"Mastek Limited
Q4 FY'24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to the Mastek Limited Q4 FY'24 Earnings Conference Call. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Asha Gupta from E&Y, IR. Thank you and over to you, ma'am.

Asha Gupta: Thank you, Manuja. Good evening to all of you. Welcome to the Q4 & Full Year FY'24 Earnings Call of Mastek Limited. The results and presentation have already been mailed to you, and you can also view them on the website at 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. Hiral Chandrana – CEO, Mr. Arun Agarwal – CFO. Hiral will start the call with the business update, which will be followed by Arun, providing the financial update for the quarter and year gone by.

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 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 the SEBI and subsequent annual report that you can find on our website.

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

Hiral Chandrana: Thank you, Asha. Good day and good evening, everyone. Thanks for joining the call. I will start with the summary of Q4 & FY'24 financial performance, give you some flavor of how FY'25 is looking, also, touch on the progress that we are making on our strategic priorities. We will then turn it over to Arun for the details on the financials and then we will open it up for Q&A like Asha said.

So, let's start with Q4. This is our last quarter for the Fiscal Year:

We closed at USD 93.7 million in revenues. This was a disappointing quarter for us from a revenue perspective as well as below our expectation. We had two or three specific client situations that I will talk about in a minute. Our EBITDA was in the 16% range and that also was below our expectation. We held on to the resources that we believe were needed for future growth and hence we took the hit in Q4, but we will talk about that in a minute.

Our order book backlog was a highlight; we closed at USD 260 million which is our 12-months order book backlog, which we track closely, this is a lead indicator that gives us confidence of going forward and this was a record order book for us in the history of Mastek. The 12-month order book backlog grew 19% year-on-year.

As far as Q4 is concerned, there were three specific client situations that I want to elaborate on a little bit.

Point #1, there is a Financial Services customer on our data business where we ended up with a delay in execution, and we had revenues from that client in Q3, which is the previous quarter, and we are not able to recognize revenues from that particular client in Q4. We have completed our milestone post that, and we will continue with that client going forward, but we could not recognize that revenue in Q4.

Point #2, there was a large program in our Healthcare customer. We have talked about this customer in the past. It's now a USD 14 million account for us in the US. We decided to move this particular program from onsite to offshore. This was the right thing to do in the medium to longer term. It established the platform for managed services as well as stickiness with the customer. But unfortunately, it did hit our Q4 revenues.

And Point #3, which was again in the US unfortunately, was, we had alluded to a consolidation of a particular customer, but we were confident of offsetting that. With another ramp up in our Salesforce client and this particular program we had one in December of 2023, where our resources were ready and ready to start in January itself. Again, because of a dependency of a previous phase which is beyond our control and the delay of that phase, we were not able to start that program, and that hit our Q4 revenues as well.

So, again, some of the pluses and minuses were offset. We had some good quarter execution by our UK and Middle East business. But these three specific client situations, two of them which we will bounce back and recover in Q1 and beyond is what hit the Q4 revenues for us in the quarter. Having said that, we do have a strong order book backlog like I mentioned and have confidence going into FY'25. Our FY'24 as a whole was still pretty healthy; we grew 15.8% year-on-year and Arun will give some of the numbers in rupee terms because those numbers are a little bit higher, but I am giving you U.S. dollar term. So, USD 368.4 million is where we ended for the full year FY'24 and that was roughly about 15.8% year-on-year on a dollar basis. Because of the Q4 hit, this was still below our expectation. But, as we look at some of our strategic priorities, we are confident that our growth in Healthcare in the US with strong deal momentum, our continued progress in UK public sector, which we will talk about in a little bit more detail, and some deal momentum that we have continued to see in Middle East and Australia is giving us confidence for Q1 in FY'25.

I would like to talk about two or three customer wins which were milestone wins for Q4. We got selected as a key supplier in the Defense Department in UK. This particular framework, called the Digital and Professional Services framework called DIP is a large USD 1.2 billion framework where you have multiple lots and multiple suppliers. The total number of lots that we bid for were six. We got shortlisted and finally selected for two out of those six slots. In one of the lots, we are a prime supplier which means we directly bid for the different deals that get adjudicated, and in the second lot, we are a subcontractor. The primary lot where we are a direct supplier is in the context of solution architecture, technical assurance. Knowledge management and Data and Innovation. The Lot-2 where we are a subcontractor is in the DevOps and Application Support area. This is important because this is a four-year framework where our addressable market between these two lots is roughly about USD 400 million. Within this, there are five suppliers in Lot-1 and eight suppliers in Lot-2. And we believe that we have an opportunity to win multiple deals and the first of which we have won last quarter. This was again in the architecture as a service area, a critical step for future deals in Lot-1. Over the period of the four years, we expect roughly about USD 50 to 60 million worth of revenue coming from this particular framework.

