

"Mastek Limited Q2 FY19 Earnings Conference Call"

October 25, 2018





MANAGEMENT: Mr. JOHN OWEN - GROUP CEO, MASTEK LIMITED

MR. ABHISHEK SINGH – GROUP CFO, MASTEK LIMITED

MODERATOR: Ms. Asha Gupta – Christensen IR



Moderator:

Ladies and Gentlemen, Good Day and Welcome to Mastek Limited Q2 FY19 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen. Thank you and over to you, Madam.

Asha Gupta:

Thank you Aman. Good Afternoon to all of you and thanks for joining the Q2 FY19 results of Mastek. The results and presentations have been mailed to you and you can also view this on our website - www.mastek.com.

To take us through the results today and to answer your questions, we have the top management of Mastek represented by Mr. John Owen, Group CEO and Mr. Abhishek Singh, the Group CFO. Mr. John will start with a brief overview of the quarter gone past which will be followed by Mr. Abhishek who will go into the detailed financials, we will then take the Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with the risk 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 the subsequent annual report that you can find on our website.

With that said, I would now like to hand over the call to Mr. John. Over to you, John.

John Owen:

Thank you Asha, much appreciated. Welcome and thank you for joining us. I think it is worth saying to start with Q2 is a really another solid quarter for growth and 29.5% year-on-year gives you a context to where we are in our Vision 2020. I want to thank a fantastic team at Mastek who have delivered yet another solid performance. This is our 10th consecutive quarter of revenue growth under our strategy, Vision 2020, and this is intended to reposition us as a leader in enterprise digital transformation. I think it is worth to say that market remains robust in our strategic geographies of the UK and the US, and our focus of building strategic accounts is providing solid base to give predictable performance. This is particularly applicable for the UK region where we have had a strong heritage when we got deeper foundation than the US, which still represents a huge opportunity for us, but I think it is fair to say we still are establishing a presence there in that market. That being said, as we gain the momentum on our revenue I think it is important to say given the size of Mastek, we are also maintaining our quality of earnings and I know Abhishek will go into more details on that. What I would like to see beyond the financials which I hope you can now start to see we are building a balanced portfolio and not just building consistency in that. We got some notable quarters with being awarded some industry recognition for our DevOps work in the UK. I think hopefully you are seeing the rebranding of Mastek to make it even more digital and contemporary on the Vision 2020.

I think pleasing for me, we launched a graduate program in both the UK and in India to give us more access to talent in the regions and we have secured our first robotic process automation



contract in Q2, so again you can see that strategically we are moving in the right direction at the right speed and we are not just in legacy, but we are in the digital, so before I hand over to Abhishek to take you through the financials, I just wanted to thank all our loyal customers who trust us to deliver that digital programs. I think digital is becoming disruptive even more and this really plays well to our business model, our timing, and our customer service, so with that I will hand over to Abhishek who will go through the financials and then we will take Q&A. Thank you very much.

Abhishek Singh:

Thank you, John. Warm Welcome to everyone on the call. I will refer to the info pack that was circulated by Asha ahead of this conversation and if you refer to that Slide #4, which talks about our financial performance for the quarter compared to the last year the year-on-year view, revenue continued to maintain an upward trajectory. Our total income stood at Rs 265.8 crores, a growth of 30% year-on-year. Operating income at Rs 257.1 crores showed a 29.5% year-on-year growth in rupee terms. Constant currency revenue growth stands at an impressive 21.6% on a year-onyear basis. In terms of profit profile, our operating EBITDA stood at Rs 31.3 crores, 12.2% of the operating income versus Rs 23.7 crores last year that was 12% of the operating income. Total EBITDA stood at Rs 40 crores, that is 15.1% of the total income as against last year same time it was Rs 29.3 crores or 14.4% of the total income. Net profit stood at Rs 25.1 crores versus Rs 17.5 crores last year, a growth of 43.5% year-on-year basis. Our net profit margin has climbed up to 9.4% vis-a-vis 8.6% for the last year same quarter. In terms of cash, cash equivalents and the fair value of the mutual funds, it stands at Rs 191.2 crores compared to Rs 153 crores last year. Our order backlog has shown an impressive growth of barometer of sustained financial performance at 33%, it stands at Rs 599.2 crores or 63.3 million Pounds vis-a-vis Rs 450.4 crores or 51.5 million Pounds.

