



“Mastek Limited  
Q3 FY '23 Earnings Conference Call”  
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**MODERATOR: MS. ASHA GUPTA - E&Y LLP, INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Mastek Limited Q3 FY '23 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 this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from E&Y Investor Relations. Thank you, and over to you, ma'am.

**Asha Gupta:** Thank you, Rutuja. Good evening to all of you. Welcome to the Q3 FY '23 earnings call of Mastek. The results and presentation have already been mailed to you and you can also view them on the website at [www.mastek.com](http://www.mastek.com).

To take us through the results today and answer your questions, we have the top management of Mastek, represented by Hiral Chandrana, Global CEO, and Arun Agarwal, Global CFO. Hiral will start the call with the business update, which will be then followed by Arun providing the financial update for the quarter.

As usual, I would like to remind you that anything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking statements, must be viewed in conjunction with risks and uncertainties that we face. These risks and uncertainties are included, but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report that you can find on our website.

Having said that, I will now hand over the call to Hiral Chandrana. Over to you, Hiral.

**Hiral Chandrana:** Thank you, Asha. Good evening everybody and wishing everyone a very happy new year. Hopefully, you all got time with your families during some of the holiday period in December and we are looking forward to the discussion.

We'll keep our commentary to a minimum but looking forward to the interaction and questions on the second half of the call. The feedback that we have received from some of the investors and analysts and our well-wishers and supporter is to provide a very transparent view of the business as well as specifics around some of our organic and inorganic business. So we're going to be providing some of those details in the call today.

Let me start off with a summary of the financials and give you some view of the business health, particularly as it relates to some of our major markets. We'll talk about some of the client deal wins and the momentum that we see and a little bit about the strategic investment that we made in December as well as some flavor of the outlook that we see going forward.

At an overall group level, at the integrated business globally, we grew 20% year-on-year on a constant currency basis and 3.1% on a quarter-on-quarter basis at constant currency. Our operating EBITDA was 17.3%, just a marginal improvement from Q2 to Q3. We also had a strong order book backlog, almost 30%, 29.7% year-on-year growth backed up with some good deal momentum towards the end of Q3. I am personally, as well as collectively; we are disappointed with our organic growth. We had some good momentum towards the end of the quarter, but we are disappointed with the core business globally and the momentum that we expected. Having said that, our strong order book and some of the movements that we are seeing on the deals give us a lot of confidence going into Q4.

Our inorganic acquisition that we made of MST Solutions has performed above our expectations and is delivering some very strong results. And we'll talk about some of those financials when Arun goes through specific numbers.

I'd like to share some flavor of the markets that we operate in, in particular with some of the verticals and key customers. Our UK market, as most of you know, has three main components: Secure government services, which continues to do really well. And we feel that our infrastructure that we support with respect to Home Office, HMRC and some of the key institutions has been very resilient even though macroeconomic environment was uncertain. As we look at private sector, which was a relatively small portion of our business, it has shown good deal momentum in Q3, particularly in the order book side and we feel that some of the strategies that we had put in place earlier in the year is starting to pay off.

The health accounts that we have discussed in the last two calls, have continued to be a challenge, because of the government in the UK with the particular healthcare account. Having said that, we feel that as even commented last time that it has bottomed up and we feel that there's a little bit more stability going forward.

Europe, which is a small portion of our business, which is Europe outside of UK, has shown some softness in terms of deals, although we do have some interesting large global enterprise accounts, particularly in the manufacturing space where we are shaping some interesting conversations globally.

The US market, which is critical for us at an overall level, obviously aided by the acquisition and MST and the Salesforce business, has helped us move from 18% of our overall business mix about a year back to close to now 27.5%, of our overall business mix. This is a direction that we want to continue to take. While we continue to grow in the UK and other markets, we still feel very buoyant about how we can take the US growth at a faster pace compared to the overall average. Having said that, our organic business in US has still not completely kicked in. And even though our account mining strategies are starting to pay-off, we see this as greater than one million accounts in the US as well as our market share within our top 25 accounts, has grown, but we would like to see much faster growth in our organic business as well.

MST Solutions, we're expecting them to do roughly about \$9.5 million in this current quarter, in Q3, but they have actually crossed double digits and greater than \$10 million in Q3. So that's a very positive momentum beyond expectations, and we see a fairly strong outlook going forward into '2023 calendar year.

Middle East has been interesting for us. While we have lower margins in that geography, because of the nature of the customers, but it has been very steady for us last two or three quarters, and we continue to see some large spend, particularly in Saudi and UAE, which will continue to help us grow in specific verticals, including healthcare, financial services and public sector.

From a vertical perspective, other than the health account in UK, which is a government institution, we're now starting to see the healthcare strategy pay-off in US and with Oracle's acquisition of Cerner and with our Salesforce business also strong in the healthcare sector, we believe that will continue to be a bet for the coming quarters in the US market, in particular.

Let me highlight a couple of deal-wins just to give the flavor of the business and then also talk about some of the recognition that we have received from our clients as well as from the industry.

