Mastek
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SEC/88/2023-24 October 26, 2023

Listing Department **BSE Limited** 25th Floor, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai-400 001 **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 **SYMBOL: MASTEK**
ISIN: INE759A01021	

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

Sub: Transcript of the earnings conference call for the quarter & six months period ended on September 30, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our Letter No. SEC/78/2023-24 dated October 10, 2023, please find enclosed herewith the Transcript of the earnings conference call on the financial performance for the quarter and six months period ended September on 30, 2023, conducted after the meeting of Board of Directors held on October 19, 2023, for your information and records.

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

Thanking you,

Yours faithfully,
For Mastek Limited

DINESH KUMAR KALANI Digitally signed by DINESH KUMAR KALANI Date: 2023.10.26 15:03:20 +05'30'

MASTEK LIMITED Mastek

Dinesh Kalani
Vice President – Group Company Secretary

Encl: A/A

"Mastek Limited

Q2 FY '24 Earnings Conference Call"

October 19, 2023

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

MODERATOR: **MS. ASHA GUPTA – E&Y INVESTOR RELATION**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call of Mastek Limited. As a reminder all participant 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 the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Asha Gupta from E&Y Investor Relations. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Michelle. Good day to all of you. Welcome to the Q2 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 Mr. Hiral Chandrana, CEO; and Mr. Arun Agarwal, CFO. Hiral will start the call with a business update, which will be followed by Arun, providing financial update for the quarter. Post that, we will open the floor for Q&A session.

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 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 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, Asha. Good evening, everybody. Hope everyone is doing well. I will start off with the financials and highlights, talk about some of the business updates, briefly spend a few minutes on our progress in the data cloud business and Generative AI and give some glimpse of how we are seeing the second half of the year.

Our revenue growth was up 13.5% year-on-year. This amounted to about 18.6% in U.S. dollar terms and was greater than 22% in INR terms. 13.5% was year-on-year constant currency. Quarter-on-quarter, revenue growth was 4.4%, again on constant currency. We've transparently provided the acquisition-related revenue, which was from BizAnalytica, that is USD 2.5 million for the quarter. This essentially translates to our U.S. business growing 5% quarter-on-quarter on an organic basis. So that 5% quarter-on-quarter constant currency on an organic basis was without BizAnalytica. We are pleased with this progress as we believe this is a pivot of how our U.S. business will grow going forward.

Our 12-month order backlog has been strong and continues to grow year-on-year, again, roughly about 13.4% year-on-year on a constant currency basis, with much higher numbers in INR and USD terms.

Given the growth and the opportunities that we are seeing ahead, we have completed wage increases and salary increments in the quarter. This did hit our EBITDA margins for the quarter, and we'll talk about that a little bit more and how we are planning to offset that in the coming quarters.

A little bit about the market and the business. We had some fairly strong recognition from TechMarketView, which is a leading analyst in U.K. tracking the central government, where Mastek was recognized as one of the suppliers on the rise. In fact, we talked about cabinet office having GBP 600 million of technical debt, which signals the resiliency in that sector in terms of legacy modernization and cloud spend that is going to happen in the future. We are well positioned in that sector.

We won a marquee deal, which we briefly touched on, which was in final stages last time we spoke. That announcement has now been made as of yesterday, where this is essentially a front door for all the government accounts and services, about 300-plus of them, where we've created a One Login program and supporting that for multiple millions of users.

While decision delays still continue in terms of deals, we have seen strong pipeline and growth momentum in terms of our order book. And we are pleased to inform you that our efforts in getting market recognition is paying off. Everest Group, one of the leading analysts in the U.S. recognized Mastek as one of the top five Oracle Cloud Applications provider. This is a marquee milestone for us. The only other four providers, they were Accenture, Deloitte, Cognizant and Infosys, and Mastek was in that top 5, a very critical milestone in many ways for us because this was after scrutiny and various months of diligence by Everest Group of 40-plus system integrators.

We did attend and participate in Oracle CloudWorld and Dreamforce, which were two significant conferences that happened in September. This is helping us generate more mind share with the channel as well as looking at how we can grow those respective businesses.

We had some interesting wins. One of them in Middle East was a healthcare company, a platform company where we are going to implement Oracle Cloud and transform their business decision-making processes and financial planning processes. In one of the large investment firms in the U.S., we're consolidating all their data into the cloud so that they can take more informed decisions for not just their equities but other portfolio assets as well.

