

SEC/71/2020-21

November 12, 2020

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

Sub: Earnings Conference Call Transcript – Q2

With reference to our Letter No. SEC/58/2020-21 dated October 21, 2020, please find enclosed herewith the call Transcript in respect to the Earnings Conference Call held on the financial performance for the second quarter and half year ended September 30, 2020, on Friday, October 30, 2020.

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

Request you to take the note of the above.

Thanking you,

Yours faithfully,

For Mastek Limited



Dinesh Kalani
Company Secretary



Encl: A/A



Mastek Limited
Q2 FY21 Earnings Conference Call

October 30, 2020



MANAGEMENT: **MR. JOHN OWEN – GROUP CEO, MASTEK**
MR. ABHISHEK SINGH – GROUP CFO, MASTEK
LIMITED
MR. UMANG NAHATA – CO-FOUNDER, EVOSYS

MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day and welcome to Mastek Limited Q2 FY21 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you ma’am.

Asha Gupta: Thanks, Aman. Good afternoon to all of you and thanks for joining Q2 FY21 Earnings Call 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 John Owen – Group CEO, Abhishek Singh – Group CFO and Umang Nahata – Co-Founder of Evosys. John will start the call with brief overview of the quarter gone by which will be followed by Abhishek, who will be going into detailed financials and Umang Nahata, who will share an update on Evosys business. 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 statements must be viewed in conjunction with the risks and uncertainties that we face. This risk 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 now hand over the call to John, over to you sir.

John Owen: Thank you, Asha. And I my welcome to everybody, thank you for joining us to review our Second Quarter Results. As, I said on our last call, our Q1 Results must not be seen as the high watermark for Mastek but, more of a solid and stable base camp to start our journey towards becoming a recognized and valuable mid-cap company. This statement remains true today, especially in the light of our strong Q2 performance. As cricketers, we all know test matches are not won or lost in the first session. However, they can give one team early momentum. It is this momentum that provides confidence to relax and play some shots or if you are the bowling team, then a few early wickets with the new ball, and then you can adopt a much more attacking field.

Momentum is also key in a services business and this analogy also runs true for Mastek. Momentum gives us the confidence to accelerate our investment in building the company for a brighter future. Our confidence is rooted in demonstrating strong revenue growth across every business units in Mastek both in Q1 and then following it up in Q2. This broad-based performance continued in Q2 and looks set to deliver sequential quarter-on-quarter growth for the balance of this fiscal year. Our organic business grew, our recently acquired Evosys business grew and both delivered sequential growth and we are now delivering accretive growth, through some exciting cross-sell off successes in Europe and the US, which validates our basic hypothesis that one-on-one can exceed three.

So in this context, I sincerely hope you are as encouraged as I am by our Q2 results. Despite my healthy paranoia, we seem to be seen off the dangers of the COVID new ball and we are now settling into building the big innings. To be clear, please don't see these results in isolation as a record quarter for Mastek but more in the context of our ambition to be a solid mid-cap performer.

Since we started our journey four years ago, we've delivered impressive revenue growth of 34% compound annual growth and equally earnings at 60%. Much to be proud of however, the opportunity in front of us is much, much bigger than these short-term achievements. In cricketing parlance once you get to 50, don't give your wicket away cheaply, rather refocus get your head down and go on and get a big 100 and that's exactly the same for Mastek.

Today, we operate in a growing market fueled by Cloud disruption; we have good traction, good capability, and a strong reputation and proven ability to successfully compete in our selected verticals of UK Government and Health. Now with the addition of ERP client capabilities through Evosys, we now have access to a global repeatable enterprise mid-market. These accounts have traditionally been underserved by the traditional Tier-1 Sis, who tend to concentrate their resources on the more prestigious Fortune 1,000 global corporations.

Despite the constant shadow of COVID throughout the year, we've executed our plans fantastically well for which I'm incredibly proud of, and grateful to, everyone at Mastek. We have a great team, and we operate in a demanding and dynamic market, which is a huge source of optimism and energy for our continued growth. Since moving 100% of our organization to work from home in March this year, we've maintained our high productivity and quality levels, which is appreciated and respected by our customers. This also includes our secure government contracts, where we have to innovate with the customer to ensure security standards can be protected, even though we do not currently go into a government office, or work on a government provided computer. Certainly necessity is the mother of invention and is driving a more pragmatic adoption of new operating models, and we are at the forefront of these efforts with our customers.

Consequently, under the very high likely event of a second Covid spikes and future restrictive lockdowns in many of our markets, we do not see the need, nor the desire to move back to an office based delivery model yet. We have proven our business model is resilient, and we remain confident we can sustain our growth agenda, despite Covid and the many operational constraints and challenges it presents.

If you remember, we worked to ensure that the impact of Covid was shallower on Mastek and our recovery faster than many of our peers. We've been delivered to this plan, that the most severe impacts of Covid would be front end loaded into the first half of fiscal'21. Stability, hopefully coming around Q3, with gradual market improvement in Q4. We stand by this hypothesis and probably feel the market has actually been more robust than we had predicted,

particularly where we repurposed SG&A investment into the UK Government, the Health and the Evosys business areas.

I am therefore, pleased to report that we have now fully rebalanced our business to realign our capacity with the new adopted demand curve. Today, in contrast to where we started Q1, we are once again actively recruiting new Mastekeers to service our projected growth. As an example, we have recruited about 150 graduates in the first half, and we will recruit another 200+ as we accelerate in the second half. Although we will remain vigilant on the impact of Covid, we are now signaling a clear change in focus from cut & grow towards an invest & grow strategy for the balance of fiscal'21. Our objective is to accelerate our growth and take that momentum into a stronger fiscal'22.

This confidence to shift up the gears is based on our encouraging lead indicators such as order bookings and accretive pipeline gives us a much-improved forward-looking visibility into the market better than we've seen for some time. I appreciate we may look at the market through a distorted Mastek lens, but we do see good resilience and sustainable growth, particularly in our targeted growth segments of UK Government, Health and the ERP cloud. The US remains a challenging market, but we again grew 6.5% quarter-on-quarter and see a steady road to recovery and that will be the focus for the next few quarters. We are acknowledging now that we need a stronger US business to meet our strategic goals and we must build more critical mass in that region which we will.

Focusing in on Q2, we delivered a robust performance on many metrics, which is our source of confidence and underpins our comments on momentum. We again strengthened our customer base to 542 with 37 new customer wins during the quarter. In simple terms, our growth strategy remains land and expand. However, now we have real depth and quality behind each initiative.

Today, we have the makings of an exciting, repeatable customer acquisition engine in Evosys, at the front end of Mastek's proven capability to retain and expand customer relationships. This performance enables us to build a broader, stronger, and more diversified customer base. These wins also include major new account insertions with UK Government departments such as HMRC, that's the Revenue and Customs; and Public Health England that many of you are aware we incubated over the last 18 months. These government pilots must now convert into multimillion pound growth programmes and replicate the previous expansions we successfully executed with the likes of the NHS, the Home Office and the Ministry of Defense. There is certainly a strong pipeline to support these aspirations and irrespective of how Brexit rolls out over the next few months, our current business outlook for the next few quarters should be insulated from the political volatility and rhetoric. We deliver critical national infrastructure, and this is not treated as discretionary spend.

