



“Birlasoft Q2 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Birlasoft Q2 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav. Thank you and over to you sir.

Vikas Jadhav: Thanks, Rayomand. Good evening to all of you and thanks for joining Birlasoft's Q2 FY21 earnings call discussion. I am Vikas from Investor Relations and joining us today on this call, we have our COO & MD - Dharmender Kapoor, DK; Roop Singh – our Chief Business Officer; Shreeranganath Kulkarni, SK, who is the Chief Delivery Officer; Arun Rao – Chief People Officer and C. Thyagarajan whom we call as Chandru, our CFO.

So please note that anything which we say or refer to relating to the outlook or the future is a forward-looking statement and must be read in conjunction with the disclaimer in our investor update which we have sent to the exchanges and which mentions the risks that the company faces.

I now hand over the call to DK. Over to you, DK.

Dharmender Kapoor: Thank you, Vikas. Good evening and welcome to Birlasoft Quarter 2, financial year '21 earning call. First of all, I appreciate you taking out time this late evening for joining us on this call. I sincerely hope all of you and your loved ones are safe and keeping healthy. I am very pleased to say that we continue to grow year-on-year and reported a 5.2% year-on-year growth in quarter 2. We expect to see a sequential and year-on-year growth for quarter 3 financial year 21. After delivering 3 consecutive quarters of above industry average performance, our quarter 2 revenue may seem to be a bit of an outlier given the sequential decline in revenue. Let me address this upfront before I move to the other performance indicators that show we have once again delivered continuously improving performance.

In the quarter 1 call, I had highlighted about our customers seeking discount and project deferrals caused due to the COVID situation. While we were able to negotiate and minimize impact in quarter 1, we took the full 3 months impact of discounts and project deferments in the quarter 2. Our focus was to secure long-term annuity wins and we saw significant progress in the number of annuity wins in the quarter 2 as well. We won \$274 million of TCW in quarter 2, which is one of the highest in the last 7 quarters. The wins include renewal worth under \$54 million that shows that we have been able to protect our revenue largely and about \$120 million as new revenue addition to our portfolio. This has not only helped us secure the run off risk going forward but will also give us growth momentum in the coming quarter. Further, as you all would be aware, we are executing a large transformational deal and we delivered a couple of milestones in the quarter one that gave us better revenue in that quarter and it was able to negate the decline that came because of the discounts and the project deferrals.

We signed 2 large deals in the quarter 2 and the transition revenue from those deals will kick in starting quarter 3 as we continue to focus on execution even in this constraint environment. The number of wins has not slowed down for us. It has picked up even in the quarter 2, but the execution definitely took more time than what we thought because nobody was able to travel and we did the transition over the internet and online, so it is slower than the normal, but let me give everyone the confidence both the transitions are complete and that means that in the quarter 3, we will start getting the revenue for those deals that we won in the quarter 1 and quarter 2.

The milestone revenue dip was seen in the Life Sciences vertical and emerging horizontals. We continue to remain upbeat about our winning ability in the Life Sciences and emerging horizontals and quarter 2 reflects only a temporary blip. We expect our upcoming quarters to take benefit from wins that we have had in the H1. Some of our other performance parameters were the best we have had post-merger. Our EBITDA margin improved 158 bps quarter-on-quarter, at 13.9%, highest in the last 7 quarters. Attrition was at 11.4% which is at the lowest point for the last 8-9 quarters. Utilization was at 83.7%, highest till date and I am absolutely very delighted that we have been able to bring the optimization in our execution where we have achieved the utilization which is at par or better than many of our peers in the industry.

Cash and cash equivalent are at \$124.3 million, which is Rs.917 crores, highest till date. DSO of 58 days, which is the lowest till date. Total wins in quarter 2 at \$274 million. Out of which, the renewed business is \$154 million in quarter 2 and \$244 million in H1. The deal signed in H1 at \$454 million and \$940 million in the past 12 months. So as you can see that our winning momentum is continuing, hence we do not have much of the concern in the coming quarter. And the quarter 2 can be seen as just one of the outlier because of the reasons I earlier stated.

The annuity revenue, we started the year with 60% and it has already improved to 64% at the end of H1. We have been talking about cutting the tail. This was a little hard decision for us because we have had many of the clients where we were bleeding from the perspective of the margin and the revenue was very small and we have to cut the tail so that we can bring focus on the client with whom we can grow with lot of confidence. So we have been talking about cutting the tail and improving the revenue share from top customers. In quarter 2, revenue contribution from the top customers was the highest. Our top 20 customers contributed 58.5% versus 48.8% post-merger, while active customers count stood at 310 versus 356 in quarter one.

We continue to be in the ISG's top 15 sourcing standout globally for the third consecutive quarter. We continue to strengthen our ERP and Enterprise Solution Services with strong relationship with Oracle, Microsoft and SAP. We are actively working with our partners to redefine our go-to-market model to combine the power of digital, cloud and core enterprise solution. While there is an impact on the discretionary spend in the short term, customers have started to reinstate discussions on the transformation deal so that they can stay relevant in the new environment that they are also facing. We continue to see significant interest from our clients on the digital initiatives and we continue to help our clients reimagine their IT cost structure and work with them in shifting focus through initiatives that we create business value for them.

Differentiation and innovation remains on our top agenda. With our key partners such as Microsoft, Salesforce.com, ServiceNow, and AWS. We are actively pursuing platform-based deals and revenue that will help us create new avenues for growth in the coming quarter. There is ongoing uncertainty due to the continued COVID-19 crisis with the few countries going into their second phase of restriction. Birlasoft is well placed with these clients as we have a very balanced play and portfolio between core and digital initiative, and this makes us a highly resilient organization. Our revenue and profitability have become more predictable and stable in the past 6 quarters and I am very pleased with the progress we have made in improving both on the growth and the profitability.

