



“Birlasoft Limited Q1 FY 2022 Earnings Conference Call”

July 28, 2021



MANAGEMENT: MR. DHARMENDER KAPOOR – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
MR. CHANDRASEKAR THYAGARAJAN – CHIEF FINANCIAL OFFICER
MR. ROOP SINGH – CHIEF BUSINESS OFFICER
MR. SHREERANGANATH KULKARNI – CHIEF DELIVERY OFFICER
MR. ARUN RAO – CHIEF PEOPLE OFFICER
MR. VIKAS JADHAV – HEAD, INVESTOR RELATIONS



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Moderator: Ladies and gentlemen, good evening, and welcome to the Q1 FY 2022 Earnings Conference Call of Birlasoft. As a reminder, all participant lines will be in the listen-only mode. You will have an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikas Jadhav. Thank you.

Vikas Jadhav: Thanks, Rutuja. Good evening to everybody. I am Vikas from Investor Relations, and joining us today, we have our CEO and MD, Mr. Dharmender Kapoor (DK); our CFO, Mr. Chandrasekar Thyagarajan (Chandru); Roop Singh, our Chief Business Officer; Shreeranganath Kulkarni (SK), our Chief Delivery Officer; and Arun Rao, who is our Chief People Officer.

Please note that anything we say on this call regarding our outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer which we have put up in our investor update and which has been uploaded to the stock exchange. I now hand over the call to DK. Over to you, DK.

Dharmender Kapoor: Thank you, Vikas. Good evening and welcome to Birlasoft quarter one financial year 2022 earnings call. Let me begin straightaway by providing details on our performance for quarter one financial year 2022. Birlasoft has begun the new financial year with good confidence, growth momentum, enhanced confidence with clients, and continued success on account of optimizing operations. We exited our quarter four of the previous financial year with a good exit rate, both, on quarter-on-quarter growth and full year revenue growth, despite the challenges in our client industries during the pandemic year.

For quarter one, our revenue stands at \$128.4 million versus \$120.3 million in quarter four of the previous financial year - an increase of 4.1% quarter-on-quarter growth and 5.9% year-on-year growth. The quarter-on-quarter growth comes despite the revenue loss owing to leave taken by our employees during the peak of the second wave of the pandemic in India. The revenue loss did have an equivalent impact on EBITDA as well. EBITDA margin for quarter one is down marginally at 16% versus 16.9%. However, in absolute terms, it is flat quarter-on-quarter and up by 37% year-on-year.

PAT stood at \$15.4 million, which is up 14% from the previous quarter and 107% from the same quarter the previous year. We signed TCV deal wins of \$153 million in quarter one. New business TCV wins were at \$94 million in quarter one versus \$89 million in the previous year. We have seen some quick uptick in the new business and the wins for the quarter include many ERP implementation/ upgrade deals across verticals. The exciting part of the deal wins for quarter one is that net new wins and growth are back, at \$19.1 million, 13% of the total wins. This change must create a good base for continuous growth for subsequent quarters.

Key customers continue to drive year-on-year growth for us, with top 10 and top 20 customers growing above the company average growth. Besides the consolidation of business in the top customer accounts through cross-selling, we have also seen the addition of two \$10 million customers and five \$5 million customers in the last year. Despite the peak COVID situation arising in quarter one, we improved our utilization from 82.8% in quarter four to 85% in quarter one for this financial year. Utilization has improved significantly by 7% from quarter one of the previous financial year, which stood at 78.2%.



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You all would be aware of the demand-supply mismatch, which is temporarily seen in the industry. The pent-up demand and the pent-up attrition have led to an increase in the attrition numbers for the sector. Birlasoft attrition also increased to 16.5% from 11.6% in the previous quarter. Our endeavor is to broaden the employee pyramid, and it continues with the onboarding of 140 freshers in quarter one and 340 offers that have been made for quarter two.

Coming to outlook and demand trends. We are witnessing early signs of pent-up demand emerging, which will contribute to the growth going ahead. A majority of the delayed projects have been re-scoped and re-started. Also, the discounts that we had offered earlier in the previous year were all rolled back before the Q1 started. This is across offerings like digital transformation, enterprise solutions, application modernization, and acceleration of workload migration to the cloud, cybersecurity, and infrastructure.

