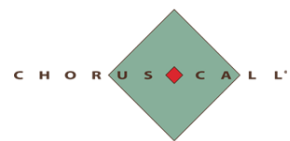




“Mastek Limited
Q1 FY'25 Earnings Conference Call”
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MODERATOR: **MS. ASHA GUPTA – E&Y INVESTOR RELATION**

Moderator: Ladies and gentlemen good day and welcome to the Mastek Limited 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the call to Ms. Asha Gupta. Thank you and over to you, Ms. Asha Gupta.

Asha Gupta: Good evening to all of you. Welcome to the Q1 FY'25 Earnings Call of Mastek Limited. The results and presentation have 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 to answer your questions, we have the top management of Mastek, represented by Mr. Hiral Chandrana - Global CEO, and Mr. Arun Agarwal - Global CFO. Hiral will start the call with a business update, 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 reflects any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with the risks and uncertainties that we face. These 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 on our website.

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

Hiral Chandrana: Thank you Asha. Good evening, everybody. Hope everyone is doing well. I will cover the highlights of the quarter, followed by an update on key strategic priorities and then also give some commentary on the outlook where we see the industry and market going forward. As we've reported our results, our revenue quarter-on-quarter increased by 4.3% on INR terms. Year-on-year is 12.1% on an INR basis. We are pleased with the revenue uptick and the momentum on the top line. Our 12 months order book backlog, while it was flat quarter-on-quarter, increased 23% year-on-year. Q1 is typically a slower start to the order book, but we see some really good deal momentum in pipeline building and confident about the deals in the future quarters.

Our operating EBITDA was a disappointment. We had some onetime hits which we'll talk about in the subsequent discussion. But there were a couple of provisions that we had to make, and it was at 15.2%. We had some fairly unique and differentiated wins across multiple geographies and multiple offerings. I'll just mention a few of them. One particular U.K. department, which handles immigration and law enforcement, we've been working with them on our digital operational dashboards and asylum and refugee management through the case working platform that we have built, and we continue to enhance that and modernize those platforms as more and more volume flows through those case management systems.

For a U.S. Healthcare client, we are modernizing their claims management platform powered by Salesforce, where this particular regional health plan is looking at how to optimize and automate

some of their claims processing. For a USD 7 billion retail recreational vehicle manufacturing and distributor company in U.S., we've taken over 2 digital engineering pods and won a customer loyalty program, which is an account we opened 6 months back and is showing some amazing traction. For one of the central banks in U.K., we have won data and analytics platform deal, a great example of synergy from our BizAnalytica acquisition where our teams work together to win that against some stiff competition. We're just scratching the surface there and we see great potential in building on this initial pilot going forward.

These are some of the examples, but what I'm really excited here is, as we look at our top strategic priorities, which we have continued to reinforce last few quarters, our Healthcare business continues to grow, particularly in U.S. Our secure government services business, which is our central government business in U.K., continues to have good pipeline. Elections were moved ahead, as you know, in the U.K., so some of the uncertainty around the, the election period is now behind us and so we see a lot more clarity on the new Labour Party executing on their manifesto, particularly on the NHS and health programs, the defence programs, some of which we are focused on.

Account mining has been a key focus for us. We've communicated in the past to our investors and analyst community about our top 30 accounts, which roughly forms about 57% of our revenue and we continue to see growing momentum on cross-selling service lines across those accounts. And as you'll notice and as we have communicated, we want to continue to grow top line, not necessarily by growing number of accounts. In fact, by conscious design, we've continued to reduce the number of accounts, particularly in our AMEA geography from 250 accounts to 175 accounts over the last 2 quarters while of course, growing top line. So, this is an example where you'll see deeper account mining, which is leading to deeper relationships as well as more USD 1 million, more USD 3 million, more USD 5 million accounts.

In the data and AI space, which is our fourth key priority, we continue to see some great examples of wins, but we are particularly excited about some marquee partnerships with NVIDIA, with Microsoft, with AWS that we've announced over the last few quarters. The recent one with NVIDIA is a very differentiated partnership where we are leveraging the NVIDIA inference and interface micro services API to channel into multiple large language models where we have built our experience, insights and correlation engine so that we can drive industry-specific use cases. Some of the industries that we are focused on include sub-verticals in manufacturing, fraud analytics within the financial services and also benefit verification use cases in the Healthcare sector. We believe that this is truly differentiated. It's initial stages, as we expand on this momentum, we will see a lot more larger deals in the coming quarters through this partnership.