We move onto the next Slide #5, which is the comparison of quarter-on-quarter, so revenue is at Rs 265.8 crores versus Rs 247.2 crores last quarter, that is a growth of 7.5% on quarter-on-quarter basis. Operating income was at Rs 257.1 crores vis-a-vis Rs 244 crores last quarter, a growth of 5.3% in rupee terms and constant currency revenue growth at 4.3% on a quarter-on-quarter basis. In terms of growth in earnings, operating EBITDA stood at Rs 31.3 crores or 12.2% vis-a-vis Rs 30.9 crores or 12.7% for the last quarter reflecting the impact of wage hike as well as the immigration related expenses that we incurred in the US geography. Total EBITDA stood at Rs 40 crores or 15.1% versus Rs 34.1 crores or 13.8% for the last quarter. Net profit stood at Rs 25.1 crores versus Rs 22.5 crores last quarter up by 11.8% on a quarter-on-quarter basis and in terms of net profit margin that improved by 30bps to 9.4% this quarter. Cash and cash equivalent as well as the fair value of mutual fund stood at Rs 191.2 crores compared to Rs 200.3 crores driven by the timing of cash collection as well as the dividend paid last quarter. Order backlog showed an impressive growth at Rs 599.2 crores versus Rs 504.1 crores last quarter, a growth of 18.9% in rupee terms and 13% in constant currency terms.

As I move ahead, that is a reflection of first half compared to the last year, H1 comparison year-on-year. Revenue was at Rs 512.9 crores versus Rs 392.1 crores, that is a growth of 30.8% year-on-year. Operating income stood at Rs 501.1 crores versus Rs 384 crores up by 30.5% year-on-year and constant currency growth of 22.6% on year-on-year basis. In terms of profit parameters, operating EBITDA stood at Rs 62.3 crores or 12.4% versus Rs 46.1 crores or 12% up by 35%



year-on-year. Total EBITDA was at Rs 74.1 crores or 14.4% versus last year at Rs 54.2 crores or 13.8%. Net profit stands at Rs 47.6 crores versus Rs 32.2 crores up 47.9% on a year-on-year basis and in terms of profit margin it is at 9.3% versus 8.2% H1 last year that is 110 bps growth year-on-year. The Board has also declared an interim dividend of 70% or Rs. 3.5 per share.

As we move ahead, Slide #7 is nothing but a tabular representation of everything that we talked about, so I will skip that and move to the operating metrics which is Slide #9. In terms of client base, we added 9 new logos in the quarter gone by. Our last 12 month customer stands at 162. Our top 5 client revenues are at 41.5% and top 10 client revenues are at 66.6%. Our total employee base stands at 2,104 at the end of this quarter gone by, split as offshore of 1,317 and onsite at 787 vis-a-vis 2,097 last quarter which was 1,353 offshore and 744 onsite. DSO stands at 76 days versus 61 days last quarter, clearly driven by the timing of the cash collection. Forex hedges for next 12 months is at 9.1 million pounds at an average rate of Rs 92.9. The recommended interim dividend is at 70% or Rs. 3.5 per share.

As we move onto Slide #10, it has the revenue indices by market region, by industry segment, and by contract type. If you look at revenue by market region, UK stands at 72.5% as of this quarter versus US at 25.9% and India at 1.6%. Revenue by industry segments, our Government business continues to be the largest one at 38.6% followed by Retail services at 36.3%, Financial services at 19%, and others at 6.1%. Revenue by contract type, the fixed-price is at 22.2% and time and material contracts are at 77.8%.

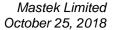
Moving onto Slide 11, that is the revenue by service line for the current quarter. Application Development continues to be the mainstay of our revenue at 48.4% followed by Digital Commerce at 24.3%, Application Maintenance Support at 12.3%, BI and Analytics at 7.8%, Assurance and Testing at 4.2%, and Agile Consulting at 3%. The quarter gone by, Mastek was recognized for its stellar delivery and we won two awards at DevOps industry under its marquee brand name, IndigoBlue. The first one was best overall DevOps project in the public sector that was for Metropolitan Police, that was under our brand IndigoBlue and the other one was the DevOps manager of the year and that brings us to the end of this presentation. I will hand it over to Asha for the Q&A session, please. Thank you.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar:

Obviously the pace at which we have scaled up our revenue in the last six quarters has been very impressive, specifically from Q1 of last year to Q2 of this year, I think our absolute revenues are up about 41%, but somehow that scale does not seem to show up in operating leverage, our margins are still in the mid-12.5% range and I think over the last few quarters that we have had this dialogue, I think the endeavor from your end has been to move up to the 13%, 14%, 15% range eventually, could you help us understand what exactly is happening there, is it the pricing environment, is it our OPEX framework, what is happening?





