Mastek
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SEC/46/2023-24 July 26, 2023

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BSE Limited	**The National Stock Exchange of India Limited**
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Dalal Street, Fort	Bandra Kurla Complex,
Mumbai - 400 001	Bandra (E), Mumbai - 400 051
Tel No. 022- 22723121	Tel No.: 022- 26598100
SCRIP CODE: 523704	**SYMBOL: MASTEK**

Dear Sir(s) / Ma'am(s),

Sub: Transcript of the Earnings Conference Call held on July 19, 2023, for the financial performance of the quarter ended June 30, 2023.

With reference to our Letter No. SEC/35/2023-24 dated July 8, 2023, please find enclosed herewith the call Transcript of the Earnings Conference Call held on the financial performance for the quarter ended June 30, 2023, on Wednesday, July 19, 2023.

The Transcript of the conference call can also be accessed from the website of the Company at https://www.mastek.com/investor-financial-information/

Request you to take note of the above.

Thanking you,

Yours faithfully,
For Mastek Limited
DINESH KUMAR KALANI
Digitally signed by DINESH KUMAR KALANI
Date: 2023.07.26 17:48:42 +05'30'

MASTEK LIMITED
Mastek

Dinesh Kalani
Vice President – Group Company Secretary
Encl: A/A

"Mastek Limited

Q1 FY '24 Earnings Conference Call"

July 19, 2023

MANAGEMENT: **MR. HIRAL CHANDRANA – CHIEF EXECUTIVE OFFICER– MASTEK LIMITED**
MR. ARUN AGARWAL – CHIEF FINANCIAL OFFICER – MASTEK LIMITED

MODERATOR: **MS. ASHA GUPTA – ERNST & YOUNG LLP**

Moderator: Ladies and gentlemen, good day, and welcome to Mastek Limited Q1 FY '24 Earnings Conference Call. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Asha Gupta. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Neerav. Good day to all of you. Welcome to the Q1 FY '24 Earnings Call of Mastek. The results and presentation have already been mailed to you, and you can also view it on our website, www.mastek.com. To take us through the results today and to answer your questions, we have the top management of Mastek represented by Hiral Chandrana, CEO; and Arun Agarwal, CFO. Hiral will start the call with a business update, followed by Arun providing a financial update for the quarter. Post that, we'll open the floor for Q&A.

As usual, I would like to remind you that anything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with the risks and uncertainties that we face. These risk and uncertainties are included, but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual report that you can find it on our website.

Having said that, I will now hand over the call to Hiral Chandrana. Over to you, Hiral.

Hiral Chandrana: Thank you, Asha. Good evening, everybody, and welcome to our Q1 results update. I'll start off with giving a brief overview of 4 different areas: our Q1 financials. What we are seeing in the market as a whole, but also with our specific customers. The exciting acquisition that we've just announced today of BizAnalytica and some commentary on Q2 and outlook for the remaining year.

Our Q1 financials came in at 20.2% year-on-year growth from a revenue perspective at constant currency, and we delivered 17.5% operating EBITDA for the quarter. We had variations in different geographies and different parts of our business. But at an overall level, we saw some good uptick in our Middle East business as a result of the last couple of quarters of order book that we had closed and the revenue conversion of that.

Our U.K. business had a lesser number of working days and because of the time and materials work we do out there had an impact in Q1. And we had some good solid deal momentum and order book in our U.S. business, which should reflect in much more robust quarter-on-quarter growth as we look forward into Q2.

As we look at what's happening in the market as a whole, particularly our top customers, are definitely prioritizing cost optimization and looking at different ways to generate efficiencies. Having said that, the journey that many of them have taken on the cloud migration and cloud modernization is starting to move into a different pivot, where they'd like to monetize the investments that they have made in the platforms, as well as optimize the consumption, whether it is hyperscalers or some of the SaaS platforms.

We've seen simple interesting engagement models in terms of not just cost optimization, but also how do we fund some of the new solution creation and get more ROI for our customers that have already invested in the cloud journey. As we look at our own customer satisfaction survey and results, we have some interesting insights as part of that.

And one of the areas which we were happy to see that customers want to see Mastek playing a much more strategic role in their next few years journey. They also want to see Mastek contribute in multiple newer areas of customer experience of data modernization, of cloud modernization. So, some good sign where our existing customers want to see more of us. Of course, it's up to us now how we scale up and deliver to that promise.

As we look at what's happening in the Generative AI space, there is clearly a huge uptick just in the last 3 months, since we last spoke, where customers are starting to pilot and have use cases very specific to their industry. Mastek has taken a very practical approach, I would say, where we are focused on few specific areas, where we are contextualizing our capability to what the customer use cases and the industry-specific use cases are.

For example, for retail and consumer industries, we've taken our CXPro Solution and our Netail.AI partnership. For manufacturing discrete industries, we've taken a look at how we can integrate our VolteoEdge investment platform with Warehouse 360 and of course, our key platforms and partnerships, Oracle, Salesforce, Microsoft, AWS are all investing in Generative AI and we are seeing how we can embed that as part of our proposition as well.