On the platform side, in quarter one, we took a step towards fast-tracking our customers' cloud adoption journey by achieving AWS Advanced Consulting Partner status. This will further strengthen our cloud portfolio and enable us to leverage AWS to accelerate our enterprise clients' digital transformation journey. With major alliance partnerships in place, we would be able to provide technology-agnostic end-to-end solutions to our clients.

Our organization is bringing focus on enterprise solutions, platform play has started to work well, and we have started to improve our pipeline. This has improved our SAP and other ERP pipelines, both on the transformational and implementation side. We remain pretty hopeful to catch the net new momentum as travel eases in the U.S. and Europe. We continue to maintain our annuity business at 70% in quarter one, with the project-based business traction picking up, especially on the enterprise IT side. We expect this will lead to annuity revenue in the later stages of the projects and further improve our annuity business towards a 75% level by the end of this financial year.

The focus will continue to remain on the top customers, and their area of priority spends. As travel picks up, we would continue to maintain operational rigor to optimize our cost structure and efficiency in running the organization. As you all are well aware that Birlasoft is in the business of providing services and is driven by the strength of the people that we possess.

During the pandemic, Birlasoft has shown its commitment to the well-being of its people by providing all the help and support required to overcome this challenge. After all, business and care must go hand in hand. The first quarter of the financial year 2022 was one of the toughest for all the stakeholders in India, given the fact that April and May saw the peak of the COVID-19 second wave. I saw so many employees and their close ones who had to endure the pain. The second wave of COVID-19 unsettled many lives around us.

On our part, we had set up a 24x7 COVID helpdesk with teams from facilities and HR functions. We supported the request from employees and their families for hospitalization, medicine, food or groceries, medical consultation, critical equipment, and even quarantine facilities. As the medical system was overwhelmed and struggling with the shortage of medical staff, location-specific doctors were made available online for consultation services. With a commitment to provide safety to our employees and their families, we carried vaccination drives across all the offices in India through dedicated COVID vaccination centers.

We signed up with Apollo and Ruby Hall Clinic to ensure that the vaccination drives are well planned and executed meticulously. Through this initiative, nearly 40% of our employees and their families were administered the first



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dose of the vaccine in a secure manner. The second dose is planned for September. Further, as a part of the CSR initiative, we also extended the vaccination drive to all third-party staff, including housekeeping, security, and technical staff. As we enter quarter two of the financial year 2022, we remain even more confident in providing quality services to our clients and thereby achieving growth and profitability to our business.

With this, I will hand it over to Chandru to provide more color to our financials. Over to you, Chandru.

C. Thyagarajan:

Thank you, DK. Good evening, everyone. I hope you and your loved ones are staying safe and keeping well. Let me walk you through the numbers in some detail. DK already spoke about the Q1 revenue at \$128.4 million vis-a-vis the fourth quarter revenue number \$123.3 million, representing a growth of 4.1% quarter-on-quarter and 5.9% on a year-to-year basis. I want to mention a point here that we had negligible quarter-on-quarter cross-currency impact, and therefore the numbers would be the same on a constant currency basis. On a year-to-year basis, the constant currency growth rate would be 4.1%.

Our EBITDA number at \$20.5 million was a shade lower than the fourth quarter number of \$20.8 million. While we were up 37% on a year-to-year basis, the EBITDA margin at 16% in percentage terms was up 363 basis points on a year-on-year basis, slightly down 90 basis points on a quarter-on-quarter basis. The margins were impacted on account of a few factors. One, we had higher subcontractor cost in the past quarter. There were also increased hiring and recruitment costs, which relates to DK's comment around the talent supply challenges that the industry faced in the past quarter.

We had some tailwinds as well; there was an improvement in utilization that helped our margin. There was also some rupee depreciation that has contributed slightly to the margins. Our other income stood at \$2.9 million in quarter one as compared to \$0.7 million in quarter four. We had a positive FOREX swing of about \$1.9 million on a quarter-on-quarter basis, primarily due to the reinstatement of our assets and liability as of June 30, 2021.

Our effective tax rate for the first quarter was 24.9%, and this compares to 27.7% in Q4. You will recall that we switched to our new tax regime effective the previous financial year, effective third quarter to be precise, leading to a reduction. Going ahead, I expect that the effective tax rate would stabilize between 26% and 27%.

Our DSO, which is an indicator of our collections and receivables, saw a further improvement of two days quarter-on-quarter on the back of robust collections in the past quarter. It stood at 54 days versus 56 days in Q4. Cash and cash equivalence stood at \$154 million, Rs. 1,144 crores as of June 30; this is marginally above \$153.1 million as of March 31.

