



“Birlasoft Limited Q1 FY20 Earnings Conference Call”

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**MANAGEMENT: MR. DHARMENDER KAPOOR – CEO AND MD,
BIRLASOFT LIMITED
MR. RAJEEV GUPTA – CFO, BIRLASOFT LIMITED
MR. SAMIT DEB – CPO, BIRLASOFT LIMITED
MR. SHREERANGANATH KULKARNI – CDO,
BIRLASOFT LIMITED
MR. VIKAS JADHAV – HEAD (INVESTOR RELATION),
BIRLASOFT LIMITED**

Moderator: Ladies and Gentlemen, Good day and welcome to the Birlasoft Limited Q1 FY20 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 conference, please signal an 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 – Head Investor Relations. Thank you and over to you, sir.

Vikas Jadhav: Thanks Rayomand. Good morning to all and welcome to Birlasoft Q1 FY20 Earnings Call. I am Vikas and I Head Investor Relations and joining us today on this call we have our CEO and MD – Dharmender Kapoor (DK) as we have called, CFO – Rajeev Gupta, Samit Deb – CPO and we also have our Chief Delivery Officer – Shreeranganath Kulkarni whom we all call as SK.

Please note that anything which is said on this call refers to the outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer which is there in our press release. So, which mentions some of the risk the company faces.

So, now with this I hand over the call to DK. DK over to you.

Dharmender Kapoor: Good morning everyone and welcome to the Birlasoft for Q1 Financial Year 20 Earnings. Q1 is the first fully independent quarterly result that we are publishing as new Birlasoft. As you would have seen from the report that our Q1 revenue stands at US\$ 111.7 million which with an unanticipated decline of 1.2% quarter-on-quarter this quarter saw the revenue reversal, why I called it unanticipated was because this is coming from one of the issue that we saw in a previous delivery and we had to reverse the revenue for about \$1.2 million other than that I believe that we were very close to the expectations that we had set internally for ourselves. We did not anticipate this reversal earlier. Outside this we had a very stable growth of which in my opinion is giving us the confidence that we have a good handle on the operations because we run our internal guidance, we came very close to that except for this one issue. Now despite the revenue reversal we managed almost to maintain the EBITDA at 10%. In fact, if we look at our margins we have improved from the previous quarter and we continue to see that we will improve our margins going forward as well.

A significant positive is that we continue to maintain wins in the market. Last time we talked about our wins in the Q4 as US\$ 50 million and this quarter we have US\$ 58 million worth of wins. For us this does not include the revenue that we signed up with our existing customers. So, any renewal is not included in the 58 million. When I look back at the quarter gone by, I feel extremely satisfied from the margin perspective and that also showcases that now we have good handle on our operations. We are able to anticipate our margins very well and at the same time we continue to see that we have bottomed out, we maintain that last time and apart from this one surprise I think it confirms that we have bottomed out on our revenue side and we should see growth from here going forward.

Now on the harmonization and integration front I would like to give an update that the team is working on unifying the process, policies and the systems. I believe that most of the integration

is already done and only minor elements with respect to system integration is in progress, but other than that I think we have achieved most of it what was planned as part of the integration. One of the key element going forward is that we need to bring our focus on developing our leaders, managers and employees, who should be better equipped in supporting the Birlasoft strategy directions and we have launched multiple development program in that direction because this is one thing that we talk last time is going to be one of our priority and we have started working on that very well and from that perspective SK who is sitting with me here he joined us as Chief Delivery Officer from Accenture and before Accenture he has worked with Infosys and Cognizant and have had very rich experience in the delivery in all these organizations. So, we wanted to really bring the delivery rigor so that we do not go wrong with our margins, we do not go wrong with the client experience and from their perspective SK is a great contribution to the company.

Going ahead our priorities would be that how do we continue to stabilize because it is not about running a sprint right now, it is about running a long race for us and we want to catch the speed at the right time and it is very necessary that we create the right foundation and we will continue to work through the integration to create the foundation on which we can actually build the sustainable growth. We will have to continue to look at the traction that we are getting in some of the businesses we are seeing very positive traction coming our way and we want to take the full advantage of that traction so that we continue to maintain our win, a ratio in the market and we continue to bring more and more business both from existing clients as well as on the new clients and of course the capability development we will continue to focus on because with the whole change in the visa policies it is very necessary that we shift our focus on developing capability not only in India, but also in US and the other market and there is a significant focus in that direction and we will continue to do that.

