"Birlasoft Limited Q4 & FY'20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Birlasoft Q4 & FY'20 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 this conference call, you may 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. Vikas Jadhav – Head, Investor Relations, Birlasoft. Thank you and over to you, sir.

Vikas Jadhav: Yes, hi. Thanks, Mallika. So very good morning to all of you and welcome to Birlasoft Q4 & FY'20 Earnings Call. So today we have with us our CEO & M.D. – Dharmender Kapoor, DK as you know him; Roop Singh – our Chief Business Officer; Shreeranganath Kulkarni, (SK) – our Chief Delivery Officer and this time around we also have now Arun Rao who has joined us as a Chief People Officer and Shantanu Rudra who has taken over from Rajeev and he is heading Finance for us.

So please note that anything which we say and which refers to the outlook for the future is a forward-looking statement on this call and must be read in conjunction with the disclaimer which we have put up in our last page of 'Investor Update' which mentions the risk that company faces. Now with this I hand over call to DK. Over to DK.

Dharmender Kapoor: Thank you, Vikas. Good morning and welcome to Birlasoft Q4 Financial Year '20 Earning Call. I am very pleased to present the financial results for Birlasoft for Q4 and Financial Year '20. As we are just concluding the financial year, I will also be completing a year as CEO of Birlasoft in just a few days on 1st June. When I look back at the last one year, I look with a great sense of satisfaction at what we have achieved. It is the first full year of operations for new Birlasoft after the merger and we had to face multiple challenges in putting together an organization that will have a strong foundation for growth. We took many decisions that were unpopular, but absolutely essential to create an organization that will be resilient and sustainable to changing market dynamics. We decided relentlessly to focus on our long-term goals to create an organization that will be closer to clientele, we defined and implemented metric structure consisting of industry verticals and technology horizontal. We knew that no strategy can be successful if it is not supported by a sound organization, structure and capability. To ensure we achieve our goals of quality revenue and margin, we defined our policies around sales incentive, grade harmonization and long-term ESOP and the LTI plan for our key leaders. The objective here was to promote right behavior and responsible selling and dependable execution. We have been very careful in optimizing our cost structure where we continue to improve our profitability despite initial two quarters during integration showing revenue decline.

I am extremely happy that we have shown robust quarter-on-quarter growth in the last two quarters both in revenue as well as EBITDA.

I am happy that we did spent time in putting together a winning team, which resulted in many enviable deal wins, during the year. Within our first two quarters of coming together, the team did an exceptional job in winning a transformational deal of $242 million which all of you know about.

This has been the largest deal in history of Birlasoft. The winning spell has continued for Birlasoft during the year as we find record $ 669 million worth of deals, of which 64% are net new business deals.

Let me take a few minutes to describe how our results for Q4 look:

Our revenue for Q4 stands at $125.6 million. We grew 7.5% sequentially and 11% year-on-year for the same quarter. This also happens to hit the 500 million revenue run rate for Birlasoft. Our EBITDA margin for Q4 is at 12.9% which is flat from the quarter-on-quarter perspective despite some of the challenges that we saw in the month of March.

I am happy to mention that we performed 50 bps better than what was expected. When I had this discussion in the last quarter, I did talk about that we may see some EBITDA pressure in the next quarter, but I am very happy to state that we took the decision to do cost reduction and cost optimization and we brought the efficiencies that were needed and we have been able to post flat quarter-on-quarter EBITDA margin for us.

It was heartening to see the Q4 growth across all horizontals and across all the customer segments. Our top-5, 10 and 20 customers grew 7.7%, 10.2% and 8.2%, respectively. As you know, that our focus was to cross-sell to our strategic customers, it is the result of that that we have seen consistent growth in our top-5, 10 and 20-customers. Our active customer count went down from 401 in the beginning of the year to about 378 at the year-end. This is in line with the strategy to critically look at cutting the non-strategic accounts over a period. Our profit before tax was up 8.2% quarter-on-quarter. Our PAT, however, was at $ 9.6 million; it is down quarter-on-quarter by 6.2%. We had to take some of the one-time actions due to tax and I would request Shantanu later to give color to this number in his commentary.

While working on our capabilities, we continuously improved the health of our balance sheet and other operating levers. For example, our employee cost as percentage of revenue came down from 63% in Q4 in financial year '19 to 58% in Q4 financial year '20, a significant drop of 5% year-on-year while we grew 11% in the dollar terms for the same quarter. This was possible due to our attempt on broadening the pyramid. We went ahead and hired fresh graduates and we made them billable so that our pyramid correction lever continues to work. We are also inducting about 700 freshers from the E schools in this year and we are going to honor all those hiring that we have committed.

Our utilization improved from 78% to 81% in Q4; in Q1 it was 78%. Our DSO improved from 79-days in March '19 to 72 days of March 2020. As you would remember, that our DSO went down to 65 which is a very-very healthy figure in the last quarter. It has increased a little bit because of one of the accounts having delayed billing. That has happened after March. So we still continue to work at the DSO being lesser than 70 (if you take out that one particular account). So, I believe that it is absolutely very-very best-in-class figure that we achieved. As you may remember, it was 85 days when we started the year.

Our attrition that went up to 22.5% has come down to 18.9%. And we believe that it will further go down as we continue to work on the measures to improve on our attrition.

Our annuity revenue improved from 53% to 59%. We did talk about this in the last quarter also. We will continue to focus on this particular parameter because we want to look at improving our annuity revenue, so that our revenue quarter-on-quarter becomes far more predictable than it is today. Today, we have had to work harder in order to ensure that we meet our guidance. But we want to make it simpler for us in improving the annuity revenue and we will continue to focus on that as a parameter.

