"Mastek Limited
Q3 FY'25 Earnings Conference Call"
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MODERATOR: **MR. PRATIK JAGTAP – E&Y INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Mastek Limited Q3 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 Mr. Pratik Jagtap from E&Y Investor Relations. Please go ahead, sir.

Pratik Jagtap: Thank you, Ryan. Good day to all of you. Welcome to Q3 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.

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 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, Pratik. Welcome, everyone, to the quarter 3 results of Mastek Limited. Good afternoon. For this quarter, we delivered a revenue performance of $103 million, which reports a 9.4% year-over-year growth in US dollar terms. As you know, this Q3 is a furlough quarter. Given our nature of business, furlough is a pretty strong impacting area for us. And in spite of more than expected furlough, we've been able to hold our revenue at a steady rate.

On the order book front, we had a very healthy quarter, and our order book or our 12-month order backlog now stands at $250 million. I'm also very glad to report to all of you that we very recently, this week itself, won another very large deal in one of our secured government services. It's a $40 million-plus deal that actually moves our 12-month backlog or grows it by another 8% or 9% as we move forward.

Continuing with our UK business, our UK business overall is really firing all cylinders and all guns. Our secured government services, as I mentioned earlier, continues to do well. We not only are securing renewals of a big block of the business that we continue to hold, but also continue to win new departments and new programs. So, we won another significant new work with another significant new department earlier this quarter, which should expand our overall footprint with the secured government services.

Our healthcare business in UK, as we had mentioned in the last quarter, is seeing a strong revival and continues to have strong tailwinds and is really going very well. The new government continues to invest in healthcare, and we are seeing a lot of direct investment driven towards us, and that continues to drive strong momentum in this quarter, and we have a positive outlook going forward also.

Our private sector business in UK and Europe, which has been an area that we have been trying to really build and grow over the last few quarters, is now really turning a corner. We've had good growth in our private sector business in this quarter. We actually won two of our largest deals in private sector in this quarter, one in UK, one in Europe and one across Oracle and the other across digital services. So, the private sector business, which is the third leg of our UK business, is now really starting to build up, and we actually are looking forward to a positive outlook going forward, too. Overall, our outlook for our UK business continues to be very positive, and we are looking forward to a really strong business going forward as we move into Q4 and the next year.

On North America, we had a steady quarter. As you would all remember, we had an extremely high growth quarter in Q2, around 18% plus growth quarter. And now we are backing that up with a steady growth quarter in this year, which is around 1.5% growth. So, the overall growth story continues to be steady as we expect it to be, and we are really trying to put it up, consolidate it well as we build it together.

While the healthcare business in North America continues to do really well, we had another steady growth quarter, both in terms of new customer acquisitions as well as expansion in our existing customer businesses that we have in healthcare in North America. Our overall outlook for North America as we consolidate the capabilities we have acquired over the last few quarters and really build our synergies together as we will have steady growth in North America for the coming few quarters. And we really will start realizing our expected full potential growth starting H1 of next year.

As far as our focus and priority of business is concerned, Mastek is taking a full steering control on its AI priorities, and we are really driving an AI-first approach in the organization across all of our businesses and services. As I mentioned earlier, we're taking a 3-pillar approach to our AI strategy. The first pillar really driving innovation and automation internal to Mastek across all of our service lines. The second pillar is creating an AI engineering practice, which we'll be launching in January. And the third pillar is launching a small language development or SLM practice, which we'll also be launching in January.

The AI developments are also supporting all of our existing capabilities phenomenally. So, in December, we launched ADOPT.AI, which is one of the most advanced Oracle Cloud implementation methodology, which will help our customers across all phases of the implementations from testing to development to configuration and documentation. And we really hope to expand our market within the Oracle implementation services using ADOPT.AI.

On the Salesforce front, we are now a qualified Agentforce partner. It's a product that Salesforce launched earlier in the year. And we are one of their early Agentforce partners that we have been qualified as. And not only have we become a qualified partner, we are also running Agentforce use cases with quite a few of our existing customers. And we are really looking forward to delivering those and then using those reference cases as built up for growing our Salesforce and Agentforce business as we go forward.