Abhishek Singh:

Thanks for your question, Baidik. I think the biggest factor there and specifically for this quarter has been on the wage hike, until prior years and prior quarters we never were specific about it but we want to be as open as some of our peers, so this was the quarter when whole of the organization went through the wage hike process that cost us a chunk and then the other aspect was around the immigration related cost in the US business and that is what has added and reflected in the operating EBITDA here, but that is it. At a macro level if you look at it, the size beckons that we continue to invest and that has been the endeavor that I have been putting to you and other colleagues in the industry. At this rate if you want to drive the growth, you have to continue investing because at this size you can grow only as much and the investment is critical for our growth, but that said the operating leverage is visible. If you look at it, wage hike had 80bps impact, immigration had another 20 to 25 bps impact, so it was a 100bps impact to the operating EBITDA and we have pulled back 25bps of that into the P&L and that is driven by the operating improvement or efficiency gains that are coming in.

Baidik Sarkar:

In terms of our Vision 2020, should we assume that the investment phase will only accelerate because obviously we have a high base to cover, when do you think that will top out if at all it well?

Abhishek Singh:

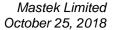
We have not put any time to it Baidik as we continue to look at the market. The opportunities are so exciting especially in the enterprise digital transformation that every time you make an investment and you say you can cover so much ground, there is much more that is out there and as a result, we continue to invest based on our affordability that is the right balance that there has to be a quality of earning vis-a-vis the investment and the growth that we show.

Baidik Sarkar:

John, you mentioned in your opening remarks that the markets in UK and US continue to be very robust and you guys are obviously focusing on accounts that are giving you great visibility of growth, can you break that statement into some degree of granularity to help us better understand what really the opportunity is and how exactly you are capitalizing on it, and I would be grateful if you can break that segment wise, domain wise?

John Owen:

What I was going to talk about on the scale is probably where I will start is if you look at the onshore-offshore mix, a lot of digital projects requiring investment in the region and you got to look at Mastek through that lens. We are a growth company and as Abhishek quite rightly said, we are growing pragmatically and we are investing cash back into the business, but a lot of those high margin will come at, one, critical mass and two, when the digital market matures because I think a lot of the data capture, lot of the early projects in digital are onsite and that obviously has a different margin profile of off shoring. To give you more sort of granularity about our business, public sector as we said is still strong and we have a brand recognition in the UK, so I think we are seen as a trusted partner and we are starting to get in to more projects being pulled in, so it is more like a referral process in the UK which gives us confidence. I think our credibility around retail continues and I can start to see that retail capability, what people would say as the Amazon experience going across all markets in the business to business and in some of the financial services because everyone is now treating users as the user experience, so that is why I am relatively confident about the market because our pipeline is up, we are getting good coverage, we are





investing in better coverage models, so we are investing in more sales because we are starting to see some new business execution, now nine new logos in the quarter, so when you look at Mastek probably three years ago through an indirect model, we were reliant on the channel. Now we are getting a lot more robust in our coverage model and we now know when we put the money in then we get the return on the new business model.

Baidik Sarkar:

I am assuming the fixed cost that we are having to invest upfront are or on SG&A and not much on our delivery capabilities, is that right?

John Owen:

Correct, so when I say SG&A it is sales resources, but we are also investing in things like architects to reposition our relationship with customers so instead of just being in what I call the delivery and the further downstream in the value chain we are actually going further upstream and helping customers shape their digital programs integrate and move customers from a legacy to digital so I think that investment is in high-caliber people, they tend to be next to the customer because that is where the influence is being driven, are they directly is return on investment in the short-term, no, but if you look at our average order value if you look at some of those multi-contracts that help drive the order book, you can start to see those metrics into the quality of the business and that is that platform that hopefully we can deliver consistency and predictability on.

Baidik Sarkar:

On the street, are you seeing a higher competitive intensity and does that translate into pricing environment as well?

John Owen:

If you look at we are probably the new kid on the block when we go to see some of these new customers and you have also got an incumbent who basically thinks they can deliver a digital program, so we are competing against a very defensive incumbent who will basically throw an economy of scale and price, so we have to be competitive, but we are not competing on price, we are competing on the guaranteed outcome of our digital service will deliver business outcome to the customer and that sounds very salesy, but I think digital is different to legacy IT which was all about time and cost, and I think digital, it is a value proposition, not a cost proposition.

Baidik Sarkar:

Last question, obviously your order book visibility has improved dramatically this quarter, give the sense on the executability of this, how many quarters do we seek?

Abhishek Singh:

That is a 12 month order backlog, Baidik.

Moderator:

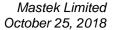
Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain:

Sir, two questions, one is on the revenue per client front, if you could give us a longer-term outlook on how should we see this number moving, going forward from a two-year perspective not necessarily from a quarterly point of view?

Abhishek Singh:

What is the second question, Mohit?





Mohit Jain:

Second one is on the offshore thing, when should we start seeing some movement to offshore because that makes the model relatively more profitable and your peers are also talking about higher offshore in digital projects as well, so is there a way you guys can also move to higher offshore and start benefiting from currency movements?