The Home Office account, which is a strategic UK account, the future borders and immigration work that we do out there has been extended with certain biometric matching capability, which is very strategic on how borders, immigration and trade is managed by the UK government. One of the Blue Cross Blue Shields in the US, which is an existing customer of MST, this is one of the feedback that we have received from you to share about some of the synergies that we have between Mastek and MST, which is now our Salesforce business. We've been able to grow those accounts. This particular example is the Blue Cross Blue Shield healthcare customer, where

we've been able to take Mastek services into that account and penetrate beyond the Salesforce business. Similarly we've taken Salesforce services and penetrated some of the accounts in the Mastek portfolio that existed. So synergies both ways are starting to pick up.

Our cloud commerce business, which was a key part of our US business in the past, if you rewind about a year back, has been under pressure because Oracle dismantled that entire portfolio of CX and CRM and commerce, which hit our US business, but we've been able to recover from that, managed to convert many of the accounts into Managed Services. And now we are starting to provide cross-platform services when it comes to digital experience and commerce, partly because of the sense we have in Salesforce, but also with other commerce platforms like Adobe, Magento and some of the new generation alliances like MACH Alliance in the e-commerce world.

Another interesting example is account in Middle East called Pure Health, which is a healthcare technology platform company where we're completely looking at their cloud ERP financials and cloud HCM with Oracle and transforming the entire digitization of that platform in terms of how they serve their customers.

There are some interesting examples that we have included in our press release as well as in our investor presentation. But one key customer that I'm very excited about is a customer called Banner Health. Again, this is one of those customers which we acquired as part of our acquisition. Combined along with Salesforce and the customer, we are going to be doing a webinar together. But the key part here is we've created a solution which includes shop and enroll for the broker portal and the patient experience, which we believe can be replicated across multiple other clients.

ISG recognized this as a standout case study, which gives us industry recognition on the work that we're doing in addition to the validation that we received from the customer as well as from Salesforce.

We made a very strategic investment in Q3. Volteo Edge, the platform which actually is an IoT platform, but works in the context of data and connected devices, is a pretty interesting way to look at how data can be extracted in the edge to service world, particularly with discrete companies like manufacturing, healthcare, medical devices, retail. And we believe that this solution, combined with some of the services that Mastek has, can be an interesting overall proposition for our ServiceNow ecosystem. As you know, we are very strong in the Oracle Cloud space. With the Salesforce acquisition, we are very strong now in the Salesforce, customer 360 degree space. And this Volteo Edge investment gives us an entry into the ServiceNow ecosystem, which is also a very large growing ecosystem, particularly when it comes to customer service and field service.

As we look at the next few quarters, and there is continuous cautiousness with some customers and with certain markets, the cost optimization and the ability to create more efficiencies and effectiveness in the organization is becoming a key part of some of the conversations. While client budgets have not necessarily reduced at all, they are definitely repurposing and reprioritizing their initiatives so that they balance out between discretionary and cost. One of the other trends that we are seeing is that the customers are breaking down larger deals, while some large deals are still happening, but they're breaking down larger deals into smaller chunks. And that potentially is an interesting proposition for us because we can get some market share with our existing accounts.

There's a few examples of those discussions we've started having in the last few months where customers have come to us to look at their portfolio. And we are also revamping our entire proposition to make it much more holistic so that while we look at front office to back office

transformation, from a portfolio perspective, we're also looking at managed services, cloud enhancement services so that it can give us some continued stickiness as we mine customers, which is the account mining strategy that we have commented on in the last two quarters, three quarters, where we've looked at our top 40 accounts globally, and we want to penetrate those even further. While we will continue to open new logos, we do want to get a lot more market share in our existing accounts.

With that, I look forward to the Q&A and discussion, but I'm going to hand it over to Arun to give some details on the financials.

**Arun Agarwal:**

Thank you, Hiral. A very warm welcome to everyone here. Wishing you all a very happy new year. The deck was circulated ahead of the call and which contains much more elaborate information about the financial performance. I will focus on key prefix on our financial and business highlights for the quarter, followed by Q&A session.

Getting into operating revenue. Operating revenue for the quarter stood at INR 659 crores, reflecting quarter-on-quarter growth of 3.1% in constant currency, which reflects 5.3% growth quarter-on-quarter and 19.3% growth year-on-year in INR terms. The quarter-on-quarter growth includes full quarter consolidation of MST. We have consolidated MST for three months in this quarter versus two months in the previous quarter, which has led to growth which we have seen in the second quarter. However, in terms of organic revenue, it's flat, quarter-on-quarter in INR terms, which is impacted due to the furlough and the holiday season, which Hiral alluded to, in UK, US and some of the other geographies as clients and their employees went into holiday place. Public sector in UK, excluding health customer, continues to do well and private sector is building momentum.

Order book closes during the quarter is encouraging and providing confidence that there's a positive momentum, which is building, and it is getting reflected in our 12-month order backlog, which has grown quarter-on-quarter and year-on-year, both. We added 31 new customers during the quarter. And again, as we mentioned, our focus is on large customers, which we can mine more-and-more, despite maybe the acquisition of the customer who went out of services, but we mine them for multiple tower of services. So six customers out of 31 have their revenue more than \$1 billion. It means their IT wallet share is quite significant and gives a lot of opportunity of mining to us.

