

Birlasoft Limited Q1 FY24 Earnings Conference Call

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RELATIONS**

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(1 crore = 10 million)

Moderator: Ladies and gentlemen good day and welcome to Birlasoft Q1 FY24 Earnings Conference Call.

As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0', on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhinandan Singh, Head - Investor Relations, Birlasoft Limited. Thank you and over to you sir.

Abhinandan Singh: Thank you and welcome folks. By now you would have received or seen our results. Those are also available on our website www.birlasoft.com. Joining me on this call today are our CEO and MD Mr. Angan Guha and our CFO Ms. Kamini Shah.

We will begin the call today with opening remarks from Angan and then Kamini. But before I handover the floor to Angan, a quick reminder that anything that we say on this call on the Company's outlook for the future could be a forward-looking statement and therefore, that must be heard or read in conjunction with the disclaimer that appears in our Q1 FY24 Investor Update, which has already been sent to you and is also uploaded on our website as well as filed with the Stock Exchanges.

With that let me hand over the floor now to Mr. Angan Guha, our CEO and MD. Over to you, Angan.

Angan Guha: Thank you Abhinandan. Good evening and good morning to everyone wherever you are and thank you for your time today to join us for the discussion on our Quarter 1 financial and operational performance. I trust all of you have seen the results.

We are pleased to report a strong start to the current fiscal, delivering a robust performance during Q1 both on revenue and on the margin front. Our performance during the quarter has been characterized by consistent execution, sustained investments in capability building and financial rigor. As you have seen, in dollar terms our quarterly revenue crossed the \$150 million mark for the first time in our history increasing by 3.1% sequentially to \$153.6 million in Q1. In constant currency terms, our revenue grew by 2.7% QoQ. I'm particularly pleased to share that this growth has been accompanied by a noticeable expansion in our operating margin as well. Our EBITDA margin for the quarter under review expanded about 170 basis points QoQ to 15.3%.

The quarter under review also demonstrates Birlasoft's ability to consistently generate strong cash flows and Kamini will share with you more details during her remarks. A solid balance sheet provided us the ability to make investments for future growth, both organically and inorganically. On the deals front, we've signed the TCV of \$146 million but this comes on the back of two very strong quarters. As you all know our Q4 and Q3 were record high signings in

FY23. Our pipeline remains healthy where some engagements are in active discussions and we expect our deal flow to improve noticeably in the next couple of quarters. Our growth led performance during the quarter reflects our sharp focus on execution during a period that has been characterized by a high degree of macroeconomic uncertainty. At the same time, we are making the investments necessary to strengthen our tech capabilities and be ready to capitalize upon the uptrend as and when the demand sees a rebound.

You might have seen our announcement earlier this week on the Generative AI Centre of Excellence that we established in collaboration with Microsoft. This CoE brings together the combined strength of Birlasoft's deep industry expertise and Microsoft Azure OpenAI Service. Through this we are also training 500 of our consultants on Generative AI technologies. At Birlasoft, we have been early adapters to new technologies such as Generative AI where we have already developed multiple use cases and solutions across clients as well as fourth generation capability and multimodal solutions. For instance, we have rolled out GenAI solution for one of our Lifesciences customers, a global leader in their space. We've also created an AI based closed loop autonomous solution for a customer in the manufacturing vertical that helps improve rate of production, quality, uptime of machines and saves energy consumption. In many cases, we have been co-innovating with our customers, which enables better risk assessment in terms of security or data privacy without losing sight of rewards such as the productivity gains. We have begun applying AI internally as well within our own ecosystem in our processes such as in talent transformation where we are applying AI based tools to assist our talent pool and suggest personalized learning paths with a skills first mindset.

As I wrap up my initial comments, I would like to throw some light on the demand environment. Our performance during Q1 results shift in the external environment over the past few months due to a confluence of factors and I suspect the IT services industry will probably see the impact of the current macro situation for a good part of the current financial year. However, customers, organizations continue to spend on IT. There has been a change in the priorities as they look for better value from their IT spend and deeper partnership with the IT service providers. As a result, the overall tech spend should stay healthy with the spending skewed towards operational excellence, customer experience and cost efficiency. This is what is driving our cautious optimism when it comes to our business. For Birlasoft therefore, the full year outlook remains unchanged and is one of growth with margin expansion.