We continued our success on cross-sell with some significant wins in Europe, which further validates the strategic value of merging Evosys and Mastek. Acquisitions can often bring distraction, and we've talked about one-on-one equaling one and a half. But, I'm pleased to

report our pragmatic and disciplined approach to market integration by retaining dedicated sales records in column 1 (Mastek Organic) and column 3 (Evosys cloud migrations) has brought clarity, accountability and delivered strong organic growth. To maintain this focus and also exploit the huge opportunity we are experiencing from the emerging markets in column 2, we are now investing further in dedicated teams to exclusively expand this segment. This model is repeatable, scalable, and enjoys strong pull factors from the market. For our customers, it brings a broader range of capabilities from a proven Next Generation Services company to help them deliver their enterprise digital transformation. Covid has been a massive stimulus for many companies to upgrade their technology estate to enable remote, secure and fully integrated operations and unify their digital assets. This is where Mastek is seen as a fresh face to drive change and not protect the status quo.

Moving forward, order bookings were strong at \$77.5 million, which represents a strong book to bill ratio of 1.4 and our order backlog grew 23%, all signs of a healthy outlook and primarily driven by the expected growth from our targeted segments of UK Government, Health and the cloud ERP migrations.

To give some additional granularity and comparator, our Evosys business also recorded a strong order performance which represented 60% growth year-on-year. In addition, their average order value continues to increase as they benefit from being part of a larger organization. We're also seeing a healthy trend towards being trusted with more complex and larger projects. This is another indication of the momentum we discussed.

Our second half pipeline in UK Government, Health and Evosys remains robust and validates our decision to repurpose sales efforts into those areas at the end of Q4 fiscal'20 as part of our Covid cut & grow plan. It's also worth noting that a couple of game changing projects out of the UK Government segment moved into the second half adjudication, due to delays in procedural issues.

I am particularly pleased with the momentum we've maintained in our revenue line where many peers declined in Q1, we delivered a very solid growth rate of 12%, and we've now followed that up in Q2 with another impressive growth of 5.3% quarter-on-quarter in constant currency. This includes successes in organic businesses in the UK and the US as well as the Evosys side of the business, reporting revenues of \$55 million, or 56% up in year-on-year terms.

Revenue growth has also allowed us to leverage our cost base better, which has resulted in an 80 basis point improvement in our EBITDA levels to 21.9%. Like most companies we've significantly benefited in quarter from non-recurring cost benefits from reduced travel and living expenses due to the lockdown, however, our underlying trend for margin improvement plans remains on track.

For sustaining this performance, I would like to formally acknowledge and thank every Mastekeer's for their professionalism, their dedication and their enthusiasm, which are all

fundamental characteristics behind winning teams. While we recognize and thank our loyal Mastekeepers who have supported our business, while we have been operating work from home, it's also vital they materially share in the success when the company performs. Therefore, I'm pleased to confirm to them, that we will be reinstating their annual pay review for fiscal'21 which will be effective from October 1st this year.

Strategically and specific to Mastek, I'm particularly excited by the increase in offshoring dialogue we have seen from our customers. Certainly the UK Government is trying to square the circle of an increase in demand for digital solutions, offset with the significant reduction in budgets as the UK Government look at all ways to fund their Covid support plans. This represents a perfect storm for trusted and reliable partners such as Mastek to access additional capacity at lower cost by blending onshore and offshore delivery teams. Hopefully, this opportunity will develop as it differentiates Mastek from many existing suppliers.

So in summary, I'm pleased with our performance through the Covid impacted quarters. The acquisition and the integration of Evosys has been well-managed to date and has not been a distraction to our organic business, and actually provides a strong stimulus for a more concerted cross-sell initiative. We are taking strong momentum from the first half into the second half, which we anticipate will deliver better results and not only deliver our fifth consecutive year of revenue growth, a milestone that will pass in Q3, but more importantly lays the foundations that propel us into fiscal'22 and helps establish Mastek as a recognized, respected and credible mid-cap company. This momentum and competence is also reflected in the Board's proposed interim dividend at 110%.

Abhishek will now take us through the financial breakdown to provide more context and then Umang will walk us through the Oracle services business and how we align with Oracle after which we will be happy to answer your questions. Abhishek over to you.

Abhishek Singh:

Thank you, John. Warm welcome to everyone on this call. I'm going to share with you the highlights of our performance for the quarter and half year ended 30th September. The deck circulated ahead of this call contains all the financial details that you may have a look at. I like to start with a comment that this result of Q2 is a testament of our business resilience, the committed workforce that we have and the trusting clientele that we enjoy, it has driven the stellar performance and I'm happy to report an all-round growth on all the leading and lag indicators of financial performance for this quarter.

This quarter marks the crossing of a significant milestone for Mastek. We reported the highest ever quarterly revenues in the history of Mastek at \$55 million in the quarterly revenue. The same could be said about our profitability as well, with PAT being at its highest since 2001. The cross-sell and co-sell effort, as John alluded to in his conversation, continues to gain traction. We closed a multimillion, multiyear deal with a leading Design and Consultancy firm in Europe under the joint go to market strategy, for order value being \$7.7 million over three years and the

incumbent was a Tier-I Strategic Integrator, that tells you about the value proposition that we are able to build together as Mastek and Evosys.

Moving from the milestones to the financial highlights for the quarter. If you look at our operating revenue, it stood at Rs 409.7 crore vis-à-vis Rs 386.1 crore, which is 6.1% growth quarter-on-quarter and 68% year-on-year. It's important to add that this performance is aided by deliveries all around - UK, US and the accelerated growth in the Oracle Services business. Our operating EBITDA is at 21.1% versus 17.6% in Q1, it's an improvement of 348 bps quarter-on-quarter and 936 bps year-on-year. And I would say that this is the cut and grow approach that we had adopted early on has helped us optimize the cost, reorient the resource towards more responsive and profitable side of the business. And as a result, you got the revenue momentum, we have had the cost management and coupled with some of the savings from Covid. The obvious ones on travel, hospitality, marketing expenses and other stuff have catapulted our operating EBITDA to these levels.

Moving on to PAT, it is at Rs 59.1 crore versus Rs 46.6 crore last quarter and that's up 27% quarter-on-quarter and 140% year-on-year. PAT sans minority interest stands at Rs 51 crore versus Rs 40.4 crore. That's also up 26% quarter-on-quarter and 107% year-on-year.

Cash has been a very good story for us for few quarters now. Gross cash stood at Rs 476.4 crore and net cash after debt stands at Rs 223.4 crore versus Rs 174.9 crore of the last quarter. We repaid roughly around \$5 million of debt during the quarter and our total borrowing now stands at \$34.1 million as of 30th September. If we add the proceeds from the Majesco stake sale, which was received late in the October month, then our gross cash is closer to Rs 712 crore and net cash is closer to Rs 460 crore. The free cash flow to net income ratio stood at 145.7% this H1FY21 is again a testament of the focus collection initiative across all the geographies, as we all know the old adage, cash is king.

We want to the customer acquisition that's been a highlight for us for a couple of quarters now. And we continue to build on that, we have added 37 new customers; 7 in Mastek and 30 in Evosys. 4 customers of the list are \$1billion+ in their revenues, and 5 of them are between half a billion to a billion dollar customer. And we tend to track this metrics because it gives you an insight into the IT spend and hence the ability to cross-sell and co sell. If I were to dice this, these 37 new customer acquisitions by verticals, 6 of these customers were in Healthcare space, 5 were in Retail, 5 are in Engineering and Manufacturing, 4 is in Banking and Financial Services, while 3 of them are in Telecom, which gives you an idea of the diverse clientele and then said we are enjoying the cross. In terms of headcount, we stood at 3354 employees for the quarter while we added 80 trainees who went live during the quarter.