As we look ahead, there are continued macroeconomic uncertainties and deal delays, which we see in the market. So customers are still cautious when it comes to cost preservation as well as high scrutiny on some of the deals and the approvals. However, we are engaged in some fairly marquee programs, which are very strategic in nature. The kinds of conversations that we're having with cloud implementations, with some of the new digital engineering programs as well

as in data engineering and data modernization programs are very differentiated. U.S., in particular, the Healthcare momentum powered by Oracle Cloud, has really kicked into high gear and we see continued momentum there with providers, with senior living facilities as well as with regional health plan. We also have kicked off an internal transformation, which we're calling Project Nucleus. And this is looking at the entire order-to-cash life cycle, some of which we had been doing some groundwork, but this is important to further streamline processes, automate certain inefficiencies and then hopefully, we can generate enough savings to repurpose in future investment areas, but also help with improved productivity and efficiencies internally.

Coupled with our Gen AI internal AI Amigo platform, which we are driving to automate multiple functional areas, including finance, marketing, HR as well. As we look at AI and Gen AI in an overall sense, we're starting to see some interesting pilots and proof of concepts moving into slightly larger programs, but we believe it will still take a couple of quarters for customers to truly see some of those ROIs coming from the investments that we have made. We are looking at this very strategically in multiple pillars. There's AI that is getting infused in our key platforms like Oracle, like Salesforce, like Microsoft, AWS and Snowflake. There is a nonlinear set of initiatives that we have embarked on about 18 months back, which is starting to come together for example, in the connected enterprise areas. And then there are some of these newer partnerships like NVIDIA that I talked about. So it's coming together well in a nice way for us where a lot of the data engineering and data foundation will be built on as customers look at much more ROI from the AI investment.

I had given 3 specific areas in our last quarter's commentary around our U.S. geography. So I want to address that, again, very transparently. There was one particular customer where we had a challenge when it comes to delivery. We have now recovered through that program. We made the right investments in people and are out of the woods out there and engaged in now some new discussions with that program. It was a financial services customer in the East Coast. There was a second program that we had talked about where a large engagement had moved from on-site to offshore. So that obviously is getting executed. There's no change in that. And there was a third area where there were three deals, in particular, two that we talked about, but three deals, which had been delayed in terms of closures. So, I want to report that two out of those three deals have closed, although it did take us longer than anticipated. This was in a particular pocket within some of our Salesforce business in the US And because those deals got delayed, we continue to keep those resources and we made a tough call to handle and keep those resources, rightly so because now we've been able to deploy them and actually ramp them up in the projects that are now commenced, but it did impact our EBITDA for Q1. Arun will talk about some of the aged receivables in Middle East, which we had an impact also because of the holiday period in Middle East, but we are confident of recovering from that and coming back to our original margin levels in the coming quarters.

So with that, I think overall business momentum continues to be strong. While I said there will continue to be some level of caution, there's more optimism compared to 3-4 quarters back, particularly as it looks to the second half of the year. And we are confident that we'll continue the growth momentum on the top line while coming back on the EBITDA front.

With that, I'll pass it over to Arun, and I look forward to answering questions after that.

Arun Agarwal:

Thanks, Hiral. A very warm welcome to everyone on the call. I hope all of you have seen the detailed presentation, which was shared. Hence, I will focus more on the financial metrics. We reported revenue of INR 813 crores for the quarter, which is up 12.1% year-on-year and 4.3% quarter-on-quarter in the INR terms. This reflects into constant currency growth of 4.1% quarter-on-quarter. While macro challenges and delay in decision-making continues, as Hiral alluded to, however, we are witnessing good deal momentum in line with our strategic investment and the same is reflected in our order backlog, which has improved 23% year-on-year in INR terms. We added 13 new customers during the quarter and increased Fortune 1000 customer base from 34 to 36 in the current quarter. So we're continuously seeing the uptick in the average revenue per customer and also the quality of customers, which we are on boarding.

