“Mastek Limited
Q1FY27 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 Mastek Limited Q1FY27 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not a guarantee of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participants 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 star, 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, Danish. Good afternoon to all of you, and welcome to Q1 FY27 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, CEO; and Deepak Kedia, CFO. Umang will start the call with a business update for the quarter, which will be then followed by Deepak, who will take us through the financials. 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 statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports 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. Hi, everyone. Welcome to the Q1 earnings call for Mastek. On an overall basis, Q1 has been a good quarter with predictable performance and growth. The general demand sentiment in the market continues to be positive. And especially with the AI transformation and evolution, a lot of AI-led new demand opportunities have started popping up. In this quarter, we continue to see good demand in new AI-led deals, and we had 40-plus new opportunities that we've closed in the current quarter, which were backed on AI-led initiatives.

Our order book performance for the quarter continues to remain strong, and our 12-month order backlog has grown by 25% year-on-year terms and 13% in constant currency terms. On the back of a positive order book growth that we had demonstrated earlier, we've now seen a strong revenue growth in this quarter with a 5% quarter-on-quarter growth in INR terms and a 1.8% growth in constant currency terms.

Our U.K. business continues to be our strong foundation and foothold. The U.K. business grew by 3% quarter-on-quarter in constant currency terms. As we go in detail, financial services and banking, which was a strong performance for Q4 as far as order book is concerned, is now resulting in a positive growth in terms of revenue terms as we continue to expand our business in existing customers as well as acquire new customers in the vertical. A lot of demand in the private sector in U.K. is also shaping because of AI-led initiatives in the market.

The Healthcare sector, which is one of our strongest performing sectors over the last few quarters, continues to see a very strong positive demand. Although there has been a transition in Q1 where some of our projects have ramped down, but new projects have already started, and a lot of these new projects are in the data modernization space in healthcare. And we believe these will help us ramp the revenue numbers back up in the rest of the year.

The U.K. public sector business, which has been our core pillar, continues to stay stable and grow. Our Q1 performance grew sequentially on the back of stable performance in our existing customers as well as some new customer acquisitions in the local government sector. While there has been political leadership change in the country, we continue to observe the changes quite closely and understand the policy and priority changes of the new government. And also, as the weeks and months evolve, how do these priority and policy changes result in budget changes is something that we will be keeping a close watch on. In general, the demand for cost savings and continuous efficiency is high on the public sector side, and we are working closely with our customers using technology and business process innovation to help them meet their cost saving asks.

Moving forward to North America. North America again saw a strong order book performance for the third consecutive quarter led by a $25 million AI transformation deal in Salesforce Agent force, which is one of our largest deals in the recent quarters. The North America business continues to focus on Healthcare & Life Sciences as its key vertical. The demand for AI-led initiatives in this vertical, especially AI transformation, continues to ramp up and is an important area of focus for Mastek as we go forward. The overall business grew around 2% quarter-on-quarter in constant currency terms and 6% in INR for this current quarter. This is for North America.

The Middle East business, on the other hand, continues to face some severe headwinds. As we all know, the West Asia crisis is creating a lot of unstability as well as unpredictability in the market. And while we navigate the current volatile environment, working closely with our customers and our leadership team in the geography, we continue to see some uncertainties in our business in Middle East. Although at the later part of the quarter, we did see some new order book getting signed, but the predictability of the business is still a little uncertain. Despite of the shaky performance in Middle East, like I said, the overall performance of the company continues to be strong and positive.

As we move forward, transforming a steering Mastek towards becoming an AI transformation company in our select verticals is the key direction of travel that we want to execute. As a company, we have a very unique position with our enterprise application transformation business, our strong data practice as well as a phenomenal engineering practice, which makes us uniquely positioned to become a transformation company, starting these transformations from back office and then taking them forward into the entire business.

Also, our deep clientele as well as strong vertical insights, especially into healthcare and public sector creates a phenomenal position for Mastek to take AI transformation lead in select verticals, especially Healthcare and public sector.