We had a marquee win in the US Healthcare business. And again, this was a five-year USD 17 million win. So, we are getting a seat at the table at larger deals. Some of this is reflected in our order book backlog, which I mentioned earlier. And clients are trusting us on longer-term offshore development center deal. This was one of the first for this Healthcare client who had never done offshoring in the past.

In Middle East and Australia, we also closed some marquee deals across Financial Services, Banks, Healthcare client. One of which we announced publicly which was a cement company which is going through a complete front office to back-office transformation. We have been working with this customer for a few months in the areas of the back office. And this particular deal was in the lead to the cash cycle where we have built integrated applications connecting their web and mobile to their back office. With IoT and industry 2.0 initiatives that they've been on, on the supply chain side. We also leveraged our Volteo Edge investment for this deal and established a complete connected enterprise solution story with this customer. Apart from this, there were many wins in the US, in the UK, in Europe and in Middle East, Australia. Like I mentioned, our order books and deal momentum continue to be strong. I want to repeat we are disappointed with the Q4 revenue result, and we will bounce back in Q1.

I want to give a quick flavor on the four key priorities that we have been talking about. I mentioned about the public sector in UK. Beyond the deal that I talked about on the Defense Department, we continue to make good progress across borders and trade, across the immigration initiatives that UK government is driving. There are new initiatives around Police Protection and Department of Justice where we are running campaigns. And we believe that our presence in the UK with security cleared resources and incumbency of having designed, built and maintained some of the critical national infrastructure systems positions us strongly going forward.

Our order book in the US in Q4 and for the whole year was again at a record level. While we are disappointed with the Q4 revenue, the momentum on the deal continues to be strong, and our focus on Healthcare, particularly with payers and providers and within payers and providers within the Blue Cross Blue Shield, the Regional Health Plan, the senior living facilities within the providers and the mid-size hospitals, which are our sweet spot is really paying off. That combined with our capabilities in Salesforce and Oracle Cloud and our industry-specific solutions is helping us differentiate with the customers.

Beyond the UK public sector and Healthcare in the US and Healthcare globally, frankly, where we are seeing really good momentum from a demand and order book perspective, we have data and AI which continues to be a key priority. We will talk about that in a minute when we talk about FY'25. But here again most customers as part of their future AI investments are revamping their data foundation, which really means they have to create a unified data platform, move data to the cloud as needed and modernize their data landscape so they can run some of these large language model and use cases in AI. And that positions us well with our enhanced capabilities in snowflake data bricks and AWS cloud.

We also have been running a key priority on account mining. We have talked about that in the past. It has gone slower than what we expected. Having said that, the identified top 30 accounts globally in Mastek now contribute roughly about 57% of our overall revenue. This is a significant movement. We have made sure that the client partners, the delivery teams, the prioritization on service line alignment and capability focus on these top 30 accounts is unmatched. We were pleased to see much better customer satisfaction inputs and results in the recent CSAT survey that we conducted. And we believe that these 30 accounts will continue to grow where we have more USD 5 million, more USD 10 million, more, USD 3 million accounts in the past. With the continued focus on these four priorities, which is again public sector in the UK, Healthcare globally, data and AI, as well as account mining, we believe our execution needs to be stronger in Q1 and beyond, and we have taken a few steps in action so that we don't get into the situation we got in Q4.

With that said, looking forward in FY'25, customer buying behavior and market demand is still going to be cautiously optimistic where customers are not necessarily stopping their AI or digital initiatives, but they're working on optimizing their base, repurposing some of the savings to newer programs. With that, there is a landscape where most platform companies are embedding AI into their solution. And with that, what you'll see is that there is a need to orchestrate and integrate many of these solutions, which is a combination of cloud investments, data investments, Edge investments and now AI investments.

Our positioning as a differentiated business outcomes provides is critical here because customers are looking to break down many of the larger deals into more mid-size, manageable chunks. They're also expecting more for not just cost and productivity, which is a given, but also in terms of quality of resources and talent. And we believe our combination of industry expertise, our solution-focus plus the technology and functional depth positions as well.

At an overall financial level, while Arun will cover more details, we are happy with the progress on utilization, which reached again an all-time high beyond 80% during training. We also have improved our cash position in Q4. We declared a dividend of INR 12 per share. We also continue to focus on operating efficiently so that we could reinvest in our capabilities and in our AI initiatives.

With that said. I will turn it over to Arun and we will be happy to take questions after that. Over to you, Arun.

Arun Agarwal: Thanks, Hiral. Welcome, everyone on the call.

As Hiral has shared quite detailed perspective on the business, the detailed presentation is already shared and circulated with all of you, I will focus upon critical financial matrices representing quarter and the full year and also which will give you certain idea and the lead indicators for FY'25 how we are shaping up the performance for next year.