As I mentioned in our earlier call as well, our suggestion would be to measure us on QoQ performance and the revenue that we generate through execution every quarter. We believe that our focus on execution, capability building and driving a client centric organization with a culture of high say-do ratio will enable the next phase of growth in our journey. At this point I would request Kamini, our CFO to share her perspectives on the quarter.

Kamini Shah:

Thank you Angan. A good day to all of you. Thank you for joining us and I hope you are all doing well.

Let me take you through the Financial Highlights for the first quarter of the current financial year.

We have reported revenues of \$153.6 million in Q1 FY24 and this includes an inflow of \$2 million that we have received from Invacare towards disengagement services that have ended on 31st May 2023. This represents a growth of 3.1% QoQ on dollar terms. Excluding the inflow from Invacare Q1 revenues grew at about 1.7% QoQ. If you have to look at it from a constant currency standpoint, our revenue growth has been at about 2.7% QoQ and excluding Invacare it's been at about 1.4% QoQ. The growth was driven by a combination of new projects, ramp up, account mining. We've seen growth across our top accounts with the top 20 accounts growing at about 2.7% QoQ.

As far as our verticals are concerned, our growth has been led by BFSI and Manufacturing whereas from a service line standpoint it has been largely driven by Infrastructure and ERP. As you might have already noticed, from this quarter onwards we have started aligning our verticals and service lines reporting with how we are driving our business. So, you will see our focus in terms of reporting from our four service lines and four verticals in a way that better reflects our business.

Moving on to the EBITDA performance, our EBITDA for Q1 was at \$23.5 million versus \$20.3 million in Q4. This implies a 15.3% EBITDA margin which is an expansion of about 170 basis points QoQ. This has been largely driven by better gross margin as well as lower SG&A. A lot of operational efficiencies, lean and automation, sustained improvement in attrition rate and healthy utilization are all the factors that have contributed to our margin performance for the quarter. As a result, our PAT for the quarter increased to \$16.7 million, up 22.6% QoQ. PAT margin at 10.9% was an expansion of 175 basis points QoQ. While our effective tax rate for the quarter stood at 24.3%, we expect the full year ETR to be at about 25%.

Let me now briefly touch upon the key balance sheet items.

Our cash and bank balances at the end of the first quarter stood at \$160 million. This reflects our ability to consistently generate strong cash flows, also evidenced by our stable DSO of 53 days. For the third time in five quarters, we have recorded a quarterly collection that has crossed \$150 million and our operating cash flow during Quarter 1 has been at about 101% of EBITDA.

To conclude, the growth and the margin performance that we have reported in the face of the macro headwinds the industry has been facing, demonstrates our ability to execute with financial discipline. It also gives us the confidence to deliver revenue growth and margin expansion for the full financial year as well. We are generating strong cash flows and that enables us to make the investments necessary to drive growth in our business going forward.

Thank you very much. Back to you, Abhi.

- Abhinandan Singh:** Thank you. Moderator, please open the line for questions.
- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vibhor Singhal from Nuvama Equities.
- Vibhor Singhal:** My question was basically on two things, one on the growth part and the other on the deal flow part. So, the deal flow as we know was a bit soft in this quarter and as you mentioned it is following two quarters of record high deal flow. But going forward how do you see the deal flow momentum continuing? Was it an aberration in this quarter that we had a softer deal flow? Some of the deals that might have basically spilled over to the next quarter or how's the overall demand environment and in that context how do you see this deal flow number going forward in the coming quarters of the financial year? I'll probably take the answer to that question and then switch to my second question.
- Angan Guha:** Thank you for that question. The way you should look at deal flow is not on a quarterly basis but over a period of time because as you know, the closure of deals is not really in anybody's hands because it typically depends upon your client's ability to close deals. So, you should look at our performance in the Q3 of last year, Q4 of last year and Q1 of this year. We've had record deal closures in Q3 and Q4. I understand that this quarter we are seeing a little bit of softness and that is primarily due to the fact that some of our deal closures which were supposed to happen in Q1 has been pushed out to Q2. But the good news is our pipeline is improving. We've not lost any deals to competition and we believe that our Q2 signings will be better than the Q1 signings. But the market is really uncertain. The uncertainty continues. So, it will be hard to predict QoQ performance when it comes to deal signings. But we will be focused on revenue expansion for sure.
- Vibhor Singhal:** And to tie that answer up with the growth that we reported, I think in this quarter even if we strip out the Invacare settlement amount, I think the growth was pretty solid on the dollar revenue front. As we have seen, multiple other companies, many of your peers reported results in the past few weeks. It's been a mixed bag. Some companies are able to hold up in terms of demand and growth momentum. But I think one thing which is across the board is that all of them are facing uncertainties regarding the execution timeline of the deals. So, keeping that in context and the weak deal flow momentum in this, given that we reported around 1.7% growth in this quarter adjusting for the Invacare number, do you see this growth momentum continuing in the coming quarters as well or do you believe there could be some acceleration or deceleration to the growth that we reported in this quarter and your reasons for it?
- Angan Guha:** So, it's a tough question to answer because, the market environment has not really changed much. The uncertainty continues and the market is a little volatile. Like I said in the last quarter, I think you should measure us on QoQ performance. We will stay focused on execution like we have done in Q3, Q4 and now in Q1. We will continue the similar trend in terms of execution. Now how much will that reflect in our growth; I can't really commit and we don't really give guidance. But suffice to say that we will continue to execute the way we have executed and hopefully

