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SEC/14/2023-24

April 26, 2023

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: Transcript of the Earnings Conference Call held on April 19, 2023 for financial performance of FY 2022-23.

With reference to our Letter No. SEC/01/2023-24 dated April 7, 2023, please find enclosed herewith the call Transcript of the Earnings Conference Call held on the financial performance for the quarter and year ended March 31, 2023, on Wednesday, April 19, 2023.

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

Request you to take the note of the above.

Thanking you,

Yours faithfully,
For Mastek Limited

DINESH KUMAR KALANI
Digitally signed by DINESH KUMAR KALANI
Date: 2023.04.26 16:56:41 +05'30'

MASTEK LIMITED
Mastek

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

“Mastek Limited

Q4 FY '23 Earnings Conference Call”

April 19, 2023

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

MODERATOR: **MS. ASHA GUPTA - E&Y LLP**

Moderator: Ladies and gentlemen, good day, and welcome to the Mastek Limited Q4 FY '23 Earnings Conference Call. 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 '*' then '0' 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, LLP. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Faizan. Good evening to all of you. Welcome to the Q4 and Full Year FY '23 earnings call of Mastek Limited. Results and presentation has already been mailed to you and you can also view them on the website at www.mastek.com.

To take us through the results today and answer your question, we have the top management of Mastek Limited represented by Hiral Chandrana, Global CEO; and Arun Agarwal, Global CFO. Hiral will start the call with the business update, which will be then 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 affect any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction, with the risks and uncertainties that we take. These risks and uncertainties are included, but not limited to what we have mentioned in the prospectus filed, with the SEBI and subsequent annual report that you can find it on our website.

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

Hiral Chandrana: All right. Good evening, everyone. So I'll cover three things. Quick financial highlights for Q4 and FY '23. Some business updates on the quarter as well as the full year. And then some quick updates on the FY '24 strategic priorities and outlook. Will then hand it over to Arun for more detailed financial updates. So for the quarter 4 that ended, we grew at 7.7% quarter-on-quarter from Q3 to Q4, on an INR basis and 5.3% quarter-on-quarter, on a constant currency basis. Our operating EBITDA for the quarter was 17.7%. For the full year FY '23, we grew at 18.5%, on a revenue basis constant currency. Our order book backlog, which is the 12-month order book backlog that we closely track, grew 17.2% year-on-year. And our full year operating EBITDA was in the same range of about 17.8%.

In terms of quarter 4, we are pleased with some good deal momentum, as well as progress on the multiple strategic priorities that we've been outlining for the last year or so. I'll share with you some of the highlights and then move into the FY '24 outlook. For FY '23 as a whole, for the full year, we had some challenging couple of quarters that we've discussed in the past with respect to NHS, and with respect to a couple of areas within the Oracle space. We are pleased to inform that there has been good progress that has been made on multiple aspects of the business and some of that is reflecting in the Q4 results as well.

In addition to the business growth quarter-on-quarter, we are very happy to have received great places to work certification as well as our attrition is 21%, on a 12 months basis, last 12 months, which is a drop of 700 bps from a year ago. We also received some recognition externally from the market from various industry analysts, including a recent recognition from ISG, as a

Booming 15 player in the global system integration space. We also struck a partnership with an AI company called Netail, which provides AI-based competitive intelligence solutions in the retail and consumer industry.

In terms of our business in UK, we had solid in-quarter execution. A key win is in one of our premier accounts in UK, where we manage borders, trade, biometrics, immigration, asylum services. We had developed multiple solutions and engineered multiple systems for them in the past. We've extended that through a biometric program, which helps automate multiple processes for students and immigrants to legally move in.

One of our wins that we've reported last quarter is a large manufacturing company in the US, where we have been awarded complete transformation of their business processes from finance, HR, supply chain, powered by Oracle Cloud. We're excited about this particular win, in addition to the overall value of win being more than $5 million, because one of our nonlinear solutions called Warehouse 360 was also deployed as part of the program.

In the Salesforce business, we've had good momentum in Health Care and Public sector. One of the interesting wins though has been in the financial services sector, is a payment cards company, where they're automating multiple parts of their merchant force, powered by Salesforce and also taking responsibility for cloud operations and application development of new solutions. Another win that we had was in the managed services space in one of the health care clients in the US, where our approach to managed services has been cloud enhancement services, where we take over the run and maintain part of the business.

We've had some interesting wins in the Middle East as well as in Australia. Some of the success that we've had in the Oracle space in our UK council, state and local government councils, have now been deployed and replicated in Australia, where we see good potential to leverage those learning and have new wins. There are multiple other wins and delivery successes and go-lives, that we've had in the quarter.

To put things in perspective in FY23, we had account mining as one of the key priorities and while we underestimated the time it would take to make that successful, it is starting to show results in pockets of certain accounts, reflected in our growth of greater than one million accounts and greater than three million accounts. We have also made a couple of key leadership updates, which we've announced earlier in the quarter in Q4. Prameela joined us as COO of Mastek and Vijay Iyer joined us as America's President. Both of them have spent a few weeks now in the system and have settled down well. We will invite them for future calls, so that they can give their update as well.

As it relates to margins, we continue to put focus on operating efficiencies and utilization. You would have seen progress in those metrics, which is now reflected in our growth in revenue with minimum head count gross addition increases, because we've been able to deploy and make some of the fresher's and associates billable, in the last one or two quarters. This is part of our strategy, where we want to continue to improve gross margins, so that we can re-invest back into the business.

As it relates to FY '24, moving into the next fiscal year, we are already into day 19, of the new fiscal year. We feel that the changes and the fundamental improvements that, we have made to look at multiple aspects of the business, right from recruiting to account mining, to marketing, to capability development are starting to yield results and ensure progress. While the macro environment still remains uncertain, there's still caution among customers, in terms of deals and decision. We've continued to see our order backlog grow and we continue to see our pipeline at a healthy level.