As we look at our Q1 customer wins and some of the updates that we've shared already in the earnings deck, there is a variety of diverse experiences that we've had based on wins in Europe, in U.K., in Middle East, and in U.S. while we continue to have some pressure from the NHS account, we've seen some really good wins in the healthcare sector and in U.S.

For example, Brookdale Living a senior living community, where we won a large transformation program where we're looking at their entire supply chain, their entire patient experience. There are examples of wins we've had in the manufacturing sector in the non-U.K. Europe geography. We've also seen some marquee programs in the government business of U.K. where we're looking at single sign-on and one log-in ID for their entire identity access and management processes.

So, just a wide variety of wins and go-lives. We had reported 6 months ago, our progress on one of the Blue Cross Blue Shield and I'm happy to share that specific account is on track and trajectory to become a USD 10 million account in the U.S and this will be our second account, where we see that this model of what we are bringing to the Blues can potentially be replicated to other Blue Cross Blue Shield as well. So that's just in a brief in terms of Q1 and market and what we're seeing with customers.

Moving on to BizAnalytica. As we have communicated almost for the last 15 to 18 months. As part of our M&A thesis, and target prospects for M&A. We had prioritized 3 specific areas: customer experience and digital experience, data and the continuum of data with AI, and cloud platforms, which is the hyperscalers.

As you know, we have acquired MST last year, which aligns to one part of our thesis. The second part of our thesis was in the whole data modernization and data cloud journey. We've been very selective in looking at multiple assets doing our due diligence and super excited and pleased to report that we have officially signed a definitive agreement to acquire BizAnalytica.

BizAnalytica was founded a few years back. It's headquartered in Boston area in the U.S. with operations in Chennai and provides a holistic view to the data cloud and modernization journey, where clients are looking at not just moving their data to the cloud, but also setting a strong foundation for how they can generate analytics and now Generative AI use cases.

So, the acquisition is very strategic in many ways, because it not just aligns with our strategic priorities and thesis, but also in terms of what customers are asking from us and what the market potential is in this space. We're also happy about the client base and the profile of customers that BizAnalytica has. They have some marquee enterprise clients in asset and wealth management, retail, healthcare and in technology. And we feel that the synergies that we will start with the U.S. geography and then expand to our global market.

Culturally, we feel that there is also high resilience in terms of both companies. BizAnalytica also has a very solution-focused DNA. They have a significant investment in Lightbeam, which is a marquee IP that really takes a look at data factory and from a managed services perspective, how do we monitor consumption and cloud economics as more and more companies move to the cloud.

So, some exciting areas, which we are hoping to collaborate and work to build on. But in all this is a huge milestone for us. It's an area that we are very excited about in terms of growth prospects. Our mining strategy, which is progressing well in the U.S. and in U.K. and in Middle East will benefit from this capability. Of course, happy to share more during the Q&A and in the coming weeks as we make progress.

The feedback that we received last time from all of you, our investors, our well-wishers, our analysts was to share transparently what was the mix of the business and the size of the business. The last 12 months of BizAnalytica was roughly about USD 16 million. And that's something that we obviously hope to grow significantly higher compared to even the Mastek's growth average.

The last point is about outlook and a little bit commentary about not just Q2, but even looking beyond. We are very happy with the U.S. and Americas order book. There are some deals that took longer to close over the last 3 to 6 months, but we've had a healthy back-to-back order booking and are bullish about how that will translate to revenue. So there's a good uptick that we can expect in terms of revenue growth in the Americas geography.

In the U.K., we have some really large deals that continue to be part of our pipeline. Unfortunately, we had a couple of losses, where we were number 2 with some very large players. And these are large deals and accounts where customer has given us a seat at the table. A year back, we may not have even been able to compete. But being number 2 in some of those losses is not fun. So we are taking that up as a challenge, and we feel that there is potential to win some of those deals in the current quarter and the next. We've actually just got notified last week about one particular win and hopefully, we can do some more in the U.K. geography.

Our margins and Arun will talk about financials in more detail. But specifically, we want to focus more on DSO and ensure that we bring a little bit more discipline there. And there are various initiatives on cost optimization as well as margin improvement across the board, where we are taking very specific tracks and approaches so that we can optimize and then fund more strategic areas.

As we look at account mining, and one of those strategic priorities that we had outlined in the last couple of calls, we've taken our top 10 to 15 accounts in each geography and making progress, not just in terms of account plans, but also in terms of how we are approaching senior stakeholders, building relationships, looking at the vendor landscape, looking at partnerships, looking at how we can look at spend areas and offer a much more holistic proposition. But we've also put in some new account managers and client partners in key accounts where we see growth potential.

The Salesforce business and the Oracle business, which contributes a significant part of Mastek revenue has continued potential, and we see that both in terms of accounts or customers moving to the cloud, but also in terms of how they want to monetize, like I mentioned earlier, some of the investments, not just in sales, marketing, customer service, but even in data analytics. Oracle has also branched out in a couple of new areas. I have spoken in the past about Oracle Health and their health care investments with Cerner. And we've made progress with the Cerner team and Oracle to look at more holistic propositions in select markets.

