



“Mastek Limited
Q3 FY '26 Earnings Conference Call”
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**MODERATOR: MR. PRATIK JAGTAP – E&Y LLP, INVESTOR
RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Mastek Limited Q3 FY '26 Earnings Conference Call. As a reminder, all participant 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 the operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Jagtap from E&Y LLP, Investor Relations. Thank you, and over to you, sir.

Pratik Jagtap: Thank you, Darwin. Good evening to all of you, and welcome to Q3 FY '26 Earnings Call of Mastek Limited. The results and presentation have already been mailed to you, and you can also view it on our website, www.mastek.com.

To take us through the results today and to answer your questions, we have the top management of Mastek, represented by Umang Nahata, the CEO of the company; and Deepak Kedia, Chief Financial Officer. Umang will start the call with business update for the quarter, which will be then followed by Deepak, who will take us through the financials. And post that, we will open the floor for Q&A session.

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

Having said that, I will now hand over the call to Umang Nahata. Over to you, Umang.

Umang Nahata: Thank you, Pratik. Good evening, everyone. Welcome to the Q3 earnings call for Mastek Limited. In our call today, I will share some of the developments that have happened in this quarter and the momentum and outlook that we look forward to.

Q3 continued to be a quarter of strengthening some of our core fundamentals, especially around our capability stack, our domain expertise as well as our leadership teams. It has also been a quarter where we had to navigate the headwinds of a seasonally weak quarter, while continued focus on operational efficiency and AI-led productivity gains, ensure that we delivered a robust bottom-line performance.

Talking about capability growth. Digital engineering is the fundamental capability of Mastek. It has been a core of our sustained growth and delivery. With AI, our digital engineering capability has now seen a revised energy and expansion.

In this quarter, we've been recognized by some of the leading analyst firms as one of the leading performers as far as mid-market digital engineering is concerned. A lot of this has been backed by the sustained quality and productivity improvement that we have been able to offer to our clients, ranging from between 15% to 80% improvements in terms of the AI-led engineering capability.

Our continued investment in the AI capability has now eliminated the gap as far as technology differentiator that we had between us and some of the other larger players in the market, giving us the opportunity to compete for much larger core digital engineering or AI-led engineering deals.

Similarly, on the Oracle front, Oracle has been a key strength area for us, and we continue to be recognized by Oracle as one of their top partners globally. Having said that, Oracle's business direction is also significantly moving towards AI-led transformation deals. And in that journey, Oracle sees us as amongst their top 20 partners globally leading their AI initiatives. In fact, we were awarded 3 key recognitions during the AI World that happened earlier in the quarter as a leading performer in Oracle's AI transformation journey.

From a domain front, our focus on Healthcare and Life Sciences continues to be a key area. We've been investing both in terms of people as well as assets and accelerators to deliver a significant differentiated capability in these areas. Our learnings and experience out of working at NHS as well as various payer and provider organizations globally has now been consolidated into a singular strength, which is allowing us to compete in much larger businesses and deals globally.

Another key development as far as capability for this quarter has been our renewed strength in financial services sector. As you all are aware, we had won one large deal earlier in the year with Bank of England. And now this quarter, we are very happy to announce that we've won one new large account in a circa \$20 million deal.

This backed by, for the first time, us, being recognized as a contender in the financial services sector by various analyst firms, gives us the confidence of developing financial services as the third sector after Healthcare and Public Sector for Mastek. We continue to focus on enhancing our data capabilities as well as our Salesforce capabilities aligned to these vertical sectors that you have looked at.

All of this capability and domain strengths have now also resulted in improvement in our 12-month as well as our total order backlog. Our 12-month order backlog has grown by 18.4%, whereas our total order backlog has grown by more than 30% year-over-year.

Coming down to the Q3 performance, from a revenue standpoint, Q3 experienced some expected and a few unexpected turbulences or headwinds that we saw, resulting in a 4.8% constant currency reduction in our revenue. We saw a higher furlough in U.K. as well as in some of our Public Sector customers globally.

Additionally, this is also a quarter where many of our transformation programs, especially Oracle programs went live during the quarter. However, the start of the new programs has been right shifted and will start in Q4. Many of those are scheduled to start in Q4. This has led to reduction in our top line performance.

Having said that, despite the reduction in the top line performance, our continuous and sustained focus on operational rigor as well as driving AI-led productivity improvement in our internal

operations is really helping us hold our bottom line performance. In fact, we have improved our EBITDA margin by 60 basis points despite the onetime labour law changes, which Deepak will explain in the later part of the call.