Just to mention again, because of that onetime blip, if you just do not consider that, our revenue for the rest of the portfolio is higher than what we delivered in the Q1 so that must give you the confidence that it is only an outlier for one quarter. Considering the key tenets of our strategy, we remain convinced that we have the right levers for growth and margin improvement. Our deal pipeline is robust, and I am pleased to see that Birlasoft is navigating very well through these challenging times.

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

C. Thyagarajan:

Thank you, DK. Good evening, everyone. And I hope you are keeping well, staying safe. Let me take you through the numbers and some bit of detail.

Our Q2 revenue was at \$115.6 million versus \$121.2 million in Q1. It was up 5.2% year-on-year, but down 4.6% quarter-on-quarter. We did see cross currency tailwinds of about 100 bps points and hence revenue in constant currency would be lower to that extent. EBITDA was at \$16.1 million in Q2 versus \$14 million in Q1 and it was up 32.6% year-on-year, 7.6% quarter-on-quarter. EBITDA was up by \$1.1 million, at 13.9%, an improvement of 288 basis points year-on-year and 158 basis points quarter-on-quarter.

We were able to do better on margins as a result of the following factors. DK spoke about our utilization improvement and as an improvement of 550 basis points quarter-on-quarter, optimization of our subcon expenses and ongoing optimization initiatives across all of our cost levers. Our margin improvement was in spite of rupee appreciation of around 2% in Q2 as you know and lower revenue that DK alluded to. Consequently, PAT for the quarter was better at \$9.3 million versus \$7.5 million last quarter, up 60.7% year-on-year and 24.8% quarter-on-quarter.

Our cash and cash equivalents as of 30th of September 2020 went up by \$15.5 million quarter-on-quarter from \$108.8 million in the previous year which amounted to Rs. 822 crores, and it has moved up to \$124.3 million which is Rs. 917 crores in Q2. Our operating cash flows stood at \$18.5 million which is Rs. 137 crores in Q2. We had a CAPEX spend of about a million dollars and our free cash for Q2 was at \$17.5 million and that is 187% of our PAT. The board has decided on interim dividend of Re.1 per share. I would like to point out here that we declared dividend in the past 3 out of 4

quarters and amounting to a cash outgo of approximately Rs. 88 crores and that translates to \$12 million in the past one year.

In Q1, we had utilized some hedges when we brought cash into India for better yields and had mentioned that we would continue to build a hedge book to our comfort level of 60-70% of our net Forex inflows. Accordingly, the hedge book in Q2 stands at \$77 million versus \$63 million last quarter. As we grow, we will further improve our hedges based on our net Forex inflow. Overall, Q2 has been a quarter of strong performance and our endeavor will continue to be to focus on the key metrics.

With this, 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 Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Good evening and congrats on strong quarter operationally, Couple of questions on the industry front. Oracle in their recent quarters' commentary seems to suggest that there is a massive migration of in-premise SAP customers to all to Oracle cloud. My question is given the size and materiality of our SAP practice, would that sound like worry to you and what are you seeing on the ground?

Dharmender Kapoor: So Baidik, yes, there are opportunities that have started coming up about implementation of Oracle on cloud or SAP on cloud that has started coming up, but most of those initiatives are yet the new initiatives that the clients have taken where the implementation is new. But if you look at the existing implementation, they are still largely on-premise and having to move to the cloud as it was initially thought to be because there are significant amount of efforts and investment that is required in order for them to move to cloud and a lot of customizations have been built on those ERPs, and it is very difficult to go and view the standardized system. And even if some of them have moved, it is a lift and shift and not adoption of the cloud ERP. So from that perspective, I believe that the larger part of their business is still on-premise, but there is improvement with respect to adoption of the cloud by the newer clients who are implementing the new ERP solution on the cloud.

Baidik Sarkar: So net-net as far as the saliency for SAP practice is concerned, you are saying that there is no reason to be worried as yet?

Dharmender Kapoor: Absolutely not. In fact if you look at, we are hoping that it fix up rather quicker because it fix's up rather quicker obviously that would mean that we will start getting lot more opportunities of migration to the cloud also.

Baidik Sarkar: Do we have the Oracle cloud practice of scale so to speak?

Dharmender Kapoor: Absolutely. We continue to do multiple opportunities of migrating as well as implementing new solutions on the cloud. So, we do have the practice both in the Oracle and in the SAP.

- Baidik Sarkar:** Any one-offs in our operating expenses that can come back and hurt our margins in the coming quarters, that was the question.
- Dharmender Kapoor:** Absolutely, no. It is a fundamental shift that we have made in our operating parameter. The utilization is here to stay. Similarly, if you look at the changes that we started bringing into our bench cost, our delivery overheads, our G&A cost, these are permanent changes, these are not one-off changes. We are going to provide the increments to our people in the quarter 4 starting from January 1, but we have laid the plans as to how will we go and improve our rest of the operations, continue to improve in the quarter 3 also that we are able to negate that impact.
- Baidik Sarkar:** One last question. Sir in terms of a buyback, I understand there has been the interim dividend, but I think there were thoughts of a larger buyback. Any thoughts from the board on that?
- Dharmender Kapoor:** Not yet. We have discussed it, but board has said that they will continue to look at the market condition and also our growth plan because we are getting onto the long-term planning and we want to look at all the considerations before we take the decision. So there is no final decision as yet on that, but the discussion definitely is here on the table.
- Moderator:** Thank you. The next question is from the line of Shradha from Asian Market Securities. Please go ahead.
- Shradha:** Congratulation DK on strong dal signing once again. Question on margins first. Most of the margin improvements for us this quarter has been led by leveraging of our SG&A expense and if you look at our gross margin impact, it is down on a Q-on-Q basis. So how should we read margins? What really went into a steep decline in SG&A because most other companies have shown EBITDA margin improvement led by gross margin improvement which is not the case in our company. So could you just elaborate on the margins please?
- Dharmender Kapoor:** No. In our case also, there is some improvement in the gross margin, but as you know that we have gone through the merger situation, we had higher spend sitting in the delivery overheads or the G&A, on line items also. So we have taken the optimization on every single line item, even on the gross margin side also because as you can imagine that during the quarter one when the projects are getting deferred or there are discounts being given, despite getting the full impact for the quarter, we have delivered much better EBITDA than the previous quarter. So it is coming through improvements in every single line item.
- Shradha:** DK, just to persist on this on gross margins. We are actually down by 250 bps Q-on-Q. We were at 41.6% last quarter and we are down to 39% in this quarter.
- Dharmender Kapoor:** That is because of some of the shift in the expenses that we have done. Earlier, those expenses were sitting into the other expenses. There used to be another expenses item and that used to be considered as part of SG&A. For example, that was the cost that was being incurred on the employee who are working on the projects. We have moved that back into the gross margin so that we continue to

