"Birlasoft Limited Q1 FY'21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Birlasoft Q1 & FY'20 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav – Head of Investor Relations, Birlasoft. Thank you and over to you, sir.

Vikas Jadhav: Thanks, Bikram. Good morning to all of you and welcome to Birlasoft Q1 FY'21 Earnings Call. So we have today joining with us our whole management team which is Dharmender Kapoor, (DK) – CEO and MD, Roop Singh – our Chief Business Officer, Shreeranganath Kulkarni (SK), who is our Chief Delivery Officer, Arun Rao who is the Chief People Officer and of course Shantanu Rudra who Heads Finance for us.

Please note that anything we say on this call and which is referring to the outlook or future, is a forward-looking statement and must be read in conjunction with the disclaimer which is given in our Investor Update, sent to the stock exchanges, which mentions the risk that the company faces. With this, I now hand over the call to DK. Over to DK, please.

Dharmender Kapoor: Thank you Vikas. Good morning to all of you and welcome to Birlasoft Quarter 1 Financial '21 Earning Call. I trust all of you and your loved ones are safe and keeping well. This financial year 1st Quarter will go down as one of the most demanding for every CXO, not only in India but globally. These are testing times and I'm glad Birlasoft managed to come out relatively well. And this was possible due to the efforts of all our employees and support from our customer and partner. I wish to thank all of your trust shown on us in these times of pandemic. I'm also very thankful to our investor community for their trust in Birlasoft and in keeping themselves invested during this time. We are committed to create value for our shareholders and stakeholders.

We all continue to work from home at least till August 31st and then we will take a call depending upon the situation and our customers' requirement. In the meantime, we stay focused on the safety of our employees and have laid out the necessary steps in case we decide to safely return to the office. In fact, we also saw a few of our employees and their family members test COVID positive during this time, and we have assisted them wherever required and by God's grace most of them have already recovered well and are keeping safe.

I have been mentioning about the closure of the last piece of integration, which is the It integration between the two companies. Although we had plans to integrate before COVID, and despite the extension of COVID and lockdown and work from home, we took this tough decision of integrating a different environment and I'm happy to say that we have successfully completed the IT integration in the second week of June. And, I would be thankful to all of the people involved to work very, very hard on this.

Coming to the Quarter 1 performance and its highlights:

As you have noticed, our revenues were at $121.2 million versus $125.6 million in the Quarter 4 last financial year. We saw a decline of 3.4% quarter-on-quarter while it grew 8.5% on year-on-year basis. The revenue in Quarter 1 was better than what we had anticipated. The decline mainly came from the impacted sector such as Manufacturing, Auto and Energy vertical. However, BFSI was relatively stable and Life Science saw a good growth during this quarter.

On the margin front – we saw our EBITDA margin at 12.3% a drop of 50 bps quarter-on-quarter and improvement of about 240 bps on a year-on-year basis. Despite a drop in the revenue by 3.4%, the margins were relatively stable. We took measures in reducing our cost for Quarter 1, some of positive impact will also be seen in the Quarter 2.

Most importantly, the encouraging part of the quarter was the growth for future. We saw a good sense in winning these despite the COVID situation. This is reflected in our TCV wins, which stands at $180 million during this quarter, equally split between new business and renewals. This is probably the second-best quarter that we had in the last six quarters post-merger with KPIT. The deal wins traction is across horizontals, like Infrastructure, IES, SAP, Digital and Application and Testing services**.** In fact, our deal traction in last one year is very significant in Managed Services which has grown significantly. Our focus during the quarter was to secure long-term deals and commitment with our client. That certainly will provide us a better stability and predictability of revenue.

These COVID times have opened multiple opportunities in cost optimization, cyber security, governance and compliance, Digital Cloud adoption and automation area and we are working with our clients in addressing their needs both for the short-term as well as for the long-term period. We had seen a further consolidation of our business with key customers and this is reflected in the growth across top 5, 10 and 20 customers. Further, our active clients count has gone down by 22 in this quarter and 42 on a year-on-year basis. In line with what we plan for cutting long tail accounts in a gradual manner.

We have also carefully reflected on capabilities and sectors where we need to improve, and we are using this time of slowdown in recrafting our strategy to be prepared for the momentum that we may have to catch soon after COVID situation is eased out. While the current market condition under COVID situation is still unpredictable, I am also optimistic about our healthy pipeline with a mix of Cloud and Infrastructure, Digital and ERP deals. The IT Services industry will have to brace the stress coming from the impact on various industries, but this is also a correction time for us to reimagine business models that not only help our clients sustain and remain competitive, but also keep us to continue as a partner of choice. Apart from the wins that we saw in Quarter 1, we continue to experience the winning momentum during this time and that is what will shape up our recovery and revenue story for the upcoming quarter.

I also believe we have had a good control on cost and some of the initiatives that we took in Quarter 1 would also fructify in Quarter 2. This should help us see better margins in Quarter 2 against Quarter 1 on Constant currency basis.