MST continues to do well, as Hiral alluded too, we are seeing a lot of synergistic benefits. The planning of integration is going well and progressing to give multiple opportunities of selling Mastek services into MST and MST services into Mastek.

Our operating EBITDA stood at 17.3%, it's a 10 bps improvement quarter-on-quarter. Easing of supply side challenges as we are focusing on the operating levers, including utilization, we believe the operating EBITDA will continue to improve. PAT stood at INR 67.1 crores during the quarter, which is down 19.6% year-on-year. It is primarily led by a one-time gain, which we had in the previous quarter by sale of non-core assets. However, most critical, with the MST acquisition, now we have PPA amortization, which is a part of, whenever we acquire any asset, there's an intangible calculation, which has to be done as per accounting requirements and which is amortized over the period of the life of that asset, which could be between one year to six years. So that cost is included into depreciation and amortization, which has led to reductions in PAT percentage as well.

PAT without minority stood at INR 64.2 crores versus INR 73.6 crores in Q3 last year, down 12.8% year-on-year. Our gross cash stood at INR 325 crores versus INR 352 crores in the previous quarter. We have paid roughly INR 40 crores for the purpose of CCPS buyout, which is one part of the overall CCPS, which we are going to complete the acquisition in this current

quarter. Total expected payout was INR 120 crores in cash and then balance was in equity shares. So INR 40 crores, as I mentioned, has been paid in quarter 3 and balance INR 80 crores will be paid in the current quarter.

Our DSO has increased to 98 days. We are working consistently to improve the profiling of our DSO. However, due to holiday season, we saw some of the impact coming because of the collection, which was supposed to happen in the last 15 days, has not happened. But the focus continues to improve it on a consistent basis. Our borrowing stood at INR 397 crores as of December 31, 2022, which includes the money which was borrowed for the purpose of MST acquisition as well.

Our headcount stood at 5,687 for the quarter. It reflects a net reduction of 123 headcount. Consequently, we have seen utilization improving by 150 bps on a net basis on quarter-on-quarter despite very high leaves during the quarter due to holiday and furlough. We have seen good improvement coming on the supply side, specifically because of the attrition pulling down. We have seen 400-plus bps improvement on LTM basis in the attrition profile as well. On a quarter basis, the improvement is much larger, but as we had higher attrition in the initial H1, we believe the attrition profile will continue to cool down and will have a better reflection in our supply side challenges.

Thank you, everyone, for your continued support and trust. With this, let me open the call for Q&A, and we can get into much specific questions that you have.

**Moderator:** The first question is from the line of Mohit Jain from Anand Rathi.

**Mohit Jain:** Sir, if you could share the commentary on verticals adjusted for Metasoft, because some of it would be overlapping across. So this minus 2%-odd that we've delivered in this quarter, which verticals you're most positive on and which verticals sort of dragged during the quarter? And second was, given Meta Soft has done \$10 million, US seems to be down like 10% year-on-year. Is that number correct? And how should we expect this number to behave, let's say, from a 2, 3 quarter perspective?

**Hiral Chandrana:** Thanks, Mohit. This is Hiral. Let me start, and then Arun, please jump in. So the vertical split that we normally give is overall, but let me try to comment on two or three specific verticals that we are most proud of and confident about where a couple of them are struggling, right? Government and education, while historically there has been a UK specific presence for us, with the recent movement, there has been a couple of deals on the Oracle side, which we have won both in Middle East as well as in US. The city in the State of Florida, which is one of the deals that we announced is an example of that. MST also, incidentally, as we've shared earlier, has a state and local government presence in the US. So collectively now when we look at that industry cluster, it becomes a global vertical, which clearly we are focused on. And this, of course, includes UK, but also Middle East and US markets.

The healthcare sector, which has been hit organically with the NHS account, has impacted our overall growth momentum in that particular industry cluster. But as you can see, we're starting to sort of rebound back in organic terms as well as combined with the acquisition in both cases. So that particular vertical will continue to be a strong focus for us going into next year as well.

Retail and consumer has been a mixed bag and particularly with the December quarter, that tends to have even further slowdown because of the furloughs as well as some of the customers are struggling. Some of them are doing really well. So it's a little bit of a mixed bag out there.

But if you ask, Mohit, the top two verticals that we'll continue to stay bullish on, that will be public sector as well as the healthcare sector. Some specific components of manufacturing and

technology, we're seeing interesting momentum. And there's a couple of deal wins, one is semiconductor manufacturing, one an auto parts distributor, not large deals, but small to midsized deals, where we're starting to see some pickup organically as well as inorganic. So that's the vertical commentary. Arun, if you want to add the US specific growth numbers as we look at year-on-year as well.

**Arun Agarwal:**

So Mohit, as you rightly observed, there's a reduction in the US overall numbers in the organic side because, as you recollect, in H1, there was a delay in the order booking, which led to some of the reduction. But with now MST coming into the fold, there is a significant cross-sell opportunity because digital business, despite of this Oracle discontinuing their CX business, we are able to transfer that particular profile to more Adobe Magento, Salesforce, Commerce and others, that gives one of the opportunities. But at the same time, as we said earlier, there were some of the order book delay in H1, which we saw in the Oracle side, specifically in the US which has led to some of the impact in the organic revenue profile of the US. But with Salesforce, now we feel very confident that as a combination, that creates multiple opportunities to do cross-selling and a lot of integrated selling options as well.

