepesh Mehta Just to understand what kind of manpower requirement would be there because Digital Risk would be transaction based kind of thing. So, what kind of non-linearity would be there whether for $102 million we required sizable number of addition or how it would be?

Ganesh Murthy There will be a headcount increase obviously but we have various productivity software that we use continuously to improve the productivity and since this is a transaction based as you pointed out, this has a scope to increase our margins also.

Deepesh Mehta And just to get as per our press release we won around $250 million over last two quarters total TCV deal wins. Excluding Digital Risk, what would be that component?

Ganesh Murthy $50 million.

Moderator Thank you. Our next question is from Deepen Shah of Kotak Securities. Please go ahead.

Deepen Shah Just had a very minor clarification. I think Ganesh had mentioned earlier that there was a write-back or maybe reversal of revenues in the Direct emerging market channel, could you just clarify once again on that.

Ganesh Murthy Yes, that is in respect of our, as we mentioned India government contracts we took a conscious decision to exit that was about three quarters ago, but we have some receivables there and we were following up on receivables but once receivables become overdue beyond a certain period, our accounting policy is that we reverse revenue to that extent. So this quarter we have reversed about Rs.256 Million of revenue.

Deepen Shah So, to that extent the revenues in this quarter are lower?

Ganesh Murthy That's correct.

Moderator Thank you. The next question is from Ashish Chopra of Motilal Oswal Securities. Please go ahead.

Ashish Chopra Just needed one clarification. Our revenues from emerging market direct channel are around Rs. 68 crore and our revenues from India are around Rs. 93 crore. So is it right to understand that a portion of our revenues from India actually comes from HP channel?

Ganesh Murthy Yes, we do have billing to HP India so that represents that portion.

Ashish Chopra And just secondly on our overall growth ambition of 1.5x the market, is it only in the mature market direct channel or are we referring to the entire direct channel?

Ganesh Ayyar Our focus is mature markets.

Ashish Chopra And how should we look at just the growth in the emerging market direct channel in the next year if you could just throw some light on that?

Ganesh Ayyar We have become extremely selective in the emerging market because our drive is towards profitable growth and that's why when earlier Ganesh Murthy was mentioning that three quarters ago we decided to complete the infrastructure businesses with the government and not do anymore business. So, hence our focus would be to be very selective in emerging market to go for profitable opportunities which are in line with our ability to deliver. The focus is not huge growth in the emerging market let us put it the other way.

Moderator Thank you. Our next question is from Anubhav Jain of CIMB. Please go ahead.

Anubhav Jain In the Government of India business do you believe this kind of a revenue reversal can continue in future maybe just to ask what is the outstanding receivables now and what's your gut feel in terms of the collection for the same?

Ganesh Murthy We are also collecting, I mean we are in the process of collecting these debts, but only thing is that it takes a lot of time to collect, so at the end when it crosses our threshold, our accounting policy requires us to reverse that amount. We are striving for collection and if the collections don't happen then we will have to reverse it.

Anubhav Jain So, you believe that outstanding amount is now material ?

Ganesh Ayyar Not material in the context of overall company but as a business, as business people for us small amount being also material so we would like to collect and we are hoping that all these issues will gets sorted out over a period of next six months.

Anubhav Jain And secondly, is there an instance where we have reversed the revenue and the collection has happened, is that happened?

Ganesh Ayyar Yes, when I talked about Rs.256 million, that is the net reversal because every quarter what happens is once the overdue becomes above a certain threshold we reverse the revenue but when that amount is actually collected we have to restore the revenue reversal. So that takes place across. It's not only for emerging market, it is across the board policy that we follow.

Anubhav Jain So in that scenario the collection cycle if it is elongated the revenues can come back in the books going forward?

Ganesh Murthy Yes.

Moderator Thank you. Our next question is a follow up from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain Yes, if you could give some clarity in terms of what should be the utilization trend going forward in the BPO segment.

Ganesh Murthy Our aim is to maintain the current utilization rates but only one caveat is that quarter one is usually weak quarter for us primarily because some of our customers have a shut down so that time there will be a dip in the utilization but otherwise barring that we aim to continue with this high utilization levels.

Rahul Jain Even for BPO this is the ideal utilization?

Ganesh Murthy Yes.

Rahul Jain Ok and we did mention at the time of acquisition of Digital Risk of certain tax rate benefit, what are these benefits or are they still accruing to us?

Ganesh Murthy Yes of course, so Digital Risk is an LLC and as per US tax laws, on LLC you can claim the amortization of the goodwill as a tax deduction. So we have been claiming that in our Digital Risk tax returns so that reduces the effective tax rate very significantly. In fact the effective tax rate for Digital Risk would be in single digits.

