

SEC/85/2019-20

February 18, 2020

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Dear Sir(s)/Ma'am(s),

Sub: Earning Conference Call Transcript – Q3

With reference to our Letter No. SEC/73/2019-20 dated January 20, 2020, please find enclosed the Transcript in respect to the Earnings Conference Call on the Financial performance of the Company for the third quarter & nine months ended December 31, 2019 held on Tuesday, January 28, 2020 at 3.30 p.m.

The Transcript of the conference call can also be accessed at the website of the Company.

Request you to take note of the above.

Thanking you,

Yours Faithfully,
For Mastek Limited



Dinesh Kalani
Company Secretary

Encl: AA



“Mastek Limited Q3 FY20 Earnings Conference Call”

January 28, 2020



**MANAGEMENT: MR. JOHN OWEN – GROUP CEO, MASTEK
MR. ABHISHEK SINGH – GROUP CFO, MASTEK
LIMITED**

MODERATOR: MS. ASHA GUPTA, CHRISTENSEN IR

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY20 Earnings Conference Call of Mastek Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you, and over to you.

Asha Gupta: Thank you Stanford. Good afternoon to all of you and thanks for joining Q3 FY20 results of Mastek. The results and presentation have already been mailed to you and you can view that on our website - www.mastek.com.

To take us through the results today and to answer your questions, we have the top management of Mastek, represented by Mr. John Owen -- Group CEO and Mr. Abhishek Singh -- Group CFO. Mr. John will start the call with brief overview of the quarter gone past which will be followed by Mr. Abhishek who will be going into detailed financials. We will then take the Q&A session.

I would like to remind you that everything that is said on this call that reflects any outlook for the future or which can be construed as forward-looking 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 report that you can find on our website.

With that said I would now like to hand over the call to Mr. John. Over to you, sir.

John Owen: Thanks Asha. Welcome and thank you for joining our earnings call for Q3 Fiscal 2020. Let me start by wishing you a happy new year and welcoming you to the new decade of 2020, one which I hope deliver success for us all, but you forgive me for specifically thinking about Mastek and I hope we start to deliver on the true potential as we come to the end of phase of our Vision 2020, which it seems to have come around rather quickly from when I started 3.5 years ago.

On reflection, CY2019 was a tough year for Mastek and to be candid, we did not make the progress we had wished or planned for however, as the military say, "if it does not kill you, it must make you stronger" and that's how I look at this period of trading. I think we are a lot stronger, more resilient organization.

In our core market of the UK which accounts for 75% of our revenue, we were once again impacted significantly by the political uncertainty of Brexit which has been the major shadow and headwind for the UK economy throughout 2019. Our other major exposure is the retail market and that has also been challenging in both the US and the UK.

For us, Q3 was dominated by the UK general election and when we spoke on our last call the real-time news hit the wires that Boris Johnson had secured a deal with the European Union and the uncertainty and inertia of issue was over. That euphoria unfortunately was short lived and

gave way to a week later to more political indecision, which culminated in a general election which effectively closed down the government machinery for 6 weeks into December. Irrespective of the politics, a decisive win for Boris Johnson has effectively stabilized which, being cautiously optimistic, should now create some welcome tailwinds for Mastek through 2020 and get us back to our growth that we were enjoying in the earlier years.

So, when we layer in Q3 being, first of all it was a seasonally softer quarter across the market; Two, the impact of the UK being focused on politics and not economics; Three, we have the usual holiday shutdowns particularly in our major account of the Home Office which is a massive revenue generator for us and also you layer in the US retailers focused on Black Friday to Christmas trading window, not actually doing new initiatives and the fact that our new leadership teams in both the UK and the US was settling in. Therefore, Q3 should be seen as a turning point for Mastek and although the quarter-on-quarter revenue in constant currency declined 4%, primarily driven by poor performance from the US however, a stronger UK performance and a favorable exchange rate enabled the Group to deliver a flat revenue in rupee terms. This performance hopefully once again demonstrates that we have strong operational control levers to mitigate external events that hit us. I should also note that the favorable exchange rate from the UK should yield better financial returns for Mastek in the future given our significant UK business mix. However, our core focus is to grow in constant currency in every market as the new teams establish themselves and convert the pipeline into orders, orders into revenue. This same visibility, our core fundamentals and the improved goal controls give me the confidence that the Group will return to growth for the fourth quarter and maintain that trajectory into FY21, with not only a more resilient business but a more experienced and balanced leadership team.