things will look better. From the perspective of demand environment again, like I said the pipeline is growing which is a positive. We have not lost any deal to competition and that is also a positive. So, I wouldn't be too worried about one quarter of lesser signings because I definitely think that we can catch up in Q2.

Moderator: The next question is from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta: Couple of questions; first just want to get a sense about the normalized margin. Now as we indicated about the adjusted revenue growth if you can provide some sense about the margin because once we enter into Q2 we might have salary hike impact. So, if one wants to understand like to like how margin is shaping up for us, if you can provide some sense about normalized EBITDA or EBIT margin for us. The second question is about the service line performance. We reported it first time, so if you can provide some sense on how do we expect all these service lines to play out for us considering the overall demand environment plus the investment focus which we have? The last question, which is to some extent linked with the margin, when do we plan to give a salary hike and the anticipated impact of it and from medium term perspective what would be our aspirational EBITDA margin or EBIT margin?

Angan Guha: Dipesh thank you for the questions. So I'll take the last question first. We intend to give salary hikes starting September 1st. So, you can actually bake in about one month of negative impact on margins due to the salary hike. However, we will continue our rigor when it comes to execution. So, our endeavor will obviously be to mitigate the cost that comes into our books because of the salary hike. So that's point number one. Point number two which tides back to our first question. See if you really look at Invacare, the amount of revenue that we got and the amount of cost that we took nets out itself. So, it's not a positive or a negative impact, it's a very small impact nothing to be talked about. So, you can take our normalized margin at the current levels that we have reported. So that's question number two. The answer for number three, in terms of the way we are going to report going forward is like Kamini said, we will continue to report performance on our service lines and performance on our verticals. As you have seen two of our verticals have done an incredible job, BFSI and Manufacturing. They have grown above company average and similarly on the service line side, Infrastructure and ERP have grown above company average again. But not to say the other service lines are weak, other service lines are strong as well and they are growing at about company average. Our sense is that Financial services and Manufacturing will continue to do well. On the service line side, we strongly believe that we've got great momentum with new leadership in both ERP as well as our Infrastructure business. Our Digital and Data business is also strong and you will see the momentum building up there as well. So, I hope I've answered all your questions Dipesh but I will also caveat everything that I said. It all depends upon how the macro environment moves which is why I keep saying you must always measure us on QoQ performance and not on YoY performance.

Dipesh Mehta: Just two follow up questions. First about BFSI, if you can help us understand because BFSI most of your peers indicated some kind of weakness, either delay in decision making, elongated sales cycle, plus some kind of discretionary spending weakness. We are seeing some positive trends,

if you can provide some sense about which subsegment is driving growth for us. The second question is about ERP, if you can provide in the revised service line break-up, how are we defining ERP as a service kind of player, is also part of ERP which is driving growth or even on-prem we are seeing some recovery signs?

