



“Mastek Limited  
Q2 FY'25 Earnings Conference Call”  
October 18, 2024



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

**Moderator:** Ladies and gentlemen, good day, and welcome to the Mastek Limited Q2 FY'25 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 the conference over to Ms. Asha Gupta from E&Y. Thank you, and over to you, ma'am.

**Asha Gupta:** Thank you, Ms. Sejal. Good day to all of you. Welcome to the Q2 FY'25 Earnings Call of Mastek Limited. The results and presentation have already been mailed to you, and you can also view it on our website, [www.mastek.com](http://www.mastek.com).

To take us through the results today and to answer your questions, we have the top management of Mastek represented by Umang Nahata, CEO, and Arun Agarwal, CFO. Umang will start the call with a business update, which will be followed by Arun, providing the financial update for the quarter. Post that, we will open the floor for Q&A session.

As usual, I would like to remind you that anything that is said on this call that reflects any outlook for the future or which can be construed as 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 Umang Nahata. Over to you, Umang.

**Umang Nahata:** Thank you, Asha. Good afternoon and good evening to everyone. Welcome to the quarterly results call for Mastek Limited for the Q2 performance. I'll cover a few broad topics today. I'll take you through the overall performance of Mastek for this quarter. We'll then also talk about how we are faring on some of our key strategic priorities and then would give some directional input on where we see the market trending and moving forward. After that, Arun will take you through more details of our financial performance. And then, of course, we'll go through a Q&A round of answering your questions as far as possible.

On an overall basis, I think this was a very good quarter for us. We've had 6.7% quarter-on-quarter growth and also a healthy improvement in our EBITDA performance compared to the previous quarter. We continue to be cautiously optimistic as we step into the rest of the year and step into H2. Taking that down into some of our strategic markets on how the performance has been, I'll start with U.K. and Europe, which is our most important and largest market. U.K. continues to be resilient and growing for us in this quarter. As the new labour government starts taking hold of the business and making some more clarity in terms of their direction and execution, we're starting to see some important flow down to our business. For example, the health care investment of the government, which is now much more stronger and directional is very positively impacting our business. We are helping the government on a few very important deals that we saw in this quarter, both in terms of helping them with prevention of health care as

well as helping in collection of data and analysing that for providing better health care solutions. Our secured government services business continues to be stable and resilient, and we see steady growth in that portion of the business too. We are cautiously optimistic about the market as the government enters into this next phase of planning and budgeting and we feel confident that it should be a cautiously positive market going forward.

Talking about North America. We are really delighted with the performance in North America. We saw 18% quarter-over-quarter growth in North America. This has been backed by healthy performance across all our sectors and which is Oracle, Salesforce, Data and including healthcare and all the other commercial verticals that we focus on. We continue to see good traction in healthcare in North America. Again, in this quarter, we added a few new really important logos. We added another significant not-for-profit health care provider, which is known as one of the most innovative health care providers in the region, and we are doing a turnkey program for them. Our account mining strategy in North America continues to be a key focus for us, and we're seeing good cross service line growth in a few of our accounts wherein we are moving swimlanes from one service line to the other, and our capability expansion that we have been doing over the last year and half is now starting to really help with the account mining business that we had in North America.

As far as our APAC and Middle East business is concerned, as suggested earlier, we are really shaping up our focus and priority. Australia continues to be one of our key big bets in that market, and we are seeing good traction there. Again, we saw some really important new logos closed in this quarter, especially around local government and health care and the ports business in Australia. In the long run, we think, and we look forward to Australia to grow and become a significant portion of our business.

On an overall basis, all service lines continue to deliver and starting to execute well. Gen AI is a very important part of our strategy as we had been explaining earlier. We're currently looking at our AI strategy in three broad buckets. The first bucket is around delivering efficiencies and quality improvement on all the services that we offer, which is starting from Digital to Oracle to Salesforce and Data. We are making some serious investments in terms of resources and capabilities to really upgrade our skills there, including training and tooling and partnerships, and we really would love to take that kind of efficiency back to our market very soon.

The second pillar is around development of Gen AI-led applications on our icxPro platform, it continues to evolve, and we have new cases, we have use cases that we have updated on that platform. We are running quite a few POCs with our customers, and we hope as we get into the next two quarters, we'll start seeing some revenue flow from these new applications or use cases that we are doing. The third important pillar that we have now started, and we are really excited about it is based or backed on the NVIDIA partnership that we had announced last quarter. We're now working on developing an enterprise AI solution, which will create a platform AI which is specific to clients and could be used for developing multiple use cases and applications, which will allow them to automate their business. Again, it is in the development stage. Currently,

we're working closely with our innovation team as well as working closely with NVIDIA to put that solution together.