I described last quarter as, a lot of hard work and good work, to essentially standstill and it was rare for me to be pleased with the flat growth but I hopefully have shared the drivers behind some of that underlying decision-making and I hope you can see now that it allows us to manage the business in a more controlled way and we can control events better. What we have to focus on now is accelerating our top line.

Our UK market delivered a modest growth of 1.4% in constant currency. So, when you layer in the facts of the holiday shutdown in our biggest contract, the Home Office, the retail softness and government essentially shutting down through most of the quarter I am pleased we have stabilized the UK and it should be seen as a fantastic platform for sustainable, profitable growth.

As I indicated earlier, unfortunately our US business continues to struggle to break out of its core customer and capability set which accounts for the 6% decline YoY. That being said, I am confident that our internal transformation in the US will deliver the growth in Q4, and again, that will flow into FY21 as we see the benefits of that increased sales investment and more technology partnerships which effectively extends our reach and coverage into the market. We expect our first win for Headless Architecture Contract in Q4 and that is through a new channel and that is going to be a new revenue stream for Mastek.

India has been a real struggle in Q3 where we have been impacted in the near-term by what feels like a perfect storm. Although India is small in our overall exposure unfortunately our largest historic customer, Cox & Kings went bankrupt which impacted both our cash and revenue and we also continue to incur financial losses, as we exit with grace our Indian government contracts those liabilities should roll off the balance sheet over the next 12 to 18 months.

So, without labouring the point with the soft revenue performance and some external factors hitting profitability, I am pleased and encouraged that we have been able to protect our earnings quality and deliver an improvement which again provides confidence as we are managing our business better than we have done historically. I know predictability and control has worried many long term Mastek investors where they have historically felt exposed and blindsided by operational downturns. As an external proof point of where we are and our stability and our platform for strategic growth, I am also particularly pleased to share the news that Mastek won the UK IT vendor of the year award for 2019 awarded by the British Computer Society and the Chartered Institute of IT which validates externally our delivery track record is valued by our customers.

So, the start of CY2020 also signals the final chapter of our existing strategy for Mastek, Vision 2020 which will conclude at the end of Q4. Vision 2020 has provided a much needed focus and discipline to grow our business and provide better financial performance and transparency to our investors. Under Vision 2020, when measured over a three year window, I would argue we have strengthened our business in every aspect from revenue, profitability, shareholder returns and cash generation. Under this strategic framework, I have consistently stated that we will dispose non-core assets and reinvest those proceeds into building a cash generative stronger Mastek. That is more strategically relevant to our customers, our investors and our employees, and these are all key stakeholders we need delivered to and for.

I am therefore pleased to report solid progress over Q3 against these two major assets that we have identified and agreed to divest. We have now successfully monetized 60% of our legacy shareholding in Majesco through two tranches of sales, and this program has generated \$24 million of net cash to Mastek. We will continue to divest the balance of our 2 million shares at the appropriate time and the appropriate price, so we completely exit this investment in the near-term.

I also expect to complete the sale of non-core real estate assets within the next few quarters to further strengthen our balance sheet and at the appropriate time reinvest those proceeds into strengthening our business. This activity further strengthens Mastek's financial capacity to execute our inorganic growth strategy and ambitions that we identified in Vision 2020 which is intended to deliver a stronger growth engine and also diversify away from some of the market risks that we have experienced in the last three years, namely predominant UK concentration.

On the strategic agenda, I am also pleased to announce that we have further strengthened our Board of Directors with the appointment of Rajeev Grover as an Independent Director. Rajeev

brings over 30-years of cross-functional leadership experience and particular expertise in Operations and General management from global blue chip organizations such as Hewitt Associates, GE, American Express and PwC. I welcome Rajeev to the Board and look forward to working with him to take Mastek to the next level of scale and performance.