From financial highlight, if I were to just add some color to our experiences in the various geographies, starting with nuclear as a geography, we had a good revenue growth trajectory. I would say that this quarter result is probably and arguably the best quarterly results in the last five years. In terms of absolute pound revenues, we grew by 4.8% quarter-on-quarter in constant

currency terms driven by a good traction in public sector, which in itself grew by almost 7% and private sector has remained flat, a reflection of the overall state of the economy and their own state of the business. This quarter has had some very interesting logo additions in healthcare space as well as other departments. We have won large contract from a newly created health department, which is to track and trace and provide the Covid services to the nation in UK. And these additions reinforces the confidence of our customers in Mastek's delivery, in tough times customers tend to look at Mastek for the support, and to kind of ramp-up and shore-up the services that been.

On private sector, it's been a flat quarter, and we're trying to ensure that it's the bottom based on which we can drive and build some growth. However, what is important to note is that we believe the trend that we are experiencing, is driving some offshore traction and again, John alluded to that in his remarks, customer budgets are squeezed, they need to do more out of the same dollar and pound, and to that extent, they are looking at offshore. The other part of it is also the fact that protracted work from home means that customers are comfortable with delivery happening from anywhere. And those are the factors that will help in the offshoring.

We have also been hearing about the no deal Brexit or the impacts of Brexit. And I would like to say that looking at our clientele, looking at their committed budget, I would say we are reasonably insulated. And we'll have to continue to deliver and continue to outperform the customer expectation. The risk of second wave that we are talking about in the geography, again continued work from home is a way to insulate that and whatever happens in the larger environment does impact. But nevertheless, this is a solution for us. And all of these opportunities, all of these rather events in the economy is opening up more of transformational deals in offshore opportunities, which is what is exciting us right now.

If I move my narrative to US geography, the US saw a growth of 6.5% quarter-on-quarter, constant currency growth in terms of revenue, aided by a couple of large customers that we landed, and these are new customers. We are continuing to work from home in the geography. And again, the budgetary constraints that I outlined in the context of UK is far more prevalent in context of US because of the retail customer, the retail focus that we have. And that's driving from protracted inquiry on offshore delivery to help manage their cost and scale faster. The geography also continues to be under risk of client bankruptcies, again retail customers. So, we have a very aggressive and focused approach to cash collection to ensure that there are no such events impacting our business and our cash. With sales team in place, we believe that we'll be moving forward and upward in this geography as we've got traction all around slowly but steadily US will move forward.

Moving on towards the Evosys side of the business – clearly a very stellar revenue performance, services revenue grew in double digit, there's a small portion of licenses revenue that came down, and as a result you're causing overall revenue growth in high single digits. Having said that, the resilience of this business and the Covid impact is very, very palpable. That is all down momentum, both in terms of pipeline as well as order booking and some of the data points were

shared earlier in the call. And one of the major events that we are experiencing is Oracle opening up local data centers in many geographies, including Middle East, which we believe will help accelerate the cloud adoption, so we are hawkishly focused on opportunities arising out of such events. A lot more detail on managed services approach for annuity revenue versus a team for SAP attack, and more will come from Umang shortly.

I'll move forward towards the most interesting part of Majesco stake sale that we landed at \$33.3 million in cash. And that's, now with us, which presents newer opportunities that as a management team we are working on it, what's the optimal way of deploying and what's the best use of that cash. So hopefully, all of these narratives give you a good idea of where the business is and above all, I would like to thank you all for your continued support and interest in Mastek. These are exciting times filled with phenomenal opportunities and we are very, very geared up and excited to land those opportunities.

With that, I'll hand it over to Umang for his comment on the Evosys side of the business and on the cloud phenomena we are experiencing. Over to you Umang, thank you.

Umang Nahata:

Thank you Abhishek, thanks John. Good afternoon everybody. So clearly a very brilliant quarter that we have had as a joint organization and you've heard a lot about it from both John and Abhishek in terms of the various financial and operational and client acquisition parameters. So, the first thing I would do is, I would really want to congratulate all the Evolites and Mastekeepers for this gallant performance. As an organization, we have come a full circle not just in terms of all the business processes that we have to deliver working remotely, while client acquisition was always on. Executing projects remotely, and especially making them move from an on-premise environment to a cloud environment, especially public sector or healthcare customers who are very, onsite focus customers, executing those kinds of projects remotely, did take a lot of change of culture, change of management, change of style and approach, change of IT environmentally that we had and I am happy to report that we had 12 customers who went live in this quarter, which had completed all the cycles and steps that they had in terms of their maturity cycle, and we have 30 new customers who have kicked off their projects. So as you can see, the business is really geared up and evolved to deliver from a remote point of view. And we are constantly evaluating how would our future, model look like. And remote working continues to be a key part of that design.

Going forward, I would also like to share some key insights into the performance of the quarter, the kind of wins that we have had, and the various other activities. And I would also share a little future outlook, in terms of where do we see momentum going forward. On the performance of the quarter we have had really good order booking growth drove at 65% plus growth in the order book, especially highlighted was the order book growth in North America and Europe, both of which clocked 200% plus Y-o-Y growth in the order book that we had in the geographies. The deal sizes is another key highlight that I wanted to bring up. So our average deal sizes are constantly going up and the number of large customers that we are now acquiring is phenomenal. Our average deal size for the 30 customers that we acquired is more than 600,000 US per

customer. And it is constantly going up every quarter, as we see in terms of the orders that we have closed and the 5 that we're dealing with. And the other interesting aspect of our customer wins that he had this quarter was the good spread and in the right verticals. So the verticals that we have good focus on, so while we have good public sector healthcare focus from both Mastek and Evosys, our commercial side of the verticals are really gaining strength in the Oracle side of the business. And I'm sure it will soon follow with the joint sales in those verticals. So we have had 4 good wins in Manufacturing sector, most of them in North America, we have healthcare within US, again, out of private sector, healthcare setups in the US and there are Engineering and Construction wins all across in Europe, as well as in US and Middle East. We've also had a few good Telecom wins in the Middle East that has also supported the transaction. So as you can see, the commercial or non-public sector kind of vertical is also really speeding up in terms of growth. And I'm sure that's a key view that we have as we go forward in terms of diversifying our portfolio from being health care public sector to a little more commercial oriented as we move forward.

One of the other interesting observation that we had in the deals that we won and that is what I want to share with you is, many of these deals are on premise to cloud transformation. In fact, more than 50% of these customers would be customers transforming from there on-premise application to cloud. And in large number of these customers, we will not be in incumbent partner. So the clients are choosing us over the traditional GSI to replace them from on-premise to cloud, this is a brilliant sign, which shows confidence in terms of the next generation wave that we are trying to create, not just from a technology point of view but from a culture and partnership relationship that we want to create with our clients. And that is really good line that we are moving forward with.