We have had initial discussions with some customers, and we are hoping to take it to market by Q4. So, AI continues to be front and focus of all of our next-generation developments and we will look at making significant investments and directionally shifting our business to AI-led solutioning and AI-led delivery.

On an overall basis, the market continues to be cautiously optimistic. We have some important global events happening, the elections in North America, the U.K. going through their strategic directions and priority finalization. And of course, there is some unrest in the Middle East market. So, we are very closely monitoring and observing the geopolitical changes. We currently don't see any direct impact to our business in any of these geographies. However, like I said, we are cautiously optimistic and very closely observing the developments that are happening in various parts of the world.

With that, I would like to hand over the call to Arun to share more details on the financial performance of the company.

**Arun Agarwal:**

Thanks, Umang. Wishing you all a very good day. Good morning, good afternoon, good evening, depending upon which part of the geography you are in. While detailed presentation has been already shared, I will cover key financial highlights for the quarter. We reported revenue of INR 867 crores for the quarter, which is up by 6.7% quarter-on-quarter, and 13.3% year-on-year. This reflects into quarter-on-quarter constant currency growth of 4.7%.

As Umang mentioned, we are delighted with our performance across Americas, U.K., and European market as they continue to be not only resilient, but they're also driving the growth, whether you look into from quarter-on-quarter or from a year-on-year perspective. We continue to win and onboard new customers, again, across the geography. During the quarter, we have onboarded 14 new customers, and consequently, our 12-month order backlog grew by 17.9% year-on-year. On a quarter-on-quarter terms, it's a marginal increase of 1.2% in INR terms, broadly flat when you see on a constant currency basis.

Our operating EBITDA for the quarter was at 16.5%, showing an improvement of 125 bps quarter-on-quarter. Kindly note this is after taking the partial impact of wage hike, which we have done for certain grades in the mid of this quarter. The full-scale wage hike as we said earlier, will be done effective Q3, but there was an impact which has been absorbed into the reported numbers. Obviously, there is some support, which we have got from the currency as the GBP was stronger versus dollar in the current quarter.

Our profit after tax for the quarter was at INR 128.7 crores versus INR 71.5 crores in the previous quarter. There are two reasons why the PAT has gone up. One, obviously, the operating EBITDA expansion has been reflected into our profitability. However, at the same time, we have certain exceptional gains in the current quarter which is partially offset by the old goodwill impairment,

which has happened. But both put together still giving some additional income in the current quarter, both getting reflected into a profit after tax of INR 128.7 crores.

Our gross cash for the quarter was at INR 390.5 crores. Kindly note during the quarter, we have distributed dividend for last financial year to all our shareholders. And also, we have discharged all the loan instalments as they were due during the quarter. During the quarter, our DSO got expanded to 95 days versus 92 days. This was predominantly due to certain expected collections getting right shifted. We don't see any challenge. And in Q3 to Q4, we'll be able to further improve the DSO profile of the company.

Borrowing as of 30th September stood at INR 643.6 crores. There is an increase of approximate USD 24mn to USD 25mn during the quarter as we had to borrow money for the payout of earnouts relating to MST acquisition. It was the only one amount which has been discharged. And now Mastek owns the Salesforce MST business completely and there is no further payout, which is expected in the future quarters.

Our closing headcount was 5,505. There is a marginal decline from 5,546 in the previous quarter. Our utilization was at 85.6% adjusted for leave which is marginal decline of 90 bps quarter-on-quarter. Our focus continues to be driving growth, and that is of paramount importance. U.S. recovery has been taken very positively, and we believe we'll continue to build on it. U.K. and Europe, as Umang mentioned, continue to be steady and driving the consistent growth both quarter-on-quarter and year-on-year. Keeping all profile of the company together and focusing upon the strategy execution, we are very, very positive as we grow in the coming quarters and the coming years to build on top of it.

Thanks for your time and support and your continued trust in Mastek. Going back to the moderator and opening the house for Q&A.

**Moderator:** The first question is from the line of Jalaj from Svan Investments.

**Jalaj:** Congrats on a very good set of numbers. The first question is relating to the U.S. market and we can definitely see some recovery there, 18% sequential growth. But if I see Y-o-Y growth, it is still at 11%. So just wanted to get some sense that the growth that we are seeing in the U.S. market, how much of that number is sustainable? How much of that is coming from macro tailwind? How much of it is because of the efforts that we have taken for last several quarters? So just wanted to get some sense there.