We also saw good development of AI in our data business. We recently launched our AI-led data modernization tool called Lightbeam, and I'm very happy to share that we won our first deal on Lightbeam in this quarter. And Lightbeam continues to spearhead our AI growth, not just in North America but taking it globally from providing services and solutions.

All in all, I think we are definitely continuing to focus on the priority area that we had, which is across Oracle, digital Salesforce and data. All of our businesses are taking AI-first turn, and we are looking at AI sharpening our edge across all of our practices. And our vertical focus on healthcare as well as SGS continues to be a priority from a vertical standpoint. With that, I'll hand over the call to Arun who will share more details around our financial performance. Arun, over to you.

Arun Agarwal: Thank you, Umang. Good day to everyone on the call. I will cover a few financial highlights for the quarter, and thereafter we can take your questions very specific to the quarter performance and more you want to understand about the Mastek performance going forward.

We reported revenue of INR 870 crores for the quarter. It's up 10.9% year-on-year in INR terms. On a quarter-on-quarter basis, it reflects 0.2% growth, again in INR terms, while it is broadly flat in constant currency. This is after taking impact of furlough, which was more pronounced than what we initially envisaged at the beginning of the quarter. We are pleased with our performance across region. As Umang mentioned upon, we are continuously focusing upon our strategic priorities. The healthcare performance continues to be much healthier. It has grown 19% quarter-on-quarter and 30% year-on-year.

As we have been focusing upon quality of our clients across the regions, very specifically in the AMEA, we have been able to reduce consistently our tail accounts. And as we stand in current quarter, our client count has come down to 351 versus 436 a year ago. This is helping us to increase our revenue per customer and focus upon the quality which we can deliver on a sustainable basis to our clients. We added 10 new logos during the quarter. So again, focusing upon the kind of clients which we are onboarding who we can grow to a much larger size and scale as we take them into digital transformation journey.

Our 12-month order backlog stood at $250 million, broadly flat quarter-on-quarter in constant currency. As Umang mentioned, we have just received another deal of $40 million in UK SGS. It's a renewal with 20% to 25% net new included into it. We'll deliver it over the period of 2 years. It helps expanding our backlog 12 months by 8% to 9%.

Our operating EBITDA for the quarter was at 16.2%. It reflects a reduction of 30 bps quarter-on-quarter. This is after absorbing the salary hike, which we gave to certain part of our employees in August last quarter and to the balance organization effective October, which has led to impact in EBITDA of approximate 160 bps. And also, we have seen some currency headwinds during the quarter, with GBP depreciating versus dollar.

We are pleased that our US business has delivered double-digit margin, which we have been talking consistently, and that was one of our endeavours. We believe we are moving in the right direction. You would have seen UK margin has seen some reduction, which is more reflection of our cost of ramp, furlough and also some partial currency headwinds.

Our profit after tax for the quarter was at INR 94.7 crores, which is up 21.8% year-on-year. Since there were exceptional income, both in quarter 3 and quarter 2, if we remove it and normalize our performance, our profit after tax for the quarter would stand at INR 88.4 crores versus INR 85.6 crores in quarter 2, again seeing a consistent growth on a quarter-on-quarter basis.

Our gross cash was INR 497 crores. We had a really good quarter in terms of collection, and we have been able to bring our DSO down from 96 days to 89 days, and the same is getting reflected in the free cash which we have generated. And this INR 497 crores cash is after one loan prepayment we have done, which is approximately INR 45 crores. So, cash addition in the quarter was actually much larger. Consequently, our borrowing stood at INR 602 crores as of 31st December versus INR 641 crores in September.

Our closing headcount was 5,260 versus 5,505 in September '24. This is after a consistent focus on improving productivity and driving better outcome for our customers at the same time. Our utilization dropped to 74.4%, including trainees versus 78.4% in the previous quarter. Again, this is the reflection of the higher leaves, which is both led by festivals, holidays and also client furloughs during the quarter. Thank you, everyone. Looking forward to your continued trust and support in Mastek. Going back to the moderator to open the house for Q&A.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Karan from Monarch AIF.