So, in summary, the internal cost out program that we initiated on the back of Q1 performance has enabled us to deliver on our quality of earnings commitments with softer revenue. We quickly realigned our cost structure to the softer revenue outlook and therefore as we have experienced improving marketing conditions in our core markets of the UK, I expect us to return directly to modest growth in Q4. That momentum should continue and return Mastek to our previous growth rates as we enter FY21 and given the improved cost structure and organizational flex and agility, I anticipate that accretive growth will enable us to expand our earnings profile.

I will now hand over to Abhishek who will take you through the financial breakdown and hopefully provide a little more context and then we will be happy to answer your questions.

Abhishek Singh:

Thank you, John. My wishes to everyone on this call. I am going to share the highlights of our performance for this quarter and then focus on the Q&A. We did circulate a deck right ahead of this call so that contains a lot of details. We would not go through the page turn but I will just be focusing on some of the financial highlights.

So, starting with total income, it stood at Rs.253.2 crores for the quarter, just flat QoQ. Operating income stood at Rs.243.7 crores, again flat QoQ; however, it is 4% down in constant currency terms and possibly +7% down YoY, again in constant currency terms.

If I look at my geographies, our business in UK was up QoQ in constant currency terms as John alluded +1% as well as in INR terms. This was despite our largest customer experiencing furlough in the last week of December. It was further exacerbated by the fact that elections happened in UK and that led to the delay in the order closures because UK government goes through what is called as Purdah. Just to explain it, it is the pre-election period in UK, specifically the time between announcement of an election and the formation of the new elected government. In this period central and local governments are constrained from making announcements about any new contracts or initiatives that could be seen to be advantageous to any candidate or parties in the election. So, this basically stops the adjudication of the bids that are in the process, and as a result that had some impact on our order backlog; however, moving forward, that tap has opened and we have seen some positive momentum post-election.

The US market was impacted by the timing of the deal closure and seasonality. We had some of our projects that came to the closure and we expected it to materialize into managed services that got delayed; however, the strategy that we have been pursuing has yielded five new logos in the quarter and we expect that these logos to ramp over a period of time and give us stable performance going forward.

India business as we alluded had some major movement that impacted both the top line as well as bottom line and cash for the organization. Our largest and longest customer relationship in the geography, Cox & Kings, went into bankruptcy. As a result, the revenue for the quarter was impacted, it will be impacted going forward as well. We had to also make provisions for the bad debt on account of that. However, the addition that we have made in the geography by bringing in the new sales head, along with the team has started to show some initial results. We added 3 new logos and specifically in the RPA space which is where we want to build our differentiated capability.

In terms of revenue composition, Application Development as well as Support and Maintenance services line grew significantly. And this correlates with the growth in the Government services vertical that we experienced for the quarter as well as nine months of this financial year.

As outlined earlier, we made provisions for the bad debt on account of Cox & Kings bankruptcy, and impact of that was roughly around Rs.4.5 crores for the quarter. The corresponding number in the prior quarter was around Rs.2 crores.

As we look at operating EBITDA, it stood at around 13.8% for the quarter, a growth of 120 basis points QoQ and 100 basis points YoY. The cost management as well as the operating efficiency initiatives that we have done as well as the right shoring of the cost structure, all of these factors have contributed to this EBITDA improvement which we expect to build upon and use as a lever to invest and grow the business moving forward.

PAT stood at Rs.26 crores in the quarter versus Rs.24.6 crores last quarter, growth of 5.6% QoQ; however, a marginal decline on YoY basis as last year stood at Rs.26.5 crores.

The impact of Purdah is amply visible in our order backlog which stood at Rs.471 crores or GBP 50 million on an aggregate vis-à-vis the prior quarter. Though it is a seasonally weak quarter for us, and in prior years as well, there has been a softness in this quarter; however, this quarter was pronounced on account of the local factors in UK.