improve on their rather than we ignore that. So, we have done little bit of shifting of that also and that is the reason that you may see that it is the higher cost there, but it is after improving a lot on the gross margin side as well.

Shradha: And sir, we had stated our margin guidance band of 15% by Q1 of next financial year, are we committed to that margin guidance, of which happening much sooner than expected, now that we are already that 14% margin?

Dharmender Kapoor: Yes. I am still committed to delivering 15% EBITDA in the quarter one of the next financial year and we are pretty much in line with what had been planned. And we are going and moving as per our own targets and plans.

Shradha: And just one last question if I can. Europe business is also down by 15%. So this is because our milestone project completion was that Europe business that?

Dharmender Kapoor: That is right.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Good evening and very good set of deal signing and execution. DK, I had couple of questions. One, is there anything which has happened especially in the life sciences, is it the completion of some project which has hurt us there or it is something else, number one? And number two, the way we are signing deals, if you take into account both total TCV, we are much ahead of our quarterly revenue run rate, in fact almost double I would say. So does it give you a very good visibility into the next year, a big jump in growth or you think that the signings are for a longer period of time which does not necessarily imply a very big shift jump in growth next year? That is question number two. And question number three, what are we doing strategically on the cloud side because you would have seen that the whole attention has shifted from now more from digital into cloud because most of the clients are thinking that cloud should be prioritized little more because of the kind of client base is asking. So any thoughts on that sector? These three questions if you answer will be helpful.

Dharmender Kapoor: Absolutely. I think your assumptions in the first question are right. The impact on the life sciences is due to the completion of the milestones that we have had with Invacare. And that is the reason that it has impacted the life sciences vertical and the emerging horizontal, higher than the others while it is widespread because almost every horizontal deal with the Invacare engagement, but it was highest in the emerging horizontal. Now is rest part of the business doing very well with respect to making the wins, absolutely. Do we still have the confidence in the life sciences? Yes, we have more confidence in the life sciences because when we complete any execution with a larger transformation program, it definitely gives more confidence for us to go in the market and win similar deals. So from that perspective, we say very confident because our fundamental growth story is still intact and working out very well for us and that is reflected through the wins that we have seen in the quarter one and quarter two, and you are absolutely right in assuming that this is what is going to give us much better visibility in the coming quarters and in the next financial year also for the significant

growth that we can achieve. So, I am absolutely very upbeat on that front. It is just so that if the quarter 1 and quarter 2 we did not have the COVID situation, we could have started the transition and completed the transition much early on and would have been able to fill the gap in the quarter 2 itself. But we finished the transition in both the large deals 10 days back and it has been approved by the client and we have reached to the steady state that would mean that our revenue will start kicking in the quarter 3 and quarter 4, and hence it will give us the additional growth that we were looking for.

Sandip Agarwal:

Okay. And one final question if I may and I will come back in queue if require. Only one thing I wanted to know, DK, is there is a big availability of very good set of talent in the market if you say because of 2 of the very large players probably going through some crisis kind of situation. So are we using this opportunity to build big leadership positions or leadership in our areas where we see big opportunity going forward because see the reason I am asking this question is I am seeing that many of the leaders from these 2 large players are actually joining larger IT companies and even some of the mid cap IT companies, so some of the mid cap peers are actually adding lot of talent which is very good quality, very high level talent which is available because of some internal issues of 2 large players. I would wonder what are we doing on that side? Are we bringing in more leaders because obviously, the way we are signing deals and the opportunity is coming up in this cycle, you would definitely be looking forward to add some serious talent on the emerging technology side and particularly I would say on the cloud side. So what is your thought, if you can share on that side?

Dharmender Kapoor:

I think that is a very important point that you mentioned. I am sorry I cannot take the name of those companies, but we definitely have hired some of very good folks from those companies. In fact just last week, one of our leader in digital joined from a large consulting company because it is not only the IT service provider, even the consulting companies are also going through the tough period because nobody spending money on the transformational program. So we hired our digital leader from those companies. At the same time, some of the sales who joined us in the SAP side and in the other ERP area, they came from those companies that you are talking about. So we absolutely continue to look for key people who are available in the industry who can give us good capability and good talent. So we definitely continue to always look for and continue to hire wherever we need to build our capability better than what we have today.

Moderator:

Thank you. The next question is from Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu:

Sir just on Invacare deal, would that be helping reference client for some of the larger clients and second is the profile of our top 15 accounts, so most of them are kind of mid-sized enterprises in their respective verticals. So is it that the reason where we have to give discounts and all because they are struggling in the COVID situation or just a view on how the discounts have actually...