I will also take a minute to again talk about the joint win that we had in Europe, with the \$7.7 million transaction over three years, for one of the leading global Engineering and Construction consulting firms spread out globally with offices in Europe, US and other places in the world. I will more talk about why the customers chose us so like Abhishek mentioned, this was a customer dealing with an incumbent partner at Tier-1 incumbent and there are three key things that really made the difference here - one of course when you look at the customers have started looking at us with a fresh new eye of the next generation supplier, Evosys-Mastek combination, which has a super specialized arm in terms of cloud, but also a partner that has a much broader view of services that they can offer, and that's one of the key things that really moved them up. So they could find a partner with specialization, but also can take care of their broader services and needs. The second key aspect is the asset that we have been really building and working on was our on-premise to cloud transformation asset known as Evosys Glide, we are very happy to announce that we will be releasing version 2.4 of Evosys Glide in the coming quarter, with many more automations and innovation in it to taking care of RPA and Chatbot and various other tools. So that the experience of moving from an on-premise environment to a modern cloud environment is much more digital much more visible in terms of the ROI that it provides. Third, last but not the least, is our methodology of looking at value based delivery, we call it VBD in Evosys, it's a philosophy where we really want to deliver outcome to our customers. And we are

happy even to the go, even to put skin in the game on these contracts in terms of an outcome based contracts with our customers. To deliver such kind of contracting, we have built an asset called VBA, we have just released version 6 of our VBA asset. It's an asset that allows us to do benchmarking of their current environment, evaluate the business, ROIs that we could deliver and then constantly not provide inputs to the client in terms of the value that we have provided, hence creating a much more objective model of outcome based contracting that they can sign for. So those are some of the key factors of the quarter that I wanted to highlight.

As we look forward and move forward into the rest of the year and years to come. I think there are two key aspects of our business that are going to be important. First, of course, the growth that Oracle ERP cloud is experiencing. Its Oracle is constantly growing at between 25% to 30%, every quarter. In fact, last quarter the ERP cloud grew more than 30%. So there is a good tailwind behind us in terms of the momentum that Oracle is experiencing as they transform their customers from on premise to cloud. And clearly we have a very strong sweet spot in that market and group. The second, is we've also constantly gaining market share from competition in these accounts, like the example I gave you just before that we are winning many of these accounts out of our competition, which were the existing incumbent traditional GSIs. Our strategy for key continuing to win market share actually relies on three phases, three key pillars again, first and foremost is our ability to verticalize our solutions. Manufacturing is a key vertical, if you're really trying to build on, we've already had good assets and good wins across Manufacturing. We are one of the leading providers for Manufacturing as a vertical for Oracle. And we are investing significantly in this vertical to build far more assets around not just the traditional cloud ERP migration, but also more innovative assets around IoT and other areas that could really digitize the Manufacturing environment that we are working with. So that's one, the second area is the SAP compete market and this is where we think is the sizeable wave of business that we are really going to be able to penetrate. We are an Oracle only partner so we currently as far as our ERP business is concerned, we service only Oracle and as you know Oracle from all reviews of Gartner or all of the other analysts currently leading the way as far as the cloud ERP market is concerned. And this is the time when Oracle has a good chance of really transforming the SAP customers to cloud. As you must have heard SAP did announced their results and their wish of transforming their install base into Cloud and sunseting their ECC environment. And we clearly see a wave with many of these SAP customers are evaluating not just SAP HANA, but also evaluating Oracle Cloud or any of the other cloud platforms as an option. And gaining market share out of SAP is a key part of our strategy. In fact, in this quarter itself, we had a very large telecom customer, a two decade old SAP install base customer migrating lock stock and barrel to Oracle Cloud using our SAP for Glide for SAP program. So we constantly look at investing into the program and we see this is a market where we will become a super specialist also in terms of helping customers migrate from SAP to Oracle Cloud. The third and the last piece of our future business that is going to be important is building a Cloud Managed Services Solution platform. As the cloud solution matures, more and more customers are migrating or moving or stabilizing their business into the cloud, and hence the managed services business in the cloud applications world is also constantly growing. We saw, two large deals already that had multi-million dollar contracts for more than three year managed services that we have won over the

last two quarters, and we see many more deals coming out. What this view of cloud managed services applications would look like, is not just providing a traditional SLA based support, but it is a much more modern, outcome specific environment, which is, not just supporting but constantly delivering enhancements and value for money that the client needs and these are the differentiators that will help us not just continuously win new customers, but also create a lot of stability in terms of repeatable revenue that we will add to our business. So that's the three key pillars of growth and future focus that we're constantly looking at, of course added with our value based delivery model that I spoke about earlier.

Last, but not the least, that I wanted to talk to all of you is around the cross-sell and the integration between Mastek and Evosys, we are moving really well in terms of integrating the two organizations in the right direction, we have already integrated our CRM applications. So we have a single view of our customers and we are able to identify cross-sell opportunities and look at the various potentials that we need to work on. And we are going to migrate many of our other applications in the coming quarters. Also, our sales teams have become much more synchronized over the last eight to nine months, and we have a much clear proposition and offering that we are talking to our customers, they've already had some good wins that we spoke about earlier. And the fight of cross-sell is also constantly building. The other aspect is trying to now invest in a dedicated team for the cross-selling initiative is the mix phenomenon, we have already added a few resources and we are looking at investing much more in terms of this 3 pillar's, which is a dedicated cross-sell team. We already are sitting on a pipe of more than \$30 million and we constantly look at expanding that pipe as we move forward with the dedicated team there and also bringing in many more wins in this year.

The propositions also are quite well aligned. So while we already have a strong proposition around cloud ERP and cloud applications, we are now expanding our cloud proposition to look at various other adjacent areas in terms of cloud infrastructure, migration, cloud application development, cloud security, etc. So, all in all, it's the proposition it's the team, it's the systems, all of them are starting to fall in line. And we clearly are moving towards a direction of making one plus one way more than three. So that's broadly the outlook in terms of where we are heading and look forward to discussing more and sharing or answering to the questions that you guys might have. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashish Aggarwal from Principle AMC. Please go ahead.

Ashish Aggarwal:

Couple of questions from my side, firstly I wanted to understand how sustainable are these margins of 21%, because we have been talking about a 14% to 15% margin band earlier. So how sustainable are these 21% margins going forward. Secondly, the Middle East business just wanted to understand any specific problem we are seeing in Middle East business because that has been a geography where we are seeing a decline, so any specific issues around that. And

may be driven by some large accounts because it looks like that outside top five there was some revenue decline in those customers, thanks.

Abhishek Singh:

Thank you, Ashish. I will take that question and the first one that you have on sustainability of operating EBITDA margins. Now it's a very obvious question for all the IT services firm who are enjoying a lot of cost savings on account of Covid. But I would like to draw your attention to two fundamental facts, rather three. It's not just the Covid savings, which has catapulted our operating EBITDA but also sustained revenue growth. If you look at it, both on organic as well as Evosys side of the business, we have been having a significant, a meaningful growth I would say, while most of the organizations have struggled with Q1 we sustained and then from there we grew and inorganic obviously has grown significantly. So growth gives you the leverage and the other part of it is it's not about what of this is sustainable. But what is the ambition and the ambition here is about growth and I would take a leaf from cognizance philosophy many, many, many years back and they said there is a threshold after which we would like to invest back into the business. And as a management team and our board they're very supportive of the growth ambition, and not just maxing out the EBITDA levels that we have here.

Ashish Aggarwal:

Is there any number we are targeting that beyond this we will go and reinvest in the business?