Our Salesforce business, which is the acquisition that we made last year, has delivered almost 118% of the acquisition plan. In Q4, it is typically a seasonally weak quarter for MST, but the outlook for the business and the momentum and pipeline that we have in our Salesforce business remains strong.

UK business has shown tremendous resilience in in-quarter execution. We believe the foundational pieces that we have put in US, will also reflect in strong quarter-on-quarter growth and full year growth in FY '24. One of the businesses, which has really, to some extent, positively surprised us is the Middle-East business. Even though we reduced the number of accounts, we actually saw the revenue growth uptick in that geography, with good order book momentum as well as good outlook going forward. In addition to our Oracle business in Middle-East and Australia, we're starting to see good momentum in digital services, particularly in specific areas like ServiceNow, Microsoft and Snowflake.

All in all, we'll see that, while there have been challenges in FY '23, we are closing on a very strong note in Q4, with a good foundation to build on and demonstrate industry-leading growth and above industry averages into FY '24.

With that, I'll pass it on to Arun and we'll be happy to answer questions after that.

Arun Agarwal: Thanks Hiral. A very warm welcome to everyone on the call. While deck containing much more detailed information about our financial performance and key metrics, has already been circulated, I will reflect upon key highlights and we can thereafter get into Q&A, to have specific questions answered.

As a key highlight, our operating revenue stood at INR 709 crores, for the quarter, reflecting 7.7% quarter-on-quarter and 22% year-on-year growth in INR terms. In constant currency terms, we have a quarter-on-quarter growth of 5.3%. Growth is led by strong execution, as Hiral alluded to, by UK, followed by Middle-East across secure government, our Oracle business. We have seen good order booking across geographies. As a result, our 12-month order backlog is now $280 million, which is up by 5.2% quarter-on-quarter and 22% year-on-year and in constant currency terms is 17.2% year-on-year.

We added 28 clients during the quarter. It is across verticals and across geographies. Our acquisition of MST continues to do better than acquisition plan, synergy potential continues to excite us while we are closing cross-sell and co-sell opportunities, multiple integrated deals, and the momentum in building up.

Our operating EBITDA stood at 17.7% for the quarter, an increase of 40 bps quarter-on-quarter. It is led by improved operating levers and currency, while we continue to invest in building capabilities, in line with our three-year strategy. Our PAT stood at INR 72.6 crores, up 8.2% quarter-on-quarter. Our gross cash was INR 270 crores versus INR 325 crores, in December 2022. During the quarter, we completed acquisition of second tranche of CCPS, paid installment of loan as it was due and also disbursed interim dividend.

Our borrowings stood at INR 371 crores as of 31st March, reduced from INR 397 crores as of December 2022. Head count stood at 5,622 at the end of quarter, reflecting a net reduction of 65 head count. Consequently, our utilization improved by 450 bps quarter-on-quarter.

With this, I would like to thank you all and open the house for Q&A and we can get into much more detail. Thank you, everyone.

Moderator: First question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Gentlemen, good evening and congrats on a good consolidated quarter. A couple of questions. The numbers from Oracle indicate continued softness, right? So what's exactly going on here? Because our base isn't large enough to warrant softness, even if there is some kind of a slowdown at an OE level. Do you think this is temporary or should Oracle pull back, some kind of commentary there will help?

And back to the UK, is there a reason to believe that the acceleration, we've seen in Q4 will continue for the rest of the year? Because you're coming out of a very soft period, so a very healthy acceleration there. Or would you caution us saying that, no, this is a positive blip and the execution in the UK is something that we really need to see on a day-to-day basis?

And I'll just close this with one question on Hiral before I come back on the financial basis. On US Hiral, the lack of growth that you've seen here now consequently, what is this really a function of? Is it a function of a lack of referenceability? Because frankly, the cost takeout ecosystem that, we're hearing anecdotally is still very strong. Our base isn't really large enough to kind of warrant softness, even if the environment as such as soft. What is it? Or does it really warrant a better investment than a go-to-market level? So yes, I'll leave you with these proxy questions, then I'll come back for later.

Hiral Chandrana: All right. Thanks, Baidik. The Oracle business actually grew for us, while you might see some small dip in terms of percentages. From a quarter-on-quarter perspective, that business grew. So while we had seen some level of softness in the previous quarter, the momentum both on deal wins as well as on revenue growth has been positive. The discretionary spend and budget and implementation will be under increased scrutiny in terms of investment. But we've also won new implementations and managed services deals in Q4 that gives us confidence that the digitization and cloudification and movement to the SaaS platforms, will continue to remain and customers are trying to get more ROI, from those investments.

In terms of UK, we did get the benefit of a higher number of working days in Q4 as well as currency help as well. But as I've mentioned in the past, while the environment as a country is volatile, our business is still resilient, particularly in the secured government services, our core public sector services and the work that we continue to do is of national critical importance. So I wouldn't call it a blip. There is good progress in diversifying some of our presence in the UK and we see potential going forward as well.

US has been disappointing if you look at some of the account discussions and the investments that we've made and some of the delays and decisions that we have seen. We did get impacted by a significant drop in the Oracle Cloud commerce. This is the cloud commerce, e-commerce space, which Oracle deprioritized, two/ three quarters back, but we've reached the bottom of that and negated all the dips that, we saw from that space. So, we feel confident that some of the changes that we have made in converting some of those accounts into managed services, diversifying our business into data and app dev areas in some pockets of customers as well as uptick in the Oracle Cloud space and the Salesforce synergy, that US is set for growth going into FY '24. So hopefully, Baidik, that answers, happy to take more later, but that's a quick one.