We are hoping and looking forward to maintaining a steady bottom line performance. And as promised, we feel that we will continue to improve in our bottom line performance over the next coming period.

Looking ahead, we feel that the global demand that we see, especially across Healthcare and Life Sciences is really strong, in U.K. as well as across all geographies in U.S. and AMEA. And our capabilities, both from a domain as well as from a horizontal standpoint are now really well aligned to address the growing demand. And our growth in this vertical is going to be fundamental to our long-term sustained growth as we move forward.

From a people leadership standpoint also, we now have Deepak Kedia, joining us in this quarter. We also had 2 important leadership hirings in our Data as well as in our Salesforce capability. This marks almost the completion of all the leadership changes that we wanted to drive. And we now have a very cohesive and empowered leadership team raring to go for long-term growth of the organization.

One last area while we continue to focus on business and drive sustained growth, our commitment to our Social Responsibility also continues to be an important area of focus, and we are very pleased to share that we have been recognized amongst the top 10% companies globally on our environment scores. And that makes us also proud in terms of not only are we delivering well to our business, but also continuing to deliver well for the society in general.

With that, I'll hand over the call to Deepak to share more details on our financial performance. Deepak, over to you.

Deepak Kedia:

Thank you, Umang. A very warm welcome to everyone on the call, wishing you all a very happy new year. As Umang already covered the business aspect, I'll focus more on the financial and operational levers.

We reported an operating revenue of INR 905.7 crores which was up 4.2% Y-o-Y. On a sequential basis, it reflects a 3.7% decline in INR terms. This is, as highlighted by Umang, is majorly due to seasonal headwinds and some onetime events in Q3.

Coming on profitability, Q3 had two headwinds. One was seasonal around furloughs and holidays and second one was labour code changes. I'll cover labour code changes in a few minutes. In spite of all the above, we have delivered yet another strong quarter of growth in EBITDA, improving by 60 bps points to 16.1%. Out of 60 bps points, 43 bps point reflects our resiliency towards AI-led operational efficiency and 17 bps point is due to forex tailwinds. EBITDA includes an impact of INR 6.4 crores on account of labour code changes.

As we are aware, there are some clarifications which are awaited from the labour department and hence, we expect an adjustment in Q4. There were some onetime benefits, which we got in Q3, which helped us negate this impact. Those onetime benefits were around leave at onsite.

Our net profit improved to 11.7% with improvement of 149 basis points quarter-on-quarter. Across all geos, we have expanded our margin in Q3, further underlining the execution of our operational efficiency. Based on business fundamentals mentioned by Umang, we continue to add new customers to our portfolio. We have added 17 new customers in Q3.

This is also reflecting in our backlog position wherein 12-month order backlog for the quarter now stands at \$296 million, reflecting a growth of 5.7% quarter-on-quarter and 18.4% Y-o-Y. We continue to maintain a very strong balance sheet and healthy cash position. Our net cash is INR 346 crores versus INR 135 crores last quarter. We added operating cash of almost INR 210 crores in Q3.

Our DSO for the quarter stood at 84 days, which is slight increase from 80 days last quarter. This was primarily due to administrative delay in collections in U.K. on account of holiday season. We see this as a temporary thing, and DSO will start improving from next quarter as we continue to have robust collection, which is reflecting in our cash position. Based on all the cash collection and everything, we are declaring an interim dividend of INR 8 per share, which is at 160%.

Our closing headcount was 4,676 versus 4,745 last quarter. This is again after the consistent focus on improving our productivity and driving better outcomes for our customers at the same time. Our utilization rate dropped to 76.7%, including trainees versus 81.8% in the previous quarter.

Again, this is a reflection of higher leaves which is both led by festivals, holidays and client furloughs during the quarter. With that, I thank everyone. I look forward to your continued trust and support in Mastek. I'll go back to Pratik to open the house for Q&A.

Moderator: We will now begin the question-and-answer session. Our first question comes from the line of Sucrit D Patil from Eyesight Fintrade Private Limited.

Sucrit D Patil: I have two questions. My first question to Mr. Umang is, as Mastek continues to expand its AI first and digital engineering portfolio, what specific initiatives are being taken to deepen the client relationships in the U.S. and AMEA market? Over the next 12 to 18 months, how do you see the company balancing near-term revenue volatility with long-term growth opportunities in AI and cloud transformation? That's my first question. I'll ask my second question after this.

Umang Nahata: Thank you, Sucrit. As we had mentioned earlier in my narrative, AI is definitely bringing the technology differentiation between the various IT services providers making them all very equal. All the assets, accelerators as well as capabilities are now starting to align a lot between players. What is going to be important is how we offer this back to our customers and create a win-win scenario with them.