**Umang Nahata:** Jalaj, this is Umang here. Thank you for your compliments. So the U.S. growth, like you rightly said, we've had a good Q-o-Q growth and at a Y-o-Y level, we're still at a steady level from where we are. The key indicators for the growth, I would say, is largely based on the hard work that we have put in over the last 6 to 8 quarters. Like we had mentioned in our previous calls that we had some right shifting of a few deals and a few deals had got delayed in terms of start, as we got that into action on all of those transactions as well as there is new momentum that we see in the market.

So, both of those have helped us come back with a healthy growth. This was a growth rate that we generally expected for the U.S. to grow. The macro is a positive sign. We haven't seen any direct impact of the Fed rate cuts on our business yet. But in general, the sentiment in the market looks to be positive as compared to where it was earlier.

**Jalaj:** Okay. So, basically why I was asking this macro-related question is our dependence on Oracle or Salesforce kind of business where the public related business or the discretionary dependence is very, very high. So obviously, we'll be getting the early mover advantage there when macro business comes in. So, do you see that happening? Or it is basically more to do with the efforts that we have put in on the top of the macro tailwind that we see?

**Umang Nahata:** While Oracle and Salesforce continue to be our important service lines for our North America business, our business is actually a lot dependent on our large installed base also. So account mining is a key part of our strategy, trying to upsell and grow into the accounts that you already have, and we have a really good set of accounts, we are a very fractional portion of their spending budget. So, our focus is on growing the accounts from that particular portion.

Having said that, we are continuously focused on generating net new business working with Oracle and with Salesforce. And I mean, we are optimistic that as the market improves, we'll start seeing more positive deal flow from Oracle and from Salesforce.

**Jalaj:** The second question is related to UK business. I divide U.K. in two parts. Obviously, our bread-and-butter government business there, which we have seen some kind of slowdown in this quarter. So first question related to that, whether it is more seasonal in nature and we are expecting recovery going forward?

And second question is U.K. private market, if you see that for last 6-7 quarters, that's a market which was kind of struggling for us. But last quarter also, we have seen the initial signs of recovery. This quarter, it was a blockbuster quarter seems to be U.K. private market or Europe private market. So, if you can give us some direction on both U.K. Government and Europe private market, what is happening on the U.K. side?

**Umang Nahata:** Sure, Jalaj. So, I think your observations are right. Our U.K. secured government services business continues to be steady and resilient. We saw a decent 5% quarter-over-quarter growth in that particular sector. Having said that, like I said earlier, we have a steady base business, but we're also trying to closely monitor the government initiatives and what kind of directional flow will it have. And we are cautiously optimistic that it will drive more in our UK secured government businesses as the policies take more firm shape and the government spend directions become more clear.

As far as the private sector is concerned, again, your observations are very right. It's a sector that we have been putting in a lot of efforts over the last few years. And as you see, these efforts are now starting to materialize. As we expand our capabilities from digital to Oracle, Salesforce Data, we're seeing much more pickup across service lines. We've got new businesses in our Data capabilities, and we continue to see good momentum in Oracle and other capabilities that we

have. So, the accounts that we had and the new accounts that we've added, as we offer them more broader services is really helping generate better traction within the private sector.

**Jalaj:** One last question, if I may have. If I see our number of clients and new client additions. Although it's part of our strategy, there is a significant reduction quarter-after-quarter we have seen. So last year same time, we had around 440 clients which have come down around 380 today. Do you think that it has kind of settled at the current level, we are happy with the number of clients that we have today or we see further kind of reduction there?

**Umang Nahata:** Again, good observation, Jalaj. Like I've have been mentioning earlier, it has been a part of our strategy to start reducing the number of accounts, the tail accounts especially, and really focusing on the accounts that we have that we really want to go deep and expand our portfolio in. And as we grew our capabilities, we really wanted to go deep in some of the top accounts. And so, account mining has been a key part of our strategy. So, the reduction in the number of new client additions as well as the overall accounts that we service is a very thoughtful and strategic move that we have made.

We still see some more reduction in accounts, especially in the AMEA region, where we continue to have still a pretty long tail. So we would be making some more reductions in the AMEA region in terms of the number of small accounts or non-priority accounts that we have. Our broad intention and direction is to have a healthy set of accounts and deliver phenomenal end-to-end services to them, and we continue to move in that direction.

**Jalaj:** From your comments, it seems to be that you are pretty comfortable from the growth level from the developed markets and you don't need to get back into the Middle East market where our debtor days get stretched because of new businesses there. So, is my understanding correct that U.S. and U.K. market growth would be sufficient enough for us that our debtor days and unbilled revenue will remain under control for next 2-3 quarters at least?