Angan Guha:

So Dipesh, let me answer the first question first. BFSI for us is a very small business. It is not going to be correct to compare our BFSI business with some of our larger peers. If you look at our BFSI business, we don't really work with any banks, which is where the big negativity is coming in from. We work with lending companies, we work with payment companies, we work with some infrastructure companies. When I talk about infrastructure, I mean financial services infrastructure companies. Those are our market segments, and those market segments are resilient, which is why you're seeing growth. Also, you must remember our BFSI business is very small. It's just about \$130 million. Unlike some of the big peers who've got billions of dollars of exposure to financial services. So, in many ways that comparison is not right which is why we continue to see momentum in our financial services business and we will continue to see that momentum. But eventually our goal is to work with banks. I'm not saying that we will never work with banks. We want to work with the larger banks and as we go forward, we'll put in a strategy to enter some of the big banks not only in America but in Europe as well. Now on the ERP side the way we classify ERP is, all our ERP businesses whether it is our relationship with SAP, whether our relationship with Oracle, whether our relationship with Infor, all of that comes under one ERP business. Now as you also know, our ERP business was shrinking QoQ for almost eight quarters in a row. Last call I have told you that it's bottomed out and this quarter on we will see growth which we are seeing. And I'm hoping that the ERP business has already bottomed out and will continue to see growth. Now on the question of whether the growth is happening on-prem or Cloud, our growth is happening on the Cloud. I think that is a big opportunity for us on the ERP business.

Moderator:

We'll move on to the next question that is from the line of Mohit Jain from Anand Rathi.

Mohit Jain:

First on the \$2 million that you have booked in revenues from Invacare, so can you just help me with the reclassification part? Like will it cut across the vertical revenues and the service line revenues as well?

Angan Guha:

Yes, Mohit, it cut across only one vertical really because Invacare was pertaining to one vertical which is a Healthcare vertical and from a service line perspective it was predominantly Infrastructure and a little bit of Digital.

Mohit Jain:

Not into ERP, is it?

Angan Guha:

Not so much into ERP, no.

Mohit Jain:

Okay and I am assuming the top client growth is adjusted for \$2 million, the number that we are looking?

- Angan Guha:** That is correct yes.
- Mohit Jain:** And the second is more related to your reclassification; some manufacturing and healthcare I think, you have moved certain clients from one segment to another. So, if you could give us the revised definition on who sits where.
- Angan Guha:** So, Mohit again this is an internal reclassification. Doesn't affect our external reporting in any way but of course it gives you a view which becomes a starting point going forward. So, we've essentially classified our Lifesciences business as Lifesciences and Services which means any company that serves or delivers services to the Lifesciences clients or delivers services to the end client which is related to a life science kind of an activity, we will classify that under Lifesciences and Services which is why you see the movement. But that is only to baseline. That has no ramification on the overall numbers as you already know Mohit.
- Mohit Jain:** The medical device manufacturers, they will now sit in Manufacturing or will they still sit in Lifesciences?
- Angan Guha:** They will still sit in Lifesciences.
- Mohit Jain:** And last one on the full year outlook I think you touched upon this topic in the initial remarks. I missed that. So full year outlook given that everything is related to macro, is it fair to assume that for us it will be very similar to where industry would end up?
- Angan Guha:** Yes. I think so. I would say that you should benchmark us against industry. But again, I want to always put that caveat that don't benchmark us on a YoY growth because with Invacare it kind of muddies the water. Just measure us on a QoQ performance.
- Mohit Jain:** Sequentially, from a sequential growth standpoint?
- Angan Guha:** Yes, sequentially you should measure us. Sequentially our endeavor will be to do better than the industry.
- Moderator:** We'll move on to the next question that is from the line of Shradha Agrawal from Asian Market Securities.
- Shradha Agrawal:** A couple of questions. Do we still maintain our guidance of exiting 2024 at 16% margin given what we have performed in Q1?
- Angan Guha:** Shradha, thank you for the question. We don't give a guidance as you know but like we've indicated even after doing all the investments and doing the salary hike as we had indicated starting September 1st, I still believe that we can exit the year which is Q4 FY24 with a 16% EBITDA and that is something that we continue to maintain.

Shradha Agrawal: And secondly more from the strategy point of view, where are we on our journey of restructuring that we had undertaken since we took over in terms of hiring new leadership across verticals and in terms of filling in the key roles, how much are we done on the restructuring cycle and how much is still left to be done?

Angan Guha: Shradha again a great question. Now as I have said even in the last call CXO minus one leadership is all hired. We have a new leader running our infrastructure business, we have a new leader running our ERP business. We've hired leadership across verticals. So, from a one down perspective, we've hired, we've made all the hiring. Now it is the question about putting our head down and executing. From a CXO perspective as I have said that we are in the process of hiring a Chief Operating Officer. We are still on course and we will have our Chief Operating Officer on board very soon. Similarly, we are on course to hire the CEO for the Rest of the World business and that's also on course. So, in many ways a lot of the leadership has already got hired. But, we continue to monitor our leadership performance which we will continue to do. The structure will not change but we will look at performance and we will be a performance driven organization. So that's all I can say at this stage.