Our current approach is to move from time and material contracts to more outcome-based contracts. In fact, in this quarter also we have closed a few deals where we have moved our customers from time and material to an outcome-based contract and also offering anywhere between a 15% to 30% savings on productivity over a 3-year tenure.

These contracts, while might have a short-term impact on our top line performance, but are really important to deliver and build confidence in the customer from a trust as well as capability standpoint to recognize the kind of benefits that AI is providing to them.

I'm very sure that as we aggressively offer these benefits to our existing customers, it is creating the space required within the customers and the mind share for them to consider us in much larger businesses and awards. And as we get into those larger deals, it will create a much more bigger impact for us.

As you know, our digital presence in North America has been quite small, but this AI-led engineering is now starting to create a much bigger digital engineering pipe in the geography, especially as we go out as champion challengers to many new customers. So it's a case of trying to balance your capability and quality strengths by addressing the commercial model to your clients and gaining larger volumes.

Sucrit D Patil:

My second question is to Mr. Kedia. With operating margin improving to 16% despite the revenue showing some softness, how are you planning to balance cost discipline with investment in talent and delivery capacity? Could you share how Mastek is approaching capital allocation to support both shareholder returns and long-term growth in AI-driven services?

Umang Nahata:

Sucrit, if you're okay, I'll work with Deepak on the answer. It's a very fair question, in terms of long term and how do we look at balancing and continuing our cost efficiency as well as trying to address the investment in AI as well as investing in deals where we have to offer productivity benefits to our customers.

Our current expectation is the AI investments will continue. However, as we move towards more and more fixed bid projects like an outcome-based contract, that allows us to share the gain and maintain a healthy operational efficiency on our side because, while we are offering a part of the benefit to the clients, it also allows us to maintain a part of the savings to Mastek also.

And that's been reflecting in our continued quarter-on-quarter bottom line performance. So there's a stringent bottom line improvement target, productivity improvement target across all programs as well as our G&A spend that we look forward to.

Having said that, we are also looking at a scenario where as we grow our top line because the volume performance is important, and I'm pretty sure this AI-led differentiations are going to drive much higher volume improvements. The overall impact on bottom line will be much healthier as we move forward.

So the vis-a-vis impact of investment versus return, I think the ROI is much highly tilted towards a positive return. So while you have to make these earlier initial investments, both in terms of

capability as well as commercial discounts, the long-term return on these seems very, very positive.

Moderator: Our next question is from the line of Amit Chandra from HDFC Securities.

Amit Chandra: If you can explain in terms of the decline that we have seen in this quarter, what has been the contribution from the furloughs that we have seen now in terms of extended furloughs? And also you mentioned about the AI-led productivity benefit that you have to provide to clients. So if you can quantify what led to the decline in terms of the extended furloughs and the AI-led productivity benefits? And also, you said some of the contracts that were supposed to start. That will be the first question. And also, in terms of the benefits that you have been mentioning. So what percentage of the clients we are seeing this marking of the AI-led benefits. And is it also happening primarily in the large government accounts?

Deepak Kedia: Thank you, Amit, for the question. I'll take the first part of the question, and I'll hand over for the second part to Umang. In terms of decline in revenue, our furlough impact was almost \$2.7 million for the current quarter. And the rest was basically related to ramp downs or the closure of the project and some of the delays, which has happened or right shifting of the project which has happened because of a delay in ramp up. So that's the answer to your first question.

Umang Nahata: Amit, on the focus on business in terms of offering these commercial benefits to our clients, it is happening across a large number of our customer and existing engagements. And these also include some of our Public Sector engagements that we have in U.K. So the general efficiency asked from the clients is true across most of the engagements.

Usually, these asks come up at the time of renewal. So whenever we are renewing our contracts, these have come up for an ask. However, we are taking a very different approach to the business. We are actually proactively going out and sharing some of these benefits to our clients and therefore, creating a mind space of expanding within the account.

If you look at our large installed base, especially the large account installed base, the top 30-odd customers that we have, our current wallet share in almost all of these accounts is a very small portion as compared to the overall digital spend that they have. We see this as an opportunity.

While they have always seen us as performing good work and good CSAT performance. But now with differentiated capability and our ability to demonstrate cost benefit to them and the proactiveness in our commercial acumen is creating an opportunity for us being evaluated for larger businesses in these accounts.

So we are taking that as an investment in these accounts to create credibility as well as trust for generating larger opportunities in the same. But this is not a few accounts here and there. It is happening across the board.

