# "Mastek Limited Q4 and Full Year FY19 Earnings Conference Call"

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**MANAGEMENT:** **MR. JOHN OWEN - GROUP CEO, MASTEK**
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**MODERATOR:** **MS. ASHA GUPTA, CHRISTENSEN IR**

**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Mastek Limited Q4 and Full Year FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 ma'am.

**Asha Gupta:** Thank you Ali. Good afternoon to all of you and thanks for joining Q4 and full year FY19 results of Mastek. The results and presentation have been already mailed to you and you can also view it 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 a brief overview of the quarter and full year gone past which will be followed by Mr. Abhishek, who will be going into 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 statements must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report that you can find 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 very much and welcome to Q4 Earnings call for fiscal 19. It is a pleasure to review these results with you for the full year, but probably more important to share a little bit about how our business is developing under the Strategy Vision 2020.

As you will appreciate the UK has always been Mastek's primary geography for revenue. So despite the market headwinds created by the uncertainty of Brexit, I am pleased that we maintained our overall growth momentum of 1.9% quarter-on-quarter, which represents 15.2% year-on-year in constant currency and this is the key metric that we measure our underlying performance against. Although modest growth against our prior quarters, Q4 represents our 12 consecutive quarter of growth under the Vision 2020 strategy, which has brought focus, discipline and confidence to help us reposition Mastek as a leader in enterprise and digital transformation. Against this strategic intent, I think this quarter we are reporting solid and sustainable progress. Brexit certainly has impacted our business in a couple of ways, one in the private sector we have undoubtedly seen the biggest impact as it dampens confidence and investment clarity which has resulted in delayed project signoffs. Unfortunately, I think the short-term outlook will not change too much with the new cut-off date of October 31st, announced by the government last week.

Secondly, in our UK public sector, we have probably been less directly impacted because we have got a resilient revenue stream out of this account; however, this distraction and uncertainty has certainly delayed investments as civil servants are being distracted with contingency planning for every scenario. Moving forward, I think once we get clarity, the opportunity in the UK public sector remains because the UK still has to replace their services that were previously delivered by the European Union, so I think strategically it is a good market, it is a bad timing. In the US which represents currently 22% of our revenue, we have totally reset the business as we discussed in Q3 by removing the legacy management and we are in the process of appointing a new leader to return that business back to its strategic growth plan. As we previously stated, we intent to balance out our revenue from the UK and the US over the next 3 years to better insulate the business from these external influences. In this context, I am pleased that the UK grew by 3.3% and the impact of the US restructure was an impact of the negative 4.6% decline, but that was primarily due to the legacy project ramping down in a financial services claim. Our digital commerce business actually grew a modest 1.5% which is where our future lies. Again our 12-month order backlog which is one of the key indicators for the business grew at 4.5% quarter-on-quarter. If we impact some of these numbers and hopefully it will provide you a little more evidence in confidence that we are truly transforming Mastek into a leader.

Digital, as a percentage of our revenue is now 84% from an 82% base in Q3. Although our revenue year-on-year at 20%, our actual headcount remains flat demonstrating the use of technology in transformational work, i.e., I think we can deliver non-linear growth and we are not dependent on FTEs and that linkage in the old world is no longer relevant. Our US business also, as I said, experienced a ramp down and I think we have been able to manage that. Our UK business also experienced a ramp down from a legacy contract moving back to getting self-delivered by one of our customers. Our 12-month order backlog grew £60 million**,** a growth of 4.5%. So hope these data points provide the evidence that we have a strong leadership team at Mastek that can adequately absorb and manage external factors such as Brexit, some churn coming from legacy customers and the challenges of some execution that we had in our business and our management business in the US. Although I don't expect these macro challenges to sort themselves any time soon, I do believe we have confidence in our growth trajectory and our predictability.

Yielding a high-performing Mastek is only achieved by attracting, retaining and developing a passionate professional and dedicated team of Mastekeers and this is the team which delivers for our customers everyday around the world. I want to thank the fantastic team I have with Mastek for another solid performance and I think that is the context we are looking at Q4. We have always run a successful Indian graduate program under our project Deep Blue initiative and therefore I was personally very pleased to see our first generation Mastekeers from our UK graduate training scheme we launched in the UK at the end of Q2 and to the engineering organization has fully qualified and billable trainees. This program will not only help Mastek with its capacities as we continue to scale, but it will also help to fill the digital skills that we have in the UK market. As we start fiscal 20, we also enter a final phase of our Vision 2020 strategy. This is our growth phase where we will accelerate our growth through both organic and inorganic routes which we have always previously flagged. With this acceleration, it is imperative we continue to transform every aspect of our organization to deliver better outcomes for our customers, our people and ultimately our shareholders.

Digital transformation is now considered as mainstream and the level of project complexity in business impact increases exponentially. In order to build on the proud heritage to Mastek as we scale, we need to remain agile, continue to attract and retain the best talent and ensure our systems and processes seamlessly support our growth. We alluded to strengthening our leadership in the US to drive our growth there and I look forward to announcing that leader in Q1; however, it is also important to welcome and recognise the appointment of Dennis Badman, to Mastek in the new role of Chief Business Officer, effective at the start of this business year. Dennis has come from Fujitsu's European Services Division, an organization of over 10,000 people with revenues of over £ 2 billion where he was previously managing director and prior to that he was the managing director of Fujitsu's HMRC business which was Fujitsu's largest client, so he knows our customer very well and he knows how to scale an organization very well.