Abhishek Singh:

The first one when you mentioned about revenue per customer, we have been acquiring customers and a lot of them could be in the agile consulting space which is our beachhead or the sharp heads of the spear and these are small engagements which then pave way for the larger projects. At this point of time, we continue to invest in that or for that matter, the enterprise architect driven conversation with some of the CIOs, that would continue to be small engagements of let us say quarter million pound give or take and then those engagements give way to larger delivery projects, so at this point of time you will see it at the lower end of the spectrum because you will have more new logos coming in and when they go through the implementation phase is when the revenue for customer would swell, but that said it leads into the second question of yours when we said how much more in terms of off shoring, that is where we are. I mean the whole story is possibly two years old, Mohit, if you look at it, and that is where the maturity of the customers are coming into play, some of our customers which had a large part of the delivery, onshore and in security cleared space where the major development has happened, the maintenance and support can come offshore and that is where the off shoring would be driven, but as long as we continue to operate a lot in public sector and a lot of that would be in the security cleared space, the first engagement will be onshore.

Mohit Jain:

So this ratio is likely to change from a two-year perspective is it or is there an effort to move it more towards?

John Owen:

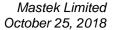
Let me try and give you a bit of color and Abhishek is absolutely right, it is about maturity curve and I am not too sure we as an industry know what that is. What I will say is we are securing customers with an onsite presence and an onsite delivery, because that is where confidence is built. What we are seeing some of our early customers from sort of 2016 as the economic pressure and competence gets up, they are now talking to us about how do they get better return on investment, build more capacity because these digital programs are getting bigger, so I think there is an evolution, so the business model works to an offshore, which as you quite rightly said would identify a seam of higher margin business, but I do not think the market timing is now, but it will happen, I think that is just a logical economic model, but I do not think it is going to come big bang in the next 12 to 18 months, but just basic economies of scale will play through into the market, but it is all about confidence and delivery at the moment.

Mohit Jain:

Coming back to the first one, our revenue has doubled from a two-year perspective, almost double FY17 to FY19, so should not our revenue per client also show some upward movement in those two years, otherwise, it remains a small project company so to say?

Abhishek Singh:

Mohit, the whole growth is driven by the new customer acquisition and to the earlier question from Baidik, you have to have new customers, Mastek of two-year back or two-and-a-half years back had a handful of customers, so the growth would be a combination of increase in wallet share with





the existing customer as well as acquisition of the new customer and the base is so small that if you add nine customers and the revenue growth is only 5%, you may just see the revenue per customer going down. You will have to be if I may say so little patient as this whole model matures.

Mohit Jain:

What I mean to say let us say we end up at 150 or 160 and you guys eventually move to 250 let us say in three years' timeframe then is it likely to be driven by new client, is it likely to be driven by existing clients, how do you see scaling it up?

John Owen:

When I talk about maturity curve of delivery, we are also investing in it as we said as part of Vision 2020, we are going to build strategic accounts, so our average order value with those strategic accounts that can become multi-million three-year, four-year contracts that is increasing, so I am pleased with that investment in account management is starting to yield a better order book as measured by the 12 month which hopefully will give us more predictability we flow to revenue, but I think Abhishek is right, we have got certain customers who are incredibly strategic and sort of marquee accounts, but we have only done say an agile consulting, what we are trying to do is link that model of the insertion to then the expansion, so I think given on the model the strategy is right, strategic accounts will give us predictability, will give us more critical math, but if we just do a straight extrapolation, I do not think it actually plays into each customers the value because an average agile consulting could be \$ 200,000 engagement where the average delivery partnership could be a \$ 10 million engagement a year, so statistically it does not quite work, but I think we got to mature the model because we have only got 160 odd customers, it is not like we have got 1060, and I will put yes on that by the way.

Moderator:

Thank you. The next question is from the line of Anik Mitra from Stewart & Mackertich. Please go ahead.

Anik Mitra:

Your other income has gone up this quarter like it was Rs 8 crores versus Rs 3 crores in last quarter so I just wanted to understand what is the reason behind and what constitutes your other income?

Abhishek Singh:

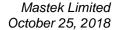
Thanks for your question. Other income constitutes of three things, the treasury income, the rental income, and what we call as R&D credit that we get across the geos in which we operate, a lot of work is high-end and the respective Governments' award and reward us with R&D credits, so the jump is on account of one of the business units which came into the fold. Till last year last quarter we never tried it and after assessing it, we realized that this may be eligible so it came in and that is what pushed for this quarter.