Shradha Agrawal: Last question again on ERP reporting. So, what has changed under the new format versus the old one because we see a 3% drop. If I look at the contribution of ERP in Q4 as per new reporting it is 3% points lower than what it was reported in the earlier format. So, what has been the change in terms of moving parts on the subsegment for ERP reporting?

Angan Guha: We've just created sharper focus Shradha, so what we've done is in the earlier scheme of things we would call out enterprise solutions like Oracle, SAP separately. We've brought all of that together and begun to formally report as ERP. Now as you also know that we are putting in sharper focus on lesser number of clients but we want to do good work with clients and that is something that you will see which is why last quarter, Q4 of last year we had the lowest revenues from ERP and in my commentary, I had mentioned that we will bottom out and start growing Q1 onwards which we have demonstrated.

Shradha Agrawal: Just a follow up on the ERP question; so would it be possible for you to split the ERP revenue in terms of how much is legacy and how much is Cloud within ERP for us currently vis-à-vis what it was few years back?

Angan Guha: Even last quarter I had mentioned this that legacy versus Cloud is a little hard to bifurcate like that because a lot of work that happens on-prem also has a little bit of factor of cloudification if you will. So, no company does that and it's hard for me to give a breakup. I can only say at a macro level our endeavor going forward in the ERP business is to win more and more deals on the Cloud side rather than on the on-prem side. But equally I can tell you there is strong demand on the on-prem side as well and we'll be focused on both sides of the business.

Shradha Agrawal: I was just asking as to how much you think we can benefit of the SAP upgrade cycle that we expected?

Angan Guha: As we all know that we have a window between now and FY27. When there'll be a lot of spend in terms of SAP moving from on-prem to on Cloud, which is why we put special focus on this business, hired new talent, got the organization together, and now we are well poised to capture a greater market share as the movement happens. And I can't give you specific numbers because it's a multibillion-dollar opportunity, but yes, we will be focused on winning market share from similar like-minded companies going forward.

Moderator: The next question is from the line of Abhishek Shindadkr from InCred Capital.

Abhishek Shindadkr: My first question is on the segment results. The Lifesciences reported number has doubled QoQ. What explains that, outside of the \$2 million that we may have received from the customer? And the second question is to Angan. So last quarter, the good part this time was the new portion in the deal wins was much higher QoQ. So, is there a seasonality? Did you see a better conversion this time? And last quarter you mentioned that beyond the deal signings, we have to close the leakage pool of existing customers. So, any update on that could be helpful.

Angan Guha: So, from a deal signing perspective, let me comment on that. Like you pointed out, our net new deal signing has been healthy. And that also is a reflection of the fact that at least the deals that are getting decided in the market, we are winning our fair share. Now, the overall deal signings have been lower and that is only a seasonality issue. So, which is why I will not be too worried about that. From a leakage perspective, I think Kamini talked about it. We have put enormous focus on execution this quarter and that has yielded results. Not only from a revenue perspective, but because of lower leakage, our margins have expanded, as you can see, and we will continue that rigor. We will continue that focus both from a margin perspective as well as a revenue perspective.

Now, on the first question in terms of segment reporting, and again, I want everybody to understand this is the first time in our history that we are reporting Service Line wise results in this manner, only to give you a lot more transparency. So, there will be a little bit of numbers here and there and it'll be helpful for us to address those questions. The only reason you see the Lifesciences doubling up is not just because of Invacare, because Invacare is just \$2 million. It is only because, like I answered the earlier question, we reclassified our segment as Lifesciences and Services. So, some of the Services business, which was really Lifesciences business, but was sitting in Manufacturing, we moved that into Lifesciences. This is just good corporate governance so that we report the right customer in the right segment, which is why you see that uptick. But overall, I can tell you whether it is Manufacturing or BFSI, they will continue the growth momentum from a like-to-like perspective, and we will also see a good rebound in Lifesciences going forward.

Abhishek Shindadkr: If I can just persist with your answer. I understand that you may have reclassified the segment margins, but if I compare the absolute amounts, the other segments are more or less flat. So, I was just curious as to what moved into Lifesciences. Anyways, we can take that offline. Thank you for answering my question.