For this Q4, we have reported revenue of INR 779.7 crores, which is up 9.9% year-on-year in INR terms. Full year revenue was INR 3,055 crores, up by 19.2% year-on-year in INR terms, but including BizAnalytica acquisition which was consolidated for part of the year. As Hiral alluded to, we had three negative impacts during the quarter, including the Healthcare customer which we moved offshore and the other one. Hence, our quarter-on-quarter revenue was below expectation as it de-grew by 0.6% quarter-on-quarter in INR terms and 1.4% in constant currency.

On the order book side, we have seen a consistent upward trajectory in the last three quarters and Q4 has been really phenomenal. We have secured the highest ever order book during the quarter both in the US and for the group, leading to strong order backlog of USD 260 million which is up by 5% quarter-on-quarter and 21% year-on-year in INR terms. We have added 22 customers during the quarter. Our customer acquisition engine continues to be effective across verticals and across geographies. Our operating EBITDA for the quarter was at 16%. It declined 100 bps quarter-on-quarter. As we mentioned about three impacts in revenue, one of them had cost included, there the delivery challenges have been now completely taken out and the customer is onboarded. We expect the revenue to continue to come in the coming quarters, but the cost was there in the last quarter. So, that revenue decline has slowed down to the margin, impacting our operating EBITDA. On a full-year basis, our EBITDA growth was 11.6% year-on-year.

Utilization without taking impact of LEAP was 86.5%, which has improved 110 bps quarter-on-quarter. Our profit after tax for the quarter was at INR 94.4 crores, up 21% quarter-on-quarter, 30% year-on-year on a quarter basis. During the quarter, we had one-time tax credit in our overseas geography, which led to lower tax costs and also supported profit after tax for the quarter. Our collection has been very strong in the last three quarters. Our DSOs are consistently coming down. Quite detailed focus happening across geographies. Consequently, our gross cash has increased to INR 473 crores as we closed March '24 versus INR 404 crores which was reported in December 2023.

Our borrowings now stood at INR 487 crores as of 31st March 2024 and we have a detailed installment plan agreed with banks as part of loan borrowing and we are meeting all our installments commitment as we have said and will continue to discharge this borrowing in next two to three years as planned.

Our closing headcount was 5,539 at the end of March. Marginal increase by 21 resources versus December quarter. And we continue to onboard both trainees and also lateral hires as we want to deliver growth for the company as a whole. The Company has recommended a dividend of INR 12 which is subject to shareholders approval and post approval it will be distributed to the shareholders.

That was the key highlight. We will take more questions, very specific to ask here. Going back to the moderator to open the house for Q&A.

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

Mohit Jain: Sir, if you could help us understand on that US part? And second is a follow up like by when do you think we can recover back to our original revenue levels or slightly higher than what we did in the past few quarters?

Hiral Chandrana: So, Mohit, I think your first question was a little bit more color on the US. Can you just clarify?

Mohit Jain: Right.

Hiral Chandrana: So, the three specific client situations that I mentioned, one Financial Services customer on our data business, the offshore movement of a Healthcare client and the third customer, all three unfortunately, were in the US. Two out of those three are transitory. So, we expect that to come back in a positive way in Q1 and beyond. One of the clients where we decided to move was the right decision even in retrospect because Healthcare as some of you might have heard, particularly the health plans have been hit by lower reimbursement from the government and many of them are looking at cost savings which was a good calculated move which impacted us in Q4. Having said that, from a US overall perspective, we have four specific broader level strategies that we have talked about in the past, right. One is within US, we have 20 accounts which we have shortlisted. At a global level we have 30 accounts, but within US we have 20 specific accounts. Healthcare which is powered by Oracle Cloud and Salesforce in the front office, that play continues to be very strong. While we don't report TCV order book, just to give you some flavor, while on a small base, the Healthcare order book in US grew 250% in FY'24. So, it was a marquee year for us, transformational in some sense in terms of our payer and provider focus, which we have been talking about in the last few quarters. In addition to the USD

17 million deal that I mentioned, which was a longer-term five-year contract, we also closed a few deals below USD 10 million, one of which was an USD 8 million deal. Again, these are longer-term deals, four-to-five-year deals which we have not seen in the past in the US market, and that's giving us confidence in the long-term trust from our customers. So, large deals, account mining, Healthcare focus, which includes Oracle in the back office and Salesforce in the front office. And last but not least, in our data and digital engineering services, we are starting to see some good momentum of cross-sell. While it is connected with the account mining point, we believe that more can be done here, particularly with our global capabilities of AWS, our global capabilities of Microsoft as well as some of the data investments that you know. So, combined together, we believe the US will bounce back in Q1. And from there on, we have fairly ambitious plans for FY'25 and beyond. The team is geared up to deliver. Definitely, a disappointment in Q4, but as we look forward, our UK engine has fired well, our Middle East and APAC continues to improve margins while driving growth and we believe that US will fire in Q1 in FY'25 in a very strong way. So, we are optimistic, Mohit, on FY'25 as a whole.