In all, we acquired 9 new logos during the quarter and the LTM clientele stood at 143.

Cash and cash equivalents is a very good story. The total cash stood at Rs.435.6 crores on 31st December vis-à-vis Rs.265.5 crores in Q2FY20. Organic cash grew from Rs.265 crores to Rs.322 crores and this was after accounting for the last tranche of TAISTech payout that we made in December 2019 and the dividend that we paid during the quarter gone by; Rs.113 crores came in from the proceeds of Majesco (USA) share, the 2 million shares that we sold before 31st December. And if you had to just draw a parallel, cash as on date would be close to Rs.495 crores because we sold another 1 million shares of Majesco in January 2020.

So, summing up our performance, this was a tough quarter which was impacted by holiday season, which was impacted by the seasonal softness and the furloughs in our major geography accentuated the situation; however, we have steered the business, managed our cost structure

and gotten some kind of stability in our quality of earnings which we look forward to building upon as we get into Q4.

With that, I will hand it back to the floor for question-and-answer. Thank you.

Moderator: Thank you. The first question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: My first question is on the US geography's revenue. So, the revenues have been stable for a few quarters and then this quarter again it went down. So, what was it that specifically contributed to it? Secondly, if I look at the revenues and employee count over there, the employee count has been consistently going down for past 6 -7 quarters. So, what is happening on that front?

John Owen: So, let me pick up the US. I think you are right, it has stabilized, but it could go move plus or minus sort of 10%. I think Q3 has always been a seasonally weak and soft in the US retail market. But I think, to be candid we have not had that breakout that we talked about from the US retail segment. So, we are looking at our strategic options in the US to solidify. So, I think the good thing is it is a solid business but it is not going to be a stellar performer unless we do something to it. So how do we give it a bit of muscle? how do we give it some unique capability? and that is the strategy the team are building.

To your point about headcount, earnings and such like, you are right, we have gradually become a lot more efficient and we have had stable revenue, and now we have got increasing revenue of lower headcount which means we are managing our bench better, we are managing our under deployment. But you are right, strategically as we get an uptick in our order book and our revenue, I expect our headcount to start to grow again from Q4 onwards because it is not sustainable. I think you can get through building and taking your redundant and spare capacity out, and that is what we have done over the last 5, 6 quarters. And in the last two quarters, we have taken layers of management because it is a flatter organization; however, at the end of the day, we have got to put more engineering capacity back in. So, I do expect our headcount to start to pick up in Q4 and Q1. But back to Abhishek's point, that operational discipline has now given us the better of when we get our revenue right, we should be able to control our earnings and expand those and reinvest faster into the business. So, hopefully that answers both the US and the headcount.

Nirmal Bari: Mr. Abhishek did mention that there were some projects which got over. So as against that what are we seeing now? Is there a slack or where do we expect the growth to come from in US?

Abhishek Singh: Nirmal, ours is a project nature work where you do a package software implementation. That is what Oracle Cloud Commerce is about in US. And what happens is once you have implemented, there is a logical conversion of that implementation work into managed services and that is where you get some tail and some stability. So, this is one part that got impacted. Though the project got over, the managed services did not materialize. Now, if we triangulate this with the new logo wins, as I outlined, we have had 5 new logo additions and across all the three quarters, it has

been a steady trend that we have added the logos. So, it is the timing of it that the logos came in a little late, the projects came to closure and it did not convert into managed services. However, from where we stand in the quarter, the wins that we have had should give us an upward trajectory moving forward in US geography.

Nirmal Bari: We had hired some senior management and built an entire team around TAISTech in US. So what would be the cost that we had incurred in TAISTech except for the acquisition cost?

Abhishek Singh: The business has gone through many rounds of churn, Nirmal. I am not sure exactly which cost are you looking for. But if you talk about it over the last nine months of the fiscal year, we have added roughly around \$1.5 million to \$2 million worth of SG&A and this is in particular the senior leadership and the sales leadership both in US and in UK.