We've been talking about account mining as a key strategic focus. That continues to progress. So, one of the healthcare companies, one of the Blue Cross Blue Shields in the U.S, we had informed last time about the progress that we are making to take that to a USD 10 million-plus account, we are happy to inform that we are likely to end the year for that particular account with USD 15 million run rate for FY '24.

As we look at the customer deal momentum, it's important to make sure that we deliver well. So, there is a significant number of customer go-lives and engagements that we have delivered in the quarter, which continue to help with building credibility in not just our core digital engineering areas but also Oracle Cloud, Salesforce and now with data cloud. BizAnalytica, while it is still early stages two months into the quarter, we have started to see some synergies and joint deals, and pipeline is building up where Mastek and data business of Mastek is going together to multiple accounts in the U.S. and even in the U.K. geography.

Our operating metrics have improved. Quarter-on-quarter, our utilization has improved we are now at 82.5%. In fact, if we exclude leaves, that number is at 84.1%. Pipeline is still strong, and cash flows have improved. Great job done by the team, all across functions, operating teams as well as our delivery teams to ensure that we continue our operating rhythm going forward.

We had informed that in the case of Generative AI, we are taking a three-pronged approach. One is looking at very specific customer use cases across a few different processes and verticals. Second is partnering with our platform partners such as Salesforce, Snowflake, Oracle and Microsoft. And the third is our own internal digitization order to cash as well as various functions in terms of how we develop applications and deliver projects.

Across those tracks, we have a go-to-market positioning that we plan to amplify in the coming weeks and quarters as we look at not just creating solutions but also transforming and delivering solutions, which further gets amplified with our data cloud investments as more and more companies move their data to the cloud, which becomes a foundation for setting some of the large language models that are required for Generative AI use cases.

Our nonlinear platform efforts are starting to pay off. We informed last quarter that we have won a couple of deals in the Enterprise Workforce Scheduler platform as well as on Warehouse 360. We also got an award recently in U.K. for that platform, the Enterprise Workforce Scheduler platform. It was an innovation award for the thought leadership that we are displaying there.

As we look at the second half of the year, we believe that account mining will continue to be a critical focus area as well as converting some of the deals that we have in the pipeline. Our order book in U.K. geography has been strong, and we believe that some really marquee deals where we are well positioned for the second half of the year in that geography, mainly driven by the central government and public sector business.

Margins is a big focus area. We are running a series of cost optimization initiatives, and Arun will talk about a few of those. At an overall portfolio level, we have started getting much more careful about what business that we are taking, particularly in the Middle East, to make sure that we are taking higher-margin business and larger accounts where we can make a difference.

All in all, our U.S. business has demonstrated good organic quarter-on-quarter growth. Our U.K. geography has demonstrated strong order booking. And as we look at our combined value proposition, we're feeling strongly about the portfolio that we now have across the value chain to make a bigger difference, both in terms of mining existing accounts as well as looking at larger deals in the future.

With that, I'll turn it over to Arun, and we'll be happy to answer Q&A later. Thank you.

Arun Agarwal: Thanks, Hiral. Good day, everyone. While the deck has been circulated in advance, I will focus on the key highlights for the quarter.

During the quarter, we completed the acquisition of BizAnalytica as Hiral alluded to, and it was consummated effective August 2023. Revenue for the quarter was INR 766 crores, up 5.6% quarter-on-quarter and 22.4% year-on-year. In constant currency terms, it reflects quarter-on-quarter growth of 4.4% and year-on-year growth of 13.5%, respectively. Since we consummated BizAnalytica into our numbers, organic quarter-on-quarter growth reflects 2.7% growth in INR terms.

We added 29 clients during the quarter across our verticals and geographies. Order booking in U.K. has improved significantly, as Hiral mentioned. While delay and right shifting in decision-making continues, we have seen consistent improvement in our order booking, and the same is reflected in our 12-months order backlog, which has grown by 5.6% quarter-on-quarter and 22.3% year-on-year in INR terms.

Our operating EBITDA stood at 16.1%, a reduction of 140 bps quarter-on-quarter. The reason we see a reduction in the current quarter is primarily because we have done the wage hike across the organization effective August this year. So, there is two months of impact, which is approximately 130 to 140 bps in quarter. And also, as we stated earlier, the low-margin profile of BizAnalytica as we consummate them and gradually will improve the margin profile, but in quarter, the 30 to 40 bps dilution, which has happened because of BizAnalytica, which will come into company profile next year, as we highlighted in the last quarter call.