Out attrition as expected has come down significantly from 19% in the last quarter in the Quarter 4 to 16.5% in the Quarter 1. This was 21.6% in the last year. So, that stability is very encouraging for us. Our fresher hiring from engineering and business school is on track and around 200 trainees have joined us in this quarter and all this has happened virtually. And we would continue to see few hundred more joining over Quarter 2 and Quarter 3 in a staggered manner. Considering the deal in momentum, we will fulfill the commitment of the offers given to freshers for Financial Year '21.

Going ahead, our priorities will remain:

#1 The profitable growth, which goes without saying. We have to strengthen our talent and service line, sales and delivery. We have hired a very senior leader in our Cloud and Infrastructure practice so that our go-to-market for the Infrastructure and Cloud services becomes better than before because we have seen a very good momentum in the last one year in our Infrastructure services. We want to improve revenue predictability and sustainability through improved annuity revenue. As spoken about annuity revenue a few times before, because this is core to our growth strategy, so we will continue to cross sell and up sell and it will remain a priority for us, while expanding our relationship with key customers.

We will focus on priority areas of customers because the priorities for our customers are very different during this time than what it was in the previous financial year, their needs of better efficiency, cost reduction, mitigating their risk, cyber security is the top most agenda on their plate. And we have structured our teams, we have structured our offerings, keeping that in mind. So that we go and help our customers with the service offering that is what is required by them in the short and the mid-term.

We will continue to keep our operational rigor. The Quarter 1 was a very tricky quarter because there were cases of projects getting deferred, there were cases of projects getting moved from onsite to offshore, or there were discounts being asked. So, there was going to be a much larger impact on the EBITDA in Quarter 1, had we not looked at our operational rigor. I'm very happy that we have kept that focus and today we are able to deliver the margin much better than what we expected or what the market expected.

Before handing over to Shantanu for taking you through the numbers, I would like to conclude that we are both resilient and optimistic, despite these difficult and uncertain times. We have been known for and we will always be known for a company that is small enough to care and large enough to dare.

With this, I will hand it over to Shantanu, Shantanu over to you.

Shantanu Rudra: Thanks DK and good morning everyone. Hope all of you are fine and keeping safe. Continuing with where DK left off, let me give you a quick rundown on how the numbers have been in the 1st Quarter of the current fiscal. As DK briefly mentioned, our Q1 revenues were at $121.2 million, which was down 4.4 million over the previous quarter, but up 8.5% on a year-on-year basis. However, through a very strong cost optimization model we managed to restrict our headcount costs and our SG&A costs to a large extent, which resulted in our margins being relatively stable and the quarter's EBITDA was just down by about 0.5% of 50 basis points at 12.3% of our revenues versus 12.9% in Q4 of last year.

Our PAT for the quarter at $7.5 million showed a degrowth of 21.5% quarter-on-quarter, primarily led by a loss on account of our foreign currency, which saw us swing almost about $ 3.7 million on a mark-to-market basis for this quarter, which resulted in our PAT being lower than where we were in Q4. However, since it is on a mark-to-market basis we hope to sort of improve it in the coming quarters, and this won't have a permanent impact hopefully as we go forward.

In rupee terms, our revenues were at Rs. 915 crores, marginally up over the previous quarter 0.8% to be precise and 17.7% up over the same quarter last year. This again was basically driven by the rupee depreciation of about 4.4% for this quarter and about 8.5% for the same quarter last year. And this actually led to better numbers in terms of our performance as opposed to how the dollar numbers seem to be showing up.

Our EBITDA in INR terms was at Rs. 113 crores, versus Rs. 117 crores in Q4, a marginal decrease of 3.3% Q-on-Q and a growth of 46.3% on a year-on-year basis and the PAT for the quarter at Rs. 56 crores was down Rs. 13 crores over how we recorded Q4 and this was as I've just mentioned before, primarily driven by our FOREX losses of Rs 130 million for the quarter as against a gain of Rs 139 million in the previous quarter.

In light of our constant focus on managing our costs, margins and liquidity, you would be very pleased to know that we had a record cash collection of close to about $ 140 million in the quarter, which led to a significant increase in our cash balance of over $ 20 million as well as a significant reduction in our billed DSO, which declined by 12 days from 72 days in Q4 to 60 days in Q1. We did see a marginal increase in our unbilled DSO but that is something which is a temporary phase which will be corrected as we go forward in this quarter and that's something which we are focusing on as we look at the quarters ahead. Our billed DSO on a year-to-year basis, which is over the same quarter last year is actually down from 81 days to 60 days and that's a significant improvement that we managed to make in our efforts at managing our liquidity and margins.

Our operating cash flows at $ 21.4 million, primarily driven by our operating profits. And our reduction in working capital is at 143% of the EBITDA for the quarter. And this is a very significant milestone that we managed to achieve for ourselves.

For information, our hedge book has also gone down significantly during the quarter, primarily as we focused on bringing most of our collections and funds from our overseas geographies where they were not earning any income; to India and the good news here is that we managed to actually increase our India cash balances to about 59% of the total as against to just 44% of the total as at the end of the last quarter. However, as we brought our cash in, we also decided to convert it into rupees as soon as possible to take advantage of the favorable rates. And that's what led to this drop in our hedge book from $ 89 million to $ 55 million at the end of the quarter. We continue to build our hedge book, to a comfortable level of 60 to 70% of the net forex inflows in the quarters to come and we are fairly optimistic that we'll be able to achieve it.

