



“Mastek Limited’s Q3 FY’19 Earnings Conference Call”

January 17, 2019



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*Mastek Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Mastek Limited Q3 FY'19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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.

Asha Gupta: Thank you, Raymond. Good afternoon to all of you and thanks for joining the Q3 FY'19 results of Mastek. The results and presentation have been already 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 – 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 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 a 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 reports 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, sir.

John Owen: Thank you, Asha. Much appreciated and thank you. Welcome to our earnings call. First I would just say a belated happy new year. It is a pleasure to review our results and probably more importantly share a little bit of the business context behind them. As you know, Q3 is known as the seasonally weaker quarter in our industry. Therefore, I am really pleased that we maintain our momentum of revenue growth with the steady performance of 18.5% year-on-year and 1.4% QoQ in constant currency. That is probably the best metric we used to measure the underlying performance of the business. This is our 11th quarter of consecutive revenue growth and the Vision 2020 Strategy which is intended to reposition Mastek as a leader in Enterprise Digital Transformation and I think it is fair that we are making solid progress against that objective. I would like to particularly thank my fantastic team at Mastek for another solid performance and I hope this consistency provides further confidence that we are becoming to a lot more predictable. We are on a journey and that journey has only just started with 11th consecutive quarters; we need to maintain them. I think the sign of a great team is also the honesty in which it deals with disappointment and setbacks and to be very candid I think Q3 did not measure up to the highest standards for the team Mastek, in particular our US business did not deliver to its plans or expectations and although it is a nascent business and we talked about it in the past, I do not think our execution was strong enough and that is what we are looking to do as we build the recovery plan to bring that back to growth in the next quarter.

Market conditions, generally digital solutions are robust and particularly in our two strategic markets of the UK and the US and our focus on building strategic attempts is really providing the platform for that stable, consistent financial performance you have seen over the last 11 quarters. Obviously, as a UK citizen, I cannot talk about Brexit because I get asked everyday about Brexit and its impact particularly on Mastek. We continue to benefit from a very innovative UK government who have a very aggressive program of digitization because it drives better citizen service and it drives better economics. I think we have a lot more resilience. So, I do not believe Brexit equals risk in Mastek because we are one of the top-10 suppliers to the Government and I think we got more revenue resilience and we need to demonstrate that over the next few quarters to actually give people the confidence. Brexit, as a citizen, is a major concern for us, but as a Mastekeer, it is not going to have impact what people think and it would be positive for a company like Mastek. So, as we retain our momentum in the revenue which is the fundamental driver, I am also pleased that our earnings quality has continued to improve; our operating EBITDA has expanded to 12.8% this quarter. Abhishek will go through more detail commentary of our financial performance, but I think as management team, we must be our harshest critics and there are no silver bullet in this business other than the aggregation of margins day in-day out and I think we have now got an operating model, management team and a philosophy of delivering consistency, predictability and we will drive this company forward as a digital leader. So, finally, I would like to thank all our loyal customers who continue to trust us to deliver the digital solutions and I think digital solutions are different at the different decision criteria's, different business model because digital impacts the core business, it is not about race to the bottom of scale in the whole IT world. So, they are becoming increasingly important to have it trusted, reliable, dependable, agile partner which I think is where Mastek is starting to carve a niche of reputation.

I also want to recognize and congratulate my team - as Mastekers, over 2,000 of us, because their attitude to service and the dedication is absolutely respected and trusted day in/ day out and we never take people for granted. Finally, to you, my investors, thank you for your continued support. We are on a journey. I appreciate your enthusiasm and your confidence in our business. As I said, digital is different and I am pleased we are making progress and hopefully we will have good performance moving forward.