With that I am very optimistic about the quality and strength of the merged entity and expect good traction good ahead. With this I will hand over to Rajeev for providing more color to the financial.

Rajeev Gupta:

Thanks DK. Good morning to everyone and once again welcome to this Q1 Birlasoft Analyst Call. DK already mentioned about the revenue drop. From a constant currency perspective, we did not see much impact this quarter. So, constant currency revenue is almost similar to the reported number of US\$ 111.7 million while we saw an impact of 1.2 million as DK mentioned our focus on making operation efficient has aided in maintaining the EBITDA margins at 10% level. Our reported EBITDA was up by 200 basis point quarter-on-quarter however on an adjusted basis which is EBITDA adjusted for merger and integration cost, the Q1 EBITDA was at 11.2 million that is 10% lower by 60 basis point for quarter on quarter. While we saw operational stability at EBITDA level our adjusted PAT was at \$ 6.1 million versus 12.5 million in Quarter 4. The drop of \$ 6.5 in PAT was due to several reasons. Q1 we had a full tax rate of 31% compared to Q4 which was at a lower rate and of course because of the merger and demerger most of our SEZ units are now moved out. We had a onetime gain in Quarter 4 due to a sale of US subsidiary which was \$ 2.5 million again which was on account of the merger and demerger process. The accounting standard 116 which has come into effect from April 1, had an

impact. We saw an overall an impact of \$ 1.5 million, US\$ 1.2 million of that has been accounted under depreciation 0.4 million of that in finance cost. As a result, also we saw our other income lower by 1.2 million quarter-on-quarter. The good news is we saw a debt completely repaid during this quarter which is US\$ 5.5 million. It has to be noted that post-merger we paid debt levels of close to \$25 million and completely debt free on our books as of 30th June.

I would also like to address the concerns on promoter pledge which some of you may have. Although we believe promoter of Birlasoft that is National Engineering Industries NEI would be better placed to comment. However, as I understand the pledge of Birlasoft shares was made by NEI only for short term bridge financing. In relation to some transaction planned at the promoter levels the financing does not involve Birlasoft. As per my understanding the pledge is only temporary and a large part of it is expected to be released shortly. As DK mentioned and I feel so we remain optimistic on improving a performance metrics through optimization initiatives across the operations and we will likely see improvement from here on. With that I now throw open the floor for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anuj Jain from Globe Capital Market. Please go ahead.

Anuj Jain: Sir, I want to understand about our industry verticals different verticals which we are having which industry has a highest margin out of the industries in which we are operating, which industry has a better margin?

Dharmender Kapoor: So, I would say that probably our BFSI will be having a highest margin in comparison to all the industries, but they are all in the ballpark range it is not as if a significantly different from the other, but BFSI one which is having higher margin.

Anuj Jain: And it is going down I mean from 20.2% we are at 19.3%, is it the company specific or is it the nature of the industry?

Dharmender Kapoor: No I think what we had to look at is that the revenue that you see today from the percentage perspective also it is in the combined company. So, some of the programs that got finished at the same time one particular client asked for the discount it is just that temporary effect that we have, but other than that I believe that there is no reason for us to see that if there will be any decline in the BFSI.

Anuj Jain: My next question is like how things are shaping up in the retail and automotive segment?

Dharmender Kapoor: So, automotive segment if you look is in fact part of our larger manufacturing play there are couple of industry verticals, there are part of the manufacturing play that we have, and we have significant strength in that direction. If you look at one of the splits between the Birlasoft and the KPIT Engineering is the one which is actually in the auto sector and this is probably one vertical which is going through a lot of integration and consolidation. So, I believe that in the automotive we will continue to grow and in fact in this quarter also we grew very well in the

automotive sector and we have some very significant clients and significant programs in the pipeline with them and I believe the automotive would be the one which will continue to show us the growth going forward as well.

