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SEC/74/2022-23

November 1, 2022

Listing Department **BSE Limited** 25th Floor, Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai - 400 001 Tel No. 022- 22723121 **SCRIP CODE: 523704**	**Listing Department** **The National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 Tel No.: 022- 26598100 **SYMBOL: MASTEK**

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

Sub: Earnings Conference Call Transcript – Q2FY23.

With reference to our Letter No. SEC/68/2022-23 dated October 11, 2022, please find enclosed herewith the call Transcript of the Earnings Conference Call held on the financial performance for the quarter and six months ended September 30, 2022, on Friday, October 21, 2022.

The Transcript of the conference call can also be accessed from the website of the Company at www.mastek.com

Request you to take the note of the above.

Thanking you,

Yours faithfully,
For Mastek Limited

DINESH KUMAR KALANI

Digitally signed by DINESH KUMAR KALANI
Date: 2022.11.01 18:59:44 +05'30'

MASTEK LIMITED
Mastek

Dinesh Kalani
Vice President - Company Secretary

Encl: A/A

"Mastek Limited Q2FY23 Earnings Conference Call"

October 21, 2022

MANAGEMENT: MR. HIRAL CHANDRANA – GLOBAL CHIEF EXECUTIVE OFFICER, MASTEK LIMITED
MR. ARUN AGARWAL – GLOBAL CHIEF FINANCIAL OFFICER, MASTEK LIMITED
MS. DAMINI JHUNJHUNWALA – ASSISTANT VICE PRESIDENT, INVESTOR RELATIONS, MASTEK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Mastek Limited Q2 FY'23 Earnings Conference Call. As a reminder, all participants are in a listen-only mode, and 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 phone. Please note this conference is being recorded. I now hand the conference over to Ms. Damini Jhunjhunwala, AVP, Investor Relations, Mastek Limited. Thank you. And over to you ma'am.

Damini Jhunjhunwala: Thank you, Vikram. Good day to all of you and thank you for joining our earnings call today. Welcome to the Q2 FY'23 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 answer your questions, we have the top management of Mastek, represented by Mr. Hiral Chandrana -- Global CEO, and Mr. Arun Agarwal -- Global CFO.

Hiral will start the call with a Business Update, followed by Arun providing the Financial Update for the Quarter.

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 a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we mentioned in the prospectus filed with SEBI and subsequent annual reports that you can find on our website.

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

Hiral Chandrana: Thank you, Damini. Thanks, everyone, for joining our investor call and analyst call.

First of all, let me start with wishing all of you and your family happy diwali and best wishes for the festive season.

As you would have seen our results, we reported quarter-on-quarter growth of greater than 10% on constant currency and 20.4% year-on-year growth on the revenue, again on constant currency. We reported operating EBITDA of 17.2%. Arun will get into a lot more details on the key metrics and financials.

Let me spend a few minutes on some of the highlights of the business. I will also talk about how we are progressing on the strategic priorities and some flavor for what you can expect in the second half of the year and going forward.

As there is a lot of geopolitical uncertainty in the UK. So, I wanted to spend a few minutes starting with the biggest business out there, which is the UK public sector. We've been in that geography for over two decades as you know and are very deep rooted in some very critical areas of national infrastructure, particularly with borders, immigration, defense and security. While we understand there is a lot of flux in terms of the macro level environment out there, but our business is very resilient. We have actually announced a few wins out there and some very large frameworks, which position us very well, particularly as the digitization continues, and we are working very closely with the top civil servants, as well as key programs and key transformation programs, which we expect to continue as planned. The private sector in UK has also continue to show momentum, and in our overall UK business, we are confident will continue to grow going forward.

As you know, we announced the MST Solutions acquisition and concluded that in the quarter, and it's off to a really very positive start. We couldn't be more happier. There is a lot of activity going on across multiple dimensions, particularly as it relates to go-to-market motion and synergy with the rest of Mastek accounts. So, both when it comes to Mastek services taking into MST accounts and salesforce going into Mastek accounts, we've seen some really positive momentum just in a few weeks.

As you would recall, our focus was on three or four areas when we made this acquisition. One was in the space of healthcare in North America, where MST has got some really unique solutions.Second is in a new vertical, which is the state and local government in the America. We're now into four different states out there and see again a lot of areas where we can replicate the use cases.Account mining was one of the biggest areas where we would benefit. Salesforce as an ecosystem is going to be creating 9 million US jobs in the next three years. And they will be requiring about 250,000 more consultants in the ecosystem.

We have some amazing case study and are very bullish, particularly after the Dreamforce Conference that happened last month, where we see a lot of clients action together, and are already bidding for joint deals and winning together along with MST.

Overall, our market visibility has increased. We've been recognized by some top advisor analysts in the America, particularly as it relates to ISG. We are part of the Booming 15 List now, along with some key players, as well as other clients recognized us for a disruptor in the Oracle cloud space.

Our order book backlog year-on-year continues to grow. The demand is cautious, but we see some really strong momentum in larger integrated deals. And even though there will be some repurposing of budgets, the areas that we operate in as you know is all digital and cloud services. So, we continue to see customers investing in those areas going forward as they continue to modernize and move their on-premise workloads to the cloud.

As we had presented during the investor day last time on some very key strategies. And a key part of that building block is our people. And we are very happy to inform you that attrition has continued to be trending down in the last three quarters. There are lot of skill transformation and people retention initiatives that continue, and like I've said before a continuous process as we build our organization to scale for the future.