We also had some important changes in our leadership team. We had Amit Gajwani, who has joined us as our new Chief Operating Officer. Amit joined us from LTM and has a phenomenal track record in delivering hands-on leadership on delivery and delivery transformations. Under Amit's leadership, we are looking at a phenomenal change in terms of our talent pool and really transforming the talent pool, strong governance in our delivery as well as transforming Mastek into an outcome-focused organization, delivering outcome-focused results for our customers.

Overall, we believe that Mastek is really well positioned to take phenomenal advantage of this growing AI evolution and AI wave while still maintaining stable delivery on our existing business and continuing to expand there.

I will now hand over this call to Deepak Kedia to share more details on the financial performance. Deepak, over to you.

Deepak Kedia: Thank you, Umang. Thank you, Pratik. And a very warm welcome to everyone on the call and thank you for taking the time to attend Mastek's earnings call. Let me start with quarter's numbers update before I talk about other metrics and updates.

In Q1, we reported revenue of $104.8 million, sequentially up by 1.2% and an operating EBITDA of 15.4%. On a constant currency basis, revenue had a robust sequential growth of 1.8%. Middle East continues to be impacted by geopolitical situation, resulting in increased bench cost and delayed collection. This has impacted our EBITDA in Q1.

In rupee terms, we reported revenue of INR 985 crore, a sequential growth of 5% and a Y-on-Y growth of 7.7%. We reported PAT of INR 105.9 crore or 10.6% of total income. We closed the quarter with a healthy 12-month backlog of $310 million, a sequential growth of 3.2% and a Y-on-Y growth of 13.3% in USD terms and 25% in INR terms. We reported a basic EPS of INR 34.2, up 14.8% compared to last year and a diluted EPS of INR 33.9, up 15% compared to last year.

Moving on to cash position of the company. During Q1FY'27, we had another good collection quarter, wherein we collected $116 million from our customers, resulting in DSO of 75 days, an increase of 2 days, primarily due to pushout of collection of almost $2.5 million in the first 2-3 days of July and geopolitical headwinds in AMEA. During the quarter, we paid INR 107 crore as variable pay to our employees. Despite that, we were able to generate positive operating cash of almost INR 27 crore. In last 2 quarters, our net cash and investment position have improved by almost INR 200 crore, consequent to prudent cash management and aggressive collection initiatives.

Moving on to some geo-specific performance now. Both U.K. and North America geo grew sequentially in Q1. U.K. continues to maintain healthy EBIT of almost 20%. North America closed the quarter with a healthy order book, improving the total backlog position by 29.8% sequentially and 23.5% Y-on-Y.

In terms of service lines, data, automation and AI business grew by 9.8% sequentially, thereby reinforcing our focus as AI transformation company.

In terms of industry, public sector business continues to show its strength by growing 7.9% sequentially.

Utilization, excluding trainees, were down by 2% sequentially due to order pushouts and the situation we have in the Middle East.

Some other business parameters. We added 13 new customers during the quarter. Our closing headcount was 4,897, an addition of 167 during the quarter, out of which U.K. added 125 on the back of ramp-up of new projects. Our last 12-month attrition rate is down by 1% from 17.4% to 16.4%.

Last update on the tax assessment, we have already uploaded that in SEBI a couple of months back. During the quarter, we received an income tax assessment for financial year 2022-23, wherein the assessing officer added an income of INR 91 crore on account of transfer pricing and INR 32.5 crore on account of domestic tax. I'll repeat the word 'income' that was not a tax demand of INR 135 crore or INR 125 crore. It was actually an income added to our overall income. Hence the tax impact will be approximately INR 31 crore. We have filed an appeal to commissioner of income tax appeals on 26th of June, and transfer pricing and tax experts are guiding us on the next steps.

With that now, I'll hand over back to Pratik to open up for Q&A. Thank you.

Moderator: The first question comes from the line of Sushovon from Anand Rathi Shares and Stockbrokers Limited.