We have started investing in AAA-rated bonds from this quarter onwards, apart from investments that we have already made in liquid mutual funds, deposits, and corporate deposits of very high quality. These investments are improving our liquidity and liquidity safety, and yield at the same time. We spent about \$1.5 million in CAPEX in the past quarter. One other item I wanted to call out was on our return on equity. Return on equity on a quarterly annualized basis stood 19.7% in the first quarter versus 14.7% in FY 2021.

Overall, we are pleased about beginning the year on a positive note, with all-around improvement in all of our key metrics. However, with the improving pandemic situation and the fast rate of vaccination, we expect some expenses



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such as travel, facilities, etc., to come back in the second half of the year. Our endeavor will be to remain focused on improving operational efficiencies.

On that note, let me throw the floor open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions; one is on the net new TCV side. So, this seems to be a little on the lower side compared to what we have done in the last quarter and also on a Y-o-Y basis, given where 1Q previous year was. So anything which got right-shifted or any outlook on the net new TCV? That is one. Second, you also spoke about some tailwinds and headwinds mix together in terms of margin. What are the targeted 2022 margin numbers given the current supply scenario? Also, I am assuming some COVID-related costs that you would have booked in the quarter?

Dharmender Kapoor: Correct. So, I think, as far as the net new win ratio is concerned, and the numbers are concerned, it has started improving. And I am delighted that the market has opened up. But of course, it is going to continue to take a little bit more time, because it is only in quarter two the market has really opened up; quarter one, there were still a lot of restrictions, even in Europe there are still, for example, in the U.K. there are restrictions of travel from India. But, I believe that the net new that we have in our sales pipeline, and the wins that we see in the form of the ratio, are sounding very, very positive. Because if you look at it carefully, the last full financial year's focus was on the cross-selling, whereas now it has started improving, adding in the newer customers. We added about three to four customers in this quarter, which I believe is very positive. This development will start generating cross-selling opportunities going forward as we stabilize the execution for these clients. This should answer your question on the TCV side and why it remains very positive for us.

To answer your question on the tailwind that we are getting from the demand perspective, I think we will continue to see that in the upcoming quarters. We will have to look at that eventually; how do we get the supply and demand matched far more carefully. Because right now, while the demand is there, there is also a constraint on the supply side. We have started working well with respect to hiring the resources and upskilling the resources to catch the momentum coming our way.

Mohit Jain: On the margin side, where do we stand for FY 2022?

Dharmender Kapoor: Yes, that was, I think, your second question. On the margin side, I believe that there will be a little bit of stability, I would say, at similar levels in quarter one and quarter two. We have already seen Quarter one, but it will remain steady in quarter two as well because there will be increments that we will be giving in quarter two, so there will be a resultant impact of that on the margins. At the same time, there are other places where we are improving our margins to recover some part of the impact. So, I believe that in quarter two, I would expect the margin to be at a very similar level and remain stable. But I think in quarter three and quarter four, there will be some uptick to the margins. Quarter three also has a headwind of a lesser number of days; there could be some challenges that can be there. Also, there is an anticipated third wave, so a few unknowns could alter the projections. But looking at how the numbers stack up today, based on the demand that is coming our way, based on the way we are delivering, and the way we are optimizing, I believe quarter two will be at a very similar level.