We have also announced an innovation and platforms group. And again, we're happy to inform you that there is a first win on that front with non-linear assets, particularly in the workforce scheduling space. It's in the Middle East market. However, we believe that this can be now replicated into other markets, including US and UK.

Our Middle East market actually help performed well frankly better than what we had originally expected. And we are involved now in some large accounts and deals out in that market as well.

Lastly, if you look at our account focus strategy, we are now in 27 Fortune 1,000 clients. We are being very selective in terms of new logos and new clients, where we want to focus on deeper account mining and cross sell with our service line strategy. And you will continue to see that focus across all geographies.

A bit about what you can expect going forward. We believe that while our healthcare business percentage would have dropped, and we had communicated this last time in terms of a single account in the UK, we are seeing really strong momentum when it comes to pipeline, particularly in healthcare and public sector. Our manufacturing and retail accounts also are showing promise.And we believe that even though the data and analytics in the healthcare percentage has dropped because of that one account, the pipeline that we see in those two areas across all geographies, particularly North America is very positive.

The key will be to execute during the quarter both in Q3 and Q4 as we have multiple large deals and integrated deals, along with our joint activity with MST Solutions.

We just came off a successful Oracle Cloud World Conference as well. Again, these conferences are happening after a gap of three years, as 2019 was the last in-person conference. And there's again a lot of discussion around the investment Oracle has made in Cerner and the potential of repurposing some of that investment into the healthcare US market.

I'd like to thank all our Mastekeers employees, all our stakeholders, including all of you on the call, our investors, analysts as well as our customers for their commitment and trust.

I will turn it over to Arun now for financials and looking forward to the discussion in our Q&A. Thank you.

Arun Agarwal: Thanks, Hiral. A very warm welcome to everyone on the call. While deck containing details have already been circulated ahead of the call, I will focus on key financial and business highlights on top of what Hiral has covered much more detailing about how our business are growing, and what key initiatives are being driven in Mastek.

It was an eventful quarter on multiple fronts. While we have seen quarter-on-quarter and year-on-year growth in revenue led by both organic business and also acquisition of MST for part of the quarter, we witnessed decline in our operating margin, which is primarily because of increments, which we have done across all the geographies, and currency headwinds.

We concluded our acquisition of MST in the month of August. And as Hiral alluded to, we are experiencing synergistic momentum in Americas as this acquisition has strengthened our integrated offering across cloud, transformation, architecture, customer experience, data and business intelligence.

Key financial highlights for the quarter includes, we have reported revenue of Rs.625 crores for the quarter, up 20.4% year-on-year and 10.7% quarter-on-quarter in constant currency. During the quarter, we have seen good momentum building up in our UK public sector business and also in Middle East, both in order book and revenue terms.

US continues to be an important market. In Q2, US contributed 24% of our group revenue, progressing in line with our Vision 2025, where we want 1/3 of our revenue to come from US as a market.

We added 20 new clients during the quarter and a point to highlight five clients of that 20 have their turnover more than $1 billion, which gives a significant opportunity for Mastek to do further account mining and make them a customer for life.

Our operating EBITDA stood at 17.2% versus 19.2% in the previous quarter, a reduction of 200 bps quarter-on-quarter. As I mentioned earlier, it's primarily due to impact of currency and salary increments. However, we continue to invest in sales and capabilities. There are multiple operating levers which is helping us to offset some of this impact as we operated in this quarter, and move into future quarters.

PAT stood at Rs.86.2 crores versus Rs.84.4 crores in the previous quarter, up 2.2% quarter-on-quarter. Our borrowing stood at Rs.388 crores as of 30th September, which includes funds which we borrowed for the purpose of MST acquisition. Our gross cash stood at Rs.352 crores versus Rs.665 crores in the previous quarter. We have discharged all the payments relating to MST acquisition, and also released all the final dividends in Q2.

Our headcount stood at 5,810 for the quarter, reflecting a net addition of 257 resources. This includes the addition of MST resources as we consolidated MST in this current quarter.

We will provide more inputs as we get into Q&A session. I would like to thank all of you for your continued support and trust in Mastek. Wishing you all a very happy and prosperous diwali. Going back to moderator to open the house for Q&A session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Baidik Sarkar with Unifi Capital. Please go ahead.

Baidik Sarkar: I was wondering if you could just take a step back and throw some light on how the various acquisitions moving part under the top line number are doing. I may start with an update on when we expect some kind of acquisition in the UK public sector and the comments that you drew reference to a large or to a few large deals there. By when should we back expect acquisitions there? Followed by a comment on your order growth rate like, if you could please quantify a broad range about that? The commentary from Oracle itself has been so encouraging and aggressive so far will help us see how vendor ecosystem will be keeping up. And lastly, if you throw some light on the sales perspective area that you've acquired with a new M&A. How much of MST is largely project implementation oriented and how to scale up look like?

Hiral Chandrana: I know there's two or three parts to it. Just to clarify, your first point was on the UK public sector, right?

Baidik Sarkar: That's right.