Abhishek Singh:

Absolutely, high teens has always been our aspiration and clearly we have accelerated to that aided by both organic and inorganic side of the businesses and their expansion. So high EBITDA, high teens is what we like to sustain and use the rest to accelerate, the business. Other part of your question, Ashish was on the Middle East, I would like to qualify here that Middle East, there is no business or operational challenge, so to speak, I had mentioned in my note that services revenue has grown meaningfully, a very high rather. Whereas the license revenue, there is a part of our revenue that comes from licenses as well, and we are consciously looking to kind of minimize it and to that extent and it is a very, very low margin activity. So that has gone down and all of that is in Middle East. That's why you see the Middle East revenues down, but from the sustainable and annuity revenue that we care for, that is not down and there are no challenges in the geography. As a matter of fact, the geography has experienced budget expansions as well.

Ashish Aggarwal:

But it seems like that their customers outside top five has declined between 6 and 10 customers, it seems like have declined on a in this quarter, any specific reason or this is just some of the UK private clients have a problem?

Abhishek Singh:

That's right, the UK private where we had some de-growth, the maximum impact was experienced in this quarter, Ashish.

Moderator:

Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta:

Congratulations to everyone on the Mastek team for delivering a very, very good set of results. Especially the ROE increasing beyond 20%, margins increasing beyond 20%, although it may

taper off. But all these numbers have been very good and heartening to see that all the fruits of the past few years are coming to fruition, all efforts. Now coming to the questions, one is on the macro side given that the situation with regard to lock downs, and Covid scenario is changing very rapidly for the worse, specifically in UK and Europe. So if John can give some color on that side, that is question number one. And secondly now that we have a net cash of almost Rs 500 odd crores and so how do we plan to what are we thinking and are there some specific areas or skill sets that we want to acquire through M&A now that we have, again, reached almost a similar level of net cash that we had when we acquired Evosys few quarters back?

John Owen:

Okay, let me try and give you the lockdown. So, on the businesses it is lock down, as I said, we will continue to grow and we'll continue to deliver so I don't think lock down second peaks will be materially impacting us, because we've already got the operating model working. We see the pipeline, we've got a lot and are a lot of our business now is moving to fixed price from T&M. So, in the short term lockdown doesn't have an impact, in the long term it obviously reduces economic activity and we've done a fantastic job of refactoring into those segments and those verticals that not only are growing but have the ability to pay their bills so, UK Government, Health and the cloud. So the quick answer Sarvesh, is the I don't see locked down having a material impact as a massive human impact and we shouldn't sort of diminish that area, because it is challenging for people, but at the company level, we're managing that challenge. Regarding the net cash, yes we will look at how we allocate capital and where we get the best return for our shareholders. On M&A Yes, we would look to balance out, because the acquisition of Evosys is going well and it's, too early to declare victory. But you just heard Umang a great segment. They've got a great management team and they've integrated that part of Mastek and there's a long term view and fit. Regarding, can we accelerate our growth and fill in some of the gaps that we have, absolutely we will allocate capital to do that. Now, is it organic or inorganic, that's the question at the moment, we're putting some organic investment into the cross-sell, because we're seeing good traction there. We may look at accelerating our inorganic, but it's got to accelerate the strategy which is why the Evosys acquisition is a good, sort of proof point. Can we follow that up, if we were it would be around the momentum in the global market around cloud migration and it would probably have a geographic focus on the US because as I said, that's the area that we want to accelerate. If we're going to be a sustainable, scalable, reliable mid-cap we've got to have a significant, bigger, significant presence in the US. So that way we would allocate the capital, but only if we knew we could operationalize it and generate cash from that.

Moderator:

Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar:

Congratulations on a great quarter. If I make extend, John's cricketing analogy that the environment looks like a flat pitch and you have been batting around. So congrats, again. John, I recall your comments in the previous quarter on the prospects from NHS and the Home Office, looking rather well and possibly executing a hockey stick kind of growth towards the end of this fiscal. If I can request you to just flesh out the outlook that you're seeing today, given how the environment is over there. And what do you make of that?

John Owen: Well, I think if you take a cricketing analogy, you're right, if it's a flat pitch and they are bowling half vollies, hit them. So, the market is very attractive for us, probably because we've got the right portfolio, we've got the right focus on verticals, and we've got the right management team. So, taking that cricketing analogy, it is a flat pitch. But it's amazing how many other people aren't hitting the half vollies that are coming up.

Regarding the NHS, the Home Office, as I said, there are some big projects, what I call game changing projects coming through the pipeline, that will be adjudicated in the second half, because government obviously changed the financial year at the end of March. So, I do think those will be put to contract and they're both in the home office and particularly in the Home Office, and the MOD and the NHS. So those are the three big departments where we have a proven track record. We're engaged in business development with them and what I will say, and I'll segment it if I May, one is we will grow with what we've already got. But can we accelerate the growth and get an inflection point in that, that's what I think the next I'd say 6 to 12 months. That's the opportunity in front of Mastek and it is capitalizing on all the work we've done over the last probably 5 to 10 years of building a reputation for delivery and value for money. I think it's also important to have a.

Baidik Sarkar: Very broadly that you'd like to quantify, what's the new opportunity looking like?

John Owen: If I look at a pipeline, our biggest order value we've had in Mastek is around about 10 to 15 million pounds. We are in a consortium that is hundreds of millions of which the Mastek element is on three projects. Each project is worth about 25 million pounds per annum. It's that order of quantum. Now, I'm not baking that into the plan, we're not resourcing to that. But that is what's in, now I do expect to win one of those, I'd like to win all three. But that I think is to give you an inflection point that where it would come, we will continue to grow at sort of 20% without those projects coming in. So, I don't know if that helps sort of explain the trajectory.

Baidik Sarkar: Well, that's interesting thanks very much. Abhishek bookkeeping question on the minority interest, part of the business, was the first tranche of the balance 30% stake reversals due this September and how should we look at reduction in minority interest in the next couple of years?

Abhishek Singh: First one is due September next year, nothing has happened till date.

Baidik Sarkar: Sorry, are you saying the first installment is due September next year, and not this year?

Abhishek Singh: That's right.

Baidik Sarkar: Alright sure. And I had few questions for Umang, but he has answered most of them in his opening comment, except what's the recurring portion of the services component revenue in the Evosys? I'm sorry if I have missed this number in his opening remark.

Umang Nahata: Currently, the support services account for around 30%, give or take 1% or 2%. And our ambition is to move that 50% in the next two to three years.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan investments. Please go ahead.

Sachin Kasera: Congrats to the entire Mastek team for delivering a very good set of numbers. Just two, three question. One on Middle East, basically you mentioned that you have moved the business little bit and now you're looking more of less of licensing and that's why there is revenue dip while the margin is expanded. So is the reset has happened? or this could happen again before we settle in normal?

John Owen: I was going to say, I didn't pick up the whole question. But if I give you what our Middle East is, if I miss something Abhishek will fill in the gaps. But the Middle East is about driving stability and profitability. It's about getting cash generation out of that region because it has the ability to absorb working capital and we want to basically turn our cash over quickly. But it is also an area where we innovate. So we talked about the SAP opportunity, which is massive, not just for Oracle, but also for Mastek and Evosys to actually support that and stimulate that growth. That capability was built out of the Middle East, so it also has the ability to innovate as a region. So the other element is, as Oracle particularly put their hosting centers into the Middle East, that will also unlock an area that we are very strong in, which is the military public sector in that region. So, I think that market will go from an on-prem to a cloud, because they're hosted within the region. So the Middle East is a growth, but it's about profitable, targeted growth, it's about innovation and exporting that, and it's about making sure that our cash generation is positive.