Our cash and cash equivalent has gone up by $ 5.3 million during the year despite $ 26 million outflow on the account of CAPEX, dividend, and loan repayment.

We increased the number of employees in the organization by 207. That was the net addition during the year.

Our strategy of keeping focus on key accounts and optimizing the tail accounts which I mentioned earlier has worked very well. I talked about our top-5, 10 and 20-accounts how they have grown but if you look at the contribution, the contribution from top-10 accounts went up by 36.2% in the Q4. And if you look at the top-10 accounts, it grew by 23% year-on-year. Similarly, top-20 accounts contribution went up from 48.8% in March 19 to 53.3% in March '20 and a growth of 21.2% in our top-20 accounts. We will continue to put focus behind the strategic customers, and we will continue to improve on this as well. The year-on-year growth outside top-20 accounts in Q4 was 1.2% and customer count fell from 401 to 378.

I take pride in mentioning that our horizontal business units have continued to show the technical strength and have won multiple recognitions and awards from clients, partners and analysts such as ISG, Gartner and Forrester. This brings a lot of credibility for us in front of our customer.

In my last interaction with all of you in the Q1 call, if you recollect, I had mentioned that it is not about running a sprint but running a long race and laying a strong foundation for us to catch up, was a pre-requisite. As luck would have it, just when we are getting confident about our resilience and strong organization culture, we are facing this unprecedented situation due to COVID-19 pandemic. While it is not an encouraging situation for human kind to be in such a stressful environment, I am relieved that we have crossed over the hump of integration just at the right time. We were very quick in planning movement to work from home and enabled our employees to be productive. We ensured that our customers remain engaged and are served well during the time. I am happy to mention that we have not received any escalation or issue in meeting our performance or productivity requirements and that is evident from our quarterly result that we did not see any drop in revenue in the month of March because it was a very stressful month where we had to put people to work from home and it was expected that there could be productivity loss or there could be a billing loss, but we were able to avoid that completely because we engaged with our customers very-very well. Today, we have 96% of our employees working from home. They are all safe and productive and well-engaged to remain effective.

Having said that, as all of you know that the demand side has got impacted and we will have to monitor the situation very closely as it unfolds. Our priority would be to continue to protect our revenue by sweating ourselves in delivering higher value to our customers. We are also working aggressively in expanding our revenue to very select and focused connect with our clients and prospects. I am continuing to see that there are only issues with respect to the cost reduction by our clients, I continue to see that they are still engaged on giving the opportunities. The pipeline that we have had in the last quarter, though it has slowed down, it has not vanished. We are still winning business and that is very encouraging, and it only tells us that the impact that would be there, it will only be a short-term impact and not a long-term one.

Going ahead, our priority will remain on growth. We will continue to strengthen our talent in the service lines, sales and delivery. We made significant improvements in our structure and hiring key talent to our focus area during this quarter and we will continue to work on the same.

We will continue to improve the annuity revenue. I talked about it earlier also. And all that hinges upon the ability to cross-sell and we are really seeing very good results due to that strategy. We will also explore and exploit our relationship channels such as with the ISV OEMs. We have very strong relationships with SAP, with Microsoft, with Oracle and that has given us an edge over competition when we go for large deals or for strategic deals and we want to continue to strengthen that further.

Having said that, last but most important is our focus on the operational rigor. As you know that there would be pressure on the growth, we do not want us to be having surprises both on the revenue growth as well as on profitability. So, we will continue to work on our operational rigor and also on our cost savings lever so that despite having some of the headwinds during the integration process and now through the COVID situation, we continue to remain a robust profitable organization.

With this, I will hand over to Shantanu for providing more color on our financials. Over to you, Shantanu.

Shantanu Rudra: Thank you, DK and good morning to everyone. Let me quickly run you through the financials for the company for Q4 as well as for the year. While DK has mentioned, I am just reiterating the fact that after a relatively sluggish start to the year in the first two quarters of the year, the company has made a very smart recovery in Q3 and Q4 of the year thereby resulting in its highest quarterly revenues in Q4 of $ 125.6 billion which was a growth of 7.5% over Q3 and 11% over Q4 of the last fiscal.

In terms of constant currency growth, the growth was at 7.65% for the quarter. We have also had some relatively strong results in the margin front and Q4 EBITDA at 12.9% of revenue was at $

16.2 million versus $ 15.1 million that we recorded in Q3, which basically resulted in a growth of 7.3% QoQ and 81.4% year-on-year. The EBITDA basically was driven as DK just mentioned by a mix of areas like revenue growth, higher margins, cost optimization, rupee depreciation and this result actually then translated into higher PBT for the quarter which was at $ 15.3 million, up 8.2% quarter-on-quarter and 22.2% year-on-year. PBT was at 12.2% of the revenue. We also saw our PAT degrow by 6.2% quarter-on-quarter fundamentally on account of a change in the mix of our profitability with a bulk of the profitability coming from the Indian entity which has a higher effective tax rate as compared to some of the other geographies that we operate out of. And that was the primary reason why our effective tax rate was almost at 37.7% versus 28% last quarter. However, I think we have done very well and grown quarter-on-quarter both in revenues and margins in rupee terms and I think that is a trend that you would like to see ourselves go with in the next year.