Karan: Sir, as we go into FY'26, if you can just throw some light on how the demand environment currently looks like from the UK? Have the digital programs from the Home Office, NHS started to see some accelerated spending? And what would be our ideal growth rate going forward in each of our geographies? That's my first question, sir.

Umang Nahata: Karan, thanks for your question. So, as I mentioned, we will definitely be entering UK in FY'26 with a very healthy backlog. And therefore, our expectations for growth will be quite high in UK. Having said that, from an overall macro point of view, NHS definitely, or healthcare continues to be a key spend area for UK government. There's a lot of revival in spend there, especially around prevention as well as data-driven decision-making.

And we are seeing good participation in both of those lines of services or solutions that we're offering to the UK healthcare government. As far as the secured government services and private sector is concerned, there also, the government is now taking good control. They've gone through renewals of a lot of existing work that we have. And as we renew most of our existing book of business, our aim and endeavour would be to now go after newer departments and expand our business beyond the current books that we have, which would have already secured by the end of the year. So, in general, UK will continue with a healthy growth rate.

As far as US is concerned, again, the parts of the business is, there's a positive outlook. People will believe that the economy is taking a positive turn. At least, the outlook for the economy is positive, although a little unpredictable as we all see it. But we believe the economy will take a positive outlook and support the overall economic growth. From a Mastek standpoint, like I mentioned earlier, we are consolidating all the capabilities that we have had in our US business. As we consolidate, our growth rates will fluctuate a little high and low over the next 2-3 quarters. And our vision is by the time we get into H2 of next year is where we will start really delivering a steady and full potential growth that we hope in the US.

Karan: Just on the AMEA part, we see that this quarter, our margin declined quite a lot. So, if you can just throw some light on why did this exactly happen? And sir, on the US bit, how do we see margins inching up from here on? We see that 13% EBIT margins. Do we see there is some more room for improvement? And if yes, what would be the key drivers for that?

Arun Agarwal: Karan, thanks for the question. In the AMEA, as I mentioned, we are consistently focusing upon taking the tail accounts off. Obviously, that's a process in which, we have to ensure some margin, we have to sacrifice that sometimes to make those projects go live much sooner than it was expected. And also comes at a cost, certain times because you can't discuss change request because we just want to finish it off and move into the larger clients.

Keeping those focus on, there are certain costs, which we had to take into the P&L. Now also, there is some PDT profile in the geography because while the collection is good, but there are certain clients where there's a delay. And as per the accounting norms, we have to take certain provisions in the book. So, all put together, our focus in the geography is to focus on the account mining, focus on the right client base. And, thereafter, improve the quality and the margin from those accounts. So, you will see consistent basis, there's a margin improvement which will happen out there.

On the US side, again, we are really pleased with double-digit margin profile here. Is there scope? Yes, answer there is definitely scope of 100 bps to 200 bps improvement further from here. But at the same time, we are focusing upon growth. US is one of our growth levers. And we really want to ensure the growth is achieved without too much focusing upon improving the margins from here. So, I'll be happy from the margin profile perspective. But given the balance, we'll prefer more growth than looking for more margin expansion from here.

Karan: And if I can just squeeze in one more. How do you see the spend happening across people -- or enterprises adopting Oracle, Salesforce, both on the cloud front as well as shifting away from on-premise? Because I understand that would have a major impact for us as implementors. So, if you can throw some light on how the spending has improved on the enterprise level in both geographies, sir?

Umang Nahata: So, Karan, spend on Oracle, Salesforce, data and digital modernization continues to be high. Especially the packaged applications, Oracle, Salesforce continue to do really well in terms of spend. Our net new customer acquisition in Oracle continues to be healthy especially in US as a geography, and Europe also. So, we continue to see good demand for net new consumption there.

Our Salesforce business is currently relying more on growing the business within our existing accounts. Our net new engine is something that we're working on to develop the net new customer engine in Salesforce, but our Salesforce business is largely focused on growing our business within the current customers that we have.

Having said that, with the change and the turn that AI is taking on both of these applications and the customer expectations as well as the potential business outcomes really changing, I strongly believe that the demand for Oracle, Salesforce as well as data applications will go up phenomenally in the coming quarters.