**Hiral Chandrana:**

And the last part of the question very quickly is, looking forward. So since we've been able to convert some of those accounts into managed services, and we have a slightly broader portfolio with the Salesforce, a little bit of ServiceNow, which is now more recent and our digital and data services, along with Oracle, is starting to complete our service line portfolio strategy when we go to these customers in the US. And as we look forward, clearly, we are behind. And like I said, I'm personally, but we are collectively very disappointed in the organic performance. But as we look forward, there's confidence going in because of the deal momentum that picked up in Q3, and we're seeing that in the order book backlog as well.

**Mohit Jain:**

Just one thing on the government business, like when we look at the vertical revenues, the sequential growth, that is primarily on account of UK or that is primarily on account of acquisition?

**Hiral Chandrana:**

It has got both. Although it is UK, which is the heavier part, the state and local government business of MST is very small, although we see some interesting momentum in specific states, about six states that we've identified, which have started to have conversations with us. But relatively speaking, the secure government services in UK has continued to do very well, Mohit.

**Mohit Jain:**

And the bulk of MST is in manufacturing. Is that correct?

**Hiral Chandrana:**

No. It's actually a combination of those three verticals. It's a combination of health care, manufacturing tech and a little bit of state and local government. There is one interesting large Fortune 100 financial services customer, which is part of the portfolio. And we want to still spend some more time on that customer. And hopefully, we can announce some interesting wins out there later in the year, in the calendar 2023. But that's one interesting customer that is part of the portfolio as well. But mostly it is those three verticals, government, healthcare and manufacturing.

**Moderator:**

The next question is from the line of Debashish Mazumdar from B&K Securities.

**Debashish Mazumdar:**

So before starting my question, I have a request that if you can make the constant currency sequential Y-o-Y organic growth as part of your main debt, it will really help us to get some sense that in what direction the company is moving. Because my sense is that over a period of next two, three years with a \$1 billion target that we have, we'll do a at least a couple of more acquisitions. So that will help us to track better the organic health of the company. So that is one request that I have. If we can follow that, that would be really helpful.



So apart from this, I have two questions. One, if you see the healthcare and life science business, we have touched around \$17.6 million, \$17.7 million of peak, which is Q3, Q4 last year. And we have touched a bottom of \$11.6 million, which was Q2 this year. Now we have kind of recovered to \$13 million. So just trying to get some sense that whether this \$11.6 million to \$13 million is completely by MST? Or there is some other component into it, whether the NHS bucket is completely behind us. So some color around that, please.

**Hiral Chandrana:**

Sure. That's a good observation, Debashish. And we've noted the request that you made. But to your question, and then again, we've been super transparent on this with NHS at a budget level and where we are in terms of performance on that one single account, we are \$24 million short based on the plan that we have, right? So when we had planned in February of 2022, during the budgeting process, the number that we expected in dollar terms, while some of it was currency, but a big part of it was a huge shortfall. And this is significant change that happened in NHS England, NHS Improvement, NHS Digital, some of the leadership changes, some of the programs were paused. So in that one single account, we saw \$23 million to \$24 million of shortfall based on the expectations that we had. Now we have been able to recover some of that in other cases, but that's a very big number for us, right? So you've seen some of that impact in H1FY23. Having said that, the healthcare uptick that you're seeing in Q3 is not just because of MST, MST is part of it, we also have a very strong Oracle healthcare value proposition. In fact, the US acquisition that we had made, their entry into US was through the healthcare business. And we have some interesting solutions that we have re-architected as part of our platform strategy. So we're starting to see good uptick in the hospitals in the provider space in US as well as some of that in Middle East as well. King Faisal Hospital, American Hospital in Middle East, Cleveland Clinic Abu Dhabi, Pure Health. These are referenceable customers, which is why I can name them. And these are also healthcare Oracle customers. So it's a combination of both MST as well as our Oracle footprint. NHS is a tough one. It's a tough nut to crack, because there's so much uncertainty that the organization is going through. Having said that, we believe that most of those reorganization changes and instability is behind us. And as we look into FY '24, we would start to see uptick even in that account. So that's our hope and time will tell, but I think the worst is behind us.

**Debashish Mazumdar:**

Thank you very much for answering that, and the second question that I have is, if I see the Oracle Cloud and enterprise app segment that we report, which my sense is that large part is coming from Evosys only. So just to get some sense that over the last two quarters, we are seeing a good amount of slowdown there. Obviously some amount of currency conversion has definitely impacted that. But apart from that, also there is a good amount of slowdown. We don't see that number when we see the parent Oracle's reported number, their cloud business is growing at least 25% in organic terms. So, any particular reason that we are kind of slowing down here? It is largely to do with any specific team, any specific area, any specific segment? So, some color on that, please?