Coming to annual numbers, we recorded an annual revenue of $ 464 million, which was Rs 3,291 crores, which was a decline of 2.2% over the previous year. However, our constant currency terms, there was a de-growth of 1.5%. So effectively this is virtually a flat growth in terms of how we performed last year. The EBITDA had 11.9% of revenues was at $ 55.3 million, up 20% year-on-year and the EBITDA per cent actually went up from 9.7% to 11.9% for the year. The PBT was at 10.2% of revenues at $ 47.4 million which was up 6.2% year-on-year. However, there was an exceptional item in the PBT for last year FY'19 of $ 2.5 million which is the takeaway, the PBT was actually up by about 12.3% for the year.

We also had a small blip on our tax rates for the year as a whole with our effective tax rates at 33% versus 20% last year primarily because of the tax dispensations that we did not have on account of SEZ operations as well as R&D operations this year and therefore the tax rate actually went up to 33% and our PAT saw a small decline of 11.9% and if we ignore the exceptional items of 5.3% at $ 31.6 million which was Rs 224 crores. So that in a nutshell is the profit & loss and the revenue and expenses numbers.

We also made a very strong attempt at improving the health of our balance sheet all through the year. And I think several parameters, some of which DK mentioned are all pointing towards it. We saw our DSO come down from 79-days to 72-days. We saw our unbilled revenues drop. We saw our cash and cash equivalent balances go up to $ 88.4 million, up $ 5.3 million over the previous year in spite of having repaid all debt of $ 5.1 million. So we are debt-free right now. We have paid dividends of $ 13.2 million in last year and we also incurred CAPEX of $ 7.7 million last year, adding up to a total of $ 26 million.

So fair amount of cash was generated last year in spite of taking care of all the operations. And I think what the other focus that we have had last year is also to make sure that we de-risk our cash in terms of fluctuations and risks. And one of the things that we did early April after the COVID-19 situation broke out was moving all our cash away from mutual funds into banks and fixed deposits from banks, thereby eliminating any market fluctuations to impact our cash at this point in time. Our hedge book has also gone up to $ 89.3 million in Q4 as against $ 82.8 million in Q3 and with a better average hedge rate of Rs.73.7 to a dollar versus Rs.72.9 in Q3.

Considering the healthy cash balance, in spite of the COVID crisis, our board has announced a final dividend of Re.1 per share over and above interim dividend of Re.1 per share that we had already announced in Q3 and with a total dividend of Rs.2 per share for the year, our payout ratio including dividend distribution tax for FY'20 is 27.3% versus 26.9% last year.

I think all in all, we have looked at the situation on account of the current crisis and we have looked at several cost measures that we have already initiated both for protecting revenues and margins as well as for cost containment at our end. And I think our strong growth in revenues and margins in Q4 and for the year only augur for better things going forward.

On this positive note, let me open the floor for questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Nisarg Vakharia from Lucky Investments. Please go ahead.

Nisarg Vakharia: Congratulations to the team of Birlasoft on another exceptional quarter. Sir, my question is going to be something that everybody is going to ask. What sort of an impact do you think we will face in Q1 due to the disruption of COVID and execution? And secondly, do you think we can end with 5%-6% constant currency growth over the last year despite the COVID situation looking at the order book at hand?

Dharmender Kapoor: As I have maintained before, we do not give guidance in the market, however, at the same time it is very difficult for any company to determine as to how the entire year will behave because every single industry is impacted, currently everyone is going through bad times, and it all depends upon how the recovery starts happening with different industries. So, it is yet to be seen. What we understood about the impact in the month of March was very different from what we saw in the month of April and what we see actually in May. So, there is definitely going to be impact. But I believe that the impact should be a short-term impact. I expect there will be a pressure in Q1 definitely and hope it will get stabilized in the Q2, because it is not that we are seeing only the delays or deferment of projects, we are also seeing that there are opportunities as well. It is absolutely right that there is more set of delays and drop in the projects than the number of opportunities. Good part is that our client Companies are not losing hope and they are also finding it very crucial at this time to improve their cost structure, and that is leading into more opportunities of outsourcing. We are working on those and I believe the IT industry will definitely take benefit of the changing market dynamics in the longer run. One of the very clear signals that we are getting from our customers is that they do not want to concentrate their risk by single sourcing and they are looking at having mid-tier services providers in the mix, because they found that companies such as Birlasoft were very nimble and flexible and agile in making people work from home without any disruption. And I think that is giving them the confidence and we are already seeing some of the opportunities in that space, and that in my opinion is very encouraging. Again, the size of that maybe smaller. But I believe that it is going to give us the advantage in probably a quarter down the line.

Moderator: Thank you. The next question is from the line of Shraddha from Asian Market Securities. Please go ahead.

Shraddha: First question is the entire growth this time around seems to be led by Life Sciences vertical which I believe is on the back of ramp up on the Invacare deal and the other verticals seem to have been flattish or perhaps shown a clear declining revenue. Your commentary on those lines will be really helpful.

Dharmender Kapoor: Yes, absolutely, definitely Invacare has given us a good advantage, but it is not that our growth is only because of Invacare. In both the quarters, we had grown without Invacare revenue as well. So that in my opinion is very positive for us because we are seeing almost every vertical and every horizontal for us growing and that means the whole team is coming together and we have seen the advantage of the strong foundation that we created. So yes, Invacare has given us the benefit, but we are growing even without the Invacare revenue also.

Shraddha: Would it be possible for you to break the revenue ex-Invacare in this quarter?

Dharmender Kapoor: Last Qtr if I remember that we grew about 4% in the rest of the portfolio excluding Invacare revenue. This quarter we have grown approximately 2.7% or 2.8% if we exclude the Invacare revenue.