Anuj Jain: Sir, can you give me some color on the retail side I mean retail industry because that is shown some bit of probably going to in Q3 FY19 to 13.5 and now it is going to pick like 14.3, but across the industry we have seen that retail sales and the whole sector is not going very well, so how things are shaping up in the retail segment can you please guide me?

Dharmender Kapoor: I believe if you look at our numbers on the vertical side this vertical another one which has grew well for us quarter-on-quarter. At the same time I do see that with our larger presence in the digital space this is one vertical and industry which has been showing good demand on the digital initiatives. So, that is the reason that we see that this particular industry will continue to grow on the digital initiatives aside and we are putting good amount of focus behind this so that we continue to ride the wave that is there from digital perspective in this particular industry sector.

Anuj Jain: Sir one last question our average revenue per employees somewhere around Rs. 7.8 lakh right is it?

Dharmender Kapoor: Yes.

Anuj Jain: And whereas the industry average is somewhere around in excess of Rs. 20 lakhs if I am right the major IT players, so any color on that how we are going about increasing the average revenue per the employee?

Dharmender Kapoor: So, it would be difficult for me to answer immediately on that particular piece, but what we can do is that we can take that question offline I may be able to give it a better color because I do not have the ready answer for that particular question, but I do not think that we can be significantly off because if we are making the right margin and if we are having the right set of volume on people side I do not see why it should be very different from the industry, but I would like to give it a detailed look and we can come back with the answer as well.

Rajeev Gupta: Our margins as DK mentioned are comparable to industry standards. So, you know from that standpoint we do not see that our average revenue per employee would be far off, but we could also take this question offline and add more.

Anuj Jain: My indirect question is like how we are planning to go about the EBITDA margin we are operating at 10% odd level, so what kind of guidance we are expecting going forward for the whole year?

Rajeev Gupta: So, as DK highlighted earlier we saw Q4 bottom of the income declined that we had in the KPIT, IT segment of revenues. Q1 of course barring that onetime revenue reversal we met our internal expectations. So, actually, if you look at it we bottomed out from a revenue decline standpoint. We expect quarter-on-quarter growth from here on why we will refrain from giving specific

guidance we feel fairly comfortable that some of our initiatives in terms of setting up the right organization structure, having the right leaders in place we should be able to see traction in terms of quarter-on-quarter growth from here on.

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

Madhu Babu: Sir, just on the capital allocation so how was the cash moment I think last quarter I remember we had 520 crores of cash, so what is the net cash position and what is the CAPEX commitment for this year?

Rajeev Gupta: So, our net cash has slightly come down rightfully so because we had two major impact this quarter 1 we completely paid off our debt. So, 5.5 million of our debt is paid off and second you have variable compensation that gets paid out in Q1 so those are the effects as a result of which we saw slightly lower cash levels in this quarter. We have answered this earlier as well from a capital allocation standpoint we have three clear initiatives on mind. One in terms of the dividend payout we improve the dividend payout compared to last year it was at 22%, we are at 28% for last year as well. So, we improve the dividend payout. The second would be consciously to invest in large deals and that we believe should give us good returns in going forward and the third would be to look at deals in terms of acquisition over a 12 to 18-month period. So, these are some of the thought processes that we have at this stage, but we can keep adding color to this as we go on.

Madhu Babu: So, it is like 460 crores the net cash on balance sheet as of now?

Rajeev Gupta: Yes \$ 67 million.

Madhu Babu: That is what is shown in the presentation. Sir what is the CAPEX guidance for this year?

Rajeev Gupta: So, from a CAPEX standpoint we anticipate or rather we budget it for \$ 20 million of spend. However, in Q1 we did not have a major spend we barely spent about 0.4 million. The CAPEX spend also that we budgeted for is keeping in mind three to four things. One is going to be on account of the integration on IT side. Second is on account of HR integration and third as part of the merger, demerger process we need to build our Bangalore facility and then on fourth aspect would be on BAU CAPEX these are the areas where we will be investing.

Madhu Babu: 140 crores is the CAPEX guidance sir \$ 20 million?

Rajeev Gupta: Yes that is what we budget it for.

Madhu Babu: So, can we go asset light model like because softer growth is there, so can we like do for leasing model or for the campus, is that possible?