Sachin Kasera: Sure and when we see the geographical breakup that you have shared in the other segment, we can see a loss of close to around Rs 4 crores. So is there some write off that we have taken in any of the geographies and is it more like a one off and then next quarter we should go off if you could just clarify a bit on Abhishek?

Abhishek Singh: Yes, Sachin it's one-off and it's for one of the government projects here. I just won't repeat in the future.

Sachin Kasera: Sure. And last question on the cash and the acquisition that you talked about. So you mentioned that America is one of the geographies we would like to solidify our position. So are we looking at a significant acquisition maybe in the next three to four quarters to really accelerate the America growth?

John Owen: I think we would. It comes down to what's the best use of capital. And in order to do that, if we said we were doing another acquisition two quarters ago, you'd have thought we were crazy. Basically, on the reaction we had to the Evosys acquisition, over the last three quarters, two and a half quarters, we've proven that we've got the capability to acquire, integrate and operate an acquisition. Now the size of that would be questionable, it would be within what could we

actually consume and again, make sure the momentum is in the business. I think the reverse way of answering it is the market, there is enough in the market for Mastek to grow faster than the market, number one. In order to do that, maybe buying a company that gives us some acceleration factor or rounds out our capability could be attractive if that has the cultural fit that we have with Evosys. And so the team come in with the right construct, the right fit, the right deal structure and it's actually an asset that can amortize our global capability, not just a geography. So, what I will say, it won't be in the UK vertical because that's very much government. It would be in the global mid-market and around cloud migration and if those capabilities could accelerate and we could integrate and it would make good value and give us more momentum, we will deploy the capital.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Just two questions, one is on the integration with Evosys, like what stage we are in? And is there a chance that you guys can also knock off goodwill when the integration is complete?

John Owen: I'll do the integration and I'll let Abhishek to comment on accounting and knocking off goodwill. Operationally very, very well. So we've integrated the back office, and the finance to the facilities that's into a platform we call one Mastek. So we're trying to leverage our fixed costs and have a common look and feel to the organization. That is also going to have some significant investment over the next couple of years because we need to get a more operational digital footprint in our operating model. But that end is already done. We're now working on the people strand, so we're integrating. So we can move our resources around a lot more smoothly. I think, as we talked, Mohit, about the strategy of the mid-market, that's where we will actually want to put in for every dollar, we can amortize that over the global footprint, not just in where we were, historically just into UK or the UK public. And we are integrating sales and marketing but in that very discipline, column one, column two, and column three and column two is where, as Umang said, we're putting new resources and because we don't want to distract column one and column three, and we will grow column two. So integration functionally going well, culturally going really well, everybody feels as part of one team. There's one share price, so we're working collectively. So, I'm really pleased culturally how it is going but that takes leadership from both sides. So, I thank Umang and Rakesh particularly for driving that agenda within Evosys. I'll let Abhishek to comment on the accounting element.

Abhishek Singh: Mohit, I missed your specific question, what was that please?

Mohit Jain: If the integration is going like as planned is there a possibility that you guys can net off the goodwill as well by the end of the year.? Because you have become one company and therefore, you will have that option of doing it?

Abhishek Singh: Okay, I understand your question. Thank you. Now, those two will follow their own independent path Mohit, while integration is about getting all the assets and all the energies aligned to accelerate the growth, accounting will follow its path.

- Mohit Jain:** So that we continue to run in the same way as you're reporting for me?
- Abhishek Singh:** Correct.
- Mohit Jain:** And second Abhishek was on utilization, why was our utilization be down on a Q-o-Q basis with such a strong revenue growth, like is there a pricing which has moved up or what would result into a low utilization for us Q-o-Q?
- Abhishek Singh:** We have added trainees, Mohit, we have now started to add trainees in our organization across Evosys as well as Mastek.
- Mohit Jain:** This utilization is including trainees and your net addition was not much right? It looks like on the revenue per employee basis that our pricing has gone up for some reason, despite offshoring also going up?
- Abhishek Singh:** Yes, pricing has gone up in a couple of accounts. That's there.
- Mohit Jain:** So, now 2Q is at steady state sort of or is there some element of like special projects or something which would reverse back, like how should we take a reference? Like 1Q is a steady state pricing or is it 2Q which is more representative of the steady state prices?
- Abhishek Singh:** These are good representations Mohit, we will add people, you will have some impact on the utilization but overall we have had the impact that we would imagine from the first phase of COVID, both in terms of clientele as well as the size of the business, the revenues as well as payment terms and pricing discounts to include. We have been able to up operate at a place or two as well. So, I would say that this is a good representation of the trend going forward. Let me qualify that.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, we mentioned that we'll go through consortium in UK again for government projects, because actually now we are going mostly on a standalone compared to the earlier model. So how this consortium model and who are the leading vendors in that and would you like to pursue more such kind of deals? And second is whether the furlough impact will be there this time? because some of the IT companies are talking of higher furloughs, your views on that, thanks.
- John Owen:** To answer you are we going through it, we're going through a more blended channel to market. So, to answer the last question, which was from better, or organic growth direct selling will continue to grow in the mid-20s, over the year we are seen as a recognized trusted supplier. And that's a direct sale, we're also when you get into big projects, and I'll use an example of the Ministry of Defense, they also want to build their own supply chain, because defense is subtly different. And it needs to have continuity of supply chain, so it has different criteria. So in that, as an example we've signed up to the military covenant, which means that we will take ex-

service people into our employment, because that's part of the military covenant in the UK, which is if you want to be a supplier to that organizer, or that department you should support those staff as they come out to the military life into a civilian life. And it also gives us huge access to very skilled, both technical people and leadership. However, if you want to do big projects, and we're talking national infrastructure and major supply, yes we're in a consortium with people like Kinetic who is a multi-billion pound company that's got a very strong and deep military background. And just to give you an idea, they came out of DSTL who do all the chemical checking on things like Novichok, which was obviously relevant in the UK. So that just gives us a totally different access to a whole new market. It's not either or it's both if that helps Madhu.

Madhu Babu: Yes, and on the furlough?

John Owen: On the furlough, we don't see furlough impacting. We've probably balanced our business in the UK to be between supply and demand. We're actually looking at bringing on more people in our graduate training. So no furlough, we've reversed everything, we don't forget never say never, but it's not in our plans for the next two to three quarters.

Madhu Babu: No, sir I'm asking whether the December you'll have that shutdown in the last Christmas week, that will impact?

John Owen: Sorry. I think there will be elements of that. I mean Q3 is, as you say, on a T&M basis, there's less billing day. So we will have that, but I think the balance in the portfolio will offset the furlough impacts. So yes, Q3 will have an impact of furlough, but I don't think it will be material on growth. But that would probably give you a stronger Q4, so probably Q2 to Q3 you'd look to modest, flat to modest, Q4, much more accelerated position, but not because of the business because of the furlough impact. I don't know if Abhishek, you want to give a more granular detail to that,

Abhishek Singh: I think John you have covered the aspects. Absolutely, there will be some impact there. Some of the programs go through it every year and to that extent we'll have it Madhu Babu, but that said the order booking that we have done and the acceleration that we have in the business, we endeavor to cover for it, if not more.

Madhu Babu: Just one more if I can. So, last two acquisitions have been on the Oracle side. So we seem to be completely aligned to one platform. So in terms of the next like let us say Azure or Salesforce and all, so how are we placed in those platforms in terms of investments because completely into Oracle as of now, thanks.

