



“Mastek Limited Q1 FY’20 Earnings Conference Call”

July 22, 2019



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MODERATOR: MS. ASHA GUPTA, CHRISTENSEN IR

Moderator: Good day, ladies and gentlemen and welcome to Q1 FY'20 Earnings Conference Call of Mastek Limited. 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 IR. Thank you and over to you Ms. Gupta.

Asha Gupta: Thank you, Margreth. Good evening to all of you and thanks for joining Q1 FY'20 results of Mastek. The results and presentation have already been mailed to you and you can view that in 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 -- Group CFO. Mr. John will start the call with brief overview of the quarter gone past which will be followed by Mr. Abhishek who will be going into detail financial, 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 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 it on our website.

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

John Owen: Thank you, Asha, and thank you and welcome to Mastek's earnings call for Q1 FY20. It is a pleasure to review our results for the quarter and share how the business is evolving particularly given the challenges we faced in our traditional core market of the UK which last year accounted for over 75% of the group revenue.

Given the unprecedented and continued uncertainty of Brexit which has impacted every business in the UK and is not unique to Mastek, so in that context I would describe our performance as adequate with YoY revenue growth of 1.9%. Despite a lower growth rate than our recent track record, I am particularly pleased we continued a positive trajectory on our quality of earnings with an operating EBITDA of 13.3%.

On a QoQ basis, for the first time in three years our revenue declined by 5.5%, all directly attributable to difficult UK market however, even with that lower revenue performance we maintained our quality of earnings and protected our financial capacity for future growth but we will reassess where we invest.

As a UK national, I cannot overstate how much Brexit or lack of it, has dominated every aspect of the UK agenda and really it is a genuine relief to be in a vibrant economy like India. I can say personally this feels more like a holiday than a board meeting in an earnings call. Brexit is divisive and dominates our media, our politics and divides families and consequently it will have

an impact on our economy. Given the continued lack of clarity and stability, I believe the shadow of Brexit will continue to make our UK business challenging for the balance of FY'20, irrespective of who becomes our new prime minister this week.

But let me calibrate my commentary as it isn't all gloom and doom. I think Mastek has, can and will continue to grow and therefore, become a much more valuable company for our many stakeholders. I would suggest the last three years of implementing our Vision 2020 strategy has not only built better financial performance as we have all seen, but it has also built in better revenue resilience to factors outside our control like Brexit which is helping us navigate these external factors, probably better than ever before in Mastek's history. So, I am pleased with the platform we have to move forward with.

So, as I said, although Brexit is a major inhibitor to our UK growth given our heritage and our exposure, I would argue we navigated this impact well and there are pockets of major achievements of Mastek last quarter across the business. So, please let me unpack a few of our individual performances by region: First and foremost, we have not lost any customers and we do not see any of our customers migrating to Europe any of their work. What we are experiencing is a general slowdown in discretionary spending and a right shift in new projects funding particularly in the UK private sector.

By contrast, our UK public sector continues to grow QoQ and this has now become the bedrock of our global business. I expect this sector to continue to grow and even accelerate once our little political drama is resolved as the departments get clarity and confidence in what they need to do deliver and they get the budget signed off.

Our UK private sector business unfortunately, has suffered the most stress with the new projects being deferred and moving to the right but probably more damaging is the slowdown of the discretionary spending which has taken a lot of the momentum out of the business. There is not a structural problem here just the distraction of Brexit which I expect to recover once the businesses have clarity and they adjust their operating models.

On a more optimistic note, I am pleased with an encouraging performance at our US business which grew in Q1. One quarter does not make a total recovery however, as I stated in our Q3 call last year, we totally reset the US business with the backend of 2018 and we are now getting better revenue visibility and therefore, renewed confidence under the new leadership of Raman Sapra who joined Mastek last quarter and heads up the region. And again, his appointment strengthens our overall executive team capacity, capability and experience for the next leg of our journey.

To give some validation points underpinning my optimism, our pipeline remains solid and I am pleased with our order backlog which grew 13.4% QoQ in constant currency which represents 23% YoY growth. So, despite all the challenges we face, I am confident we will continue to grow throughout FY '20 as we complete the final phase our Vision 2020, that has already brought us the focus, the discipline, and the renewed ambition for Mastek.