Mohit Jain: So, in 1Q we should build in that recovery back with some loss because one client as you mentioned you have cancelled, so we will not be back to that level, but little lower than where we were in Q3?

Hiral Chandrana: Yes, I think that's a fair statement. We will significantly lower what we saw and we should be crossing that in early part of Q2 from a specific US perspective.

Mohit Jain: On UK, it looks like order book is growing very fast and we have also been able to execute well from a quarterly standpoint. So, what is your outlook from a UK growth standpoint for next year, essentially FY'25 given where our order book is?

Hiral Chandrana: Our order book actually like I mentioned was overall record levels. We crossed a milestone quarter for US order book. Our UK order book as a whole was definitely better in FY'24 compared to FY'23. There are few specific frameworks and campaigns that we have been running. Some of these take much longer. I mentioned the Department of Justice, some of the drivers, vehicle agency and police protection frameworks, these are longer-term campaigns which we believe will crack in later part of this year, if not in Q2 and Q3. Having said that, the election year does put some slowdown in terms of decision-making. We were expecting a couple of deals to be adjudicated on the data side in our revenue and customs department. That basically went on hold and did not get awarded to anybody. So, that's just giving you an example of some of the safer decisions that the government is making. We continue to make good progress in the Cabinet Office. If you remember, this was a deal that we had closed a few months back, managed services engagement and now we are actually the chosen partner for ServiceNow implementation, and AWS work in that same client where they're doing development and enhancement work. So, this is a good progress for us in the cabinet office. And our private sector business, which is a small base, but we are happy to see some really good progress. We won two new frameworks in the Financial Services side. This is leveraging some of our presence in the government work, but Bank of England was a key framework, and we won our first deal within, it's a small deal, but we won our first deal within the Bank of England with USD 2 - 2.5 million deal that we won and we believe that's setting us up well for Financial Services focus in the UK. And Europe, lastly, while again the focus has been mostly in the Oracle Cloud side and manufacturing clients, we have got some really good global clients out there which are shaping well and compared to FY'23, FY'24 from a pipeline and deal momentum perspective definitely picked up in second half. So, while we are not hugely focused on Europe because they're very specific in terms of which country, we do expect continued deal activity in certain countries. So, all in all, our UK and Europe will definitely deliver double-digit, in FY'25.

Mohit Jain: When you say signed orders like orders on hold, they're not signed orders, right, they are put on hold when or during the award process itself?

Hiral Chandrana: So, the data orders that I mentioned in the Revenue and Customs Department, those never got adjudicated and the orders itself were put on hold, they did not get decided to any supplier.

Mohit Jain: Order backlog that you report is only on signed orders?

Hiral Chandrana: Order backlog is only on signed SOW and even there we take the specific signed SOWs which are a full year value that we are confident of. So, if there is a call-off value which is a large four year or a five-year deal, it does not get reflected in the 12-months order book backlog. So, that is visibility of only one year. So, that's a fairly credible 12-months order book backlog as an indicator.

Mohit Jain: And two for Arun, sir. First, in terms of margins, like we had this earlier guidance of 17% to 19% and now we had some one-off in the fourth quarter, so should we take your guidance number similar to what we had last quarter or is there an update? And last is what should be the tax rate that we should take for FY'25?

Arun Agarwal: So, in terms of margin, yes, 16% is a blip to us. Our endeavor is to go back to 17% as we reported in Q3. But at the same time, the focus is more on growth. So, I will keep that range at 17% for now. And in terms of tax rate, on a normalized basis, 27% is a good reference. There can be plus and minus depending upon the multiple country at which we operate, but I think 27% could be a good judge.

Moderator: The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: So, the first part was that you mentioned that the share of top-30 which is your focused client was 57%. So, can you give some more color how this number has trended over the last few years and what would be the growth in this cohort?

Hiral Chandrana: We initiated our focus on account mining in FY'23, a little bit 30-second context, as a company organization, we believe we have way too many clients and much more than we actually need and many of our projects and implementation in the past used to essentially kind of conclude and then we moved on to the next client. So, while we were opening new customers and smaller deals, there was a lot of churn in our existing client. So, we started this initiative on account mining, which again is more standard stuff in the IT services industry. But from a Mastek perspective, we outlined these top-30 accounts and just like anything else, every year we evaluate this, but during the year we want to stay consistent on these accounts. So, in the past that number used to be more in the 50% range. Now, just keep in mind that a couple of clients come in, a couple of clients go out, but give or take that has progressed a little bit slower than what we anticipated, but definitely progressed in the right direction. The number I gave you is the current number of FY'24, which is 57% of our overall business. These are some marquee clients. We have very global names out here and then some of them we have shared in the past and is on our website. We continue to focus on opening new clients, but those are much more qualified and much larger enterprise customers where we can grow downstream. So, our goal is to make sure that at a net-net level, we don't need to necessarily add too many clients. The clients that we will add is going to be much more qualified, larger deals, larger customers and we want to continue to cross-sell and mine our existing accounts. So, that number of 57% is expected to continue to grow up. But then at the same time, we have our next 20 clients. Each region has identified additional clients which we believe can grow to USD 3, USD 5 million in the future, and so those could become part of our future account mining strategy as well as at a global level. So, hopefully that provides some flavor.