John Owen: Okay, if you look at TAISTech and Evosys, they just happened to both to be Oracle, it wasn't a big strategic decision to go with Oracle's number one. And if I look at it, so TAISTech segment in digital commerce, Oracle have lost position in that over the last few years, where if I look at their ERPs, as Umang said, they are absolutely up in the Magic Quadrant, creating massive

leadership and momentum against people like SAP and Workday. And you're right, our acquisitions would be to support that strategy and at the moment, we have enough work coming from the Oracle channel. With the SAP, we need some capability, but I don't think we'd go to market with something like that. But you're right, once we've landed a customer with Oracle, that customer wants to go on a more hybrid cloud ecosystem. So, most of the customers will have Azure in there for that Office 365, they may have some Salesforce, they may be looking at Amazon Web Services. So, we have got that capability and that experience from the UK, that we're expanding into the global footprint. But as far as acquisition is concerned, Madhu, it wouldn't be go to market, it would be more of that capability that helps. I don't think we want to deflect our go to market at the moment.

Moderator: Thank you. The next question is from the line of Pratham Jain from Surana Maloo Family Office. Please go ahead.

Pratham Jain: I wanted to congratulate the management for posting very strong financials. My first question is regarding the net debt Sir. So like the management told that we have paid around \$5 million in debt and we have a lot of net cash. So what are the plans for reducing the debt furthermore?

Abhishek Singh: Thank you. What we mentioned in our respective presentations or conversation that, that is the strategy that we are looking at what's the capital allocation strategy, is this the best way of repaying the debt or should we actually deploy that, given that the cost of debt is very, very minimal, given LIBOR is extremely low at this point of time, as well as onshore, the interest cost is very, very minimal. So it's in the works at this point, and if there are no better alternatives, then obviously, that's the easiest option that we have as management to repay the debt, but it is being worked upon.

Pratham Jain: In consulting business of Mastek, the organic business, sir, the business has been seeing a de-growth for the past three years, sir at a CAGR of 38%. So is the company planning on investing so that this particular segment, see some growth in the future?

Abhishek Singh: By consulting, I would imagine you are referring to the Indigo Blue side of the business. And if that's so, we do want to share that we did restructure that business, wherein just the consulting part of it is reflected there, whereas the delivery of that is mostly done by the other part of the organization. And consulting is not necessarily our foray. It's the sharp end of the spear that opens the account, the agile consulting and intelligence around it, the bigger bet there is the follow-up business that it enables us to bid for and win. So, that's the effect and that's the way we are looking at the effectiveness of that.

Pratham Jain: Okay, sir one last question sir. Sir regarding the promoter holding, sir one year back there were around 57% pledge and now the pledge has become zero. So can we just give some information and why were the pledge created and why the pledge has been revoked now?

- Abhishek Singh:** Thank you for this question. It will help answer questions that many people might have had. Actually, it was never a pledge, it was a technical pledge based on a bank covenant that we had for a debt that we had raised earlier. The new SEBI circular that came in September, October last year, actually made it so and we ensured that we addressed it. So there was never a pledge and now with the interpretation and the revised status of ours, we are out of it.
- Moderator:** Thank you. The next question is from line of Ravi Naredi from the Naredi Investments. Please go ahead.
- Ravi Naredi:** Sir this margin profit after tax 14.3% will be new normal in coming time?
- Abhishek Singh:** Hi Ravi, thanks for your question. We've tried to address it through operating EBITDA percentage, and we were looking at it from a PAT percentage point of view, it is one and the same profitability at any level will flow through. Having said that, our focus is that we will look to reinvest beyond a certain threshold back into the business and accelerate the growth to that extent, for this year it is, there is a visibility, and we have a degree of certainty. Beyond that the way business shapes up, the way some of these costs comes back, whether it's travel, hospitality, meals, entertainment, customer engagement, that will determine it as to where those percentages are. Having said that, we would like to endeavor to grow the business at a rate that we are able to sustain it. But that's on the best effort basis.
- Ravi Naredi:** Right sir. Thank you very much and Sir due to Corona spread in Europe again, how it will impact us in this current quarter?
- Abhishek Singh:** So, Corona impact has been there for now seven months, we have been working from home, 100% of our workforce is working from home and we will continue to do so in the coming times as well, at this point of time we'd like to believe that they will be able to sustain our delivery with the work from home models. And to that extent, we are in a better place.
- Moderator:** Thank you. The next question is from the line of Darshit Shah from Nrivana Capital. Please go ahead.
- Darshit Shah:** Congratulations on a good set of numbers. Sir, just one clarification, if I heard John correctly, on the UK Government opportunity which is going to throw up in the second half of this year. So we roughly are eyeing around three deals worth 20 to 25 million pounds to bid along with the consortium. Did I hear it correct?
- John Owen:** That is correct. Yes, they're in the pipeline, they're not in the forecast.
- Darshit Shah:** Sure, got it thank you so much. And on the dividend part, sir do we have a stated dividend policy since we are having good amount of cash as well as we are generating good amount of cash flow from operation as well, around Rs 150 crore has already been generated in the first half and

going by this standard we'll probably end up to Rs 250 crore, Rs 300 crore in this year. So, do we have a stated dividend policy for shareholders would like to know that? Thank you.

Abhishek Singh:

Sure. See, based on the SEBI norms, we are not obligated to have one, but we do use a certain guidelines to determine it. And there are some other factors also, which is about the sustainability and the serviceability, as well as the best deployment of the cash. And we use those parameters to determine it. And endeavor is always to kind of maintain and grow northward on the dividend percentage.

Moderator:

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

Nirmal Bari:

My first question is on the employee expenses, you stated that we are taking salary hikes from 1st of October. So if you can state a number for, as in what would be the range for salary hikes. And secondly what would be the net additions that we are looking at in the second half in terms of employee?

Abhishek Singh:

I'll take that John, I don't know whenever there was an echo or the question. So Nirmal, the wage hikes are being worked upon as in principle, we have agreed to go ahead. What's the affordability and what's the right way to do it, it's being worked upon. Having said that, it's not going to be significantly different from what we had last year. And the headcount addition is as a function of the businesses both the lateral and trainees, the hiring of lateral folks as well as trainees. So we continue to add based on the business visibility and at this point of time, as John said, the H2 looks to be stronger than H1. So we'll have some meaningful addition over the year.

Nirmal Bari:

Okay, thanks. And the second question is on offshoring. So, in Q2 of last year, it's been some time since then. But we talked about the 20 million pound opportunity with the UK Government for offshoring, since then work from home has become a bit more acceptable to maybe to the government as well and so, what is the opportunity there in terms of the agreeability of the government in terms of offshoring and how do we see that ratio moving?