So, all in all, we have had a slow start in terms of our organic business and see some good lead indicators, where we feel still optimistic and confident about our prospects, not just in Q2, but for the rest of the year in line with some of the communication that we have done earlier. The pipeline is looking good. Our deal momentum is strong. Some of the recent wins are giving us confidence as we look at not just Q2 but beyond. And again, hugely excited in welcoming the BizAnalytica team to the Mastek family.

So with that, I'll turn it over to Arun.

Arun Agarwal: Thanks, Hiral. A very warm welcome to everyone on the call. Financial details and other documents has been shared ahead of the call, so I'll keep focus on key financial metrics aligned to what Hiral alluded to from the business perspective.

Our operating revenue for the quarter was INR 725 crores. It's 2.3% up quarter-on-quarter in INR terms, reflecting 0.4% in constant currency. Year-on-year growth is 27.2%, reflecting constant currency growth of 20.2% year-on-year. Once you break it up between geography, the growth is led by strong execution in Middle East again, in line with our previous quarter, order booking, as we mentioned, we are seeing good pickup in terms of demand in that particular geography, and the same has been reflected in terms of revenue. U.K. quarter-on-quarter was impacted because of lower number of working days. However, the deal momentum, as Hiral mentioned, is quite exciting, and we believe that geography will continue to grow in the coming quarters.

During the quarter, we added 22 clients across verticals and across geographies. Order booking experience was mixed across the geography, while delay and right shifting in decision making continues. However, U.S. and Europe, when we say Europe, non-U.K. Europe has shown positive momentum in order booking. Consequently, our 12 months of order backlog stands at USD 215 million, reflecting an increase of 16.9% year-on-year.

However, a decline of 1.7% quarter-on-quarter in INR terms. Our operating EBITDA for the quarter was at 17.5%, a reduction of 20 bps quarter-on-quarter. The primary reason of 20 bps was because one part of our business, Salesforce, which we acquired last year, the increment has been done effective April as we do the integration, we wanted to ensure the team gets the hike in line with what they were getting earlier. That has impacted margins for the quarter. However, partially offset by currency and other operating levers as operated during the quarter.

Our PAT stood at INR 73.5 crores, up 1.3% quarter-on-quarter. Our cash was INR 220 crores at the end of June this is versus INR 270 crores in March '23. During the quarter, we have paid one installment of loan as it was outstanding as per the payment scheduled. Consequently, our borrowings stood at INR 363 crores as of 30th June 2023.

Headcount was closed at 5,592 at the end of the quarter, reflecting net reduction of 30 headcount. And utilization improved during the quarter by 380 bps including trainees as we are operating and focusing upon better utilizing of resources, to drive the revenue growth and balancing the bench and in project utilization of resources.

We have signed definitive agreement to acquire BizAnalytica, a data cloud and modernization specialist based out of U.S. And again, as Hiral alluded to, it's in line with our strategy to get into data and cloud space together with the presence in the U.S. geography, and it further helps us to sell lot of integrated offerings both to existing and to the prospective customers.

I would like to thank all of you for your continued support and trust. Going back to the moderator and open the house for Q&A. Thank you.

Moderator: Thank you very much. The first question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions. One is on the U.S. pickup, order backlog is more or less flattish. I'm assuming this includes U.S. closures that you spoke about. So what kind of growth rate are you looking at in the U.S. region for Q2 or maybe FY '24?

Hiral Chandrana: So Mohit, the Q1 order book in U.S. actually was better than our targets and expectations in terms of ratio of revenue, it was almost 1.5 times the revenue that we have in that geography. And that's giving us confidence that as we execute on those programs and wins, which did take a little bit longer than we expected, but now since we have closed some of those deals in Q1, it will have a direct impact in Q2, Q3 and beyond in terms of revenue conversion.

So, we obviously had anticipated slightly higher growth in revenue terms in the U.S. But what we are confident is that we'll mostly catch up in Q2 and get back on track in Q3 in terms of our anticipated year-on-year growth rate. So, feeling confident right now based on end of Q4 order book and Q1 order book, that pure organic momentum as well as our integrated business with Salesforce is on the right track. And this, of course, does not include any of the BizAnalytica business and talking about our existing Mastek business.

Mohit Jain: Right. Are we expecting slightly slower U.K. because your total backlog number is still similar? And if U.S. is growing fast, should we expect U.K. to remain slow for some time?

Hiral Chandrana: We will still show growth in U.K. and Europe as we go into not just this quarter, but beyond as well. In terms of quarter-on-quarter and year-on-year, our overall design and model for the year is U.K. and Europe will be slightly slower in percentage terms.

But we're working with some very marquee programs, some new initiatives and areas on digital identity kind of the equivalent of Aadhaar card in India, some large programs in the defense, in the hydrographic space. Looking at new avenues in some of the public sector. So, I think we're still sort of in some very critical programs, but just in percentage terms, comparatively, it will be slightly slower.

Mohit Jain: Right. And last is for Arun sir, what will be the margin impact for FY '24, like we spoke about partly it is done, I assume the increment part is partly done and partly pending. So how should we see it for FY24?