Nirmal Bari: Yes. That was what I was referring to. And then this cash that we are sitting on right now, do we have anything on hand because of which we are selling it or is it that the price is good for Majesco and so we had started selling? Secondly, given our experience with TAISTech and with IndigoBlue as well earlier, do you still think that would be the best use of cash to acquire a company rather than do something on our own?

John Owen: I think if you look at the strategic agenda we have got, digital is a growth market, we have got stability and better operational footprint. And we have learnt a lot in three years, we have a very clear strategy that we want to invest in the growth of Mastek and make Mastek a more cash generative business. So, let me be clear. The preference of asset capital allocation is to make the company stronger, give it better coverage and give it more strategic relevance to our customers, our employees and therefore our investors. So, the cash is there allocated for an inorganic strategy. That being said, we have also got a very disciplined view of how we look at what acquisitions we would or would not make. To be clear, they have to fit our operating footprint so we get some synergies. Two, they have to have a cultural fit with us. Three, it has to be accretive in its growth rate. Four, it has to be accretive in its earning capacity and capability. And we looked at lots of companies over the last two years. It is easy to buy a company, but this company has got to be a catalyst to accelerate our growth and make Mastek stronger. Now we have got money, we are not just going to use it. But we have been reviewing what are those strategic elements be it the US, where we are quite narrow that would strengthen and deliver sustainable quality growth. So, we are not here to spend it and let it go. It is about using it to invest in a platform that will make Mastek stronger in the next two to three years.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers.

Nisarg Vakharia: It is heartening to hear that you are reasonably confident on getting back on the growth path in Q4. My question was that how have we managed 13.8% EBITDA margin despite challenges and degrowth across various businesses?

- Abhishek Singh:** Nisarg, there are two parts to it: The first one is obviously the gross margin component of it between the quarters that has had a northward trajectory. And the second component of that has been on the S&M delayering as well as the reinvestment of that back into the business. So, this trend of revenue and the key geographies where we had revenue pressures are not new. We saw the indicators ahead of time. So, we have been working on this one through and through to make that happen. And I would say that it is operating levers, it is workforce management, and it is about repurposing the S&M into where I could get the better returns and not cutting on those S&M because we cannot cut our way to growth.
- Nisarg Vakharia:** So, I am referring to the question because we have not seen these margins even when we were growing at 15%, 20% per annum constant currency. Does this mean and imply that once growth comes back, we will see at least sustainable EBITDA margins of 14% or higher?
- John Owen:** I think we had a very clear strategy when we started it. We will grow into our cost structure. And when you are growing your top line, with respect, you are probably not as focused on your bottom line making that transformation that we talked about. I think when you soften up, you do actually look and we have taken a lot of cost out. But to Abhishek's point, we have not taken cost out at the expense of our strategic agenda. So, we have invested over \$1.5 million in SG&A. That has got to give us a return to growth. How we then deliver our earnings? I think we have got more capacity to either take it to earnings or reinvest quicker in the business. But at least we are managing on both the levers, not just revenue.
- Nisarg Vakharia:** So, 14% EBITDA margin is more or less sustainable at least?
- Abhishek Singh:** We are not going on the numbers. We aspire. I have always been a categorical as a management team that yes, northward trajectory is the requirement and we will work towards it.
- Nisarg Vakharia:** The reason why I keep insisting on this point, Abhishek, is because it is actually very heartening to see your margins inch up despite such challenging times because we have been stuck between 11.5% and 12.5% for a long time. Hence, as investors, we were just hoping that you would sustain these margins, then the earnings will obviously be better.
- Abhishek Singh:** True, that would be our endeavor.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** First question is on the UK business. Sir, now that the Brexit deal is to be done, are there some options that you have seen because we are already one month into the quarter? And if you can throw some more color on the UK scenario, given that the clarity on Brexit seems to be of a higher order at least from what we read out of here in India?
- John Owen:** Time line between cause and effect are not as quick as we would like or you suggest, but I do see two things; one, in the general UK market, I think there is more confidence because we have