Dharmender Kapoor:

First of all, our top clients are not on mid-tier there are larger companies also, larger clients also who are there, but interestingly, it is not the smaller players who ask for the discount, it is generally the larger player because you can give the discount only where there is a volume. If there is no volume, the client will not come and ask for the discount, at the same time, we will not have as much

bandwidth to provide them the discount also. What we have to look at is that wherever we are giving the discount, one, it is not a discount forever, it is a discount for the limited period, but that means that we still have the headroom for margin growth in the coming period when the discount will shut down. That period will be over. That is one thing that we have to be aware of. At the same time, wherever we have given some discount, we are negotiating with the customers, how can we compensate that with the growth. That negotiation also continues to go on because it is a tricky strategy when the client asks the discount, we need to compensate it either with the growth or we need to look at how do we continue to grow with that and also be able to improve the operating parameter, so that we are able to claw back the discount that we had given to the client. In some of the cases, we have moved people from onsite to offshore, we have removed senior people, rotated them out and replaced that with the junior people, so that we get back to the same level of margins that are there with those clients, despite giving them the discount. So that work generally takes time to 3 to 6 months because every rotation and every change will happen slowly because there is handing over of process that happens, so from that perspective we are pretty confident that we will be able to claw back the discounts that we had given and we will be back there. So I am not overtly concerned, my concern remains that how do we continue to process our revenue with these top 10, top 20 of the customer because that is the first priority. We know how to improve our margins and operating parameter and we continue to negotiate with the customers, so that we do not take the hit for the longer time.

Madhu Babu: And sir, onsite has increased substantially this quarter, revenues from onsite and despite that revenues have been weak, so just wanted to understand on that and third is, just on the 3Q growth, so would you have a strong uptake in 3Q despite furloughs and all that like 3-4% Q-o-Q can we expect in 3Q?

Dharmender Kapoor: Onsite, yes it is improving because for simple reason that you can't make people travel, also there is not too much of work that can shift during this time, so we have to depend on the onsite folks to get the work completed. So that is the reason that we see there is a jump onto the onsite revenue, but we have to always continue to keep the balance between the onsite and offshore and we continue to do that. When it comes to the third quarter, yes, we definitely believe that there will be growth and as we have made good wins in the quarter 1 and quarter 2 there is a good execution that has already started, that is going to give a higher revenue in the quarter 3 and quarter 4, so do expect growth in the quarter 3 and quarter 4.

Madhu Babu: Despite high onsite, the revenue decline was around 4.5%, so that is more worrisome, that is what I was asking?

Dharmender Kapoor: Yes, correct because the work that we have completed, that work happen a lot on the offshore side, so from that perspective, it all depends upon that the run of revenue, whether it was from onsite or offshore and resulted revenue looks higher at onsite, despite but I am sure that it will continue to remain in balance going forward also.

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

- Abhishek Shindadkar:** Sir, my first question is regarding just a clarification, so there is a clarification about the CARE ratings reaffirming your bank facility, so just wanted to know is this just a facility which got our rating or we are thinking of any long-term loans or just wanted your clarification?
- Dharmender Kapoor:** I would request Chandru to answer this question because he is much closer to details. Chandru, can you please help me answer this question?
- C. Thyagarajan:** Sure DK. Abhishek, to your question, CARE had already rated up in the past and it was a renewal of the CARE ratings that we went through a review and CARE has reaffirmed our rating as AA minus. To your second part of the question, there are no immediate plans for funding or borrowing, but this is part of our exercise to ensure that we have all of our limits in place and we also want to make sure that we have the right pricing from the institution, so this rating has reaffirmed, it is going to certainly help us keep our rates and even better than.
- Abhishek Shindadkar:** The second question is for you DK sir, if I heard you correctly, you said if not for the pricing discounts, our absolute dollar number for Q2 could have been better than Q1, did I hear it correctly?
- Dharmender Kapoor:** It is both discount plus deferred projects, those are the part of the reason that our revenue decline is there, but there is also a portion that is coming from the one-time completion that happened in the quarter 1 and we had higher revenue for Invacare and now Invacare revenue have stabilized because we were going through the transition in the US, APAC as well as in Europe. That we completed and we achieved the milestone, so that part of the revenue collection was over and hence you see that also contributing to the decline for the quarter 2.
- Abhishek Shindadkar:** ok, understood, that is helpful, so sir, given the strong order books that we have signed and these pricing discounts are likely behind, would it be fair to assume that by next Q3 or Q4, we should be exiting at the Q4 FY20 exit rate or that will be a tough ask?
- Dharmender Kapoor:** We continue to work that how do we beat that, so as you know that we have been beating our year-on-year growth definitely for all the same quarter in the previous financial year, so far we have been doing better than them and that we plan going forward as well.
- Abhishek Shindadkar:** And just one question on the margins, now given that the other expenses have dropped substantially and we had talked of MIS integration and other rationalization of expenses, would it be fair that the margin profile of the firm can remain at the current levels or expand and I am asking from the perspective that would you also have consideration for wage hikes given that many other organizations have given wage hikes or would give wage hikes from January quarter?
- Dharmender Kapoor:** Correct, so we are also giving the wage hikes from the January and we have taken that into the consideration. We believe that the changes that we made in the last two quarters on our operating parameters are very much fundamental and foundational in nature and that would mean that margin profile is going to stay. Yes, the newer expenses such as wage hikes will come, but our objective remains that we will earn all the hikes that will give by improving our productivity and by improving

our efficiency and we continue to work in that direction, so our goal of reaching 15% EBITDA in the quarter one of the next financial year, stays.

Moderator: Thank you. The next question is from the line of Ravi Menon from Motilal Oswal. Please go ahead.

Ravi Menon: DK, you have explained us quite a bit, but I think sorry to harp on it, but we look beyond the temporary weight that we given Invacare, is there any kind of cost takeout that was promised as part of the transformation program because that is a more permanent change in the revenue?