Amit Chandra: Okay. And in continuation to this, are we seeing any extended furloughs continuing in Q4? And also, if you can give some more colour in terms of what's happening in the Middle East geography because there we have seen some very sharp decline. And in the last call you

mentioned that the restructuring there is almost over. So is it something new that has happened there? Or if you can give some more colour?

Umang Nahata:

Yes. Thank you, Amit, for pointing that out. We don't see any significant furlough impact going further. There might be a few cases, but nothing meaningful there. As far as our Middle East business is concerned, you are right, we had pointed out there was a WAR revenue that we couldn't recognize in Q2, which we're hoping to recognize in Q3.

While we have got the letter of award and all the other documentation, but in Public Sector Middle East, sometimes signing the contracts has taken a little longer than anticipated. The business is well secured and already executed. We are confident that we will get the order in, and we are hoping that it will come in January itself. And therefore, we'll be able to bring it back in our next quarterly performance.

Having said that, the second part of the business that I mentioned that a lot of projects went live. Some of those go-lives were in the Middle East geography, Middle East largely follows January to December calendar. And as you can understand, Oracle programs are many times linked to financial year closure. So we had seen some go-lives there.

However, the ramp-ups are still shifted towards right, and we are looking for a much stronger order book in Q4, which will then take us forward into continued growth. I would say we're a one quarter delay from where we were hoping the sustained growth would come, but it's just a one quarter shift of right. We are confident that this will start sustainably growing from this quarter onwards.

Amit Chandra:

Okay. And the last question from my side. Obviously, we have seen some of the larger peers entering into the U.K. Government geography, and they have been announcing some new larger contracts. So just in general, are we seeing some increased competition out there in the U.K. Government because earlier we were having the advantage that we were present there. And the competition from the Indian peers was comparatively lower, but now we are seeing high aggression from the other peers also. So are you seeing that also impacting us and forcing us to give in more discounts?

Umang Nahata:

As far as the U.K. Public Sector and Healthcare business is concerned, we believe it's a market that was largely with the Global SIs or some of the local players, there was hardly any large Indian SI contingent in that particular segment. And I think the openness for them to accepting larger Indian SIs to do large pieces of work, the couple of billion dollar deals that got announced, actually is a positive sign for them considering us as equal competitive partners in delivering larger and more significant pieces of execution.

As we have been saying, our current headroom to the revenue that we have around GBP 150-odd million that we deliver as compared to the GBP 4 billion plus overall addressable market that we have is very, very small. And while we have been trying to grow in terms of larger deals, I think this mindset change, I see as a positive from a perception of the ability of mid and large Indian IT services companies being contended for delivering larger deals. So I think it's a positive.

While I also agree with you in some of our accounts, we would see them as competitive on those fronts. But I think that's the usual competitiveness. I don't think anything unusual there. I have very strong faith in the kind of client relationships as well as the capability that we have developed in U.K. Public Sector and Healthcare are very differentiated. And I see healthy momentum in terms of that market.

- Moderator:** Our next question is from the line of Debashish Mazumdar from Svan Investments.
- Debashish Mazumdar:** I have a 3-part question. First one is partly asked by Amit, I just want to get more sense on that. You have said that around 2.5% kind of degrowth has come because of the furloughs, right?
- Deepak Kedia:** No. I mentioned an amount of \$2.7 million. So again, to reiterate. Almost 50% of our impact is because of furloughs. Rest 50% is on account of two things, which is early completion of project towards the early part of the quarter and right shifting of certain projects.
- Debashish Mazumdar:** Okay. If you can add some geographic context into it. Much of these furloughs and ramp-downs are related to your U.K. and Europe related projects, how much is those for U.S.-related projects? If you can give some colour on that?
- Umang Nahata:** Large portion of the furlough impact is in U.K., as you know, the largest business is in the U.K. but there has been some impact in our U.S. business also on furlough because we have a small Public Sector business in North America. Percentage-wise, a much larger percentage of that furlough impact has come from U.K. only. Almost 70% of the furlough impact has come from U.K.
- Debashish Mazumdar:** Okay. And, Umang, if I understand correctly, our U.K. Public Sector business normally, historically, hasn't seen much of furlough impact in the past. And especially, we are sitting in a quarter where most of our peers who have reported numbers have not mentioned or have not seen much of furlough impact. So is it like very client-specific that we are seeing here? Or anything specific that has happened in this quarter or something like that or it's the normal seasonality according to you?
- Umang Nahata:** Debashish, this is normal seasonality. I think we report this every Q3 consistently across last few years. So it's something that happens every year-end, the government and some of the Public Sector business is shut down for the year-end breaks. And so it's not unusual. It's very usual, and it was expected that we will get such kind of a furlough impact.
- Debashish Mazumdar:** And the ramp down or right shifting of the project is also linked to your top customer? Or it is some new customer or some other customer that you are facing?
- Umang Nahata:** So I mean there are some important large programs that have gone live. So those are definitely there in our larger customer list. But if you look at our current nature of business, especially on our Oracle service line, it's a lot more project driven. So as the projects go live, the revenue starts ramping down. And we usually have a stronger backfill of new deals aligned so that we could continue to sustain the revenue growth.