**Hiral Chandrana:**

The deal momentum did right shift on some of the deals on the conversion side. And that's clearly impacting the revenue in Q3. But some of those deals, which we were expecting to close in Q1 and Q2 are -- a couple of them we have closed. I think we have said there are certain, four or five deals, which are greater than 5 million and two or three of them are still in the pipeline for Q4. So, all is not lost in that, but it's definitely been delayed in terms of converting those pipeline into wins. We had one or two customers, specifically, that did pause projects as well, right? So that clearly impacted. One of them in the transportation and logistics industry, which we had mentioned last time. As well as in Europe, which is not a big part of our business, I'm talking about Europe outside of UK, we did see our order book and revenue momentum on the Oracle side, that geography is completely Oracle as of right now for us, right? Eventually we want to obviously cross-sell digital services. But Europe outside of UK had a slowdown in some of those deals and accounts as well. So those are the three main factors that are feeding into this. The US deal momentum that we have in Oracle and some of the upticks that we've seen in Middle East



in Oracle should hopefully bring that back in the right trajectory going forward in Q4 and beyond. But we definitely had seen a slowdown last one or two quarters on the Oracle side.

**Debashish Mazumdar:** The question is if you see the other income for us, it has increased around INR 40 crores Y-o-Y, if I do the Y-o-Y comparison quarterly numbers and it has become almost 30% of my revenue now. So, any specific onetime recognition that we have in this quarter in other expenses? And some more color on margin, please, because we were expecting some improvement in margin as salary hikes are behind us. And some part of large currency headwinds are behind us. So what is the kind of direction that you can think that margin will go from here?

**Arun Agarwal :** Very quickly, Debashish, when you see the other expenses year-on-year, maybe it's not apple-to-apple comparison because MST acquisition full impact is there in the current quarter, which was not there completely in the previous quarter of the last year. So, it's not apple-to-apple. But yes, so while there are multiple cost lines, which gets into it, one of the important line subcontract expenses, which is one of the focus areas, but some of the UK government projects, which are more security cleared in nature, you can't avoid those subcontractors spend as such. So that continues there. However, in terms of onetime, we had on PDD expense provision for doubtful debts for one of the collections, which we anticipated did not happen. On a conservative practice which we follow in the company, we provided for it and has been reflected in the other expenses. Other than that, it's business as usual.

Getting into margin profile, 17.3% is the range as we speak, Debashish, and if the currency headwinds and we expect it to continue more than INR 100 rupees and USD 1.22 GBP. If that is the range that's going to be there, then definitely some of the losses which we had in the margin dilution will come back, definitely. On top of it, we are working with the margin improvement plan, some of the operating levers like utilization and other levers. We believe all of those levers are playing out as we anticipated. However, at the same time, we have to keep making investment into the growth as we clearly laid down as part of our strategy. So we believe high teens is a good range we want to operate. So 17% to 19%, you can anticipate at which, we'll be operating subject to currency.

**Debashish Mazumdar:** So, this you are talking about FY '24 numbers, right, 17% to 19%?

**Arun Agarwal :** I think 17%, already, we are here, right? So we are talking about the improvements from here in the short to medium term.

**Debashish Mazumdar:** And this write-off that you have or provision that you are talking about, if you can quantify that? And is that the reason that your receivable days have jumped up so significantly sequentially on Y-o-Y?

**Arun Agarwal :** So there is a delay in collection which has happened, Debashish, as I mentioned in my initial commentary, some of the collection which we anticipated to happen, because of the holiday season, we couldn't convert them into the cash. That was one. And second, at the same time, there is an unbilled cycle. So as we are getting into more and more of the larger contracts, the cycle is also changing. But we are working very closely with our billing team, with our collection team to ensure we are able to convert those unbilled into billable and billable to cash as fast as we can. So you will see improvement down the line as well into that particular area.

**Moderator:** The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

**Mihir Manohar:** Yes, sure. Thanks for that. I mean, largely I wanted to understand on the NHS side, you know, given the fact that NHS is facing employee shortage issues and even wage issues. So funds are going to be diverted towards that, then how would the technology spends and technology

budgets would pan out at NHS for this particular calendar year and maybe for next year as well? And my second question was on the organic business of the Oracle side. I mean with now Oracle discontinuing their CRX and CRM part of the business. I mean do we see still pressure continuing from current levels? because, I mean, the business has already come down from \$28 million to \$23 million. So how do we see that part of the business?

**Hiral Chandrana:**

Yes. So Mihir, the first part, just to expand on that a little bit, like you rightly pointed out, NHS unfortunately is going through some challenges as an organization, right? And in addition to what you said on the shortages of workers, there is long wait times, there is even simple surgeries that are taking very long. So, there is a lot of leadership uncertainty as well as consumer sentiment that is getting impacted. So yes, there's obviously discussions of how they prioritize and how they repurpose their budget. Having said that, right, one of the things which we did focused on is to look at areas across NHS. So, the NHS has NHS England, NHS improvement, NHSBSA, which is their shared services and see how we can de-risk some of the dependency that we had on NHS Digital, because it was going through a leadership and consolidation. And unfortunately, even though we won three specific deals, which we had mentioned in the previous quarters, those deals, we've not been able to ramp up because the customer has not still released those budgets, right? Even though the order book and, not the order book, but the deal was won. So, we didn't recognize the order book and it's not flowing into the revenue. But those are areas that we are still present in.