clarity, we are leaving the European Union. Now that will throw lots of challenges as we go through the next 12, 18, 24 months. But one, it is going to unlock projects because now Brexit, from a government perspective, they have clarity of what flavor of Brexit they now need to build to. Up until we were exiting, we could have been staying in, there was no program. So, you can see capital and people being reallocated. For example, the Department of Brexit has now been disbanded and those civil servants have now gone back to their departments or the MOD or the Home office or HMRC or wherever and they are going back with money to implement the exit strategy. Secondly, as part of the conservative manifesto, they have also signaled an end to austerity. So, there is more money being spent on public services. So I think there are 3 things that I am optimistic from the UK; one, from a government perspective, they are going to spend more, so they are putting more money into their budget; two, they have got clarity of what Brexit is, so they are now starting to implement it; and three, I think the general economic confidence in the UK is higher than it has probably been for the last 13 to 15 months. So, I am optimistic about the UK and the platform we have got there is stable and is a source for profitable, sustainable growth.

Sarvesh Gupta:

Understood. Second question is with regard to the cash on the balance sheet. So at least, I as an investor, completely agree with the fact that we need to spend on the growth with respect to our return on capital metrics as long as we are getting good bang for the bucks we should go for acquisitions and I think we should definitely do it given the synergies that we can develop, etc. All of that is fine, but given that the cash that we now have in the balance sheet is significantly higher, it has to be a case of either this or that, but we can do buyback and we can also go for the inorganic, I mean, there is cash left for both of them, why it has to be a question of either this or that?

John Owen:

I do not think it is this or that. I am not saying it is either/or. What I am saying is as we review with the Board our capital allocation, it will be what is the best use for the strategic agenda of Mastek and its shareholders. And you are right, it is not either/or. But everything will be reviewed. What I will say is I have not seen many people do an acquisition. Five small ones do not make the same impact as one bigger one. So, I think the time, the risk and the capacity to execute five small ones and then have some cash looks good on a spreadsheet, but I think when you are trying to operationalize and grow in a market that is growing, that may not be the right strategy. But again, we have got a very disciplined process with the Board of how we would go with our acquisitions, what it is going to do and what the returns are going to be, and it will be looked through that filter.

Sarvesh Gupta:

Any range of numbers on the kind of deal that you are looking at in terms of inorganic?

Abhishek Singh:

It is driven by our strategic objective. We have got requirement for assets which drive our digital commerce agenda. We are looking for assets which are going to give us customer acquisition engine that could be of a larger pie. So, I would say at this point of time we have had multiple conversations, and the range is all the way from \$5 million to \$50 million plus. So we are not constrained, but necessarily driving what the business needs.

- Sarvesh Gupta:** Understood. Are we in an advanced stage in any of these possible inorganic opportunities?
- Abhishek Singh:** I tell you what, these deals are never done till they are done, advanced or early stage means nothing, but all I will tell you is we are in continuous conversations and corralling the market for opportunities.
- Moderator:** Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.
- Mohit:** Sir, this is Mohit from Anand Rathi. So, two questions; one is on UK visibility. How much do we have now that we are in Jan end and hopefully the order backlog would have been better compared to what you have reported in December? So, what is your visibility for this year in UK? And second, was there any tax benefit in this quarter or what is your outlook for full year tax rate?
- Abhishek Singh:** To start with UK as a major market, Mohit. Clearly, it was an artificially deflated quarter as far as order backlog is concerned given the effect of purdah as I outlined. So, we have seen some momentum as we came into January, so we feel comfortable about that. But yes, it will build up and that should reflect in the revenues as well. The fact that our largest customers went through furlough means that, that should be an add-back for us as well. So, these are the indicators that tell us the January performance or the January indicators as well as a cleaner quarter from the working days and billing days point of view, both those indicators give us the confidence. And we are building on this further as the government's appetite to spend comes in and our reference ability and our credibility goes horizontal across the departments to land the new logos. We feel fairly comfortable about moving in the right direction as far as UK is concerned.
- Mohit:** So, the furloughs are all over and people are already deployed on these assignments?
- Abhishek Singh:** Yes, it coincides with the holiday season. So, it is essentially your Christmas, New Year phenomena.
- Mohit:** So, what I am asking is in January like as of today, they are already deployed or you are expecting some...?
- Abhishek Singh:** Yes, they are deployed... they are back.
- Mohit:** And how much visibility do we have? Like inflow of orders has significantly improved versus last few quarters because you are guiding for growth in UK after coming off on a low base and then obviously we have been losing employees, total headcount basis over the last 4, 5 quarters?
- Abhishek Singh:** On the employee front, Mohit, I would not say it is losing employees, it is about what I have in the pipeline. As I keep mentioning, RPA is a key agenda. So, what of that can I transform, retrain and redeploy and if not, then I have to repurpose. So, the growth addition is there, the net degrowth is visible QoQ, but again, these are the quarter-end numbers. I am not worried on that