Angan Guha: Yes, we will take that offline, Abhishek. I'll ask Abhi to meet with you and we can give you a detailed explanation around that.

[Offline Postscript: We have begun reporting our verticals and service lines performances in line with how we are driving our business. As part of that exercise, we have also moved some "Services" business that catered to the Life Sciences industry into Life Sciences & Services (from Manufacturing). The segment results numbers for Life Sciences & Services in Q1 reflect that as well as the inflow from Invacare and conclusion of disengagement services on May 31.]

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Largely wanted to understand on the Microsoft part of the piece, I mean the tie up which we have done on the Gen AI side, what kind of significance, what kind of relevance and importance, what is the number that we are looking at to train? How many number of people are we looking to train and what kind of business can we look to gain from this particular service line, this could be a partnership? Somewhere down the line we were trying to have good offerings on Microsoft. So, if you can throw some light around that, that will be really helpful. And my second question was just on the ERP side. I mean you have continuously maintained that ERP looks to be bottoming out from hereon. If you can throw just more clarity, why do you feel so, is there any change in industry structure or is there any realignment happening? What do you feel about it? That would be really helpful. So those were the two questions.

Angan Guha: From my perspective it is pretty simple. We've committed to the Microsoft partnership in general from the time I have come into this organization. If you remember, even in the first quarter I said Microsoft is a strategic partner and we will commit to becoming a big Microsoft partner going forward. As a part of the same narrative, we tied up very recently just last week with Microsoft in their Gen AI practice. We believe this is a long-term partnership. This will benefit both the firms in a very big way, and we've committed to almost train about 500 of our colleagues on AI technologies along with Microsoft. Now, it's hard for me to give numbers in terms of how much numbers will we do in future quarters. But I can only tell you that at this point in time we have many of our clients who've come back to us, and we have started doing POCs with them, used case by used case to prove and sharpen our capability around AI. Going forward it will be a big business. Now whether it takes us a year, two years, I don't know. But eventually I want to get into a situation where Generative AI in itself becomes a service line.

Now, the second question, Mihir, you had was on ERP. With regard to ERP, fundamentally there is no change in the structure of the industry. The only one big opportunity is the very fact that eventually by 2027 or 2028 whenever the time is, lot of on-prem work on SAP will move onto the Cloud and that is an opportunity. But traditionally we've lost market share on the ERP business. Like I was saying over the last eight or twelve quarters we've degrown in the ERP business. We are just turning around the business now. So, you're seeing a big uptick, but that is over a very low base and eight quarters of degrowth. So, you should look at it from that perspective. So, I don't think anything has changed in the market. It is only that we've got our act together and going forward we want to invest and continue to grow this business.

- Moderator:** The next question is from the line of Anmol Garg from DAM Capital.
- Anmol Garg:** Firstly, wanted to get your views on your strategy regarding M&A. So how are we seeing M&A? Would it be based on capabilities or more of a geography kind of an expansion?
- Angan Guha:** Anmol, one thing that you must absolutely appreciate that we will not buy a company for aggregating revenue. That's not our strategy. We will only buy a company if we need to plug a capability or, like you said, if we need to expand the geography. Those are the only two situations where we will buy a company. Now, our strategy in M&A is very clear, and I've said this in multiple forums, that we first need to execute on a couple of quarters of strong performance. We are on the journey; we've just started the journey. And once we are confident that we have delivered good growth QoQ, then we will look at doing an M&A to plug a capability. M&A is definitely a part of our future. It's a part of our strategy. But when we find the right company with the right capability, with the right cultural alignment, we will do an M&A at that point in time, but not for revenue aggregation.
- Anmol Garg:** Secondly, I just wanted to understand that based on the pipeline that we are seeing right now, would it be fair to estimate that we would have, on an average, a \$200 million run rate of deal wins in the next few quarters? Or given the environment right now, given that the deal closures are taking more time so it would be more patchy from that side?
- Angan Guha:** I can only give you my take and it's hard to predict the future. So, I would love to come back and say that every quarter at a minimum, we will have signings of \$200 million. That's our endeavor. But it's hard to predict. I would say, and if I'm a guessing person, I would say that for all companies it will be patchy and for us also, it will be patchy. But our endeavor is to do exactly what you said, at least deliver \$200 million signings every quarter going forward.
- Anmol Garg:** And lastly, if I may, just wanted to understand that this quarter now if we do exclude the Invacare one time revenue that we have got, so incrementally, do you think from that base we can still grow in Q2 given that the deal wins we have or should we expect that sequentially, largely, we will be flat?
- Angan Guha:** I can't give a forward-looking statement here. But my commitment to all of you is we will continue to execute well, and we will deliver a quarter with good execution. Now, how much growth will it come by? I don't know. Are we going to grow? Sure, we're going to grow, but how much will we grow by? I can't comment.
- Moderator:** The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.
- Chirag Kachhadiya:** I have a couple of questions. From the next three to four years perspective, which service line and abilities we want to grow more compared to what we have today? And also, vertical-wise from M&A perspective, what are the key verticals which we are looking to increase the revenue