Abhishek Singh:

Thank you, John. Hello, everyone on the call. We will go through the slide pack that was circulated ahead of this call and if you refer to it and go to slide #5, it talks about our financial performance for the quarter on an annual basis. In terms of revenue, we had total income of Rs.271 crores as against Rs.215.3 crores for last year which is a 25.9% growth YoY. Our operating income at Rs.265 crores, grew at 26.5% in rupee terms. In constant currency terms, our revenue grew by 18.5% YoY. Moving on to profit metrics, our operating EBITDA stood at Rs.34 crores or 12.8% of the revenue versus Rs.25.7 crores or 12.3% of the revenue. That is a 50 basis points expansion in operating EBITDA YoY. Our total EBITDA stood at Rs.40 crores versus Rs.31.5 crores for last year. Net profit came in at Rs.26.5 crores versus Rs.18.4 crores for last year, a growth of 43.9% on YoY basis. The net profit margin stood at 9.8% versus 8.6% last year which is an expansion of 120 basis points. Total cash, cash equivalent and fair value of

mutual funds stands at Rs.207.3 crores as of December end versus Rs.166.5 crores for the last year. 12-month order backlog stands at Rs.517.3 crores or £58.1 million as against Rs.437.1 crores or £50.7 million last year same quarter.

If we move on to the next slide number #6, the financial performance compared to the last quarter, that is QoQ view, our total income stood at Rs.271 crores versus Rs.265.8 crores, that is up 2% QoQ basis, operating income grew by 3.1% on QoQ basis; in constant currency terms, the growth was muted at 1.4% given the seasonality of the business. In profit metrics, the operating EBITDA stood at Rs.34 crores which is 12.8% of the operating income versus 12.2% for the last quarter, that is 60 basis points expansion QOQ. Total EBITDA stood at Rs.40 crores, flat QoQ. Net profit grew to Rs.26.5 crores versus Rs.25.1 crores last quarter, that is a growth of 5.6% and the net profit margin stood at 9.8%, an expansion of 40 basis points QoQ. In terms of cash and cash equivalent for the quarter ended 31st December we were at Rs.207.3 crores versus Rs.191.2 crores last quarter. 12-months order backlog stood at Rs.517.3 crores for this quarter as against Rs.599.2 crores for the last quarter, a dip driven by the seasonality and the decision-making due to the holiday season.

As we move on to the next slide, it gives a nine month view of financial performance on YoY basis. The total income for the nine months gone by in this financial year stands at Rs.784 crores versus Rs.607.4 crores, growth of 29.1%. Operating income stands at Rs.766.1 crores versus Rs.593.5 crores, up 29.1% again. In terms of constant currency, our growth is at 21.1% on YoY basis. In profit metrics, the operating EBITDA stands at Rs.96.3 crores, 12.6% of the operating income versus Rs.71.8 crores or 12.1% of the operating income, that is a growth of 34% in an absolute term. Total EBITDA stands at Rs.114.1 crores or 14.6% of the total income versus Rs.85.7 crores or 14.1% of the total income in the last nine months. Net profit stands at Rs.74.1 crores for the nine months gone by versus Rs.50.6 crores for the last year, a growth of 46.5% on YoY basis. Net profit margin stands at 9.4% for this period vis-à-vis 8.3% for the last year which is a growth of 110 basis points YoY.

As you move on to the next slide #8, it is nothing but a tabular representation, so I am going to skip that and move on to operating metric slide which is slide #10. We added 14 new logos in the quarter gone by and our total active clientele now stands at 165. Top-5 clients contribute 42.6% of the revenue and top-10 clients contribute 57.1% of the revenue. Our employee base stands at 2,088 as of 31st December, of which offshore is at 1,287 and onsite is at 801. The same number was 2,104 for the last quarter; the split was 1,317 for offshore and 787 for onsite. Our DSO has improved to 74 days versus 76 days for the last quarter and the foreign exchange hedges for the next 12-months stands at £8.3 million at an average rate of Rs.94.3/pound.