I would like to thank all of our customers, who trust us to deliver our digital programmes and the business criticality and impact of digital only increases. It is increasingly more important than ever to have any reliable, dependable and agile delivery partner of this type of mission critical work. This remains an exciting niche for Mastek to address. I also want to recognise and congratulate my Mastekeers for their talent, their positive attitudes to service and their dedication to our customers and the company. Finally, to my investors, thank you for your continued support and enthusiasm for the business, particularly over the mid-term horizon. In digital, I think we all agree is different. While legacy IT competes at only economies of scale and price, digital competes on confidence and delivery track record and engineering excellence, what we describe as time to impact, whereas legacy IT appears to follow a race to the bottom trend. These value attributes of engineering excellence and delivery track record play well to Mastek's heritage and in this context, I am pleased to continue the good progress towards repositioning Mastek for continued success.

I will now hand over to Abhishek who will take us through the financial breakdown and provide more granularity on our performance.

**Abhishek Singh:** Thank you John. Greetings to everyone on the call here. We will refer to the slide deck that was circulated ahead of this call and if you go to slide #5, it has got Q4 performance on a year-on-year basis comparables there. On revenue, the total income for the quarter stood at ₹ 274 crore versus ₹ 230.8 crore up 18.7% year-on-year. Operating income stood at ₹ 267.1 crore versus ₹ 223.7 crore up 19.4% year-on-year in rupee term. Our constant currency revenue growth stood at 15.2% on a year-on-year basis. On profit metrics, there is growth in earnings and the improvement in quality of earnings as well. Operating EBITDA stood at ₹ 35.3 crores, 13.2% of the operating income versus ₹ 27.8 crores at 12.4% of operating income. Total EBITDA stood at ₹ 42.2 crores, 15.4% of total income versus 15.1% of the total income last year. Net profit stood at ₹ 27.4 crores versus ₹ 19.4 crores last year up 41.3% on a year-on-year basis and net profit margin for Q4 is at 10% versus 8.4% last year. In terms of cash and cash equivalent, it stood at ₹ 244.5 crores as of 31st March 2019 compared to ₹ 205.7 crores last year same time. In order backlog, 12-month order backlog stood at ₹ 544.9 crores as on 31st March versus ₹ 524.8 crores as of last year.

Moving onto quarter-on-quarter comparables, the revenue at ₹ 274 crores, total income grew by 1.1% on the quarter-on-quarter basis, operating income at ₹ 267.1 crores grew by 0.8% in rupee terms and the constant currency growth of 1.9% on a quarter-on-quarter basis. Looking at profit metrics, operating EBITDA stood at ₹ 35.3 crores at 13.2% versus ₹ 34 crores last quarter at 12.8%. That is the 40 bps improvement quarter-on-quarter. Total EBITDA stood at ₹ 42.2 crores at 15.4% versus ₹ 40 crores last quarter at 14.8% and net profit stood at ₹ 27.4 crores versus ₹ 26.5 crores last quarter and that is the growth of 3.3% sequentially. Net profit margin stood at 10% versus 9.8% for the last quarter. In terms of cash and cash equivalent, there has been a good quarter of cash collection. We stand at ₹ 244.5 crores versus ₹ 207.3 crores for the last quarter. 12-month order backlog registered a 4.5% growth at ₹ 544.9 crores versus last quarter of ₹ 517.3 crores.

Moving onto the next slide that is the year-on-year comparison of fiscal 19 versus fiscal 18, our total income stood at ₹ 1,058 crores versus ₹ 838.2 crores, a growth of 26.2% on a year-on-year basis. Operating income stood at ₹ 1,033.2 crores versus ₹ 817.2 crores up 26.4**%** in rupee term**.** We have had a constant currency growth of 19.5% on a year-on-year basis. On profit metrics, operating EBITDA stood at ₹ 131.5 crore at 12.7% versus ₹ 99.7 crore at 12.2%. It is up 32% year-on-year basis. Total EBITDA stood at ₹ 156.3 crores at 14.8% versus ₹ 120.7 crores at 14.4%. Net profit stood at ₹ 101.5 crores for this fiscal year versus ₹ 70 crores for last year. That is the growth of 45% on a year-on-year basis. Net profit margin for the year stands at 9.6% versus last year of 8.3%, an expansion of 130 basis points. Based on the fiscal performance of this year, the Board has recommended a final dividend of 100% and including interim dividend, it works out to 170% for fiscal 19.

Moving onto the next slide that is the tabular representation of our KPI, so I will skip that and I will move onto the operational performance. So if you refer to slide #10, it has operating metrics for the fourth quarter. We added 7 new logos during the quarter and our total active client, the clientele stands at 157. Top 5 clients contributed 41.7% of the revenues versus top 10 contributed 58.8% of the revenues. In terms of total employee base, it stands at 2,069 whereas 1,264 of them are in offshore and 805 of them are onsite as of 31st March 2019 as compared to 2,088 of which offshore was 1,287 and onsite was 801 as of 31st December 2018. Our DSO improved by 2 days to 72 days as of 31st March and FX hedges for the next 12 months stands at £ 7.5 million covered at an average rate of ₹ 95.9 per pound.