Hussain Kagzi: Say, before our strategy started from around 50% it has now come to around 57%, right?

Hiral Chandrana: That's right.

Hussain Kagzi: And secondly, extending on to the margin question from the earlier participant. So, if I see, I mean we did start FY'24 with much of the headwinds of FY'23 behind us, but we had the new BizAnalytica acquisition which was lower than our margin profile and of course the Q4 part. So, excluding those, what would you allude the margin weakness to #1? And could you also quantify the impact that BizAnalytica had on margins for this financial year, just some ballpark number I think for our understanding?

Arun Agarwal: I am taking it very quickly, Hussain. In terms of the levers which has impacted the margin as broad profile, the talent cost because 90%-plus of our business is cloud and digital. While there is an attrition which is coming down for the industry, but the kind of talent we operate with, very less legacy business, the talent is always at the high demand. So, your talent cost keeps going up and you need to pay well to get the right talent onboarded to your company and to deliver to the customers. So, that's one of the areas. The second area is, we are also investing significantly for growth. Our expectation is not to operate just in line with industry, we want to perform better than the industry. So, there are the investments which has been gone into particular regions and particular verticals so that we can ride that momentum. So, those are the two important areas of investment which has gone as a company. BizAnalytica impact would be broadly in the range of 30 to 40 bps for a full year basis. That's what we indicated at the time of acquisition max 50 basis is what we were anticipating. I think it's broadly 30 to 40 bps which has impacted us for the year.

Hussain Kagzi: What would be our organic growth for this financial year?

Arun Agarwal: Maybe again, I don't have specific now, but 3% you can assume broadly high level. We can do specifics and come back, but broadly 3% you can assume would be dilution because of the inorganic play.

Moderator: The next question is from the line of Ravi Menon from Macquarie Group. Please go ahead.

Ravi Menon: Just wanted to clarify on this ministry of defense deal. They were a customer of yours already from what I understand. So, this is all net new or is there any part of it that we should think of as finishing one set of work packages and then awarding and accept?

Hiral Chandrana: So, Ravi, it's a good question. We have been working with the Defense Department as you pointed out over the last few years. We continue to do that work. It's a decent size account for us right now. It's within that top 30 and one of the fastest growing accounts. That work continues in terms of some of the data warehousing, identity and access management work that we do. This is a new framework. It's a new set of initiatives from the customer. And this will be incremental in like I said, different areas in different lots, the lots that are relevant to us I mentioned earlier and the work that we are currently doing will continue and as we get more win as part of this framework that will continue to add and grow the account.

Ravi Menon: Salesforce as a company has not been really reporting very strong growth. So, how are you seeing this sign for you? Is there still an opportunity to grow maybe even faster than their license growth or how should we think about that?

Hiral Chandrana: Yes, that's a really good point because Salesforce used to grow at 23%, 25% year-on-year range at one point a couple of years back. Their latest guidance for this year at a company level is I think 8% to 9% year-on-year growth. So, they've definitely slowed down and we are seeing in certain pockets where organizations might choose the ServiceNow or some other alternative platform. Having said that, Salesforce is a very large ecosystem and there is significant incumbency in terms of the customer 360 degree platform. So, this is I am talking about sales cloud, service cloud, marketing cloud, integration cloud. These are the ones that we are focused on. And we believe it's still a good mining opportunity because we have some really good capabilities particularly in Healthcare and the area which has gone slow for us is the state and local government where Salesforce has also been slow to win and that has impacted us. But at an overall level we are taking the Salesforce capabilities global. So, we expect to penetrate that in the UK and beyond. And we still feel it's a growing ecosystem, although at a much slower rate. The one other point which applies a little bit more broadly, but since you asked about the Salesforce in particular is that our capabilities are also functional-oriented, right, in many cases. So, in some places where we saw like for example, if you remember we had a hit a little over a year back on Oracle Cloud Commerce and we were able to retrain and reorient them into newer Commerce tools or newer Adobe tools or even Salesforce in those cases. So, we will always continue to keep a watch out there because the fungibility of our skills can always be cross-trained and that's something that we have done in a couple of cases in the hyperscaler area and the front office area as well. But yes, I mean in general, the Salesforce is still a positive story for us going forward. We did see a slowdown in Q4 that impacted us, but otherwise as a whole, it will continue to grow in FY'25 and beyond.

Moderator: The next question is from the line of Naveen Baid from Nuvama Asset Management. Please go ahead.