As we move ahead to Slide #11, it has revenue analysis by various dimensions - market regions, industry segment and contract type. If you go by the market region, UK continues to be the bulk of our revenue at 75.1% versus US at 23.5% and India constitutes 1.4%. If you look by revenue by segment, public sector continues to be the bull work of the revenue at 38%, followed by Retail

Services at 34.8%, Financial Services is at 18.7% and others constitute 8.5%. In terms of revenue by contract type, the fixed price stands at 27.4% versus 72.6% of T&M contracts.

Moving forward, looking at our revenue by service line, around 51% of our total revenue comes from Application Development, followed by 22.1% from Digital Commerce, 11.7% comes from Application Support & Maintenance, 8.4% from BI & Analytics, 2.9% from Agile Consulting and 4% from Assurance & Testing.

So, that is the dimension of our financial performance and some of the data points that we look at every quarter. I will hand over to the operator for question-and-answer. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. We will take the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: A couple of questions; first is on revenue per employee. So, is there any new contract or closure that has happened because your utilization seems to be down, headcount is down, revenue is up and therefore the calculations on revenue per employee look little on the higher side?

Abhishek Singh: We have been focusing on the utilization Mohit. While the utilization has two different dimensions, the guys on the ground ready to be deployed, they have been utilized a lot better in this quarter. At the same time we have also invested in the new headcount sourcing model in UK, we have “graduate trainee program” that is going on. So, those counts have given you optically lower utilization, but that said, the deployable workforce has been utilized better.

Mohit Jain: So, when we see the 76% utilization which was 80% last quarter, on a headcount of 2,088 which is down almost by 16 people, then I am assuming volume of work would have been similar or down marginally QoQ, revenue which is up, there is no pricing element in this, is it?

Abhishek Singh: Not really, the business is in a steady state, there are no significant movements on that front, Mohit.

Mohit Jain: Then how will we explain this? The utilization which you publish does not include certain set of employees?

Abhishek Singh: Mohit, this is best explained by the increase in the Fixed Bid biz for the quarter vs prior quarters. There is a decent increase in Fixed Bid business this qtr. In the fixed bid businesses, the revenue is recognized on milestone basis; it is not necessarily commensurate with the headcount increase as we see with T&M biz; can’t do triangulation that we are trying to do.

Mohit Jain: Second, so if I come back to this utilization number, this 76% and earlier you used to operate at 84%, 83%, so we have that much scope to go back or this will be a new time series which will be closer to 76%, 77%?

Abhishek Singh: This is also a seasonal phenomenon. If you look at it there is a lot of leave because of the holiday season and to that extent it has gone down. But that said, 75%-80% should be the new norm.

Mohit Jain: Anything on the order book like it looks down on YoY basis, taking into account seasonality and looks like in terms of revenue booking we have gone above that. So, any outlook on 4Q or 1Q growth number, should we expect it to be little lower given that order book was down?

Abhishek Singh: I will put it this way - order book what you see here is the 12-month order backlog that we talk about, that does not mean we don't have multi-year orders and contracts there that kicks in at various point of time, Mohit. That said, the order backlog was significantly impacted by the timing and we do not see anything fundamentally different in the business to guide it one way or the other.

Mohit Jain: So, our growth trajectory remains the same, it is more like a quarterly order backlog which is now?

Abhishek Singh: That is our endeavor.

Mohit Jain: Lastly, on the US side, like what is happening, there is a new rate. Should we expect more decline in revenues and what happens to the profitability then?

Abhishek Singh: US has had a double-whammy in terms of a bit of weaker execution in the H1 that resulted in weaker order backlog to work with in the current qtr. Lot of business happens in H1 which mirrors the Oracle's financial year close; wherein a lot of licensing deals are won by Oracle and it results in the implementation opportunity for us. Second impact was our effort to re-orient our business to not be channel-fed and just be dependent on Oracle. We have been working on driving organic sales initiatives in addition to the channel-fed approach i.e. leads from Oracle. This will help us cushion the impact of seasonality. That said, we endeavor to improve from here.