We are consistently working with our operating levers, whether it's grade mix, pyramid. Looking into subcontractors' conversion into employees, our utilization has been consistently improving. We feel confident those operating levers will continue to bring our EBITDA profile back in the coming quarters.

Our PAT stood at INR 65.3 crores versus INR 73.5 crores in last quarter. We have done significant cash collection in the current quarter. Our DSOs have come down. Consequently, our gross cash stood at INR 312 crores versus INR 220 crores in the previous quarter. During the quarter, we have transferred dividends and repaid one installment of loan as per the repayment schedule, which led to INR 312 crores of gross cash at the end of September.

Our borrowings stood at INR 477 crores as of 30th September. As we mentioned in the last quarter, we have borrowed USD 16.7 million during the quarter for BizAnalytica acquisition, and the balance was paid from internal cash accruals.

Our headcount stood at 5,598 at the end of the quarter, which reflects marginal increase quarter-on-quarter as our utilization is improving out there, but we welcome BizAnalytica colleagues into Mastek family during the quarter, and net increase is marginal, as I mentioned.

Let me thank all of you for your continued trust in Mastek and I'm transferring back to the moderator, and we can take your questions. Thank you.

Moderator: Thank you very much, sir. We'll take the first question from the line of Jayalaxmi Gupta from Anand Rathi Shares and Stock Brokers Limited.

Mohit Jain: This is Mohit. First question was on U.K. So the growth appears to be a little slower. Now order backlog has already improved. So should we expect U.K. momentum to also come back? Or do you think it will be like between U.S. and U.K. depending on which quarter we look at?

Hiral Chandrana: Yes. So Mohit, it's a good point. We've had the regions fire, but it has been in different quarters. I think if we have all the regions fire at the same quarter, we'll really have an amazing profile of growth. But having said that, the order booking in U.K. has been strong, like I said. Now as we look at Q3, which is the new current quarter, there is a furlough and December time frame, which does impact seasonally our U.K. business because of the holidays. But as we look into Q4, because of the strong order booking and the deal momentum that we have, we believe that U.K. will continue to grow in Q4 as well.

Mohit Jain: Okay and second, U.S., as you alluded in your opening remarks, now is it on a steady path based on the deals that you have signed? Or do you think it may take a few quarters before you have that confidence on U.S. growth sustainable?

Hiral Chandrana: Yes. So as I mentioned, our confidence in U.S. is getting stronger by the quarter. It has taken us a couple of quarters longer than we originally anticipated and expected. But given the organic growth of 5% quarter-on-quarter that we've delivered, we believe it sets a strong foundation for us. We've crossed USD 100 million run rate as a combined U.S. business for the first time in Mastek after many years.

And so we believe from here on, there should be more positive momentum. We're trying to up our profile in that geography, as you know, to look at larger clients and the larger deals, so that does come with some risks of longer cycles. But having said that, we feel confident that we have a seat in the table for some of these, and we should be seeing continued growth again in the U.S. as well.

Mohit Jain: Right, sir. And one for Arun, sir, like margin, there was a drop. Now U.S. is also picking up. So to that extent, the impression I got was that we will have stayed big on the margin front. So once now that wage hikes are done, how should we look at steady-state margins for Mastek as a whole?

Arun Agarwal: So Mohit, as you rightly pointed out, wage hike is done, again there will be quarter-on-quarter, two months versus three months impact, but we have multiple operating levers which we are working upon, including, as you rightly said, the growth profile of U.S. will further help us in terms of the EBITDA profile. There should be consistent improvement and we should come back to our 17% to 19% range, which we always said we want to operate within. So we believe that can be done in the coming quarters.

Mohit Jain: Sir, the question was like, will that range change a little bit now that U.S. is doing well or is looking to do well. So, could it be like you will be closer to upper end than say, 17% when we were investing in the U.S. region?

Arun Agarwal: Let us get into 17% to 19% range first, Mohit, and definitely, our endeavor will be to further up it and keep it more closer to 19%. But let us first come back to that range.

Mohit Jain: All the best. Good quarter.

Moderator: We'll take the next question from the line of Ravi Menon from Macquarie.

Ravi Menon: Congrats on a good quarter. First question is on BizAnalytica. I think if I heard right, you're talking about USD 2.5 million contribution. I thought that looking at the run rate when we acquired it, we were expecting it to be more like USD 1.8 million. So has the acquisition done much better than expected?