Baidik Sarkar: Sure. Yes, I get it, probably US will come back. But on Oracle, Hiral, on Q4 of last fiscal, our run rate was $27.5 million, and we are standing on the $23 - $24 million for the last two quarters. So, there might have been a sequential growth, but we had to clear that base, right? So, my question was more forward-looking. Is there enough ammunition for us to believe that we'll go back to at least half the pace of growth that we've seen in Oracle ecosystem? Or would you caution us saying that no, the growth rate was, what we delivered this quarter is more indicative of what is to come? I'm just trying to understand the quantum of growth that one can expect here.

Hiral Chandrana: No, we expect both Oracle and Salesforce, both which constitutes a reasonable portion, anywhere from 45% to 47% for overall business. We expect both those to continue to grow higher than our company average. And both of them will have deal momentum and order book backlog that gives us confidence of them, growing faster than FY '24.

Baidik Sarkar: Sure, even from a disclosure perspective, if I were to request you from the next quarter to probably, try and disclose Salesforce also, just at least call out the number separately, it'll help us to place your journey in context. I'll just end with one last question on bookkeeping, are we done with the entire payouts and dilution that was due to the promoters of Evosys? Or, was this the last year? Or will September of next year be the last, Arun?

Arun Agarwal: So, we have done with two tranche, one more is pending, but that will happen in the October of 2023. That's the last one.

Baidik Sarkar: Okay, because your minority transition was almost, 100% this quarter, so I was just a bit confused. And on margins, our aspiration was to come back to 20% at EBITDA level, right? That was an aspiration for the next year, right? Given the cost of the revenue environment, is there any change or other aspiration? Are we on track? Broad commentary on that?

Arun Agarwal: Yes, Baidik, as we mentioned earlier, high teens was our aspiration. We continue to aspire into that, but I think we are very close to 17.7% and fully year basis 17.8%. We believe that that's a good range to operate around, and we want to operate in that range. Definitely in the mid to long-term, we want to come back to the higher EBITDA profile as we start achieving our growth target.

Baidik Sarkar: Okay, all the best. I'll be in touch. Thank you.

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

Mohit Jain: Hi, so most of the questions are on the cost side. So one is there was this steep increase in employee expenses this quarter versus last quarter. So, is there a specific hike, which was given during the quarter, because headcount has declined? So one is that. Second, in terms of sub-con, where are we currently in the overall scheme of things, and how should we see that as we move ahead, in terms of percentage or absolute numbers, wherever you are comfortable with.

Arun Agarwal: Sure, Mohit. Yes, there's an increase in overall comp-cost, but there are multiple factors into it. One is the currency conversion also has led to some impact as we are getting an advantage into revenue. The same, it gets reflected into the cost INR conversion as well. That's one. Second, is while headcount has gone down, but that's more like a month-end or quarter-end number, that you see. But more of the decline has happened on the later part of the month, which the cost anyway has come into the P&L.

And certain other initiatives as we continue to invest into right talent, having those digital niche talent is very critical for our kind of work. Some of the talent, where the count goes down, but when you hire them onshore and you would have seen the onshore-offshore mix also going up because as UK growth comes, more in the secured government space that leads to higher cost in terms of overall P&L. Definitely the rates are also better. So margin is protected, but in terms of absolute number, you see the cost. That's one part.

Similarly, in the sub-contractors as well, since some portion of our work in the secured government space need security clear resources, and some of those resources are not available into the employment market, and you have to get them first in the security clear market under sub-contractors and gradually start converting them into the employment. To the point of view, are we comfortable with our sub-contractors percentage to the overall answer is ‘no’. There is a scope of improvement, and that's one of the lever which we are working on to improve our gross margin and the EBITDA profile of the company.

Mohit Jain: So right now the sub-con cost would be sitting in other expenses. Is that correct?

Arun Agarwal: Yes.

Mohit Jain: As we move ahead, we should see some of the other expenses getting converted into employee benefit as you translate some of the sub-con or convert some of them into employees?

Arun Agarwal: Absolutely.

Mohit Jain: Okay, and the other two are related to revenues. Now one is this growth in BFSI/Professional services. So you spoke about one deal win as well. So have we ramped up or should we expect the current growth in the BFSI vertical to continue and what is it driven by? So that's one.

And second on UK health. So this particular revenue number was not moving for some time. Now do you see stabilization for FY'24, therefore should we expect more growth to be driven by UK health?

Hiral Chandrana: So Mohit, the financial services sector is not currently a broad-based sector for us as you know. We do have a few good accounts in UK and a couple of accounts in US and then a few accounts in Middle-East. So it's still sizable but not one of our biggest. This particular account is a very large US headquartered organization, where we have seen some interesting momentum and deal win. But it is not something that is across the board in the industry as such for us. As of right now, it is more account specific. So that's as far as the deal.

Mohit Jain: So, the ramp-up should we assume that you guys have ramped up reasonably in fourth quarter. Should we assume that this ramp-up in BFSI will happen in Q1 and Q2 as well?

Hiral Chandrana: Yes, it's kind of ramped up but we club a couple of professional services, and industrial accounts into that cluster as well. So it's a combination of core financial services as well as some professional services. But that's ramped up. We see selective opportunities in that sector but it is in a few set of accounts that we have.

As far as health in UK and particularly the one large account that we have, we still see uncertainty in terms of the organization and the changes that they have. But we have seen a bottoming out in terms of our position, in that account. We have actually won a few deals as communicated earlier but the organization has decided not to ramp them up. So those are still potential possibilities for the future. But going into FY '24, we've taken a conservative view on UK health. So we want to make sure that we do a little bit of a reset on the baseline and look at specific areas. There is a very detailed strategy that the team has put together. And if there is an uptick in terms of opening up of spend by NHS, then we would benefit from it. But we have taken by design a conservative view.