Shraddha: And secondly, you did mention that we would face challenges in the first quarter. If you could just quantify would it be a mid-single digit, lower than that, higher than that, any directional sense would be really helpful? We did talk of stabilization in Q2. So Q3 onwards do we see growth bouncing back to at least a low single digit?

Dharmender Kapoor: I believe there will definitely be pressure. I do not think that there will be a growth in Q1 and we are only trying to look at how do we protect as much as we can and also try to expand with our existing customers where we have very clear sight of opportunity so that anything that we lose we are able to gain it back. But I believe that the impact definitely will be there in Q1. Q2 is still in the air, because we have yet to see how these companies will resume their work in the US and in Europe. There are some who have started coming back, but there are others who are delaying. So it will all depend upon recovery speed. It will be too premature for us to really look at that. We believe that it should stablize in Q2, but we will know more closer to Q2 as to how that is going to happen. It is very difficult to determine that right now.

Shraddha: As of date do you see any systematic risk in any of your top-20 accounts and have there been any material project cancellations from any of your strategic accounts?

Dharmender Kapoor: Yes, there are few cases where there are project deferments and project drops, but we have to understand that when they are dropping those projects which are not absolutely essential today for them, new opportunities are also emerging which are very essential in current, and as I was saying in one of my discussions earlier that there are regrets that they have had in the last two quarters where they did not move to cloud or they did not put the disaster recovery in place or they did not go for omnichannel. So those are the opportunities that are emerging. It is just that there will always be a lag of opportunity drop and opportunity gain. And that is the reason I said there will be impact, but I believe that as far as the sustainability of our top customers is concerned, I do not think there is risk there.

Shraddha: How should we look at the tax rate for the next year?

Shantanu Rudra: As per our current estimates right now, we seem to be looking at an effective tax rate of between 28% and 30% next year as against the 33% that we encountered this year. And of course a lot will depend on how our revenues and costs shape up over the next 3.5-quarters. And I think I will be able to give you a better feel of that once we go down the line at least by the end of the second quarter.

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

Rajeev Agrawal: My first question is just carrying on from the previous participant about the effective tax rate of 28% to 30%. You mentioned that in the previous year financial year '19 the tax rate was lower because of SEZ and some R&D credit. So what is it that is causing those credits to go away for us in financial year '20 and '21?

Shantanu Rudra: As you probably aware, Rajiv, there was a demerger of the entity last year whereby the erstwhile company actually took away the engineering business and along with that the R&D benefits were actually moved to the engineering business. So it is not available to Birlasoft at this point in time. The second part about the SEZ revenues is also on account of the fact that the SEZ benefits have completed their tenure and therefore are not available to Birlasoft right now.

Rajeev Agrawal: We have not yet moved to the new tax regime, have we, the 25% and can you talk about what is our plans around that?

Dharmender Kapoor: I think at this point in time given the fact that there is a MAT credit available, the chances are at this point in time and as per our current estimates that we will not move into the new regime this year.

Rajeev Agrawal: The next question is our revenues have grown nicely this year especially in the second half. What is also interesting to see is that we have been able to improve our margins somewhat. Knowing that next year as in financial year '21 is going to be a little difficult, should we expect the margins continue to improve or can you give some sort of a color on how you see the margins trending going forward?

Dharmender Kapoor: I believe that we will have some impact in the Q1 because as we put cost optimization lever into place, it takes some time before get benefits. But I believe that Q2 onwards we will be posting better margin than what we have posted earlier, so we will be back to the normal, but I expect that Q1 may have some impact. It is yet to be seen how much impact it would be, but we are working very aggressively on optimizing cost.

Rajeev Agrawal: And in the past we have talked about EBITDA margins of 15%. Is that still an aspiration level we continue to have?

Dharmender Kapoor: Absolutely.

Rajeev Agrawal: And then the other question is we have significant cash on the balance sheet. I know the firm has distributed dividend. In the past management has also talked about rewarding shareholders in various ways. Is there any thought around the buyback and where do we stand with that?

Dharmender Kapoor: We were really considering all these options in the Q3. But the situation on the COVID side has really put the spanner in the whole wheel that we had to pause on that thinking, because currently the most important thing for any company is how do we preserve the cash, because we all need working capital for at least two to three quarters and there are other initiatives also where we need to continue to invest. So we are just pausing on that for some time so that we are able to preserve cash in the shorter-term. But of course, our philosophy is that we have to continue to reward the shareholders. That will continue to remain and we will continue to find opportunities to pay back to our shareholders in a handsome way.

Rajeev Agrawal: In financial year '20, Invacare was a game changer for us. Are we seeing any such big opportunity, I mean, knowing COVID has created a lot of uncertainty but what is the sense, do we feel like there could be some big transformational deal again in our sight in '21?

Dharmender Kapoor: Absolutely, there is one that we signed yesterday… I will not take the name here because I still have to get approval from the client. Similarly, there are other couple of deals that we signed during this quarter also. So, yes, those are there. It may not be at the same size of Invacare, but they are also good enough and they are big enough. At the same time our pipeline does have items, that are looking very encouraging. It is just that we are waiting for the clients to come back and action their decision. Some of the clients have started working virtually also on those planned RFPs and the deals. So the progress is there, but it is slower than before. So, I am very positive that we will continue to show those kind of deals on the table.

Rajeev Agrawal: Do you disclose order book and if you do what is the amount that is there in terms of pending order book?