The COVID situation continues to be a little unpredictable and while we look at our numbers, we also look at continuously focusing on improving the quality of our revenues and reducing costs. And we will continue to critically look at all these aspects which will help us improve our margins even further as we go into the next couple of quarters in this year.

With this, let me open the floors for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Hi DK and phenomenal execution in the last three quarter and hearty congratulation to you and the entire team. Three broad questions. Obviously a ramp up on TCVs and report revenues have been what they are, but is there a word of caution you'd probably like to add as in not assuming that similar rates of growth that were given in the coming periods given the environment. In other words, if you could flesh out how the predictability of revenues are coming into play and as you see it over the next year as well?

Dharmender Kapoor: If you look at the current quarter and even I would consider for the full financial year, these things are quite unpredictable even today, because most of the industries in US still continue to either work from home completely or with partial presence. So definitely it is still an uncertain time; we have seen that there is a new wave that is hitting on the virus front and that is causing a little bit more uncertainty again, especially in the US. So, I believe we are not yet out of it. It will definitely bring some impact on the industry, almost all industries. However, the good part is that people have started to understand that they will have to live with it. So, there is planning work that has started with our clients and they have started coming back with the initiative that they had to take. And that is the reason we have seen that our pipeline has improved. We have seen very good deal momentum in Quarter 1, and we continue to see the similar traction in the Quarter 2 also. So, from that perspective, I believe the momentum will be there and the momentum is largely because when the client has confidence in you that you can be a partner to help them improve their efficiency, help them improve their cost, they would come and start engaging with you on both initiatives and that is where we are seeing very good set of things happening in this quarter. So, I believe that it will be a mixed bag, we should continue to remain cautious , because the market situation is not very stable but the momentum that we are seeing should definitely bring in some advantage to the decline that we were expecting in the revenue as well as in the profit. So, it will bring in some stability. I believe Quarter 2 is the quarter where some stabilization will happen. And Quarter 3 and Quarter 4 we should start expecting some growth sequentially. That is the hope right now, but at the same time these are all based on the assumptions that we have based on the discussions with our clients. Now, if there is something that is completely unforeseen that happens, then of course we will have to continue to adapt to the situation.

Baidik Sarkar: Moving on to margins, we have been very vocal about our margins aspirations and trying to hedge 15% over the next 24 months. Given the environment does that outlook stack, I understand you said Q2 will be significantly better. And if it does in terms of our bridging to 15%, how does the bridge work in terms of headline growth, pyramid rationalization, offshoring, what’s the bridge that will help us get to get a sense?

Dharmender Kapoor: I don’t think we are letting our aspiration for the margin go down, because it was a big shock in Quarter 1, because we had to make people work from home and take some additional costs during this time. At the same time, the projects that are getting deferred or the projects that are moving from onsite to offshore where we can bring cost advantage to our customers, our people coming on bench in U.S. who got stuck at onsite we continue to take those additional costs. So, all that has impacted and despite that we have given, I would say decent a EBITDA during this time. I believe Quarter 2 will definitely be better than Quarter 1 on the margin front. I am confident about that because, some of the steps that we had taken in Q1, the advantage will come in the Quarter 2. So, our objective is, we continue to grow our EBITDA, and aspirations is definitely to hit 15%.

Baidik Sarkar: And lastly, before I get back, our cash conversion continues to be very strong. So how does the board look at capital distribution back to stakeholders in this context?

Dharmender Kapoor: Absolutely, in fact, they also ask this question and keep on giving the advice. Because we were really looking at taking the decision in the month of March. But the challenge happened and at that point of time the advisory that we got from the board, as well as the advisory that we got from all the advisors was to conserve cash, Hence we have kept a hold on that decision. We also kept a lot of focus on reducing our DSO or collecting our receivables because this is a very tricky time. What if any company comes tomorrow and files for a Chapter 11. In that case, we do not want to be in a position where we are not able to collect the receivables, so we stepped up our effort so that we are in a comfortable position and that has also worked very well. But, what I have seen is that one of the reasons why we were able to do so well was, that whichever client we went into, they had shown a lot of confidence in us. And they absolutely had no issues in clearing all the receivables that are due to them. So, we will continue to keep focus on this. But, I believe it will be by the end of Quarter 2 or sometime in the Quarter 3 that we are going to get back to our blueprint again to define our next step with the cash that we hold.

Moderator: Thank you. We have next question from the line of Manik Taneja from Emkay Global Financial Services. Please go ahead.

Manik Taneja: Just wanted to pick your brains with regards to the move that we’ve seen with regards to higher offshore delivery of business. Should we see this as a continuing phenomenon over subsequent quarters and then also wanted to understand your comments with regards to the demand outlook in verticals like manufacturing and energy and utilities where you have significant exposure?