Mohit Jain: So, this \$8.8 million, because it is at a 7- quarter growth low, so seasonality alone cannot be a decline in revenue. The new rate is \$9 million or should we expect it to decline for a few quarters and then...?

John Owen: What we have experienced is, in simple terms, not just a market dynamic, it is a pure execution dynamic, Mohit and we got to be candid, we have already implemented recovery plan and as Abhishek said, we suggest we are going to stabilize that. The foundations in the strategic platform of our US business is good, the strategy remains the same, the direction of travel remains the same. We just got to execute better than we have in the last two quarters. As Abhishek said, this is poor execution in Q1 when Oracle do most of that deal particularly the business to consumer segment. That is not flowing into the revenue. We have taken some action where we hope to recover, I would say stabilizes better comment for Q4 but the strategic rationale given it is still a nascent business is the same. But in simple terms, it is poor execution.

- Mohit Jain:** Investments are complete, so we should assume stable cost in the US from here on?
- Abhishek Singh:** That is a fair assessment.
- Mohit Jain:** Any revenue recovery will flow to EBITDA?
- Abhishek Singh:** Yes.
- Moderator:** Thank you. We will take the next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar:** Could you give us a sense of the departments within the Government that is driving this growth and importantly can you quantify some of the lead indicators beyond your order book? Abhishek was in a while back and there is a lot of optimism regarding government spend like you said in your remarks. Can you just quantify the lead indicators beyond your order book?
- John Owen:** In simple terms, if I look at our pipeline, it is looking healthy as it has been. I can see market activity and that is why people give me commentary about Brexit. It is not that is impacting the projects being kicked off by the public sector. So, I do not expect at this moment it is not that adjacency is not reflecting into pipeline which is probably the best forward-looking indicator we have got. I think as I said, we are also one of the top-10 suppliers already with a very solid reputation, track record and that means a lot in UK government because it basically mitigates the risk. So, I do expect from that position we will scale. For me, there is a logic that says, people are not at an operating level, people are not distracted in the digital space, because it is going to drive so much more efficiency within UK public sector. So, those projects will basically continue to grow. We are well positioned as one of the top-10 suppliers. We have a solid reputation for engineering excellence, architecture and delivering. So, we are ready to do business. Our job is now expanding that account base, not just in the home office where we are but into other departments but we are going in as a known and trusted supplier into that. So, I think there is a lot more what I will call revenue resilience and visibility as people interpret because I look at UK public sector, Brexit that might be risk, I do not vie into the hypothesis.
- Baidik Sarkar:** Like I asked, could you give us a sense of departments driving this growth, you just said home office, but if you could just slice that up for us please?
- John Owen:** I do not know how much it is public domain, but the UK publish their procurements, you got people like MoD, you got the tax office, National Health Services – those are the big departments that spend a lot. These are the departments we are engaged with and working to expand our wallet share while landing newer departments in the UK Govt. Having said that, UK Govt are going to do something called strategic review. So, the spending review for '19 is where the UK resets it's public spending, the commitments and I see there will be skew from the old IT budget to digital. So, I expect that there will be more opportunity for companies like Mastek. So, it is going to be cross because what digital does in the public sector, it delivers a different step change

in the cost structure of the public sector because citizens are self-provisioning, they are not going to offices and talking to people, they are doing it online. So, it is exactly what you are having in the retail space but they are now doing in public. It is driving billions of pounds out of the UK public sector administrative cost. So, I do not expect that trend to change anytime soon.

Baidik Sarkar: So, basically what you are saying is differential ramp up that we have seen, that high base can be projected in the quarters or probably years to come?

John Owen: There is no logic to say it would not be. It is going to come down to our execution. But I think this market becomes a self-fulfilling proposition. If you execute well, the market will gravitate to you as a natural supplier, because you are less risky in the eyes of the department. I hope that gives you the answer you want.