John Owen:

Okay, so when we started, we have about 60 offshore seats doing government work. And there is no reason why that can't go up 10x over the next two to three years. So that's the scale of the opportunity and the scale of the ambition. We've got a proven model with the NHS, we've got a proven model with the Home Office and we've got a proven model now with the MOD. So, and that I think will grow, as I described it's the perfect storm, because governments are going to have to look at budget reduction in their capital budgets over the next probably five years to pay for COVID. And they may have a massive digital program that they've got to deliver, because that's a way of giving better citizen services and better value for money. And you can't just reduce manpower and rate cards in that, so it is a perfect storm where if you want to deliver that digital agenda, you're going to have to look at different ways of getting access to capacity and capability. So it naturally moves to an offshoring model, but it's more intelligent offshoring than just here, we've got some low cost labor in a low cost country, because the cost of

management and the risk is massive in that, so it will be blended. And we're probably at the forefront of the queue of people who they would trust to ramp up an existing model to deliver that. So that's where we're at, but we've got four or five customers who are actively looking at this dialogue with us from UK Government. So, it's a massive opportunity but we really are in the foothills of that opportunity. But you're right, because of COVID the client is more open to that and more innovative because they've seen the value of working remotely.

Moderator: Thank you. The next question is from line of J Vivek from JS Investments. Please go ahead.

J Vivek: Congrats on excellent set of numbers, Sir. I wanted to inquire about the opportunity size of cloud implementation for Oracle, in view of increasing work from home and what's the growth rate we expect, and do we confine ourselves to only to Oracle cloud technology? Or are we open to the other AWS and other cloud technologies and how's the competition intensity in it? And how are we performing? Thank you.

John Owen: Okay, I'll let Umang talk about the Oracle bit. But, as Mastek we've always had a very strong capability in Amazon and Azure because that's a lot of the work that we've done and helping UK Government moved to those platforms. So we have strong capability what we've never done is go to market with those companies. We've been more engineering solutions with them, where we engineer and go to market is obviously Oracle who have clear leadership position in the ERP and EBS space. But I'll let Umang give some commentary on that.

Umang Nahata: Thanks, John. So although the working remotely or working from offshore definitely has increased with COVID. However, the kind of customers that we are not dealing with are much more large scale and their expectations and outcomes. So it is more fixed price bids with outcome expectations and therefore there's no direct pressure on rates that we're seeing on the SaaS cloud side of the business. Just to add on John's comment, as far as the cloud application business is concerned, which is the SaaS, ERP, SCM, etc. There we are working only with Oracle. But as far as the cloud in general is considered like the cloud migration or using cloud for App development and innovation, there we work across the board with Oracle, Microsoft, AWS, etc.

Moderator: Thank you. The next question is from the line of Soham Das, an Individual Investor. Please go ahead.

Soham Das: So, I had a couple of few questions. I'm actually referring to the annual report and I found the interest cost was very low in terms of \$17.7 million as the interest cost for the term loans, as against Rs 1.8 billion for the term loans. Can you actually elaborate why exactly this is low even though the LIBOR plus 190, LIBOR plus 150 interest costs up to about 2.5%?

John Owen: I'll let Abhishek cover that, but living in the geography, I can assure you LIBOR where it is, is very uncomfortable. But it's good for borrowing money, but I'll let Abhishek give more detailed answer.

- Abhishek Singh:** Sure John, thank you. So simple answer to that is, if you look at last financial year the borrowings were limited to \$10 billion and kept reducing, though the line of credit was much higher and that was at LIBOR plus 150. And, to that extent it's not very high, even if you round it to 2% on that, represents the number and a majority of the borrowing was done at the February end of this financial year, the 45 day or 40 day worth of costs, or possibly lesser days of the cost was reflected in the last financial year. This financial year, you have a full-fledged impact there. So not sure exactly where we're missing it, but it could be just the timing for which you are computing.
- Soham Das:** Yes. I think that explains it and my second point is that, in the last quarterly call, you talked about the conversion of marquee conversion of \$200,000 client to a \$4 million client, how is that shaping up. Are we seeing any more development in that area?
- John Owen:** All our customers are, so if I look at that one in particular, that customer has an active plan there with us to increase what I will call our scope in that account. So the phone call comes in because we did an ERP, we did the managed service, and then the phone call, basically you're at the top table when opportunities are being looked at. So the conversation went something like, do you guys have full stack developers because we've got a project that we need to do. You then have another question, do you guys have MuleSoft skills because we need to integrate this asset and that's the beauty of this strategy of working with Evosys to get us to the table and Mastek to keep us at the table and grow. It's a very complimentary strategy. When we both got complementary skills, what it means to the customer is, I can go with one organization for my full transformation. Now we're only as good as how we deliver. And based on what Umang said, we're very good at delivering through the assets and repeatable toolset, a consistent outcome and we're quite happy now to look at contracting for that outcome, which again, is a massive differentiator to what their incumbent service companies do. But to answer your question formally, yes the customers that we land are starting to expand on a gradual basis. And that's why we are putting more investment into that column to sales team to take more customers on that journey.
- Moderator:** Thank you. The next question is from the line of Devang Patel from Crest Wealth PMS. Please go ahead.
- Devang Patel:** In the US, we see politicians make more noises about against H1B visa's or job moving overseas when the unemployment rate goes up there. So similarly in the UK, do you expect any backlashes in government contracts, there is no offshoring?
- Abhishek Singh:** So, I'll put it this way that protectionist sentiment has been there for some time now. We are seeing it in varied degrees across various countries and over last few years, it has been a norm that said, economics and politics is not barest of each other. While the politicians would have their own postures, the reality of business operations is always out there. So we have had some raising in thresholds of minimum wages in UK that was much ahead of, let's say the H1 visa rhetoric's that we heard in US of the geography. Singapore and Australia were hard on expat

visas much before some of these trends were witnessed. So as an industry, it's nothing new and we look to service our customer in the right shore model. Sometimes it's onshore, sometimes it's near shore, and sometimes it's offshore. So we won't focus too much on that, at this point of time, we have what is needed to service our customer.

John Owen:

Just to help sort of, from a UK perspective and you're right the US has probably gone a little more protectionist. But that will probably change in the next few months. The UK, ironically, it's a minimum wage threshold for visas, which is primarily driven by the European Union legislation, which in Europe tends to be protectionist. As the UK comes out of, through Brexit, the bilateral relationships and visa constraints will actually relax is my estimation. Because we do need access to Indian labor, both in our technology sector, but more in our health segment as well. So, I think Brexit allows the UK Government to drive a more targeted immigration strategy, which will benefit India generally, but it will definitely benefit the technology sector and the health sector.

Moderator:

Thank you. Ladies and gentlemen, that would be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

John Owen:

Okay, thank you very much. It's been a long call, so let me close quickly. Thank you for your continued support and your interest in Mastek. It is greatly appreciated, and we welcome the challenge, the questions and keeping us honest. So thank you for that. Hopefully, what you've heard today is a real change in tone and a real changing in the gears. We've gone from cut and grow, to cut and invest, we expect the second half to be stronger than the first half. And we've got this lovely word, 'Momentum'. So, lots of questions we also have resilience in our operating model, and we have resilience in the markets that we serve. The verticals of UK Government will grow, Health will grow, and the ERP cloud migration will continue to grow. So we have lots to be optimistic about moving forward, we generate cash, and we have a strong balance sheet. And as we said, we will look at our capital allocation of what's the best way to drive further growth for Mastek over the next few years. The acquisition of Evosys is going very well and it gives us confidence to maybe look at using the cash there. But the reason the acquisition is going is because we've got a great team and you've heard it from Umang today and Abhishek is this is a team that's committed to grow this company and fulfill the potential of Mastek. That being said, Q2 very, very good, very happy with it. But we reset to zero and we start again, but we're optimistic Q3 and Q4 will be better. So with that, we'll close. I thank you for your support. I thank you for your interest. Please keep us honest, and we'll keep delivering for you. Thank you.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Mastek Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.