Naveen Baid: Can you give some guidance on the organic growth expected for FY'25?

Hiral Chandrana: So, again, we don't give guidance as a company as you know, but like Arun alluded to, right, in dollar terms again just like-for-like FY'24 over FY'23 full year basis we were 15.8% on a U.S. dollar terms. If you roughly remove the BizAnalytica 3% or so, that still is at 12.5% to 13% year-on-year growth, right, that is for FY'24.

Naveen Baid: Do we expect a similar number for FY'25?

Hiral Chandrana: I am coming to that. So, I just wanted to make sure that our baseline would be the organic view, right. So, for FY'25, we believe that our aspirations of course to do better than that and we think that we can exceed that number in FY'25 in terms of full year numbers. There is always a potential to see a little bit quarter-on-quarter differences between the quarters. We do have some seasonality on certain quarters, but in general for a full year FY'25 level, we expect to beat that FY'24 full year number.

Naveen Baid: So, what caused this sharp drop in tax expense this quarter?

Arun Agarwal: Naveen, this time we had certain overseas geographies where we got the tax credit and that was one-time relating to earlier year which was accounted for in the quarter, led to overall reduction in the ETR for the quarter and for the year.

Moderator: The next question is from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: My question was on the margin profile. Just wanted to understand historically we had guided that post US ramping up sharply coming to a good growth rate and BizAnalytica reaching about double-digit margin profile by end of FY'24, what is still not allowing us to guide on improved margins going forward?

Arun Agarwal: Again, there are multiple factors, Nilesh, which we had to keep operating, one is the balance between growth and the margin, right. So, our process is definitely we want EPS to continue to grow and to make it as a combination we want growth to be much faster and definitely quality of earning has to be healthy. So, our outlook at this point of time is to operate closer to 17% and 17%-plus in the medium-term. And as the expansion of revenue comes across geography, US in particular as you rightly said, because lot of investment has gone in there, with certain size and scale, we will start leveraging our SG&A investment and then we can see upward improvement in the EBITDA margin profile as well.

Nilesh Jethani: What could be the levers for driving apart from US?

Arun Agarwal: There are multiple like our AMEA margin as well, Middle East margin is much lower than the company average. As we are coming out of the smaller accounts focusing upon account mining and just picking up the customers who can become the customer for life as it's been very, very selective, so the focus is how can we improve margin out there. There are lot of operating levers, how do you manage your grade mix, more trainees inclusion into it, your subcontractor reduction, your offshore onshore mix. All these combinations are part of our operating levers on top of SG&A leverage will help us drive this improvement.

Hiral Chandrana: I just want to add that is our utilization that I referred to earlier is definitely on an improving trajectory. In fact, we believe it's at a peak level right now in terms of some of the operating improvements that we have made. We had a program last year in FY'24, which we will continue in the form of project LEAP which is focused on continued improvement in operating levers with the intent of repurposing that into GenAI and newer area investments. So, that balance of repurposing will continue, but the blip we saw in Q4 obviously will recover in Q1.

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

Amit Chandra: My question is on the impact that we had in the US geography. So, you mentioned that there were some client-specific issues. So, if you can quantify the exact amount that was the impact in this quarter? And also the issue started at the start of the quarter or it was like phenomenon that you saw at the middle of the quarter? And these clients that are facing the issues, are these clients the acquired from the recent acquisitions? And also, if you can give are these in the top five and top ten in the US?

Hiral Chandrana: So, Amit, there are multiple questions. Let me try to break it up into two or three parts. All are good valid points. Two clients out of the three are part of the acquired clients. I am starting with the last question. One of them the client that we talked about which we moved business from onsite to offshore for a particular program, actually that is in the top client. And that's the very reason why we made that move because it did establish strong continuity and in fact post that we are continuing to see good opportunities in that Healthcare client in newer areas right as they're looking at cost savings and few other transformational initiatives as well. So, that's the second part. And then other question was on the quantum. And while we cannot share the exact specifics, but just ballpark, each of these three very specific situations that I talked about, right, give or take each of them created a little over a million each of impact and so you can kind of do the rough math there, I mean, total, of course is higher because each of these three particular customers had an impact of more than USD 1 million each for the Q4 timeframe. Like I said, two of them, we should be able to recover in Q1, one of them which is the offshore movement, we continue to grow that client. So, hopefully that addresses all your points.

Amit Chandra: The second question is on the margin. So, earlier we were in the band of 17% to 19%, but now we are sticking towards the lower end. So, is it because of these client movements though something that has changed very like recently or is it more structurally we are seeing like pressure in terms of the margin that is coming through and from here on is it the new range in terms of the margins?