If I move onto the slide 11 and look at the revenue analysis, revenue by market region, UK continues to drive the revenue and it is up to 76.5% of the total revenue contribution, US is at 22% and Others constitute 1.5%. Revenue by industry segment, Government continues to grow robustly, it contributes 42.4% of the total revenue, Retail services constitute 34.3%, Financial service is at 17.9% and Others is at 5.4%. Revenue by contract type hasn't changed any materially. It is at 72.9% in T&M contract and 27.1% in fixed bid contracts.

Moving onto next slide, it is revenue analysis by service line. If I look at Q4 fiscal 19, Application Development stands at 42.4%, Digital Commerce stands at 21.6%, Application Support and Maintenance jumps to 20.4% on the back of lot of contracts converting into maintenance mode and development phase getting over. BI and Analytics contribute 9.4% of the revenue, Assurance and Testing at 3.9% and Agile consulting at 2.3% of the total revenues.

That brings us to the end of the presentation and I will hand over to the floor for any question and answer. 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:** John, I was trying to understand, if you said that you sense a slowdown in the qualitative revenues in the UK on the back of the political situation? Did you mean to convey that or if you didn't if you could just qualitatively comment on the quality of the revenue prospects in UK in the quarters ahead?

**John Owen:** I don't think the quality of revenue has any impact because that comes as within our control as delivering. I think the rate of growth is obviously dampened by the headwinds of Brexit, particularly in the private sector where investment decisions are being delayed and moving a little bit to the right and in the public sector, there is obviously a distraction there and I think what we are flagging is we will continue to grow, but I think those traditional rates that we had are hard, it is for a short-term than a long-term trend, so we still expect a growth in the UK because it is a robust market for us given our heritage, we expect to grow in the private and the public sector, but I think the rate of growth is probably dampened.

**Baidik Sarkar:** I recollect the conversation after the Q3 numbers and I think commentary from your end was that Brexit there had no implication of the quality of growth, so obviously things have changed in the ground. Abhishek, obviously INR terms, UK has grown about 35%, could you help us with the constant currency growth of UK please?

**Abhishek Singh:** It is 25% plus year-on-year, Baidik.

**Baidik Sarkar:** John, back to you, obviously, the US has been a huge disappointment, you mentioned there was a change in management and I think you alluded to some new initiative as well, would you think it changed in the coming year, what is the worst case and what is the best case?

**John Owen:** I think we probably bottomed out. We are probably coming into Oracle's strongest 2 quarters coming in as they come to the end of the year, but we have just reset the business, so we had probably lost 12 months, so again I don't see anything falling off the edge, but I think the ability to bounce back. The good news is, we are starting to cross-sell so that strategy we had, we acquire the customer through digital commerce because of our position with Oracle and then we cross-sell our core services. We are starting to see that happening and we have just taken the contract last week for testing services in one of those digital commerce customers, so I think we are probably at the bottom. It is hard to actually predict. Having said that one or two contracts in every services space, given that it is a nascent business and everything starts to look very different, so I wouldn't say although I expect Q1 to be modest growth, I don't think I read too much into that if we bench, it could be just based on one or two contract. I think over the next 2 to 3 years, we wish that we want to balance Agile revenues between the UK and the US and that is still our strategic intent.

**Baidik Sarkar:** So from a financial end, you know that you have to change in your legacy management, could you give us any operating levers from a margin perspective?

**Abhishek Singh:** From an operating lever and the improvement point of view, we continue to maintain the upward trajectory and all the levers that we have been trying to pull has resulted in the northward movement of the operating EBITDA, despite the US performance or despite the India performance that we have out there and we continue to invest in this with Dennis coming on board, we will like to believe that we would be able to supercharge this and look at it more microscopically and implement at a faster pace to stop that we already identified, so we feel confident on that note Baidik.

**Baidik Sarkar:** So the Q4 exist in terms of margin that we have seen in spite of the continuing goals in US, you think that the numbers you can hold on to for the remainder of the year, FY20?

**John Owen:** That would be our endeavour.

**Baidik Sarkar:** And I would like to squeeze in one more question, Abhishek, can I request you to please reconfer the tenure of financial contours of the Vision 2020?

**Abhishek Singh:** So, the broad level contours Baidik was about fix, win and grow and we are in the growth phase where we are looking at this year to use our balance sheet, monetise the non-core asset along with the organic growth trajectory that we have had. Now clearly, UK is delivering to its plan, there is an element of distraction that was there because the decision making is not as fast as far as public sector is concerned, private sector clearly has some concerns given, which way it is going to grow and what happens to them, but regardless of all of it, we believe that UK would be able to maintain its trajectory in the same quadrant, US is in the build phase below green shoots modest 1.5% quarter-on-quarter growth in digital commerce business which is the future. We have seen that so we would like to build on that and as we monetise the noncore asset and bring it back into the business which would be able to give us very meaningful growth for the next fiscal and years to come.

**Baidik Sarkar:** I meant to understand the constant currency number for the entire year for US? What was the extent of degrowth if it was flat then what that number was?

**Abhishek Singh:** The US has had a very modest growth, I would say it is possibly around 2% to 3% year-on-year basis.

**Baidik Sarkar:** Okay. Thanks. Just the tax rate, our tax rates have always been all over the place. You know for the coming year, I understand that we have had a lot of complexities given the different geographies, but would you, is that a guess as to what the tax rates could be for the coming year?

**Abhishek Singh:** ETR has just had a one-off this quarter, other than that I would be comfortable with the ETR that we have experienced thus far.