Sushovon: Just a few questions. I'll ask the first two questions and then go back in the queue. These deals of FCA, Atlas and HADES, when do we expect that to ramp up? And when do we expect the U.S. deals to ramp up in which quarter? That is one.

And the second is effectively the top five clients. I think this time quarter-on-quarter, there has been a decline of 4% and 12% Y-o-Y. If you could just give us the rationale for that, that will be helpful.

Umang Nahata: Sushovon, thanks for the questions. The FCA deal has already started ramping up. And as you see the financial performance improvement in our banking and financial services in U.K., it's largely on the back of ramp-up of FCA, while we'll continue to see some more ramp-up in Q2.

The HADES deal was actually a renewal deal of our existing customer. So, it will not necessarily have any ramp-up impact, but it continues to deliver steady revenue for our business. The deal that we announced in North America, we are expecting it to ramp up by H2FY27.

As far as the decline in the top 5, top 10 customers is concerned, like I mentioned earlier, in our Healthcare business in U.K., which is NHS England, which is one of our most prominent customers, we are going through a phase where we are closing out the old project and we are starting the new project. It's a timing gap. And we believe as we get into Q2 and beyond, we should be able to get back to usual performance and growth in those customers. So, it's a one-time timing gap in this quarter where we closed down the old project and we are ramping up new business. Interestingly, the new ramp-up is in much more modern spaces of data modernization and building the data platform for Healthcare for NHS.

Sushovon: Just two questions for Deepak. Basically, the subcon cost, I think is that increasing now as a percentage of revenue? That is one. And the other part is effectively on the impact of ESOPs. How much will that be going forward in this year? Because I think that is almost 1.1% of the earnings. If you could possibly focus on that?

Deepak Kedia: Yes, Sushovon. So subcon cost, it is 18.5% of our total revenue in the current quarter, which is in line with what we had in Q4 as well. So, we are not seeing any significant increase in subcon costs in Q1. In terms of impact of ESOP, the ESOP grant will happen from Q2. We are estimating an impact of $400,000 to $500,000 per quarter.

Sushovon: Yes, $400,000 to $500,000 you said, right, per quarter?

Deepak Kedia: Yes. That's right. $400,000 to $500,000. Yes.

Moderator: Next question comes from the line of Pulkit Chawla from 360 One Capital.

Pulkit Chawla: My first question is, if you could just help me understand how have the TCV trends been? We've obviously seen the 12-month order executable book growing quite well for the last couple of quarters. You've obviously wanted to make the business more predictable, have longer tenure deals. So, if you could just help me understand how's the TCV trends been overall over the last few quarters?

My second question is on discounts bit. Some of your larger peers have called out that at times, there has been some irrational behaviour wherein discounts have exceeded maybe even 50-odd percent. In the past, I think you've given close to 10% to 15% discounts while renewals. Are you also seeing some unreasonable or irrational behaviour coming into the picture?

And just a small clarification on your Healthcare vertical. You did mention some of the deals are ramping up now. So, do you see that vertical returning to sequential growth from Q2 onwards?

Umang Nahata: Thank you for all your questions. I'll try to answer them one by one, if I missed anything, please do remind me. As far as the TCV growth is concerned, so the total order book growth is definitely also moving in the right direction. While we don't disclose order book numbers, but the general direction of 12-month order backlog, which you already know is a 25% growth year-on-year.

But the total order book growth is actually equally better as we look at it. So, we are looking at, like I said, for example, the deal that we've signed in North America, it's a 5-year deal, $25 million. So, you can see the impact on TCV, just an example case here versus the ACV impact that we are demonstrating here today. So, in general, the TCV numbers are quite healthy and are moving in the right direction.

I'll answer the Healthcare question, and then I'll come to the discounting. As far as the Healthcare business is concerned, our healthcare business is quite spread across geographies. So, we have a pretty strong Healthcare presence across all geographies.

Our Healthcare business in U.K., which is our most prominent growth business, we believe will start ramping back up in the right direction from Q2 and as we get into H2. It should be at the same levels and growing from there.