However, the newer programs that we have to start now has been delayed by a few weeks and months. So we are hoping to get this start again in Q4, and we should be able to cover that. It's not like any permanent thing, but this is the usual nature of business. Almost 60% of our Oracle business is project driven, which would ramp down once the project goes live and then as you win new projects, it ramps up again.

Debashish Mazumdar: Okay. So, I just wanted to get what is the kind of confidence level you have to get a sequential growth coming back in Q4 in the U.K. and Europe market?

Umang Nahata: In U.K. & Europe, we have really good demand that we see as far as our Healthcare business is concerned. We're also going through some important renewals in our existing Secured Government Services customers. We generally feel positive. Having said that, there is also continued pressure from the government to at least deliver a 15% or higher efficiency across all government projects. So that's one part of the business that we are still navigating which may have some short term or continued short-term impact.

Debashish Mazumdar: Okay. If I know correctly, last year, when the renewals happen in your large-sized Public Sector contract in U.K., you have passed on certain price benefits or productivity benefits to them already with this thought that until next renewal, we don't need to pass anything. So is there any change in structure there?

Umang Nahata: You are right, we had passed almost 5% to 10% benefit to our customers when we got them into renewal last year. Having said that, the government, as they reorganized their spend, there's a lot more spend happening on Healthcare and Defence and all other departments have been asked to bring down their spend that they have on all other departments, including some of the other larger customers that we work with. So, this is over and above the discounts that we had given last year.

Debashish Mazumdar: Okay. Understood. And my last question is around the U.S. market. We have seen a significant fall in this quarter. And if I see before the last acquisition you did in U.S., you used to do a \$20 million to \$23 million quarterly run rate. And which moved up to around \$30 million post the acquisition, and we have actually come back to \$20 million, \$23 million today. So just trying to get some sense that what is the progress in the U.S. market.

If I remember correctly, last time when we discussed, you told us that U.S. market will take 3 to 4 quarters time at least to settle down. Considering that U.S. market has started coming back for a few of your peers, do you see U.S. market settling down? Or do you think it's 3-4 quarters away for us?

Umang Nahata: Like I said earlier, U.S. market required some core fundamental changes to our business. We've made most of those fundamental corrections already. First, in terms of capability, like I said, our core digital engineering capability, which we wanted to take to North America is now competitive and seeing good traction, which is allowing us to offer many of these AI-led engineering services deals or participate in them.

Two, we wanted an overhaul of our North America team. We've got almost all the leadership team under Sourabh and the capability as well as sector lead is now in place. So we have a strong team, we have executed 100% of the team changes already. Third is, like I mentioned earlier, the direction of travel will be visible in two steps. We first start seeing improvement in our order book and backlog and which will then be supported by revenue growth.

Our order book numbers are now starting to change shape. Our North America order book, for example, has delivered a \$30 million-plus order book in this quarter, and we see sustained order book momentum in the coming quarters, and it will keep growing from there.

We believe as we have now got into the turnaround mode with the teams and the capabilities in place. It is also now starting to reflect in our order book and order backlog. I'm pretty sure the direction of travel is on its way. And like I said in the next few quarters, you will start seeing strong lead indicators edging towards that kind of growth.

Debashish Mazumdar: Okay. Understood. And one last question. If I see the order book because you have touched upon that. After I think 3 or 4 quarters, we have seen some good momentum building up there. So I hope there is no change in the tenure of the deals that you were signing today and the order book that is getting visible to us will convert into 12 months we have seen in the past. Is there any change in the tenure of the deals that you were signing today as compared to what we used to do 3-4 years back or 3-4 quarters back?

Umang Nahata: Yes. Debashish, you're right. So if you look at our total order backlog has grown faster than the 12-month backlog. So that's definitely there. What happens is as we are trying to get into these AI-led initiatives, while we are offering the clients some discount and productivity efficiency, we're also trying to negotiate with them much longer contracts, so 3-year, 5-year kind of contracts instead of the 1-year renewals that we used to have earlier.