Hiral Chandrana: Ravi, thanks for the question. The BizAnalytica business is two months, is what we've counted because we completed the acquisition effective August, and that is the USD 2.5 million that we have recorded. I mean, obviously, it's going to be slightly higher in Q3 given that it will be full three months of revenue. But it is in line with what we had reported because it was in the range of about USD 14 million, USD 15 million annualized number is what our expectation was, Ravi. So at least as far as Q2 is concerned, with the two months, it's in line. We definitely see more potential to grow that business, but it's in line with what we had reported.

Ravi Menon: You've done a couple of acquisitions so far. Everything has been on the services side. Do you think that there are any white spaces in your service portfolio? Or you think you are now comfortable that this is good enough to face the market in the U.S?

Hiral Chandrana: We definitely have filled out a lot of the gaps like you rightly pointed out, Ravi. The Salesforce business gave us a lot of the customer front office journey with sales, service, marketing cloud. We have a strong Oracle Cloud business with the back office. We need to do more in taking some of our digital engineering capabilities in the U.S. that is still undertapped. As Mastek, we do a lot of work in that space in the U.K. and now with the data business. Probably one area which has been part of our overall thesis where we're not completely tapping into is the hyperscaler kind of market with Azure and AWS.

And while we do some work in that space, but it is really not significant enough. But we feel comfortable about the components of our portfolio. If I were to call out one area, that would be it.

Ravi Menon: And the U.S., such strong growth. I mean could you give us a little bit of sense of which verticals are what's been in? Is it still developing, the healthcare, life sciences side?

Hiral Chandrana: Healthcare has definitely picked up, both in terms of pipeline and order book as well as in terms of revenue, I mentioned about one of the Blue Cross Blue Shield accounts that has definitely given us stronger confidence that potentially we have a story that we can take to 10, 15, 20 other Blues. There is still continued spend in the healthcare market in the U.S., we're just scratching the surface. 17.8% to 17.9% of U.S. GDP is impacted with healthcare spend and there are many healthcare providers that are evolving with the consolidation that we see. So healthcare definitely contributed.

There are some interesting deals like we won a reasonable size deal with one of the hospitality companies in the U.S. to look at their customer experience in their airports. So manufacturing/retail are the other two verticals that we're operating.

One area which has not kicked off as much in the U.S. is our state and local government. We anticipated that, that would play a key role, so behind there. But going forward, we have gotten into a couple of states where we have a license to sell now. So that could also start growing in the coming quarters. But yes, in that order, I would say healthcare and manufacturing have done well.

Moderator: We'll take the next question from the line of NGN Puranik from Enam Holdings.

Ngn Puranik: Hiral, you've made an interesting observation about the technical debt the U.K. cabinet carries, USD 600 million kind of opportunity. How do you analyze the content of this technical debt in terms of various systems and applications sitting there? And are you getting ready with solutioning to seize those opportunities?

Hiral Chandrana: Yes. Puranik, it's an excellent question. In fact, there was a much more detailed report that was published in this area, where certain departments are actually projecting that they will have two sort of cycles of spend, which is essentially four years plus four years, eight years where they will have to continue to invest to get out of that technical debt, partly because of maybe historically, they have not invested in some of those legacy landscapes.

So the way we're looking at this is in three buckets. One is that many of these departments, and we have now looking at U.K. public sector from a policy lens. There are these departments, but we are also looking at which policies that we can play. So that is one dimension because that gives us some way to narrow down and prioritize where we put our focus on.

The second is the technology and the skills needed. So this is based on the framework that we are participating in. In the last couple of quarters, we announced we got into a couple of new frameworks like the DSP, the digital specialist framework, the data and analytics framework. So that gives us another indication of where the potential spend will happen. These are large frameworks, multibillion frameworks. So there are many other vendors, but we have a seat at the table to get a share out there.

And the third is the cloud journey is still in its infancy in many of these departments. So while they will continue to move their applications and infrastructure and data to the cloud, with some of our partnerships that we have with Salesforce and now Snowflake, there is an opportunity to take a look at that spend as well.

So those would be the three areas that we are looking at. One is at a policy level because there's a lot of legacy and technical debt. It essentially means that's the spend that they need to have to get out of it. Second is some of the frameworks which gives us an idea of the skills. And third is the technology, and the partnership.