**Baidik Sarkar:** Which is about 23 to 24%?

**Abhishek Singh:** Yes. That is right.

**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 to Abhishek. On the net cash balance, if you look at the September cash balance that we had was around ₹ 191 crores and the debt that we had against rate was about ₹ 4 crores, while in March the cash balance outstanding is ₹ 244.5 versus and against that we have debt of ₹ 69 crores, so the net cash balance has gone down from ₹ 187 crores to ₹ 175 crores between September and March, so can you comment on why this has happened because?

**Abhishek Singh:** So Nirmal, it clearly has some timing thing. As far as net cash balance is concerned, we have always had that $ 10 million in debt that we raised for financing the TAISTech acquisition and even today, it is the same debt that we refinanced at a much lower rate that remains there, so the best way for you to compute is the cash balance less $ 10 million for that exchange rate than versus the cash balance now and $ 10 million in debt for the TAISTech acquisition.

**Nirmal Bari:** And secondly, it was on the debt itself that we had paid this debt earlier this year and given that we have very strong cash balance, what was the need for refinancing it in the current quarter?

**Abhishek Singh:** Nirmal, you raise the debt in the geography from where you want to service it, it takes away any servicing related risks coming from foreign exchange fluctuation and above all, these debts are at very competitive rate and I have gotten arbitrage as far as my treasury yields are concerns, so we will continue to use cheap debt backed by our own asset.

**Nirmal Bari:** My second question is on Indigo Blue, so we have taken a write down in this quarter and John also mentioned in the commentary that in UK, one of the customers had a ramp down, so are both of these things related and what do we expect for Indigo Blue going forward because if I see in the revenue split as well, the revenue from Agile consulting has been continuously dropping?

**John Owen:** The ramp down that we told today is a long lasting legacy contract with Capita and they have taken that in hedge because they have obviously got their offshore capability and they are trying to build that as their core business. So that is just legacy contract running off as they come in, that was just discussed and then we have taken and absorbed that. The Indigo Blue growth is more about going into the UK, particularly the private sector with Agile consulting. That is being sharpened up with bringing it probably on a tighter go-to-market. We are refreshing some of the pricing and I expect that to continue to deliver strategic value. Indigo Blue was always there about creating and extending the brand of Mastek within the agile market and it is about acquiring customers through a consulting engagement where they are looking to deliver agile in that business and then obviously Mastek would follow through with the delivery of engineering capability and capacity, so that strategy is being refreshed. I think the ramp down is purely about legacy project going out of the portfolio.

**Nirmal Bari:** And the write down that we had to take for Indigo Blue's goodwill, what was the reason for that?

**Abhishek Singh:** Nirmal that is the case where we had, if you recollect last year we had merged that business with Mastek UK, the brand has been retained and we believe that now it is fully merged, it is operating as part of integrated Mastek organization. The delivery revenue that comes from those leads are delivered by Mastek UK, so we thought it fit to write it off.

**Nirmal Bari:** Agile UK graduate training program, so what kind of cost do we expect from this and would it hit our margins in any ways, the employee cost increase or anything?

**Abhishek Singh:** It is fully baked in, Nirmal for the last couple of quarter, it is fully baked in. We are already running that program.

**Nirmal Bari:** Yes, we have been running that program, I understand that but going forward, it shouldn't be impacting margins in any way?

**Abhishek Singh:** We don't believe so.

**Moderator:** Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

**Ritesh Bhagwati:** I have one question on my side. Can I get a geographical split of the order backlog that we have as on date, like roughly ₹ 540 crores and also if possible if you can give the split of the number of the clients on the region wise basis, like how many we have on the US side and UK side? That is one question.

**Abhishek Singh:** So if you look at the reported number of the 150 to 160 last 12 month customers that we have outlined, we would say that 35 to 40 of them are on the US side and rest of them would be possibly in the UK and the consulting as well as India side. In terms of order backlog, I would recommend that you liaise with our Christensen IR team. The data is not handy, they would be able to advice you on it.

**Ritesh Bhagwati:** So I just wanted to understand that basically, how was the performance on the number of clients that we added in both the regions, like in US, UK, at the same time in terms of the order book also in US and UK, how was it on a Y-o-Y basis?

**Abhishek Singh:** If you look at it, our whole strategy is to land and expand and in that sense, if you open the door, it can open with as small as 50,000 to 100,000 dollar or pound as the case may be, going all the way to multimillion pound engagement, especially so in UK. So these customers are in various spaces of their growth as well as many of them die on the vine as well, not everyone that we land, not all of that logos that we land necessarily expand, so I would say that we are fairly in good space as some of them have turned out to be multimillion dollar engagement over last 3 to 6 months whereas the others have possibly wrapped up their consulting or the discovery phase of the project that we landed.

**Ritesh Bhagwati:** And what is the typical contract term or contract time of, like for example, when certain clients, what is the ideal timeline for the contract with any of the clients in general?

**Abhishek Singh:** So again, it will be I would say, geography as well as sector-specific nuances are there. If you look at public sector, it could be a discovery phase quarter of a million pound and that would lead to the larger contract versus a lot of the medium-term, large-size delivery project as well. You take it into US, our typical order size would be 3 quarters of $ 1 million to $ 1.5 million and if you have multiple service line, it can go up to $ 2.5 to $ 3.5 million. So again, it is classically about which type of customer and which geography you will add. John, I am sure you will have a view.