Operating EBITDA for the quarter was at 15.2%, a decline of 80 bps quarter-on-quarter. This has been led because of two critical reasons which has happened in the quarter. One is cost of ramp associated with delayed project commencement, specifically in the Salesforce business, which Hiral alluded to, but we are really confident that the growth is coming back, and we are seeing these resources getting deployed, which will reflect in our margin profile in the coming quarters. And also, we had onetime impact, including PDD in our Middle East region. Because of holidays, there were delays in collection and because of the aging, you have to provide for it. We don't see any risk into those collections; however, from a timing perspective, those provisions was required to be made as per accounting rules.

Profit after tax for the quarter was at INR 17.5 crores revenue, 8.8% of revenue; however, our profit for tax quarter-on-quarter has gone down. If you recollect, I had mentioned in the last quarter, we had onetime tax credit associated with deferred tax and which led to increase in our PAT due to reduction of tax expense. This quarter, the tax is on a normalized basis, in line with what we anticipate to incur on an ongoing basis.

Our gross cash as of June end was INR 383 crores. It is reduced from INR 473 crores in the March. I would like to highlight that in the current quarter, we have paid annual bonuses and variable payout to all the employees across Mastek, which led to a reduction in operating cash for the quarter. And our DSOs, as I mentioned, for the PDD reason, has gone to 92 days versus 89 days. As I mentioned, we believe this is more timing gap and things will improve as we move to the coming quarters.

Our overall borrowings stood at INR 455 crores. It has reduced quarter-on-quarter as we have paid one more installment as it was due during the quarter. Our closing headcount has increased to 5,546 headcount, a marginal increase quarter-on-quarter. Utilization is flat at 86.5% without considering the lease impact. So broadly, we feel good momentum is building up. Our revenue continue to grow. Order book further gives us confidence. And margin, we are focusing to improve and bring it back to the levels we were operating at.

With this, thanks to everyone for continued trust in Mastek. Going back to the moderator and opening the house for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Debashish: Congrats on a good set of numbers as far as the top line is concerned and order book is concerned. My question is more linked to the one-off cost that you have mentioned. If you just can elaborate what is the exact number of the provision that you have taken for the quarter, and how much is linked to US ramp-up delay and how much is linked to the Middle East market?

Arun Agarwal: So Debashish, on a high level, roughly 120 bps is the impact. Again, it's a combination of both US and AMEA. Predominantly, AMEA is related to your DSO and PDD increase, and the balance is because of the resources, which we had used for the ramp-up, delayed project commencements out there. You can assume 50-50, but broadly in the similar range.

Debashish: Okay. Understood. And the second question is linked to the US market because if we see over the last 2 to 3 quarters, especially, if the growth is coming, margin is not coming; if the margin is coming, growth is not coming. It seems that US market is not getting stabilized for us. So if you can give us some amount of direction that by what time you are expecting US market to stabilize and how much this is linked to the macro uncertainty and how much this is linked to our client-related issues?

Hiral Chandrana: So Debashish, this is Hiral. Thanks for that question. You're right with respect to some of the unevenness, lack of consistency, like you rightly pointed out. However, if you take a step back, I just feel it's important to appreciate that 3 years back, we were a very, small business in the US, particularly with almost kind of a declining Oracle Cloud Commerce ATG business, which essentially no longer exists for us. So it's almost sort of starting from scratch in the region. With the right investments organically and inorganically, we're now at a little over 100 million type of annual run rate business, which has come together fairly well in a kind of a profile of customers and clients, 35-plus Fortune 1000 clients, some marquee brands, in some cases, Fortune 500 as well as the types of conversations and the accounts and the deals that we're having is at a very different level. So that journey definitely has taken much longer.

Having said that, now we have critical mass, and we have the right teams in place. We have also some of the visibility and ability to balance off, in case something doesn't happen in any particular quarter. Now there will be some level of uncertainty, I think, as clients continue to be very cautious on spend. But the differentiated areas that we are focused on, which is, again, going back to healthcare in U.S., both on payers and providers, are focused on Oracle Cloud and data and AI and Salesforce as well as, as we start winning digital engineering projects, we've just won another deal, which happened actually in Q2, in early July, so we did not announce that in the Q1 results, but it is a capital market customer in the East Coast, which was one of the clients from the BizAnalytica acquisition where we've now closed an AWS digital engineering deal.