Arun Agarwal: So Mohit, in terms of the operating EBITDA, the increments definitely as we are planning to look into in Q2 for the rest of the organization. How we are seeing there could be immediate impact. Again, there are operating levers, which we are working on back of it to neutralize the impact of increments.

And we believe if any impact happens, that's more transitory in the quarters, where the hike is happening. From Q3, Q4 we will come back to the range where we are operating, which we have already said 17% to 19%, we feel very comfortable about.

Mohit Jain: And this includes acquisition impact as well. You said MST increments are already done, is that correct?

Arun Agarwal: Yes. That's what I said. It is done effective April. So that portion of impact is already in the P&L.

Moderator: Thank you. The next question is from the line of Ravi Menon from Macquarie Group. Please go ahead.

Ravi Menon: Hiral, just a question on the Healthcare and Life Sciences. You were talking about how you won the BCBS contract, and that's been ramping up well. So surprised to see Healthcare and Life Sciences has declined. I think you mentioned that NHS had some challenges. So is it from that? And when would you expect NHS to bottom out?

Hiral Chandrana: I think, Ravi, I wish I could have said confidently that NHS has bottomed out, but the reality is that we continue to see some uncertainty and challenges out there. We were expecting certain programs that could potentially ramp up sometime during the fiscal year. The couple of the close deal losses that I mentioned one of them was actually in NHS. But having said that, there are three new wins that we've had in the Healthcare space in Americas. Some of them are just like recent wins. So obviously, it's not reflecting in the revenue, you should start seeing that in Q2 and beyond.

And even in Middle East, we've won a couple of deals in the provider and Healthcare space. So all in all, that sector is still a bullish sector for us. The only challenge is some of that has been offset by NHS. But I think sometime during the course of the year, we will see a bottom and start picking up even at NHS. What we're doing out there is working with a significant number of Arm's Length Bodies and multiple other divisions and units, including Social Care and ICSs & CSUs, which are not part of the core NHS, but are still getting significant funding.

And the election in U.K., which will come up in the next 12 to 14 months is primarily being fought on Healthcare and some amount of economy, but all the market intelligence, the customer intelligence we have is that there is still spend out there. And we are sort of making sure that we are still working very closely with some of our supporters and stakeholders so that we can capitalize on the investments we've made in the past and start growing back out there again. But you're right, the NHS is really what has challenged us in terms of Healthcare, but our Healthcare momentum in U.S. and Middle East is strong.

Ravi Menon: I was a bit confused by your comment that you have fewer working days in the U.K. I mean I thought that seasonally after a Jan to March quarter with a fewer working days in Feb, this is a seasonally better quarter. So could you just explain that one?

Arun Agarwal: Yes. So typically, this is what happens, since we have U.K. exposure. What is happening, is a lot of T&M engagement, which we have get impacted because of Easter and other holidays, which comes in Q1. So again, it's not global leap holiday pattern is very specific to the U.K. market.

Moderator: Thank you. Next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So I think we had kind of a flat revenue. So I just wanted to expect what kind of revenue growth do we expect for the full year? And maybe because of our increments. So overall, our margin range will be in 17% to 19%, right? So that were my questions.

Hiral Chandrana: Yes. So Arun, why don't you address the margin, and I'll come back to the revenue.

Arun Agarwal: Yes. To the point, as I mentioned to Mohit in the quarters of increment, we might see some blips, but coming Q3, Q4, we'll come back to 17% to 19% range. And that's the plan for the full year as well.

Hiral Chandrana: And Darshil, I just wanted to address the first question. The revenue growth and both quarter-on-quarter, year-on-year growth that we see from Q2 and for the rest of the year is strong. Like

I said, we want to be aiming for industry-leading and bettering that. I know that there is a kind of muted forecast at the industry level. There are companies that have shown de-growth, there are companies that are forecasting lower numbers. But we feel that we are well positioned given some amount of uniqueness and some amount of focused activities in specific markets.

As an example, our Financial Services exposure is minimal, as you know. And we believe that while that could benefit in certain different times, but in the current times that limits some of the downside, whereas as an example, in Manufacturing, and some of the related industries, we've had some really interesting wins. And these are not just wins, where we are implementing Oracle Cloud or Salesforce Service Cloud, we're talking about strategically working with clients on their supply chain transformation, how they're looking at connected enterprises with IoT and connected devices.

So it's a combination of business process transformation as well as technology-enabled strategic market-driven growth that we're seeing with some of the manufacturing industries. So we are operating in some of these industries like Healthcare in the U.S., Manufacturing, U.K. Public Sector. We've seen a pickup in some non-U.K. Europe deal momentum as well. So we're still optimistic, like I mentioned, in terms of year-on-year growth and quarter-on-quarter growth for Q2 and beyond.

Darshil Jhaveri: Okay. So sir, just if I may, so maybe it's not an exact number, but then we could maybe maintain the growth that we've been doing in the past last couple of years, maybe like not an exact number because this time industry is very volatile, so it's a bit difficult to get the flavor of what it is. So maybe like what we have maintained what you've done in the last 2 years, that could be a benchmark that we have maybe?