Ngn Puranik: And is the standard legacy modernization is large opportunity or customized legacy modernization, which is unique to Mastek is a bigger opportunity?

Hiral Chandrana: I mean I would not say it's unique to Mastek. I mean these are modernization programs.

Ngn Puranik: If you are deep understanding of the government perspective.

Hiral Chandrana: Yes. As you probably know, there are not that many Indian IT services high-rated firms that play a significant role, so Mastek is one of them. And so we do have that advantage of knowing the sector for the last 20-25 years, knowing that the route and the roadmap, these departments have, how they will spend the buying behavior. We also have a lot of security-cleared resources and experience.

So that does put us at an advantage. But the nature of the work is not necessarily unique. We have an upper hand because of our presence out there and because of our expertise that we've had in the last couple of decades.

It's a combination of our engineering, application engineering and development work, which is managing many systems like, for example, in the past, we've done a lot of work in borders, immigration, asylum services. So now there are new programs and new departments, like customs, this One Login program that we won recently, the environment and development.

Ngn Puranik: What you are talking about that deal looks very interesting. And is it very hugely referenceable deal in terms of seeking opportunity elsewhere in other markets? Because that looks interesting deal.

Hiral Chandrana: Yes. So you brought up a good point. That particular deal is definitely something that we can potentially replicate in the playbook to take it to not just other departments in U.K. but even other geographies potentially.

Ngn Puranik: And the technical debt can give you a lot more USD 10 million deals to follow?

Hiral Chandrana: Yes. We definitely are seeing more pipeline, which have larger deals. But at the same time, we are being selective in these where we have a really good shot at competing and winning, because there are multiple deals that will come to the table. We want to make sure that we're leveraging our sweet spot as well as our relationships and picking the policies and the framework where we believe there's a better shot at winning. So we may not go after all those, but yes, some of them will definitely be USD 10 million, USD 20 million-plus deals.

Moderator: We'll take the next question from the line of Darshil from Crown Capital. Please go ahead.

Darshil: I think we've spoken about margins that we feel that it will go back to the trajectory that we had. But where do we see our growth with the new deal wins? And how does the environment look like and can the growth now become in an accelerated manner? Or what are we seeing in terms of environment and growth, maybe not this specific year, but maybe 2025. Any color on that you could give?

Hiral Chandrana: As you know, the broader macro uncertainty continues to persist. There is still a lot of wait and watch that some of our customers are evaluating and scrutinizing. But what we've seen in the last couple of quarters is that they are eventually making decisions. The delays are there, but they are making decisions.

And so the cycles have definitely turned out to be longer because of the approval process and the scrutiny. I would say that for us and for a company like Mastek, the micros are also much more important. While there are some macro elements that come into play for sure whether it's inflation, interest rates, geopolitical, et cetera. But then as we look at our specialist areas and our specific geographies and specific accounts, even in some cases, that's where we are focused on to make sure that we can get more out of account mining. Even in our hunting, new logos are being selective in terms of which logos to go after.

So I would say it's a combination of the macro and micro that we are looking at, and we are cautiously optimistic at this stage because we do have pipeline and demand. But we do appreciate the broader uncertainty that will continue to persist. So we are seeing a reasonably good growth potential in our major markets. It may not be at the same levels as from the past. But I think we've set a good foundation with some of the investments that we've made.

Our new CHRO has just joined us. So our leadership team is complete. We had one other leadership position, which was open, which was the healthcare account in U.K. So we've hired a new leader for that. So we feel the foundation in terms of portfolio, in terms of leadership, and our order book backlog is steady going into the next few quarters.

Darshil: So, sir, I'm sorry, but by reasonably good, could we have a range of growth that could be expected or any broad range could also maybe work like maybe around 15% is a good assumption? Or how would you quantify that? Any range is fine if you could help us with that.

Hiral Chandrana: Sure. We never provided guidance, but we have guided that we will always aim for a few percentage points better than the industry. Now I realize that the industry has provided much more muted guidance, particularly with the larger players. But with our size of business, we definitely want to aim for double-digits of year-on-year growth. And that's what we would want to continue doing for in the coming quarters.

Darshil: So that's great to hear, sir. And with regards to order book, what would be the average time duration for completing an order?

Hiral Chandrana: That's a tough one. We just opened a new logo in the U.S. It's a USD 7 billion organization. It's not a very big deal, but that, start to finish, order book was in three weeks. There have been instances where we've had a few deals that has taken seven months. So I would say there is a spectrum of anywhere from a month to seven months depending on the complexity of the decision-making and the size of the deal.