As we progress through the year, we will continue to course correct as we navigate the prevailing market conditions however, our strategic goal remains the same which is to be the recognized leader in Enterprise Digital transformation. To that end, we have repurposed our SG&A investment away from the UK private sector where we do not currently see strong market traction towards the UK public sector where we continue to win new accounts and expand our existing accounts and also to our reenergized US business, where we are starting to see the benefits of cross selling Mastek core services into our Digital Commerce customer base.

I have always believed that building a high performing Mastek is only achievable by attracting, retaining and developing a passionate, professional and dedicated team of Mastekers and this is the team that delivers for our customers everyday around the world.

I want to take this opportunity to thank the fantastic team I have at Mastek for another solid performance as we continue to improve our productivity and competitiveness.

Another mark of just how far we have come in a short period over the last few years, came when the UK Prime Minister Hon'ble Theresa May at the start of London Tech week in June, announced in her ministerial press announcement that Mastek was investing £12 million in a new digital skills programme for graduates in Leeds, this investment is intended to support our continued UK expansion. It is nice to see we now have visibility absolutely on the top table of the UK government.

Although Q1 is rightly being dominated by correcting the short-term organic growth performance in the UK, please also remember we have also entered the final phase of our Vision 2020 strategy. This is our 'Growth' phase where we intend to accelerate our growth through a combination of organic and complementary inorganic routes, the strategy we have previously shared. On this initiative, we have made good progress in the quarter cleaning up our balance sheet to allow us to monetize our Majesco shareholding and also some legacy office buildings so we can fund our core business and simplify our focus on value creation.

Although we are undoubtedly experiencing some headwinds in the UK, we will continue to grow and when we layer in our M&A plans, these will effectively accelerate our development. To be clear, M&A will only be a catalyst for growth and diversification and must help our core business grow faster, build more resilience and ultimately drive better earnings. Therefore, it is imperative we continue to transform every aspect of our organization to be more productive, more respected and more innovative so we can deliver better outcomes for our customers, our people and ultimately our shareholders.

Finally, investors, thank you for your continued support and your enthusiasm for our business. You continue to challenge our thinking and we do genuinely appreciate the interactions and the guidance. We have always said that digital is different to legacy IT and while legacy IT continues its race to the bottom on price which is the game we cannot win and will not play, but at Mastek we continue to quietly, successfully carve out our own niche as a trusted digital delivery partner,

a partner who delivers business impact to some of the world's most demanding customers and institutions and we are at the heart of their operations.

I will now hand over to Abhishek to take us through a little bit more about the financial breakdown and provide more context to and then we will be happy to answer your questions.
Abhishek

Abhishek Singh:

Thank you, John. Wishes to everyone joining our call this evening. I hope all of you have received the deck that Asha circulated ahead of this call. Deviating from our past practice of going through the deck and doing a page turn of the PowerPoint shared, I am going to share the highlights of our financial performance for the quarter and then we can focus a lot more time on the Q&A section.

So, opening on our financial highlights, our operating income stood at Rs.247.5 crores vs Rs.244 crores last year; it is up 1.4% in rupee terms YoY and 1.9% in constant currency terms; however, it is down (7.3%) in rupee terms QoQ and (5.5%) in constant currency terms. If you dissect the revenue by geography, the revenue in US grew robustly, right around 9% QoQ in constant currency terms, we added six new logos in the geography. And by the contrast, revenue in UK was impacted by the timing of the deal closure, a lot of it that we had expected early part of the quarter, closed in a little late and possibly after the quarter, giving us (9.6%) degrowth QoQ; however, on YoY basis UK revenues grew by 5.7%, India remained flat both in terms of QoQ as well as YoY terms.

If you look at the revenue by composition, Digital Commerce and BI and Analytics service line grew robustly and this growth relates with our growth in the Retail vertical because Digital Commerce is practically focused on Retail vertical.

Moving on to operating EBITDA, it stood at 13.3% for the quarter, expanding by 60 bps YoY and 10 bps QoQ. This was driven by the proactive management of our cost structure and the operational efficiency initiatives that we have been driving across. This is on the backdrop of continued investments that company has made to ensure that we have future-ready workforce. And as John alluded to it, the environment in UK stabilizes and clears off, we do expect an expedited business decision and to that extent we have to keep our workforce ready to handle that.