Hiral Chandrana: Yes. So Darshil, we shared some of the perspective last time. I mean, while industry might go through some amount of muted view here in the short term, our endeavor and our confidence is that we will be better than industry growth, and we will beat that by a few percentage points. So that we still maintain, and we still have the deal momentum and customer demand visibility to do that.

Darshil Jhaveri: Okay. That helps me and all the best for the future quarters.

Moderator: Thank you. Next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: I just wanted some more details on the BizAnalytica acquisition. So some financial details like what is their revenue run rate, annual run rate and what is their margin profile? And what is the consideration that we are paying them? And also about what was the thesis behind acquiring BizAnalytica? Was it for some clients? Was it for a geographical expansion? Or was it for a capability expansion?

Hiral Chandrana: Sure. So Saurabh, there's two-three different questions there. So let me try to break that up. I mean, this is a good opportunity to maybe we welcome BizAnalytica team because our teams have been working with them in the last few months as we were doing due diligence and detailed discussions. In fact, we've started working with our mutual NDAs in one account or actually two accounts. But just a tremendous job done by Arun, who is here with me, CFO. Raman, our Chief Growth Officer, Vimal our Legal, and their entire teams all together to really collaborate with the BizAnalytica team to strategically drive this process. And we are where we are. So that's point number one.

Second point is in terms of thesis, in terms of just the rationale, there are multiple elements. If you look at what's happening in the data cloud space. What happened in the infrastructure space and what happened in the application space in the last 15-20 years is really what's happening in the data space. And more and more customers instead of operating in siloed pieces.

If you look 10-15 years back when analytics became a big theme, one of the challenges customers had is just getting their data into the cloud and data in one place and the quality of data, etc. And so things have evolved, companies like Snowflake, companies like Databricks and even some of the large platform players like AWS have invested significantly in the data space, because they believe that's a foundational capability that will be required, not just for analytics but like I said, to generate more use cases in the GenAI space.

So this acquisition is definitely -- one part of it is definitely about capability. And giving us extremely differentiated assets in not just modernizing the data landscape and estate, but also accelerating the enterprise journey to the cloud of their data assets. But also given the presence that BizAnalytica has in the U.S., in the eastern part of U.S. with some very strategic clients in the Healthcare sector, in the Asset Management and Wealth Management sector and in some retail accounts. And these are Fortune 1000 in some cases, Fortune 500 and in a couple of cases, Fortune 100 accounts, which we will get additional access to. So it's in line with our enterprise focus, account mining focus, where we take a broader Mastek proposition. So now if you tie everything together, we have a heritage in digital engineering, 2e have a strong capability in Oracle Cloud at the enterprise level with ERP, HCM supply chain, we now have the CX portion with Salesforce in the customer front office. And now with the data and the elements of integration, there is a whole story that we can stitch together, where we can start competing in a much larger investment areas. So it complements our capabilities. It complements our U.S. focus and geography focus with account mining, and it also sets a strong foundation for us to tap into a very high potential area on AI, automation, analytics in the future.

And I shared, I think earlier that the last 12 months run rate is USD 16 million. So we believe it's accretive to our revenue multiple for Mastek. So in terms of overall valuation we are very pleased, it’s an attractive acquisition for us from that perspective as well with strong demand in this space and high potential, when we look at the combined synergies of our business.

Saurabh Sadhwani: Sure. And also, I just wanted to understand about BizAnalytica a little more. So can you give us an example of one of the case studies, one of their projects that they have done. Is it more on the data engineering side? Or is it more into the analytics?

Hiral Chandrana: Yes. So, I would say it's a combination, but the heavier focus is on the data engineering, the data modernization and moving data to the cloud, right. So typically, what customers go through is they look at a strategy of how they want to move some of their data across their value chain, multiple business processes, multiple divisions into one centralized – it could be Snowflake or it could be Databricks and then start looking at how they can leverage that data to automate certain business processes to get more solutions and use cases developed.

How they can serve their customers better, meaning our customers' customers better. So the value of driving informed decisions and insights for our enterprise is huge. And in the past, that's always been the endeavor. But now with large data sets and with large language models, the processing speed and time is reduced significantly. So for one of their customers, Optum, which is part of UnitedHealth, they're doing this type of work, where they're using and moving data to the cloud and making sure that they can set up Optum for their modernization journey.

But there are other examples in the Retail space, where they're also doing some data science and analytics work for a couple of customers in the Northeast, Wealth Management and Capital Market space. There is some combination of data engineering and data science. So it's a little bit of a mix of the varied elements. And it also depends in some cases, where customers are in the journey and where do we take them from point A to point B. So hopefully, that provides some flavor, Saurabh.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: A couple of questions. First of all, I just want to understand margin profile of the acquired entity, if you can give some sense about what is the margin profile? And whether any nonlinearity in that business with revenue still if you see any scope for margin expansion?

Hiral Chandrana: So Arun, why don't you answer the first margin and I can add on the revenue.