Healthcare business in U.S., the Healthcare Life Sciences is a key focus area, and we are looking at further investing in that business as we go forward. So that should also turn around – whether it is going to be Q2 is not necessarily firm, but especially as we get into H2, we are quite sure that our Healthcare Life Sciences business in the U.S. is also going to be ramped up.

The Middle East business, as you know, is going through a degree of uncertainties, while we actually had a healthy order book closure in Middle East Healthcare also in Q1. However, the ramp-up in Middle East is currently running a little uncertain depending on how and when the clients are ready for going through these transformation executions. But we feel positive that in general, the Middle East Healthcare business will also do extremely well from an overall financial year point of view.

The third part of the question that you had, Pulkit, in terms of the unreasonable or extraordinary discounts. We are definitely seeing aggressive price competition, both in terms of net new wins as well as renewals that we are going through. However, the level of discounts have not gone to as high as 50%. But depending upon the customer and scenario, they are still around 20%-25% tops in 1 or 2 cases, but generally a 15%, like I had mentioned earlier.

Having said that, the net new business that we win or compete for is definitely coming at a much more price aggressive positioning. On the same hand, our ability to execute them faster and better is also improving and especially businesses that come on fixed bid or outcome-focused contracts, we believe we should be able to execute them at a much better margin than we see them today.

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

Amit Chandra: Sir, my question is on the total order backlog number that you have given. So, there is a healthy growth both sequentially and Y-o-Y. But if I exclude the $25 million deal that we have won in the U.S. geography, it appears to be flat sequentially. So how do you see the order book panning out? And also, if you can highlight how healthy the funnel is looking like in terms of the conversions, how fast they are happening across the geographies?

And also, in terms of the, like, Middle East geography, obviously, you highlighted that there is a pressure. But we have one large deal there that is highlighted in your presentation, which is largely a multiyear fixed price kind of engagement. So, when that will start to ramp up and when we can see the margins in the Middle East like normalizing?

And overall, in terms of the margins, the U.S. and the Middle East margins has been volatile. And with these deals ramping up, the $25 million deal in the U.S. and the uncertainty in the

Middle East, do we expect the margins in these 2 geographies to be like suppressed over the next few quarters?

Umang Nahata: Amit, again, I'll try to answer all the questions. I've noted them down, but if I miss anything, do remind me. As far as the overall pipeline and funnel is concerned, I think the pipeline continues to improve consistently. Like I said in my opening comments, the demand cycle generally looks positive all across. There are a lot of these transformation that Mastek is going through will require some large deal wins consistently happening across geographies, across quarters.

We are seeing a good increase in the number of large deal pipeline items that we have. This is a change from what we had seen earlier. We did not have as many number of large deal opportunities in our pipe across geographies. And our ability to transform and win these opportunities is going to be significant in our long-term turnaround. Having said that, we firmly believe that these are not just opportunities. They are also well qualified, and we have a very serious winning chance in many of these opportunities that we are seeing.

On the other hand, like I had mentioned in my commentary, the AI-led initiatives are also creating a lot of mid-to-large growing opportunities. Many of these are more like land and expand opportunities where you start with either AI foundation, which is governance and security and compliance kind of projects or with some use cases or in some cases, Service-as-a-Software, which is transforming SaaS to non-SaaS build kind of modules.

Many of these opportunities, while small today, have a phenomenal opportunity of expanding into these accounts as we go in. But the number of net new AI opportunities that are popping up in our pipeline is consistently increasing. So, I believe the AI-led demand as customers look to upgrade their systems and adopt more and more technology is going to be an important factor in the demand cycle as we go forward.

As far as the Middle East business is concerned, you're right. Like I had mentioned earlier in the previous question, we did close a large Healthcare deal in Q1, and we actually have a few more large Healthcare deals in our pipe, which we should close very soon. Most of these have already started. They've planned to ramp-up immediately.

Having said that, as you know, in the last couple of weeks, the environment has again become a little volatile. So, we are closely observing and discussing with our clients. The current signals is they want to continue to start and ramp-up those businesses.