Moving on to profit after tax, it stood at Rs.24.2 crores in the quarter versus Rs.22.5 crores in Q1FY19, up 7.8% on YoY basis; however, down by (11.6%) on QoQ basis, reflecting the shortfall in the revenues that we experienced.

Our biggest confidence comes from the 12-months order backlog which grew robustly to Rs.602.7 crores, i.e. £68.8 million growing by 13.4% in constant currency terms and 21.8% YoY. In all we acquired 9 new logos during the quarter and the last 12-months clientele stood at 154.

The total cash and cash equivalent stood at Rs.247 crores after incorporating the payouts for the US acquisition, the contingent consideration that we paid during the quarter.

So, these are the financial highlights. And after this, I am going to hand over the floor for question-and-answer. Thank you.

Moderator: Thank you very much. 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 disappointing numbers overall, but obviously the macros of what they are. I only wish to the extent of pain that was communicated and a manner that was bit more obvious and the conjectures that were drawn after the Q4 numbers. But moving on and taking the conjectures from the road shows that you have a few weeks back in India, do you still believe that there is a case for low-teens growth given the extent of degrowth in Q1, I do notice that your order book sequentially is up 14%. So, given how things are today, what are your comments on the quantitative growth would be going forward?

Abhishek Singh: Thank you for your question, Baidik. So, we performed the business and the quarters will shape up to the various factors that impact us. And to that extent we appreciate your comment, we understand the context of it. We have reasons to believe that business will grow. Now the percentage of the numbers would be where it would be. If you have to go by the leading indicators both in terms of order book as well as the quality of earning, we have been able to hold on to it. As a matter of fact, all order book gives us significant confidence that we will be able to get into the double-digit and to the teens that we have been endeavoring for.

Baidik Sarkar: Sure. In terms of margin recovery, obviously, the US geography has shown some bit of recovery. Just talk us through your initiatives, what is happening, obviously, revenue booking in the US has not improved a great deal. Your comments on how that is shaping up and what is the extent of margin recovery I think you would guide for us to exit by say the end of this financial year?

Abhishek Singh: I think the US revenues showed the impact of what we have been trying to do for last couple of quarters. We completely reset the business, reorganized it and seeded it with tenured Mastekers who anchored the business and drove the Sales efficiency. We drove cross-sell significantly as well as new business, landing six new logos in the qtr. All these have resulted in the revenue growth that we have experienced in the Qtr. At this point of time we would not declare victory in US because one quarter does not really make a trend. But there are enough indications to say that the business is on the right trajectory and now with the President of Americas, Raman joining in early June and his endeavor on new business as well as overall time spent in the business gives us clear idea that we will be able to drive northward trajectory in the biz. Now the business is very small at this point of time, it is still a sub-\$40 million as geography. So, any event, any investments we make will have an impact on the business. To that extent, I would still believe that it will continue the northward trajectory as far as the whole geography's contribution is concerned.

- Baidik Sarkar:** I think in your comments you mentioned about liquidating your stake in Majesco towards executing a vision 2020. What is the state of that and should we expect closure by this quarter?
- Abhishek Singh:** We would not put a date on that one, Baidik. If we could, we sure would have loved to. That said, all the regulatory hurdles and statutory activities that were needed to be done to accomplish this monetization has already been done. To name a few, we had to be degrouped as the promoter group company, that have been done. We had to register our stock, that is done. So, today we can trade one stock or we can sell all of the 5 million plus shares that we have. So, we are very well situated and the brokers are out there in the market scouting for buyers. My sense is that post Q1 results of Majesco, it will gather a lot of steam and we should be able to take it forward.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Government has also shown a sequential decline. So, what is the adjusted for cross-currency impact? How the government business has performed for this quarter?
- Abhishek Singh:** Government business, the way we would have said that is not just the revenue booking or the exact counting of the numbers that you may have looked at in the revenue analysis, Madhu Babu. The one that we would focus on is the order book contribution that it has bought and the momentum that we have experienced both in terms of late June as well as in early July, the first three weeks we have had very-very good traction coming from health services in particular and which in our road shows also we had outlined that this is what we call as economy-agnostic spend. This is the department, this is the sector which is independent of the economic state or the political state. So, our assessments are correct and that has given us the contributions on which we are looking forward to building on.
- Madhu Babu:** NHS, we are seeing a good traction, that is what we are saying?
- Abhishek Singh:** That's right.
- Madhu Babu:** Second sir, this order book getting good improvement. So, is it like multi-tenure deals are there in this or should we see an immediate recovering growth because of this improvement in order book?
- Abhishek Singh:** It is a combination of both. If I look at US, US businesses are project-based and they have got a sharper revenue curve, and that gives us the logo and the base to cross sell our core services. If you go to UK, these are a lot more of what I call as "tenured deals" and that gives us the revenue stability over multiple years.
- Madhu Babu:** So, cash is around Rs.247 crores somewhere. Do we have any debt as of now and what is the net cash on balance sheet?