Arun Agarwal: So Dipesh, if you see the growth profile they have gone through, they have invested significantly with the size of the organization they are in, which led to them operating at a single digit of operating EBITDA. But as we see them together with Mastek, we see them operating at early teens. How their earnout has been structured is they make money if they deliver amount of growth, which we have kind of put as their target and they deliver Mastek level profitability. So we have then both the combination on as we combine with Mastek, they start delivering in double digit. And as they progress and grow the business, they start operating at the Mastek level.

Hiral Chandrana: And there's a couple of interesting things about nonlinearity, and I'm glad you brought that up Dipesh. Because nonlinearity has been a theme for us over the last 6 to 9 months. We communicated in the last quarter couple of wins that we had in the Warehouse 360 space, as an example, we have another solution in the Enterprise Workforce Scheduler space.

But this is a great example where they have a solution and an IP, particularly in the context of managed services. And this is a slightly different dimension of managed services compared to your typical traditional on-premise managed services. So this is data-specific managed services, which is also monetizing that data. So there is some nonlinearity potentially we see there.

There is also opportunity for value creation, like Arun mentioned, where expanding the offshore presence, they do have a Chennai operations, but there's more room to move work and to deliver work from offshore as we scale that business. And as we look at the combined business together, we see more opportunities to do joint bids and solutions, not just in data projects, but in managed services as well for our existing accounts. The same applies to selling Mastek services to BizAnalytica accounts as well. So yes, we see multiple avenues for nonlinearity as well as value creation.

Dipesh Mehta: And two more questions. First is about what could be the client concentration in the business of the acquired entity? And second thing is about what would be the amortization charges you expect on Mastek P&L? So what kind of hit you expect because of the transaction?

Hiral Chandrana: So Arun, why don't you take the second one and then I'll do the first.

Arun Agarwal: Yes. So from the amortization perspective, again, this is the acquisition which is done, we have to go through all the valuation, which is, again, done by the registered valuer team and all. Again, typically, you would have seen any PPA and all it comes to 2% to 3% of the acquisition price. So again, let's perform. We have to go through all this cycle, and we'll be able to give much more detail, once we report September numbers because a lot of T&Cs has to be done, transition has to be closed, then the valuation will happen and we get to know exactly how the valuation will work for their customer relationship, customer contracts and etc. So allow me 90 days to come back with better visibility into that amortization number.

Hiral Chandrana: And Dipesh, just to answer your first point. The client concentration, like I said, it's a company that has a rhythm of much more deeper engagement and account mining compared to just opening new logos and hunting, right? So that's point number one.

Second point is they have an interesting approach of base camp, where once they land into a particular account, they've had tremendous success in scaling to multiple areas within that account. So the quality of accounts and relationships and the concentration is not a huge number of accounts, but they do have a reasonable spread in terms of Financial Services, Healthcare, Technology and Retail. Those are the four industries primarily with a couple of accounts in each of them, which are very strong and then a decent pipeline of a few more accounts in each of those industries.

They also have some solutions that are built for Asset and Wealth Management and developing another one for the Healthcare sector as well.

Moderator: Thank you. Next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: So my first question is on the Government business. So we have seen acceleration in terms of the Government spends by the U.K. in the last two quarters, but that is not being reflected in terms of our order book. As you mentioned that we had some losses, is it we have lost some of the contracts? Or is it like our win rate is coming down there? Or we are seeing increased competition in the U.K. government space. So how do you see it? And also if you can comment on the U.K. private business, which is more Financial Services, Retail there in the

U.K. So after an initial uptick in the last quarter, we are seeing some softness there. So because we have said that we have invested there in that part of the business, what is the update there?

Hiral Chandrana: Yes. So a couple of points, right, Amit. One is the U.K. public sector delivered some reasonable growth in the last quarter, which is reflected obviously in our Q4 results, where we had a very handsome growth quarter-on-quarter and year-on-year as well. Like we said earlier, the number of working days in the U.K., which is really specific to the U.K. for this quarter in Q1 did impact revenue.

Having said that, the couple of losses that I was talking about where we were at close second were not in our existing accounts and not in our existing business that we are running. These were in net new opportunities that we were pursuing. And so that's the second part. The third is that, again, if you look at legal immigration, digital identity, police protection, looking at strategic areas of spend, even including down the road on the health side. We believe we're in the right areas. But yes, absolutely, the competition has gotten much more aggressive and this is not necessarily a U.K. public sector specific comment, but there's definitely going to be much more aggressive pricing pressure on some of the deals, particularly the cost optimization type of deals.

And so we've taken some lessons out of this. Our pipeline in that geography is still very strong. So we still feel quite confident. Like I said, reasonable win about an 8 million win in GBP terms last week, which is quite significant in the U.K. public sector. So we think that the pipeline and the deal momentum is there. It's a matter of converting a couple of them and continuing to deliver. Our credibility with clients out there is very strong. And we feel that we can tap into the spend that you're referring to in the coming quarters.

So that's as far as the U.K. public sector. The private sector, we tweaked our approach a little bit in the last one or two quarters. As we were seeing in our own existing accounts, a couple of Financial Services, a couple of Retail accounts. There were new CIOs, there were new relationships that we had to build.

