“MPS Limited Q3 FY13 Results Conference Call”

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MR. A SAKTHIVEL – FINANCE CONTROLLER, MPS.

MODERATOR: **MR. ALOK SOMWANSHI – ANALYST, FOUR-S SERVICES.**

Moderator Ladies and gentleman, good day and welcome to the MPS Limited Q3 FY13 Results Conference Call hosted by Four-S Services. As a reminder for the duration of this conference, 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 need assistance during the conference please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. At this time I would like to hand over the conference to Mr. Alok Somwanshi of Four-S Services. Thank you and over to you sir.

Alok Somwanshi Good afternoon everyone. On behalf of Four-S Services I welcome all the participants to MPS Limited Q3 FY13 results conference call. Today on the conference call, we have Mr. Nishith Arora – Chairman and Managing Director, Mr. Sunit Malhotra – CFO and A Sakthivel – Finance Controller of MPS Limited. I would like to thank the management for giving us an opportunity to host this conference call. I would now hand over the call to Mr. Arora. Over to you sir.

Nishith Arora Good afternoon everyone and a warm welcome to our earnings conference call for the quarter ended 31st December 2012. As addressed in the last conference call we have taken a number of measures in the last one year to revive the company's profitability. These efforts include rationalizing corporate over heads, streamlining operations in our loss making books division by shifting to lower cost structure, rationalization of our US and UK cost, etc. These efforts have borne fruit in Q2 and Q3 and have helped us turn MPS in to a profitable vibrant company with operating margin currently running at around 25%.

We continue to focus on growing organically by upgrading our products and services. Currently, we have the widest spectrum of services for global publishers and we are striving to enhance our offerings to them. Lot of efforts are going on in our division MPS technology to build products that will help us grow our revenue going forward. Similarly our central technology team has developed a number of tools which will be used in our own production work flows. We are now upgrading these in to cloud based systems so that we can extend the reach of the services to more and more publishers. These development activities are also now the final stages and we expect to leverage on this in the next financial year. Our team in rich media is also upgrading itself and we are building our ability to enrich content including audio and video.

Going forward, with increased demand for digital content and a strong technology base we are well positioned to tap opportunities across segments. Growth will be driven for integrated approach between sales, marketing, operations and technology across different SBU. I would now like Mr. Sunit Malhotra to address this conference.

Sunit Malhotra Thank you Nishith. Let me take you to the financial performance of the latest quarter. In Q3 FY13, total incomes stood at Rs.46.1 crores as compared to Rs.44.4 crores during Q3 F12. EBITDA stood at 15 crores compared to Rs.3.9 crores last year. Margins are up from 8.8% to

32.6% in Q3 F13. PAT for the 3 months stood at 9.6 crores compared to Rs.1.1 crores during the corresponding period last year.

I shall now provide you with an overview of our company's financial performance for the 9 month ended 31st December, 2012. Income for 9 months stands at Rs.127.3 crores. EBITDA for the period was at Rs.35.6 crores as against Rs.14.3 crores for the same period last year. Our operating margins are up from 11.7% to 28%. This was largely due to rationalization of manpower cost and facilities. PAT for 9 months stood at 24.5 crores as compared to 5.3 crores recorded during 9 months of FY 12. At this point I would like to thank everyone once again for your participation. And request the moderator to open this call for questions. Thank you.

Moderator Thank you sir. Ladies and gentlemen we will begin the question and answer session. The first question is from the line of Eshit Sheth from Anvil. Please go ahead.

Eshit Sheth Just a little bit on how the outlook for the company remains for the next year and the industry as well? What kind of growth are you all expecting for the next year in terms of revenues because on a year on year basis, last year we have been flat. So going forward how do you see the revenue growth happening for the company?

Nishith Arora That's a good question. I think that is the question which all of us here at MPS are also focused on. We have strengthened our engagement with our publishing clients. They are participating more and more RFPs. They are continuing to do our own suite of products and services so we can address more opportunities. Overall, I would say that the business environment is still pretty tough both in the US and in Europe where our business interests are as publishers themselves are facing sort of stagnant top lines. So while as regard to the older services the outsourcing quantum may be pretty flat, their focus is now on cost cutting and what we are finding is that our clients are engaging with us more on more on different types of services. With this focus on cost cutting on the publisher's side, we expect the overall market to keep growing. And a company like ours would be offered more services. That's one aspect which we will drive growth in the next financial year.