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- Mohit Jain:** So you are saying, the wage hike impact, you will be able to absorb completely on a net basis in 2Q?
- Dharmender Kapoor:** That is what is our plan, absolutely.
- Mohit Jain:** And then we will see how the second half progresses?
- Dharmender Kapoor:** That's right.
- Mohit Jain:** And sir, last is on the top five clients there was some weakness, and so was the case with healthcare vertical, there was no growth actually, there was some decline on a Y-o-Y basis. So, what should we expect there? What is happening in that vertical? And is the top five also related in some sense to that vertical?
- Dharmender Kapoor:** Yes, I think that's one of the most exciting verticals that we have because of some of the key wins that we have had. And generally, when you have a huge win that happens, there is always some part of the transformation that will continue to finish over a period of time. And that's the reason sometimes we see that till the transformation part of the project is finished, we have to recover the growth from other projects. So, having that vertical stable at that level, I think it has been good news for us because we have recovered any projects that were finishing through the new wins. I think the revenue from the larger deals is now getting stabilized, and as it gets stabilized, we will also start seeing the upswing on the vertical side of the revenue.
- Mohit Jain:** So healthcare, we should start seeing some upswing given that the transition completion or steady-state has been achieved in the larger side?
- Dharmender Kapoor:** Right. In fact, in quarter one, we thought that we would have a more significant gap. But we were able to recover it in a very nice way because we closed a couple of deals and we grew with one of our top life sciences customers significantly in this quarter. And we were able to recover all the gap that was coming while finishing the transformation projects.
- Mohit Jain:** And sir, top five, that was my last question. The top five clients saw some decline sequentially in revenue; is it also on the same account?
- Dharmender Kapoor:** No, it is only because of some of the projects getting finished. But I believe that we will grow with the top 5, top 10, and top 20 customers the same way we grew last year. Last year we grew about 14% to 20% with these clients, and I expect to see similar growth this year.
- Moderator:** Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.
- Sandeep Agarwal:** Congrats, DK, on very good execution. Also, you have managed your attrition at the same level on a year-over-year basis, although quarter-on-quarter, it has moved up a little bit. I have a couple of questions: how do you see your enterprise digital model shaping up? What is your sense on that part, and how quickly will we convert some more portion of our business into that?
- Secondly, is there any update on the new alliances we would have with the cloud provider? Recently there was one name there; has it been upgraded to platinum status or premium status, or what is the update there?



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And third, how do we see the growth from here on for the next three quarters? Will it be a very fast acceleration given the opening up of the global economies and the travel opening up and all? Or do you think it is too early to call that out? So, some insight on these three parameters.

Dharmender Kapoor:

Yes, I think an excellent question on the enterprise digital, because that has been our position because we believe that while there is a lot of discussion around the enterprise solutions or ERPs if you look carefully, the ERPs are also becoming digital because the software-as-a-service business is really picking up very well and that is a reason, we have reorganized our business into the enterprise solutions, business and technology transformation, and the cloud and the base services. So these are the three elements in which we have done that so that our customers can really draw the benefit of enterprise digital.

At the same time, the digital services were seeing significant growth for us, and that would mean that wherever there are surround technologies that are digital in nature, which sit on top of the enterprise solution, which we also call enterprise digital, we need to give the acceleration to those technology areas. This depends a lot on how quickly we build our relationship with the OEMs and the solution providers. And that's the reason you saw the significant focus on building a strong relationship with Microsoft earlier and now with AWS. We are also moving towards engaging with Google to build the relationship in a very strong fashion for the client with the hyper scalar while we will remain technology agnostic. The idea is to bring the best of breed solutions to them. However, we have a solid consulting approach at the backend that helps us devise the best strategy for our client; we can package our services and solutions. This backend is also connected to our industry expertise in BFSI, energy and utility, life sciences, and manufacturing.

So, in my opinion, enterprise with digital is now getting to a good level of maturity for us. And I believe that the reason that we have started seeing much better growth in the digital revenue now, even when it is sitting on top of the enterprise solutions, and that is also helping us go and close the enterprise solution business or ERP business also because when we tell our clients that we can deliver you much superior value, they approach transformation keeping all that in mind.

On the AWS side, we upgraded our partnership with them; on the Google side, there are ongoing discussions. We want to go very specific, industry-wise, to provide the solutions jointly created through the partnership. With Microsoft, the progress is very good because, while it began with one type of solution on the cloud, now we are looking to sell with them all the solutions they have and some of the solutions and propositions that we create. And that partnership with Microsoft is really shaping up very well for us.

Sandeep Agarwal:

And I have a question about building growth for the next three quarters; how do you perceive that, so if you can throw some light on that?

Dharmender Kapoor:

So, we will definitely be growing quarter-on-quarter; we are very confident of that. It is just that I don't want to put a number because we don't give the guidance. But we will continue to grow; we will continue to see the momentum. In fact, in quarter one, we probably lost about \$1 million of growth to COVID-related leave if you observe carefully. Our growth could have been much better because that is our existing revenue. But now things are stable, and I hope that Wave 3 doesn't happen. But we look forward with a lot of optimism, and the quarters are looking good.