Dharmender Kapoor: No, there was nothing that was not a part of the plan for Invacare. There was no cost takeout that we wanted to give or committed to give additionally other than that will come by improving the efficiency after transitioning the work to us. So in normal case, where we have offshore the work and they will get the benefit from the business CAPEX has been created, but there is nothing substantial or difference that we plan to provide them that would result into any margin or revenue decline.

Ravi Menon: That is what I meant, so how much of the revenue decline would you say due to the planned decline because of the offshore move and transformation that has been done and how much would have been the temporary rate cut?

Dharmender Kapoor: Approximately, if you look at the gap due to the Invacare is approximately \$3 - \$3.5 million and rest of the part is due to the full quarter discount and deferment there, so that is the ratio between the two reasons.

Ravi Menon: And what sort of deals have you signed, about the new deals that you signed or the new customers, or these outsourcing deals, or more projects because I saw in the press release there seems a lot of implementation programs, so how much of those do you think it is annuity and how much of that consumed say less than two years?

Dharmender Kapoor: Yes, the larger deals that we signed these are the annuity deals for 3 years or 5 years, the larger deals that we have signed, albeit with the energy customer or what we saw with the manufacturing and all that. They were all 3 year and 5 year run, so that is the reason that you see that 4% uptick that we have seen in H1 for our annuity revenue and you will see the same uptick in the H2 also because now when we start executing that means our annuity revenue will grow. There were not as many transformation projects that happened in the H1 except for few. This were already in the motion for our clients and they could not stop, but other than that you will see that yes, new customer wins have reduced whereas the new revenue for the existing customers have really grown significantly. So from that perspective, that we feel lot more confidence that our margin profile will not go down because our margin profile takes a hit when win a net new customer and get through the whole process, but most of our customers even have won the larger deals, some of the deals were consolidation deals that happened in our favor and that means that we are going to continue to improve on our margin going forward also and there is not significant risk that remains with those projects that there will be run off revenue and these are all 3 to 5 years.

- Ravi Menon:** And one question to Chandru on the dividend payout, first look at your DSOs have been coming off and that is really great and now I think come to a level where we should probably expect that they go up from here, would you think so and what sort of cash conversion should be seen to prop PAT post that?
- C. Thyagarajan:** On the DSO point, I too think we will stabilize between these 63 and 65 days and you are right as we grow going forward as DK said, we should see some uptick in our DSO, but we expect to steady at between 63 and 65 days. Now, what impact will it have on our cash quarter-on-quarter, I still do believe that our cash will continue to stay stable and improve as we go forward. Of course, we have to look at what further CAPEX and other investments that you will continue to make as we grow and that is an item that we will take on an ongoing basis, but the cash inflow will certainly improve on an absolute basis.
- Ravi Menon:** And on the long-term assets, we see as of the financial assets, the Rs.51.3 crores, are these long-term fixed deposits or mutual fund holdings or what is this?
- C. Thyagarajan:** So they are investments that we have made in this first quarter in fixed deposits in highly-rated companies and also in liquid mutual funds that we have invested during the past quarter. The financial assets that you are looking at are predominantly the fixed deposits.
- Ravi Menon:** And Chandru sir, you have given the cash flows really healthy, I think the current dividend payout implies roughly about 25% payout more or less. DK said very clearly that there is no transformational M&A, but you would be looking at only tuck in for capabilities, so what is the need to keep adding cash, so wouldn't be prudent to consider a better cash payout?
- Dharmender Kapoor:** Let me answer, if at look at couple of quarters back, we were of the opinion that we need to see our revenue and profit margin to be at a stable point to look fundamentally strong. Only then, we will think about any new acquisition or go for long linear growth-related opportunity. I believe that today, if you look at I have lot more confidence in the stability and the consistency of our revenue and the growth than what I saw 2 or 3 quarters back. So we are discussing that how do we look at the assets that are available in the industry today, some of those are required because there is a big shift in the asks that our clients have. There is a different focus that would be required, different set of capabilities that would be required if we have to continue to grow. So, we have started looking at those opportunities as well, but we will go for those opportunities only if it is going to help us scale our revenue, scale our existing services and offerings also. We are working in that direction, that would mean that we will need cash for those opportunities as well and hence we are open for taking those steps today, but we are going to be very careful with respect to where do we invest and what kind of growth should we expect from those kind of investments.
- Ravi Menon:** DK, but given that you have said there will clearly be all positions for revenue, I think it shouldn't be very sizable, right and you are sitting up quite a good cash balance, so do you think that you could improve your return ratios, but improved dividend payout or through a onetime buyback and get some of this off because otherwise it suppress our return ratios?

Dharmender Kapoor: Absolutely, I think we have given our request and we have started discussing that at Board levels, all the possibilities, so as I said in the beginning that both considerations are definitely there in front of the board and we are going to decide on that. Our objective definitely will remain how do we give and maximize our returns to our stakeholders and shareholders, so we definitely will continue to work in that direction.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: So DK, just on this revenue trajectory going ahead and given very strong deal wins especially new deal as well, so I think I missed the part when you mentioned about, somebody was asking about reaching the Q4 base which has been the highest, so can you just allude what was your answer to that? Do we expect to sort of growth beyond the Q4 base that we had said in this financial year?

Dharmender Kapoor: Absolutely, we are very clear with our objective while I see the decline in this quarter, our first focus definitely that we continue to grow quarter-on-quarter. That is first objective very clearly. Even when we have seen the decline, our objective doesn't change. We want to grow quarter-on-quarter in the upcoming quarter. At the same time, the second objective is that we also continue to grow year-on-year, so that we are always showing the growth in our revenue year-on-year also, and third that I am always committed to that we had to get to the EBITDA level at par with the industry and we need to deliver in the quarter 1 next year at 15% and I am committed to that also.