- Rajeev Gupta:** We are conscious about how we spend and as I mentioned Q1 we have hardly spent in terms of a CAPEX we have been just about 0.4 million in terms of spend in Q1 and we will be conscious in terms of where we spend going forward as well.
- Madhu Babu:** Sir, would you look at a buyback I mean because see the valuation of the stock has come down significantly and net cash is decent, would that be any consideration in the near term?
- Rajeev Gupta:** From a capital allocation standpoint clearly a three areas of investment would be one dividend payout, second investing in large deals we have seen good traction and hopefully so that should give us better return going forward and third to look at if there are potential opportunities over a 12 month period to 18 month period to even grow inorganically. From a buyback standpoint you know this is one area that we will continue to look upon, but we will have come back as it stands to be over a period of 6 to 12 months how wisely we are able to invest in the earlier three areas we talked of.
- Madhu Babu:** And secondly how is the cross sale initiatives started to play out in terms of the domain competency in the vertical so where are we investing at least we have a multiple vertical so within that which are the two verticals may be where you would in the next 12 months look to invest more on a domain side?
- Dharmender Kapoor:** So, I believe that the manufacturing as well as Life Sciences are the two top priorities of course we had to continue to invest in other verticals as well if you would have asked me third than I would have asked BFSI, but manufacturing because if you look at the amount of revenue that we get from our clients almost about 50% would be in the manufacturing category, manufacturing in one form or another in different industries. So, we have to continue to build our capabilities in that directions because we believe that is going to be one of the major strength area for us going forward as well. Life Sciences we will continue to see good traction and we are already seeing a good traction on that. So, Life Sciences and healthcare is the second area where we will continue to invest and then followed by the BFSI.
- Madhu Babu:** And the cross-sell sir?
- Dharmender Kapoor:** Cross selling is across because cross selling does not depend really on the industry alone this is for across all the verticals that we have to continue to go to our existing customers because they have good confidence for us, we have been delivering it for many years it is just that now we have larger set of offerings that we need to take it to them. We are already seeing the benefit of cross selling already; you would have seen the Q1 win ratio going up than the Q4 in fact in Q4 also we had some of very good cross selling wins that happened. So, I believe that we continue to see the benefit of cross selling across all the industry verticals.
- Moderator:** Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Management. Please go ahead.

- Nisarg Vakharia:** Is it safe to assume that CAPEX plans for this year can be met from the internal cashflow generation itself?
- Rajeev Gupta:** So, we would look to do that so that we minimize in terms of utilizing our net cash position.
- Nisarg Vakharia:** Because it would be logical because that is the amount of free cash flow that you make every year anyways?
- Rajeev Gupta:** Yes, we would look to do that.
- Nisarg Vakharia:** Sir I understand that we can always have certain amount of teething issues when we have such a large acquisition and there is a merger and while you know DK sir has categorically said that we are confident of growing from here, you know the street is very nervous on this aspect, can you give slightly more confidence or more color on the ability of your organization to grow and also to report higher EBITDA margin than a 10% which is substantially low for a IT company of your quality?
- Dharmender Kapoor:** Correct. So, let me first address the EBITDA margin you know I am definitely very confident that will happen because even if you look at from Q4 to Q1 position we have improved on that front. If you look at the history of the Birlasoft also we have delivered much higher EBITDA margin than what where we are today. So, I do not see any reason why we would not be improve from here going forward because our internal expectation are also higher than this so that we continue to improve on that. Now have we identified the initiatives through which we will be able to improve yes, we have identified those initiatives. We have started reviewing each and every element of the business and the operation so that we know where we need to optimize, and we know where we have to improve our productivity in order to deliver better margins. So, I am very confident on that. Now when it comes to growth side on revenue, I believe that I would have been worried if the wins were not coming our way, but if you look at we have maintained the win ratio in the Q4 and then in the Q1 as well and it is only improving from here. So, I do not see any reason why we should not grow from there. Now one element that we have to look at is that currently we do lot of transformational programs and we need to really look at how those transformational program are much longer term rather than the shorter term because we talked about this earlier also that in the Q4 we finished a very large program and it was giving us significant quarterly revenue and their program got finished successfully and we had to go and convert that into a longer term sustainable revenue and continue to maintain that part of the portfolio that we deliver for customer and we did win that also. So, I believe that there is a significant focus on bringing in our focus on sustainable revenue and the annuity revenue. So, sometimes you may see that some programs are finishing, but those are not the panic button for us because that does not mean that we are going down for a particular client we continue to deliver well to those customers. It is only that through the cross selling now we are reducing our risk for a particular client because if it was only transformational program we could go, finish the program and come out, but now we are looking at cross selling so that we are able to have much more sustainable revenue with our existing customer who have confidence also. So, I am pretty confident on that perspective there are three or four levers that we need to apply and we