Abhishek Singh: Rs.67 crores is your debt, that was for the TAIStech acquisition we backed that out, my sense is we should be about Rs.180 crores net cash.

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

Mohit Jain: This is Mohit Jain from Anand Rathi. Wanted to check on the UK business, like we have seen this increase in order book. Last quarter also I think it went up sequentially. But we are not seeing the deterioration in the business was faster than what we anticipated earlier and it is also faster than what others are reporting in the Europe or UK geographies. So, is there a difference in our business that we do with them and what do you expect from second quarter?

Abhishek Singh: See the nature of our business has not changed fundamentally, Mohit. The growth between Q3 and Q4 was there but the momentum that we see here now is a lot different. The acceleration, we expect a lot of it to convert faster. But that said, the focus is on the departments, focus is on those stakeholders who have got very clear budget visibility and who have the need to spend to bring in the efficiency and NHS is one of it, if you imagine with the aging population and rising healthcare cost, this is one department which has to focus on a lot of transformational initiatives to make the “pound stretch” and make the same budget service a lot more of the population and a lot more of the citizen. So, we feel a lot more comfortable with our growth traction in that sector, and that is what we are predicating our strategy on.

Mohit Jain: But sir, in general, in UK market specifically, should we grow faster than what others are reporting? or do you think there is a chance we can show slower growth than others because macro remains same broadly and UK we were assuming quite strong, so is there a chance that we will still do in FY'20 better than others in the UK market? By others we mean like Indian IT revenues derived from UK market.

John Owen: I would expect us to be stronger than Indian competitors. I would expect they are going to see the same macro effect in the private sector which is where the predominant business is. So, I would think our customers are not unique and discretionary spending will be challenged. I think what gives us the confidence is our public sector is fairly resilient, they continue to invest and I think when they get the spending review '19, which should have been signed off in Q1 calendar this year, they are saying it is going to be done by Q3 calendar, I think that will give the public sector sort of an impetus for more. The net-net Mohit, I would expect Mastek UK to grow faster than our Indian peers because I think we will be growing disproportionately in the public sector, not the private sector. But I think to my knowledge, we are one of the only Indian software service companies who service central government successfully.

Mohit Jain: Right. Coming to this growth part, within UK, by your estimate, do you think by any chance are we more exposed to discretionary expenditure than other IT companies?

John Owen: Certainly, in the private sector, because we are not doing legacy, we are not doing operations, so it is discretionary. I think and again you benchmark this against other sort of industry

benchmarks, but Private sector are spending a lot of time building scenarios, are we in, are we out? do we need to build inventory? How we are going to basically service that? Where are our people? So, there is a massive distraction which is particularly focused in the private sector. And I think that's the bit that impacts discretionary spending. Public sector is more robust, more resilient and again we are continuing to grow and deliver on those commitments. So, UK will grow. I think it will be heavily orientated to the public sector which is why we are reallocating our SG&A to put more into that and we are basically taking a little bit out of the private sector because the market traction is not going to change anytime soon. And I think to the earlier comment about transparency, we should have been out of Europe or in Europe and at the moment we are still talking about should we have a second referendum. I cannot tell you how much the uncertainty is impacting inertia in decision-making. And that fully backs up why discretionary spending, most companies are saying, if we do not know what outcome looks like, let's hold on to the cash. We will respond when we have got clarity.