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- Sandeep Agarwal:** So, DK, if I can probe a little bit more, will it be fair to say that we will be in the top quartile of growth within the mid-cap space, or we will be in the top quartile of industry growth? Some benchmarking, because I agree and I respect your policy of not giving any guidance, but you must have something in your mind that at least mid-teen growth or low double-digit growth or double-digit growth, something where we can benchmark at least.
- Dharmender Kapoor:** So, I think I did mention that our goal is to go above the mid-teens growth for the financial year, so that remains.
- Sandeep Agarwal:** So, you are not changing that as of now?
- Dharmender Kapoor:** No, right now, we are not changing because we still believe that while there is a good tailwind, there are also some anticipated headwinds like Wave 3 and all that can happen, so one has to be careful while determining all that. It is not in the hands of anyone, so one has to be careful with the guidance that one gives in the market.
- Moderator:** Thank you. The next question is from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.
- Shraddha Agarwal:** Congratulations on a good quarter. Sir, firstly, I mean, how did the quarter pan out? I mean, was it on expected lines barring the COVID impact? Did it fare better than expectation? So just some thoughts on how the quarter went by for you.
- Dharmender Kapoor:** If I look at internal goals that we set for ourselves, it has done much better than that, both on the revenue side and on the EBITDA side, because we have made some investments during the quarter, despite that we are delivering 16%. I am very happy about that. And it is better than the goals that we set for ourselves.
- Shraddha Agarwal:** Sir, given this background that we have a better start than what we had anticipated; why aren't we changing our so-called qualitative outlook for the year? Why are we still maintaining mid-teens kind of growth guidance?
- Dharmender Kapoor:** I think I will be in a better position to say so by the end of this quarter; that is one thing. Because it is anticipated that wave three can hit us in the middle of August, that is one reason. The second point is that I would love to continue to deliver better than what expectations we set for ourselves and the market. So from that perspective, my goal would be that how do we continue to deliver better; and I think in quarter one, we have done that, and I expect that we will do that in the rest of the quarters.
- Shraddha Agarwal:** And sir, secondly, on margin, we had at the start of the year indicated that we should be around 16% margin for the full year 2022. And we are at a 16% margin in the first quarter, and we expect similar margins in 2Q. And then you have indicated that let's build upon that margins in Q3 and Q4. So, how should we then look at the margin outlook for the full year, given that 16% is the base and we see some improvements happening for, let's say, the second half of the year?
- Dharmender Kapoor:** Correct. I think my answer is very similar to the answer on the growth side or the revenue side. Because imagine that if you had a \$1 million top-line loss due to COVID, that has also gone from the bottom-line because we have taken the costs, but revenue has not come. So, the margin could have been much better actually if there was no Wave 2. The same will be the issue with respect to Wave 3, and I hope that it doesn't happen; then, I am sure that we will give you much better news at the end of quarter two and going forward. But at the same time, yeah, we will get the



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hit of giving the increments to our people. Still, we continue to optimize our execution to recover everything that we lose on the margin side; we continue to recover from the optimization.

Shraddha Agarwal: And sir, these increments that we are talking of in Q2, this is across the organization, across all bands of employees?

Dharmender Kapoor: Absolutely, all employees across the organization. We did the same thing in January, and we did it for all the employees across the organization.

Shraddha Agarwal: Sir, just one last bit if I can squeeze in. It's been some time since we announced a large deal, and some of our peers have been reporting very large chunky deals. So, I mean, how are we, and why are we missing out on the large deal signing front? And how does the pipeline look like? And can we expect some large deal announcement to come through in the next two, three quarters?

Dharmender Kapoor: So, we continue to work on that. It is just that the larger deals are not that large anymore. And wherever we see the larger deals, those are mostly the renewal deals that are happening, because those were the ones which were signed in the previous decade and those are getting a renewal, and hence they look very, very large. But if you observe very carefully, the newer deals are not of that size. And even if they are of that size, they are divided into smaller chunks so that it is not a multi-year deal; the two-year, three-year deals are more frequent than the five-year deals now. But earlier, we used to have seven-year deals also, which is why the TCV size used to look much bigger. But these days, the clients want to look at how quickly they can see the shift that is happening on the technology and how we do not commit for the longer term because the technology is changing. They expect that all those changes will require them to relook at the contract that they have signed so that they can take advantage of that whether it will cost them higher or lower.

Shraddha Agarwal: Sure. And just one last thing, this new deal TCV number which is close to \$94 million for us in this quarter, and you had said last quarter that if this number gets to \$120 million, \$130 million kinds of a run rate, you would be more happy and comfortable guiding to 15% kind of growth number for 2022. So, should we start expecting this kind of a ramp-up in the new deal TCV in one or two quarters? Or should we expect a similar ballpark range of \$95 million, \$100 million?