And so we're sort of taking on a more mining approach even in the private sector, so that we can scale some of our existing accounts and take those case studies to open up new logos. We were focused a little bit on the hunting side with mixed results to be frank, but we're getting a lot more traction and success, just in the last two-three months. I was in U.K last month, meeting a couple of new CIOs in the private sector, same with the public sector.

And with the trust that they have in us and some of our delivery in some cases, we've been there 8 years, 10 years, 20 years, is strong. So it's up to us now how we leverage as they go through their transformation journey, including cost savings and how to fund transformation. We're up there with them working together. So in the short term, we believe it's a little bit more of a mining story in the U.K. private sector. And then we plan to take that to open up new logos tapping into the Fintech and Financial Services potential that exists in the geography.

Amit Chandra: Okay. And sir, on the U.S. business, you mentioned that we'll see good growth in the second half. But if you can comment on how has MST been performing as of now because Arun mentioned some of the order wins that we had in the U.S., it was led by MST. And also, if you can quantify what was the impact on margins from the wage hike that we did for MST? And also in terms of Oracle CX business that was under stress. So what is the update on that, is this stress over? Or are we still seeing some drag there?

Hiral Chandrana: Yes. So there's 3 questions on that, Amit. Let me quickly answer the first and the third, and then I'll give to Arun on the second. So Oracle commerce and CX specifically, the third point, we commented on this last couple of quarters as well.

Oracle has deprioritized that space 6-9 months back. And so obviously, we had an impact over the last 9 months because of that, the team has done a fantastic job in neutralizing some of that, moving that business to managed services, looking at Salesforce commerce, looking at Magento, looking at Mach alliances, headless commerce in different areas.

So we're still in that space, but it is not about Oracle commerce anymore, right, because Oracle themselves are deprioritizing that. But we don't sort of expect any impact because of that anymore, right, because where the implementations are going on that is either done or moved to managed services, and we're not expecting any significant new wins, although we did have one win in the recent times. So it's not like customers have completely shut down, but significantly lowered compared to the past.

As far as the Salesforce and looking at some of the broader business. Actually, if you look at some of our win announcements, the good news is that we have seen order book and growth across all the three different areas; Salesforce, Oracle Cloud and Digital Engineering in the Americas. And so that kind of well-rounded. For example, we replaced one of the top 3 Indian-based SI in one of the West Coast accounts in a very strategic data warehousing in BI deals. And we're running a few workshops out there. As this is a retail customer, which has been an existing customer for ours in the last couple of years, where we see a potential large deal in the making.

The Salesforce business has delivered good order book. They had muted revenue in Q1, but we expect that to pick up in Q2 and have a good full year FY '24. Our Oracle business in Americas had some delays in terms of wins and the project. But macro level discretionary spend and even though there's some slowdown there from a customer perspective, we are still seeing new projects and new implementations, where there's a transformation involved and there's a model, where we're able to save the customer money and the total cost of ownership level and still able to transform their business processes are getting funded.

It's taking longer. But the couple of wins that we had in the Oracle Cloud space, which we've included in the deck have been USD 5 million type of win. So from that perspective, it was a well-rounded kind of order book quarter. Of course, we have to execute and continue to ramp up and maintain that momentum going forward.

Arun, if you want to take the second one?

Arun Agarwal: Very quickly, Amit, again, it's a combination, but broadly it was in the range of 0.5%, 0.6% impact to the overall EBITDA of the company.

Moderator: Thank you. Next question is from the line of Hussain from Ambit Asset Management. Please go ahead.

Hussain: So my question is more on the inorganic side, so I wanted to understand what would be our near-term strategy or plan in this area? Because over the last 1 year, we've made two good acquisitions in terms of MST and now BizAnalytica. So would we first focus on consolidating these before venturing into further M&A? And a continuation to that, would you say that we are more or less, we do have the capabilities now to reach the target, which we set for ourselves over for the latter half of the decade. So wanted to get sense on that.

Hiral Chandrana: It's a two-pronged answer, Hussain. There is definitely in line with our thesis in line with our strategic priorities, which then aligns with our M&A thesis, we had talked about CX, we talked about data. And so yes, you're right, those two acquisitions we have made. Our approach has always been sort of USD 10 million to USD 30 million type of companies, right? So we're looking at some very specific segments in the U.S. market. And we don't plan any other near-term acquisitions.

We believe that we have rounded off the capabilities that is required in the immediate future. Having said that, our 3 to 4-year type of model definitely had total of 4 or 5 acquisitions, which we would continue to pursue over that time frame. We're not going to rush into it. We're going to do our due diligence. And as we see opportunities, and it could go beyond the U.S., it might be in the U.K. as well. We will make some of the strategic bets. But as it stands right now, we feel comfortable this fiscal year in terms of where we are with the M&A strategy.

Hussain: Got it. And one last question was with regards to our cash position, I think, INR 220 crores and approximately INR 130 crores – INR140 crores will go in this acquisition, so that will leave us on a thin gross cash balance. So how are you looking at that as the year progresses?