On the other hand, we see a tremendous potential going forward in FY '24 from both US and Middle-East healthcare. So that is one area that, we have invested in, particularly with Oracle's acquisition of Cerner and our own capabilities within the Salesforce ecosystem, in delivering payer and payvider solutions. Banner Health was a great example of a customer, where there's a case study in the market, which is vetted by the customer and Salesforce.

Similarly, we are very strong in senior living, acute care, home care, and delivering some really interesting programs. So, we do see healthcare, while we've seen the dip because of the one NHS account that we have in UK. But as a whole, that's an important industry for us. And we expect that to grow significantly as a whole in FY '24.

Mohit Jain: And just a clarification, did I get it right that Oracle is 45% - 47%, of the business? Was that the comment?

Hiral Chandrana: No, Mohit, Oracle and Salesforce put together, combined is about 45%.

Mohit Jain: Oracle is what you disclosed as Oracle Cloud, that is where it is sitting, 29% number. Or will it be across the service line?

Hiral Chandrana: There is some across the service line because there are some elements of CX and elements of data as well.

Mohit Jain: So Oracle is slightly higher than 29%, and total of the two tech is around 45% for you. All right, so thank you very much. And all the best.

Hiral Chandrana: All right. Thanks, Mohit.

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

Ravi Menon: Thank you. Gentlemen, good numbers. Thank you very much for that. I just wanted to ask you about the US government business, that's shown good traction. But can you describe how the Health Ministries, that’s ramping up well. The other parts, are there any indications of new programs starting? That's the first question. Second, in the US, it's flat quarter on quarter. And I think last quarter, we had won a deal to start an offshore development center for a client. So while expecting to see some of that ramp up, has that got delayed? Or is that already in the numbers?

Hiral Chandrana: So Ravi, just your first question, your line was not fully clear, but your first question was related to state and local government in the US, did I get that right?

Ravi Menon: No, Hiral, it was about the UK government business, outside of NHS.

Hiral Chandrana: UK government. Yes, what was the specific question on the first one on the UK government?

Ravi Menon: Yes. So you said that, you started a new biometrics program, but how is the pipeline looking there beyond this?

Hiral Chandrana: Yes. Got it. So, UK government, and if you leave NHS aside for a second, the secure government services. We have been participating in some very large framework as you know. And some of those frameworks do take time in terms of ramp up. However, we have a seat on the table, while there are multiple vendors in some of those framework, we believe that there is certain market share that we can continue to gain, through the course of the next one year or two years in those frame works. These are very, very large opportunities.

There is a diversification of our presence that we have continued to make because we had a few large institutions that we work with out there, particularly three or four, which have continued to show growth. But we're trying to also make sure that we win new opportunities, in police protection, in some of the biometrics program that I mentioned earlier, in the workforce and pension DWP, as an example. So, there are certain areas that we kind of diversified outside of the base that we already have.

Also our state and local government in business in the UK, where we work with about 29 to 30 councils is still a sizable presence for us. And we continue to do specifically Oracle work there today, but there's an opportunity to cross-pollinate with other platforms. We've seen interest in Microsoft, for example, as well as AWS and Salesforce in pockets of UK public sector.

The last thing I'd say in UK public sector is that central government, while we have a very good presence on the digital engineering side of things, Oracle as a company and as a business does a lot of work with the central government. So, we see an opportunity. It's a little bit more medium term of taking our Oracle Cloud story as the government modernizes and moves to the cloud in the central government space. These are some of the areas that, from a pipeline build perspective, some of those have longer cycles as you know, so we have to feed some of the investments and skills with security clear resources. So hopefully, Ravi that answers that part of the question.

Ravi Menon: Thank you.

Hiral Chandrana: And as far as the health deal that you were referring to, that has ramped up to some extent. It is one of the Blues that we have communicated in the last quarter. In fact, in that particular account, we are seeing new areas that the customer is interested in, in the data space. And we believe that, like I said, the Blues in the US in particular, is a good opportunity for us to replicate that success that we have with that particular one. So there's no issue in that particular account. In fact, it’s a good opportunity.

Ravi Menon: Thank you. And just a longer-term question, on the Oracle side. I thought that the work that Evosys did was very project-oriented and would be able to do a lot of them, but then that's a constant treadmill of projects that we are on. Has that changed? Or how would we see that the Oracle business, you were talking about that growing above the company average, is that predicated on getting the new pipeline of larger deals? Or are we moving to a more annuity-oriented model through that?

Hiral Chandrana: Yes, so a really good question, Ravi. Both those are true. We wanted to make sure that our dependency on pure implementation in projects is limited. In the sense that, some of those deal cycles have taken longer. We have one actually an average deal size in the Oracle space has grown in Q4. Having said that, like you rightly said, last three, four quarters, we've made a shift by design in having more managed services and annuity work. Now those come with a three years deal time frame. So, the ACV values of that might be lower. But having said that, it does establish stickiness for us to continue and mine those accounts, which is a key part of our strategy. So, while we continue to see projects and implementations, but our mix is significantly changing towards the combination of projects and managed services in the Oracle space. In fact, the work that we've won in the Middle East has a high degree of annuity and managed services as an example. So it's a combination of the two.

Ravi Menon: Great. Thank you. One last question, if I may. On the US environment, we've been hearing that there have been project put on hold, customers are starting to show some reluctance to commit to capex. Are you starting to see any of that given your customer base is a little bit or smaller companies? Would there be more at risk in this environment?