Hiral Chandrana: Okay. So, if you look at it, outside of some of the large frameworks that we have announced, and these are very competitive frameworks, right, and one of them, which is the technology services, TS3 were actually officially in the top two among the top 15 suppliers. As part of the data analytics framework, we are also expecting a significant amount of work in the medium term. Having said that, in terms of the near-term wins, and some of the key elements of the UK public sector, we are actually continuing to win on three or four fronts. One is, in terms of the future borders, and trade, as you know our business is managing some of the critical infrastructure, so for example, we process about 5 million visa applicants in any given year. We are actually involved in protecting some of the irregular immigration where we process about 25,000 cases every year. Some of these critical elements continue to get modernized and digitized and these systems are very critical for the future of the government as well. Even in the health sector out there which is run by the government where we saw one particular program dip and that obviously impacted our Q1 and Q2 from a health sector perspective. But we are continuing to see momentum in a few other areas, particularly in the shared services unit, and some of the data processing services and we've announced a couple of wins out there as well. In the UK public sector, we also have a council, state and local government, where we're working with about 28 or 29 city council. And we used to do primarily Oracle Cloud work out there in the past until about six months, nine months ago. Now, we are starting to cross sell the digital services and winning more larger integrated deals. In about five of those councils, we have actually started in two or three of them architectural assessments and we believe that some of those councils could be quite interesting going forward as well.

So, while you have seen the US business improve from a share perspective, and that's in line with our strategy, our UK public sector, particularly our secure government services, the SGS services, will continue to grow. And we're actually seeing wins even in the first two, three weeks of October here as we get into Q3. So, that's as far as the UK public sector is concerned.

Baidik Sarkar: So, the deal wins in October should reflect by Q3 itself, is that a fair assessment?

Hiral Chandrana: Yes, the two wins that we have e had are wins where we would start to ramp up in November itself. These are wins in our existing accounts in different divisions and that will continue to build in Q3 and Q4 as well. As the Oracle business that we have is multifold. So, I just want to split out a little bit because it will give you some flavor. The Oracle Cloud Commerce …and there has been enough public announcements on this. Oracle has been deprioritizing some of the cloud commerce elements, which is the CX parts of the Oracle business Right. And we've had some exposure out there, which has impacted some of our Oracle components. Having said that, the Oracle Cloud ERP supply chain, HCM and some of the elements of the mid to back office transformation is something that they continue to grow and we continue to see positive momentum. So, while the CX spot has definitely been impacted, the rest of the Oracle business which is our core ERP HCM continues to build right as we look at larger deals. Now, it's an interesting kind of timing for us because it's a good segue to your third question. We now have an additional ammunition with the Salesforce commerce as well as our Salesforce CX practices. So, in our existing incumbent accounts, we are now able to guide them through the front office transformation journey, whether it is in the Salesforce, CX, CRM space, or even in some of the new Mac alliances, which are the headless commerce areas where some customers are investing. So, we're seeing it as a challenge as well as an opportunity there on the commerce space, because now we have an additional stronger practice where customers are investing in.

Lastly, the MST acquisition, and we've shared some more details in the deck as well. We are really excited about this entire new vertical that has opened up. Normally, it would have been very difficult for us to get into state and local government sector. But the spend out there continues to increase in digitizing multiple elements of economic and land development, water resources, licensing and permitting, and these are some very unique use cases, right, transportation, health services, where we are able to take our capabilities in Salesforce, and penetrate into the state and local government. And hopefully, we can build from there and replicate those use cases as well, including some of the Blue Cross, Blue Shield, where we see some good use cases in the health sector, both in the provider and the payer market as well. So, hopefully, that covers the UK public sector, the Oracle, as well as Salesforce.

Baidik Sarkar: I was wondering if you could quantify some of the expected growth rates here, at least with MST. I understand ramp up in UK will happen, but just to give us a ballpark on how the scale up in MST could be like. I think they were 30 million last June. So, what's the run rate we're looking at here?

Hiral Chandrana: We don't share the split of the acquisition numbers. Like you said, when we acquired, they were 28/ 29 million in prior 12-months in June timeframe. We expect the growth in high single digit with MST Solutions quarter-on-quarter. And the ecosystem is fairly large as you know with the Salesforce. Salesforce, as we had shared last time, is a much broader platform with the customer 360 deg. focus. So, there is sales cloud, service cloud, marketing, cloud, integration cloud, analytics, and some very specific-industry solutions that MST brings to the table as well. There is a platform called Velocity, which is where we build our industry solutions. So, that we continue to see high single digit quarter-on-quarter growth, obviously it's on a smaller base. And we're seeing growth across geographies out there, not just in the Americas. Arun, if you want to add anything on the numbers?

Arun Agarwal: Absolutely covered, Hiral. Baidik, to your point, while US is a primary focus how we have done the acquisition, but we are seeing a lot of good synergies coming out of UK and other markets as we are building it up. So, we are very positive both from the market opportunity perspective and from the capability which we have as a company now.

Baidik Sarkar: Arun, on margins, could you break up the constituent within our other expenditure, that's almost 200 bps at EBITDA level and despite on depreciation is it just an effect of MST acquisition or was there something else because it look rather sharp? And would you reckon we have bottomed levels or should we wait for Q3 for the full impact of integration to play out?