Dharmender Kapoor: Yes. So, yes the offshoring will continue to improve because there are quite a few reasons, one that because the travel has become lesser, second there are visa related uncertainties that are there and the clients want to really mitigate their risk regarding that. At the same time, when the work from home is happening, it really does not matter whether the person is in the same office, in the same city or in a different country. So those all will fuel into higher offshoring, so that is going to happen. Second, I believe that this is going to be probably a third wave of offshoring that will happen, because a lot of clients initially mentioned that when it is about Digital adoption, we need to develop the skills in-house and people should be sitting next to me because the experimentation becomes easier. But if you look at the kind of opportunities that we are seeing, the clients are becoming far more open, because they are not looking at someone sitting next to them, but they are looking at how do we stretch our dollar in order to deliver more within the budget that we have. And the budgets are going to be a constraint for everyone and hence the offshoring is something that is going to pick up. So, I believe there will be a third wave of offshoring that will happen as the recovery starts from the COVID side. Coming back to the different sectors, if you look at manufacturing, I believe manufacturing is very core and we saw the hit happening due to COVID because supply chain got impacted. But, I believe it is not going to be there for very long, manufacturing is absolutely very core to the consumption, and to the supply chain worldwide and hence, it will bounce back pretty soon. The good part is that every manufacturing company is now really looking at the Digital supply chain solutions. They are looking at what are the future methods that we can apply which are technology driven and they have a strong belief that technology is the only thing that can pull them out of this mess that we are in. Hence, technology definitely is going to take a lot of acceleration. And I'm sure that there will be growth coming in manufacturing as well as many other sectors also. Going forward, the growth will come due to higher offshoring as well as clients needs to mitigate their business risks by using technology.

Manik Taneja: Sure, just trying to take you a little further, DK you made a very interesting remark that, customers now are much more open to more work from home. So, is it possible that the typical rate cuts related to offshore delivery, onshore delivery may no longer be relevant, you might actually be able to price in services much more competitively even if the work has been delivered from work from home in India?

Dharmender Kapoor: So, this price competitiveness will always be there and we have to understand the fact that we are in the business to help our customers achieve more with less and hence we have to remain very, very competitive. Even if the client is not asking for a price reduction, we should always be ready to provide them the cost reduction or continue to improve our own margins. So, that fact is well established, and I don't think that we should shy away from accepting this fact. Working from home, I do not think it is going to have too much of a swing on the cost, some of the costs will go down for us. But on the other area, it will also increase. So, I don't think there is going to be too much of a swing when it comes to working from home. And the clients also understand this very well because they are far more matured in this working model, where the work from home is a reality. So, I don't think that would be the reason, however the pressure would be because the clients have lesser budget and they want to achieve more, they will ask for different operating models through which, they can get better advantage on the pricing perspective. For example, some of the time and material engagements we have moved into the fixed price and to Managed services. So, the clients get the flexibility of better pricing and we get the flexibility of making better margins by optimizing our own operating costs.

Many of our customers are today talking of the commercial model which is outcome based, and what we also call it as uberization of the services. And today, I feel very happy that we did two or three deals, including Invacare in the last year, which was the model that has become far more relevant today. We have been talking about Enterprise Digital that is far more relevant today than it was two years back when we actually came up with that idea that the client will not always want to transform in the way that the product vendors will go and push for. They would like to always protect their investments and still become Digital and our Enterprise Digital story was absolutely on the same mark, that we are not asking you to change the town. We are not asking you to rebuild the town. We are just going to protect your investments, but still make your town much, much better, much more productive and much more efficient. And that enterprise Digital story has become far more relevant. That commercial model that we did with a couple of customers in the last financial year is becoming very relevant today.

Moderator: Thank you. We have next question from the line of Shradha from AMSEC. Please go ahead.

Shradha: So, just to persist on the margins question, our margins in Life Sciences vertical is down almost 550 bps Q-on-Q despite, the fact that we have shown very strong growth in this sub segment. So, what has really gone behind that margin drop?

Dharmender Kapoor: So, if you look at the Life Sciences in one area which has seen a lot of up and down during this quarter because of the COVID situation. On one side, there is a hope that the revenue for all the life sciences companies will increase. But we also have to understand that they are making a huge amount of investment while they have started working on the vaccines and at the same time in the healthcare space or the medical devices space because the elective surgeries have gone down. So while they are taking more and more initiatives, they want that at better price and that is the reason you will see that while the topline will be better, they need better rates in the shorter term and they want to deliver better. Hence we will see pressure will come on the margins for the shorter term.

Shradha: Sure. Just to confirm there were no transition costs involved on Invacare deal in this segment in this quarter, because I guess most of the cost were already booked in the last two quarters?

Dharmender Kapoor: There was a little bit but not as much that it will make too much of a dent on our margins in a big way. But now the transition is over for us and hence going forward that impact from that transition is not going to come. But you know, when one transition is over, I'm sure there is another transition that we have started already in Europe with another company. So, this is something which is going to be on the continuous basis and I believe that the transmission cost that comes every quarter will become stable and it will get normalized across.

Shradha: Sure sir. Sir just that you mentioned that we did our transition in a deemed environment. So Europe geography as such is up by strong 60, 65% and at the same time US is down by more than company average growth rate. So, was there some last deal transition which started in Europe geography?