Moderator:

Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari:

My first question is when I look at the revenue from top five customers and the customers below that, most of the revenue growth that has come in the past four quarters have come in from the top 5 customers while the 6 to 10 customers' revenue run rate has remained nearly constant at around Rs 38 to 40 crores, so what is happening in the 6 to 10 customers and the customers below that,





and secondly, what are we doing in the terms of in getting with this customers for mining and getting more revenue share?

John Owen:

As I said in one of the last questions, we have invested in account management and I think that investment was because customers recognize us as there trusted delivery partner and what we decided is in order to get stability into the earnings and predictability into our performance, we need to build those beachheads as Abhishek described with customers, so I think those top customers grow and all our customers the average order value is growing hence the revenue, but I think that mining as you would call it in our strategic accounts is working because we are investing in methodology and we are investing in people, SG&A investment and we are getting higher share of wallet out of those customers, so that is probably more of a solid bedrock, what we have got to do is complement that with investment in new business acquisition and again as I said with the agile consulting link those insertions to drive the core business, so as we refine our strategy going through Vision 2020, we will look at what is our core competence in its delivery and engineering excellence, what is our core service line is probably application development, how do we actually take customers from an agile consulting or digital commerce or BI and analytics as an insertion strategy to prove our credibility on delivery, but then migrate them to a strategic account where in simple terms we are doing the application development and we are a recognized partner in that customer, so hopefully that explains the strategy and that is why the top five and the top 10 are growing.

Nirmal Bari:

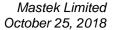
The second question was on our revenue growth from Government, so last year we had during the call it was mentioned that we are targeting a certain number of Government departments where our services would be, we are focused on certain Government departments and this quarter I am seeing that our revenue from Government has increased steeply, so is it like we have won some other contract with the Government and how much more can the revenue from Government keep increasing over the medium term?

John Owen:

There is nothing materially changed in Government strategy of digital by default, so we are enjoying success that we are also growing out into the Department, I think it is fair to say coming from the UK, I can say this but Brexit has dominated everything at the moment, so I do not see a massive expansion, but I would say our brand recognition and our engagement with across Government out of the departments that we are working with today is better and so when Brexit clears, it is not a case of it is going to trigger anything or it is going to collapse anything in technology investment, but I think people will have the bandwidth to look at their investment on digital, so I think probably a long answer to say public in the UK will remain one of our core markets, we are good at it, we are well respected and that will continue to increase and I expect this to increase faster than the market in that segment, I think Brexit will just accelerate it to be brutally honest.

Nirmal Bari:

In this particular quarter, did we have some new win in the public sector that is the Government sector or across this thing?





John Owen:

We did but it was not at a material level, it was more one of those insertion projects I talked about that probably does not shift the needle of revenue, but in the next quarter but it will over the next two to three years that is assuming we execute to our plan.

Nirmal Bari:

Sir, the revenue from IndigoBlue that is the agile consulting, I understand that it is not our key revenue focus and it is an entry point to the customer, but that has over the last year it has been seeing a decline, so how are we trying to ramp it up for gain more customers through?

John Owen:

It is about the revenue we have been a lot clearer on segmentation revenue and the old IndigoBlue also did some what I will call classical delivery revenue, so we have taken that through the traditional Mastek structure, which obviously supports a margin improvement as well, but that is probably why you are seeing some movement in absolute revenue, it is not in total it is in actually the mix and some of that revenue will flow into our delivery model, but I will let Abhishek give you more detailed answer.

Abhishek Singh:

Thanks John. I think the simplest way to look at it is that these are necessarily project based activity in this space and the projects keep churning and replaced by newer ones, so you will see it going up and down, but fundamentally the strategic use of that as the sharp end of the spear and opening the account will always be there for Mastek, and to that extent we feel okay that what you have here is pure, pure consulting work and not the related delivery work that it used to be reported possibly six to eight quarters back.

Nirmal Bari:

The last question I have is on the US market, the idea of projecting Digility which got over, so post that are we doing something through Digility or the entire US revenue is coming through TAISTech only?

Abhishek Singh:

As a matter of fact through Digility we have acquired two new logos, one of it is the large behemoth, huge, huge conglomerate that we signed the master service agreement and that gives us the hunting rights within that Corporation that will be in the app development space and the mobile app space so to speak and we have had a small agreement or a small size SOW with another organization, so Digility on its own is also contributing to US.

Nirmal Bari:

Digility in US focuses on financial services, is this correct or?

Abhishek Singh:

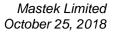
It had anchor customer at financial services, but there are no sector or service line limitation as far as Digility in US is concerned.

Nirmal Bari:

So when we are approaching customers through Digility or through TAISTech, what is the value proposition that we are offering in more so in Digility in US?