front. As far as fulfillment is concerned, we have got to have the workforce which can support and service the work that is coming our way.

Mohit: So, the saturation thing should come down and utilization because it is at 77%, you are saying negative addition will reverse itself in 4Q, right?

Abhishek Singh: That is a fair point.

Mohit: Lastly, on tax rate. Any one-time benefit this time and what is the tax you are looking at for FY21?

Abhishek Singh: So ETR would be in the same range as we have had all along, Mohit.

Mohit: All along in third quarter or nine months, what should we consider?

Abhishek Singh: Take nine months as a reference.

Moderator: Thank you. The next question is from the line of Akshay Ramnani from Axis Capital. Please go ahead.

Akshay Ramnani: Congratulations on the margin resilience. So, you mentioned that Q3 should be viewed as a turnaround quarter. But when we see the order backlog, it is at 10 quarter low, down about 30% QoQ. So, what is giving us confidence on near-term acceleration? So, furloughs coming back is one of the factor. But apart from this, what are other fundamental factors that you see which will help us accelerate in the near-term and specifically which verticals and geographies would be driving this growth?

Abhishek Singh: Akshay, the order backlog, as I said for the last question, was artificially deflated because the system does not allow you to adjudicate the bids that are in the process or for that matter even renew the contracts that are up for renewal with them. It is that clear. Purdah as a concept is clear. And the first 20-days of the month that we experienced in terms of that coming back into the business or those adjudications happening in our favor, that is what gives us the confidence. These are all the lead indicators that are you winning? yes; the furloughs been over and people have been redeployed? the answer is yes. So, we are basing it on the lead indicators as far as UK is concerned. If I were to just draw parallel for US geography, the logos that we have added are in ramp and that can help us stabilize the business and build on that to drive growth further. So, all of it is based on lead indicators.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum. Please go ahead.

Madhu Babu: Sir, on the UK, any new departments we have entered in this quarter or any potential new departments which we are going to add? And second, on the US, we added some new accounts, right? So, is there multiservice or again it is just project-based work there?

John Owen: There are two things. On the UK, there are no new accounts coming through in this period and that is based on purdah. So, everything is moved to the right on that. But we do aspire and endeavor to get new accounts and basically do what we have done historically which is NHS, build in, grow out. Home Office, build in, grow out. We have now got the MOD, build in, grow out. And we need to replicate that over the next coming quarters. So, I am encouraged with the coverage, I am encouraged with the projects, but we are not announcing anything at this stage. Regarding the US, I think those projects are within the traditional Oracle space with the exception of one, which is a Headless Architecture project and that is with the new channel. And I think that is when you start to build real sort of micro services, and that is how you get a lot more value as a retailer over a standard product. So, there are new capabilities and there are new channels, but we are at the early stages of that.

Madhu Babu: Just on the US, I think the leadership has settled over the last six months. So, do we see that this revenue trajectory improving, because I think US revenues is at a multi-quarter low. The mining initiatives, do we expect it to fructify from second half of next year or how is it going to be?