**Umang Nahata:** Jalaj, I think the way we are looking at this is Middle East and APAC is an important market. We have a strong dominant position. However, the kind of business that we do in the market is where we are really trying to zero-down on. We definitely want to bring down our DSOs and improve our cash flow and collection in the market so which is where we are looking at the right set of customers and the right set of verticals. So there is going to be further focus in terms of the kind of business that we want to do.

Having said that, we continue to want to grow in Middle East and APAC, but our growth has to be more systematic and in structured verticals and accounts that we want to do. So it's going to be more targeted growth that we are going to look at rather than just by adding more customers that we used to do long back.

**Moderator:** The next question is from the line of Hasmukh from Tata Mutual Fund.

**Hasmukh:** Congratulations on a great set of numbers. So, I have a few questions. Firstly on order backlog. So, if you could elaborate on the order backlog in terms of tenure of these deals or what are the

areas where we have won major deals? And with the UK reviving, do you think 11% CC sort of growth can move to mid- to high teens?

**Arun Agarwal:**

Thanks for the question. The order backlog report is 12 months order backlog. All of these are going to be executed in the next 12 months. So that is what the number is reported. Obviously, our total order backlog is much larger than the numbers which you see as a reported one. So, whilst the U.K. growth is considered, as Umang mentioned previously as well, that's very steady market for us. We are seeing the traction, we believe we'll continue to grow. It's about the new government settling down, then the new projects will start coming in, which we are waiting for, while we have seen NHS traction already building up.

So, a lot of good deal momentum we have seen already coming up in the health because that was one of the stated agenda of the government, and that's what is happening. So we are just waiting for the policy finalization, their budget releases, and we are confident that more and more deals will be there for us to grab.

**Hasmukh:**

Secondly, on the employee count, despite strong growth or strong order book with utilization nearly at 85%-86%, why the employee count declined? And if you could give some sense around how the employee addition or strategy around that would be in the near future for you?

**Arun Agarwal:**

So employee count is very, very important for us. Still, if you notice, we are having 84%-85% kind of a utilization and we have maxed out. That's what we have stated in the past. Considering we are also focusing upon the quality of earnings. So there is a balance, which has been managed internally very effectively in terms of the growth and also, in terms of the headcount, which you have to keep in advance in terms of your bench.

So, I think it's much more actively managed bench as we speak. Obviously, there will be more headcount addition as we go down the quarters as the growth is getting reflected, and we will not have sufficient bench to fulfil them. But currently, we don't see any risk to our revenue realization because depending upon service line, depending upon geographies, we are keeping the right bench as may be required.

**Hasmukh:**

So, in that sense, what are the other levers in terms of margin for you considering higher utilization, et cetera, which can help you to, get back to EBITDA margins of 17%-18%?

**Arun Agarwal:**

As we have stated earlier, in past as well, our margin expansion utilization was a lever which was utilized already, but there are a lot of subcontractor mix change. The other operating levers like Onshore/Offshore. As you are moving into more commercial section, as our U.S. growth comes and margin expansion will happen because a lot of investment has already gone into SG&A and driving the growth out there, so when you grow, you will not make same proportionate investments. You would have seen U.S. margin already improving quarter-on-quarter, and our stated objective has been to improve margin further there. There are multiple combination, obviously grade mix, using more freshers versus how this combination stays, Umang spoke about the AI. How can we drive more delivery led improvement based on the AI



and hence, you can pass on something to customers, something will help you to further improve the margins.

So, there are multiple levers which we are working on. And we feel comfortable where we are in the coming journey that we will maintain the margin profile.

**Moderator:** The next question is from the line of Ravi Naredi from Naredi Investments.

**Ravi Naredi:** Any new Managing Director is likely to join the company?

**Umang Nahata:** Ravi, are you talking about the new CEO or the new Managing Director?

**Ravi Naredi:** New CEO.

**Umang Nahata:** So yes, like we had mentioned earlier, our search for a new CEO is on, and we are following the process. It's currently ongoing as we speak.

**Ravi Naredi:** Okay. And sir, what are the main reasons for rise in net profit, almost 600 basis points? And is it sustainable for next two quarters?

**Arun Agarwal:** So, there are two things, Ravi. One thing is the expansion of operating EBITDA, which is sustainable, rather, we expect it to further improve as we get into Q4 and onwards. But there is one exceptional item, which is also there in the reported numbers. And this is a separate line which we have given so that it can be identified separately. That is not repeatable. That is one time.