So average would be obviously somewhere in the middle, but it really varies from customer to customer, deal to deal. And I think that, that kind of general delay in decisions will persist for the next one or two quarters, at least.

Darshil: Okay. Sir, just last questions, if I may. In terms of the risk, as we are cautiously optimistic, we are maybe at near to start of a good growth journey or how do we see it in terms of any risk that you personally see in terms of environment? And with regards to BizAnalytica, what will be the timeline that you will start directly come to the margin that Mastek makes?

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

Arun Agarwal: Sure. Darshil, as our plan is this year, they will come back to a double-digit margin by the end of the year. And next year, they will come closer to the Mastek margin profile. That's the target.

Hiral Chandrana: Yes. And, I guess in terms of just overall risks as it relates to the growth, interestingly the next 12 months in both our major geographies, U.K. as well as U.S. are election years, Darshil, as you know.

And there's always certain nuances as it relates to policies, as it relates to spend, healthcare, economy that comes with these elections. It has no direct impact, in some cases, indirect impact to us because of the slowness and the cautiousness of some industries. So I would say that in the near term, in the next three to four quarters, that would be one kind of thing weighing in our mind.

The second, of course, there's geopolitical elements, as you know, that are continuing to happen at the macro level, but we don't see any major kind of impact because of that because our presence in Europe, which is the non-U.K. Europe, is not that significant. Of course, we have a presence in the Middle East, but we don't see any near-term impact.

And then as an opportunity, which is always a risk, but as an opportunity, customers are continuing to look at cost consolidation as well as now evaluating how Generative AI is going to play a role in their future. So we see that as a potential opportunity for us to look at, maybe even looking at upsetting some of the incumbents, some of the larger incumbents. But that's too early to tell. We are definitely investing in some specific vertical areas. But in general, cost consolidation, some customers are starting their own global capability centers, GCCs, in India. So there is that element of it. But keeping that aside, we feel strong about at least our current view and visibility on both demand and pipeline as it relates to U.S. and U.K., which is where we're focused on.

Moderator: We'll take the next question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: So my first question is on the healthcare vertical. So obviously, we have seen healthy growth there, which was led by U.S. and also the acquisition impact. But if you can highlight what's happening in the NHS? Is there stability there or some recovery there in the NHS part of the business? And when we can expect acceleration in the NHS?

Hiral Chandrana: Yes. So Amit, the couple of quarters back, I think we had updated that we do see sort of a bottoming out, in that account, and we're being conservative as it relates to growth in NHS for FY '24 because by design, and we sort of got hit by it over the last few quarters.

Having said that, there are two or three deals that we have in the pipeline. Some of the decisions on those deals have actually taken longer to my earlier commentary that, seems to be a general sort of trend in terms of time it's taking for some of these decisions. But we are playing a role still in some of those deals. And these are some newer opportunities as they're looking at their API integration. They're looking at their CRM for the patient portals. So there's some interesting newer areas including secondary care and arm's length bodies, which kind of are downstream elements of NHS.

So we believe that as we look at FY '25, NHS is still a significant spend area. We have gotten a new leader for that, as I mentioned earlier. And so we don't see any major kind of incremental growth in Q3 or Q4. But we do see some deals and potential order book that might set the stage for a stronger FY '25 on NHS.

Amit Chandra: Okay. And sir, on the overall U.K. government, obviously, it has been an overall driver for growth for us. So how things are shaping up there? Obviously, we have gained some good deals. So are we seeing higher industry or higher than the company level growth in the U.K. government? Or it will be in line to what we have been doing for the company?

And also in the U.S., now we are at USD 100 million kind of run rate and we have shown good organic growth bump up in the quarter. So based on the deals that we have, how sustainable you see this growth to be? And earlier, we had a target of reaching around USD 200 million in the U.S. geography, both organic and inorganic. So how that thing holds up.

Hiral Chandrana: Yes. So Amit, there's two or three questions there. Let me try to kind of break that up. Let's start with the U.K. because it obviously continues to be a strategic part of our business, particularly U.K. public sector, and the secure government services within that, which is a key part of our portfolio.

I mentioned earlier on some of the frameworks and the policies, we are expanding that purview a little bit. We are currently present in borders, immigration, customs, defense, and of course, we're working with the higher education and state and local councils as well.