of those related verticals? And on manpower front, what trends are we experiencing right now compared to what it was a year back.

Angan Guha:

Three to four years is a long time in our industry, it's hard to really comment what's going to happen three to four years. But I will tell you directionally what we will do. Directionally, whether it's the Digital business, the Data business, now the AI as a business, all will be our focus. In fact, we decided and strategically we've only picked up four service lines that we're going to focus on. Data, Digital, Infrastructure and ERP. So, all the four service lines we will focus on. Now, we may cull out AI service line from this as AI becomes bigger and bigger, but that's only strategically done. But at a fundamental level, these are the four service lines that we've called out. We will be committed to these four service lines, and we will grow these service lines.

From a vertical perspective, I think we are underpenetrated in Financial Services. I think that is a big opportunity ahead of us. Now, not to say that Manufacturing will not grow. Manufacturing is the core of our existence. We've got a very large, almost 46% of our revenues come in from manufacturing and I think that business is turned around as you see current quarter results and that will show steady growth. But if I were to deliver exponential growth, that will be Financial Services and Lifesciences only because the market is very big and there is a lot of opportunity. So, in an ideal world, the M&A question that you asked, if I can find a company which is in the intersection of AI and one of these industries, would be the ideal place that we would want to put our money in. But like I said, we have to deliver strong QoQ performance over the next three or four quarters. And only then we will look at doing an acquisition.

Moderator:

The next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management.

Sudheer Guntupalli:

Hi, Angan. Congrats on a good quarter. It has been around seven, eight months since you have joined, and despite the initial setbacks of Invacare and a poor macro, I think it's impressive to see the execution in this quarter. Just with the strategy interventions you have put in place, and with the leadership additions that you have put in place, given where our portfolio is today, how confident are you that this company will be able to deliver sustainable industry leading growth on a medium-term basis?

Angan Guha:

That's our endeavor, Sudheer. That's the reason why we all exist. We have to, as a management team, deliver sustainable QoQ performance. Of course, I'm confident. But will the macro change and tomorrow I may falter a quarter? I may. I don't know, it's hard for me to answer that question. But inherently, that's the management team's philosophy, that we consistently deliver QoQ performance, both on margins and revenue.

Sudheer Guntupalli:

For the new leadership team also, and in general, overall, the executive team, is there any ESOP sort of a scheme which was in place or which you are planning to put in place to tightly link the performance with shareholder returns?

Angan Guha: So, the long-term incentive, LTI as we call it, is linked to performance driven metrics. Again, it's a long explanation, which I can't do it now, we can probably do it offline and Abhi can set up time with you. But suffice to say that we have a large component of LTI, not only for the CXOs, but even for myself, which is linked to performance. So, we've made a significant impact or change rather from a compensation standpoint.

[Offline Postscript: A discussion of its LTI appears in the company's FY23 annual report]

Moderator: We will move on to the next question that is from the line of Sandeep Shah from Equirus.

Sandeep Shah: My first question is, in any company looking for a turnaround in this industry, two things have to be addressed. One is the right set of leaders who can cross-sell, upsell, do client mining and hunting, and the second is having the right mix in the service portfolio. So, I think under your leadership, it looks like the first thing has been addressed. In terms of the second thing, do you believe further restructuring is required in the service portfolio? Why I'm asking is, looking at ERP as one third of the portfolio, does it excite you or makes you slightly nervous? And second, in terms of the hyperscaler relations, if I'm not wrong, we are strong with Microsoft. But what to be done in terms of Amazon and Google Cloud as well as with some of the other SaaS based CX/UX kind of a company or cloud based CX/UX kind of a company? So, what is your take in terms of any restructuring is required in the service portfolio as of now.