As you look forward, I think it's a little bit of a tough one. Although as you might know, there's discussions happening at the very highest level in UK government on how they look at spend and technology focus in NHS because some help is needed to automate, to look at certain digitization as well as cancer waiting times, which we are present in, Pathways, which is another program that we have won. So we are hopeful that some of the focus that we have continued to put in, in spite of challenging times out there, will pay us off in the medium to longer run. We're also looking at the downstream portion of NHS or health, which is social and private care and some of the downstream elements of the health sector in UK, where the impact can still happen with some of the services that we deliver. Historically we've not been present in some of those areas, but that's another way to de-risk. So there's a few different strategies that we are adopting, but it's a little bit of a mix in terms of outlook of spend from NHS as such.

So Oracle, like you rightly said, on the CX and the Oracle cloud commerce, the CR and CX, the Oracle Cloud Commerce business was deprioritized by Oracle. And so obviously that impacted directly, particularly our US business and the US organic business. But we have been able to, with Salesforce, with Magento, with a couple of other investments, establish an overall proposition in the commerce space that eliminates our dependency that we had in Oracle Cloud commerce. Oracle at a broader level, which is where majority of the business exists, which is cloud ERP, cloud HCM, cloud supply chain and EPM, do continue to have potential. We have had some challenges on the deals like I mentioned earlier, which has impacted our Q2 and Q3 revenue growth. But those areas, the cloud value realization of our clients is still a big, high priority. And we do believe that as Oracle continues to grow, we are well positioned as a platinum partner to grow with them.

**Moderator:**

The next question is from the line of Ravi Menon from Macquarie.

**Ravi Menon:**

First off, I'll ask you about the plan, but you have about taking the industry solutions to market. I already see that you want to be with in healthcare, to set up an offshore delivery center for what seems to be a health plan? Could you talk a little bit about that and also help understand why despite this offshore ODC that's going to come up in India, we've seen offshore headcount decline?

**Hiral Chandrana:** So Ravi, your voice was not fully clear, but I think we got the gist of it. One was the customer win that we announced and the second was on the offshore headcount, right? Those were the two questions, correct?

**Ravi Menon:** Correct, yes. Thanks.

**Hiral Chandrana:** So this is actually an existing MST customer. In fact, we have a CEO relationship with this particular Blue Cross Blue Shield, which is health insurance payer, provides Medicare and Medicaid services as well. And as we start looking at a strategic relationship with them, they wanted us to help them in defining an overall shared services strategy. And that's where this whole offshore development center came into play. And we started looking at specific services. It's not a very large deal. It's a sort of a medium-sized deal to start with. But we start looking at how we can provide them more digital and cloud services beyond the Salesforce business that we did with them. So that is a specific example of that customer.

As far as the headcount is concerned, earlier in the middle of 2022, we had done significant fresher hiring as well as trainees by design to some extent where we wanted to make sure that we infuse fresh talent and make them more deployable. Some of those take time. So over the last three months, we have been able to get some of them deployed. And we wanted to ensure that our utilization is improved. So we were filling a lot of the open positions that we had and open demand that we had through our internal headcount and internal fulfillment. So that was, again, a by-design strategy where we wanted to get to a certain level of optimization in our internal fulfillment as well as a repurposing of talent internally before doing new hiring. I think we're at a point where we feel comfortable now on the internal fulfillment that we have done and the new demand, can now start looking at lateral hiring as well. So that's where you see some reduction in offshore headcount because there's some natural attrition, even though like Arun mentioned, our attrition has been trending down actually last three, four quarters. But as we look forward, we would expect the headcount to continue to increase given the demand and the order book that we have.

**Ravi Menon:** And what would you think about utilization? Should we see this go back to 73%, 74% levels or even higher than that? You operated even at 77%, but I would assume that this is a much stronger demand environment and you would probably want to operate below that. So how should we think about margins and utilization?

**Hiral Chandrana:** Yes. Let me comment on utilization. Arun feel free to add here and cover the margins as well. I think 75% is our minimum benchmark actually, Ravi. We're not happy with the number that we have right now. So I think we feel comfortable getting to that. I think that's a range that we can operate within the 75% to 78% range while looking at, of course, the supply side challenges slightly cooling off like Arun said. But 75% is the minimum expectation, would rather be in between 75% to 80%. If you could add.

**Arun Agarwal:** Absolutely. And that's one of the operating levers we believe. And see, the reflection of utilization is predominantly because of the supply side challenges which we had earlier. As it's kind of cooling off or you can say softening, there's no reason not to expect between 75% to 80%. But we'll take some time to reach there, because the strategy is to ensure we have the adequate headcount in bench to support the growth at the same time.

**Ravi Menon:** And just going back to the BCBS deal, should we think about this as sort of the template where we start seeing more annuity-oriented contracts and that's how we start seeing customer accounts grow?

**Hiral Chandrana:** Absolutely, Ravi. I think that is the key part of our strategy. In fact, we believe that there is a fairly high degree of spend that these Blues are having, the various Blue Cross Blue Shield in

different states in the US. So we're not there yet. I think if we can establish some level of credibility with one or two of these states, it could very well become a template for other states as well.

**Ravi Menon:** And one last question on the US, are you doing any sales hiring and all of that to take this whole -- now you have increased size, you have nearly \$100 million in revenue number, then do you think that you have critical mass to start ramping up? Should we invest in sales now?