Second aspect would be this whole thrust for digitalization and all this means more work for us because the legacy content getting converted to digital with more formats to be supplied, even for fresh content that is being produced. All this means more work for us.

And on the journal side which is important part of the MPS portfolio, there is this whole new push towards open access. Actually what it means is that authors pay for their work to be published and then it is distributed free and in that process as well what we are finding is a lot more content out of countries like China and Africa there is more content that is now becoming available for publishing. All that is good news for us because a lot of the content again is again being pushed through our existing clients.

Eshit Sheth If we put a number to this what is your expectation for growth for MPS, for next year in terms of our revenues?

Nishith Arora For a company, it is difficult for us to make very forward looking statements on this but all I can say is that we do expect the company to grow both organically from existing clients and existing services as well as inorganically through a process of acquisitions. And we are determined to exploit all the opportunities.

Eshit Sheth So the inorganic acquisitions will be related to something which we currently don't do or we don't specialize in?

Nishith Arora I would like to clarify that that all acquisitions activity that we are currently evaluating is in our line of business and catering to the publishing market segment.

Eshit Sheth But not something that we are already doing. Some other niche, but definitely in our publishing services right?

Nishith Arora That's right. So as long as we are confident that similar or same customers but may be different service or an extension to a service that we provide, then we are looking at the opportunities.

Eshit Sheth Sir in the last conference call, you mentioned that the size of the publishing services market in the US is roughly a billion dollars, am I correct on that?

Nishith Arora Yes that would be a fair estimate.

Eshit Sheth So put together US and UK what will be the size of the publishing services industry, if there is any number we can put to?

Nishith Arora See the market itself is so, there are so many providers and also when we look at the extent of outsourcing taking place, we say a billion in the US and billion in other markets. We are essentially referring to what will finally become the surplus that gets outsourced. So that's like an overall available market that is open for providers like us to address overtime.

Eshit Sheth My question is basically just to understand what is the size of opportunity that we have going forward. So currently if you say that 1 billion is US, another billion from the rest of the world. Roughly 2 billion, so you still have close to 2% market share there.

Nishith Arora If you understand these are markets that are still to emerge. Rest of the world publishers are doing in house today, which overtime will progressively get outsourced. If you look at the market share of company operating in the business today as I said in the last call, there are perhaps 5 – 6 larger players who do revenues of Rs 150 – 200 crores. And then there is a slew of smaller players. There are 100s of them who would be Rs 5 crores, 10 crores and even there the market that is being addressed by the smaller players over time is likely to get consolidated.

Eshit Sheth So then in that case basically the kind of opportunity that we have is in terms of more outsourcing happening and the growth that the publishers will get. So with these two combined the opportunity is good for publishers like us in this space?

Nishith Arora I don't think we need to be as MPS we really need to be looking at saying the publishing services market is saturated, so let's look at different business. I don't think any of us in the company are even remotely thinking along those lines.

Eshit Sheth My question is basically if I look at your company do you see the kind of opportunity that we have that in the next 10 years probably this 200 crores of turnover can roughly go to 1000 crores of turnover?

Nishith Arora Making a forward statement like that is not in my realm of permission from my board. But I would leave you to make your conclusions. All I can say is that we are confident there is abundant opportunity available for us to grow in this sector.

Moderator The next question is from the line of Hansal Thakkar from Lalkar Securities Private Limited. Please go ahead.

Hansal Thakkar Thank you again for a very generous dividend and in continuation to the question from the gentleman from Anvil, I just wanted to know you have done fantastic on the margins this time. But how sustainable are they and can you just throw some light on the other income portion?

Nishith Arora Please keep I mind that October -November - December is seasonally our best quarter. There is some upside in margins from the fact that seasonally it is the best quarter. In time I think what we are seeing is that MPS now seems to be settling around 25% type of operating margins. Our endeavor is to try and operate from that level going forward.