Dharmender Kapoor: No, it is not because of the transition, but it is because of the two things, one that we have started putting lot of focus on Europe because we are over dependent on U.S. and we have started putting focus on the Europe also. we hopefully should continue to see the percentage getting better in Europe. The second is that, the program such are Invacare or a couple of other clients are global in nature. And we did the transition completion, as well as there was a milestone completion for Invacare in Europe, and hence we saw Europe revenues getting better from that perspective also.

Shradha: Right. Sir, that's helpful. And just one last bit, what was would be the annuity component in our ERP portfolio now?

Dharmender Kapoor: I have not computed it to be very frank, but overall it should be in the range of about 62 to 63%. It has improved further; I believe it is more than that what I am telling you but just to be careful in giving any number without really doing the analysis. I believe it definitely on overall basis is in the range of 62 to 63%. Last year we closed Quarter 4 at 60%.

Shradha: Right. Sir just one reconfirmation, this aspiration is getting to 15% margin. So, this is by FY22 end right?

Dharmender Kapoor: I'm sorry, can you repeat the question?

Shradha: Sir we want to get to 15% EBITDA margin and what is the timeline we're looking at to arrive at the kind of a margin?

Dharmender Kapoor: See we were hoping that our exit quarter for this financial year will be at 15%. Now, because we have hit upon this situation. It might get delayed by a quarter or so, but we are moving in the right direction.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Congratulations on a good quarter. My question is basically, we've had some very good new business deals wins in this quarter. And one would think that it would be difficult to win deals in a quarter where there is a lockdown and in this kind of situation. So, what is the kind of conversations that you're having with your clients and particularly with the new logos that they are giving us access to new deals?

Dharmender Kapoor: See the deals are little bit different from the deals that we had seen in the last financial year. These deals are mostly around the managed services, consolidating the existing work and converting it into the fixed pricing. Also looking at wherever we can very quickly put together an operating model that will reduce the cost for our clients. So, the two big deals for example, one we had in the Infrastructure side in the Europe, that was primarily transitioning the work from a large player; where we were very competitive. At the same time, we had been delivering a small part of the work with a very good quality to the same customer. And they decided that they will consolidate that work in our favor. So, that's what happened. Similarly, in one of the energy clients, while energy went through tough time because, one, was the COVID situation and second was that the oil prices were very down and that had a huge impact on them. So, their need for cost reduction was far higher than any other industry. So we went at the right time, we got a proactive model, and we told them this is how we can help you with the better pricing and the same time we can help you in automating what they have not done for a very long time. So, that way we were able to mitigate the risk for the client. At the same time, we were also able to maintain our margins with them. So those are the kinds of deals that are coming up. In our strategy I also talked about the Enterprise Digital in one of the questions before, we are going with a very different proposition to our clients. Actually, those clients who were going to go for a large transformation program, and you can imagine that any large transformation program for a large company could be a $200 million- $300 million budget. So, we went and told them that this is probably not the right time that you are going to take that initiative. We went with an alternative model by telling them that we will pick up their existing set of systems and Digitalize that, and we will implement that across other geographies. hence with 1/5 of the cost or 1/7 of the cost you will be able to achieve the same result at least for the next two to three years. They felt very confident that they don't need to take much larger initiative because they are on their cost reduction spree. So, they took that and awarded us the program, that is going to be about $28 million program in the next two years, where we will go and implement JDE across the globe for them. So, we are going with, our clear objective that we don't have to always sell what we have. We have to sell what our clients are ready to buy today. So, we had to reposition our offerings. We had to realign our teams in such a way that we are talking what client is ready to listen today.

Ashish Kacholia: And sir any, would you like to shed any further light on how the Invacare relationship is progressing?

Dharmender Kapoor: So, Invacare is going very well. We have completed the transition in this quarter, as well as we also completed the e-commerce implementation for them. So, we got some advantage because of that with Invacare also, so our revenue was a bit higher than normal, but normally it will remain stable around $ 6 million that we talked about. So, but this quarter was a little better than the other quarter which gave us the advantage. I believe we had to continue to look at how do we deliver on time, so that we are able to get the planned revenue from every customer; it is not just Invacare, but on every customer. With Life Sciences, it was a very tricky vertical, because everybody thought that it will grow leaps and bounds, but they have their own priorities. I believe , as recovery happens, this is the factor to be watched out, because it is going to grow in a very, very big way and I'm very happy that we are very strong in the medical devices space. We have opened up two new healthcare accounts, net new in the previous quarter and I'm talking about the healthcare provider so that is another micro vertical that we have opened up during this time and our pharma continues to do well in the select customers. So, I'm absolutely very excited about this sector.

Moderator: Thank you. We have next question from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.

Rajeev Agrawal: So, my first question actually is on Life Sciences. It seems like, if I look at how we have grown over the last one year, it has been more than double in terms of our revenue and DK you just now mentioned that Life Sciences is something that you are very excited about. So how do you think about potential opportunities in this space, can you talk a little bit about what, for us over the next few years?