John Owen: Yes. I think in fairness, when you change your team, it takes time to build to do the transition. What I will say is the changes we have done, we have got more coverage in the market, we have got a healthier pipeline today, and we are going through multiple channels. So, I think, factually, you are correct from a quarter low, but I do expect that to return to growth in Q4. And I think that team and the impact of that team flowing into FY21, it is an improving outlook. That being said, I do not think it is going to be a radical shift. We need to put more strategic assets around that capability. But the team is bedding down, but I think it goes down to that cause and effect, it is not going to be a one quarter impact, but I am clear the actions they are taking are correct and they will yield better results in Q4, Q1 and Q2.

Madhu Babu: One last question from my end. Is there a more write-off expected on the India side?

Abhishek Singh: No, there is a normal course of business, Madhu Babu. But this was exceptional and that we do not expect anything of that nature.

Madhu Babu: Okay. And we said that we are adding some new departments in India. Just if you can brief on that?

Abhishek Singh: Yes, these are logos in the private sector that we have won. They have requirements for robotics process automation and AI space. And that is where we have built some credibility. So, we are building on that as we land the customers through that channel of RPA or that delivery, and then try to expand into the apps dev and app services space. These are essentially your banks, your large cement manufacturers and the utility companies in India.

Moderator: Thank you. The next question is from the line of Ashis Das from Sharekhan. Please go ahead.

Ashis Das: Last concall in Q2, you mentioned about UK offshoring projects and some minimal contribution in Q3 and you mentioned that the incremental revenue will come from Q4. Could you please give some updates on this UK offshoring projects?

John Owen: We are in pilot with three projects in the Government space to offshore non-sensitive data. They are in the pilot. There are another 15 projects that are on the back of that coming in over the next two years. So yes, we are in the pilot phase. Yes, we see visibility. And at the moment, the customer given this is an early insertion to offshoring is just taking sort of baby steps with three projects. What I will say is those three are going well from our perspective, but there is a review on that in the coming quarter, but I do expect that to ramp over the next probably six to eight quarters, and it will become a material contribution to Mastek's revenue line. So, yes, very exciting, but I think it is too early to take it to the bank.

Ashis Das: I can see the margins in UK operations has improved and it is back around 17%. Is this margin sustainable going ahead, because why I am asking, there are stress in UK revenue part, but we have done well in margin execution. So, is it sustainable going ahead?

Abhishek Singh: Yes, the whole endeavor is the efficiency or the improvement initiatives that we have built in have to be sustainable, I mean, you do not expect that to go down. Having said that, as we grow, there would be some timing issues when you have cost of growth or cost of ramp coming in. Barring that, we do not expect any major movement.

Moderator: Thank you. The next question is from the line of Kaushal Dedia from Standard Chartered Bank. Please go ahead.

Kaushal Dedia: Just two questions; one, on this exceptional item in nine months of around Rs. 6.5 crores is entirely the Cox & Kings receivable write-off, if I'm correct?

Abhishek Singh: That is right.

Kaushal Dedia: So, have the receivables been entirely written-off or is there something left now?

Abhishek Singh: Completely written-off.

Kaushal Dedia: Secondly, on the TAISTech acquisition, I heard you were mentioning that some large tranche was paid in December. So, how much was that, if you could give me a rough number?

Abhishek Singh: Just around a million dollar.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

John Owen: Okay. Thank you very much. I think as you can see as difficult market conditions, be it seasonality or some of the election things, what we have got now is control of our cost structure



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and we understand the levers. I think as we are moving forward, yes, we are more optimistic into Q4 and FY21, and it is about layering in cost, not just bringing it all in intelligently. We will invest where we can strengthen the business and we can grow by that strategic breakthrough, particularly in places like the US, and we can build some capacity and capability around our UK business to give us strength. We will also look to diversify. But I think for me coming into the new year, it is with optimism and I think generally, if we get the top line working, everything else will fall in, and that is where the focus is with the team. So, I appreciate your support. I appreciate we did not deliver in Q1, Q2, but I think you have seen us been able to pivot the organization and get it under control and deliver consistency and predictability, this is all now about getting back down to the trajectory of growth that we enjoyed in the first 2.5 to 3 years. So, I thank you very much I appreciate your support and I look forward to meeting you in the quarter.

Moderator:

Thank you very 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.