So, these are some of the examples of deals that we are winning. I guess, the net-net answer to your question, though, is that we feel that there is a certain critical mass in that geography, which we did not have in the previous 4 to 5 quarters. And from here on, we'll have a lot more leverage when it comes to even improving our EBIT and operating margin. And generally, I would say bullish kind of view of US, particularly as we look forward, although we need to demonstrate that in 2 or 3 quarters of consistent results and that's when we will feel a little bit better.

Debashish:

Sir, just a follow-up on the US market again. It seems that we are mainly targeting project-related businesses in US, which is kind of giving us quarter-on-quarter uncertainties. And obviously, it is getting difficult to put a number on how our growth and margin trajectory would be. Is it fair to assume that this project-related business focus is kindly impacting us? And going forward when macro economy will turn back, we'll be able to get a better growth and better margin?

Hiral Chandrana:

So it's a good point, Debashish. Our business mix was heavily project related. If you rewind back 18 months in terms of commerce projects or cloud and Oracle Cloud projects, the Salesforce projects or even some of the other implementations that we have done, so what you're saying is partially right. However, the mix has changed quite significantly in the last 1.5 years. And wherever we are doing projects and implementations, we're following that up very quickly with managed services engagement. The stickiness of our clients has improved to the point where we are being more qualified in the new clients that we are on boarding particularly in US and in Middle East because we want to make sure that the new clients that we are acquiring are also longer-term clients. There used to be a phenomena 2 years back in the US where we used to have 10, 20 clients we opened and then three quarters later that client is done because the project is done. That's no longer the case. So that stickiness has definitely improved. We want higher balance of managed services and that's definitely an area which the team is focused on, but it's a little bit of a gradual journey there. I would say in the next one or two quarters we'll reach by the end of this fiscal year a good mix a comfortable mix.

Hopefully by then some of the discretionary spend will also be a little bit at a different level which will position us very differently because some of the sweet spots that we have even in the current uncertain environment we've been able to win cloud and digital deals. So hopefully that answers your question.

Debashish:

Sure. One last question if I may. In this quarter, we have seen that UK private has started growing for us after a very long time. Is it like we're getting some traction there or is it like a one-off we should not draw a conclusion out of it?

Hiral Chandrana:

Yes, so it is an area which we had seen historical flatness and even decline in the previous years. The team has done a good job in focusing on some very specific sub-vertical, particularly sub-verticals within financial services. We also are getting some good traction in our existing clients. We announced a win in a Central Bank which is a very key win in UK which also sets the stage for us to grow in that particular account going forward.

So, there's some definite green shoots out there in the UK private sector, there's some positive signs. We do need to open some new marquee logos out there that can help us scale because we're still a small business out there, relatively speaking. Our public sector and central government business is much more mature. Our private sector business in UK is still in the growth phase. But definitely we are seeing some good signs in terms of both customer interactions as well as pipeline and order book.

Debashish: Sure. From the order book it seems that this year our growth number will be in the high mid-teens. Is my calculation correct? And if you can also give some indication that what would be the stabilized margin for us for FY '25?

Hiral Chandrana: Yes, Debashish as you know we don't provide guidance on specific numbers, but the top line momentum that we have in Q1 we feel that that's a healthy momentum that we should be able to continue in the remaining quarters. Margin anyways Arun also mentioned about the onetime hit in Middle East as well as the project ramp-up and the resources that we had to hold on to, but we definitely want to operate closer to that 16.5%, 17% type of margin in the second half of the year.

Debashish: Sure. Thank you so much for answering my question.

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

Mohit Jain: So, first is on U.K. Government, should we expect some acceleration ahead now that some of the uncertainty is behind in terms of contract awards that is one. And second was cost related. We also saw this reduction in D&A during the quarter. Is it onetime or this is a new rate for depreciation-amortization going forward?

Hiral Chandrana: Okay. Arun why don't you take the second and I'll cover the first.