Dharmender Kapoor: Definitely, Rajeev if you look at the snippets of our strategy that I talked in, we are slowly bringing and narrowing down our focus on select technologies and select micro verticals. We are a small company, we are not a large company where, we have to go and say that we can go and play every single sector in this area. So, we have to look at the micro vertical where we can dominate that position and medical devices is one such case. Similarly, discrete manufacturing was another case, in the energy and utilities the services sector was another case of micro verticalization. So, we defined that these are the micro verticals that we are going to go after, for which we have a very dominant position in and that is a reason that we are seeing this growth. Life Sciences worked very well for us because we closed some of the very large deals and that is the reason that we are seeing that upswing. But there are similar examples, now we have started seeing in Energy sector as well as the in the manufacturing area . If you look at Quarter 1, out of $ 179 or $ 180 million wins, almost half of the wins - over $ 90 million is coming from manufacturing. While there is a whole discussion about manufacturing slowdown and though that is true, our half of wins happened actually in the manufacturing sector. That clearly shows that the manufacturing companies are looking towards technology to help in this situation. And that in my opinion is very, very encouraging and because of our focus on the micro verticals, we are able to go to them and clearly state that this is the problem, we know the depth and we can solve the problem and hence it becomes both the niche service that we're putting in front of them. But at the same time, we are able to display the confidence because we have many such references of doing the same work with other customers.

Rajeev Agrawal: The next one is you mentioned about DK, earlier that company is looking to get more into fixed price projects. When, I look at your numbers it clearly reflects the fact that our proportion of the fixed price project have grown. So, would that be the drivers which will help us in the margin expansion?

Dharmender Kapoor: It will definitely help us. We have closed a very good deal recently, more than $50 million. I am not giving you numbers because of the confidentiality , it is a deal which is on the fixed price. A good portion of that is actually addressing the business that we do with the customer on time material basis, as a part of this is new revenue. In this case we are providing benefits to the customer while securing higher margin for ourselves because we are going to run the entire scope as a managed services. So, we are going and negotiating with our customers in Quarter 1, that let us change the operating model so that we are able to share the benefits. And this works very well for us, and in my opinion there are going to be more and more such discussions in the coming quarters as well.

Rajeev Agrawal: Got it. And just on the flip side, how do you see the risk in a fixed priced project. Obviously, you're taking the risk because you want to have better margins, but how are you mitigating some of the risk that exists in a fixed price project?

Dharmender Kapoor: No, the risk is only if we do not deliver in the service level that we have committed for. But because we clearly have the benchmarks available and we know at what service levels we deliver similar services currently so there is absolutely no risk there. But in the new deals where we are going into the fixed price, the plan is made in such a way that the service levels are agreed in different stages with the customer. During the transitions tage, during the stabilization period and then the steady state. So, we achieve the steady state only when we have started achieving the service level. Hence the risk is minimized to almost negligible levels because clients also understand and we also understand, that the only way it can succeed is when we both are working like partners . But when it comes to some of the other transformation programs, yes those risks are real but then we define the contingencies and define the budget for the same so that in case you get those surprises you have already budgeted for that in our scope.

Rajeev Agrawal: And would you say DK at the industry is also moving more towards the fixed price or what's your general observation about the Indian IT industry?

Dharmender Kapoor: It is true that the industry is moving into the fixed price. And that shift will continue to happen even in those cases where the clients were not very willing. They are also becoming more aware that to continue to get the right productivity they will have to give that flexibility to the service provider

Moderator: Thank you. We have next question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Yes, on the new deal wins can you talk about the client profile exit the mid-market companies with $ 1 billion revenue kind of size and are we doing more full stack services deals from here on, so just a view on the deals wins and the client profile of the upcoming deals**.**

Dharmender Kapoor: They were the larger companies and they are not billion dollar companies, they were mostly in the range $ 5 to $10 billion. And there are others which are smaller also bas our wins are are well spread across verticals and clients. But the larger deals that happened are with the larger players and we continue to see how the smaller companies which are in the $1 to $2 billion range are showing a lot of interest in consolidating the work and offshoring the entire IT. So, those kind of conversations are happening even in the smaller companies.

Madhu Babu: Just on the profile is it like more of a full stack service offering, multi service offerings and just on the KPIT portfolio?

Dharmender Kapoor: In almost every large deal, it is a multi-services offering because generally with the single service offering, the deal size is not as big so, wherever you will see any deal that is going to happen more than $5 million, It will always be a multi service deal.

Moderator: Thank you sir. We have next question from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: Sir my question is, regarding in your annual report you've mentioned about creating a challenger program for top 50 clients and focused engagement program for 150 customers. Can you talk a little bit about it and any markers that you would want us to keep from a year perspective in terms of execution?

Dharmender Kapoor: Definitely. Let me ask our Chief Business Officer, Roop to answer this question because he's absolutely driving it, along with of course our Chief Delivery Officer SK. So, Roop and SK over to you if you would answer this question?

Roop Singh: So, the objective for us is to continue to build on our top tier clients, as well as to look at the next segment of our clients. So, the challenger program that we launched last year, was to really work on the customer imperatives and see what their aspirations are both from a capital expenditure point of view plus an operating expenditure point of view. And, that enables us to understand their business, understand their priorities and more importantly, also work with them as a partner across a range of services that they're looking at. So, we did that for the top 50 clients and we are now continuing to reflect that program to the next level. Now of course, this program not only covers specific partnership opportunities with the customer, but it also ensures that we are delivering to the quality and service requirements that they are looking at because it becomes a long term agreement and arrangement with them. And we look to continue to grow the wallet share from both our top tier clients and the next segment of clients.