**John Owen:** I think this is probably difference between legacy IT and digital. Legacy IT probably got a $ 200 to $ 300 million 3-year and 4-year contract and you basically work that off and then you did your maintenance at the back of it. Digital projects tend to be shorter and quicker, smaller value, but they come with a higher velocity, so I think that is probably where we are talking about landing and expanding it. If we can build our reputation with new customers as being a trusted delivery partner in digital, I think that agenda just continues and an early engagement could be 6, 9, 12 months, but what I would say from my experience with Mastek over the last 3 years, we did not lost the customer and I will qualify, we didn't lose Capita because of our quality, they have a strategic decision to self-deliver to drive margin improvement. That is what they have taken that project in-house. We are not losing customers, therefore what we are going to do is make sure that we are there and we are recognisers that go to digital partner as we increase the velocity of these projects, but I don't think there are going to be $ 300 million in quantity and they are not going to be 3 years in duration. They are probably going to be $ 5 to $ 10 million and 9 to 15 months of duration and then it is about building the velocity. Hopefully that helps explained.

**Moderator:** Thank you. The next question is from the line of Kunal Sangoi from Aditya Birla SunLife. Please go ahead.

**Kunal Sangoi:** John, my question is with regards to the UK geography, while you know fiscal 19 has been very strong with the 25% constant currency growth, we had very good momentum in the last 2 quarters of the FY18 and the first two quarters of FY19. Post that Q3, Q4, we have seen less than 2% kind of constant currency growth at a company level. Now, we are saying that we have some slowdown in decision making because of Brexit which is going to impact, so are we suggesting that 25% kind of CC growth in UK itself could be far lower in FY20?

**John Owen:** I think we are the best by saying this, had the UK exited on its trajectory of March 29, I think we would have clarity and we would have been able to digest the information and either we have got much improved client line that needs to be aggressively delivered or would have moved into some other sort of decision, a bit of uncertainty. I think our intent is still to retain that sort of high-double digit, 20% to 25% growth in constant currency. I think the reality of Brexit, given our footprint and we do have to broaden our base as Abhishek said to get broader market coverage both in the US and UK, the public and the private, but I think, the fundamentals for the company for growing remain strong. I think there is an issue on timing that we said that hopefully in Q1, Q2, it will sort itself out what does Brexit meant because we will all get a lot more clarity. That being said, I think there are some and that is in the organic, I think there are opportunities to grow given that we still are relatively young company as a digital player and our revenues are relatively modest when compared to the market opportunity while addressing. That being said, fiscal 20 is about two levers of the growth, one is organic which I have just explained, I think we will enjoy some growth coming out to the US because again, we are probably the lowest step of the business and we are starting to build up back under the new leadership and the UK organic growth, I think although Brexit may or may not impact it, I think we are still looking and we aspire to grow to that tradition to deliver that. The other lever growth is inorganic as Abhishek suggested, we are looking to monetise our non-core assets and accelerate our growth through acquisitions. That will also help drive top-line growths.

**Kunal Sangoi:** No, but as far as organic is concerned, so within UK, would you like to highlight that within the government sector, are there any HMRC or MoD (Ministry of Defence) where the visibility is coming, is in for fiscal 20, the visibility is fairly higher and which will compensate for some amount of slowdown in private sector in UK?

**John Owen:** I think the good thing is we end fiscal 20 from where we ended fiscal 19, we do have a broader base where we are digital partner recognised in UK departments, so you are right. The MOD, if I look at that as a discrete account, we are seeing rapid growth from a fairly low base. The home office, which is where they were the majority of our revenues through the immigration platform and the biometrics platform, those have seen projects move a little bit to the right because we have had teams moved off to do contingency planning in Home Office, so I do expect on like-to-like going through the year, I expect our business to grow organically. I think we have a stronger base where would that business will come from, yes we do have stronger pipelines in certain departments, but at the movement, given the uncertainty of Brexit and how people are interpreting it and how the government is moving resources around, I think it is hard to predict that but I do expect as it flows through the year, I expect it to sort of slowdown, but the clear message is we have revenue resilience in UK public sector, we have growth in our UK public sector, but to get back to the growth that we expected and we enjoyed in the first half of fiscal 19, we would probably need a bit of market stability from the government.

**Kunal Sangoi:** Because at least if I look at the backlog which is £ 60 million pounds this quarter and compared to the earlier quarter, it was **£** 58 million pounds, so at least whatever you are burning in terms of order book, you managed to win those kind of order books or slightly better than what you are burning? Right?

**John Owen:** We have a positive book to bill, but I think, to be candid, we would like it to be more aggressive, we will endeavour to deliver that but I think it is hand on heart gives stability and predictability cannot what is the growth level. I think what we are flagging is there will be growth, but I think it is hard to say when is it going to be in the double-digit level.

**Kunal Sangoi:** Second is with regards to the US, last couple of quarters, we have seen a decline, so when do we actually see stronger growth coming through and what will drive it, what are the initiatives that we are taking within the company to ensure that growth comes through?

**John Owen:** I think we have taken the decisive initiative of taking the restructuring, removing the management and putting in new management, I think part of that is we are also taking our VP of engineering, Hiren Shah to actually lead the integration of TAISTech into Mastek and he has got a very clear mandate to cross-sell core services like app development, maintenance and DevOps, those new sort of generation digital services into our digital commerce customers and I think we are reporting one new customer win on that cross-sell today, but I think that is the initiative that should be the stability. Again, in the US market, it is about execution. I think the market is big, I think we are coming into a nice seasonality with Oracle, it will come down to execution.