Arun Agarwal: So, you're right, Baidik, depreciation is the reflection of the acquisition as per IndAS and IFRS as we know. They say intangible, which has to be created on every acquisition and you need to amortize it, right, which has led to increase in depreciation, which will continue but that's part of the acquisition. And margin, as you saw, other expenses is the reflection of sub-contractors and other related cost, right, as we are ramping up a couple of accounts, including public sector, which includes, security cleared resources, you need to hire sub-contractors, because there you get those talent rather than in the employment market. So, it's a combination of both which is leading into it. But, from the operating EBITDA perspective, which is a consummation of everything plus and minus which is moving across, as I mentioned earlier, it's a combination of currency and also the salary increments which we have given across geography. Otherwise, everything else is balancing each other out.

Baidik Sarkar: So, just one last thing for Hiral and Arun. This is really a comment for your board and obviously for the CEOs and CFOs office. Look, I understand, M&A will be a key component of your growth and journey of value creation for many years, right. But even keeping that in perspective, we cannot discount the 50% correction that your own stock has taken because this is now at multiple that is probably lower than the deals that you would enter into the market to fuel your own organic growth ambition. So, in a nutshell, the point I am trying to drive at is from a financial management perspective, buying back your own stock is something that should consider, because if you are indeed headed for a billion say by FY25, or FY26, the risk/reward your own stock offers is possibly better than the smaller back fledgling ones that you might be seeking to acquire. So, this is a comment I wanted to leave with your board. If you have a comment on this right away. I'd love to hear it as this is a formal suggestion to your board.

Arun Agarwal: Thanks, Baidik. We have noted the suggestion. Definitely, this is also one of the factor which is always discussed. But again, it's a capital allocation how we believe will contribute to better shareholders return, but point taken, Baidik.

Moderator: We have next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: First question is, what was the MST contribution in the quarter in terms of the revenue because you're trying to analyze the organic versus inorganic growth?

Arun Agarwal: Again, very quickly, as we mentioned, against the acquisition which is done in the month of August, where we have consolidated numbers, we don't provide the breakups, but very high level, which you can take as a number, organic business have grown, quarter-on-quarter and year-on-year; quarter-on-quarter growth is in low single digit and year-on-year growth is in double digit as a reference. However, we are not providing a breakup, and hence, will not be able to give you a specific breakup of MST and organic numbers.

Sarvesh Gupta: But for how much time has it been consolidated; can you at least tell that?

Arun Agarwal: It's part of the quarter. As I mentioned, the consolidation has been done effective August.

Sarvesh Gupta: Two months?

Arun Agarwal: Approximately.

Sarvesh Gupta: On the healthcare key win where that win has gone back, so, is it expected to come back, what is the current status, will it come back or is it just gone and now we have to start again from the scratch as far as that key deal win is concerned?

Hiral Chandrana: Of course, there are multiple components to our healthcare business. As we do business in Middle East, in the US, as well as the major client in the UK, which we talked about last time. And that particular healthcare business has four or five divisions, right? There is an improvement division, there's a digital division, there's a shared services division, there's an invent division. And those departments and leadership have been consolidated. So, the way we are approaching that account is slightly different. It continues to be a key part of our strategy. Our pipeline is actually healthy. The decisions that they're going to take have slowed down in the last one or two quarters because of the change in leadership and reprioritization. The win that we announced in the collections, which is the data processing services, which is to look at taking some of their legacy environment into the cloud, and also building on the data access environment and some of the trusted, secure access that they want for critical data, that was the win in that same account. So, getting different elements of pipeline now, the deal that was envisaged as it was constructed about nine months back, is now being implemented with a different approach. And like we had mentioned, right, it would come in phases with a much spread-out phase for that particular account. However, we continue to be very bullish on the healthcare sector as an overall industry vertical, right? We've actually won some accounts in the US. Actually, a very interesting case study that we published recently was along with MST where they have completely revamped a member portal and mobile experience of an integrated patient going through and this was a public case study, so I can name the customer, Banner Health, which is one of the leading payer providers in the country. And we've actually not just won the deal, but we are executing that with some really good feedback from both Salesforce as well as from the customer. So, healthcare in North America is actually a big focus area as well. As it relates to the healthcare account in UK, we do continue to see opportunities where they are now mature willing to do offshoring, which they did not. And so, we are sort of constructing some different engagement models with them as well. So, hopefully that covers it.

Sarvesh Gupta: We do expect the share of healthcare in our revenues which has seen a large dip. Do we expect that to improve back to the variant sort of a level or it is going to be the new normal now?

Hiral Chandrana: Good question, Sarvesh. In fact, we had shared our vision for healthcare and life sciences business to be 30% as part of our vision in FY'26 game plan. We are still very confident mix that we are aiming for, in fact, MST Solutions business has an element of healthcare as you know and we are seeing good pipeline on that. So, I would say, this is probably like a bottom level on that mix. We will continue to see going forward hopefully we can get to almost 30% of our business from healthcare and life sciences.

Sarvesh Gupta: Arun, just alluding to the previous participant's question also, we have seen like, even if we talk about high teens here, probably at the bottom range of the high teens in terms of the margins, so assuming currency stabilizes, pound stabilizes at this level, do you this being the bottom of the margins for this year or do we expect any further positive or negative levers on that particular margin levers where we have reached?

Arun Agarwal: Definitely, in all our efforts, we have multiple operating levers including utilization and other specific ones where the management is working very diligently. Currently, we believe, there is a more than enough rooms and opportunity to improve margin profile and we expect those improvement to start reflecting from Q4 onwards.

Moderator: The next question is from the line of Jay Daniel with Entropy Advisors. Please go ahead.