Shreeranganath Kulkarni: Hi, SK here. Just to add to what Roop said, there are three or four things that are important in this Challenger program. As we focus on the cross selling, it also helps us to de-risk and make sure that we are able to increase the market share across the different service lines within the client organization. That's one, number two is that it also helps us to build multi-level connects to avoid any dependency on a single relationship that we may have. The third one, this also brings an opportunity of optimizing our operations. So, it is not just growth, but it also optimizing operations and picking up the learning from each and every account and how do I replicate this across, so that the baseline of the whole organization improves there. That is what the whole program is.

Abhishek Shindadkar: That's helpful sir and second is just a bookkeeping question on the FX hedges, so understand this quarter because you brought in the cash, there could have been a loss, but based on the hedges outstanding today, for the rest of the year, we should not be expecting a significant loss on the book. And the second thing is the effective tax rate was, pleasantly at 29%. So, should that number continue for the rest of the year? Thank you for taking my question.

Dharmender Kapoor: Shantanu, please go ahead.

Shantanu Rudra: Abhishek the current thing that we are looking at…the current loss that you saw this quarter was on a mark-to-market basis. So, this will obviously keep fluctuating, but we will recover a large part of this losses if the dollar rate or the currency rates go in our favor. So yes, the current hedging strategy will make sure that we do not end up losing to this extent, by the time we end up the year. On your second part on the expected tax rate yes, it has come down to 29% from the 38%, where we were at the end of Q4 and this is expected to improve further, as we take a call after our Q2 results on which is the system that we adopt, which is the regime that we go in. And, one of the things that we're looking at is if our margins keep growing at the rate at which they currently are, we will most probably opt for the second, the new regime, which will bring down the effective tax rate to just 25%.

Abhishek Shindadkar: Okay and any timelines, sorry for the follow up, but?

Shantanu Rudra: We'll probably take a call once we've closed out second quarter.

Moderator: Thank you sir. We have next question from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Two questions. One, the attrition rate fall, is that an industry wide phenomenon or is this a specific that Birlasoft has been able to do, something about it?

Dharmender Kapoor: While I know that it is also an industry wide phenomenon, but also in Birlasoft our attrition has been reducing quarter-on-quarter, because we went through a major disruption like merger and during the merger time the attrition always goes up. But we had to continue to work with our people, we had to work on stabilizing the structure and then slowly it started coming down. So, we were improving anyways, but there is a big improvement that we have seen in the Quarter 1. So, it's a mix of what is happening in the industry, but also the changes that we were doing internally.

Susmit Patodia: Sir, what I want to say here, our bonus/appraisal cycle, when is that coming to the P&L this quarter?

Dharmender Kapoor: It starts coming from the Quarter 2, from the July.

Susmit Patodia: Okay. So, spread over quarter 2 or quarter 3 is that fair to say or it will come to Quarter 2?

Dharmender Kapoor: Yes, in July our most of the people get the increment and everything, the variable is already paid out in the Quarter 1, for the previous year.

Susmit Patodia: Got it. The next question is just on utilization. What do you think is the optimum level you've already reached 80%, what do you think or where will you go to?

Dharmender Kapoor: Yes, utilization has taken a hit of about a percent in Quarter 1. We believe that our utilization should be anything around 82 to 83%. That is the goal that we want to have, if we were not in the situation that we are in, we would have actually achieved that level of utilization already because if you look at the last four, five quarters, we have been improving our utilization. We started at around 75%, and reached to about 81, 82%. So, I believe that now that situation is getting stabilized, it will be back to around 82% very soon.

Susmit Patodia: I wanted to know a bit more on the hedging policy that you follow, if you could just take us through that?

Shantanu Rudra: Yes, what we try and do as a strategy, Susmit, is the fact that we try and cover at least about 60% of our net Forex inflows at any given point in time to make sure that we don't lose out on account of the currency. That's the broad policy that we follow. However, this is something which came down a bit in the 1st Quarter, fundamentally as we brought in significant amounts of funds into the country and converted them into rupees upfront. But our strategy has traditionally always been managing a comfort level of about 60 to 70% of our net Forex inflows for hedging.

Susmit Patodia: For how long in the future sir?

Shantanu Rudra: It depends on the kind of needs that we have and the way we see our inflows pan out in the next couple of quarters.

Moderator: Thank you sir. We have next question from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Sir, my question was on the US geography. Could you just throw some more light on what has led to this above company average decline in the U.S., what went wrong and what is the outlook there?

Dharmender Kapoor: So, there is nothing that has gone wrong. One that Europe has done better, so there is something that has gone right actually not anything gone wrong. But this quarter cannot be taken as a benchmark for the other quarters. Because, we work with clients who have global businesses, they have presence in the U.S. as well as in Europe and in the other geographies. And sometimes it also depends on the kind of work that we have done, and which entity is really paying us and who gets the advantage, on the geo perspective. But is there anything that, I can pinpoint that something that has gone wrong, no I don't think so. It is business as usual; it is just that this time we had certain milestones for Europe and the others and we have done better. And the same time we have a special focus on Europe also so that we continue to grow our revenue in Europe. So, percentage wise Europe should hopefully continue to improve.