Mohit Jain: Given your order book, is it fair to assume that 1Q was the bottom for revenue or do you think 2Q will be the sort of slow revenue number for us?

John Owen: I think we have got to look how the order book flows into the revenue and does it pickup. We just got that model now because some of it is on resourcing, some of it is on the customer but I do not think it will decline. It is probably my intuitive, so if I am giving you a baseline, we're probably at the lowest quarter and it is about building backup. This could be a different mix going into Q2, Q3, Q4, but the clear message is UK will grow, Mastek will grow, it will be driven by the public sector and I would expect us to get back to our traditional growth levels QoQ by the end of this fiscal year.

Mohit Jain: Abhishek, the order book that we disclosed is for 12-months only, right, so this will be executed in FY'20?

Abhishek Singh: That is right, it is 12-months order backlog only.

Mohit Jain: So, is there a chance they can delay it because once you have booked order backlog then it should get? See, we were looking at order backlog in 4Q '19 and assume that all of it will be booked in FY'20. Is there a chance they may ask you to delay the ramp-ups and therefore the order backlog may not...?

Abhishek Singh: That is the nature of the business, Mohit. Absolutely, there is always a chance of the speed at which you are executing versus a change in scope that can come in at a later date, that is the nature of business. But this is what you call as signed, sealed and reasonably certain, it is backed by a contract, it is backed by the execution that we had already own unless there is something significantly different in terms of what is happening at the client-end, we would like to believe that it is clear.

Mohit Jain: In the last quarter, you have not seen any those one-offs, do you think that order backlog and execution is pretty much under same pace as it was last year?

- John Owen:** To answer your question, I expect it to flow the same way it did last year but I think to Abhishek, you cannot just extrapolate 12-months order backlog convertible to revenue because there are certain decisions and flexibility that customers will have and I do not think we are the type of organization that would say, "Well, you have written it down, we did it and we are going to basically drive it." These are long-term relationships and there needs to be some flexibility. But to answer it with a level of confidence, I expect the order to revenue flow to follow last year. I do not think there is anything that would jeopardize that.
- Moderator:** Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.
- Ashish Agarwal:** Just wanted to get an understanding, first of all on the UK private sector, so is it fair to assume that the UK private sector revenues as of now it has bottomed out and we might not see a growth but we might not see even a decline from here on? And secondly, when we said that we are still targeting a double-digit type of a revenue growth overall, that would mean a very high CQGR going forward and what you gave a comment on the last question that we expect to go back to our historical QoQ growth rate from second half onwards, it is not jelling, maybe can you please explain on this?
- Abhishek Singh:** Ashish, the answer to your first question is yes, we would like to believe that UK private sector is reasonably bottomed out and we may not be able to grow it as fast, but it should hold on its own. To the second part in terms of the growth rate, see it is always an endeavor based on the pipeline, the order backlog and the conversation that you are having with the prospects. If you model it, one deal of £5-7 million can make a difference between the growth rate that could be pessimistic versus the growth rate that is good and acceptable. We keep that in that - the comment is in that light.
- John Owen:** Just to give some color to that, if I look at Q1, I would say it is adequate, that we geared up for winning one project which got deferred and it is that sensitive. Now had we won that everything will be looking very different today optics level but the market is still there, it is a little bit sensitive. I think what we have done in the quarter is we moved very quickly and decisively to protect our cost structure and protect our earnings. You are right, if we see a more robust pipeline which we do, and we execute it, I think it is going to come from the public sector, not the private, we are putting our resources into that.
- Ashish Agarwal:** Right. So, this quarter a major disappointment has been coming from the fact that you are not able to sign orders on time, am I right?
- John Owen:** Correct, we had a couple of deferrals because basically got the project moved because of uncertainty in the economy.
- Ashish Agarwal:** But have those deals been signed or they are just under limbo?