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

Amit Chandra: Umang, you mentioned about the improving dynamics in the UK geography and also in the UK government and UK private. So, if you can comment upon how the spend pattern has changed maybe in the last 6 months in terms of deal sizes, in terms of decision-making? And also, we had plans to enter into newer departments. So, which are the new departments that we are targeting within the UK government?

And in continuation to the UK government, we're also seeing NHS recovering. We have the deal on the defence side. So, if you can elaborate on the specifics of what's going to drive the growth, maybe for the next year from the UK government. And then you also mentioned that we have won the second largest deal in the UK private sector. So some more clarity or some more colour on that? What was that related to? And how the pipeline is looking there?

Umang Nahata: Sure, Amit. So, as I said, our outlook in UK is definitely very positive. And on the secured government side, from a spend point of view, the government is clearly looking at driving budget efficiencies as well as trying to choose their partners who could deliver long-term success for them. There's also a clear mandate of driving or enhanced drive of digital as well as AI transformation in government and health.

Applying this to our business, for us, we have been able to secure a large portion of our current book of business, and we continue to really look forward to secure all of it by the end of this fiscal. That's what we had really aimed for. And then we are really looking to go after securing new departments. We've secured one pretty decent sized new department in this quarter, a $10 million-plus deal in this quarter in a new department, opening up one new account. And we will continue to focus on opening more doors and more accounts, which could be both new departments as well as new programs in the existing departments that we work for.

The healthcare business, like I mentioned earlier, is largely focused on driving efficiencies in the UK healthcare, which is with more prevention as well as driving more data-driven decision-making. And we are seeing a lot of data business coming our way, which is primarily in the healthcare sector but also in the financial services sector, with Bank of England and a few other customers really continuing to do quite well. So that's the scene on healthcare.

On the private sector side, we won two good new deals. One of them is the renewal of our business for the next 2 years with an upside to it. And the second is a larger phase 2 global rollout followed by the phase 1 work that we had done for our customers. Both these deals in their respective areas are amongst the largest deals that we have won in private sector.

We continue to see a very healthy momentum, so our pipeline in all the three sectors also looks very healthy. And we're looking forward to a positive order book in Q4 and going forward.

Amit Chandra: On the UK side, do we have any scope in terms of margin expansion, maybe some offshoring that we can do in terms of the UK government contracts for which we have been working the last many years? And also, how do you see the sub-con panning out? So, is there a possibility of margin expansion in the UK government? Then we'll move to US after this.

Umang Nahata: So as far as the margin expansion in UK is concerned, so there are two parts to the story. First of all, like I said, some of these extremely large deals are coming at a cost of margin, especially as the government renews larger contracts. So, for example, the recent contract that I mentioned that we won a couple of days back, it's a 20% expansion in our current book of business. However, there has been pressure in terms of doing it more efficiently. As an organization, we are looking at various means of maintaining our margin profile, which has various initiatives, right, from, like you said, offshoring, relooking at our resource pyramid, moving from sub-con to employees and things like that.

So, our endeavour is to really hold our UK margin. It's a very healthy margin business. And our endeavour is to bring ourselves back and hold to that margin levels at which we are. I don't think there's a large possibility of expanding margin from there onwards. We will not be doing justice to our customers if we start charging more than what we are doing in UK.

Amit Chandra: Okay. And on the US geography, obviously, we are seeing things improving. But last time you mentioned about that we are trying to get more managed services deals there, which will improve the visibility in terms of the growth and obviously now stable margins. So, any progress on that? And also, now we have expanded the margins in the US geography.

So, do we require more investments there or the investments are largely through or we can see the growth coming and the margins also at least be in the mid-teens range for the US geography?

Umang Nahata: So, Amit, you are very right, our focus in the US is to really take our business to steady repeatable business, which is going to be coming through managed services and T&M business. And as I mentioned earlier, we are integrating all of our capabilities across Oracle, Data, Digital and

Salesforce. So, we have a full bouquet of services that we can take to our existing customers and start winning more steady long-term T&M and managed services kinds of business with them.

Having said that, really building managed service or T&M businesses, which are decent size and magnitude in terms of book will take us some time. And like I said earlier, we are expecting that as we get into closer to H1, next year is when we would have made some significant change in terms of our profile of business from projects to more tending towards managed services or T&M kind of businesses.