Hiral Chandrana: Yes. We in fact had even two quarters back, pointed out that, there are certain delays and there are certain uncertainties I mean, in Q4, in particular, the quarter gone by, we've not seen any of this or any ramp downs as such in terms of new projects. But these decisions are definitely taking longer. And in some cases, you know, it’s long, right, that we might have seen in the past. But a couple of wins that we announced, there's an interesting, City of Hampstead win that we announced. Again, these are the deals which took maybe two months longer than we anticipated.

I think, we'll continue to see that uncertainty. Many of the investments are going right up to the CEO or even to the board, in terms of approval cycles. And so that, I think, is a trend that we will see at least for the next two to three quarters.

But what we've done is we've put strong account managers in some of our key accounts, while we need to do more work in that space, but we do see a mining opportunity in some of our existing accounts and also strengthening the value proposition that we take to a client, a combination of our functional, architecture, and industry knowledge and putting that together in the context of the customer and helping customers save money instead of just spend money. So models where we can actually modernize, but also optimize at the same time, is what we're taking to some of our existing clients. But I think the caution in our customers or at industry level will continue to remain, in the next part of it.

Ravi Menon: Thank you so much. Best of luck.

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

Amit Chandra: Thanks for the opportunity. So, my question is on the NHS recovery. So you mentioned that we have seen a recovery in the NHS account. So if you can throw some more light on how the NHS merger that was happening, has it been completed? And also the recovery that we are seeing was at the end of the quarter or we have seen the full quarter impact of NHS recovery? And also in terms of the contract that we had won earlier with NHS, post the merger, has there been any changes in the contract structuring? Or are we just seeing the ramping of the existing contract that we have won?

Hiral Chandrana: Yes. So Amit, thanks for the question. I just wanted to clarify, in case there was some miss communication earlier. So you've definitely seen growth in our secure government services in UK, but that is not necessarily NHS recovery or NHS-specific growth of recovery. We continue to see some uncertainty in the leadership and the structure of NHS and some of the merger and the integration that they're going through. And that's the point, I was trying to make earlier and we've taken a conservative view going into FY '24, related to NHS. We feel that it has bottomed out, in terms of our exposure, but there is still uncertainty. So, our growth, and, the uptick we saw is not necessarily from NHS, it's actually from our rest of the secure government services, work that we are doing.

Amit Chandra: Yes. So, on the investments that you've made on the UK private side. So obviously, you're seeing benefits of it, but what kind of growth, we are expecting from the UK private segment especially because financial services and obviously, on the retail side? And also in terms of investments, are we through with the investments in the UK private? And also on the US side, we have done some restructuring there. So, post Vijay coming in, are we going to continue with the same strategy or are we going to see some change in strategy there, in the US?

Hiral Chandrana: Yes. So, UK private sector, the team has done a good job in defending some of the real estate, in the previous quarter. And once we reach a certain level of stabilization in the middle of the year, we started to see more decent upticks in incrementally growing. And some of that is reflecting in the numbers as well like you said, Amit. We still see that as a growth area for FY '24. But if I relatively compare that to some of the other areas of growth, for example, the UK secure government, the Americas as a whole, or our Salesforce and Oracle business, as a whole, we believe that those are bigger opportunities for us. While we will grow in the UK private sector, but it's not necessarily in the top three priorities, for us.

The US strategy has undergone some tweaks and change, particularly as it relates to the environment that, we're in and some of the customer voice that we're hearing, as we go deeper into some of our existing accounts, there's definitely more cost savings and cost takeout opportunities. And we're making sure that our value proposition of modernizing, cloudifying as well as transforming experiences, in the customer journey, it's combined together with the cost optimization pitch that, we're taking to the customers. So that would be one callout. A much more deeper focus on account mining and healthcare, and third is doubling down on payer in US, in particular, where we see opportunities in providers, payers, and payviders, both in Oracle and in Salesforce and to some extent, in the big data space as well. So those would be the three callouts. I think that the cost savings element combining that, on value proposition would be one element that we've updated, right, in the last few months.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Thank you very much to give me this opportunity. Sir, when we analyze the result, main banking margin from employee costs and other expenses, how do you deal in the current year with all these expenses in the margin?

Arun Agarwal: Again, as we mentioned, the margin, if you see the EBITDA profile of the company is broadly in 17.7% kind of a range. So again, obviously the cost increase pressure will always be there. But that’s how you manage between multiple operating levers and alluding into the subcontractor mix, which we spoke about, we have been talking about the utilization and the levers. So again, the combination, some costs will go up, but there are certain levers, which we'll pull out and thereafter, enable us to maintain the margin within the range.

Ravi Naredi: Okay. And order book backlog of INR 1,794 crores, can you bifurcate in US, UK and other territories?

Arun Agarwal: We don't give that geography-wise breakup, but that's for the full company and that's a committed order, which we have to be executed over next 12 months.

Ravi Naredi: Okay, thank you.

Moderator: The next question is from the line of Zubeyr Singh from Mondrian Investment Partners. Please go ahead.

Zubeyr Singh: Thank you. A couple of questions from my side, please. Firstly, it would be kind of just a ballpark number on the organic growth for the quarter and for the full year? Because obviously, you've had some M&A during Q1, Q2. And secondly, what should we be expecting on the debt side of things? Do we repay or do we take on some more for further M&A? Those two questions from my side, please.

Arun Agarwal: The debt in the books carries a repayment plan and we have sufficient cash flows to take care of it. There's no further plan to raise any debt unless we get into any inorganic activity. But as an operating requirement, we don't see any requirement out there. And we'll continue to discharge debt liabilities, there are certain debt, which will get discharged over this year, certain part of the debt, which we took for the purpose of MST acquisition, will get discharged over the period of the next three years.

Zubeyr Singh: Sure. I was asking about the organic growth that the company has achieved for the full year and for the quarter because obviously, numbers are very strong, but for just comparison from like-for-like compared to previous quarter last year. I just wanted to understand what has the company done on more organic basis?