**Hiral Chandrana:** Yes. In fact, we're planning to even make some leadership changes in the US. There is clearly account mining, which has been a focus for us. And if you look back one year or 18 months back, we didn't have too many client partners or account managers. So that's one area of focus that we provided.

Now as you rightly said, hopefully, in Q4, we get closer to \$24 million, \$25 million quarter run rate in the US combined business, and that's a good stepping stone for us to do a little bit more hiring. So we're going to be very careful about the type of people that we bring in because we want sales who can actually do large deals, but also some account management and account mining as well. But yes, we will ensure that there's adequate coverage there in the market because it is quite spread out in terms of certain regions and certain accounts. And there's a set of people that we need as architects and solution leaders as well, which is another area that we plan to invest in.

**Moderator:** The next question is from the line of Ravi Naredi from Naredi Investment.

**Ravi Naredi:** Sir, quarter 3 profit after tax margin drastically reduced from 15% to 10%. Any chance to improve same in next few quarters?

**Arun Agarwal :** Yes, Ravi. So as we said, there was a onetime reason of income, which was booked last quarter. And because of the acquisition, there is a notional PPA intangible calculation, which has to happen and which gets into amortization line and impact your PAT. However, with the EBITDA improvement, which we are planning and with the help of both operating levers and currency, as we operate in high teens, the same will get reflected into PAT as well.

**Ravi Naredi:** No, it is okay. But how much the amount which you are telling this is you have charged from profit and loss account?

**Arun Agarwal :** So again, for example, if I give you a simple data. The PPA amortization, which has impacted is roughly INR 7 crores, which is 100 bps reduction, which has just happened because of this, you can say, non-cash item of accounting. With this EBITDA improvement of 100 to 200 bps, as we said, 17% to 19% is where we want to operate. With that improvement, you can assume 100 to 200 bps improvement in PAT, which we came close to.

**Ravi Naredi:** 100 to 200 points.

**Arun Agarwal :** 100 to 200 point in the short to medium term, depending upon how the operating levers played out, including the currency and the same will get reflected into PAT as well.

**Ravi Naredi:** A small question. You are earning 23.5% margin in quarter three financial year '21. Now it is 17.3%. So any chance to, again, regain that 23% in any one year, two year, three year period or not possible at all?

**Arun Agarwal :** So again, the whole philosophy is since we are looking for high growth, we need to reinvest back into the business. As we said, US is one of the area of growth, Europe is another area of growth. And as you get into multiple capability and multiple solutions, right, you need to build

those capabilities in. So it's a fine balance between revenue growth and the margin. And we believe anything more than 19% or that's the range we are looking for. Anything more than that will be reinvested back into the business.

**Moderator:** The next question is from the line of Pratap Maliwal from Mount Intra Finance Private Limited.

**Pratap Maliwal:** I had a question around the employee count as well. I think last quarter, ex-MST, I think we had a decline in the headcount as well. Last quarter we had said that we are not backfilling the attrition, which is not matching with the pipeline. So I just wanted to ask in terms of our four practice lines, where are we not maybe backfilling that attrition? And then a related question here is that how is the pipeline changing for you? You said that cost optimization is becoming a focus area for the client. So which one of our active clients are seeing a buildup due to this? And which can be the growth trigger going high?

**Hiral Chandrana:** Yes. So Pratap, I'll start this is Hiral, and have Arun can add as well. The Oracle Cloud area and business is one place where we wanted to deploy the freshers, make them billable as well as leverage internal fulfillment. So that's one area that we had focused on in looking at internal resources to backfill some of the attrition. The digital experience area, which, of course, includes some bit of Salesforce or a large part of Salesforce, but also other areas is another place where we continue to look at investing into skill transformation because this is where the entire customer front office journey gets mapped in from marketing to sales to service with the various cloud. So, this is a place where we are building capacity, and we are retraining some of the Oracle Cloud Commerce experts that we had into different technologies, which include Salesforce, Adobe as well as some of the new generation alliances. So other than that, the data area, we had seen a little bit of an impact because of these two accounts, and NHS had a big presence out there that got impacted. But as we look at pipeline for the future, we're seeing a lot more data opportunities across the globe, particularly in the US. So that would be another area that we would continue to invest skills in. Arun, if you want to add.

**Arun Agarwal:** No, you covered that.

**Pratap Maliwal:** And just one more clarification I had that you said in Europe, excluding UK, it's mainly the factor that we provided Oracle, that's it?

**Hiral Chandrana:** I mean in UK, we have a very strong digital engineering business, right?

**Pratap Maliwal:** No, in Europe?

**Hiral Chandrana:** Yes. You're right. Pratap. So I would say 90% to 95% of our business in Europe outside of UK is Oracle.

**Moderator:** The next question is from the line of Ashis Dash from Mirae Asset Capital Markets.

**Ashis Dash:** Thank you for giving me opportunity. So last year, you were mentioning that your strategies in Middle East region was basically cross-selling down your total accounts in the Middle East region. Now in your presentation, you are saying that you want to expand in the Middle East. So I just wanted to understand your strategies in the Middle East region.