On the margin front in US, I think most of these savings were very much available, and they have been made without any impact to growth or any of our growth investments. We are at a healthy rate of S&M investment in US, and we think our S&M investments is good enough to really drive the kind of growth and vision that we expect in the US.

So, I expect our US margins to stay in the mid-teens, and it gives us enough cushion to really drive the growth that we need.

Moderator: The next question comes from the line of Soumitra Chatterjee from Avendus Spark Institutional Equities.

Soumitra Chatterjee: Just two questions. This $40 million deal is not included in the $250 million order book and will be included from fourth quarter onwards? Is that a right interpretation?

Umang Nahata: That is correct, Soumitra.

Soumitra Chatterjee: Okay. And this $40 million is completely the expanded part of this 20 to 25%, which is the net new or this includes the renewal as well?

Umang Nahata: It includes renewal and with the 20% expansion. So, $40 million has 80% renewal and 20% expansion.

Soumitra Chatterjee: Okay. And from an incremental point of view of US, are you also seeing a shortened deal cycle that some of the larger peers are seeing wherein probably your order book starts converting at a faster rate?

Umang Nahata: I don't know. We haven't seen anything specific like that, that the deal cycles have shortened. Again, the kind of deals and kind of deal cycles that we are experiencing are different from what the larger players experience. Our deals are still more in the midsize, more project-based deals right now.

And therefore, we haven't seen any change in deal cycle for us in the US right now. But with initiatives around AI, initiatives around AI-led efficiency and growth, the amount of activity and discussions that we're having have definitely gone up with our customers.

Soumitra Chatterjee: Okay. And just one last question on the sequential decline in the headcount, I think Arun said, it is about increasing productivity. From an annual perspective, if you are requiring lesser number of people to drive revenue growth, generally, does it translate into a pricing pressure typically from clients 6-9 months down the line?

Because you are not adding employees, but the revenue you are estimating to grow by a particular number. So, the productivity gains, will it be retained by the vendor or it will be passed on?

Umang Nahata: Soumitra, there are two aspects to the revenue decline. One, definitely, there were businesses that we had where we had the revenue per resource was very low, especially in our AMEA kind of business. And those are businesses that we are walking away from now. We believe our potential of executing higher revenue per resource very much exists. And we have to look at the right orders and right kind of businesses there.

That's one reason for which it's a systematic and intentional reduction of headcount without impacting revenue because we are looking at businesses that could deliver a higher revenue per resource. The other thing that you would see coming in the future is as we really sharpen our internal AI execution, which is starting from Q4 and onwards in terms of some of the tangible assets that we have developed.

We definitely feel the ability for the organization to do more with lesser headcount is growing with every passing day and every passing week. So, we haven't really transformed those into tangible numbers yet, but from the outlook that we see, we think there's going to be a pretty decent change in terms of our ability to do more with less headcount. I think that's what our customers are also expecting us to do.

Moderator: The next question comes from the line of Nikhil from Kizuna Wealth.

Nikhil: Sir, my first question is on like, we have the ample headcount that is reducing like year-on-year and quarter-on-quarter. And last quarter, we said that we are looking for additions in the -- headcount addition is anticipated. So, are we going to add to headcount in H1 of FY'26? So that is my first question, sir.

Umang Nahata: Sorry, Nikhil, we lost the last part of your question. Can you repeat the second half of your question, please?

Nikhil: Sir, so as our headcount is reducing, and we are anticipating a huge growth, and in the US, we are anticipating growth from H1. So, are we anticipating headcount growth in H1 of FY'26?

Umang Nahata: So, like I said, Nikhil, there will be definitely growth in headcount in selected areas where we have planned to grow. So, our current reduction in headcount was more from businesses, which had lower revenue per resource, which is largely in our AMEA kind of businesses. So, that we are rebalancing.

And we will see a headcount growth in the right area. So, our US services, our UK businesses will see growth in headcount to deliver those. Having said that, the rate of headcount growth versus the rate of revenue growth, proportions will change as we start applying more and more AI to our internal execution.