Jay Daniel: On quarter-on-quarter, has there been a reduction in headcount, net of MST because headcount moved up by net of 257 from 5,553 to 5,810 and MST brought in 325?

Arun Agarwal: Yes. The reduction in the headcount is because we have invested ahead of the curve, and we are doing very tactful hiring to replace the attrition and to hire for the future growth wherever we are seeing the pipeline. But we are not backfilling the attrition where it is not matching with the pipeline at the moment, right. So, this is a reduction other than MST.

Jay Daniel: You had alluded to two large $30 million to $50 million deals in the previous quarter call that was on the verge of conversion to orders. Where do they stand now? And over and above this, there was a couple of more deals in the same range expected in the next three to six months. Where do they stand now?

Hiral Chandrana: So, Jay, first of all, clarify the previous point, right, we had continued to ensure that we take freshers and trainees last quarter. And so, our focus there is to ensure they get deployed and get them skilled for the demand that we're seeing. And so we thought it'd be prudent to first integrate the MST acquisition, which also came with some interesting cloud engineering and architecture talent as well as the trainees that we had taken onboard. But we expect to see the headcount continue to grow going forward. As far as the deals are concerned, we had announced the digital specialists and programs framework last time. And that was the last quarter announcement that we had made, I think that's what you're referring to. This is where we are now empanelled on the DevOps space as well as the development services in UK. The two new framework deals that we've recently announced, actually are in newer areas: One is in the strategy and consulting area where we will be getting involved in the transition and transformation of the estate, particularly in the UK public sector, not just in the home office or in the borders and immigration, but other areas as well. And the second area is on the data and analytics framework, which is again reported publicly. This is where the entire data lifecycle is getting looked at. And we are among 29, suppliers. So, it's a very large space of providers. But, we have a fairly good niche when it comes to analytics and cognitive data solution areas where we believe there is huge potential as well. So, those are the two new frameworks that we are involved in –

Jay Daniel: So, these are the $30 million to $50 million deals?

Hiral Chandrana: We are being cautious to be frank and not including them in our order backlog and order book, right? We would like to be on the conservative side and make sure that as we start winning specific SOWs in specific areas, only those get counted in our order book. So, you will not see some of these larger deals and frameworks that are being counted in our order backlog. Having said that –

Jay Daniel: These were the two deals you were mentioning in the last quarter, that's what I wanted to know.

Hiral Chandrana: So, these are two new framework deals.

Jay Daniel: So, the $30 million to $50 million deal which you mentioned last year, what is the status on that last quarter?

Hiral Chandrana: So, I don't know which specific deal you're referring to, but digital specialists and programs deals – you are referring to the UK public sector or the NHS?

Jay Daniel: No, this was given out by you in the last quarter con call.

Hiral Chandrana: Yes, so this is the collections space where we actually have gotten selected. The data processing service that you see out there in our announcement, so we've actually concluded that, and that will continue to ramp up for the next 12-months –

Jay Daniel: They will be in the range of $30 million to $50 million?

Hiral Chandrana: It's a 20 million GBP value.

Jay Daniel: And you have some more in the pipeline, that's what you had mentioned last time over and above these two, which were to be converted in the next three to six months.

Hiral Chandrana: That is correct. Those are still in play and those are both in the health sector as well as in the future borders and immigration sector. One of them has been constituted as a $10 million deal, not $30 million deal that we originally envisaged, and the remaining ones in the clinical space as well as in the HMRC space are still in the pipeline. So, that we continue to see. Our pipeline has actually continued to improve from the previous quarter. So, we're being very cautious in terms of qualifying certain new accounts and new logos as well. But these deals as you can imagine, take time and we're still in play on those deals, Jay.

Moderator: We have next question from the line of Pratik Kothari with Unique Portfolio Managers. Please go ahead.

Pratik Kothari: A couple of clarifications. On the MST, the margin we had mentioned earlier was 18%, 20%. This was after all the synergy benefits that will come in maybe a year down the line or was a trailing margin?

Arun Agarwal: As we mentioned, the margin is in line with what Mastek margin is at the moment. So, it's quite similar to what Mastek organic business was delivering. With synergies we believe, better progress, both in terms of top line and margin, but that's a that's a further development. But, as we speak, the margin profile is quite similar.

Pratik Kothari: This profit number that you mentioned of Rs.86 crores, I believe this includes exceptional items. Am I missing something here?

Arun Agarwal: That's right, there's an exceptional item both from the income and cost perspective. We have sold one of our non-core assets, which is a property. There is a one-time gain associated with that which is included into the numbers and there is one-time acquisition related cost as well which we have incurred, so both have been included in line.

Pratik Kothari: Earlier, when we made the Evosys acquisition, I believe for a year or more we used to separately call out what our organic growth, organic margins are versus what Evosys did. Why not follow that process this time, because we're trying to get a sense of how our organic business is doing? At least in dollar terms if we include MST, the numbers don't look so encouraging. So, why not follow the practice that we used to a couple of years back?

Arun Agarwal: So, again, there's no specific negative sentiments on that side. Just to let you know last year when we acquired Evosys, the integration was not planned to be done immediately and hence, we were giving that information separately, because we were running as a separate business. This is a different smaller range of the acquisition and integrated from day one. So, we have a joint go-to-market strategy. We have got five synergistic deals where we have been successful, though smaller in size, but there's a good ramp up opportunity out there. So, now bifurcating numbers is going to be much more difficult. While Oracle when we acquired, it was a complete, which Mastek was not doing at all and hence we reported separately. There's no other reason then. And I mentioned earlier in one of the remarks saying what is the organic growth. So, we'll continue to give those, guidance on how organic business is moving, but it's more integrated business and offerings now.