John Owen:

As Abhishek alluded, we have just signed an MSA with a major blue-chip and I think they will take us to the top table of larger Fortune 500 companies because we are going in partnership with them and we are obviously doing the app development and the mobile apps, so that is for us it is a strategic partnership, it will start small as we prove it out and the model and then we will ramp it





up, but that gives us a point of differentiation as opposed to going as Digility or Mastek or even TAISTech which quadrangle into a new customer, it is a bit of a me-to play, this is a very differentiated and to use Abhishek's words, it is the sharp end of the arrow, once we penetrate it, we got to make sure that we put the investment in and then we scale up, but I think you would be measuring that as a model probably over two to three-year window, it is not going to basically change the trajectory of the business in a quarter, but I think it will over that sort of the 8 to 12 quarters.

Nirmal Bari: Sir, one bookkeeping question, the onsite-offshore revenue split, what would it be for this quarter?

Abhishek Singh: Onshore-offshore mix it should be in the same range of 72:28, 72% should be roughly onshore,

28% should be offshore.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, my question is related to we got constant currency growth of 4.3% QoQ, if we split it into UK,

how much it could be?

Abhishek Singh: UK was around 7% plus.

Sunil Jain: What about US, Sir?

Abhishek Singh: US was relatively flat.

Sunil Jain: We got very good order booking, so can you throw some more light on it which area and from

where we are getting such good orders?

Abhishek Singh: It is a combination of both UK and US, obviously UK has a better momentum so the predominant

composition of this growth is coming from UK and US is also added to it in the digital commerce

space, the major chunk is UK.

Sunil Jain: This US growth whether we can see some revival in the coming period because of fresh order

booking?

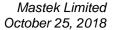
Abhishek Singh: Yes, absolutely. What is important to understand here is that there are two factors that are coming

brand-name that helps us. In UK we are 25 plus years in the geography, the delivery history, the delivery credibility comes a lot handy especially when we are in the Government space and that helps us accelerate. You take the same thing to US, we are not even 25 months in the geography, and the second part of it is the major change that we are driving in digital commerce business. We were predominantly channel fed, if Oracle won, we would have the execution business. If Oracle

into play, the first one is the tenure of our presence in the geography and hence the recognition of

did not win, we would have nothing, and our success cannot be tied to Oracle, so we have made some major changes where Oracle continues to be in the focus, but how do we drive our own

pipeline given the decade plus of relationship that we have with a lot of customers who have ATG





installed, that is where we are working on and our target is that over next two quarters, our non-Oracle driven business should be higher, our non-channel fed business should be higher than the channel-fed business and which is where you see a bit of that plateauing, but that does not mean that the opportunity is not there or for that matter there is market potential issue.

John Owen:

I will just go back and reinforce Abhishek's point, if you look at the UK business, three years, five years ago it was something like 78% indirect and 20% direct and we have shifted that, so all our business in the UK is about 96% direct and 4% indirect and I think that is at the same philosophy with the Oracle is. We want to have more access to the market, so we got better understanding of what the market is doing versus just what Oracle view of the market, but it is in a transition.

Sunil Jain:

Even if we see from the industry segment perspective for this new fresh order booking, where from it is coming, which area we are getting more traction?

Abhishek Singh:

It is coming from all the sectors, public sector obviously is predominant and AppDev continues to be the backbone, that is where I said service line application development from the sector, it is public sector and in private sector it would be some of the BFS, banking and financial services customers.

Moderator:

Thank you. The next question is from the line of Arpit Agarwal from Systematix Shares. Please go ahead.

Arpit Agarwal:

Sir, in the annual report you have mentioned that with Brexit you see significant opportunities, all Government Departments will reconfigure systems, so can you give us a little more details on what is the kind of opportunity pie you are looking at once Brexit comes in force?

John Owen:

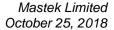
The quick answer is no because I think it is fluid, what I would say in general terms, our pipeline is getting bigger and probably getting better qualified as we go through quarter-on-quarter, as that account management investment starts to flow through and we are doing strategic planning workshops, our architects are working with the client, we are getting better forward visibility of projects where we could compete are coming from. It is not going to be sort of a big bang once Brexit is sorted out with the whole pipeline coming downstream, but I think we have got better visibility and the other part is we have got advanced visibility where people are looking to invest, but to extrapolate that and then say, right, that is going to flow into an order book and a revenue model over that sort of period, I do not think we are at that stage yet.

Moderator:

Thank you. The next question is from the line of Ashish Das from Sharekhan. Please go ahead.

Ashish Das:

I just wanted to understand your strategies in US market, like you talked about non-Oracle business you wanted to increase that portion, how do you do that like you will make more partnerships or you are talking about regarding the acquisitions, is it on the card or what is the progress on that part?