Dharmender Kapoor: I think we should continue to expect that because there will be some quarters that will be marginally lower. There will be others that will be bumper quarters that will continue to happen. For example, the previous quarter, if you look at that, it was a huge quarter for us. So, on average, as I said earlier, that on an average if it comes through about \$200 million, I think we are very comfortable, but on the average, because last year if you look at, we were a little above \$ 800 million as we closed. So, I think that is what we had to look at. There will be some quarters that might be lower because we would have signed up the deal at the fag end of the previous quarter. So, if that does not happen, then it falls on to the next quarter. I think it is just that much of the difference that causes the numbers to go up and down. And we have a robust pipeline today. The pipeline is at least 10% or 15% higher than what it was actually at the end of quarter four. And when that is the case, that would mean that the upcoming deals will definitely move up.

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



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Abhishek Shindadkar: Congrats on great execution. A couple of questions, the first question is on the ERP recovery that you talked off. Will this recovery lead to an increase in the on-site revenue mix for us? That is first. The second question is on the segmental margin movement; BFSI and life sciences had a pretty soft Q1, despite that they have seen a sequential dip in margins. So, how should we read that? Any color could be helpful?

The third is on the company average growth you talked of for the top five in FY 2022. I just wanted to understand the decelerating trend and the year-on-year growth for the top five. I mean, is there anything in terms of delays or proper shifting of business for the top five? And lastly, on the ETR, I heard 26% to 27% for 2022, is that right? And what changes it from 27% to 29% stated in Q4? Thank you for taking my questions.

Dharmender Kapoor: Thank you. No, I think on the ERP side, absolutely, we have started seeing a better pipeline, and we have started seeing the projects coming back. Which I believe is good news because that means that the clients have started picking up the transformation journey again. Because in the previous year, they put a pause on such larger programs, which has started to come back. And that would mean that it is going to give us good momentum on that side. Whether it will increase the on-site revenue or not entirely depends upon the situation that we are in. For example, when the travel is not happening, we often start the project by hiring the local people because they are quicker to hire and start the project quickly. Whereas in India, when the supply becomes a constraint, the resources can take three months to join, and sometimes they drop at the last moment.

So, from that perspective, yes, in the shorter term, we will see some uptick in the on-site revenue. But eventually, it will balance out because the moment we get the people, we hire them offshore and replace the subcontractors with those resources that we hire offshore. At the same time, the client is already and always in agreement that that is how the whole resource loading will happen. And they are also on the same page with respect to starting on-site and then balancing it between on-site and offshore so that we can make our margins; at the same time, they can also take advantage of the cost reduction that comes to them. So, that's the way it will continue to happen. And I think that had been the method always. It is just that during the COVID period, it has probably been highlighted more because the supply constraint has been highlighted in a big way in India. So, that is one thing.

And then, if I look at the company average growth and all of them, I believe that on the top 5 or top 10, we remain very upbeat with all the set of clients. Sometimes in the list of the top 5 clients and the top 10 clients, some clients interchange also. But these were also the clients in the previous year who had stopped the larger programs. For example, we were working on a very large SAP program which has started again now, but the last year it was stopped. Similarly, some of the investments were stopped, but most of the larger customers are the ones who had stopped those programs because they had a larger program set up for them. But I don't think that should be taken as a benchmark, or that should be taken as a basis for going forward because those are also the projects that are coming back. And that's the reason that we continue to remain upbeat about our top 20 and top 30 customers because that's where our primary focus will be invested.

And there was one question on the ETR side, Chandru, can you answer that question?

C. Thyagarajan: Yes. So, on the ETR, yes, you are right, in the fourth quarter we had given a guidance of between 27% and 29%. You will recall the ETR as of the fourth quarter was 27.7%. There were two factors that reduced the ETR for the first quarter. One, of course, given that it was the fourth quarter, we had to do some true-up after moving from the



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old tax regime to the new tax regime in India. And that caused some, a higher effective tax rate in the fourth quarter. Two, just as the Q1 in the current financial year, we had an opportunity to take stock of how our ETR would move based on the revenue and margin mix we see by geography. And therefore, we also got some slight advantage this past quarter from a favorable assessment, but that was marginal. But overall, I am confident that we should be able to get to between 26% and 27% going forward, so that's why we said it would be more reasonable to expect a lower ETR than I had given in the fourth quarter.

Abhishek Shindadkar: That's helpful, sir. I will just remind you one question on the segmental margins, especially on the BFSI and life sciences part. And a follow-up to your comment on the stopping of a large program on the SAP side, was that largely because of COVID uncertainty, or was it also a staffing or any other issue? Thank you again for taking my question.