Vimal Gohil: Yes, the only limited point that I was making is, given the given the deal wins that you've seen even before this quarter. I would presume that they were uniform across all geographies and U.S. would have its fair share of contribution. I wouldn't have expected a sharp decline in U.S. probably the growth could have been more sort of evened out across all geographies. So, which is why my question?

Dharmender Kapoor: So, the wins that we had in the Quarter 1, there is hardly any revenue that we could get into Quarter 1 because these are generally the long terms wins and it takes time before the contract is completed and the work gets started. So, I don't think that is the reason for the decline in the Quarter 1, there are certain customers where the projects are dropped, those happen to be in the U.S. that is one reason. Then there is other growth that we are seeing in Europe, so percentage wise there is a difference that you will see, but there is nothing abnormal with the U.S. revenue or with any of our clients. And you will find still the maximum number of wins are in U.S. only.

Vimal Gohil: Yes, so the bottom line being that you will see growth in U.S. going forward right?

Dharmender Kapoor: Absolutely. You have to continue to grow because U.S. spends the most of the money, there is absolutely great focus that we have on U.S. and we'll continue to do that.

Vimal Gohil: Sir could you just help me with what is the mix of, when you talk about your deal wins what is the mix broadly, are you winning these deals largely based on market share gains, or these are deals where you have been introduced as a new vendor and you've got a fresh project there?

Dharmender Kapoor: So, about 49% of the new wins is renewals,. About 51% is the new revenue, out of that if I look at approximately 17% of these wins are Net new, that means these are the new logos and absolutely new clients that we have opened up, whereas the rest of the 34% is the cross selling to the existing customers, but new revenue for existing customer.

Vimal Gohil: Right. And sir how much would you want to take your annuity business, you say that it is about 60 to 63%, what would be the optimal number that you would want to take too?

Dharmender Kapoor: Minimum 70.

Vimal Gohil: Right, okay. And this is a similar level for the industry as well?

Dharmender Kapoor: No, the larger companies if you compare, the larger companies have much higher annuity revenues. So, our objective would be to be par with them, but we must know the reality that the smaller companies have. They do a lot of niche work. So, it becomes difficult for them to play at that level. But if we are at 70-75% range, we will be doing well along with our peers.

Vimal Gohil: Okay. That should help your profitability as well right?

Dharmender Kapoor: That's right, absolutely.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we'll take the last question, from the line of Mr. Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir just one question. On the revenue mix, that you mentioned. So, I see that this 'others' segment is actually has almost doubled from last four quarters. So, can you just talk a bit about what these 'others' is and just a related question you mentioned in your press release also that enterprise and there is a strong demand to modernize the IT in lot of enterprises. So, do you see more opportunities in let's say, like your legacy verticals like SAP, etc. So, if you can also talk a bit about that?

Dharmender Kapoor: We are going to hopefully sometime reclassify it again so that there is no 'other' and it is very clearly specified. The emerging horizontals for us comes as part of the 'others'. For example, when you talk about Infrastructure management and Cloud, CRM, testing services, these are some of the services that come as part of the 'others'. And as you would imagine that there is a significant interest in the Infrastructure outsourcing and the Cloud migration or legacy modernization, that's the reason that you see a lot of growth in this. But having said that, there will be growth in SAP and Oracle too. They are the large areas, they will definitely continue to grow. I believe that the larger transformation programs will slow down in the short term. If somebody was going to begin a new program, they are going to put it on hold for some time and come back to that probably six or nine months later. So, from that perspective, there will be slowdown on the transformation programs. Whereas if the program was already underway, nobody will try to stop that because that would mean that the money is completely sunk, and they will have to continue to go with their plan. But SAP and Oracle are both big growth areas for us and they will continue to remain as the number one priority when it comes to the horizontals. Apart from this Digital services , there is a good wave and we are catching it well and that will continue to grow. I don't want to talk too much about Digital because everybody talks about it. But on the Oracle and SAP side, that will remain as a priority for us.

Rohit Balakrishnan: Got it. And you mentioned just a clarification, you mentioned that you will take all on the cash that is there somewhere around Q2 or Q3, right?

Dharmender Kapoor: Correct.

Moderator: Thank you. So, ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Dharmender Kapoor for his closing remarks. Over to you, sir. Sir any closing comments?

Dharmender Kapoor: You have given back to me the control?

Moderator: Yes, sir to you.

Dharmender Kapoor: Okay. So, thank you very much everyone for joining. I believe that I'm personally very satisfied the way the team has gone and pushed back and fought for every single deal that was there on the table. They have negotiated well, they have really gone and provided the confidence to the customers, that we are the right partner for them. that's the reason that we continue to see such as our DSO being at industries best level. And, I don't see any reason that with that mindset and with that momentum, why we would not be able to catch the momentum that will come at the end of the COVID situation. So, we have absolutely being on top, every single day during this situation. And we are fully committed to providing the value to each of our shareholders and stakeholders. So, thank you very much for your confidence and all the best for all of us for the next quarter. Thank you

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Birlasoft Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.

Note : The above transcripts have been edited for better readability.