Nikhil: Okay. So, we can expect like exponential growth in revenue with comparison to headcount. So that's great to hear, sir. Secondly, as we are going for increasing the wallet share from our top 30 clients. And we are reducing our long tail in the AMEA region. So how much reduction in active clients can we expect?

Arun Agarwal: Again, it's a consistent effort. As we have mentioned, if you recollect, we used to be 400-plus accounts. And what we have said that to double the revenue from here or maybe 2.5x of revenue from where we are at this point of time, which can be done with the similar client base. 300 to 350 is a good client base. So again, that's a process which will continue.

We'll keep gaining new accounts, which are much more scalable from the revenue perspective, and we'll keep on removing the tail accounts. So that's a continuous process, which will happen in the process. And you will see that revenue per person is growing, as it has been happening in the last 2-3 quarters.

Moderator: The next question comes from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Just few questions. So one is on your other expenses, we have seen a lot of hike, and your employee headcount is decreasing, but still your employee cost is sort of trending in the same line as revenue. So, how do you see these costs because the costs have actually grown quite handsomely in the last 9 months?

Arun Agarwal: Again, two points. One is when you are seeing other cost increasing quarter-on-quarter specifically, it is also the function because a lot of growth that we are seeing, we are seeing in health and also in SGS in UK. There a lot of work is happening through security cleared resources and by nature, they work in the contractual models.

So rather than increasing the employee cost, that change is reflected into the cost of subcontractor, which is reported under other expenses. So that's the main reason you are seeing the increase, which is happening into the other cost. And you would have noticed quarter-on-quarter, there is a decrease in the employee cost at the same time.

And your observation is right, that's the combination. But on a consistent basis, you will see the employment cost is increasing because, one, based on increment which has happened, right? So, if you compare versus 9 months and 6 months, you will see there's increase in the employment costs. But the quarter is more the reflection of increase in subcontractors and not the employee headcount at the same time.

Sarvesh Gupta: AMEA margins are very low at 1% this quarter. So, are they expected to revert to the normal range going forward at 10% to 11%?

Umang Nahata: Yes, Sarvesh, that's our full intent. And we are looking at taking AMEA to a double-digit margin performance. But it will take a couple of quarters before which we get there.

Sarvesh Gupta: Okay. And similarly, on the UK, EU business, you said that we are expecting to hold on to the margins that we are having. Now these margins have come down. So, is this 20%-21% a new normal going forward? Or you are expecting to go back to at least 24% odd which we had last year?

Arun Agarwal: So again, two things will happen, Sarvesh, there. In the short term, more 20%-21% kind of a margin profile, obviously, there will be some plus and minus quarters depending upon when you are doing the ramp, right? So, the kind of deal wins we are seeing in the public sector and the health in the UK, that leads to a lot of onshore hiring.

Obviously, in the quarter in which those hirings are happening, the margin profile will be subdued. And the quarter in which you fully ramp up will have a better margin profile. So, you will see kind of mix happening, but 20% to 22% is a good range, I would say, at this point of time.

And also, be mindful, the GBP to INR and GBP to USD has been depreciating significantly, which has not been factored yet. So, depending upon how the currency headwind flows, there could be certain plus and minus out there as well. So that's something which is not in control, but we have to keep watching how they impact our numbers as such.

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

Hasmukh: I have three questions. Firstly, on the order backlog. So, if I look at your previous 4 -5 quarters, your order backlog was growing healthily at 15% to 20% on Y-o-Y basis. But this time around, it has dipped to almost flattish, though you called out $40 million deal win. But including that as well, the growth may be at 8% to 9%.

So just wanted to get a sense how confident are you to get back to the 15%-20% Y-o-Y growth in order book backlog going forward?

Umang Nahata: Yes, Hasmukh, I think the Y-o-Y growth was mostly impacted by our last quarter's performance. Last quarter, we had a slower than expected order book growth. This quarter has been decent. And we are very confident, by the time we close FY24, we'll be back to the same growth levels.

Hasmukh: Secondly, if I look at your client numbers, on a gross basis, it seems that almost 40 clients you have reduced on a quarterly basis. If you could call out any impact because of this from numbers perspective on your revenue?