- John Owen:** No, they are not been signed. Basically, you lose the velocity out of your pipeline and yet we are geared up for delivery of those because we are confident, we were going to win them. So, we have not lost them. They have just basically moved out of the pipeline to the right.
- Ashish Agarwal:** And these are on the UK private sector?
- John Owen:** Correct.
- Ashish Agarwal:** So, UK public sector last year I think grew by 25%-odd. Last time in a road show you said it should grow on mid-teens type of a number. So, that number still stays, right?
- Abhishek Singh:** Yes, that is right.
- John Owen:** The UK public sector has got to do a little bit more heavy lifting for the UK private sector and that is where the US has also got to do it. And the US could not do because of the size, although it had a good quarter, it could not offset the softness we had from the UK private.
- Ashish Agarwal:** So, is it fair to assume that Q2 will be better than Q1, Q3 will be better than Q2 and this is how we are looking at?
- John Owen:** That is the endeavor, as Abhishek would say.
- Moderator:** Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.
- Nirmal Bari:** My question is on the UK government sector's revenue dropped QoQ. So, is it just to do with some deferrals in projects or there were some projects which got completed and what was exactly responsible for that?
- Abhishek Singh:** You are right, we had some projects that concluded and the ensuing projects that we expected to kick start, came in at the back end of the quarter. So, it was the timing that impacted the government revenues.
- Nirmal Bari:** The second question is if you can give the hedge position that we would have in the UK pound because there are a lot of articles which are saying various things about the state of UK pound in case of hard Brexit or a no deal Brexit?
- Abhishek Singh:** I am just looking at the data. We do still follow up to 3 - 3.5-years of a forward coverage and I would say that we have fairly covered to the average rate of Rs 97 for a pound for the certain percentage of our revenue guidance that is for the next 12-months £7 million is covered at Rs 97 for a pound.
- Nirmal Bari:** Finally, in the US business, what was the payout that happened in this quarter?
- Abhishek Singh:** We paid right around Rs.7 crores in the form of earn-outs.

Nirmal Bari: The cash that we had as compared to last quarter, the cash increased by just Rs.3 crores. Now considering the Rs.7 crores payouts and the EBITDA and the lower conversion basically, is there anything else which led to this lower cash because I think we also sold some office buildings and all from which we would have recovered some cash, right?

Abhishek Singh: Nirmal, the first thing is we have not sold anything. We are in the process of selling it. So, the cash does not reflect any of those. And the second one is that we not only paid Rs.7 crores in earn out but we also had bonus payouts during the quarter which stood in double-digit. So, if you incorporate those two factors, the conversion has been pretty good. It is in same line as what you have experienced if not higher.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: In terms of these nine new logos that have been added, can you share the size, they crossed Rs.1,000 crores of our annual top line, have we decided ourselves on some sort of a minimum ticket size or something of that sort?

Abhishek Singh: The business that we are in, you have to look at a lot of engagements, Amit. Start as what we call as “Discovery”. So, you have to do the discovery phase, followed by alpha and then the beta phase; beta is where your hard-core, large engineering engagement comes in and then these are where you have multiple year engagements. So, putting a threshold may not be the most judicious thing to do because lot of customers in digital transformation would like to first test the water and then commit themselves to it. So, the answer to that question is no. The second part is the average order value depending upon which business you are looking at, the Digital Commerce, OCC focused businesses could be anywhere around \$750K in terms of project nature and in UK we continue to have multi-million, multi-year engagements with the customers.

Amit Doshi: So, in that case, what would be the repeat ratio? because we start small testing waters and of course expecting a discovery of larger project size, so what would be the repeat conversion ratio of our existing clients or existing order book?

Abhishek Singh: I am very comfortable to tell you that it is as much as nine out of ten engagements which results in the next phase and enhanced spending.

Amit Doshi: Last question, in terms of our growth guidance or our cautious approach on one side, there is an interview by Mr. John recently in the March or April whereby we are talking about doubling our headcount. Today’s commentary on the call versus the result and that interview it does not give a clear direction. While you are confident on the growth side but the rate of growth clearly comes under a question. So, can you slightly reconcile the three which I am slightly struggling to?