Rohit Balakrishnan: Also DK, you mentioned that this decline I think about \$3 million or about that number was driven by Invacare, so Invacare was roughly \$24 million kind of a run rate yearly, so \$6 million quarterly, so does that change or because you shifted to offshore or did I miss that part, just one clarification on that?

Dharmender Kapoor: No, I think we will stabilize that \$24 million every year from now onwards, so that will remain.

Rohit Balakrishnan: And DK, just also in terms of margin outlook, so obviously very heartening to hear that you were committing to 15% Q1, but couple of questions of one in terms of our cost there will be significant improvement and also while our offshore declined quarter-on-quarter, but for most of the IT companies that have come out there, they have seen a big tailwind in their offshore mix, so given the cost decline and the offshore tailwind, is there a thinking that we can perhaps either achieve 15% earlier and also beyond that given these two tailwinds apart from the operational improvement that we have.

Dharmender Kapoor: I am sure because profit is never sufficient, we always want to do more and more, absolutely we are also working towards that, but we also have to look at that we all will need a significant investment in order for us to be prepared for better growth. So the reason that I want to shift myself to 15% is that while I deliver higher than that I deliver higher margin, so that I am able to invest back for the higher growth, so that should be our objective and I stated that 3 or 4 quarters back also the same question and the answer that I gave was that, we want to be at the level where we are able to deliver

internally more than 15%, but I committed to the board that the higher piece I will invest into the business for the growth in the subsequent quarters.

Rohit Balakrishnan: And just two more questions, one was, again just a clarification, someone had asked about the rapid deployment by SAP that they were talking about rapid deployment or rapid movement of their client base towards Cloud and even Oracle has been talking about it, so is that is a tailwind for us or a headwind for us, given our existing revenue base there would be some runoff there and in general, if my understanding is correct, the deal size or the implementation revenues for Cloud deal is a bit lower, so for us incremental revenues will be lower, that was the first question and second, I will just round about my question. The second question was on tax rate, so we still continue to sort of pay 30%, is there any thinking to move towards 25% through over tax rate?

Dharmender Kapoor: Yes, I will ask Chandru to answer the second question after I finish the first one. If you look at, it is a misnomer that, the revenue of migration to the Cloud or the rapid deployment on the Cloud will reduce the revenue coming for the service provider because it is not that the complexity has reduced, in fact what has happened is that earlier there was a monolithic implementation that used to happen, hence the revenue look higher, but when it is happening on the Cloud, this has got distributed from one big monolithic component to multiple components which integrate with each other. So on a particular component, it may look like the revenue is smaller, but when you go and end up integrating this with the other products, other solutions, other components on the Cloud, you come back to the same level of implementation cost. Earlier, the entire implementation used to happen in one go, now that will get scattered and will happen in the three-phase, but that does not mean then the implementation cost will go down. If you pick up any of the product, even if you pick up SAP on cloud, now success factor sits outside the SAP and now this becomes two components. Similarly, there are other solutions that are there on the Cloud, they sit outside the core SAP, but they do get integrated with the SAP. So if you look at the total cost of ownership, it may still be either equal or higher, because you had to spend on the integration, if some component is from cloud, other components are on-premise, you get higher cost of the integration. So the total cost of ownership doesn't go down. It still comes, but it doesn't come in one big chunk it comes in the smaller chunks. If you are happy with the answer, I can ask Chandru to answer the second question?

Rohit Balakrishnan: Yes, DK. That was very elaborate. Thank you, I got it.

C. Thyagarajan: On the second part of the question around tax rate, we continue to evaluate that. We obviously need to look at a few factors, the deferred tax asset in our balance sheet and the MAT credit already available versus the improvement that we will get from the moving of tax regime from the old to the new. So this is been monitored on a continuous basis and we will take the decision at the appropriate time.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principal Mutual Fund. Please go ahead.

Ashish Aggarwal: Sir, most of my questions have been answered, just couple of them, I wanted to understand, you said that the revenue decline in this quarter was also because some of the projects got deferred by the client, so just wanted to understand has those projects started and will we see those revenue starting to come in second half and also on the pricing side, are these prices for short-term discounts you have given or these are for the duration of the MSA for the client? And lastly on the pipeline side, if you can quantify how much the pipeline has grown on a year-on-year or on a Q-on-Q basis that will be really helpful?

Dharmender Kapoor: If you look at from the perspective of the deferred projects, some of them have started trickling in, but I believe it is going to come back in the quarter 4 for us because that would be quarter 1 for the US market and they all are going through their budgeting exercise and that means that quarter 1 is the time when we should look forward to having them back and started again. On the discount side, we have not changed the prices. We had given the discount, it is a onetime discount, limited period discount, so they will definitely start coming back in the Q3, many of them will start coming in the Q3 and rest will come in the Q4, so that are all going to get reversed because we have not changed the rate, we have not changed the pricing. Then there was question on the pipeline, let me ask Roop to answer that question. Roop is our Chief Business Officer. There is significant improvement that we have seen in the pipeline increase and I don't want to take this shine away from him. So let him talk about this.

Roop Singh: Thank you DK. So our annual pipeline if I look at it in the last one year, we have moved our active pipeline from roughly about \$500 million annually to about close to \$900 million at this point in time, so that is the significant jump. Now, quarter-on-quarter, that translates anywhere between an increase of 15 to 20% increase of our pipeline and we will continue to see that trend and the significant shift is the type of deals and the type of deal value pipeline that we are getting and that has improved significantly.

Ashish Aggarwal: Sir, when you see some of these pipelines, a lot of these things will be more offshore centered or these will be similar to what happened during the pre-COVID time?