Arun Agarwal: So from the cash perspective as being an IT service company, we believe the cash generation quarter-by-quarter is continued to be healthy. The gross cash of INR 220 crores is good sufficient plus, as I mentioned, the cash generation quarter-by-quarter will keep adding on it. We believe it is sufficient to manage the working capital requirement and also to take care of the loan repayment. So we feel quite comfortable with the situation of the cash as we speak.

Moderator: Thank you. Next question is from the line of Jay Jain from Finnovate Financial Services. Please go ahead.

Jay Jain: So my question is related to the Middle East geography. The Middle East revenue has grown 34% sequentially and 67% year-on-year. So what is the reason for this growth? And what could be the growth trajectory going forward in this geography?

Hiral Chandrana: So Jay, we made this comment and provided some guidance last two calls as well. When we had looked at Europe as a market in the first half of FY '23, which is last fiscal year, we saw with the Ukraine situation and the war, a clear slowdown. And at the same time, because of

Russia and other aspects, we saw a lot of funding going into both UAE and Middle East as a whole with Riyadh and Saudi.

And we had strategically moved some of our focus in investment from Europe, I'm talking about the non-U.K. Europe into the Middle East and Australia geography because we were seeing demand in that. So it was a strategic decision. We realize that there are margin challenges and tough customer environment, but we were seeing some really good demand.

Now having said that, it is not a geography that we are necessarily banking on in terms of year-on-year growth in terms of volume for the foreseeable 3 – 4 years' timeframe, if you look at the horizon. But we believe that it provides us a good healthy diversification. And last two quarters, we had actually reduced our number of accounts in the previous two quarters and strategically looked at even account mining even in the Middle East.

So the net-net is that when you look at it full year level, the growth trajectory in the Middle East when I say Middle East, I'm including parts of APAC and Australia as well, which we call the AMEA region. We see that growing at a faster than Mastek average along the lines of kind of U.S. business as a whole for the full year basis.

But it probably will have some blips in terms of quarter-on-quarter because there's a little bit of a unique rhythm out there. And we sort of have anticipated that in terms of balancing that during the various quarters in the year. But it's an important and a significant part of our business, and we plan to improve margins in that business so that we can have better quality accounts and growth even in that geography as we look forward.

Moderator: Thank you. Next question is from Sudip Dugar, an individual investor. Please go ahead.

Sudip Dugar: Sir, I have one question regarding the U.S. business. Now with the deals coming on board, and we're seeing revenue coming in the books from the next quarter onwards. So how should we see the margins in the U.S. business?

Arun Agarwal: Yes. So Sudip, as you said, as the growth comes, the investment, which has gone into the geography, any growth will help us keep improving margin quarter-by-quarter because the scale will give us the advantages we are looking for.

Hiral Chandrana: And just maybe to add, the nature of the deals and the nature of the accounts, even in U.S., we are being a little bit more selective in terms of quality of accounts as well that we had a long tail of accounts even in the U.S. There were accounts with just USD 200K, USD 500K type of revenue with no potential to go beyond USD 1 million.

And where we have projects which are ending, and we don't see those customers as strategic with medium or long-term potential, we're not necessarily dragging or continuing there. We're actually sort of repurposing some of that focus into higher spend areas, larger accounts, larger deals, and our account mining strategy out there has shown good lead indicators in terms of order booking. So that will reflect in our growth out there. But I think as we deliver on a stronger revenue plan, like Arun said, the margins will improve in the geography as well.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Hiral Chandrana: All right. So the questions and the interaction is always enjoyable and we kind of learn from it as well, the quality of the questions and the insights and some of the discussions are useful to us as well. So I appreciate the trust, the interest and the support for Mastek. We're on a journey where the market is volatile, the times are still uncertain. But like I mentioned, the strategy and the investments that we have made in the last few quarters is in the right direction, and we are very confident that it is paying off in terms of how we want to win in the right spaces, in the right areas with the right quality business.

And while there are some mixed kind of performances based on the geography and based on the quarterly results, as a whole we are very optimistic about the prospects and the customer feedback in terms of where they want us to operate in some very strategic areas. So there's an opportunity for us to scale up, particularly in some of our largest existing accounts.

Having said that, there's definitely a tighter budget cycles that customers are going through, multiple levels of approval. Competition is aggressive, but we have the right team in place. We have the right coverage now compared to what we had about a year or so back. And as we look forward, the completeness of our portfolio, the stronger relationships in the U.K. public sector, the critical programs in the government that we operate in, plus the momentum in both Americas and Middle East is giving us confidence of being able to deliver stronger and industry-leading growth.

So with that, we, again, are super excited about the data cloud space and BizAnalytica as a company and as a combined business now with the Mastek family offers another dimension for potentially growing in areas beyond, where we were present in some cases. As companies look at this 3 to 5 year horizon, of where the spend is going to go, in particularly in the data space, I think the prospects are very encouraging.

So once again, thanks for all the participation and questions. And we appreciate all the trust of all the analysts and investors in Mastek. Thank you.

Moderator: Thank you very much. On behalf of Mastek Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines, thank you.