And that happens from whenever you make earnout and other payments, if your liability accrual was much more than what actually payout has happened and the differential actually gets into the P&L, right? So those are definitely not repeatable. But you will see consistency as our endeavour is to consistently deliver both top-line and bottom-line growth. So, we expect it to be moving into that direction.

**Moderator:** The next question is from the line of Yash from Stallion Asset.

**Yash:** I just want to know if you have got any guidance in your constant currency revenue growth for this year.

**Umang Nahata:** Hi Yash. As you know, we don't provide any guidance. Like I mentioned earlier, we see the market as cautiously optimistic. While also the next quarter is the quarter of furlough, so we are continuously working towards delivering consistent growth. But having said that, there are the furlough quarter as well as some caution from broad macro parameters that we are cautious of.

**Moderator:** The next question is from the line of Amit Chandra from HDFC Securities.

**Amit Chandra:** Sir, you mentioned about the recovery in the NHS program, the healthcare program in the U.K. geography. If you can elaborate more on that, so what's happening? Are we at a start of the recovery or still the recovery has been there in this quarter? And also in the order book, is there

a component of the deal from the NHS and also in terms of the integration that was happening in the various department of NHS and obviously, the new government focus has been on enhancing the healthcare there in the U.K. So how do we see it, whether it is revival of the deals that we have won earlier or is it a total new deal that is being awarded specific to NHS?

**Umang Nahata:**

Yes. Great set of questions. So, the current NHS business that you're seeing, some of them is from the revival of the old contract that we had, so new SOWs signed in the contracts that we had signed earlier. Having said that, the broad direction of the government of improving healthcare via preventions, improving healthcare by using digital ways and means for better scheduling of patients improving just the digital healthcare initiatives overall is very, very pertinent.

And we see that direction of travel to continue. Like I said, it's just the start of the journey. We are definitely very keen and optimistic about the healthcare vertical in general and especially the U.K. healthcare as the initiatives start taking shape. Like I mentioned, we've already got some of these old long-standing contracts now fructifying and we see a healthy pipeline of new business that we look forward to execute in the coming quarters.

**Amit Chandra:**

On the recent deal win that we had on the defence side wherein the expectations was that it will add around USD 30mn to USD 40mn over a period of 3 years. So, are we already building in that in terms of run rate in this quarter and also in terms of order book, is it there in the order book in the 12-month executed order book that we have?

**Umang Nahata:**

The output of these orders that we have won definitely is reflecting in the 12-month backlog that we are showcasing to you right now. Most of the healthcare orders that we have received are annualized orders for now. So, these are trying to close out the old contracts that were already open. The renewals as well as net new contracts are things that we are looking forward in the coming two quarters. But currently, this is more close out of what was already opened and like I said, is reflected in our 12-month backlog.

**Amit Chandra:**

Okay. And also the strong recovery that we had in the U.S. geography, what gives us the confidence that we will continue in terms of the growth journey there? Was the growth that we had in this quarter a result of net new deals ramping up? Or it was more of the revival of the older deals, which were into stagnation and some of the deals with issues with some clients also reviving. So how you want to dissect the U.S. growth, which gives us the confidence that the growth will continue. It's not like volatile as it used to be in the past?

**Umang Nahata:**

North America business that we see is a combination of all the three that you mentioned. There definitely was execution on some of the deals that we had won but were delayed in terms of start. So, a portion of that comes back from there. There also continues to be net new wins, which had quick ramp-ups, and that also helped delivering growth in this quarter, and we continue to see those ramp-ups help in the coming quarters.

But the broad theme is we are seeing the capabilities that we have across Oracle, Data, Salesforce and Digital. The North America business is starting to shape well in terms of the overall

capabilities that we have and the clients start recognizing us across capabilities. And that is the primary theme of growth that we are looking forward to, which is what we have been building over the years. And now we are seeing that kind of direction of travel in North America. But for this particular quarter, it was all the two and we are, like I said, cautiously optimistic of continuing to grow over the several quarters.

**Moderator:** The next question is from the line of Dipesh from Emkay Global.

**Dipesh:** Two questions. First about the North America growth trajectory. It seems North America has a peculiar seasonality in Q2, where Q2 is very strong. Can you help us understand what led to this kind of peculiar seasonality in Q2 in North America for us? Second question is about the cash flow generation. Cash flow generation is fairly weak this first half. So, if you can help us understand what led to weakened cash conversion in H1.