So as we look at the next two to three years even, we have created a game plan of looking at a few different departments beyond the areas that we are already present in, and running campaigns and some of this has been going on for the last few quarters of how we can look at getting market share or entering into newer programs in those departments. I mentioned Environment, Food & Rural Affairs is one area. We got into the cabinet office with this digital services, One Login program. So these are some examples. There's police protection, which is another area of a policy.

So slowly but surely, we are expanding our purview of how we look at the secure government services. So the short version of that answer is that, yes, we continue to see opportunity in the U.K. secure government services.

As far as U.S. momentum and growth, like I mentioned, we feel strong about the portfolio that we now have. There's still work to do. I mean we're not going to sit on this in terms of the USD 100 million run rate. There is much more opportunity. We're still a small player in the grand scheme of things. Healthcare, just as one vertical, is a huge opportunity.

We have interlocked very closely with particularly Oracle and Salesforce in the U.S. as it relates to healthcare to identify joint go-to-market and opportunity. And we believe that healthcare itself as a single vertical in the U.S. can become USD 100 million vertical, in the next three to four years.

So as we look at the next two to three years, I think the selective bets that we are making both in U.K. as well as in U.S. Now we do have a reasonable and sizable business in AMEA and Middle East as well. So that will continue to steadily grow as well as very selectively, we will be looking at opportunities in the Europe geography, depending on the countries that we want to play with.

So all in all, the inorganic play that we have made in the last 12 to 14 months will start to pay off in more joint synergy deals, much more account mining. I gave a couple of examples earlier. It is starting to show into greater than one million accounts. You would have noticed that our Fortune 1000 clients have gone up.

The number of clients where we're doing greater than one million run rate has gone up. We will start eventually showing you how much three million, five million, 10 million accounts that we have, and that will start to truly reflect the strength of our account mining. So that's kind of the direction that we're moving in.

Amit Chandra: Okay. And sir, in the U.S. geography, what kind of margins we are targeting, because the margins are suppressed there because of the investments. So with the growth coming back, can we expect it to come to company average? Or what kind of margin profile you're looking at? And also, on the overall margin for the company that we had this quarter, we had impact of wage hike and the integration impact. Apart from that, were there any other one-off costs related to acquisition in the margin impact?

Arun Agarwal: So, in terms of additional impact, yes, there is onetime acquisition cost, which always comes in the quarter of integration. That is included in the current profile of the margin. And in terms of U.S. margin profile, as it starts growing 5% plus kind of quarter-on-quarter and whatever growth we can deliver down the road, the margin will continue to improve.

Our first target is to make it double digit in the geography. And then gradually, as the growth continues, we will aim to bring it closer to the company average. But I think immediate target is how can we bring it to the double digit.

Hiral Chandrana: And Amit, our kind of expectation is that the faster growth given the current size that we are, we're comfortable with 2% to 3% difference maybe, but we want to be closer to company average in steady state in the next two to three quarters. But we will have at least a couple of percentage points delta as far as U.S. margins are concerned. And the same holds good for our Middle East region as well.

Amit Chandra: Okay. So Arun, can you please quantify the additional impact that we had from the acquisition in terms of the cost and also the amortization impact like the incremental?

Arun Agarwal: So roughly and that is there in the disclosures, INR 4 crore is the amount which we have incurred onetime, and it is quantified separately under the exceptional line, which is all one time on these accounting requirements, which you have to follow. So that amount is captured separately, and that will not be there next quarter for sure. So the PAT will not get impacted next quarter for the same item.

And purchase price and other amortization will continue as has happened this quarter because it's amortized over next couple of years. And then that has been given if all the amortization was not there, which is again notional amortization for PPA and unwinding of interest, profitability in terms of PAT would have been much better. But again, those are accounting rules and regulation. So we need to ensure those amortization happens into the P&L.

Moderator: Thank you. We'll take the next question from the line of Jalaj from Svan Investments.

Jalaj: I wanted to understand what is the next payment due for Evosys and what is the timeline for it?

Arun Agarwal: Evosys, last tranche of CCPS buyout will happen between quarter three and quarter four, mostly between December and January. Again, the numbers are getting finalized. All this valuation and things are happening. But give or take, it would be in the range of INR 120 crores to INR 130 crores. Roughly 67% will be paid in cash, and one third will be in form of Mastek stock what we have done similar thing in the last two years as well. That was a part of the agreement. And as I said, that will be done between December and January.