John Owen: I think we have always said our growth is both organic and inorganic and I think the organic is what we are talking predominantly today and we are driving revenue stability, we are driving better productivity. I think the inorganic when we talked about monetizing our Majesco is where we use it. In simple terms, if we want to increase our revenue, we’ve got have more heads. So,

I think the direction of travel we talk about doubling over the next 12, 18-months and completing “Vision 2020” with an inorganic complementary acquisition still holds and that would give you a bigger uptake in both headcount and revenue. What we are talking about today is the inorganic core business because we are not modeling inorganic on top. This is our organic core business and I would go back, Mastek, we had external factors in the UK and I think we have managed it, we have stabilized, we have protected our earnings and we are still building our strategy and it is more right shift, it is not a loss or a structural issue. If we want to basically have exponential revenue, we will need more headcount.

Moderator: Thank you. The next question is from the line of Parag Bharambe, an individual investor. Please go ahead.

Parag Bharambe: In your commentary, you sounded cautionary approach on Brexit and at the same time your order book has grown quite decently. So, how are these contradictory things playing out?

John Owen: They are not conflicting or contradictory. Our order book which is Q1 and I expect that momentum to stay into Q2. So, I do expect a good first half in order book which should give us the confidence for rolling out into revenue growth. The predominant of that order book was UK public sector and that has continued in July. So, I think that’s why we are cautiously optimistic for basically flagging we will grow. But I think in simple terms, where we put our investments in, as we started the quarter, when we started our new business year, we built that plan on the UK would be out of Brexit, it did not matter if you are in or out, we had clarity and direction. That is just at a macro level, just sort of gone from crises to crises to crises. What we have done is revector and navigate our organization. We know we are good in public sector. We know the public sector is buying. We have got referenceability. We know we have got strong order book and we have got a strong pipeline. So, as leaders of organization we are fine-tuning the organization to get our cost structure right for the market and to basically move the SG&A investment into the UK public sector where we see good return and a strong traction and also into the US because we have now got clarity and pipeline. What I will say is the pipeline generally is fairly robust and opportunity rich. My worry based on Q1 is it may be in the pipeline but the ability of decision-making in the private sector based on the last 90-days is not solid and that is where the velocity has gone out of the business a little bit.

Parag Bharambe: So, are you seeing a significant impact of Brexit even on public sector or that is mostly on the private sector?

John Owen: That is mainly on the private sector. The public sector still need to go through and I think that is where we can see the order book flowing through and the pipeline is more robust.

Parag Bharambe: Next thing is the US has reported EBITDA is Rs.5 crores. How sustainable is that, the US positive momentum or positive growth or it can still fluctuate above the baseline and below the baseline for some time?

John Owen: I think we have been fairly clear that one quarter does not make a recovery, but I think Q4, Q1, we are starting to build momentum, we have got that visibility and we have got confidence in the leadership that we will execute that, cross-sell and we will build more traction, we will build better sort of revenue annuity and it is not just implementation business, but I think it is too early to give you a cast iron, we have got stability and based on that we would expect double-digit growth quarter-on-quarter.

Parag Bharambe: Your fixed price has gone down from 27% to 25%. I do not know whether it is QoQ or YoY, but Mastek is on 75% T&M, do you think by having such a big T&M present, Mastek can have a real competitive advantage?

John Owen: That maybe their contracting vehicle but they absolutely expect us to deliver as a partner and I would say some of our customers talk about payment by results and talk about fixed price and basically transferring the risk to the supplier. But when they actually get through to contracting it, it is easier for them to contract on time and materials. But I think their intent is and the way they treat us is by your delivery track record and the way your delivery is important to us. So, I do not think is the case of its rate card and therefore you have got no differentiation. What I will say is as we go forward, I would expect that to increase as the buying contracting vehicle becomes a little bit more sophisticated.

Parag Bharambe: UK has introduced the IR-35 rules and regulations for public sector I think a couple of years back and now they were applicable only for public sector, but now they will be applicable for private sector coming next April. Now, have you seen any benefit to Mastek in terms of business in the sense that companies or government would prefer to give more work to Mastek than individually hiring contractor, have you seen something similar played out for public sector and do you think something similar can play out for private sector for Mastek?