**Umang Nahata:** Sure, Dipesh. I'll take the first question, and then Arun will help you on the second part of the answer. As far as the North America business is concerned, we don't see this as any kind of seasonality impact to our business. It is like I had mentioned earlier, we had deals and there were some right-shifting of deals which we had won or which we were likely to win, but couldn't start in time. So many of those blips that we had earlier have now come back to strengthen in the execution mode on those transactions, as well as the net new customers that we look forward to continue to win and fire across service lines. I think it's a much more balanced portfolio across service lines that is allowing us to shape in these quarters. So, I don't see any seasonality pattern in our North America's performance for this quarter.

**Arun Agarwal:** On the cash flow part, your observation is right, Dipesh. H1 operating cash flow generation is lower than our expectation. And there's a seasonality as well to that because most of your annual payouts get paid out in Q1, like our variable pay, we do pay out in the month of May. So those are significant payouts happening at the company level, which definitely impact the overall operating cash flow.

But as you move into Q2, Q3 and Q4, you start improving those percentage income closer to the company average. So, we are very confident you will see consistent improvement in Q3 and Q4 and the full year basis, this will be brought in line with the expectation.

**Moderator:** The next question is from the line of Ravi Menon from Macquarie.

**Ravi Menon:** Congrats on a really good quarter. I wanted to understand here on the things like not too much of change in our costs at all. It just seems to be driven by operating leverage. So, the margin, can we continue to improve those towards 17%? Do you have some sort of time frame in mind about that? And what sort of impact are you expecting from the wage hikes next quarter?

**Arun Agarwal:** So Ravi, as we have stated, we want to operate closer to 17%, 17% plus, and that has been our endeavour. 16.5% is the reflection in that particular direction. Wage hike, as you rightly said, we have done partially this quarter and the full quarter impact will be in Q3, which will take the full quarter impact. So, we believe quarter-on-quarter 120 to 130 bps impact will come. But

there are multiple levers on which we are working upon. And we believe we'll be able to absorb a significant portion of that and continue to reflect good margin profile in Q3 and Q4.

**Ravi Menon:** And the attrition at 20%, it's materially higher compared to our peer group and do you have any goal of bringing this down? Or are you comfortable with this and this is the sort of attrition that we've had historically as a firm, and we think we can manage with where we utilizing this currently?

**Umang Nahata:** Yes. Ravi, this is Umang here. I think attrition is a concern for us. It is definitely much higher than what we would really like it to be. We've gone through some deep dive into some root cause understandings. We've also looked at some corrections in terms of our process, in terms of the wage hike that have recently gone out and the other balancing factors that we could put into play. Our target and ambition is to be industry-leading as far as our attrition and ESAT scores are also concerned. However, this will take us a few more quarters before we really drive the full impact of change that we want to make. And currently, there are a few pointed areas that needs more attention and we are carefully looking at it and making decisions as we go along.

**Ravi Menon:** Just a suggestion that how you guys report the financials, it would be great if you could show the breakup between direct costs and SG&A because that will allow us to clearly see the gross margin versus where we have operating leverage as we scale up our account mining.

**Arun Agarwal:** That's a fair feedback, Ravi. Allow us some time, we will definitely reflect upon it and we'll start publishing at the right time. But that's a fair observation.

**Moderator:** The next question is from the line of Aayush Rastogi from B&K Securities.

**Aayush Rastogi:** So a couple of questions. First is for Umang. Definitely, if we see your commentary that you are a bit of the cautiously optimistic about growth in the next half, which is 2H. But if we see the order backlog, pipeline that we have, it currently stands at all-time high. So, are we like hinting that there would be a lot more furloughs than the last year? Or is it like are we seeing any kind of delays in the ramp-ups or some sign of slippages in the same?

**Umang Nahata:** We don't necessarily see any abnormality in the furloughs that we're going to have this year. It's going to be the usual furlough that we have every year. So, furlough, I don't think is any concern to us. As far as being cautiously optimistic is concerned is looking at a variety of macro as well as internal factors. Like I said, we are still going through the UK government finalizing their budgets and their plans. So that's an important indicator and observation for us. The U.S. is going to go through elections in this quarter. So that's another important macro factor that we are wanting to look at and observe. So, it's more macro-driven caution that we currently see in our business. And sometimes, these macro can push out deal signings as well as start of the programs. We've seen that in the past. So that's the reason for being cautious here. But in general, like I said, we feel optimistic but with a degree of macro caution.