Umang Nahata: So Hasmukh, like we said, the client reduction that we have is very, very planned and purposefully executed. These are especially our Oracle business had a lot of tail customers where we were doing very small tail businesses for them. We have very purposefully reduced those tail customers.

And we've taken a shift to focus on mid and mid-to-large customers. And that's the reason you see a reduction in the number of clients. It is no reflection of reduction in the value of business.

In fact, our average deal size continues to go up, especially in the Oracle services where it was pretty low earlier.

And that has allowed us to focus better on our customers, focus better on large deals and continue to deliver better in terms of client delivery as well as focus on growth.

Hasmukh: And lastly, on currency movement perspective, as we have called out, this quarter because of a wide movement in the currencies, how it impacted your margins in basis points, if you could highlight that?

Arun Agarwal: In the current quarter, again, the way everyone reported, and we report as well it's a quarterly average from the P&L perspective. So, there is a partial impact which has happened in the current quarter. Again, we have to be watchful because at the fag end of the quarter end, you would have seen GBP and USD depreciating, much more in a wider way.

But again, USD/INR and GBP/INR is improving at the same time, so there is a balance which is happening. So, I'll be watchful for Q4 to see where significant impact happens or not. In the current quarter, it would be in the range of 20 bps to 30 bps impact at the high level, which would have happened into the EBITDA profile.

Moderator: The next question comes from the line of Rucheeta from iWealth Management.

Rucheeta: My question was on the service line. So, what I see is that your Data Automation & AI, it has been flattish or has degrown. Similar with your Digital Commerce and Experience business, not been growing. So, what has been the reason for the same?

Umang Nahata: So Rucheeta, as far as the Data business is concerned, again, we had a couple of customers with whom we had some projects business, which as the project business closed, we saw a dip in that kind of volume there. Although our endeavour spend, on the data continues to be high.

And we look forward to a higher growth globally in Data as we move forward into the next quarter, especially the work that we are doing with the financial services and healthcare in UK, a lot of that is data and AI-driven around Data Bricks. We're also seeing good traction in AMEA around our Data business.

And North America continues to be steady, and it's an area of focus. So, data, while it has had current blip in terms of our numbers, but the numbers are so small that even a million dollar change can change the percentage sizably. As far as the Commerce business is concerned, that is a very fair observation.

It's been on a slow or, steady decline for some time over the last 4 to 6 quarters. That's because the commerce business was largely based on Oracle Commerce and Oracle ATG. Both the products have seen defocus from the principal and therefore, even our focus on our Commerce business has been more around staying steady.

And then gradually trying to divert our commerce business to more Digital Engineering or Salesforce commerce kind of business, which is much slower as compared to the business that we had earlier. So, Commerce, while it is there in focus, but it is not a very high-focus service line for us.

Arun Agarwal: Just to complement, overall service line, you will keep seeing improvement because that's the overall CX portfolio. And we are also combining multiple other capabilities in addition to Salesforce and others. So, while that growth is muted because, as Umang mentioned, there is a decline in Commerce part, while Salesforce continues to be healthy.

So, it's a balance which is happening as we keep growing other portfolio within that particular service line, that will be reflected in the numbers as well.

Rucheeta: Understood. And sir, we've been talking about that going ahead, our headcount would be lower basically because of AI and all of that. So, would that mean that it would lead to operating leverage for us? Or will we pass it on to our customers to get more wallet share from them?

Umang Nahata: It's going to be actually a bit of both. There is going to be a portion of the efficiencies that we find will be passed on to our customers, especially in the initial phase as we really want to build the market. But there is going to be certain areas of headcount, which will drive efficiencies and margin improvement for us also.

So, it's going to be a bit of both. What is going to be the share, we are yet to see as we really start executing the benefits. We'll see how much can we retain for ourselves and how much do we have to pass on to our customers.

Rucheeta: And sir, just one question. On the AI service line, how big do we see this segment to be, let's say, in the next 2- 3 years?

Umang Nahata: Rucheeta, if you ask me, indeed, first of all, it's changing so fast, so it's very hard for anybody to predict. Two years is a long time in the AI world. But, my feel, we will see a complete 180-degree shift in the way we do businesses in two years. Digital engineering will become more AI engineering. Packaged App development will become more packaged AI use case deployments.