John Owen: Let me answer the second question first which is I do not think the IR-35 legislation will really impact our private sector business, to be brutally honest. I think in the public sector we have seen lots of departments stop using contractors and look for an organization to provide a managed service. So, I think in places like the MOD we have seen that and we have benefited from that because it drive the compelling reason to change your supplier base and your delivery model. I think IR-35 in simple terms is a tax-avoidance and I think the UK government is very keen that people do not become long-term contractors because they should become shadow employees because then the UK government is losing out on national insurance taxation. So, yes, I do see in the public sector being a stimulus for more managed services and into companies like Mastek.

Moderator: Thank you. The next question is from the line of Ashis Dash from Sharekhan Limited. Please go ahead.

Ashis Dash: My question is basically on your margin outlook. In US I can see that there is an improvement in the margin whereas in UK there is a decline in the margin, but you are saying that in private

sector it has bottomed out and now public sector may grow. So, how would be your margin in FY'20 looking at the 13.2% in Q1?

Abhishek Singh: Ashish, the first thing first is that US clearly was on the growth trajectory with the revenue enhancement and to that extent all the idle capacity got nicely absorbed there, and that is why you see the margin, that you see we have all mentioned in the past as well that US is very sensitive that any incremental revenue or disproportionate share of that falls into the bottom line. And by contrast in UK, all of the investments that we have made, some of it that we signed, posted you the graduate training program, the future-ready workforce, the bonus decision that we expect in coming times, the work force that we were getting ready, along with the degrowth in business which resulted in lower utilization and bench, that is what has impacted the margin. The fundamentals of UK business has not changed where we would believe that the margins have eroded. It is a timing of it and as we adjust more and more of cost structures and deploy them back, we would like to believe that it will come into the same range. So, we would like to believe that this is a good reference barring obviously the wage hike and some of the stuff that will impact bring its own side of impact.

Ashis Dash: Wage hike could be in Q2?

Abhishek Singh: Yes, that is right.

Ashis Dash: What about the investments in the skilling program that would also impact on your margins, right?

Abhishek Singh: It is already in the P&L as we speak; 60, 70 graduate trainees are going through the training process across the isles. So, that is already factored in the P&L here, Ashis.

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

Mohit Jain: Mohit here. Just one thing on the cash flow. How much cash flow? I missed that part. Bonuses are not part of the P&L but they are part of the cash flow?

Abhishek Singh: The way it works, Mohit, is bonus is part of the variable payout. So, in the monthly P&L, you have to accrue and then how you perform during the year based on that the board decides and the bonuses are paid. So, impact of it is recognized across the quarters every month. The payouts happen only at the end of the financial year. It happens in the April and May and which is why you have seen the impact on cash flow.

Mohit Jain: Our cash flow last year was also not great. Apart from bonus, anything on the acquisition that you need to pay out, I am talking about the ones which are already declared?

Abhishek Singh: Yes, TAISTech acquisition, two more tranches due; smaller one in August and remaining part in December.

- Mohit Jain:** How much is the total number for FY'20?
- Abhishek Singh:** I would say US\$1.2 million in total.
- Mohit Jain:** That is all, that will be the last one?
- Abhishek Singh:** That is it.
- Mohit Jain:** I am assuming bonuses are already done with. So, for the rest of the year we should see better cash generation, right?
- Abhishek Singh:** That is true.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.
- John Owen:** Thank you very much. I think as you can tell we are taking active and decisive management to obviously protect our growth and make sure that that's not at the expense of our earnings. What I will say is hopefully we are transparent and we have got good visibility in our business and improving visibility. And I think as you see the issues coming from the field i.e. like Brexit, you can see that we are taking active management. As a market, I still think the market for digital is buoyant. There is some inertia in the decision-making but I think that will flow through as we go through the year. I think we have taken a prudent view of where our growth is coming and we are putting our resource where the opportunity is in the UK public sector and the US. I think at a group level, we can show progress. So, the fundamentals for Mastek are good market, good stability, good reputation. Our delivery track record continues to be respected by our customers and I can see more public customers both in the US and the UK public through the pipeline wanting to do business with us. So, I think yes, we have to navigate some difficult market conditions, but I think we are doing it well and I think the foundation to Mastek remain good. So, with that I will close the call and thank you very much, appreciate your support and we look forward to giving you an update through the quarter.
- Moderator:** Thank you. On behalf of Mastek Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.