Dharmender Kapoor: We are re-looking at the whole thing, but as I earlier mentioned, earlier our annuity revenue used to be in the range of 51%- 52% and it has moved to 59-60%. I will not give the exact number, but I am sure that you will be able to back calculate from there.

Moderator: Thank you. The next question is from the line of Abhishek S from Elara Capital. Please go ahead.

Abhishek S: You already made comments about any client-specific issues, you do not see coming in the next one or two quarters. But based on your discussions in March, April and May with your top-20, 30 accounts, what is the feedback that you are getting?

Dharmender Kapoor: Very good question and I will give some answer and I will then ask our Chief Business Officer, Roop, also to give an answer to this one. One, I think we are very-very confident about our top-20 customers. When we had to work from home, we remained absolutely engaged with them. We ensured that there is absolutely no disruption to their business. We ensured that if we have to sweat anywhere to provide services more than what it is contracted for, we went ahead and provided. So there is good confidence that they have on Birlasoft. I got numerous e-mails from those customers thanking us on how quickly we emerged from the situation and kept our people very-very productive. So I remain very-very upbeat about our top customers. But I would also like Roop to talk about it as we continue to remain engaged with customer on almost every day basis. Roop, over to you.

Roop Singh: Could you just repeat the first part of your question? I did not hear that. Sorry.

Abhishek S: So based on your conversations with clients in March, April and May, what is the difference or what is the feedback from the ground?

Roop Singh: See, the customers actually have come away from the initial panic mode, right, and they are now looking at how they are going to operate in the constraints that they have. And bear in mind there are also a fair amount of positives that we are seeing with the customers as we stay closely engaged with them. As they are seeing cost reductions reflected in their own personnel, they are looking for partners who will continue to engage with them in a more effective manner. So, while there could be some stoppage in discretionary spend, they are still looking very much at how their operational expense could be more managed tightly and opportunities in terms of how we engage with them more effectively going forward. So, we have not seen too much of negativity within our client base, but more in terms of help from our partner as to how we could help them manage their expense better.

Abhishek S: The second question is on the services mix. Your growth was skewed towards healthcare vertical, but your services growth was not skewed towards SAP which I thought could have been. So, just any comments around the mix of growth in services?

Dharmender Kapoor: On the services side, I think it is fairly balanced. Every horizontal has shown degrowth and I believe that we cannot single out one which is giving lesser. But what is happening is that the interdependency between various enterprise solutions services such as ERP, other products and digital solutions has started happening more and more. So slowly in my opinion, it is going to get difficult to say if it is a digital deal, or enterprise solution deal because they are getting merged to a great extent. And if you look from that perspective, we are seeing significant opportunities in SAP as well, Invacare was all at the backdrop of SAP, similarly, there are a couple of other opportunities that we hopefully will declare very soon on the SAP side. So, SAP definitely is in a very good trajectory. On the Oracle side, the Oracle Cloud is taking good shape, we recently got rewarded as a good niche player by Gartner. So that also looks robust. The clients will have to look at when they move from on-premise to cloud. But those opportunities have started emerging. So I believe we will continue to see a good balance in the offerings that we have. When it comes to the industries, I believe that life sciences will remain robust because of the current conditions also because the demand on the medical devices or the pharma companies will continue to improve for the next few quarters. So, we should expect that there will not be as much impact on them, but at the same time they may be the first one to recover back. There will be impact on services industry such as airlines or logistic. But we do not have a very large portfolio for travel and logistics, we have very small portfolio. Hence it will not have way too much impact on us.

Abhishek S: I know you do not want to provide a guidance for the full year, but the strong exit momentum is suggesting growth for us in '21. I know Q1 and Q2 can be soft or there could be issues. But still with the strong exit rate, is it possible that we could be in the top quartile of growth from an industry standpoint in FY'21?

Dharmender Kapoor: We have very set guidelines that we will not provide the guidance and I would maintain that, but I would keep that as a good element of surprise. we have surprised in the last two quarters and I hope that we will continue to give good surprises going forward also.

Abhishek S: Just from a margin standpoint, I think from an other expenses number perspective, the earlier commentary was suggesting that over a period of time this number should moderate; however in the Q1 obviously the transition cost has elevated this number, but how should we read or we should look at this number with 6-8-quarters down the line for margin at the organization level as well as the other expenses as a percentage of sales is now almost 29% again what we have had in Q4'19 and earlier commentary was that over a period of time we will see this rationalization in that cost item?

Dharmender Kapoor: I would maintain my earlier comment from that. Yes, I know that there would be pressure on the margins in the Q1. But if I look out the exit rate for this year, we would like to continue to aim for getting closer to our peers. So that goal we are not dropping.

Abhishek S: On the CAPEX side, what should we build for '21?

Dharmender Kapoor: It is going to be much lesser than what we budgeted for in the last year. If you remember, we budgeted for about $ 20 million and we spent about 8 million or so. we were very careful even in the last year that we do not overspend anything where it is not required. We are extra cautious this year because of the situation that all of you know. So we have budgeted far lesser than what we budgeted last year but at the same time we expect that we will cut down on the expenses that are not absolutely necessary. And none of the items even if it is budgeted go without any approval. So we are very-very careful on that front and you will see there will be a drop in the spend on that front as well.

Shantanu Rudra: If I can add to the fact that this year's budget for CAPEX also has two dimensions. There is one dimension which is absolutely, necessary CAPEX that we will do and then there is another bucket which is for discretionary CAPEX, which we will only trigger off if and when actually required.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: DK, just wanted to touch base on a couple of comments that you have mentioned. First of all with regards to greater focus around annuity stream of revenues. If you could help us understand what proportion of our revenues today would you classify as annuity and how much would be project based here?