Foundation Data Models that we build for data modernization will become Small Language Development for AI enablement and things like that. So, all the businesses that is prominent business today from Digital to Packaged Apps to data will all see significant impact of AI in them in the coming years.

Moderator: The next question comes from the line of Varun Kulkarni from InCred Asset Management.

Varun Kulkarni: Just one small question. I believe Arun sir has resigned from the company. Are we in the process of finding a new CFO? I mean, where are we on that particular front?

Umang Nahata: Yes. The CFO search is very actively on. And we have already shortlisted a few candidates going through our motions. But having said that, all senior positions have a notice period that has to happen. So, we might see an interim couple of months where we will run with our current team that is under Arun.

We have appointed an adviser who would help us during that period. But our search and shortlisting of the candidate is very active. And hopefully, we would have finalized the candidate before the end of this month.

Varun Kulkarni: Okay. And one last question, sir, if I may. What is the growth rate that we're anticipating in the UK and US region for, say, FY'26 at least for the top line?

Umang Nahata: We're looking for a healthy growth rate. As you know, Varun, we don't share any forward-looking growth markers, but it's a healthy growth rate that we're looking at, healthier than what we have had in the previous quarters or years.

Moderator: The next question comes from the line of Harsh Chaurasia from Vallum Capital.

Harsh Chaurasia: I have two questions. I think in your opening statement, you mentioned like your private healthcare licenses business, it is very strong in North America, where you are finding new opportunities. When I just compare it with the larger peers, the commentary on the healthcare vertical, they have mentioned there is kind of weakness mainly because of the policy uncertainty. So, I am not able to understand why there is a divergence between these two? So, if you can help me understand this?

Umang Nahata: Harsh, that's a very, very sharp questioning. So, what's happening is there are different parts of the healthcare market, as you know, right? It's the payer, provider and life sciences. A large portion of our healthcare portfolio right now comes from the provider space. The provider space is where I think the business is still doing well.

And especially what services we offer is back office, which is driving efficiencies in their business. So, any solutions that drive efficiencies is welcome in the back office space, in the provider segment. As far as the payer segment is concerned, it's where even we are facing some challenges with a few of our customers.

That's a segment which is going through certain challenges and budget cuts, especially discretionary spend is being put to challenge in the payer space. So, depending upon how you look at your overall healthcare portfolio, you would see a positive or negative or neutral impact.

But yes, in the payer segment, there's a bit of challenge in the payers. But luckily in the providers, we are on the providing solutions and offerings that drive efficiencies which is what they're looking forward to right now.

Harsh Chaurasia: Understood. And second question, sir, basically I wanted to know the nature of the business of your customers in the manufacturing vertical, are we focused on energy and utilities, or more on industrials? Like where are we majorly focused?

Umang Nahata: It's largely industrial manufacturing. Having said that, we actually also have some utility customers, but those are more like ports and things like those or water supply, those kinds of customers also. But in the manufacturing, it is largely industrial manufacturing.

Harsh Chaurasia: So, when we see the manufacturing vertical, what are the pockets of spending which you are getting, like new opportunities that are coming in this manufacturing vertical?

Umang Nahata: So currently, the manufacturing vertical is largely led by our Oracle services, that's the spearhead. So, most of our relationships start with opening the account using Oracle services, where we would offer them migration to cloud and from there. But once we've opened a customer using Oracle, then we're seeing actually potential across CX and across Data and across Digital, all the three areas.

And now as we move forward, a lot of healthy discussions are also happening around AI and especially in this space of hardware, software, integrated AI is where we are also seeing. So, our Nvidia partnership is now starting to play in the manufacturing space as we do hardware-integrated AI POCs for them.

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

Umang Nahata: Thank you, everyone, for all your very insightful questions. And again, like I said, we had a quarter where we've really continued to deliver steady performance, and we look forward to a healthy backlog improvement as well as continue to work on growing our top line and margin performance over the coming quarters. So, thank you once again to all the analysts for their insightful questions and guidance. Thank you.

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.