**Hiral Chandrana:** So Ashis, it's a great call out and question. So let me expand on that a little bit because it's a key part of how we had to adapt and adjust during the course of the year, right? During this whole war situation with Russia, there is a lot of funds and budgets that used to go to Russia that has started going into Dubai and in Saudi. And we've seen some interesting uptick on the size of the deals as well as the interest from our customers because in Middle East we do have a particularly on the Oracle side, a reasonable market share, almost 25% of the licenses that are sold in Middle

East is serviced by us. Having said that, we also had a very long tail of accounts and almost to the tune of 150 to 180 accounts. So that's just way too many accounts that we had in the Middle East. So by design, our strategy was to lower the number of accounts, and we were okay to get impacted by some amount of revenue because these were not high-quality accounts and low-margin accounts. So that we continue to do. We continue to reduce. You'll see that we're not increasing our net account by design because they're focused more on deeper account mining. So there's a little bit of a combined strategy there in the Middle East, right? Europe, which is outside of UK, Europe business slowed down in the last couple of quarters, and we started to see a little bit more uptick in Middle East. So we made the right adjustments there, but we still want to reduce the number of accounts that we service in Middle East and go deeper into the top 10, 15 accounts while looking at expanding our Oracle accounts into digital service accounts. For example, ServiceNow, Snowflake as well as Microsoft are three specific areas that we're seeing in the Middle East. So we'll stay focused on that in addition to Oracle.

**Ashis Dash:** Okay got it. So my next question is, like, I can see some issues in every regions you operate, like UK, you are having issues in your top accounts. So US you want to hire sales people. So can you just guide us which region are you expecting to outperform in FY '24?

**Hiral Chandrana:** UK and US, we will outperform in FY '24, those two regions. Those are our biggest markets and the biggest spend, the biggest customers, we're starting to see some traction in Fortune 500 customers and account mining, like I mentioned before. So UK as well as the US is where we are focused on.

**Moderator:** Thank you the next question is from the line of Hussain Kagzi from Ambit Asset Management.

**Hussain Kagzi:** So I had one question with regards to our government business, and I know you did talk about what all are included there. So I'm still confused that we grew 3.2% in INR terms and around 0.5% in USD terms. And I believe that earlier you had indicated that in UK we are not seeing much challenge in other government businesses apart from NHS. And this government portion will also include MST, right? So shouldn't it have grown like much better than the company average? So what else is dragging it down? If you can throw some light on that?

**Arun Agarwal :** So Hussain very quickly, there are two things. While they say UK public sector, which is a very, very important part of our business and to reconfirm, that's growing. We are not seeing any kind of challenge in the public sector other than the health care customer, which we spoke about. There are two impacts predominantly in this quarter, what we are seeing in UK is because of furlough and holiday season, specifically all the government accounts completely shut down for a week to 10 days, and you can't do anything out there. But in the private sector, still there's a combination which we do. On top of it, the combination of MST is very small into the overall numbers under public sector. It's predominantly driven by the UK for public sector.

**Hussain Kagzi** Understood got it sir and lastly, my question would be in continuation to what the earlier participant asked? And call it, like maybe unfortunately, that most of our segments have seen some challenge or the other, which of course, NHS was not in our hands. Now if you see going ahead in FY '24, so like you alluded that healthcare is getting back regardless of how that NHS thing pans out, but healthcare should get back. But what is the outlook? And by when would you expect even the organic part in the US to kind of show results? Because in earlier calls also, you had said that you were taking some initiatives on turning it around and that we're seeing some delays. But according to you, your internal assessment, what would be the timeline that you would like to give yourself? And then what could be the expectation of the organic business going into FY '24? That's my last question.

**Hiral Chandrana:** Sure, Hussain. So when we were asked this question again last quarter, right? We had said that three to six months is the timeframe where we see this bouncing back in terms of organic

business. In terms of NHS, leaving that aside for a second, from a US perspective, we believe that the steps that we have taken longer than anticipated. So we underestimated the time it would take to implement some of the account mining strategies and some of the growth strategies. But the capability areas that we're investing in, the customers that we're starting to gain, combined now with, of course, the acquisition, is definitely coming together. And I think as we look into FY '24 Q1 or even in this current quarter, Q4, we do see organic growth momentum going forward.

**Hussain Kagzi:**

All right thank you wish the best that's it from my side.

**Hiral Chandrana:**

All right. So it looks like that was the last question, and I, again, appreciate everyone's interaction, excellent questions and perspectives as well. While we do have some challenges in a couple of pockets, as was rightly articulated, we have a decent deal momentum. And going into Q4, a lot more confident with the order book 12 months backlog. Some of the investments that we've made, both organically as well as inorganically, will definitely allow us to differentiate us with our customers as well. We do, as an organization, a lot of other things on the ESG side, the environment, social, governance side, and we've started getting recognition in those areas as well. Having said that, like I said, our organic business could have definitely performed better and was below our expectation. But as we look at this quarter and going forward, there is a lot more confidence, both organically as well as with our combined business. Again great performance by our MST Solutions' acquisition and good momentum going into the next few quarters as well. And again, thanks everyone for your support, your interactions and also your commitment towards Mastek. We appreciate all the questions, and have a great evening. Thank you.

**Moderator:**

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