Angan Guha: Sandeep, terrific question. So, first of all, I think we have intentionally mindfully rolled out an organization structure. And I have no intention to changing the organization structure in the foreseeable future. And the foreseeable future could be three years. But after three years, of course, our industry changes so quickly we may relook at it. But for the next three to four years, I think we will stay with the current organization structure. But I think your fundamental question was that are we happy with ERP business? Now, I can tell you something, ERP is not a bad word. It is still a growing business; it still delivers a lot of profitability and we'll be invested in that business. But the exciting part of our business is going to be digital, is going to be AI, is going to be Data Analytics. And by the way, even Infrastructure, which is a very small part of our business, but showing incredible growth. So, if I were to look at four or five years down the line, I want my Digital and Data business to be as big as the ERP business then or maybe even bigger. So obviously the growth rates there will be much higher. So, we'll be invested. We've just taken these four areas to invest on and we will stay invested. Now, AI probably will be a downstream of one of these service lines. It could either fall in Digital or Data. We'll have to see how that looks. But broadly, these are the four service lines.

From a leadership perspective again, like I had said, most of the leaders are already on board. They are focused on execution. But we do not want to claim victory, because it's just been three quarters of execution. We need to consistently execute QoQ, 4, 5, 6, 7, 8, quarters in a row. And only then we will feel a little bit more satisfied about this. So, I hope I've answered your question, but we are focused on all of our businesses. I mean, no business is bad work for us.

- Sandeep Shah:** And also, a question which I ask in terms of hyperscaler relationship, is it fair to assume that work needs to be done besides Microsoft Azure Platform or you still believe we have a strong relation even outside Microsoft Azure to Google Cloud and AWS?
- Angan Guha:** A company of our size, we can't do everything with everyone. It's very hard for us to become a meaningful partner for a Microsoft, for a Google, for an AWS, it's just not going to work. So, we've committed to the Microsoft relationship, but that said, we will also have relationships with other hyperscalers, but that will be in very specific niche areas, and we can discuss that. But in our mind, the strategy is very clear; 80% of our hyperscaler or Cloud revenues will come in from Microsoft over the next foreseeable future. The other businesses will contribute, but they will be very client specific. And internally, we clearly know the areas where we will work with AWS for instance, those areas are identified and signed off with AWS.
- Sandeep Shah:** Just last two things. In terms of QoQ growth visibility, is it fair to say that with the execution confidence which we have, even 1.4% CC growth which we have done in this quarter ex of \$2 million, we can actually maintain or improve the momentum going forward? And second, wage increase, in fact, you said it would be effective 1st of September. So how it will impact the Q2 and Q3 numbers in terms of EBITDA margin?
- Angan Guha:** We can't give guidance really Sandeep. But I can only tell you that our endeavor will be to continue performing at the same level. But it is hard to say. I can't comment whether next quarter I'll grow at 1%, 2%, 3%. But of course, our endeavor will be to maximize revenue. On the margin front like Kamini talked about, we will give a wage hike starting 1st September. But even after accommodating that wage hike, we will try and deliver the margin performance that we've delivered this quarter. We will not go down on margins, we will only try and improve margins. But our commitment to all of you, like Kamini has said earlier, and I say it again, by the time we exit Q4 FY24, we will deliver upwards of 16% EBITDA.
- Moderator:** We will take the next question from the line of Jyoti Singh from Arihant Capital Markets Limited.
- Jyoti Singh:** If you can kindly elaborate on the headcount situation, if you saw its declined YoY and stable QoQ. So, we have any planning for the hiring? And also, if you can elaborate on the lateral and fresher hiring front.
- Angan Guha:** Our headcount has increased. I'm sure you've noticed it. We've added. So, not only has our volume increased, but we have had a volume growth and we have had a headcount growth. So, we are in the process of hiring more people. Our demand environment currently is like we have said, we are cautiously optimistic, and we hope to add headcount even in Q2.
- Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Angan Guha, CEO and MD, Birlasoft Limited for his closing comments.

Angan Guha: So, I once again thank all of you for joining the call today. As always, your questions have been insightful, and I really appreciate your interest in Birlasoft. We've made a very good start to this financial year, with good profitable growth and solid fundamentals. We will continue to build on our capabilities and sharpen our go-to-market strategy. I look forward to speaking with you again next quarter. Meanwhile, please feel free to reach out to Abhinandan for any clarifications or feedback. Thank you once again.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Birlasoft, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.

(This document has been edited for readability purpose)

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