Arun Agarwal: Very quickly, Amit and I think I gave the same reflection to previous question. So, since we are operating at 16% now, our endeavor is to first reach 17%, which we are very confident about, we will reach to that number, as I said, because revenue loss has reflected into the margin profile because cost was incurred, so we should be able to come back to 17% very quickly. In the short-term, we want to operate closer to 17%-17% plus. Medium-to-long term as we start delivering with a scale in the US market, our Middle East market start improving the margin, will come back to our trajectory of 17% to 19%, but for short-to-medium term, you should take more 17% to 18% for now.

Hiral Chandrana: On Amit's question, again, it's a valid question. Arun covered it as well, but we do see the data and AI, particularly with some of the initiatives. While it has become a lot more realistic now in terms of use cases, customers are talking about where is it working, how do we make it work for us, but the investments and solutions, investments in industry-specific use cases is critical. So, some of the operating lever improvements, we do plan to repurpose for differentiated GenAI and AI solutions. I think that will be critical for us in FY'25 to not just ensure market share of that, but also a differentiated position. So, hopefully, Amit, that covers that part as well.

Moderator: The next question is from the line of Krupa Desai from Electrum Capital. Please go ahead.

Krupa Desai: Sir, my question was, why are our fixed price contracts going down? Usually, it used to be around the 50% level and now it is around 30% level.

Arun Agarwal: The kind of business we are in, most of the work in the digital and cloud are outcome-oriented. The contracting is sometimes at the preference of the customer where they want to do T&M rather than fixed bid engagements, but only the billing type which they choose. Most of the work which we do is outcome-oriented. We decide what kind of staffing we want to do, what kind of rate which we want to do. There could be certain requirements on the customer side as well. Obviously, we have to work together to ensure the outcome is delivered. So, I will not be too much worried between fixed bid and T&M ratio at this point of time. But yes, as an approach, we want a more fixed bit so that you are able to drive much better control over the execution rather than discussion with the client. But broadly it's more the contract methodology rather than the work which we do.

Moderator: The next question is from the line of Jalaj from Swan Investment. Please go ahead.

Jalaj: This is for Arun. First question, could you give me the margin walkthrough, what explains the dip?

Arun Agarwal: So, as I mentioned in my opening commentary, and as Hiral mentioned, we had three challenges in the US market with three customers. While all three have some degree of influence, but one of them where we have done the work in this quarter, but there was delivery challenge, which has been completely resolved now as we speak. But we couldn't recognize any revenue last quarter because the customer was not ready to agree to the change request. But we wanted the customer to be happy because that's a long-term relationship. There is millions of dollars of opportunity lined with that customer. So, we had to take the cost hit in our P&L in Q4 for which there is no revenue which has impacted our margin primarily. There are plus and minus reasons, but predominately that's the reason which has impacted EBITDA profile.

Jalaj: So, we can expect the revenue to come next quarter. Is it so?

Arun Agarwal: So, that customer will become BAU next quarter. Out of three, two will reverse, one will reverse immediately in the current quarter, one will reverse over the period because what we have done in offshoring, it will come back, but will come back gradually as different pipelines are building up, so in a different transit, it will come back. But the one which impacted our margin will come back in Q1.

Hiral Chandrana: And maybe just one more point to add, Arun. I also alluded to one Salesforce program where we were dependent on the previous phase to complete. That particular program was ready to start or we were ready to start in January. Now, we again make the call to hold on to those resources. Unfortunately, the previous phase got delayed from another provider. Now, we are starting that program this quarter, but it did create a delay. So, we were able to offset some of these things. We are starting to see some larger deal activity in the UK as well where the pricing will be competitive and like Arun mentioned talent costs definitely will have a bearing to it. But most of those we have been able to offset through some of the operating lever improvements that you see in some of the metrics. So, this particular blip that you saw in Q4 with the US client, that will come back in Q1.

Jalaj: And this is with regards to not guidance, but directionally for FY'25 and beyond, so for the growth per se, what gives us confidence or how do you see it across geos, maybe if you could give us some flavor on to that side, that would be very helpful?

Arun Agarwal: Yes, you're referring to revenue growth, right?

Jalaj: Hiral mentioned that we are looking to do better growth in FY'25 than this. So, maybe a little bit on the geo wise and maybe also you could talk about the large deals?

Hiral Chandrana: If you look at the three geographies, let me start with the Middle East and APAC. Kudos to the team there, really solid in quarter execution and overall momentum that geography has now. It does come with certain margin challenges, but our revenue growth has been very solid. We are taking a much more qualified approach in the Middle East because we want to go after very specific larger clients and deals which are more medium-to-long-term sustainable. But geography will continue to grow double-digits. UK and Europe as a whole which as you know, UK continues to be our biggest geography in public sector within that business, we are seeing again decent deal momentum. Our private sector actually is looking up here in the last two or three months, we see some really good lead indicators of the deal momentum in our private sector. We think that there is going to be some slowdown in decision-making because of the election year in UK particularly, but the pipeline continues to be rock solid and again UK is also projected to be at least double-digit in terms of year-on-year growth. US which we had a challenge in Q4, like we said will bounce back in Q1, and will grow much faster compared to the entire company and we see some of these accounts that we have been talking about starting to become larger accounts, I mentioned about the USD 14 million account, there is a few more accounts that will become USD 5 million, eventually USD 10 million and so that account mining focus and Healthcare focus in the US will drive much faster growth, right. So, that's how we would break down, calculated double-digit growth in Middle East and APAC, at least double digit in UK and Europe and then of course much faster industry-leading when it comes to US.