Arun Agarwal: So Mohit as I mentioned last time as well, we had onetime useful life alignment for the intangibles which you acquire during which basically comes at the time of acquisition of entities. So which was done as onetime. So what you see in depreciation is more the regular one and you will see the incremental increase as and when we make the capex, but broadly what you see in the current quarter is the range you should look for.

Mohit Jain: And your tax rate should go towards 26%, is that correct?

Arun Agarwal: Yes, it's broadly in the range of 26% to 27%. It keeps moving in that range because depending upon which geography is making more profit sometimes there's a blend with change, but I think 26%-27% is a good range for us.

Mohit Jain: Got it sir. Sir on UK government acceleration effect if we should expect that?

Hiral Chandrana: Mohit your specific question was on UK government?

Mohit Jain: Correct.

Hiral Chandrana: Yes. We have some very critical programs and policies that we are involved in and as you know it is a strategic part of our business from biometrics to immigration to some of the law enforcement as well as the work that we do for asylum and refugee management and there's always some pros and cons on the election timing. For us, it has worked in a positive way because some of the deals and some of the programs that we were going after both in our existing accounts as well as in our new departments that we were targeting like justice and drivers vehicle agency etc are now a lot more clearer in terms of potential timing and spend areas.

But the cycles of the central government are longer as you know. And so some level of uncertainty will exist in the whole adjudication process, but we continue to feel strong about the growth potential in the assets and the differentiation that we have in the UK government. The manifesto of the Labour Party which includes clarity on immigration as well as health sector should hopefully benefit in the coming days and weeks, in fact after this I'm headed to UK and spending some time next week out there to engage with some customers and analysts and partners.

But we do see that in a few weeks after the holiday period that typically ends in August, things should start opening up. We are already seeing some deals which again we cannot announce it right now because it was in Q2 and there's a quiet period, but there are some movements that have happened already after the elections.

I think while some of the ministers are taking charge and some of the charters are being announced, there's also some increased action that we see in the defense sector which is another focus. If you remember in the last quarter, we talked about the overall defense sector and our bets on that from a medium to longer term. So we're starting to see things pick up in there as well. So yes, overall we continue to see momentum, but the nature of that business will have long cycles and so I think we should be just kind of prepared for that.

Mohit Jain: All the best sir. Thank you.

Hiral Chandrana: Thanks Mohit.

Moderator: The next question is from the line of Farid Kazani, Individual Investor. Please go-ahead sir.

Farid Kazani: Good afternoon, Hiral and Arun. I have two questions. From numbers I observe that the profitability has significantly reduced from the US, and we look at EBIT from the 9% in the last quarter it's down to 3% and even last year it was much higher. While I know Arun did allude to some impact of that 1.2%, but what is causing this reduction and is there something else either as a pricing impact or is there some element that is causing the drop in the profitability significantly in the US.? That's my first question.

The second question is with regards to the order backlog that has remained flat as compared to the last quarter. Can you give a little more color on it in terms of what's the breakup of this USD 260 million between the geographies?

- Hiral Chandrana:** So, Arun why don't you take the US margin question and I'll address the order backlog.
- Arun Agarwal:** And Farid right observation because that's what is I mentioned as well as you rightly highlighted because we were holding the resources some of the projects we were anticipating to start much earlier and there was delay from the client side and some of the start delay out there which led to holding the resources and what is reflecting into the margin profile. However, as we see the growth is coming back into the US geography, we believe we'll come back to a double-digit margin profile in the current year. That's the plan as we speak.
- Farid Kazani:** So Arun the gap is significantly higher from what you gave in terms of reason and the quantification of that the gap seems to be much higher. Is it again with related to the mix of business or is it related to some pricing issues which is what is the probable cause?
- Arun Agarwal:** No, it's predominantly one-time as I mentioned. There's no pricing issues as such. We continue to get good rates. Obviously, the kind of business, different service clients will have different margin profile and different rate profiles, but we are not seeing any margin pressure. It continues to be healthy, and we are not bidding for deals which are more of where you lose the pricing. We are bidding for the deals which are high-quality digital and cloud deals, and we are getting right price and right margin in those areas.
- Hiral Chandrana:** And Farid, your question on order book backlog. While it is flat like you rightly pointed out quarter-on-quarter, we typically have an operating plan from Q1, Q2, Q3, Q4, where our Q1 order book starts typically a little bit slower in the terms of percentage terms. Although we did have a healthy order book in Q1, we're able to left shift some of the deals. So that's basically reflecting in terms of orders closed and the revenue that you saw, which is USD 97.3 million.
- So we do believe that the order book momentum both in terms of total order book as well as how it will reflect in the 12-month order book backlog, which we track very closely as you know will continue to increase. It has been increasing, I think last 8-9 quarters just broadly speaking. So that trajectory at an overall level will continue to increase. And then of course, we want to sustain the revenue momentum in terms of converting those orders into revenues.
- Farid Kazani:** Okay. And the split between geographies? And how much of this USD 260 million, which is 12 months, how much is the first 9 months, which will get accounted in this year?
- Hiral Chandrana:** Arun, do you have that handy? Or we may not have that handy, I think.
- Arun Agarwal:** We don't have this handy but if required, we can discuss offline, yes.
- Hiral Chandrana:** The question is about 9 months.
- Arun Agarwal:** Yes.
- Hiral Chandrana:** I mean, there's typically a pattern where we track ACV of that, Farid but I don't think we have that split of what will be in the first 9 months, but we can get back on that separately.