Baidik Sarkar: Abhishek, two questions for you. If you can just slice up the order book of Rs 517 crores, how much is it from the government sector in UK and how much is it from the US? We never commented on the margin profile of US as such, there has been some marginal improvement. So, if you could slice up your margins between US and UK it will really help us to put the UK business in perspective.

Abhishek Singh: Baidik, I do not have the order book split between UK and US. IR team can share that with you subsequently. That said, from a margin profile point of view, I do want to clarify that the inorganic asset that we bought in the form of TAISTech, continues to maintain its margin trajectory. The investments we have made in the US business on top of it to accelerate it results and reflects in an impaired or eroded margin profile. But that said, it reflects the investment and the incremental revenue growth should have a disproportionate contribution to the quality of earnings. At this point of time, the UK business is ahead of US business even on a normalized basis given the maturity of the business in UK.

Baidik Sarkar: What is the TAISTech margins?

Abhishek Singh: It was incremental and accretive at the time of acquisition. I would say it is in teens.

Moderator: Thank you. We will take the next question from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: My first question is on the reported numbers. We have reported a loss in the segmental numbers in the US business, while the margins that we have in the UK business seems to be higher this quarter. So, what is the reason for that?

Abhishek Singh: US has had that as a result of the revenue contraction that you have seen QoQ as well as YoY. The cost structure is geared up to deliver much higher revenue and as we said that in earlier part of the conversation that we have already started recovery plan, we are quite focused and we have

clear ideas of where we can execute and get that over next four to six quarters, get that to an acceptable margin profile. It is just a reflection of the revenue here, Nirmal.

Nirmal Bari: So, the cost structure that we have in this quarter as you mentioned earlier too, this cost structure should remain nearly constant going forward ...?

John Owen: To be clear, we did not execute and it is getting the timing of building the engine and executing and at the moment we have got cost over hang, we should grow into that as we go through the quarters and we execute the strategy. What I will reiterate is the strategy is solid, the market is solid, it comes down to our execution. So, I do expect us to basically execute within the cost structure which would obviously mean that you got your engine built but it is a timing issue and an execution issue.

Nirmal Bari: The second question was on our fixed price and time and material distribution. This time the fixed price book was substantially higher, the revenue part, but that same did not reflect in the EBITDA margins going up by any percentage points, while that reflect in the utilization going down. So, how should we read into this – should not the fixed price book result into higher margins?

Abhishek Singh: Yes, you are right, Nirmal. I would recommend you to look at our operating EBITDA and that will reflect the expansion; 12.2% last quarter vs 12.8% this quarter. What you are looking at is the total EBITDA which was impacted by the Other Income. If you recollect, last quarter we had a one-timer that had bumped it up. So, the fixed bids reflection is there in the operating EBITDA.

Nirmal Bari: Yes, I was actually looking at the operating EBITDA itself, but this increase is more in line with our revenue increase. So...?

Abhishek Singh: To put it in perspective that you got 60 basis points improvement QoQ over the total business and in contrast US has not been able to contribute anything to it. So, what has come across from a sector, a geography has also been eaten by the underperformance of another sector, another geography.

Nirmal Bari: My final question is on the UK business again. We have had a very spectacular run I can say like 7% QoQ growth for the past eight quarters, the CAGR that I calculated and this has largely been coming from the government sector. So, going forward, do we have the visibility or from the market do we have a sense that this kind of growth can continue or will it be slightly lower than this because the base now has grown, can you comment on that?

John Owen: The transition to digital is probably we are still in the early phases of that. And I think as I said the government will go through the spending review, they are starting to skew more of that investment towards new digital from old legacy. So, I think if I look at our pipeline, if I look at

our business, I am relatively optimistic with the market, it is about execution and as I said, we are executing from a position of being the top-10 suppliers. So, I am optimistic that will continue.