Moderator: We have next question from the line of Mohit Jain with Anand Rathi. Please go ahead.

Mohit Jain: Sir, I have just one question on the US side. So, while our commentary remains positive, but numbers do not move there. Like, if we remove the contribution for inorganic, this quarter also seems flattish. So, what is happening in US and this is not a quarterly question, but more from last five quarters perspective? And what challenges are there in growing in the US while our deal win, etc., remains healthy as far as commentary is concerned?

Hiral Chandrana: Mohit, let me start and Arun can add. The account mining strategy out there which we have shared in the last two, three quarters, is starting to now yield results. It has taken longer than we expected, to be frank, because when we structure our teams, we're looking at client partner, program management, delivery management, and different rhythm when it comes to some of these enterprise accounts and larger customers. Having said that, one of the metrics that we will start sharing going forward is our Top-25 accounts in the US. To give you some flavor, that top 25 accounts contribute to roughly about 70% of our business in the Americas. And this is now even consolidated with MST which brings in a couple of accounts as well. And we are tracking that metric very, very closely, because otherwise, we will always be in this business of opening new logos which is an important part. We want to focus more energies on directly going to the customer. Historically, as you know, for the Oracle Cloud side of the business, we were dependent on Oracle to provide us the pipeline. So, the change that we are making there, which has again taken a little bit longer, but we are seeing good leading indicators in the pipeline, is now going directly to the customer. And that's not an easy change, particularly, when it comes to the entire service portfolio that we have, right, which is digital engineering, data, cloud implementations as well as digital experience. So, those two elements are critical parts of the change: One is account mining of the top 25 accounts and second is the direct go-to-market of some of the large enterprise accounts. And lastly, you're seeing a joint integrated synergy now already with another ammunition that we have in Salesforce. So, if you look at what we have talked about in the past, we truly able to make an integrated lead to cash deal happen, right, which is the front office being Salesforce, the back office being Oracle Cloud, ERP, or ECM, and the digital engineering work and the data work that we do in the middle. So, now we're able to construct those larger deals. We feel confident that we can take it to more Fortune 1000 customers, which again is a focus area, and you're seeing that increase, I think our Fortune 1000 list has increased by two and a half times from the year before. So, those two, three elements of our strategy has taken longer to yield results, but we are very confident that the US market which is now 24%, will continue to move in that direction where eventually we will be at about 1/3 of our overall business.

Mohit Jain: By when do you think you can fix this piece and what should we expect in the next two, three quarters, like how much time would there be before we see meaningful growth?

Hiral Chandrana: You will see this in the second half of the year as well, Mohit, in terms of the US growth quarter-on-quarter as well as year-on-year.

Moderator: We have next question from the line of Sachin Kasera with SVAN Investments. Please go ahead.

Sachin Kasera: Two, three questions. One was on the leverage on the balance sheet. So, we have one more round of I think Evosys stake increase due in the H2.. So, will that increase the net debt on the balance sheet by end of the financial year?

Arun Agarwal: We will be using our cash and bank balance to acquire the balance 10% for this year, but there is no debt which is planned for this round.

Sachin Kasera: Because from what I could see in the presentation, net cash has more or less become zero as on September 4th with the current acquisition, isn't it?

Arun Agarwal: At the moment, yes, Sachin, but we have good healthy cash generation which we expect continue to happen, because the quality of revenue is good, collection timelines are improving, though there is a lot more work to be done in H2. We believe with those organic cash coming in will be good enough to take care in terms of this 10% acquisition of Evosys.

Sachin Kasera: The other one is on this Vision 2025-26 that we have put out in the presentation, top three in terms of the growth rate. So, one, does that include organic, inorganic, both when you say you're in the top three in the industry? And secondly, when do you think we will start reporting those type of numbers?

Hiral Chandrana: Sachin, we want to make sure that we're comparing ourselves with the top-10 in that mid-market space. And while there's been some consolidation out there, we want to see that as a medium to longer term journey. That is an important metric that we have already started tracking internally. We don't report that necessarily externally, but we can look at that going forward in the next fiscal onwards. But just to give you some flavor, we actually have incorporated that metric even as part of the leadership team variable pay percentage. So, it's a very critical metric there, because it's a true part of our vision where we want to be in that top three in terms of growth year-on-year. Our customer focus as well as an employee focus are equally important as far as far as acquisition, because we believe if we got those two things right, then the growth will automatically happen.

Sachin Kasera: And the last question is on this billion-dollar vision. So, if I do the math, unless we are looking at some significant debt on the balance sheet or from significant dilution, organically that looks like a very, very tall ask. So, if you could give us some insights that to reach billion dollars, will we need to do some significant dilution of our equity, because organically for the acquisition too, cash flow looks quite challenging basis the current status where we are?