**Kunal Sangoi:** And Abhishek on the margin side, do you think with the currency, usually currency has relatively lesser impact on the margins in terms of the volatility, how do you see fiscal 20 in terms of EBITDA margin?

**Abhishek Singh:** I would say what I said earlier, we endeavour to maintain this trajectory, it has always been northward and we crossed 13%, I guess in a fairly long time, so it is a good reference for us and try to maintain that if not build on it further.

**Moderator:** Thank you. The next question is from the line of Jatin Kalra from Alfa Capital. Please go ahead.

**Jatin Kalra:** Would you like to elaborate on this non-core monetization, how do you plan to do it and where will this capital be used and I guess in terms of Majesco, they had a rights issue earlier this year, we applied for it and how do we plan to monetise that one?

**Abhishek Singh:** So Jatin, the first clarity is that Majesco rights issue, we did not subscribe to it, that is exactly what we classify as non-core asset apart from some of the real estate that is non-core for us as well that has not been used as part of our operating footprint, so those are the things that we are looking at monetising and clearly the endeavour is to bring it into the business, it will help us facilitate some of the inorganic initiatives we are driving, clearly in capacity and capability based acquisition that we are striving for.

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

**Mohit Jain:** Few questions, one is on the US side, I missed your comment, when do you expect US to start moving on a sequential basis?

**Abhishek Singh:** Mohit, US is in the build phase. Post the restructuring, we have deputed our experienced hand Hiren Shah and we have stabilized the business already. Digital Commerce Business has shown some green shoots by growing 1.5% quarter-on-quarter. Cross Sell has got good momentum with Hiren's experience. We are further enhancing in the sales & leadership in the geography which will help accelerate the recovery.

**John Owen:** I think your point is valid and as Abhishek said, what we have got to do is stabilize which is what we are doing, I would expect that to give us modest growth. I think when we get back we probably lost 12 months in our trajectory, I mean in the US with resetting the business.

**Mohit Jain:** So, in this segment reporting, US is still showing a big decline, is it?

**Abhishek Singh:** Yes, that is driven by the legacy business that we had in US.

**Mohit Jain:** Which was not part of TAISTech?

**Abhishek Singh:** No, that is not part of TAISTech.

**Mohit Jain:** This is digility, is it?

**Abhishek Singh:** Correct.

**Mohit Jain:** So now, what I mean to ask is when we look forward, January to March, we will have a revenue base, now should we expect that you will not decline from here at least?

**Abhishek Singh:** That is a fair observation.

**Mohit Jain:** Second is on the profitability of US. I think you became profitable this quarter, although marginally, but should we expect like profitability to go up because restructuring charge is already done with and therefore the cost structures are more aligned?

**Abhishek Singh:** That is reasonable, but that said Mohit the true profitability and the potential of the geography will be reflected once we start getting into the growth phase in the geography. The sensitivity of that geography in terms of profit contribution is very high for every incremental million dollar, so as we bring in growth, you will see some meaningful contribution.

**Mohit Jain:** But it will no longer be a drag in terms of negative margins going forward?

**Abhishek Singh:** It will be a drag, but it shouldn't be a negative margin.

**Mohit Jain:** Third is on the cash generation like, what was the cash from operations for this full year, FY19?

**Abhishek Singh:** We don't have that handy Mohit, I think you can get in touch with IR team for these details.

**Mohit Jain:** And fourth one, there is a drop in active client, so any specific reason there, why should there be a drop in number of clients?

**Abhishek Singh:** Mohit, that is part of the land and expand strategy, not every contract or every consulting assignment that you land will expand and I am sure John has some more points.

**John Owen:** I think as we alluded these, a lot of those clients come through IndigoBlue because they are consulting engagements, so this whole tactical and what we probably brought is a better and sharper discipline in our IndigoBlue go-to-market, which is we are only going to do a consulting engagement if we can see that basically lead to a delivery engagement longer term and it is with the client that can fit our strategic client profile, so we are probably tidying up that customer base, which has resulted in that modest drop of probably 10 customers in the last 12 months.

**Moderator:** Thank you. The next question is from the line of Aejas Lakhani from Edelweiss AMC. Please go ahead.

**Aejas Lakhani:** Abhishek, just one question that there was a news article a couple of days back which spoke about your non-core sale and it mentioned that 12% is what you are looking to dilute in Majesco, so I think you guys have roughly 5 million Majesco share, so that is at around ₹ 270 to ₹ 280 crores, so do you have stake sale or you getting out completely and how was the transaction really be structured?

**Abhishek Singh:** Aejas, the answer to your question is yes, that is non-core for Mastek and we are looking at exiting that investment of ours and yes, it is around 12% or circa of 5 million shares and it could be a combination of either a strategic investor or in the retail market through HNIs and fund houses and stuffs, so all options are on the table at this point.

**Aejas Lakhani:** But you are looking to exit completely, right?

**Abhishek Singh:** That is correct.

**John Owen:** We have signposted that for probably the last 18 months – 2 years as we went through Vision 2020, our non-core assets, we will monetise at the right time because we have confidence in our core business and have an operating model, we have growth and it makes sense to I say move that assets into our core business because I think they will draw better value.