Sunit Malhotra Other income basically now comprises of the FOREX gain which we had in this quarter. We have also deployed our funds in the mutual funds and all where we are getting interest and third is that rental income for the facilities which we have given on rent.

Moderator The next question is from the line of Anil Jain from 2S Capital. Please go ahead.

Anil Jain I would like to ask what is the hedging policy we are following?

Nishith Arora Hedging we cover for 6 months forward per contract and we cover about 65 – 70% of our exposure.

Anil Jain 65% of the next 12 months?

Sunil Malhotra Next 6 months.

Anil Jain So I would like to know what was the exchange rate average which we realized in the 3rd quarter?

Nishith Arora Sorry I couldn't get you.

Anil Jain What was the average exchange rate realized on our sales in the third quarter?

A Sakthivel We realized almost Rs 55.2 as an average in this quarter.

Nishith Arora And for the entire 9 months it is 54 point something.

Anil Jain What is the rate for the 9 months which got realized?

A Sakthivel For an average of 9 month period we realized Rs.54 against the US dollar.

Anil Jain What is the income tax rate for FY12 – 13 and next year we are expecting?

Sunil Malhotra I think it would be close to 27 - 28% for the entire year.

Anil Jain But in the 9 months we can say you provided around 18%?

Sunil Malhotra But this will go up now because benefit of MAT credits and all will no longer be available for this financial year. And even for the next financial year we are hoping it should be anything close to 27%.

Anil Jain Sir I would like to know what will be the impact of margin if there is fluctuation in rupee ? For example every percent in fluctuation in rupee, what will be the impact on margins?

Nishith Arora I think pretty much it's a straight carry forward to margin. Any fluctuation upward or downward would benefit everyone. Of rupee goes to 57 it benefits MPS, if the rupee goes to 53, it works against MPS. In very short term, in the medium term, we would expect to negotiate some of our prices upward or downward.

Anil Jain And we can maintain the margins?

Nishith Arora Yeah that's right. Then we bid new projects at a different cost structure. But certainly if the rupee goes to 57, it will help MPS. If the rupee goes to 53, it goes against MPS.

Anil Jain What is the quarterly rent we are receiving sir? Rent which is part of other income.

A Sakthivel This quarterly rent is 44 lakhs.

Moderator The next question is from the line of Dhiraj Sachdev from HSBC Invest Direct. Please go ahead.

Dhiraj Sachdev **I**s the restructuring and cost saving effort done or you have still room left for enhancing the margin that's number 1 and number 2 if you can elaborate the new form of business and different technology platforms like e-books and content on the tablets, etc., how it is changing the business landscape for you guys?

Nishith Arora So as far as rationalization of operations goes I think that's continuous endeavor for example this quarter in Chennai we have traditionally had 2 facilities. Now we are moving into one larger consolidated facility. Half the operation is already moved. Half is going to move in a couple of weeks. The impact of that we will get in the next year. At the corporate level there is likely to be some more rationalization. Same time every year we have to pay higher wages to the people who actually do work. So that gets offset to some extent. But overall I think, yes, there is still some scope for rationalizing cost and we will continue to exercise that option. I think the biggest change is the jobs that are going on in MPS. And as the revenue grows in future we don't really anticipate increasing our headcount in our large city locations rather we anticipate our headcount in our Dehradun location to increase. We already have 400 MPS employees there and that facility is actually designed for close to 3,000 – 3500 people.

As far as the second question was on the technology platform I think we are doing a lot of work in this area. We have got in place now the technology platforms for work flow management, for doing lot of composition, for doing lot of content distribution and we are offering these like a hosted service like a platform solutions as publishers pay us per book or per month, basically transaction based pricing as well.

Moderator The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal Sir this has been a remarkable turnaround by a company like in last one year you have been able to turn around a loss making company into a very profitable company. Can you take us through the key highlights what were the main pain problems and how did you solve them or restructure them?