Farid Kazani: Okay. Any update on fund raise that you guys would be looking at? And if there is, what's the kind of status on that?

Arun Agarwal: No, we have stated I think there were some rumours as well going on in the market. I think we replied to the exchange, Farid. There's no development as such. But if anything comes, we will be proactive and be coming and informing to the investors.

Farid Kazani: Thank you very much.

Moderator: Thank you. The next question is from Nilesh Jethani, BOI Mutual Funds. Please go ahead.

Nilesh Jethani: My first question was on the margin profile. So we had guided for 17%-odd margins level in FY'25 because we wanted to do some investments and focus on growth. So I wanted to understand with the margins what we have reported in Q1, how confident are you to achieve these margins on a full year basis or 17% was the exit guidance?

Arun Agarwal: That's a good question, Nilesh. Obviously, we have said our endeavour has to be operate in the range of 17% in short term. And gradually, we'll see in the medium term how can we grow it but that was our stated objective. At the moment because of this onetime impact in Q1 our objective is to bring it back closer to 16.5% to 17%. That's the objective for H2 and that's where we'll exit, and we'll build on it for next year.

Nilesh Jethani: Got it. So when I look at Mastek from a sustainable basis if give or take the annual revenue run rate what we are today at around USD 400 million just wanted to understand at what rate whether it is U.S. business scaling up from here or the existing core business growing at a much higher pace core as in the U.K.-Europe business growing at a higher pace. At what levels of revenue one can expect that 17% to 19%, which was the aspiration which we had, so that towards 19% kind of a number at what revenue run rate whether it is from a U.S. perspective or from the company's perspective, you can help me understand that?

Hiral Chandrana: So Nilesh, this is Hiral. Let me take that. Arun, feel free to add. The way we look at the 3 geographies there is significant untapped potential in the U.S. market, which we believe in the right areas of health care Oracle and Salesforce as well as in the account mining focused bets that we have. Like I mentioned, it's taken a little bit longer to get to this point, but we have good critical mass right now. From here on, we believe that the margins in the U.S. will continue to improve over Q2 and the following quarters. And the year-on-year growth as well as quarter-on-quarter growth in that geography will be faster than the overall company growth.

In AMEA, which is our Middle East and APAC business, we have seen good growth. However, I do want to point out that we have been taking some very conscious call on exiting certain tail accounts, which again has been a by design strategy for us. We will continue that to make sure that the quality of the business that we have out there. There used to be a point where we used to open 30-40 accounts and then 15 accounts will be closed in the following quarters, and we don't want to be in that business. So the qualification of our accounts and new logos are very strong now. And we believe these are good medium longer-term accounts where we see

downstream business and our ability to take the entire Mastek suite of service lines and offerings to them. So even in our Middle East and AMEA business the margin profiles will go up. There will be some of these collection issues, which we've had in the past, which we're taking steps on. So that's as far as the AMEA business is concerned.