Jalaj: Okay and could you give us a margin walk for the drop in the EBIT margins quarter-on-quarter?

Arun Agarwal: As I mentioned, roughly 130 to 140 bps is the in-quarter impact for wage hikes, and roughly 30 to 40 bps is the impact because of the consummation of BizAnalytica business, which is at the lower margin, offset by a couple of operating levers that we mentioned others that are helping us to compensate partially in the quarter.

Jalaj: Okay and could you talk about attrition because we see that at least from a peer standpoint right now, their attritions have reached to a 14% - 15% level. We still stand at 19% - 20%. So any aspiration there? Or how do we see about it?

Hiral Chandrana: Our overall business mix is heavily weighted towards digital engineering, digital experience, cloud transformation, implementation, complex programs, and projects, and the reason I'm giving that context again is that the skills are definitely much more niche as well as specialized in some cases.

So that is clearly talent that is much more in demand. And that's one of the reasons why we want to make sure we do the right thing for our employees who have contributed to the growth and make sure that they are rewarded. So the salary increments, even though some of our peers might have deferred it, we wanted to make sure that, that salary increment was completed.

Now having said that, we'll continue to see a gradual reduction in attrition. But given the profile of the skills and the areas that we operate in, it's typically going to be a little bit higher in general compared to the market.

Jalaj: And could you talk a little about the subcon cost because there's no discussion about it in the disclosures as of now, quarterly.

Arun Agarwal: Subcontractor cost, again, we have a combination of our U.K. public sector business where there are certain requirements for operating in public sector onshore, and certain skills are available in the subcontractor market. So we have a little bit unique situation than the competition. However, still subcontractor as a percentage of revenue continues to be on the higher side, and we see as a potential to continuously improve the margin.

So that will continue to be a lever. And as and when we get the opportunity and there is a team which work separately to convert subcontractors to employees, not only with the help of converting them as the same person but also in terms of hiring the other person replacing the talent. So that kind of endeavor continues as our operating levers in general.

Jalaj: Okay. And a quick last one. Could you talk about in the deal wins or the order book, what stands as a proportion from U.S. right now?

Arun Agarwal: We don't give exact breakup, but there is a consistent improvement in the backlog in the U.S., and that is what is reflected into our revenue growth.

Jalaj: So should I be assuming that it is different from what is the revenue mix as of now? It is more towards U.S. as of now. Should it be a right assumption that way?

Hiral Chandrana: So just maybe overall, our order book is dependent on some large deals and some deals which are closing in any given quarter. So on an average, we look at this in the last two or three quarters because some of this buildup of the last two, three quarters of order book is really what's going to reflect in the revenue growth for the next two, three quarters.

So in that sense, we've had, on an average, steady growth, both in U.K. and in U.S. In any given quarter in this particular quarter that we just completed in Q2, U.K. order book was much better and really gives us confidence. In Q1, we had a much stronger order book in U.S., but it typically kind of balances out when you look at H1 in terms of proportionate to revenue.

Moderator: Ladies and gentlemen, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Hiral Chandrana: Thank you. So just to summarize, we wanted to take this opportunity again to thank all our employees, our Mastekeers, our customers as well as our investor shareholders and analysts who have continued to provide guidance and trust in Mastek.

As you can see, we've demonstrated steady and decent revenue growth and strong order book momentum, which gives us confidence going into H2. We have work to do. The environment is still uncertain, like I mentioned, but given the progress that we have made in the last many quarters in setting a strong foundation across service lines, across capabilities, across new solutions combined with our new capabilities through the acquisition gives us a confidence that we have a much better value proposition in mining our existing accounts as well as going after some of the large deals.

The U.K. public sector is resilient for us. The U.S. has turned around, and we see a good pivot going into the next few quarters. And the key will be to execute on some of the operating levers and efficiencies, which we will continue to do so that we get our operating EBITDA and margins at levels which we were at in Q1.

Having said that, there is a pretty big market opportunity that is evolving in Generative AI. We've continued to invest and refine our strategy. And you will hear in the coming quarters more about it, but we have started winning deals as well as training our people and building very specific capabilities around a few solutions. So we see that as an interesting disruptive area that, combined with our BizAnalytica and data cloud business, gives us a stronger value proposition as customers move from proof-of-concept pilots into much more larger use cases across the enterprise.

Once again, thank you, everyone, for joining the call. Great questions, and thank you for all the support.

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