Nishith Arora I think we are sort of well over the hump, these questions all came up in the last call. But I am happy to repeat them for you very quickly. I think there were three major pain areas. One was we had this loss making book division and that we turn around by shipping a lot of production work into the city of Dehradun where we already had a facility of ADI and whole bunch of people who knew how to do the work. We were able to leverage on that and reduce our head count inefficient locations and do the work in a profitable manner out of Dehradun. That was one major change. The other major change was that we had large sort of production management and marketing overheads in the UK and US that we cut down rapidly and the lined it more with the requirements of the day. That was the second biggest step and third was large reduction in corporate cost being a MacMillan company there were certain arrangement with the company

Moderator The next question is from the line of Kiran Chheda from Value Quest Research. Please go ahead.

Kiran Chheda While I understand that you currently are not willing to give any guidance but going forward is there a policy or is there an intent to give at least yearly guidance in advance?

Nishith Arora We have discussed that in our board and our board is as you may know from the promoters side its is me and we have 3 independent directors, Mr. Wadia who is Vice Chairman of the company Mr. Ashish Dalal who is ex-PWC, and Mr. Vijay Sood. So their view is they don't favor giving a guidance and I would respect their view given their experience in this matter.

Kiran Chheda Even a broad guidance in terms of turnovers and margins would be really helpful to the investor community and analysts like us.

Nishith Arora We have a very conservative board. My hands on this are pretty much tied.

Moderator The next question is from the line of Rohan Shah from Manpad Invest. Please go ahead.

Rohan Shah I wanted to ask you what is your policy on the dividend. What percentage of your net profit would you distribute as dividends? This year you have given a nice lumpy dividend and can we expect the same for the years ahead. Also I just wanted to know what is your overall vision for the company? I understand the opportunity in e-books and digital publishing, I just wanted to know what is your overall vision for the company? Thanks.

Nishith Arora In terms of dividends we discussed it with our board and we have discussed like 3 year road map. And our intent subject to there being no surprises or no setbacks we will continue to do what we are doing and try and improve on it as a the company results improve. The question on vision for the company I think we are quite clear there is a large opportunity ahead of us in publishing services area itself. We are upgrading our products and services. Somebody was talking about e-books and digital are the buzz word. At the same time essentially a lot of these services come from the fact there is a need for the content to be processed, content to be created, content to be distributed. Various business units at MPS has been a key partner of the major publishers, both the creator of content as well as distribution of content.

Moderator The next question is from the line of Parimal Mithwani from Prudential Invest. Please go ahead.

Parimal Mithwani I would like to know there is moderate growth in top-line since last 2 – 3 quarter, can you explain the reasons for that?

Nishith Arora Like I said when we bought the company, when the transaction took place, I think the whole focus from our side initially was to rationalizing the operations and getting this company into a healthy vibrant company with a healthy margin. And how do you grow the revenue, you cant just grow the revenue by whishing it to happen. Revenue growth comes to place when you improve your products and services and slightly in the last 3 years prior to the acquisition not much was happening in this company. So it has lagged behind in terms of the range of products and services, the quality of products and services. So last year has really gone into correcting all that. And as I was explaining, in the coming financial years we expect to see revenue growth taking place from all the efforts that have gone into improving our products and services.

Moderator The last question is from the line of Janiel Jhaveri from J&J Holdings please go ahead.

Janiel Jhaveri I just wanted to know what is the kind of CAPEX you expect for the next year?

Nishith Arora I just like to give a background here. For us, in a business like our CAPEX as we expand our facilities goes into creating new facilities, or creating new IT assets, CAPEX also goes into replacing some of the IT assets. In our type of business we are not CAPEX hungry especially since we have our Dehradun facility which is part of ADI and available to MPS without any CAPEX. So that really brings down the quantum of CAPEX that we envisage. I would say CAPEX needs going forward at best what we are seeing is may be Rs 4 – 5 crores a year. We don't have any sort of outlays on CAPEX going forward.

Moderator As there are no further questions I would like to hand the conference over to Mr. Alok Somwanshi for closing comments.

Alok Somwanshi I would like to thank the management for giving the opportunity to host the call and all the participants for joining the call. Thank you.

Moderator Thank you. On behalf of Four-S Services, that concludes this conference call. You may now disconnect your lines. Thank you.