Hiral Chandrana: Sachin, that is a fair comment. As we have communicated, even in our annual report, we're looking at that vision and goal in the second half of the decade. While we understand that there will be some level of macro uncertainty that will continue in the environment, but we have the ingredients and the recipe in terms of capabilities as well as now increasing market visibility to aim for that. So, we want to still, aspire and be ambitious towards that vision. We've communicated that will happen sometime in the second half of the decade. Having said that, right, it will be a combination of organic and inorganic, and it's not going to be purely an organic play. There are certain areas we are continuing to build, particularly in the data space, we have communicated that's one of those areas where both organic and inorganic is going to be a critical component as what we saw in infrastructure and what we saw in applications in the last 20-years is going to happen with the entire data continuum right from discovery to observability and everything in between where the data is moving to the cloud. We won a very interesting engagement, where we replaced the tier-one provider on the AWS data cloud stack recently and we're getting into Snowflake in a couple of accounts in the US as well. So, those type of newer areas, which we did not have in the portfolio will be important, both from a build and partnerships perspective in addition of course to our inorganic plan.

Sachin Kasera: No, I understand. My question is a little different. I was saying for the inorganic part of this billion dollar, will the cash Generation be sufficient, because when we do the numbers, looks like either we'll have to take some debt on the balance sheet or we have to do some again dilution of equity, otherwise, to be able to generate resources for inorganic billion dollar little challenging even by whatever that we're indicating, that was my observation.

Arun Agarwal: Sachin, you are right. So, there'll be a combination of both, one is healthy cash generation, which is part of the plan of the organization. We expect raising capital as well at the right time. So, initial any acquisition can be done with the help of a combination of internal cash and the borrowing. As we get into little, larger size, combination of acquisitions, we will lose for capital raise at the opportune time. Maybe the current pricing is not the right time, but we'll look for, at the right thing we'll do the needful.

Moderator: We have next question from the line of Ravi Naredi with Naredi Investments. Please go ahead.

Ravi Naredi: Sir, my question is, Q2 employee cost rises by 10% versus Q1. While no revenue rises in UK, Middle East, USA only from 107 crores to 151 crores, then why the employee cost of Rs.31 crores rise so much in this Q2?

Arun Agarwal: Maybe it's not comparable apple-to-apple, because we have done the MST acquisition and all the equivalent lines in employee expenses and others have gone up because of MST inclusion as well. So, both revenue and cost has been changed accordingly.

Ravi Naredi: Sir, what is the target of the US top line in next three years in your mind?

Hiral Chandrana: Ravi, we had communicated and we'll continue to drive towards that journey where we would like our US business to be roughly 1/3 if not more part of our overall business share. So, right now, in the latest quarter, we are at 24% or a little over that and we believe there is more headroom to get to closer to 35%.

Moderator: We have next question from the line of Chintan Patel with Satco Capital Markets Limited. Please go ahead.

Chintan Patel: Sir, our margin has continuously declined. So, is it deteriorated due to the consolidation? If it is yes, then what would be the sustainable margin post consolidation for FY23 and going ahead?

Hiral Chandrana: Our margin, as I mentioned earlier, the reduction that you're seeing currently is a combination of two things. One is increasing cost of salaries, including the increments which we have done during the quarter, and also because the currency headwinds, how GBP, INR is moving along, it's also impacting our overall margin. However, we believe high teens has been our aspiration and our endeavor is to continue to build on that. And as I mentioned, Q4 onwards, you will start seeing the positive movements on the back of operating levers, and definitely subject to currency because currency is something which we don't control.

Moderator: We have a next question from the line of Chirag Kachhadiya with Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: Sir, I have a few questions. Whatever the situation is there in Europe and particularly UK, how we have protected ourselves from this because every day some news come from Europe geography and new countries, and particularly in last two days, the incident of UK geopolitical situation is very uncertain over there and ministers resigning and all, so, is there any alternative strategy we put in place to protect ourselves even in worst case scenario if anything happens?

Hiral Chandrana: Chirag, let me maybe recap a couple of things out there in UK, because it will continue to be a very critical market for us. Clearly, we're observing some of the geopolitical scenario and some of that has been around for the last few months as well as you know. We work very, very closely with multiple levels of civil and senior services. And, while there might be some ministerial changes, the people that we've worked with and are working with, will continue to be doing critical roles in these transformation programs, right, whether it's national security, whether it is borders, some of the trade related aspects, and immigration as well. Some of the type of work that we're doing, biometric, data matching, exchange, in terms of validating some of the systems, right, is fairly cutting edge, and those will continue. Now, having said that, right, we want to make sure that we continue to have a risk mitigation plan. But the areas that we are in are very deep rooted. We actually believe that it is going to get very tough for new competition to come in some of these areas that we are present in. And while there will be some element of potential realignment or reprioritization on some of these initiatives, the areas that we are working in, will continue to grow. So, we could potentially see that as an advantage when we convert some of our long-standing relationships in presence to build on some of these systems that we have continued to support. Having said that, Europe, which is the non-UK part, right, we have a small presence in Europe as well, there's definitely a delayed decision. So, we have actually put more focus on the UK and the US market. And like I said, Middle East market has shown good promise as well. One of the interesting things that we've observed in the last three to six months, and you'll hopefully see some announcements on deal related to this, is the accounts that we had opened in Europe, and some of these large manufacturing accounts; these are 10 billion, 15 billion accounts, if not more, they have large presence in Americas as well. So, we are taking a very global account strategy. In fact, we have three deals in the Americas with customers who are actually headquartered out of Europe, but they're driving large North America rollouts, right, whether it's in the Oracle space or in the digital engineering space. So, we are adopting different strategies out there even for some of these accounts that we have out there. But, we are very confident about our public sector business in UK. We understand there is geopolitical stability issues, but in our areas, we are very confident will continue to grow.