Roop Singh: We don't see the difference in terms of mix of whether it is more offshore centric or onsite centric at this point in time. It will all depend on the execution and where the customer feels based on the COVID scenario that is, where we could do the project on a distributed model and in that case we will see more work shift towards offshore, but the deal structures are not changing in terms of where, it is not being defined as to more offsite, onsite at this point in time.

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

Dipesh Mehta: Couple of question, I think first about the utilization, DK earlier you indicated about your comfort range of utilization was around 82 to 83%, so any rethinking on that number, you think we can operate much higher comfortably? Second question on the tail account rationalization, do you believe we are largely done through tail account rationalization and now it should stabilize and you think there is still some time to go before we reach some stability in active client? Third question is about annuity

revenue, can you help us where we have reached in annuity revenue mix perspective and last is, if you can provide some color about the deal win intake this quarter remained very strong, so if you can provide some additional detail on the deal win?

Dharmender Kapoor:

Definitely. On the utilization, I believe that there are lot of hard work done by SK and team in order for us to improve our utilization and we have reached closer to 84%, but I believe that if we remained at 83% or 84% I think this is a very good utilization to have because if we continue to deliver the utilization at that level, our next goal would be how do we touch upon the other parameter so that by keeping utilization constant, we are able to get the efficiency from improving on the other parameter such as pyramid and the other things, so that is what will be the focus going forward, so I don't think that we will run after improving the utilization mode, but how the same utilization will give us better efficiency will be the focus for us going forward. Looking at the tail account, I believe that yes, we have made significant progress on getting rid of our tail that was not moving. That means that the margins are very low, but revenue growth is not happening, or revenue is very negligible because at the end we should know where we are going to put best of our investment. Having said that tail never finishes, tail is something that we continue to develop going forward also and what we have to look at is that we continue to assess every second or third quarter as to what is the situation of the tail, is there a tail account that we acquired thinking that has become big, but it has not for a year time and then is the time to take a decision on that. So that is the continuous process, but I believe that we have largely taken the actions where the actions are required and then we will continue to work in the direction that how do we make the new win, but only sustain it if it is going to grow in the future, so that is my answer on the tail account side. On the annuity side, as I mentioned, we are moved up by 4% in the H1 and that in my opinion is very good because this is something that is going to give us much higher order booking for the next financial year and our focus will remain that we go after those deals that we have sign up for the multiyear and for the multiservice, so as I am very satisfied with that progress that is happening and on the deal win side, let me ask and request Roop to give a color to the kind of deals that we have won in this quarter as well.

Roop Singh:

Thank you, DK. So the deals that we are actually going after specifically and the option is the large, sort of AMS type activity, so in application management annuity type deal, that is number one. Number two, we have also seen a fair amount of ask from our clients in terms of expectations on the user experience, so that has enabled us to significantly grow our digital component to the business, so how they are actually either looking at revenue generation activities or they are looking at client experience. It is a mix of both in terms of the large annuity deals, AMS type deals and then added digital components on top of that. The second of course is, we continue to work with our clients to extend the life of the current ERP platforms given the cost optimization, so that has also helped and that has been converted into annuity given that you are supporting them on the current ERP platform and the third also we continue to see some implementation either ERP implementation or platform implementation. That probably gives you a mix of what we are focused on.

Dharmender Kapoor:

Correct and I will just extend that answer by saying that there is a big shift that we assume that even in those support and maintenance kind of deals for ASM deals, there is going to be a digital

component in that also. So we are seeing that as clients continue to adopt digital technology, even in the ASM there is additional component that has started coming in. That shows that the level of competence and capability will continue to improve and the level of differentiation that we had to provide in the business model will be very crucial and that definitely will provide us the tailwind in order to go and close those kind of deals in the future as well.

Shreeranganath Kulkarni: DK, on the utilization if I may add, while we maintain 82 to 84% healthy utilization, some of the efficiency drivers for delivery and execution will continue, what it helps is to induct fresh campus graduates that help me to improve margin over a period of time and also create a pool that helps us to accelerate our growth, so that kind of efficiency we should be able to bring by maintaining the utilization.

Dipesh Mehta: DK, just one, annuity number, what was the number at the end of Q2, I missed it, you said 4% increase in H1, but what was the absolute number?

Dharmender Kapoor: 64%,

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

Ashish Kacholia: Congratulations on good set of deal wins. My question is, whether in the future, the customers are going to ask for any onsite presence at all or it is going to be pretty much left to the discretion of the contractor to decide onsite-offshore?

Dharmender Kapoor: Even today also, the Client is always in the discussion when we decide what part of the work has to be delivered on onsite and what part of the work will be delivered at offshore and some of the part that have to happen at offshore will first begin at onsite and then you will get transitioned to the offshore. It is always is a mutual agreement that happens, however, if you look at the situation is also changing a little bit with the new visa rules coming into the play and we are working on now completely different model that can be called as a boundary less operating model where it will not matter from where the work is getting delivered, the virtual teams will be able to come together and deliver the work that is required by the client. The earlier client wanted one ODC and all the people to be in lock and key under that ODC, but today clients knows that if all these people are sitting at one location, there the risk of infection getting spread within the team and that would mean suddenly the whole team is quarantined. So considering all that they are far more open that we have people distributed across multiple locations and even multiple countries, so that gives us larger flexibility that we can provide them the operating models that is widespread and we can choose best of breed people wherever they are available rather than trying to bring all the people into one location, so that is very exciting piece of work that we are doing it with couple of our customers where we are defining the boundary less working environment for them. So onsite and offshore slowly may lose the meaning as it was traditionally known and in future it may take very different shape, so that we are able to create the tools, put up the tools that brings the virtual team together that still be able to deliver without letting clients know if there is any impact because the team is sitting in the multiple location.