Dharmender Kapoor: our revenue from the projects would be anywhere from 25-30%, but annuity revenue would be approximately 59-60%. As I mentioned, last year it was at 52% and in Q3 we moved to 58%, that means the visibility for our next year is far better than what it was when we merged and it continues to improve upon, we are in the close range of about 60% annuity revenue already.

Manik Taneja: And then with regards to the initiative around cutting a long tail of accounts and deriving some leverage over there, could you essentially help us understand where are we in that journey while we have not seen any impact from that initiative in the recent quarters on revenue growth, but do you think that would be a near-term revenue pressure as we cut some of these tail accounts?

Dharmender Kapoor: There are two things to look at when we look at tail accounts.. One is that what has happened to our top-20 accounts or top-30 accounts. When we grow there, a lot of times we see that growth comes in by shifting our resources from tail account to top accounts because you do not want to cut the tail and lose the revenue in the process. We had to cut the tail but we have to look at the key resources who are locked in the tail accounts, we need to utilize those resources better so that we can get better margins and we can get better opportunities. So we continue to look at what are the resources that are locked in the tail accounts who are not strategic for us, who cannot grow. We also continue to look at what are the opportunities on our strategic accounts and we continue to shift them. That is how we are cutting the tail. The processes have slowed down a little bit because the demand has slowed down in the last three months. But our strategy is in place, our goals are in place, people know what behavior we have to display when it comes to fulfilling the demand and we have earmarked those resources that we can take out from the tail account. In current times, it has slowed down a little bit in the last three months. But we will eventually go by cutting down on all those accounts which are not going to be strategic for us.

Manik Taneja: I have a couple of other questions as well. Some of our peers have alluded to suggesting that we could see more like mid single digit kind of revenue declines in June quarter before things begin to recover. Do we also have a similar sort of an outlook with regards to near-term revenue?

Dharmender Kapoor: As of today, that is the outlook that we also see, that there will be pressure, but at the same time situation continues to change, we are getting opportunities also. So our objective is how do we continue to protect and expand. But yes, our outlook is very similar to what other companies are also providing.

Manik Taneja: In our case we have seen that sales and support headcount is significantly higher as a proportion of employee mix as compared to what we see in the industry. If could help us understand what is driving that, is there a classification issue there or is it that the sales support headcount essentially is much higher here and thereby offers an opportunity for optimization?

Dharmender Kapoor: as you know that we were going through the merger and we still carry the two systems in which we operate and these are going to get integrated next month. we are going to integrate our major IT systems from 4th of June to 15th of June and we will be having one system on 15th of June. That itself will help us optimize a lot on that front. Because there is always a redundancy that you have to continue because of the two large systems running in parallel. When it comes to the sale side, we knew we will have to invest for us to be far more competitive. As you know that our annuity revenue was at 52%. And if your annuity revenue is lower, you have to work harder to grow quarter-on-quarter. It has worked successfully for us. we had to take a little higher cost for that. But we may have to continue to maintain that for some time before our annuity revenue reaches to a range where it becomes easier for us to grow quarter-on-quarter with lesser effort.

Manik Taneja: You said that there is an integration of systems that will come into place now in June and which would be a source of efficiency. So, how much cost efficiencies are we looking at from a go forward basis on this count?

Dharmender Kapoor: I think we definitely believe that there is a good optimization that we can do on our support costs. We have identified levers. We have absolutely crystal clear plan that we are going to execute. And it is just that you may not see some of the benefits coming up in the Q1 because Q1 is completely mixed with the new reality. But I believe that some part of that will start showing positive result in the Q2.

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

Madhu Babu: The project-based business is around 40% of revenue. So what are the deal tenures and what is the kind of leakage we can see in that in next year?

Roop Singh: Most of the projects business which relates to implementations specifically relates to ERP platforms if you will. Typical engagement size could anywhere be between 12 to 18-months. Now while we are engaging on these projects, we are also actively looking at how can we cross-sell, upsell these project-based business accounts if you will, right. Given that project-based business is also related to discretionary spend, we probably in Q1 will see some softness in this area, but we will continue to push to cross-selling these accounts specifically.

Madhu Babu: And second is the new deal we signed yesterday, so even just there is it a multi-service deal and whom we have competed against, any idea on that?

Dharmender Kapoor: I think it will be wrong to take the name for the competition, but it is a multi-year deal slated for three years and it is in the infrastructure management space.

Madhu Babu: You said that work from home has given us a separate advantage. How do you see this work from home model evolving over the next year even post-COVID whether that is the new normal and whether CAPEX will again substantially come down, etc.?

Dharmender Kapoor: Yes, it will have impact on CAPEX and I will come to that answer later. But if I look at it very clearly, people are right now well settled and comfortable working from home. But this is also because our clients are comfortable in the current situation. When clients get back to office, they may have very different requirements. So, currently our focus is to engage with the customers and determine what part of business they would like to work from office and what part can work from home without any disruptions or without any issue. The BFSI client will behave very differently from the manufacturing client. So, we have to be specific to the sector as well and we will be. At the same time, we also have to look at what are the roles which are more conducive to work from home and what are the roles which need to be absolutely essential working from the office. So we are looking at that element also. if the lockdown is going to open tomorrow, we are not running back to our office. We will take a couple of weeks more before we start putting our people back to office because we are more concerned about the safety of people because if they are safe, that means they are productive and that means our clients are happy. So, we have to be more careful about that. But I believe It could be 15%, it could be 25%. Those are the people who will continue to work from home for a longer period of time. I do not think that we want to keep percentage as a goal. We want to ensure that we are delivering well and we are being seen as a dependable partner for our customer. So that is far more important for us rather than looking at whether somebody is working from home or office. But already we have taken certain decisions because we expect that quite a few people will continue to work from home. We have dropped some plans for additional facilities and space already. right now we do not need the space because a lot of people are working from home and many will continue to work from home. This will lead to cost reduction at the CAPEX level.