So there is a change in the tenure of these deals that we have. And that's the reason the TCV has been moving much faster as compared to the 12-month backlog. But as you can see, our 12-month backlog is now catching up, and I'm sure we'll have a healthier 12-month backlog also.

But in general, your observation is right. The tenure of the order booking has definitely increased, and that's a very intentional plan. As we sign up for these productivity gains, we're also trying to sign up over a longer tenure so that we have enough time to ensure we deliver them profitably.

Moderator: Our next question comes from the line of Ravi Menon from Macquarie.

Ravi Menon: First question is on the subcontracting costs. So if I see the other expenses for the second quarter, we've seen a decline. So you have subcontracting come down this quarter?

Umang Nahata: Yes, Ravi. The subcontracting has come down in this quarter.

Ravi Menon: When you're talking about the U.S. how you're starting to see pipeline build up, at least in the initial phases do you think subcontracting will be required? And we could see this cost move up again and maybe have some pressure on margins near term until we hit some critical mass?

Umang Nahata: What we are seeing is both kinds of deals. We are seeing deals which are regular and within the capability and capacity that we have between Oracle and Salesforce and those kinds of areas. Having said that, we are also running for some larger deals in newer areas that we don't necessarily have capacity for the U.S. today. And part of that fulfilment will require some kind of subcontracting or partner arrangements that we have already worked out.

So yes, as we look at getting into execution, some of these deals initially may see higher subcontracting costs. Having said that, our endeavour on making sure that operational efficiency continues to be robust as well as we continue to drive AI-led productivity improvements is key to maintaining stable bottom line performance as we get into these AI-led and newer areas of business.

Ravi Menon: And once things settle down, I mean medium term, say, 2-3 years out, do you have some sort of aspirational margin target from a band that you want to operate in?

Umang Nahata: Overall, like I had mentioned earlier, we think around 16.5% – 17% EBITDA is a good position today. I'm sure things will change. It's rapidly changing from an AI productivity possibilities. So what will happen over 3 years is hard to predict in terms of the degree of efficiency that it might bring.

But from counter-investing and offering, sharing some portion of that benefits back to our clients as well as some of these capability expansions that we need to do and using subcontractors and others that will be required to grow for the cost of sales. I think we feel comfortable in the 16.5% – 17% band.

Ravi Menon: And one last question. The AI-led productivity, we had heard one of your peers mentioned yesterday that they are starting to monetize their own IP that they've built for AI tools. Are you planning to do something like that? That could enhance margins?

Umang Nahata: We actually have a very contrasting view to that. We do not want to get into the IP and the product business as far as AI is concerned. The ability to create and build and demonstrate that we are leaving it to the larger hyperscalers, and we would rather focus on the partnership model. I think our focus is executing services, and we will look at continued focus on service execution. We are not at all focused on building IPs as far as platform IP is concerned.

Having said that, there will be a lot of IP that will be created as you get into AI for business, which will be differentiated and really required for selling and as well as delivering the kind of efficiency that the client wants. We are looking at these IPs as our differentiators in winning as well as demonstrating success to our clients. I mean IP monetization is not a focus area for us.

Moderator: Our next question is from the line of Sushovon from Anand Rathi.

Sushovon: Just two sets of questions. One is I think there was a mention from Deepak about the fact that there is some onetime benefit of 149 bps on account of onsite leaves. If you could possibly explain further on that? That is one. And the second is, will this labour or the wage code impact again impact in Q4? How much would that be? And lastly, what would be the steady state tax rate? I think these were the 2 - 3 questions which I had.

Deepak Kedia: On the first one, on onsite, we have this leave accumulation done by the employees. We saw people utilizing those leaves. And hence, there was a reversal of the leave provision which we made at onsite. That onetime benefit helped us negate the labour code impact what we had in our books. And there were other few small one-timers, which I would not want to call out, which was very small from the materiality perspective.

Coming back to your second question, which is whether we are going to have impact of labour code changes in Q4. As we speak, what we have done so far is we have taken a catch-up impact or a retrospective impact in our books. So we have gone conservative in our assumptions. However, there are a lot of rules and regulations, which are still not very clear, and we are expecting lot of clarifications in the next 1 or 2 months. And I think that is the problem which every IT company is facing.

Once those clarification comes in, we will be able to estimate what the impact is going to be on our books, whether incremental expense hit or whether it's going to be a credit to our books. At this point in time, it is very difficult for me to make an assessment lacking those clarifications, that what will be the impact in Q4 profitability.