John Owen:

There is a balance of better coverage model not just an Oracle coverage model, number one. Number two, we are investing in sales and particularly sales and a marketing engine to give us better coverage, and the third element is we said we are looking at the strategic partnerships that accelerate sort of our insertion at the Boardroom not at the front desk, so I think those are the three combinations. We will maintain Oracle because it is a very good relationship, but I think we have got broader access to the market, but we got to be realistic. Mastek is only being 25 months in the US and most customers already have a services partner. We have got to find some point of differentiation and I think that is why we are looking at this diversity of partnerships.

Ashish Das:

My second question is the India business I found decline in the revenue, what is it?

Abhishek Singh:

Ashish, there it is our conscious strategy to exit out of the Government business. These are the set of legacy businesses that have had their own set of challenges both in terms of payment, the quality of delivery received by the Government customers, and their ability to close any of the project in time, so that is in line with our strategy that we want to reduce or rather exit the Government space completely.

John Owen:

Ashish, when we started Vision 2020 in Fiscal '16, we made a very clear commitment that we would exit the Indian Government business, but with grace and we would close up all our obligations and we will make sure that there was a smooth handover, but we were not investing in growth there because given our size and our scale and just the cost of capital, it just did not make sense for us at this time, so you will see that basically trail off as we close of our obligations, so it does not surprise me the revenue reduces. That being said, I would like to see us grow faster in the corporate Indian market because I think it is a very dynamic market, but again I would go back the strategy that we have got at this stage in our maturity is the UK and the US are the growth engines, that is where we are putting our investment. India would be more opportunistic until we got that critical mass in the business.

Ashish Das:

Abhishek just wanted to know one bookkeeping question, actually the financial expenses has increased, so what is the reason for that?

Abhishek Singh:

That is a one-time expense, we refinanced our existing loan that we had with one of the banks where at a much cheaper rate with another bank and that is a one-time payment for arrangement fee.

Moderator:

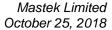
Thank you. The next question is from the line of Ganesh Shetty, an Individual Investor. Please go ahead.

Ganesh Shetty:

Congratulations for a great set of number and the strategy we are looking for 2020 and the operations efficiency, I just want to understand what is the percentage of US contribution during this quarter, revenue percentage?

Abhishek Singh:

US contributed roughly around 25%.





Ganesh Shetty:

Sir, as UK is a very matured market for us and we are well settled for last 25 years in the UK Government and UK corporate, and now we are also shifting our focus to US and try to get revenues equally to US, UK Government, UK geography, are you feeling some crunch or administrative problems in penetrating the US geography, can you throw some light on this?

Abhishek Singh:

The digital model requires us to hire in the local economy, in the local market and support and supplement it with your established practices, processes, policies, and expertise that you have. From an immediate point of view, we are adequately capacitized in US market to handle possibly next phase of 25% to 50% growth, but as we grow along clearly the sourcing model will be a lot more local and this is relevant both for UK and for US.

Ganesh Shetty:

Sir, you have also indicated that digital retail business to be a huge opportunity for Mastek and looking at the seasonality of the retail business, how do you find the business going forward in Q3 and Q4?

Abhishek Singh:

The business is on a robust track, it is an opportunity rich environment. The fundamental difference, Mr. Shetty, is that we were channel fed till possibly 90 to 120 days back and now we are scouting in the market for opportunities directly. In some of these calls earlier we had outlined how we have created a lead generation unit within our organization wherein people are approaching the installed ATG base directly and looking for all the opportunities both in microservices, headless architecture space or even the ATG maintenance activity, so that is the change and that is throwing up some very interesting opportunities which are reflected in the pipeline.

John Owen:

Ganesh, I think it is worth just putting a level of context is the US is for us a nascent business, it is not critical mass in both age or materiality in the business of 25%, so we would over report or underreport in any quarter, I think this is measuring it over the next probably six quarters is a good view, is that strategy valid and are we executing it. As Abhishek quite rightly said, we are also building a diverse model where we are not just going to be channel fed by Oracle, but with respect to one deal, I would have a material view on the percentages today, I think over the next six quarters that is where we would measure, but strategically we do want to balance out our revenues over that sort of three to five-year period between the US and the UK, that strategic intent has not changed, and yes to accelerate that we would probably look at inorganic activity to complement and build some critical mass.

Moderator:

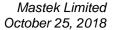
Thank you. The next question is from the line of Kush Gangar from Care PMS. Please go ahead.

Kush Gangar:

Sir, I just had one question, how do you see your revenue mix, geography mix moving between UK and UK over the next six to eight quarters from current 75:25, how do you see that changing?