Moderator: The next question is from the line of Sudeep Duggar from Finacle Venture. Please go ahead.

Sudeep Duggar: My question is specifically with regards to the earn outs that we pay out. How does it affect the P&L and the balance sheet if you could explain?

Arun Agarwal: So you are talking about BizAnalytica if I am not wrong. And how does it work is all the earnouts are provisioned at the time of acquisition, it lies in liability, and as you make the payment, it goes from the liability. If any payment goes beyond those liability, then it goes through the P&L and same about if it is lower than what has been accrued. So, what I can answer, it is provided for in the book with the right approximation with the help of valuers how the accounting happens. So, we don't see significant ups and downs coming into the P&L.

Sudeep Duggar: So, the earnouts suppose in the components of the ESOP, so it hit the employee expense and in case of cash payouts, it hits employee expense and other expense?

Arun Agarwal: No. So, what happens in the case of ESOP, it goes to P&L. In the case of earnout, it is nothing, but the acquisition cost for which liability is created as of the date of acquisition and all the payment happens through that liability which you create on day one. So, it doesn't go through the P&L. If your estimation on day one is not correct then fluctuation in that estimation goes through P&L.

Sudeep Duggar: And it's amortized as intangibles?

Arun Agarwal: Those are amortization, and your fair valuation of contingent consideration goes through P&L, which is an IND AS requirement. So, there is an interest line, there is the depreciation which gets impacted.

Moderator: The next question is from the line of Sarang Sanil from RW Investment Advisors. Please go ahead.

Sarang Sanil: Firstly, can I know what the revenue of BizAnalytica was this quarter? I believe it was USD 4.3 million last quarter.

Arun Agarwal: Our expectation was that the quarter in which we make the acquisition we will report it. Q2, we reported because it was mid of the quarter and Q3 also we reported because it was full of the quarter. Now, the business is completely integrated. It is as much as integrated because data and requirements from every customer you go to. So, for example, we have got a new deal with our existing client in the US. It's more than a one and a half million dollar data deal. It becomes difficult to classify whether it's BizAnalytica acquisition related deal or it's related to Mastek, right. And hence as we have integrated it completely, we have stopped giving that information separately because it will not be a true reflection on the numbers because it's one united business now.

Sarang Sanil: On your initial comments pertaining to the margin, you had mildly touched upon the case of US where you had to move from onsite to offshore for a particular client. What was the impact from that and would you want to quantify any other impact that we had this quarter?

Arun Agarwal: As we mentioned, there are three impacts of onshore to offshore, one insourcing client did, because of the acquisition done by their end, third was this delivery challenge which has been resolved now, and the fourth which Hiral said because there was one deal which was awarded to us and we believe that will offset, and the phase-I was delayed by the previous vendor and then we couldn't start the work. All four put together has some of the impact into the margin because we had the resources already lined up. As we get into Q1, the two will reverse as Hiral said and one is permanent. So, obviously we will take the resources out as those will not be required for that client, but we will use them in some other program because these are similar work talent which we need for any other program we operate in for.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments.

Hiral Chandrana: So, first of all, thanks for the engagement and the questions. Hopefully, we were able to cover good ground on some of the specific reasons for the Q4 revenue drop and disappointing performance in Q4. Having said that, our lead indicators of order book backlog, our demand and deal momentum continues to be strong. All three geographies have some really positive progress that we have made in our key strategic priorities, and we believe continued rigor and execution on them will be important in FY'25. We are positioned really well when it comes to our top client, but also our next 20 clients that I was mentioning earlier. So, the whole account mining focus is starting to pay off for us in terms of stickiness, but at a more broad industry level, our key positioning in terms of Oracle Cloud, in terms of Salesforce, in terms of data and AI, and our entire digital engineering as well as experience capabilities will help us position strongly as the demand continues to improve. As you can see from our backlog the year-on-year growth and the quarter-on-quarter growth of our order book momentum gives us confidence in our FY'25 outlook and the investments that we have already made in the last year and a half, two years in not just acquisition, but also in terms of organic capabilities and our accounts as well as our ability to win large deals and larger clients is starting to reflect in again growth in specific areas that we want to focus on. So, again, while we saw results which were below our expectations in Q4, we are confident about bouncing back in Q1 and having a solid FY'25. Thank you again for the trust and the commitment towards Mastek and joining the call.

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

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.