On the third part of your question on the tax rate, our effective tax rate is normally around 25%–26%. We saw a decline in our effective tax rate in the current quarter for certain tax refund, which we got, which was basically related to some past years. We believe going forward, we will be still in the range of 25%–26%.

Sushovon: And just on the onsite leave accumulation provision reversal, impact is 150 bps. Is that fair?

Deepak Kedia: No, that's not 150 bps. So we had a labour code impact of INR 6.4 crores, which was almost 0.7% impact. The leave accumulation reversal is around same 0.5%–0.6%.

Sushovon: Okay. So 50–60 bps, right? That is fair?

Deepak Kedia: Yes, correct, 50 basis points.

Sushovon: So near term, it would be fair to assume that - because if I take 15.5%, which was your last quarter and this quarter, it is 16.1%, assuming the labour code impact is 70 bps, then it becomes 16.8%. And if I take this reversal of the provision, it is 60 bps. So 16.2% EBITDA margin would be something that you would be comfortable with from a range perspective as an EBITDA margin. Is that fair?

Umang Nahata: Sushovon, we are looking at maintaining it between 16.5% to 17% like I said earlier. So that's the range that we're comfortable with. We think we will be easily able to hold our grounds there.

- Moderator:** Our next question comes from the line of Jalaj from Svan.
- Jalaj:** I had one question with regards to the margins. I guess, sorry if I missed that. Was there some onetime item? Or could you give us a margin walk on a sequential basis? What led to this growth?
- Deepak Kedia:** We have improved our EBITDA margin by 60 basis points. Out of 60 basis points, 43 basis point is due to operational efficiency, which we have been driving for the last few quarters and 17 bps points was because of forex tailwinds. We had a onetime impact of labour code wage, which was around 0.7% impact and amounting to INR 6.4 crores. That got negated by onetime credit which we got because of leave accumulation reversal at onsite.
- Jalaj:** Okay. So, they're matching basically the onetime labour code impact and your leave encashment or leave reversal they've matched each other?
- Deepak Kedia:** That's right, yes.
- Jalaj:** Okay. So just building on to it. You told that there will be further impact next quarter because of this labour code. So could you give us some idea as to what extent would it be? And secondly, I guess on an ongoing basis, this incremental change in definitions in both gratuity and leave encashments should lead to a higher people cost going forward. So what sort of impact are you expecting because of this change in labour code?
- Deepak Kedia:** Sure. On the first part that in Q4 am I expecting additional hit, there will be some true-up based on the clarification which we are going to receive from the labour department, whether that is going to give me an incremental hit or whether it is going to be a credit at this point in time, it is very difficult to envisage. So we'll have to just wait for those clarification to really reassess the impact we have taken.
- Having said that, what we have done from our side is, we have gone a bit conservative on all our assumptions so that we don't see a significant or any incremental hit in our books in Q4. So we have taken the retrospective impact. We have included all components of wage in the new wage definition, so that at least we are on the safer side of the things. So hopefully, there should not be a significant impact in Q4 in terms of incremental expense, but let's wait for the clarification to come.
- On the second part of your question, which is on an ongoing basis, given that only 30% of our employees are at offshore. And most of our tenured employees are based in onsite. We don't expect a significant impact on our books going forward. When we assess that impact, I think it was around \$150,000 to \$200,000 per quarter.
- But again, when I'm saying that amount I'm taking that with a pinch of salt because lot of clarifications are pending. And based on that clarification, that amount can go slightly up or down. But at this point in time, we are only seeing an impact of \$150,000 – \$200,000 in terms of U.S. dollars per quarter going forward.

Jalaj: Got it. And my second part of question was for Umang. Could you throw some light specifically on the U.S. and U.K. geographies. For U.S., how far are we still from getting onto a stability both in terms of top line and a profitability there? So how far are we there?

Second part is on U.K., do you believe the Secured Government business, I know you alluded to it that there are some benefits need to be passed on. But is it going to be a recurring thing because it came in as a surprise which had been in the last year, also it was highlighted by any other participants. So what exactly are we seeing there? And how it should pan out going forward? Specifically on the secured side of business because that's a larger part.

Umang Nahata: Jalaj, as far as U.S. is concerned, like I mentioned earlier, we are a few or maybe at least couple of quarters away from starting to see the real ramp up. Like I said, we're taking care of some core fundamentals, both in terms of capability, leadership teams, our commercial offerings, GTM, etcetera.

All of that is now in place. We are starting to see improvement in our pipeline as well as our order book numbers. And as we see a couple of more quarters of healthy order book growth, I'm sure it will start reflecting on our revenue as well as the backlog number that we have to execute on. So that's as far as North America is concerned.