John Owen:

I cannot predict today the straight-line percentage, I think I said over the next three to five years, I would like to see us get into that 50:50. If I am being mathematically correct, I would like to see something like 45:45 and 10 coming from India in the corporate sector, but I would like to see the US balance out just given the market size, its propensity to work with Indian technology firms and I think in retail is quite a nice pace because everyone is being impacted by that Amazon effect





particularly in the retail space in America. What we are seeing is that technology and that experience flowing into every part of the business segment, so I do not think it is just retail, it will be in the business-to-business area and it is also in business to Government, so to answer your question directly over a three- to five-year period, I would like to see our revenues balance that we have got some geographical diversity, but I do not think you are going to get that much materiality in the next six quarters, but I think it is over those next sort of 8 to 10 to 12, that would be maybe a little further out, and I think a lot of it to be candid is our business we are so opportunistic and we are so agile and at the moment it is about putting the investment around the strategy and as we see the market shifting, we will move our capital to where we get the best return.

Moderator:

Thank you. We have a follow-up questions question from the line of Anik Mitra from Stewart & Mackertich. Please go ahead.

Anik Mitra:

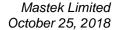
Sir, what is your strategy for expansion going forward, what I mean to say like do you have any planning to expand across geographies other than US, UK, India or say across industry beyond what you have been operating at this point of time, this is one, and second is just wanted to understand like what is the time scale of delivery of your project in terms of various sizes of the project? Third one is like can you give some guidance going forward in terms of your revenue or net profit?

John Owen:

I will try and answer the strategy one and I will let Abhishek talk about the size and the guidance. What I would say on strategy, what we have done in Vision 2020, and hopefully, you will see it reflected in our performance is to build a solid platform for predictable, consistent growth and that is where we are talking about 10 quarters of consistent quarter-on-quarter growth, so in simple terms it is about getting our organic model working and we have talked about these insertion accounts where agile consulting and then we move to our strategic core business which is apps development and we scale and we build repeatable long-term relationships, multi-year contracts because that has got to be the bedrock of a successful sustainable business, so the first sort of two years of Vision 2020 have all been around getting our organic model working, it was the fixed age that was building the underlying platform for predictable, profitable growth. We have always signposted and I think lots of you have already identified, we have quite a strong balance sheet with non-core asset, obviously at the appropriate time we would look to put into the core business, so I think if I give you guidance strategically over the next three to five years, it is simply, one, make sure our core operating model, our organic model is consistent, is robust, is fine-tuned, and two, we will accelerate that with inorganic at the appropriate time, but those markets that we operate in will remain the UK, the US, and India. We are not looking to acquire engineering asset outside of those three geographies and we are not looking to go to market outside of those three geographies. I do not think given our size, our scale, and our maturity, it is about focus of execution in those three geographies. I will let Abhishek talk about the size and the guidance.

Abhishek Singh:

Very clearly we do not give any guidance that our direction of travel will remain the same and we endeavor to maintain it, and from a quality of earnings point of view, we are obviously focused on how do we bring in operating leverages that gives us the ability to invest back in the business, so to that extent we will continue to be the upward bias so to speak.





Anik Mitra: Can you give any idea like what is the timeframe of delivery of the projects?

Abhishek Singh: We have few months to multi-year contracts at this point of time, we do have couple of year

contracts, we do have couple of months engagement in the Agile consulting space, so that is the

range.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to

the management for their closing comments. Thank you and over to you.

John Owen: Thank you very much. First of all, thank you for joining us. Can I just say thank you to Abhishek

because to show the dedication of a Mastek CFO, he is on his sickbed, so I think you have done a fantastic job Abhishek and thank you for supporting me. What I will say is Vision 2020 is we discussed has brought clarity and focus to the business and I think we are benefiting from that discipline of executing quarter on quarter. We are performing better than we have been for many years and we are trying to do three things in the organization; one, we are trying to operate better than we ever have because we are growing faster and quicker. Two, we are trying to transform the organization into a leader in enterprise digital transformation and that becomes a lot more agile than probably our traditional competitors, and the third one, we are trying to grow faster than the market, so I think those three things for me give me a huge amount of satisfaction and confidence that Mastek has got a platform for growth and that is what we have talked about today, so although it has been a difficult three months from an external view, I think the fundamentals for our business remain incredibly solid and the market is robust, we can differentiate ourselves in the market, we have got financial stability to grow, we can grow faster than the market, we have an excellent reputation for delivery, we have a strong engineering heritage, and we do know how to deliver better than anybody else, this mixed delivery model of onshore and offshore and as the market matures, I would like to think that will flow into a better earnings model, but I am not too sure when that model is, but you got to be in the market to enjoy that transition, so with that I just like

to thank you for all your support and thank you for the questions, thank you for the challenge, you do make us a better company and we look forward to talking to you again in Q3. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Mastek Limited, that concludes this

conference. Thank you for joining us and you may now disconnect your lines.