Madhu Babu: Subcontracting as a per cent of revenue, how much is it?

Dharmender Kapoor: SK, maybe you want to take that answer because there is a lot of changes that SK has initiated on the subcontractor level because that generally in the current environment was becoming the higher percentage, but we have taken a lot of steps in that direction. SK, over to you.

S Kulkarni: Thanks, DK. So, our subcontractor headcount is anywhere between 5% to 6% and in terms of revenue it is around 8% to 9%. What we have done is two aspects to it – One, based on the engagements we are trying to look at replacing those sub-contractors with people that are available at the non-India geographies, that is number one. Number two is we have also gone a little aggressive in trying to negotiate a better rate for subcons . Both of these should yield us some cost savings over a period of time.

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

Ashish Kacholia: Good Morning and congratulations to Management on great set of numbers. I have a conceptual question on the fact that customers have kind of got used to not going to office. So, our company has a higher mix of onsite revenues. So, does this provide an opportunity for us to structurally reduce the onsite percentage in terms of our efforts, so it does not really matter if the person is sitting at home in New York or in office in Noida or Pune, so is there any change in customer behavior or indication?

Dharmender Kapoor: This is absolutely a very relevant question because clients who thought that the person should be sitting next to me while working, I think those barriers are gone. Whether somebody sitting five miles or 5,000 miles away, It matters much less. And what is happening is the point that SK mentioned that we are replacing our subcontractors at onsite, many of them are getting replaced by having that work shifted to offshore. Second, we can better utilize our people who are coming on the bench from the other quarters. So, it is all win-win for us where we are able to provide much better cost structure to our clients by providing or bringing those roles to the offshore. So you are absolutely right, that has already started happening. We have also started looking at if there are any other enabling roles that can be managed through offshore and that also we are working in parallel.

Ashish Kacholia: Where are we on the attrition curve right now and what are your thoughts on that going forward?

Dharmender Kapoor: If you remember that our attrition reached to about 23% in the beginning of the year and it has gradually come down from there and it is at 18.9% as we close the year. In the month of April, we are seeing even lesser attrition, but one can say that it is also because of the situation that we have. But I believe that the employees are getting settled to the new structure and new ways of working and that itself is providing us a benefit where the confidence is back and we are able to retain people better.

Ashish Kacholia: Is H1B problem going to be a footnote in the history at some point of time given the way the digital and communication and zoom?

Dharmender Kapoor: If you look at some of the political news that come, it definitely shows that there will be pressure on H1 availability. But if you look at the report that I saw today that Trump may need more H1 than before, in order to sustain. So people have views, but I continue to see that the demand is not going to go away because it is only a short term blip that we will have. There were so many initiatives on the digital side that the clients were not taking up and there will be a much greater need as we come out because all those companies who are digital have been able to cope better to the current situation, for example, the retailing company who had online channel, they are able to open their business, but others are not able to do that. So even these smaller business will start becoming more and more digital. So the requirement is only going to grow and increase and hence that will bring the need for the H1 and the migration of the talent, that will be required in the US or Europe geography. So, I believe it is not going to go down. But there are other political elements also that we continue to keep a watch on and ensure that we are always on top of those numbers that are happening. But I do not think significant change will happen.

Ashish Kacholia: ERP was written off or as being dead at some point of time and long live digital. So can you just throw some thoughts on how do you see SAP, Oracle, all this entire ERP game and how it is interfaced with digital, is this a sustainable opportunity for us, will clients continue to upgrade their ERP systems and how does it interface with digital to kind of enable a long-term opportunity for our core competence? I understand ERP is our core competence. So what is the role of ERP and digital in the new world?

Dharmender Kapoor: Yes ERP definitely is our core competence. But we also have to understand that the ERP is also core to any business. If you go today to any manufacturing company or any airline or any financial services company or any energy company, ERP is a core solution that has been implemented there and without that they cannot operate. The only change that will happen is that, some part of it may move to the cloud. But ERP is still not going to go away. I remember that very well one year back I was given that statement, that, "Is ERP dead?" And I said absolutely no, because that will continue to form the biggest spend that the companies have. There will be a lot of discussion around digital, but even ERPs are becoming digital. Digital is not a one solution whereas ERP is a solution. And when we put the ERP on Cloud, when we change the interface for the ERP, when we integrate ERP through our integration or the API through the external entities, that becomes a digital solution. So digital cannot live without ERP. what we have to look at is as to how do we digitalize the core rather than thinking core is dead and only digital will live. That is a misnomer in my opinion because digital will have to be built on ERP and that is the reason the positioning that we took was being an enterprise digital company. we do not need leave the core because that will continue to grow and we have to build digital on top of that. And we have seen success in many such opportunities where we are telling the customer that do not throw away your investment, just optimizate and transform, that is far more important.