As these projects that we have already won ramp-up, we believe that Middle East should at least stay flat and depending on how the macroeconomics works out or the geopolitical situation works out. If we get more stability, we have a strong pipe, which is very close to signature and ramp-up. So, if things stabilize, we should be able to actually move back to growth in Middle East.

From a margin standpoint, which was the third question that I had noted, you're right, the current quarter, like I said, it has been a very uncertain quarter where at various points of time, we believe that we are out of the crisis, and we should be back to business as normal, and we were holding a certain amount of bench.

But the ramp-ups have been slower than our anticipation, which led to those bench costs impacting our overall margin as well as some of the slowdown in collections in some of our customers, which had a onetime impact in the quarter, which we believe we'll be able to reverse as we go forward down the year.

On the North America business, there is a business certain kind of size and scale that we will have to reach to. So, as we start reaching close to $28 million to $30 million a quarter run rate is where we believe the North America business will start delivering healthy margins of somewhere around mid-teens.

Again, it's a strategic market for us. We are well invested in terms of our sales and marketing. And with the growing opportunities in AI, specifically AI transformation in healthcare, we believe it's a good opportunity and staying invested should deliver us healthy results in the long term.

Amit Chandra: Okay. And like Umang, on the AI deals that we have announced, so it's encouraging to see that the AI order book is also improving significantly and the deal size is also increasing in terms of the AI deals. So, how is the sales approach there? Are these deals coming from existing accounts, or these are totally net new engagements?

Umang Nahata: So, the AI deals are both, Amit. As far as existing customers are concerned, there is a very active campaign that we are running across all of our installed base customers, having significant AI discussions. We've also created an internal maturity model where we rate customers from Level 0 to Level 5, depending on where their AI need and maturity is.

And based on that assessment, we are also working with them on the kind of roadmap or path or solution that they could take into. We've done that across a large number of our existing customers, and we continue to cover all of our customers in the next 90 to 180 days.

As we do that kind of discovery, these are resulting into various AI projects, which are of different shapes and nature, like I said, starting from foundation stuff like governance and security and compliance and roadmap to more mid-tier stuff in terms of adoption of AI and technology for SDLC or testing or managed services to pretty advanced stuff in terms of looking at AI transformation enterprise-wide.

So that's the pitch that we are looking at in existing customers, and there have been some wins across all the three segments in our business, and we continue to see pipe there. There's a similar exercise that is also running for net new businesses. These are closely aligned to our Oracle, Salesforce, Snowflake, Databricks relationships, where we are using the AI components within those tools to deliver net new businesses, which have a significant portion of AI transformation aligned in those projects that we are delivering.

The third part of the business that we are aggressively going after is trying to be the champion challenger in customers. Like I said in the previous question, there are many customers who are evaluating new partners who could offer more or better pricing competitiveness as compared to their existing large vendors.

And we are calling that AI for tech, but that's the third stream where we are aggressively competing in new accounts, trying to be the champion challenger and turn it around into large deal for us. So, all the three motions are very active and on, and I'll also share more details on how are we preparing ourselves internally at the end of the call.

Moderator: Our next question comes from the line of Sushovon from Anand Rathi Shares and Stockbrokers Limited.

Sushovon: Just two questions, one for Umang, one for Deepak. Umang, just wanted to understand what has changed so significantly in this quarter versus last quarter? Because I think last quarter, the commentary was quite subdued. But now I believe, as you said, the demand environment, you are seeing significant positives despite whatever is happening in the Middle East. Could you possibly give us some flavour on that? What exactly are you seeing as a change either from pricing or a volume perspective, if you could provide that? And Deepak, just would want to have the EBITDA margin bridge between Q4 and Q1 because the currency also would have played an impact. So, these are the 2 questions from my side.