Hiral Chandrana: So like I mentioned earlier, the MST and the Salesforce acquisition has delivered above plan and exceeded our expectations, both on revenue as well as on order book for the FY '23 time frame. As you know, it's about eight months of acquisition which is reflected in the numbers that we reported.

In terms of Q4, in particular, like I mentioned earlier, we've seen historically for the last three-four years that, this particular quarter is a slow quarter with MST with the seasonality. So essentially, our Q4 growth has come from organic and it's an apple-to-apple comparison, as you know, from Q3 to Q4. So going forward into FY '24, we believe that the order book and deal momentum from the Salesforce business continues to be strong. And we will see good year-on-year growth on the Salesforce business as well.

In Q4, the quarter that just went by, it was apple-to-apple and it was a significant part of it was the organic growth.

Zubeyr Singh: Thank you Hiral. What I meant was not year-on-year, so obviously, from a quarter-on-quarter sequential perspective is organic. But I mean relative to March 2022 versus March 2023, that is why I'm trying to understand the 7.5% growth to the 5.5% constant currency, how much of that would be organic, excluding MST and Salesforce?

Arun Agarwal: We don't give this information separately. But what I can confirm is, in this quarter, 5.3% predominantly is driven by organic. As Hiral mentioned, there's a seasonality in the Salesforce business in this quarter. So you can count most of the growth has come from the organic business.

Zubeyr Singh: Okay, perfect. Thank you.

Moderator: The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead with your question.

Sachin Kasera: Congrats Hiral and the entire Mastek team. After many quarters, we have seen growth come back in a strong manner, so a very good set of numbers. Two-three questions from my side, first, you mentioned that, basis the current momentum, you are quite confident on delivering a strong above-industry and ancillary growth. So if you could just give us some more better insight as to what gives us this type of confidence and momentum that this growth that you're seeing this quarter is more sustainable?

Hiral Chandrana: Thanks, Sachin. As you know, there are various parts, to our business and in some ways, there's some uniqueness in each region. We really needed to make some fundamental changes in the underlying elements of our business, which included like I said, our ability to strengthen our capabilities and ability to mine accounts better. So some of those underlying changes are starting to pay off.

Now there are two, three metrics that we look at from a leading indicators perspective. One is our pipeline and our overall uptick in the level and the type of conversations that we're having. Pipeline and the 12-month order backlog has definitely gone up. So that is one part of the data point.

The second part is that in the areas that we are good at, which includes our Oracle Cloud business, our Salesforce business, our UK public sector, digital engineering business, we are continuing to diversify and see larger deals and opportunities, in some cases, multi-tower deals in the context of Oracle, in the context of Salesforce, larger opportunities beyond what we have delivered in the past. And also some indications of mining those accounts better that we are present in. So this is the second sort of leading indication that we're looking at.

And the third is we've made some strong hires, not just at the leadership level that I mentioned earlier, but also at the next level and at an account level in some cases, at a domain level in some cases. So we believe that some of the capability investments, which we continue to need to make, but some of the capability investments, we need to continue to strengthen our proposition. But some of those progress that we have made in addition to getting the right people, will position us better going forward as well.

So, looking at pipeline, our order backlog, our mining, our ability to mine, if you look at greater than one million accounts, two years back, we were about 25 or 30 accounts. Now we have 60 accounts, 61 to be specific. Similarly, we want to continue to move up the ladder on three million accounts, five million accounts, and ten million accounts. And Middle-East and the uptick that we've seen continues to look strong even going into FY '24. So in addition to our largest market, which is UK and US, the third geography leg continues to fire. So those are the three-four things that is giving us confidence.

Sachin Kasera: The second question was on the US business. So this quarter, we have seen some pressure in margins. So one, is it because of some investments that we have done? Are there some write-offs? Or is it in general pressure on pricing, if you could quantify?

Arun Agarwal: Sachin, see, it's predominantly because of the, as the investment continues to be made in the geography because that's the growth we want to see in Americas specifically. So as the growth comes back, as Hiral alluded into, we see the margin coming back to the normal level.

Sachin Kasera: Sure. And have we now started to see our ability to bid in larger bids in the US business because that is very critical for us to grow the US business and achieve the balance that we have target in the next four quarters to eight quarter to achieve the mix between US and non-US business?

Hiral Chandrana: Yes. We definitely have that as part of the strategy. We have taken proactive propositions to a few of our clients. We have a seat on the table of few customers that we want to make sure that we try that win. Our strength though will be in accounts, which are between 1 billion to 10 billion companies. That's the range that we believe are sweet spots and even in some cases, 2 billion to 7 billion. That's where we feel that we can make the biggest impact.

In some cases, the customers are actually breaking down their overall strategy, sourcing strategy into smaller chunks, which in a way is beneficial to us. So, we don't want necessarily the entire IT real estate, for bidding because we may not be successful in those types of bids. The success that we are seeing in some of the leading indicators in our existing accounts, so we have seen 5 million deals, 7 million deals. We have some of those in the pipeline as well. But in terms of larger than 10 million deals, it's an aspiration that we have in FY '24. We are picking certain specific areas in industries, where we can take that proposition to, like I mentioned, healthcare, in particular. And we're trying it out with a few of our top existing accounts, but we want to show and demonstrate that with the results. So, we will keep you and the teams posted, as we start having those wins in the US. But conversations are definitely moving up the ladder. Our relationships are getting stronger in certain accounts and we have to now take that to the next level in terms of some of the cost take-out deals.

Sachin Kasera: So fair to assume that in FY '24 in the US market, the average deal size should be much larger than FY '23 and overall order intake or order win should be much better than FY '23?