**Aejas Lakhani:** I understand that but I was looking at from monetization perspective, you guys are looking to monetization this calendar year, financial year that is on the cards for sure?

**Abhishek Singh:** That is right.

**Aejas Lakhani:** And the next acquisition that you guys are looking for is largely based in the US markets only or it is agnostic like?

**John Owen:** I think it is agnostic as in it is going to fit our operating model, it is going to be accreted and it is going to allow us to accelerate our growth. We are going to have the discipline that it has got to fit within our geographies of the UK and the US and is going to have the engineering operating model of India. So within that sort of that criteria of is it going to expand our customers? Is it going to expand our capacity? Is it going to expand our capability? Does it fit the UK and the US as our major regions of revenue? Does it have an Indian engineering base? And can we operate that with against our target operating model? And is there a cultural fit? Those criteria will dictate the best acquisition. That being said, over the next 3 years, we have intent to balance out our revenues between the UK and the US. As we said 3 years ago, when we started Vision 2020, we also have planned to divest non-core assets, so at the appropriate time, those decisions will flow through.

**Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** Sir, my question is related to the US geography. So in FY19 we did total revenue of $ 36 million in the US geography and it has been declining in the last 3 quarters. So I just want to understand the composition of this revenue. So I understand that this is mostly Oracle. So out of this $36 million how much is Oracle ATG? And if you would provide some clarity on the concentration of the clients like you know how much is the top 5 and out of the Oracle ATG portfolio what drag we are seeing there on that base. So that could provide us more like grounded picture on the US business?

**Abhishek Singh:** Amit, the first thing first is that from the revenue base that you have out in US, it is fairly diversified. Largest customer is possibly couple of million dollars little bit more than that. So there is no revenue concentration risk that we see there. And that customer is also there with

Mastek, i.e. TAISTech for last 8 to 10 years and it is a stable revenue base. The challenge that we are facing is not necessarily out of ATG being a dying technology or ATG not being serviced by Oracle. The challenge that we have is our ability to convert those opportunities and especially in the ATG modernization space that exist. The on-prem to cloud is a phenomenon and that is not going to slow down any time soon. Our ability to gather the share of the pie that is out there is what has caused the revenue stagnancy or the degrowth that you have experienced. The revenue is fairly well diversified. It is not about just servicing the ATG customer and hence any kind of degrowth pressure that you are looking at. In terms of future there will be fair bit of cloud opportunity as OCC or Oracle Cloud Commerce stabilizes, our practice of sales force cloud commerce has also picked up, I would believe that cloud driven growth is what fiscal 20 and onwards would be about.

**Amit Chandra:** Okay. And sir in terms of the clients who are on Oracle ATG in the US, so what kind of conversations you are having, so out of the total clients how many have shifted to like say for example to Oracle OCC, say if you can provide and how many of them we have been able to convert that?

**Abhishek Singh:** We were the first ones to actually do that, the ATG to OCC conversion and we made a methodology out of it. Now the ability of customers to take decision in terms of converting an on-prem solution to a cloud solution is driven by lot of economic factor at customer end and OCC itself didn't enjoy a significant confidence last year. But this year onwards we see better traction in terms of deal opportunities and stuff that we are working with Oracle on. We see a pretty swelled up pipeline that we are working with them very closely. So this phenomenon would build up as we go ahead, but that is not, Oracle is not the only channel on which we have to drive our revenue growth on. As we had shared in some of the earlier calls we are looking at building it up organically as well, reaching out to the ATG installed base to figure out what is it that they are looking at, what is the modernization approach they have, do they want to go headless architecture in microservices strategy in which case app-dev capability will come very handy and we can do that bespoke solution on the existing ATG platform or do they want to remain as is in which case some maintenance service and support would be needed. Again our experience comes handy and the best case is where they want to move from on-prem to cloud solution in which case again our capability and methodology will come very handy. So, the best one is right now not to just be reliant on Oracle though it will still be very significant but to build organically and drive it on our own.

**Amit Chandra:** Okay. And sir my last question would be on the UK government. Our UK government portfolio is fairly concentrated on say NHS digital and Home Office and apart from that there are various other departments which are like spending huge on digital transformation. So what is the strategy to diversify to other departments to like to capture the opportunity there?

**John Owen:** As I said, we have diversified out of those Home Offices against but we have reputation for already preselected on things like the digital outcomes services contract and G-Cloud contract. So we have prequalified where in the Department of Health, we are in the Department for

Education, Ministry of Justice, Ministry of Defence as well as the Home Office and will continue to expand beyond that base. But I think we are seen as trusted, respected but is about building that base, broadening out the base and then driving more revenue from those accounts. So you are right, the strategy is, it is about executing there, broadening the base and selling up higher value.

**Amit Chandra:** So are we currently bidding for other contracts also and is that they are not winning them or like we are not bidding actually for the other contracts that are there on the digital marketplace for the other departments?

**John Owen:** No, I think we are winning. I think the key is the project, the decisions are moving a little bit to the right because of the Brexit because lots of resources moving into contingency planning but if we have a soft Brexit so the digital skills within government under the Cabinet office are moving around each department. So lots of projects are getting delayed because resources being pulled off to basically service the Brexit agenda. So we are not winning, it is just some of the projects aren't coming, the new projects are coming to the market as quickly as they were forecast.