Abhishek Singh: I will just help with some data here, Nirmal, if you look at it, my total government revenue on an annualized basis is not even £50 million and only one customer spends hundreds of million of pound every year in my addressable market space. That gives you a sense that even though the base has increased, it is nowhere close to being meaningful, forget alarming. So, we can drive growth on this space if we can execute.

Moderator: Thank you. We will take the next question from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

Ritesh Bhagwati: You have cash on the balance sheet and investment in Majesco US. So, do we have any plans for utilizing it in the near-term for either inorganic expansion or something like that?

Abhishek Singh: On that front, we are absolutely clear, we have sign posted it; that holding in Majesco USA is to be monetized and we want to use it for our business to drive the inorganic initiative. So, the answer is yes.

Ritesh Bhagwati: But then do we have any near-term plans for utilizing it or still not planned?

Abhishek Singh: Yes, absolutely, we do have plans, we continue to scout for opportunities in the market to ensure that we have the right one, yes, we are actively looking for one.

Ritesh Bhagwati: Where is it --like in the UK side or the US side?

Abhishek Singh: Both the geographies.

Ritesh Bhagwati: In geographic mix also, we are mostly UK dependent so far like roughly 70% of the business is there and 20%, 25% is US. Going ahead, do we see an equalizing on that front or UK will continue to dominate our top line?

John Owen: I think we have always set a path of Vision 2020, our long-term ambition and direction is to balance that 50:50 between the UK and the US because you have got a better balance both in the currency and the conditions. As I go back, we have not executed as we would have expected in the US and we are building a recovery plan to correct that. But the long-term direction of travel is to balance that. Acquisitions will go when we have got a stable operating model where we can actually build on the acquisition and drive an economy of scale from it. So, it is not about just buying an asset, integrating, operating it and leveraging both the financial value and the strategic value. So, I think as we look through inorganic which is a key element of our strategy as Abhishek said, it is about having the operating model in the organic business solid enough to exploit the opportunity bolt-on.

- Ritesh Bhagwati:** Last question is, we won 14 logos in this quarter. Can you split on the geography side like what is the completion of 14-logos?
- Abhishek Singh:** It is predominantly in UK market across the various sectors that we service as well as some digital commerce in US.
- Moderator:** Thank you. The next question is from the line of Ashish Das from Sharekhan. Please go ahead.
- Ashish Das:** You have won one deal from the UK government last quarter. So, when that would ramp up and what would be the incremental revenue, we can expect from UK side?
- Abhishek Singh:** It is in implementation phase. The ramp up of that would be steady state between now and I would say over next 1.5 years is what the tenure of the deal is. So, it will get realized in that period.
- Ashish Das:** What kind of deal size that one could you disclose?
- Abhishek Singh:** Deal size on an average in UK space we are looking at is upward of £2, £2.5 million going all the way up to double-digit. And it depends on the scope and the type of work that government is looking at and the phase in which it is. If it is about proof-of-concept and stuff it could also be less than a million pound. If the discovery of the work has happened and it is about the meaty implementation, it could be anywhere between £5-£10 million and then it could be about the maintenance phase of it. So, depending upon which phase you are picking up the work, the size of the deal is.
- Ashish Das:** Again, my second question is on US margin front though you have already discussed that one. My question is just wanted to understand like what are the investments in the US because the margins are declining and the sales people or employee count is also declining in the North America, so, where are you investing basically on which technology front or sales side in US?
- Abhishek Singh:** The investment, Ashish, has been in a couple of different areas as discussed in some of the earlier conversations. Digital commerce transformation endeavor that we have in US has a four-legged approach. So, we have platform implementation capability in TAISTech. We brought on the top, the local leadership, invested in sales coverage, Marketing and significant FTEs in the lead generation. All of this was done on the top of the asset we brought. These investments were also made with the objective of diversifying beyond just Oracle channel-fed approach; to develop our capability to solicit businesses on our own as well as expand the services offering in ancillary space with Oracle Commerce. So, that is where the investment is. I am sure John, you would have some color on cross-sell and stuff.
- John Owen:** I think our digital business that we bought have strategically very sound growth, but that is an implementation business. Our strategy is to use that as an insertion point and then build on a reputation for delivery into other areas like the testing, Apps Development and our core business