Ashish Kacholia: Just add-on question, you know earlier it used to be that the person in the frontend used to understand from the clients, what are their new projects and how to kind of go about starting up the project, now given that most people have got on used to working from remote locations during COVID, does that frontend project understanding, transitioning and kind of initial implementation, has that lost its kind of importance in the overall scheme of things or you feel that you will still need the frontend teams to kind of start of the execution and then transition it offshore?

Dharmender Kapoor: I think this is absolutely brilliant question because as I said that the execution slowed down a little bit in the quarter one and quarter two. There are two large deals that we closed in which 100% transition happened without even a single travel, everything over the web, over the Zoom, and the Microsoft team calls the whole transition has happened. One of the transitions was in an environment which was hostile transition that means the existing incumbent was not very much willing to help and support, but we were able to finish that also with them successfully. So that gives us good confidence that in these two quarters, we have been able to create two very good case studies where we can do the transition without making any person travel. It brings the cost drastically down, but at the same time, it gives the confidence to the client that it is not necessary that I need to have all the people sitting next to me if I had to transition the knowledge. So as they say that necessity is the mother of invention, I think that is what happened in the last two quarters, where we have closed these two transitions very successfully. Will it lose the meaning in the future, no, once the travel is back, I am sure there will be different type of pressure that can I have the person next to me, can that transition that is going to happen in 3 months be done in 2 months if the person can travel, yes, those kind of prospects will remain, but the confidence will be there with the customer that even if that person is sitting away, the knowledge transition can happen without too much of an impact, it may take 5-10% efforts more, but it can still happen.

Ashish Kacholia: And do you think that the importance of client mining and the frontend person being out there, that remains intact pretty much for client mining purposes?

Dharmender Kapoor: Yes, it does remain because from the relationship perspective, because people don't buy just from anyone they buy when there is a relationship between people of the two companies, so I don't think that is going to go away, however, I think the significance of inside sales over being able to provide the first level of connect to explain what are the offerings can happen from any location and that would mean that the cost of that inside sales will come down because a lot can be achieved by sitting at offshore also, but in my thinking, to close a deal it is all good to be in front of the client, because the relationship makes a lot of difference.

Ashish Kacholia: And sir, my last question basically, we have won some fairly large deals in this quarter, so most of these would likely have been versus tier 1, so what was the differentiation factor that got us these deals?

Dharmender Kapoor: I think the execution quality was in one of the case, we were also incumbent, but we are very small in comparison to the competition and our execution capability was seen as a big factor in giving that work to us. In the other case, it was the solution that we presented to them and solution as I say it has

three components, it is one that my technical solution, second it is the commercial aspect and third is the relationship aspect. So all these three things have to come together to make us win and we were able to deliver very superior experience for the client and the level of potential that was needed by them during this time and that made us win. Those are the kind of differentiations that happen. We also went with our approach of micro-vertical and micro-horizontal where we could go and challenge that it doesn't matter that your incumbent is bigger than us, but we can deliver better than them and we were able to demonstrate them through the POC and those approaches and we got the confidence and provided that to us. Last but not the least the level of attention that we can give it to them by being a smaller company, so the kind of attention that we gave to them and we committed to them that it is the kind of attention that we give to them, they are very happy with us and they went ahead signing those deals with Birlasoft.

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

Manik Taneja: My question to you is with regards to this strategy of cutting the long tail of accounts, we have only seen that accelerating in the first half of this year, just wanted to get your thoughts as to where are we in that journey and while it has been beneficial from a margin standpoint, how much drag would we have seen because of this in the recent past?

Dharmender Kapoor: That is not much revenue drag that we can see by taking the decisions of the tail accounts because we were very careful in looking that how do we shift our resources from those tail accounts to more strategic account. That means that if we lose something at one place, we are significantly growing the revenues at the other place. So that there is no negative impact, but margins might improve. At the same time, what we have to look at is not only about the revenue and the margin, we have to also look at the level of attention that you can give it to them because even if the account is small, it takes us a lot of attention from our account management team and if we want our account management team to be focused on our platinum and gold and silver account and not on the tail account, then you need to get rid of the tail and it is a spring cleaning that we have to continue to do every year and I think it should be seeing it that way rather than seeing that we will go and sacrifice any revenue or margin because of that.

Malik Tanejaa: Can you give us some sense as to where are we in that journey? Should this continue further going forward? Or you think this fit the right size now in terms of number of customers?

Dharmender Kapoor: I think we are pretty much stable now, I think we came down to about 312 or something like that we have reached as far as the tail accounts are concerned, it is not getting in front of me, but we significantly reduce our tail accounts. Now, it stands that about 310, so we have reached to 310 and we are significantly reducing, but we are pretty much stable here because it is not that tail is not there, tail is still there, but we believe that it is still a tail that has an opportunity in it and we should go and mine those account, so it is about putting a clear focus that yes, We can grow that where the account manager or the sales person will take the accountability that we would keep these accounts because we know that we can grow it, so that would mean that the attention will be there on that account and we would start growing them. Say if they don't grow, let us say for next 6 months, then we will have

to take decision again on couple of those which we see that despite of all that effort those are not growing, then we will have to cut the tail at the right time. This is a continuous process.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to DK for closing comments.

Dharmender Kapoor: Thank you very much everyone once again for joining that late during the day and as I said, I think our number one priority will remain that we continue to grow quarter-on-quarter, despite having this blip in the quarter 2. I am absolutely very positive and upbeat about upcoming quarter, so from that perspective that remains our first priority. Second priority, as I said will definitely be to continue to improve on our margin and third, how do we continue to grow year-on-year also, so that from all aspects we see that our performance is green and I definitely appreciate and thank all of you for your support and I am sure that we will continue to come back and continue to create value for all our shareholders. Thank you very much.

Moderator: Thank you very much. On behalf of Birlasoft Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen, you may now disconnect your lines.

Disclaimer.

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