Dharmender Kapoor: In the beginning, it was definitely because of COVID, because when they all are working from home, starting a complex program becomes very difficult because you need to do a lot of meetings, workshops, whiteboarding, which becomes very difficult when everybody's working from home. So, that was one primary reason. Second, all the industries which are our clients actually saw the decline in their own business, and they were not too sure how bad it would be. So, they started putting the cost-saving measures on their side, and most of the time, the cost-saving measures will be put on the newer program and the more complex and larger programs and not on the 'run the business.' The run part will continue to happen because that's a matter of survival, but the larger programs that are more discretionary are the ones that will be put on hold, and that is what happened with them.

Abhishek Shindadkar: Thank you. And on the segmental margins side, on a quarter-on-quarter basis, BFSI and life sciences have seen a significant cut, despite having a soft growth. So, was it that there were transitions of deal wins that we had won earlier or anything to read on that?

Dharmender Kapoor: No, I think on the life sciences, absolutely there are some projects that we had started on-site, and there will be an initial increase in the cost that will happen with that. So, that is the reason most of the time. On the BFSI side, there are three or four customers at whom we have gone and looked at how we make the investments for the next level of growth. So, that is one primary reason for that. Then there is leave management because a lot of time in the BFSI sector, there are more high-touch services that they deliver to their clients. And hence, the sector has seen more leave availed than any other sector during the COVID time, and that has a more significant impact on them. So, I think those are the reasons from the BFSI side. But on the life sciences side, it is mainly because there are newer projects that we have started on-site, but it will get balanced over a period of time.

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

Dipesh Mehta: Congrats on a stronger execution. A couple of questions, first about enterprise business. I think now we reported enterprise solution as a separate service line item. And you indicated in your earlier commentary, some of the step programs, which were halted, now are coming back to the growth trajectory and are likely to be positive for growth. So, if you can provide some color, how one should look enterprise solution business playing out for us over maybe next couple of quarters and over the medium term?



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The second question is on BFSI. Now, BFSI's business has remained muted for us for some time. If you can provide some color about how you expect that BFSI business to play out for us? And how do you expect to grow trajectory over the next couple of quarters?

And the last question is about margin. You indicated you expect to maintain EBITDA margin next quarter salary hike. So can you help us understand the margin levers available that you plan to utilize in Q2 to negate the impact of salary hikes? Thank you.

Dharmender Kapoor:

On the enterprise solutions, I believe that it is not only about the traditional ERP revenue you would have seen for many years. But also now, as I talked earlier, the software-as-a-services have started to come into the big play. Second, what has started happening is that the SAPs and the Oracles of the world have started acquiring some of the other solutions that we go and integrate with their organization. But within our services company, that might be getting delivered as part of the emerging horizontal earlier. So, what we have done is that the likewise services we have consolidated together, so that we don't see that as an ERP, but we see that as an enterprise solution, which may include some of the other solutions that sit on top of that and get delivered collectively. Because most of the time, these need to get bundled and require a lot of synergy at our end to deliver it effectively. So, from that perspective, I believe we will definitely see that when we are giving end-to-end solutions, we will start seeing better pipeline coming into the play and better opportunities coming on the way, and our ability to address that is also far more effective. So, we will see that it will definitely grow.

The only thing that we have to be careful of is that sometimes we want to see the growth from the percentage point of view. Percentages are deceptive, because sometimes when the revenue is growing, it may not look like growth in the form of the percentage because other growth areas such as digital are also growing faster. So, we have to look at both the absolute term and the percentage terms, and then we should conclude whether that is growing or not. So that is one thing on the enterprise solution side.

Dipesh Mehta:

DK, sorry to interrupt, but let's say enterprise is currently \$55 odd million run rate quarterly; now it used to be \$58 million a year back. Now, some of the factors you said about agile services and all those things are doing very well for some of our peers, and that is why they see good growth even in enterprise solution reported numbers, which in our case is not playing out. So, do you think now we are in the recovery mode, and that growth trajectory will be much better than, let's say, negative or flattish performance for the last few quarters?