is Apps Development. But it is the insertion point to then migrate. So, there is a lot of investment in the cross-sell and that is probably where we have not executed, not being very candid, we need to get that because that gives us more revenue annuity which gives us a better platform to build and invest on. It is just on implementation. It is like being on Hamster's Wheel. If you just keep running faster and faster, you still stand in the same place. We have not executed that well enough. We have got some good proof points, but we are not executing to the level that we expect as an organization.

Ashish Das: I would like to know your perspective actually. The employee addition has been single digit in last quarter and this quarter is negative. So, you are expecting that more work would come from UK side. So, how would be the hiring trajectory in the coming quarters?

Abhishek Singh: We still continue to maintain that. We will have to hire. This is people's business, Ashish. So, we have to hire heads to actually grow our revenue. But that said, it is also a combination of churning the workforce and having the workforce of the right skill set and right experience to deliver what is required. So, the hiring will be both onshore and offshore and in digital transformation space, the first phase of engagement is always onshore. To that extent it will be skewed onshore and then as programs mature will come over to offshore.

John Owen: I think just to give some color on that, last quarter we launched a new initiative at Mastek where we did a graduate training program in the UK. So, we took on a pilot cohort about 20 young engineers, just graduated from university because we do need that talent in the UK. I think lots of organizations have done fresher intake in India. It is a core recruitment resourcing model. Because of our onsite digital focus, we need to have that same model but in the UK. So, that is '20 we are going through. They should become billable in the next month or so. So, there is a very fast track program. But we are building a model that we can take 200-300 people a year through that. So, again, we are over-engineering or over-building or over-investing it. We are piloting with 20. But I think that if you compare us with our competition, it is probably a lot more innovative because we are so close to the market. Digital is not just the technology, it is a different sales model, different delivery model. And I think Mastek probably got two to three years advantage in our thinking. But it is about scaling up now and taking a lot thinking in our experience and getting critical mass. So, hopefully that helps you but I am really pleased about the graduate program because I think it is so innovative and I think the UK needs more capacity, and with the visa constrain essentially it has got to build its own capacity and we are helping to do that.

Ashish Das: My last question would be like, I just wanted to know, you are saying that you are top-10 suppliers of UK government. If we look at one of your top competitors like Kainos number, first half revenue growth around 60% YoY and also the order book is growing high double digit. So, we are half of that growth rate. So, what is your view like or you can share your outlook, can we reach at that level or we can compete with that kind of competitors and take more orders from the UK government?

John Owen: If you actually go back over say the last three years and compare us, I think we have been growing faster than Kainos significantly in our core business which is the digital partner in the implementation of services. They have also diversified. So, their model is slightly different because they do work like implementation and they put a different business model, I think a lot of that is based on investments they made two or three years ago. But on a like-to-like basis, not only are we competing but we are actually growing in application development probably faster than Kainos. But to be honest, it is a nice competitor to have, they are a good company and Kainos and Mastek are in the top-10 suppliers list. This is a good market for both of us. But I think we could also realistic from where we come, we went through transformation year one of our strategy, we are now winning. And as you quite rightly said, we have got to find a different resourcing model because it is about having the capacity to meet the quality that aligns with the pipeline. So, I am confident we can and we will but that is our endeavor is to build not just one or two quarters of growth and then respond very quickly with resource, it is about building QoQ momentum, getting an operating model efficient, because that is how you are going to drive good quality earnings over the medium-term.

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

Sunil Jain: My question again relates to US operations. If I see your segmental result the US operations has shown lows in the current quarter. You said that you have done lot of investment in this current quarter. So, are this investment a one-time investment or will continue in the coming quarters?