On the U.K. public sector and U.K. business overall does operate at a very healthy margin. We're looking at the geography for closing some larger deals in the coming quarters. There is a couple of competitors very large MNC competitors who are not doing so well in that geography. So we have a good medium to longer-term opportunity to target market share grab. So I think the combination of these 3 kind of strategies in the various regions will evolve over the next few quarters where our margin profile should get more healthy. The leverage should be much better as well as we are running this program like I said, where we continue to find innovative ways to delayer our organization, create some more efficiencies internally not just in the delivery of software development lifecycle. But even in our processes so that we can continue to reinvest and repurpose into AI, into account mining, into large deals. So that's how we sort of are looking at this journey, Nilesh.

Nilesh Jethani:

Okay. Because question actually was, say at USD 100 million U.S. run rate today, we expect say, give and take it grow at the company level or slightly higher in U.S. in this year and we would be able to reach at least double-digit margins in U.S. So going ahead, say from FY'26, FY'27 perspective if you continue to grow at, say 10%, 15%, 20% in U.S., so the incremental flow-through of those incremental revenue will fall into EBIT or will continue to deploy that?

So are we looking at U.S. margins in isolation and want to drive that maybe towards the company level from 10%-odd aspiration by the year-end is that the thought process? Because U.S. is a big picture for us. As far as Mastek is concerned driving higher growth in U.S. will drive operating leverage, et cetera but also need to understand whether that will help us to drive margins for the company level itself?

Hiral Chandrana:

So, we definitely want to get the U.S. margins closer to the company level. Like you rightly said we should be able to get into double digits in this coming quarter and in the H2 time frame. But in FY'26 and beyond; we'll always prioritize growth in the U.S. market because I think the opportunity untapped is still pretty high. But our margin profile needs to be a lot more closer to the company level. It might be a couple of percentage points lower, let's say in the 15% of the range. But we'll get to a much stronger business mix as well as profile in FY'26.

Nilesh Jethani:

Got it. And one last question from my side. In Q4, we got selected as a key supplier for U.K. defense department. The deal value was 1.2 billion GBP for that department itself the opportunity. Just wanted to understand what could be opportunity for Mastek A; and has the ramp-up begin? And what to expect from FY'25 or '26 perspective the numbers into top line from this deal itself?

Hiral Chandrana:

We have actually communicated this in a couple of other forums where the different lots that were awarded and the 2 specific lots where Mastek in one case is a prime, in one case is a sub.

The total opportunity size for Mastek, of course we still have to go through the process and go through the win or adjudication process and have those in. But the total opportunity over the next 4 years is in the range of about 50 million from that particular win. Like I said, there's always pros and cons of the elections being happening earlier. There were some good advantages.

But one of the things that happened is that the ramp-up on that was definitely paused in the last 2 months. And now we are seeing that is starting to open up. So we see the defense and the ramp-up from the wins that we had there, starting in August ramp-up, the actual impact in FY'25 is not going to be that significant, but there will definitely be some incremental impact in H2 in terms of revenue and it will start to pick up even more in the next 2 years.

Nilesh Jethani: Thank you so much, for answering all the question.

Moderator: The next question is from Saket Souradh, from individual investor. Please go ahead.

Saket Souradh: So yes, based on the Q4 con-call, so we had outlined 2 things. One, the margin part, which I think now we have scaled it down, right, from 17% to be maybe more around 16.5%, that too in H2. But as far as revenue aspiration is concerned, we had stated that the growth for FY'25 would be higher than what we achieved in, last financial year, which was, I think, 16%-17% kind of a range.

So based on the order deferment and all those things that we have just outlined, so how confident are we of, say, doing better on top line growth perspective? Do you have any adjustment on that front as well?

Arun Agarwal: As we mentioned, that there were one-timers, so as a pattern, we still hold our statement. We want to be operating closer to 17%, as I mentioned. So there was an impact in Q1. As you will see continuous improvement in quarter 2, we'll be improving further the margin profile. And in H2, we'll come back to 17% kind of the range is what we are looking for. And thereafter, that is what will get reflected into the margin profile of the company as we enter FY'26.