Rahul Jain And how long or what should be the amount till which point where we would be able to take this benefit?

Ganesh Ayyar 15 years.

Rahul Jain And total amount?

Ganesh Murthy The entire amount of goodwill, so if you look at, our purchase cost is above \$202 million including the earn out and the net tangible assets would only be about say about \$30 – 40 million, so the balance amount is entirely goodwill which is entitled to tax depreciation over a period of 15 years.

Rahul Jain So, at least seven – eight years we would be able to take that benefit.

Ganesh Murthy Not seven – eight years 15 years.

Rahul Jain This \$170 million maybe consumed by that time.

Ganesh Murthy No, \$170 million will have to be exhausted over a period of 15 years.

Rahul Jain Okay in that proportion only.

Ganesh Murthy Yes.

Rahul Jain And any clarity in terms of quarterly reporting hereon, will it be five month quarter or three or two months?

Ganesh Murthy We were striving for five month quarter but we did not get requisite approvals from SEBI. So our next quarter will be from November to January, we will announce our results in February or early March and then we will have a two month quarter that is February and March and we will announce our results in May and from April 2014 onwards we will switch to the normal Indian financial year and we will be following the normal Indian quarters.

Moderator Thank you. Our next question is from Srivathsan Ramachandra of Spark Capital. Please go ahead.

Srivathsan R. I just wanted to understand that there has been any change in hedge policy if you look at Y-o-Y hedge amounts have come off substantially, so just wanted to understand has there been any change in policy?

Ganesh Murthy There hasn't been any change in the policy. What we did is the rupee in July-August exhibited a huge volatility so then we became very cautious and we sort of put a stop to our hedging and we said we will revisit the policy. So we have revisited the policy and henceforth we believe that optimum policy would be to continue to hedge, we don't want to leave it open but to hedge for a shorter timeframe. So earlier we used to hedge with a two year horizon, we are now looking to limit our hedges to one year horizon.

Srivathsan R. And the current hedge outstanding at least on the USD about \$271 million so most of it be for next 12 months or would still be some leftovers from the long-term hedges that we had taken and we might have it for 18 months' kind of timeframe.

Ganesh Murthy Yes, there would be some amount which is slightly long-term but that will be a small portion of the overall hedges and the bulk of the hedges we are looking at will be for the next 12 months. Going forward we will be only limiting ourselves to a 12-month horizon.

Srivathsan R. And would be helpful if you can just give some broad outlook for tax rates for possibly the next year or two?

Ganesh Murthy For the next couple of quarters that is till 31st March tax rate will remain unchanged about 26.5%. Next year, assuming that the government keeps the tax rates the same , we expect tax rates to be around 27.5% and that is primarily because out of our six SEZ units, two units will come out of the first five year tax holiday.

Srivathsan R. Okay and I just wanted to understand the segmental revenue and margin breakup you had given, that's been a pretty sharp decline on the information technology vertical that you had given. Is there anything more to it or is there anything specifically we have seen a pretty steep close to 500 bps decline quarter-on-quarter?

Ganesh Murthy Yes that is because of, as I mentioned the revenue reversal on the India government business which we classify as the infrastructure services business.

Moderator Thank you. Our next question is from Deepen Shah of Kotak Securities. Please go ahead.

Deepen Shah Ganesh sorry to once again harp on that question of revenue reversal, is the revenue had been reversed to the extent of Rs. 26 crore, has there been corresponding reversal in the expenses?

Ganesh Murthy There is no corresponding reduction of expenses. This is revenue that has been reversed because the customer has not paid us yet.

Deepen Shah So, then that would mean that the current EBITDA margins which are being seen at 17.5% are actually at 18.8% because we need to add back.

Ganesh Murthy Yes you are right.

Moderator Thank you very much. Our next question is a follow up from Deepesh Mehta of SBI Cap Securities. Please go ahead.

Deepesh Mehta So, in cash flow from operations we have seen more than Rs. 200 crore decline over last year so I just want to understand because we have seen substantial improvement in DSO, so can you help us to understand the reason for decline in cash flow?

Ganesh Murthy Okay let me look in to this and then come back to you, I don't recollect any significant decline.

Moderator Thank you. Ladies and gentlemen that was our last question. I now hand over the floor back to the management of MphasiS Limited for closing comments.

Ganesh Ayyar Thank you so much. So, once again my appreciation for your continual interest in MphasiS, some of the questions which we had said we will come back, we will come back to you. Let me also take this opportunity to wish all of you a happy holiday season and happy new year, we will get in touch again soon after first quarter ends in January. Thanks a lot.

Moderator Thank you members of the management. Ladies and gentlemen on behalf of MphasiS Limited that concludes this conference. Thank you for joining us and you may now disconnect your line**.**