Abhishek Singh: Sunil, this is not a one-time investment that we made just in this quarter. What I was trying to elaborate was - this was an investment made over a period of time on the core asset TAIS tech which has the 'platform implementation' capability. Investments were made to enhance our offerings to the customer and convert them into 'customer for life' instead of current approach of single offering. What we were doing for any customer is/was just the platform implementation and we knew that we could do a lot more including UI, UX or CPQ or agency related services for them. So, those are the investments that we have made – Leadership, Marketing capability, Lead generation capability or clearly in the sales coverage over last 12-15-months. The fact that the seasonality of the revenue is poorest this qtr, it hit us hard this quarter. This has resulted in the poor segmental profits for US. But the investment has not been made just in this quarter.

Sunil Jain: So, are we seeing any return on the ground at least in the operational side rather than on the financial?

Abhishek Singh: Yes, the ability to have a conversation with the customer and have multiple offerings is clearly resulting in a larger deal size is the best indication if I may say so. This is the business which was typically around \$750K to \$1.5 million in average deal size. Last quarter we won \$3.5 million customer that we are in the aggressive implementation stage. So, yes, the proof points are there; reflecting in the size of the deal and obviously the deal velocity.

Sunil Jain: Has the deal size kept on increasing, your investment will start generating return, that is the key thing to watch?

Abhishek Singh: That is right.

John Owen: I think just to help in this context, we have always said the US is a nascent business and if you measure us QoQ yield, we will have very good quarters with and very bad quarters and I think that is probably what you are seeing is it is sub-optimal, it was about building a strategy over the next three years, so we have got a good asset, it is in a good market, we need to learn how to operate better than we have taken some action to do that but we will want to scale up the organization because going into the US and doing \$50 million isn't strategic for the company with the ambition of Mastek. So, being \$45, \$50, or \$60 million does not really cut over a three to five years period. So, we are building an engine and strategy and hopefully we will get our timing we do in cost and revenues lined up, sometimes we get right, sometimes we get wrong because you got that flexibility in a nascent business. As we build more capacity, we will be able to smooth it out which we are doing at a group level because the UK is performing because this have the investment, because we have been in the UK for 25-years, we have not been in the US for 25-months. So, I think there is a level of overcorrection, under-correction at the moment but we are building a strategy, we have entered the market, we are now going to execute and grow in that market. So, things like structure, cost base and we are not going to overbuild but we are building investments that will yield higher growth business.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

John Owen: Thank you very much and really appreciate your support. I think we have always said Mastek's heritage is about having engineering excellence, delivery track record and just a fantastic dedicated people. I think what you have seen today is the benefits of a clear strategy that we implemented two years ago which was "Vision 2020" and that is giving us the clarity, focus and the discipline that underpins our performance. And hopefully you have also seen today that when we do have issues, we take action clearly. So, we got good leading forward-looking indicators. So, we know where our business is and we are giving you that predictable platform to grow and to invest in. But I think we are in a growth market, I think we are operating Mastek better than we have in recent history, I think we are also transforming Mastek into a leader in Enterprise Digital Transformation and we compete on value and time to business impact, we do not compete on a race to the bottom of cheap engineering because that does not deliver the business outcome our customers want and we are growing, and that is good and it is encouraging that creates value. So, I look at Mastek, I look at the market, I look at the fundamentals of this business, market is good, we got a really strong financial position as an organization, I think we have an excellent reputation as an organization but particularly with our customers we are trusted to deliver the outcomes on time, on budget with the quality they expect us at an enterprise level and I think our people are passionate and they really do vie into the vision of where we are trying to take this organization. So, I am really excited by the foundations we have laid and I think that



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is probably today is the honestly the can that whatever the word you want to use is, we want to perform to the best of our ability. I think Enterprise Digital Transformation is going to make a successful company and we do not measure success by single digit, we are building a platform for the next three to five years. So, with that, I appreciate your support, I thank you for your questions, we look forward to engaging you over the quarter.

Moderator:

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