Umang Nahata: Sushovon, I would say the business is trending in the similar direction that we had seen in Q4. While there's been continuous more demand, but it's not drastically changed from where we were in Q4. Like we had presented in Q4 also, our 12-month order backlog was consistently growing and which continues to happen now also. So, we are executing on that 12-month order backlog or the order book that we had executed over the last 3 or 4 quarters is getting into execution stage. So that's one part of the commentary.

The second part is, like I said, the demand in general across sectors continues to see good positive traction. Like I had explained earlier, our U.K. business – Healthcare, we've always maintained that the demand potential that we are seeing is phenomenal. And we believe in the mid-to-long term, the U.K. Healthcare business has a very strong opportunity to grow sizably.

The public sector business, like I had said and I maintain is a more stable business today. It is also going through the political changes, and therefore, we are closely monitoring it. So those are two core businesses of ours. The third business, which is the Financial Services sector in U.K., again we saw some good wins earlier in Q4. We are now into execution, and on the back of those learnings and execution, we are also going after and trying to compete into net new opportunities in that sector.

North America, definitely, the wins that we've had in Q1, the large deal win is a good indicator and creates a strong positive upbeat for us as we go forward. But this is not just this quarter, North America order book that we have been saying for the last 3 quarters, we've been having a good turnaround in our order book in North America.

And we believe as we start ramping up these order books as well as managing the old projects which we were ramping down, the difference between the two. As we get into H2, we should be looking at turning around Mastek's North America business also.

The AI initiatives are definitely picking up more and more. So that's one area that has changed between Q4 and Q1. And I think it is continuously going to change and expand. Like I had explained in the previous question, these are coming from a variety of opportunities across all sectors of customers whether existing or new and across all geographies.

Deepak Kedia: Sushovon, I can take the next part of the question, which is around EBITDA margin. Again, a good pick by you. You never fail to miss out on things like this. So, our EBITDA, as I was mentioning earlier in my narrative that we did have impact because of Middle East where certain collections got delayed and even some of the unbilled, we were not able to invoice because of unavailability of the client.

So, we had some provision for doubtful impact during the quarter. We had certain mix change as well as some regulatory costs in the U.K., which got offset by the cost efficiency as well as the currency tailwind, which we had in the quarter.

Sushovon: My only submission here is with this new cost, which is going to come on account of ESOP, what do you think will be the steady state EBITDA and EBIT margin for the company? Because I think now, we are at 15.4%. So, do you think for the full year, it will be lesser than that because this itself will be, I think, 25 bps impact, right? So just wanted to get your views on that. What do you think would be the steady-state margin as such? End state, let's put it that way, if possible.

Deepak Kedia: Okay. Sushovon, a couple of things, and I'll kind of give a little bit of narrative and then Umang can chime in over here. I believe there are a couple of impacts over here. As you rightly pointed out, ESOP is one area where we definitely will have some impact and that will rather reduce our EBITDA for the year.

Secondly, we also have increment planned in Q2. So Q2 margin definitely will be a bit impacted because of that. However, for the full year basis, while we'll not be able to provide any guidance at this point in time, but we are definitely working on internal cost efficiencies to basically mitigate a significant portion of the impact.

Umang Nahata: So Sushovon, just to add to that, especially on the ESOP cost, and as we have been saying, we are building Mastek towards a transformation organization and some long-term shifts. ESOP is a very critical part of that, and many of you guys as analysts and advisers and investors have also recommended us that. We believe creating a long-term impact also requires a good long-term team, which is aligned to the same goals and values and outcomes.

Having said that, the ESOP cost currently is an additional cost to where our current EBITDA situation is. And like Deepak rightly pointed out, it will have some impact on our steady-state EBITDA performance for this year. But in the long run, we should be able to deliver much better as we have stability of leadership and employees in the organization.

Moderator: Our next question comes from the line of Devang Bhatt with Spark PWM.

Devang Bhatt: So, since we are now seeing good traction in order book and that is materializing in our revenues and our North America deal wins are also healthy. So, from now onwards, can we see a Q-o-Q improvement continuing that we are seeing in Q4 to Q1? Or are there any headwinds that you are seeing apart from Middle East that will hamper our growth in the near term?