Dharmender Kapoor:

Correct, absolutely. And which is what I mentioned earlier also that, for example, the pipeline that we have started getting through our enterprise solution sales now is far better than what it used to be in the previous year. Because I talked about it in the last quarter that we have made the org change, where we have started having a separate channel for the enterprise solutions, and that has started showing a good pipeline. And the reason that we are very hopeful and upbeat about that is that it is one area that is going to grow. Moreover, what we have done, as I said in my comment earlier, is that we are integrating it and making it far more complete by bringing in the software-as-a-service approach so that when we get in front of the customer, we provide them the best of the breed solution. And if there is something that can be packaged together or bundled together, we can deliver that. That means, for a deal earlier, if we were closing a deal, let's say, of \$10 million, now you will be able to do it for \$12 million because you are bundling these services together. I think that is another advantage that we are seeing.



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- Dipesh Mehta:** Okay. And you can reply to the other two questions. Thanks.
- Dharmender Kapoor:** Okay. On the BFSI side, yes, there has been softness in the BFSI sector for some time. And we have to address it by looking at the other geos because we had a higher concentration in the U.S. Now we have started talking on the European side as well. And I believe that that should start showing some results. We are yet to see that how that will pick up because, one, that we had to have the geo approach in the BFSI space. Secondly, BFSI as a sector also had slowed down in their technology spend because they were looking at what their approach would be against an insurer-tech or fin-tech companies, and they were also trying to get rid of their legacy. So if you are winning the newer solutions, the legacy cost also had to be reduced. And hence, most of the time you did not see the incremental spend coming from the client. So, despite winning the new business, you stayed where you are. So, I think that was the challenge that we have faced in the last couple of years. I believe that as we now define our newer strategy in that direction, it should start showing us a positive result. But we are yet to experience the level of spending to increase there, but I think with the newer solutions coming into the play, I am hopeful that it should show us some good growth there.
- Dipesh Mehta:** And about margin?
- Dharmender Kapoor:** On the margin side, I think I mentioned earlier in the answer that we aim to be flat in this quarter because there are both headwinds as well as some of the optimization that we are doing; both are there. And we want all the increased spending that is going to happen, and we want to balance it out with the optimization that we will do.
- Dipesh Mehta:** Sir, I want to understand what the levers are? DK, because when it comes to utilization, I think we are at a peak.
- Dharmender Kapoor:** Correct, the pyramid is one big lever. The subcontracting side is a second big lever. In quarter one, our subcontractor costs increase because we had to start the program sitting on-site, which would mean higher costs for us on-site. But as we get people now offshore, we will start replacing the subcontractors, so that will be the second advantage that will come into play. The third advantage is very clearly that the margin that we lost because of the COVID leave. I hope that it doesn't come in quarter two; that is another lever. Fourth is the way we hire. Now that we have the pipeline of people joining, it is not as bad as it was in quarter one, because in quarter one it was a sudden demand that came up for everyone and everybody started running after the resources. I believe that it will be getting better in quarter two. But eventually, the real advantage will come actually in quarter three and quarter four for that. But some advantage or at least the balancing will happen in quarter two itself, which will give us an advantage. If it doesn't give us the advantage, it will not give us any incremental disadvantage because of the capacity being available.
- Dipesh Mehta:** Okay. Can you quantify the salary hike impact you expected to hit our margins next quarter Q2?
- Dharmender Kapoor:** Yes. The impact of salary hikes should be approximately 1.5% to 2%. And that is what we budgeted in our budget for the next year already. And we have already planned as to where all we are going to recover. And that is how we are pretty certain that we will be able to recover that much.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Dharmender Kapoor for closing comments.



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Dharmender Kapoor: Thank you very much to all of you for joining the call. I actually feel very, very good about the quarter one result, we have given the good growth, at the same time, it was expected that our margin may not touch 16%, but we have delivered and we have remained pretty much in line with the optimizations that we have been doing. Otherwise, the impact could have been higher because there were many headwinds during the quarter. But we have been able to really counter that with the optimization drive that we implemented in the organization. And I expect that in the next quarter also we will continue to maintain that.

Having said that, the demand definitely is there. We are far more certain with the changes that we have done in the organization on the enterprise solution side because we started seeing a better pipeline. The confidence with some of our clients is very high because there is a significant growth that we are seeing with those clients where we actually saw a decline in the previous year. And there is a very good growth with the key top 5, top 10 clients that is happening, and in my opinion, that is what is going to drive a lot of momentum for us in quarter two and quarter three also. So, having said that, I think the optimism remains, and I am sure that we will continue to deliver very good results to all of you. Thank you very much.

Moderator: Thank you. On behalf of Birlasoft Limited, that concludes this conference. 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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