**Aayush Rastogi:** My next question is for Arun. If you can just walk us through how puts and takes for the margin expansion that we have shown in this quarter. And also, if you can guide us like how are we

eyeing for the trajectory for the going forward, because if you see the ask rate becomes high for that 4Q to reach almost the midpoint of the guidance that we have. So what are the puts and takes for this?

**Arun Agarwal:**

As we had mentioned, I think we are moving in the right direction. In the last call as well, we have mentioned that Q2 will bounce back because there were certain one-timers which hit us. That's one. And second, obviously, operating leverages we are looking into the business profile and bringing them up as and when it becomes possible.

So, I think that's continuously going to be executed. And you will see the consistent margin expansion from here. Obviously, Q4 is something which is very critical because Q3 will have some impact of furlough, the wage hike, the full quarter impact, which we are going to do. But there are a lot of operating levers we are working upon, and we feel very confident that we will maintain to improve from here. And that's the endeavour we are working with internally.

**Aayush Rastogi:**

If you can just walk me through what has led to the margin expansion in terms of quantification like because currency has been a very big beneficiary for us. So how much of the benefit has come and led to the margin expansion? And what was the margin impact from the wage hike that they had provided in this one?

**Arun Agarwal:**

At a broad level, roughly 50 bps is an impact of the wage hike in the current quarter, and currency would have given the similar range, 50 to 60 bps because we have significant onshore as well and the kind of business model, the company model, which we have set up is we don't sign deals from India, most of the companies which we have in the geographies are the prime face and hence, we run a little differently. So the currency benefit is broadly in the similar range. So what you see is reflected into the numbers are the operating levers, which finally played out and helped us deliver the numbers for the quarter.

**Aayush Rastogi:**

And just a last question again on margins. So definitely, it has been a very good quarter in terms of expansion of North America margins. So how do we see the sustainability of this margin going forward? Like what is the trajectory are we eyeing for, coupled with if you can just guide us what will be the margin levels and the headwinds that we are expecting it from expansion of the North American region margins specifically?

**Arun Agarwal:**

That's on a very good observation, Aayush. We have said historically as well, as North America is coming back to the growth, the kind of investments we have made into the geography will help us to get into expansion of margin profile in the geography. And the same is the reflection, as the growth is coming you can see there's an expansion which is happening. Our endeavour is to get into double digit in the coming quarters. By the time we end this year, we want to be in mid-teens at least. That's the target we are running with. There could be some plus and minus, but that's the direction of travel you will witness as we perform Q3 and Q4.

**Moderator:**

The next follow-up question is from the line of Jalaj from Svan Investments.

- Jalaj:** I wanted to dig a little deeper into the margins again. So, you see there has been a majority shift has been in the margin that comes from the lower other expenses. So could you help us understand if these numbers as a percentage of revenue, should we understand that these are going to stay stable at these levels either as a percentage of revenue or as other expenses in absolute terms? Could you please guide us about it?
- Arun Agarwal:** That's again, good observation, Jalaj. The other expenses has one component, which is subcontractors, which is, again, depending upon whether you're hiring employee or you're hiring subcontractor, they may swing sometimes. So the exact percentage of revenue may not work. But broadly, yes, you can see there are a lot of other semi-variable expenses are also part of it, which is your facility and other costs, which gets into doesn't increase proportionately. There are both combinations. There can be swing on both sides. But broadly, as you can assume, there are no significant one-timers, which are included into it. So, it gives a good representation of cost as a percentage to revenue.
- Jalaj:** And secondly, on the margin guidance, maybe I'll combine two questions. With guidance of 17% to 18% EBITDA margin, when do we believe or let's assume it is an aspiration also what timeline are we thinking in terms of let's say we achieve it, what will be the assumption which would be required for it to achieve it earlier, if you would say?
- Arun Agarwal:** So again, as we said, that we endeavour 17% to 18%. And you can see the direction, we have already delivered 16.5%. And as I mentioned in my previous comments, you will see consistent improvement. Obviously Q3, we need to watch for considering the wage hike and furlough. But as you get into Q4 you will see the direction is coming in the line of sight.
- Jalaj:** As you mentioned that there would be an impact of almost 130 bps due to the complete wage hike which would be taken in next quarter. So what are your expectations and what is possibility would we be able to negate the impact from this headwind which we would have from 130 bps on the wage hikes?
- Arun Agarwal:** Our endeavour is we want to maintain the margin profile, Jalaj. Obviously, we are looking into lot of operating levers to offset the impact of it. We don't want to reduce our EBITDA profile, but we have to watch for. Lot of work has to happen between now and December, including the revenue profiling which we are working upon. But our endeavour is not to reduce the operating EBITDA profile, but rather maintain to improve it.
- Jalaj:** And then where are we on our terms of the large deals foray which has been the agenda for quite a longer period of time. Where are we on it right now? And what sort of pipeline or traction are we seeing there?
- Umang Nahata:** Yes. Jalaj, I think the large deal continues to be a key part of our initiatives. As we speak we are still building up our AI proposition or efficiency-driven AI proposition is adding to the services that we already have. We have a few very active discussions, but it will be hard to comment on timelines today. Like I said, the focus is there. The all capabilities being AI-enhanced gives us

much better leverage on securing larger deals. We have a few in discussion, but nothing immediate in the line of sight that we could comment on.