**Moderator:** Thank you. We will take the last question from the line of Parag Bharambe an Individual Investor. Please go ahead.

**Parag Bharambe:** You know the structure of the Agile deals are, they are smaller deals, less in quantum in terms of amount, but they eventually scale up. But in your quarter one call you said that you have a customer for life. So were you referring to digital customer or agile customer or the legacy customer?

**John Owen:** I am referring to customers period. What I would say everybody goes through a sort of project lifecycle and some of those agile consulting projects we have done our agile work. We have done our intervention and the customer has got value from that. However, they have not seen compelling in them to change their engineering partner towards Mastek. So in isolation, we done a good job, but it was a project that ended. That is where I think you see some of the customer list come down because that acquired and through Agile consulting and then take them up the value chain of engineering delivery than engineering maintenance and then you are in doing all the project changes during the delivery model. Those customers have not gone on that journey. Not because we have failed, it is because they not had a compelling reason to shift their engineering delivery model. Customers that have gone through that agile consulting and then gone to delivery, we are going through the application development, we are doing the bill, we are doing the maintenance and we are expanding into DevOps, into agile testing, into an apps maintenance, into the BI and Analytics. So we are moving through the full portfolio of service lines and we are staying with those customers. That is where we see a customer for life. So they may onboard with Mastek because they go on agile consulting problem and therefore we engage with Agile consulting, that does not necessarily mean it will naturally flow through to delivering engineering services. Where we not lost customers and where we do want to keep a customer-for-life concept is when we do the engineering and the application development, we want to keep that relationship because if I go back, digital projects are all about the velocity and being that trusted delivery partner where the customer will tell you probably your engineering excellence, your delivery track record and your confidence that you can deliver the digital outcome that business needs to transform itself. So hopefully that clarifies, customers for life is absolutely the strategy, not every customer has the ability to go on that journey with us and some of the customers we don't want to go on that journey with because again that probably not the sort of customers we may want long term in our profile. So it is about where we put our opportunity capital, but in an ideal world customers would engage with us in Agile or they will engage with us particularly in the government on an application development procurement, but once we got them a particularly in application development we don't lose them because we deliver better outcomes with better value with better quality faster than our competition. That is the sort of customer we want to stay with.

**Parag Bharambe:** Okay. Thank you for the detailed response. I have a couple of more questions. You know historically if I look Mastek over a last two decades the revenue and the profitability was cyclical. For example you know when London congestion charging was going on, I know you may not be there with the Company that time, but around that time profitability shoot up. The same thing happened when NHS contract was going on. And once you hit profitability and then it goes into the long downward cycle of loses, now if I see for last 3-4 years Mastek has done brilliantly in term of revenue and profitability. So what are you doing thing differently now what you didn't do in the past to make sure that the cyclicity it doesn't happen this time?

**John Owen:** Thank you very much and I thank you for your loyalty over the last 20 years as a shareholder first of all. But I think you are right, we do carry that heritage and I will call unfortunate heritage because we have been sort of boom and bust. I think what we have done over the last 12 quarters is we build a disciplined execution model. If I look at why are we appointing Dennis Badman into the leadership team is because we need to have a solid foundation for sustainable, projectable growth, so we can build investor confidence and we can create value for everybody. Our customers are employees and our investors over a sustained long term period. We see digital as disruptive and Mastek is particularly well positioned to focus on that niche and to win customers, keep customers and grow customers. And that is what we have done over the last 12 quarters. I think our task given the management team that I am building and Board's confidence they are having both management team and the confidence they have digitally different and it allows Mastek to compete on a totally different landscape, i.e. it is not based on price, it is based on engineering quality, it is based on delivery track record and it's based on keeping those customers for life, we have confidence in our future and that goes back to why are we monetizing non-core assets because we have confidence in our core business to grow both revenue and spin up that quality of earnings. So I am confident we have the team, we have the market, it comes down to execution and hopefully you have seen over the last 12 quarters we are building that culture and the expectation.

**Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

**John Owen:** Okay. Thank you very much. As we said we have expectations and we probably live by our own expectations are greater than any ones. So thank you for your questions. Thank you for your challenge. Fundamentally it goes back to digital is different and the sources of competition, our competitive edge is the engineering excellence, the delivery track record and the Agility that Mastek has. So I will describe is a 39 year old startup because I think we have so many proof points that we are that sort of supplier that customers want to deal with because we are agile, we are accountable, we do deliver the customers outcome and that is more mission critical in the digital world than is in a traditional IT world. But it does come down to execution. You know we will gets bumps on the way. We had the bump in the US and I think we have taken decisive and quick action to rectify that and I am confident that will flatter out and come back to growth. We do see some headwinds in the UK, but again those are more operational challenges that I think we can navigate as we broaden our base and we got resilience in our existing revenue base. But it is about when do we accelerate our growth. We have a very clear strategy in fix, win and grow. We had a good first year of fix, we had a good second year of win and now we are entering that third year of growth and that is both organic growth and inorganic growth and I think we have given visibility and a direction of travel says our growth is what is going to drive both top line but it has got to relate into quality of earnings improvement as well and hopefully over the last 12 quarters we have shown that we are building that track record. We are only as good as tomorrow's delivery and that is where we will focus. So we will reset to zero and we will earn the right for our customers to continue to live with this. Thank you for your support and thank you for your interest in Mastek.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Mastek Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.