Hiral Chandrana: Yes.

Sachin Kasera: Okay. One book-keeping question for Arun. If you see the cash flow operations this year, it has come down to INR 100 crores versus INR 270 crores last year. So is there some one-off in that? And it looks quite low. So how do we see the cash flow from operations? Because this year, almost INR 700 crores is gone from the balance sheet because of the investments, and the net debt has gone up quite a bit. Cash outflow is much larger than cash flow from operations. So if you could comment on that? And how do we see the FY '24 in terms of cash flow from operations?

Arun Agarwal: So, Sachin, very good observation, this year, we have seen some reduction in the cash from operations and it's kind of reflected in our DSOs going up to 93 days. So, there's an internal team which we have created, who is working very dedicated. We don't see any risk into those numbers, and you would have seen 98 days was in last quarter, we have brought in onto 93 days. There is a continuous effort. So, our endeavor is to operate free cash flow in the range of 75% to 80% is the range, we operate internally and we believe next year, we'll come back to that range.

Sachin Kasera: Okay. And just one last question. When we see the minority interest there is only INR 2 lakh. So that we can consider because still 10% is minority in case of Evosys. So, is there some one-off again in that because that looks like a very low number for a 10% minority, just INR 2 lakh that we accounted for in the quarter numbers?

Arun Agarwal: Yes, there are certain one-offs in that particular set of business. Again, as a company, you can say it's an offsetting. But between the entities, which are subject to minorities, there's a one-off there. It doesn't impact at the group level.

Sachin Kasera: Okay. Thank you and all the best.

Arun Agarwal: Thank you, Sachin.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management LLP. Please go ahead.

Mihir Manohar: Thanks for giving the opportunity and congratulations on a great set of numbers. Largely wanted to understand on the government side of the business. You mentioned the reason that has driven the growth in this particular quarter. And also you mentioned about the opportunities, which are there in the government side, specific in the UK. I just wanted to get a sense. We are seeing some 10% plus kind of a growth. So considering the opportunities which are there, which is on the police protection side, workforce pension side, do you see ourselves maintaining a growth rate? So you mentioned about the untapped opportunities. So just largely, wanted to understand, will this growth rate sustain or how should we build the government business kind of a growth or a bit one-off, once again back to 2% of a growth somewhere. So how should we see that part of the business? That was my first question.

And second question was on the NHS side. The two deals which are there. What kind of probability should we assign of these deals getting ramped up for us? You know what should be the probability that one should consider or one should just drop off these deals in FY '24?

Hiral Chandrana: So, let me start with the second question, Mihir. NHS in reality, we believe that there is a higher probability, but we have assumed that the probability is very low. And again, we have taken that conscious call to be very conservative given, what we have seen in the last nine months with NHS. So, until we see one deal spend coming up, we're going to take a conservative approach. But I do believe that things will open up, right, during the year. There is different parts of the health care ecosystem within UK Health and may not be in the same areas, but it might be a slightly tangential and surround areas that, we might also see some potential growth.

The growth levels that you've seen in terms of quarter 4, did have helped from both number of working days and currency, like I mentioned. So that level of growth quarter-on-quarter will be difficult to sustain in the UK public sector. Having said that, like I mentioned earlier, in the three or four different areas, we do see opportunities to further strengthen our presence both in some of the existing accounts and even diversify in a few other institutions. So it continues to be a key part of our growth strategy and business going forward.

Mihir Manohar: Yes, Sure. Got it. That’s it from me. Thank you.

Moderator: Thank you. The next question is from the line of Darshit from Robo Capital. Please go ahead.

Darshit: So, thanks for taking my questions. I actually just needed a ballpark view on revenue going forward in the next two-three years. And also I heard that, you are wanting to bring the EBITDA impact margins back to previous levels. But could you specify some time frame, say, probably how many years it will take to come back to those levels?

Hiral Chandrana: So Darshit, I think we have a three to four year view in terms of how we are looking at the business as part of the strategic priorities that we had laid out. FY '23 has been challenging in the couple of quarters prior to this. But we feel very pleased with the quarter 4 results and momentum. So, we feel FY '24 will be a stronger year. And as we look at the overall opportunity in front of us in terms of the sectors and the regions that we operate in, we continue to believe that, we will be at industry-leading or a few percentage points above industry, in terms of year-on-year growth. Our margins and operating EBITDA in particular is in that range that, we feel comfortable right now. There's always going to be some room for improving, which we would like to reinvest back in the business. And then demonstrate consistent quarter-on-quarter as well as year-on-year growth for a few quarters before we try and improve our operating EBITDA to 19%-20% ranges. But right now, the 18% range is where we feel comfortable.

Darshit: Okay. All right. Thank you.

Moderator: Thank you. The next question is from the line of Pratap Maliwal from Mount Intra Finance Pvt. Ltd. Please go ahead.

Pratap Maliwal: Thanks for taking my questions. I think most questions has been answered. But I think last quarter, you had called out that, there's been some greater than $5 million deals and a couple of them are maybe in the pipeline for Q4. So is there any update here? Have you won any of those deals? Any traction on that part?

Hiral Chandrana: Yes. Actually, we've won two of them, one in America. These are both Oracle deals, which had longer cycles than we expected, but the manufacturing company that I was referring to earlier. Interestingly, in both those deals, if you recall in the Investor day roughly about a year back, many of you attended in person, we had showcased our investment in non-linear platforms and non-linear solutions. It was part of a medium to longer-term strategy, where we believe that architecting certain platforms and solutions that can give non-linear growth will be a key part going forward.