Umang Nahata: Devang, like you rightly said, the order book momentum, both in U.K., U.S. is positive. We are quite comfortable and confident that our U.K. business will continue to deliver good growth and momentum as it has been. The North America business, like I've been saying, while we have good order book tailwinds on our side, including a large deal, there is also the nature of the business had a lot of projects in it, and therefore, there's also a continuous ramp down on certain parts of the business that we are dealing with.

I believe, and this is what I mentioned earlier, we will take at least H2 of this year. So, we have had 3 good quarters. I think we will need 1 or 2 more good quarters, including shaping the kind of business that we do. So, by H2 is where we believe North America should turn itself into a growth engine.

The headwinds, if you ask, Middle East definitely is in a little state of uncertainty. Like I had mentioned earlier, while we have a strong pipe, but the deal closures are uncertain given the political turmoil that the region is in. As far as the other headwind that we are consistently looking at is this AI-led competition that we see in both existing and new customers.

So, while we are going after and competing on net new accounts and customers and trying to win, we are also consistently trying to protect our turf on existing customers where we are getting challenged by incumbents who come and challenge us on our turf. So that's the key headwind that we have to manage as we move forward.

Devang Bhatt: But is this current trajectory in Q1, is that feasible at least from H2 onwards? Or we'll still see some headwinds continuing going forward?

Umang Nahata: Devang, like I just said, we believe our FY27 performance should be better than FY26. So that's the direction of travel that we have seen. The backlog that you see is a good indicator of where we believe the direction of travel is. Having said that, we generally don't give guidance.

But I'm also giving you a little bit of caution in terms of Middle East, and we will have to make sure that we consistently are able to protect our turf in our existing accounts. We're quite confident that there will be new net new that will keep coming in. Directionally, we feel comfortable that we are going in the right direction.

Moderator: As there are no further questions from the participants, I would like to hand the conference over to the management for the closing remarks. Thank you, and over to you, team.

Umang Nahata: Pratik, thank you. Before I make a quick closing remarks to all of you, there's one important update that I also wanted to share in terms of the direction of travel that we are taking. While AI transformation is key, and we are doing it for our clients, and we are trying to steer Mastek into an AI transformation company in our chosen verticals. We are also going through a significant internal transformation.

As we had mentioned earlier, last year was a transformation on our delivery on our technology front where we were upgrading ourselves to deliver technology efficiencies to execute against the growing demand of productivity in the market. We are now going through a phase where we are running a business transformation within Mastek.

This is going to transform, and we have taken Mastek as Customer Zero and executing a significant AI-led business transformation within the organization. It starts from Service-as-a-Software where we have already replaced some of our core systems of records, including our CRM system, our recruitment systems, our payables, etcetera, by a new AI native developed solution, which is much more of a system of intelligence.

And these systems transformation are not just delivering a newer system but are much more directed towards delivering business outcomes internally, whether it is improvement in our recruitment cycle times, whether it is improvement in our win predictabilities, whether it is cost efficiencies in our G&A spend, etcetera.

These transformations, which is more like a Service-as-a-Software transformations are not only creating positive impact internally in the organization. These are also case studies that equally allow us to share our experiences with our clients and hence, building Mastek into a full-stack transformation organization.

At the same breadth, there's a phenomenal investment in terms of transforming our resources from engineering resources to forward deployed engineering resources, a lot of our domain consultants to forward deployed domain consultants kind of organization. In fact, some of these deployments have already become a part of our project that we are executing.

And as a part of skill matrix change, you will see a significant change in terms of the kind of resources that we have. So, a large portion of the resources will become FDEs and FDDCs as we go forward. This journey of transforming Mastek from an engineering powerhouse to a transformation powerhouse is what we are really all in for. And we look forward to keep updating you on those changes.

Thank you overall for asking your questions, and we look forward to these continued interactions over the quarter and in Q2. Thank you.

Deepak Kedia: Thank you, everyone.

Moderator: Thank you so much, sir. Ladies and gentlemen, 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.