Hiral Chandrana: And Saket, on the top line and revenue, I already mentioned, we're pleased with the quarter-on-quarter Q1 growth. We feel that the healthy kind of top line revenue momentum will continue. We have some good growth in the pipeline that has happened in the last few quarters, and we believe that, conversion to order book and then, of course, conversion to revenue. While there is going to be continued delays in decisions, but we feel that the top line momentum of what we delivered in Q1 can be sustained in the following projects.

Saket Souradh: Now coming to the recent change in the U.K. government. I know you alluded to that in the earlier queries. But do you expect any further delay in decision-making and especially on the NHS front, I think, which used to be our bread and butter, but has seen some bit of softness for the last, say, 12 months to 18 months. So any color on these 2 aspects. Overall decision-making from the government aspect and do you see NHS coming back to the growth?

Hiral Chandrana: So firstly, I think next few weeks, particularly August tends to be a little bit of a holiday period. But as the new government is taking charge and settling down, we feel there'll be a lot more clarity on decisions on budgets. We're seeing early signs already on, for example, in the revenue and customs department, there were a couple of deals that were paused 6 months back. We were hopeful 6 months back on some of the deals that got paused as a result of election period, and now they are coming back up, in terms of the process. So we're already seeing some early signs in those decisions and clarity of the process of some of those opportunities.

As far as NHS is concerned, like you rightly mentioned, we had an impact in the last 2 years as a result of NHS, but we also communicated in the last quarter that it has bottomed out for us. And now with the U.K. elections already behind us, we see some really good green shoots there. There are two specific deals that if some of you might recall that we actually had won last year, but we could not ramp-up because those programs were put on pause. One was in collection, second was in pathways and both those have gotten rejuvenated, although it's in a slightly different size and scale, but we're back up there having conversations of how we re-engage in those.

So NHS, we've also sort of raised our profile with multiple stakeholders across different departments. Our dependency was very high in the past with NHS digital after the reorganization happened last year and the consolidation under NHS, England. We now have 8 to 10 different stakeholders, new stakeholders that our team has done a fantastic job in building relationships over the last 6 months. Plus, we're also looking at sort of the arm's length bodies and the integrated care units, which include many of the NHS trusts where the spend happens. So to us, that's a gradual but evolving positive story, where I think NHS will be on a growth path going forward.

Saket Souradh: Thanks, for the replies and best of luck for the upcoming quarters.

Hiral Chandrana: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Hiral Chandrana: So once again, thanks for the engaging questions, your trust in Mastek. Hopefully, our response has provided more clarity on not just the current state and quarter, but also some of the initiatives and priorities that we are focused on and outlook for the future. I want to maybe close with 2 or 3 comments.

One is, we're very excited about our umbrella brand called iConnix, which is what we launched and announced a few weeks back. iConnix is our GenAI portfolio of offerings. While we've talked about only a few solutions around NVIDIA, around some of the Healthcare and retail use cases, but we're also working on some horizontal platforms. For example, our partnership with Microsoft in this solution called InfoGENius as well as our partnership with Oracle in our solution for HCM called TalentGenius. So, these are examples of conversational interfaces as well as GenAI solutions that we are building on these leading platforms. So overall, the industry

is starting to kind of get a grip around how this entire ROI will evolve around GenAI. And over the next few years, this is a USD 200 billion industry. We feel very excited that our positioning and differentiated approach which is lot more around platform thinking and industry-specific use cases is going to change not just our business mix, but also in terms of how we elevate our profile with customers.

The second is, the 4 strategic priorities that we've communicated, we'll continue to stay focused on that. Our public sector central government business in U.K. our Healthcare business in U.S. powered by Oracle Cloud and Salesforce, our data and AI business globally and our overall top 30 accounts. While we talk about our top 30 accounts, there are 20 additional accounts where we're starting to see some good traction. So overall, account mining story and cross-selling and much more deliberate profile of customers that we pick in terms of new logos as well.

And lastly, I understand with the Q1 numbers, there is a drop in operating EBITDA, but we feel this onetime impact plus some of the resources that we had held on will be positive for us from a revenue perspective going forward. And with the momentum that we have across all 3 geographies, including AMEA, U.K. Europe as well as U.S. our growth momentum can be sustained in the coming quarters. So with that, thank you, everyone, for your participation and look forward to future interactions. Thank you.

Moderator:

On behalf of Mastek Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.