Ashish Kacholia: My last question is on entire ERP thing. Is there any chance of a further disruption in the ERP market like once upon a time there was SAP which used to take a long time to implement and it give revenues to service partners and implementation partners like us. Then SAP HANA came or the cloud came. Then they said instead of 18 months, now the engagement is only three months. So, suddenly you found that the revenue of all the service providers, top-10, opportunity kind of reduced for some time until the demand caught up again. Are we seeing any disruption like this in the ERP market which can kind of give a certain shock to our revenues?

Dharmender Kapoor: This is how I will take it. Disruption will definitely happen and that disruption is in the form of how well are we available on the cloud. So ERP on cloud would be much leaner and would be much quicker to implement. But that is also going to have only short-term impact because if you look at that standardized ERP, multi-tenant ERP that we put on the cloud is only good for the standard processes. Almost every company will have a need for differentiation, because if every product is same, where would be the differentiation coming from, where would the innovation come from. So the companies would continue to focus on the innovation, they will continue to focus on the differentiation and that differentiation will push to have processes that are different from the standard. And that means while the initial solution on the cloud may look simpler and more standard, people will have to build their own differentiation on top of that and the complexity will increase again. Case in point, if you look at how easy or difficult it was to implement Salesforce.com seven years back. They used to go and sell it to the marketing head and the sales head that you can implement it on your own, you do not need to depend upon IT. But if you go today, it is again IT who takes the decision and also do the implementation and the implementation is far more complex than what it used to be six, seven years back and it is far more expensive than what it used to be 10-years back. So the complexity comes back not because the products are complex, it is because the needs are very-very different for each client and they want to differentiate their business from the rest and they ask for more features, more details, newer process and that is where opportunity for us and also grow along with them.

Moderator: Thank you. We will be taking the last question from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: My question is on the customer side. You have one client moving to 10 million plus segment. So could you just give some color on what service offering, what industry this new client is from or they were moving from lower segment?

Dharmender Kapoor: Most of the clients that you will see moving from one segment to another is going to be the result of cross-selling, that means you were dominant in one particular service line, but we have started selling more services. we are seeing lot of opportunities in infrastructure management services, we are seeing a lot of traction into the digital services especially into the analytics space or user experience. At the same time, we continue to see that our CRM is doing well. So, when I look at those offerings that were not sold to those customers earlier, we are going positioning ourselves for the same. So most of clients are becoming multi services customer and not remaining one service customer.

V.P. Rajesh: In terms of key service offering, the SAP numbers were a little bit light in this quarter. So could you give us some color around that?

Dharmender Kapoor: Yes SAP has started moving in right direction. You know that we did have our challenges in SAP immediately after the merger. But we hired an SAP leader. He came from Infosys and he joined us almost now about four, five months back and he has stabilized the ship very well and we have started seeing the opportunities again. So I believe that our momentum and growth on SAP will come back now because the opportunities were not going away, it is just that we had our own internal structuring, that posed some challenges but those are all behind us and we are very comfortable now with the new leader coming in.

V.P. Rajesh: And then on the cost side, I just notice that this quarter our expenses were moving sharply higher both on the wage side as well as on the other income side. So, were there any one-offs because of COVID, you had to make some special arrangements, or this is going to be the new steady state let us say $109 million per quarter, that kind of run rate of expenses?

Dharmender Kapoor: Absolutely, there were a few expenses that we had to take because as you know we were going through the transition for Invacare and we had to do the infrastructure upgrade, we had to transition people from Invacare to us, at the same time the transition cost had to be taken upfront, we have taken those costs already in this quarter and that is the reason that you see that the one-time jump onto those cost elements. But we believe that they are going to get normalized in this quarterclearly and we will see the advantage on cost optimization.

V.P. Rajesh: Finally, on the wage side, I know you would decide sometime in June, July, but any guidance as to what you are hearing in the industry in terms of the increments or salary freezes or anything if you can give some commentary on that side?

Dharmender Kapoor: I think every company is considering multiple decisions and same is with us also that we are considering some decisions, but we will take those decisions in the due course of time. We still have time to decide because our increments actually start from Q2. But we are absolutely sensitive to what is being done in the market and how the decisions will be shaped. So absolutely we are well aware of that and we will be taking right decisions at the right time.

Moderator: Thank you. I would now like to hand the conference call over to Mr. Dharmender Kapoor for his closing comments.

Dharmender Kapoor: Thank you very much, everyone, for coming and joining the call, but also asking some very good questions for us to give an opportunity to explain as to what is our strategy. I really appreciate the patience and perseverance that each one of you has shown in the last financial year while we were going through the merger situation and at that point of time there are a lot of questions that can be there with respect to the performance and how we are bringing stability and are we really becoming a resilient company or not. I would again assure each one of you that the integration is behind us just at the right time before we hit upon the COVID situation. I am very happy that we took those decisions at the right time, rather than delaying it for the later time. We are one Birlasoft today having one set of processes and structure. That definitely gives us a good sense in terms of managing the current situation that we have. And I continue to hope that we continue to give you positive surprises in the coming quarters also. Thank you very much for your confidence and patience with us.

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

Disclaimer.

Some of the statements in this update that are not historical facts are forward-looking statements. These forward-looking statements include our financial and growth projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business and the markets in which we operate. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. These risks include, but are not limited to, the level of market demand for our services, the highly-competitive market for the types of services that we offer, market conditions that could cause our customers to reduce their spending for our services, our ability to create, acquire and build new businesses and to grow our existing businesses, our ability to attract and retain qualified personnel, currency fluctuations and market conditions in India and elsewhere around the world, and other risks not specifically mentioned herein but those that are common to industry

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