So, we're pleased to sort of update that both these deals, one in a utilities company in Australia and second a manufacturing company in the US, had this non-linear component. In fact, we have another solution called Workforce Scheduler, which is popular in the health care space, which is also gaining traction. So, there's another deal, which we had referred to, which is what you're referring to in terms of greater than $5 million, it is with a health care customer. So that is something that we are expecting to close in the next few weeks.

So yes, the good news is that we have not lost any of the ones that we referred to. Deal cycles are definitely taking longer. And out of the three, we actually have won two and are expecting to win the next one in the next few weeks.

Moderator: We'll take the next question from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Thanks for the opportunity and congratulations on a great set of numbers. Just want to understand utilization specifically, so this number, we have seen a very good improvement now. Now, how should we think about this number? Is there some scope for improvement? And how should we understand this, in the context of margin improvement because 17% to 19% is a range, if I'm not wrong, that you have spoken about. So, are there other levers to achieve for the higher end of the margin amount? Thanks.

Arun Agarwal: Yes, Sameer, there is a room for improvement in utilization and we are working towards it. As we mentioned earlier, there will be a gradual improvement and that's what has been reflected in last two quarters. There will be further improvement down the road as well.

In terms of margin improvement, yes, utilization is not only lever. There are sub-contractor conversions and there are other operating levers as well, which we are working on. However, at the same time, we need to keep investing back into the business for the purpose of growth. Including capabilities, getting into the sales in other channels, at the same time. So, our endeavor is to maintain the margin around this similar range, in the short term. And as Hiral mentioned, like in the mid to long term, our endeavor will be to further keep improving it and come back to the old levels.

Hiral Chandrana: Yes. And Sameer, the only thing I would add is, we did make a tough call in the middle of the year to continue to onboard fresher's into the system, when some of our competition stopped that or reduced that, we actually did not do that. So you saw a hit in the utilization in the previous couple of quarters. Now with disciplined execution and moving many of them into billable roles, which we would continue to do, you are seeing some of the benefits of that, both in terms of utilization as well as in terms of revenue growth.

So it was a tough call that we had made in the middle of the year, but it is paying off right now. So fresher intake and making sure that we run the internships and training programs is an important part of our strategy. So that we can improve the overall pyramid structure, do more offshoring as well as, as deals become a little bit more managed services, in terms of our business mix, that will also help us going forward.

Sameer Dosani: Also second thing, thanks for this, when you look at industry growth, what is your benchmark in terms of industry growth? Is it top 10 players, top 15 players, what is the benchmark, when you say industry growth plus a couple of percentage points as our, given endeavor? Thanks.

Hiral Chandrana: Yes. So, there are, the Tier 1 and the larger Indian IT services players, which all of you know, the big 7 players or 8 players. And then there are mid-cap and small-cap combination of 10 to 15 players that, we typically benchmark against. What we've seen with various external reports and some of you are the experts in this, is that typically in the range of 7% to 9% is what we've been hearing for some of the larger industry players, with the mid-cap and the smaller players doing slightly better than that, in terms of the range of industry growth. So that's what we are benchmarking against as a baseline and we aspire to do more than that, in terms of the industry given our size is on the smaller side of the mid-cap or small-cap.

So, while saying that, there is still continued uncertainty, in the market and the environment. And you've seen some of the results that have been announced. And obviously, we'll wait and see how some of the other competitors do. But we feel comfortable that the investments that we've made in the business, and the leadership that we've brought on board in the last few months, position us well, for that industry-leading.

Sameer Dosani: So, it's a combination of Tier 1 plus mid, small all players, not just bigger players, understood. All right. Thanks. That's it from my side. All the best team and congratulations again on the great set of numbers.

Moderator: The next question is from the line of Vikash Vijayvargiya from Heallthx Services. Please go ahead.

Vikash Vijayvargiya: One thing I want to understand, this is purely a bookkeeping question, our creditors have slightly decreased, there's a decrease by INR 160 crores-odd number, I believe. Any specific reason and what is the involvement of the -- basically the creditors like, trade driven?

Arun Agarwal: Again, it is the timely payments of the creditors, which is the nature of it. Also, sometimes what happens, you get into longer-term engagements and the timing of it could relate to closer to March and the payments are not due and you make the payment as it becomes due in May or June could be the reason. It's again, business as usual. We don't see any significant reason as such unless the timing of certain contracts, which you would have entered with the vendors may be different between last year and the current year.

Vikash Vijayvargiya: But what is the component there? What is the nature of the creditors or trade payables?

Arun Agarwal: It's again, as usual, you are doing a lot of procurement of capex items, which could be a laptop, could be IT software, which we buy for our employee; we have in the range of 6,000 employees. So we have to make multiple procurements, their facilities, rentals, so on and so forth.

Vikash Vijayvargiya: Any time in the commissions or professionals, are included in this part?

Arun Agarwal: There would be subcontractors where you'd be outsourcing certain part of services. There are individual subcontractors, even they will become part of this. Any third party, it's predominantly third party. There would be certain accounting-related disclosure to be included in the trade payable, but predominantly, its third party.

Moderator: As there is no response from the line and no further questions, I would now like to hand the conference over to the management for closing comments.

Hiral Chandrana: All right. I think, as always, we highly value the interaction and the questions. Like, I mentioned, FY '23 was challenging, but we are very pleased to end with a strong note and solid in-quarter execution of Q4 that is reflected in our results. The changes and the investments that we've made in the last year has set a good foundation for us to develop confidence in the outlook going forward.

I would like to take this opportunity to thank the entire Mastek team, who we call Mastekeers for their commitment and continued focus, on the customer. The investors and analysts, who joined the call today as well as the interactions that we have, had through the year has helped a lot. We value your feedback and support and trust in Mastek. We will continue to keep you posted on the progress on our strategic priorities and looking forward to an exciting FY '24.

So with that, thank you once again, and good evening.

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