**Moderator:** The next follow-up question is from the line of Ravi Menon from Macquarie.

**Ravi Menon:** If you could talk a little bit about your icxPro AI platform and the use cases that you have in manufacturing where it's already been demonstrated. And there's also preference about you're seeing tremendous potential for it in BFSI and Healthcare. So if you could talk a bit about the use cases that you have in mind, that would be great.

**Umang Nahata:** Yes, sure. So our AI positioning, like we had mentioned, Ravi, has two different views. One is a use case-driven approach where icxPro, we have already built some use cases there. And then there is the concept of building an enterprise AI kind of platform. So on the first one, which is where we're building use cases, we've had some use case development for parts automation, which is very applicable to most manufacturing firms, in terms of whenever they have to go through a replacement of parts or finding the right parts as they've gone through their years of archival data, it helps. And it is already seen improving the process from weeks to a few hours. So that's the kind of improvement we've been able to demonstrate to our clients already.

Similar kind of other initiatives on use cases. We are running on two important use cases, which is around recruitment and talent management. Again, very phenomenal AI assisted use case that allows significant process drop as process time improvement as well as quality of hiring going up. Again, we're discussing this with a lot of existing strategic customers who are pretty excited about the idea as we take them forward.

There are various other use cases in the financials area, in the supply chain space, in the CX space that we have initiated and delivered from supply chain, demand optimization, demand forecasting, supply chain optimization to, like I said, financial forecasting and quite a few.

So, the use case driven model is quite active. Like I had mentioned earlier, our enterprise AI is the other area that we think will become even more strategic as we go forward. It's been worked in close collaborations with NVIDIA, and that will allow customers to develop far many more use cases on a custom basis as they really move towards their AI journey.

**Ravi Menon:** Thank you Umang for a comprehensive answer. And are you using some of those internally to transform your own process as well?

**Umang Nahata:** 100%. Mastek internal is our first significant large customer. So, we are trying the Enterprise AI on Mastek internal. And we believe, like Arun did mention this to change our business, internal business significantly, right, from the execution that we do on services and development and implementation to all of our surround processes like HR, Finance, Operations, all of it. So yes, we are developing the enterprise AI on top of Mastek data, that's where our POC is currently running.

**Ravi Menon:** One last question, if I may. I know that you guys have historically had no SAP, just focus on Oracle approach. But in the context of the demand for SAP/HANA, are you seeing any change to that mindset? Or are you seeing any kind of higher incentives among customers to do an Oracle upgrade instead of replace SAP?

**Umang Nahata:** We are seeing both kinds of businesses, our focus on Oracle continues to be high and our commitment to that Oracle business continues to be high. And within the Oracle space, we are seeing people upgrading from their Oracle on-premise to Oracle Cloud. In fact, we also see people shifting platforms, so shifting from SAP, ECC to Oracle Cloud or shifting from JD Edwards or some of the other Tier 2 ERPs to Oracle Cloud. So we see both kinds of scenarios. However, on a broad basis, we still see Oracle is the right partner for us. Our level of relationship and the traction in business that we have is very healthy. And in the near term, we continue to focus only on Oracle as far as the ERP business is concerned.

**Moderator:** Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

**Umang Nahata:** Thank you, everyone, for all the questions that you have and the good feedback that you all provided. We continue to be pretty excited about the performance that we have had this quarter, especially our growth in North America as well as our continued growth that we saw in U.K. and the momentum that we see, especially in healthcare and other verticals globally. Like I have said earlier, there's still a lot of room in terms of our operating levers to bounce back to the kind of operating margin expectations that we have as we get into Q3 and Q4.

In general, like I said, the internal scenario in terms of our business, our backlog, our capability seems pretty positive and optimistic, while we are cautious about the macro environment and we're taking a close view of how events will turn out. And hopefully, we'll continue to deliver healthy top-line and bottom-line growth over the fiscal and in the long run.

**Moderator:** Thank you. 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.*