Moderator: We have a next question from the line of Parag Bharande, an investor. Please go ahead.

Parag Bharande: I want to understand why there is a reduction in the client addition.

Hiral Chandrana: So, let me take that and Arun, if you want to add, please jump in. Parag, this is something that we've been very consciously been communicating as well as is part of our strategy. If you look at our size of business, the number of clients that we have is way too many, to be frank, right. Now, that's an advantage in some ways, but there is also a long tail of plans, right, where some of those customers may never grow beyond a particular point, right, where we have done an implementation or a project, and then it ends on. So, we're taking very consciously calls on deeper account mining, where we are repurposing some of our top talent globally in the region, as well as in our global centers to focus on those top 40, 45 clients. We've identified globally these top 40, 45 clients, which will drive a good part of our growth strategy. So, you will see us being much more selective when it comes to new client addition. And this is taking a medium term view as well, because we believe the wallet share increase in our existing clients is going to pay off much more dividend as well as higher quality revenue. And this holds good for even regions like Middle East, where we now have identified 10 accounts where we will grow there. In UK where we've identified 10 accounts. In Europe, we've identified a few accounts as well as in US about 20, 25 accounts. So, I think that account mining rhythm is going to be critical. Having said that, we will continue to go after larger more integrated deals, where we see potential downstream potential in the customer. If we see that it's going to be just a project of 300k, 500k, and all that we do in the client, they are being more careful and judicious about taking on new clients, whereas if we see that we're going to be a strategic partner, where now with our Salesforce capabilities, Oracle Cloud, data and engineering capabilities on the digital side, we can be a much more strategic long-term partner, then we would go after it. So, it's a design philosophy, where we believe a number of accounts is not going to be a metric, but revenue from our top 25 or top 50 accounts, revenue from accounts, which are greater than 1 billion in revenue, you would have seen that now, we are increasing our number of accounts when it comes to companies which are greater than 1 billion. So, that's a good message that we will continue to report going forward.

Moderator: We have the last question from the line of Jay Daniel with Entropy Advisors. Please go ahead.

Jay Daniel: This is regarding the $1 billion target. Now, you're saying it will be in the second half of this decade while investors are assuming it'll be in '25, '26. And the second part of that thing is, how personally interested are you in achieving this $1 billion target? As investors, we'd like to know, whether you're on our side of the table as far as your resource, etc., are concerned which are linked to achieving this $1 billion target?

Hiral Chandrana: It's a good segue for us to actually maybe make some closing comments as well, because it's a good question. Our executive leadership team and our management is very committed towards

1 billion vision, right? We have communicated that it is going to be in the early part of the second half of the decade, which is hopefully in the first two years of the second part of the decade. And we believe that there is going to be a lot of activity that we collectively need to do, right, because there are certain market factors we may not be able to control, but there are many factors that we can control as an organization. There are elements of newer areas that are going to come in. We've talked about some of them, whether it is data and automation, whether it is the Cerner acquisition that Oracle made and how we make a bet on healthcare in North America. So, some of those strategies that we have shared in the past. We're tweaking those strategies based on the market, but fundamentally we believe that those strategic big bets that we had outlined are the right back that will take us going forward including our inorganic strategy. I'm personally very committed to your point and looking forward to this journey, because it is not going to be easy thing. What we're trying to do is what Mastek has done in 40-years from a timeframe perspective is to do that in the next four years. And if you look at it, the market opportunity of customers, one of the big things that customers have learned during COVID is not stopping investing in digital engineering and cloud transformation areas, right, because some of the customers that didn't do that, missed out on the opportunity. Now our entire business mix is in that area. And if we continue to build, partner and buy the right assets and build the right capabilities, and of course execute that with a lot of rigor, we think that's the journey that is possible. So, with that, I think, the full commitment on my side exist. We obviously don't talk about specific elements of ESOPs, etc., but as far as the journey is concerned, the entire leadership team has done a fantastic job. It's not an easy environment in the grand things of things. We are obviously coming off of two years of challenging times for people personally and our Masketeers have shown tremendous resilience in the spirit of what they stand for. We recently celebrated our 40th anniversary. We have welcomed the MST Solutions team as a part of our family. Culture for us is very important part of our fabric where we are always going to be true to our value, and the market potential definitely exist, with the room that we have in Americas, in healthcare, in some of the newer emerging technologies, as customers continue to go in the digital and cloud journey. So, with that, hopefully that covers, Jay, the question you have.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference back over to Mr. Hiral Chandrana for closing comments. Over to you, sir.

Hiral Chandrana: Thank you, again. As always, we enjoy these questions because we learn a lot as well in terms of how our supporters, investors, analysts are thinking. I do want to once again wish all of you a very happy diwali and festive season with your families. The environment and the demand outlook is still strong in spite of some of the macro level uncertainty. And we will continue to make progress in our strategic priorities and continue to update all of you on specific areas of progress. But I want to re-emphasize the support and the commitment that all of us in making this vision possible. And again, thank you to all of you on the call as well as our investors and analysts who continue to support us through this journey as well.

Moderator: Ladies and gentlemen, on behalf of Mastek Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.