Like I said, fundamentals are in place now. Already execution is underway. We had a healthy order book growth this quarter. And if we continue to run that momentum for the next few quarters, it will be on a sustained growth trend from there.

As far as U.K. Europe is concerned, again, our capability in Healthcare as well as Public Sector is extremely differentiated. The kind of work that we do is called critical national infrastructure kind of programs that requires experience, reference as well as differentiated capability to execute.

So we feel very comfortable that the business that we have and that we are executing is secure and sustainable. We are also seeing a good healthy demand in Healthcare sector, which is a potential for growing that business sustainably.

Having said that, there is margin pressures on some of our accounts as the government expects to shift their budget into Healthcare and reduce some of their spending in some of the other government departments which we are negotiating and navigating with them.

Jalaj: Got it. And on the U.S. part, do you believe reaching to a sizable amount or let's assume an inflection point there would take at least 3- 4 quarters? Or how far are we from that? Obviously macro should be a function of it, but our size is too small for macro to actually starting to bother us there. So how much more time do you feel we should see an inflection point or a J-curve there?

Umang Nahata: Jalaj, I don't have a firm time commitment here. But I think next year would be the year when you start seeing U.S. starting to improve sustainably in our business. I agree with you, the size

of our business is not big enough to have a significant macro impact. However, what happens is sometimes the macro impacts one or two key customers of ours, and then it trails down to us.

But what we are also trying to build is make sure that we have enough base and growth, both in our existing as well as net new customers so that these impact of one or two clients that have earlier troubled us does not become a factor derailing our growth.

Moderator: Our next question is from the line of Sushovon from Anand Rathi.

Sushovon: Just one more follow-up question. So just wanted to understand, at least from an outlook for this coming quarter Q4. What's your view there? Do you expect growth to come back strongly across all geographies? Or is it specifically the U.K. that is going to come back strongly? If you could just provide some flavour on that?

Umang Nahata: So Sushovon, as you know, we don't give any prediction numbers on our future performance, especially the near quarter numbers. But in general, we feel comfortable that the direction of travel, both from top line as well as bottom line should improve from where we were in Q3.

Sushovon: And a question for Deepak. I just wanted to understand from a subcon cost perspective as a percentage of revenues, how has it moved from last quarter to this quarter? Because what we also understand is the Secured Government Services, I think that there may have been some ramp downs which would have possibly benefited the margins. If you could provide some flavour on that aspect.

Deepak Kedia: Thank you, Sushovon, for that question. You are right. We did see some benefits from the reduction of subcontractors. In fact, it dropped by almost 0.7%. The subcontractor cost has dropped by 0.7% quarter-on-quarter. Again, it is on the back of the projects, as you rightly mentioned.

Moderator: Our next question is from the line of Jalaj from Svan.

Jalaj: I had a follow-up question. Would it be a fair assumption that the FY '27 should be a better year in terms of growth than FY '26? Because at least on U.K., as you have communicated, things would settle down, or whatever the benefit should be passed on. And at least on 12-month order backlog, is that giving us enough confidence on that front? Are there any other things that need to fall in place much more after this or beyond this also?

Umang Nahata: No, Jalaj, you're right. I think like I mentioned earlier, this has been a year of fixing some of our core fundamentals, both from capability, domain, people, leadership point of view. I feel comfortable that we are more or less there in terms of whatever core fundamental changes that we had to deliver. As we go forward into FY '27, we are expecting FY '27 to be a stronger year as compared to FY '26. Having said that, it's also some of those other deals that we are looking at.

So the AI-led impact is also a lot about demonstrating benefit in your estate here and now and then using that benefit to further find larger volumes of business. So there might be a degree of

impact on that count. But in general, we feel especially our U.S., AMEA business growing and U.K. continuing to be steady.

Moderator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Umang Nahata: Thank you, Pratik. So thank you for asking all your questions. As I said, I think it's been a quarter of really focusing on fundamental improvements. We continue to focus on creating some differentiated core fundamentals across our capabilities and the verticals. Our view on key verticals like Healthcare and Life Sciences as well as Public Sector and Financial Services is getting strong. We believe there's good uptick in demand, especially in Healthcare and Life Sciences, which is a core fundamental focus area for us. And with a strong leadership team now in place, I believe that we are moving towards the right direction and should see some strong positive impact as we go forward. Thank you, everyone. Thanks for participating and asking all your questions.

Deepak Kedia: Thank you, everyone.

Moderator: Thank you. On behalf of Mastek Limited, that concludes this conference. Thank you all for joining us. 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.