are well aware of that and we are working in that direction and you could see that how we have structured the team now going forward. It is also looking in that line because you cannot grow unless and until you are structured to grow also and I am very happy that our change in the structure has gone very well, people have accepted it very well and we are getting stable on that direction also. We can see that from the wins and coming from the pipeline also. So, I am pretty confident that we should be able to grow from here.

Nisarg Vakharia: Sir if you grow your topline quarter-on-quarter from here suppose we make a minor 1.5%, 2% quarter-on-quarter constant currency growth from here will that also directly reflect in improving the EBITDA margins?

Dharmender Kapoor: Of course.

Nisarg Vakharia: Are we reasonably confident that sir we will grow at least at 1% to 1.5% from here quarter-on-quarter?

Dharmender Kapoor: So, I would refrain from giving you the guidance because we said that we will not, but I would definitely say that we will grow from here and you are absolutely right that it will automatically you can imagine that we have the team in place. So, we will definitely showcase the higher EBITDA margin when we start growing our top line as well.

Moderator: Thank you. The next question is from the line of Alroy Lobo from Kotak Investment. Please go ahead.

Alroy Lobo: First question is on attrition, could you just give us some color as to where this attrition is emerging from, is it from the senior employees or from the junior employees?

Samit Deb: So, attrition overall for us on a last 12-month basis is 21.7% which is probably if you go by industry is within the industry number that we are seeing. We are not obviously comfortable with this, specifically our numbers are higher in the junior level 2 to 5 years' experience bracket and we have a great opportunity because we are in the middle of harmonization exercise from the people practices perspective and some of those harmonization efforts are now coming to fruition. So, as part of that we are looking into the compensation structure, we are looking into the great structure, we are looking into compensation grid and we believe that we will be able to take care of the junior level which is 2 to 5 year bracket attrition which as I said is the highest in our overall mix going forward. We are doing many steps also to ensure that we keep these numbers in check. DK mentioned we reorganize our organization to make it more industry and domain specific, vertical specific that comes with a little bit of impact at the top level, but I am happy to let you know that the transition has been extremely smooth and we have not had any surprises or major impacts on leadership level exit. We have strengthened our structures with SK coming in, we are further strengthening our leadership structure with more market facing leadership coming in. We are very confident that our engagement level at the top is strong we are doing things which will ensure the engagement level growth of course at the top and as I said

at junior levels we have got specific initiatives in place to connect, to think including on the compensation side.

Alroy Lobo: My second question is on the margins two questions actually there one is if you were to assume like-on-like without the IndAS impact of 116 what would be the EBITDA margins number one and number two if I were to look at your segmental analysis on EBIT margin per geography clearly America is giving you the highest margins whereas if we look at Europe and rest of the world the margins are lower, just wanted to understand is this because of scale in these two other regions or inherently are these markets low profitable markets for you?

Rajeev Gupta: So, let me take the first one and we will also answer in terms of how the revenues are spreading across different geographies. So, on the first one if you were to look at the EBITDA margin and include the IndAS 116 impact it has improved our reported EBITDA margin. So, if I were to really pull a picture which is comparing Q4 in terms of EBITDA we see a few exceptional items that were there in Q4 of course Q1 we do not have them. So, in that sense it has improved. Our IndAS 116 reported EBITDA level shows an improvement, but if you take that out or rather if you look at the adjusted EBITDA margin level there is an adverse impact of 0.4 million on account of IndAS 116. So, on adjusted EBITDA margins level we will remain the same as previous quarter and as far as the revenue split by geography I think what you are trying to understand is how is the margin by different geographies was that your question.

Alroy Lobo: Yes, in fact I just look at your segmental analysis before unallocated expenses and it clearly shows that America is the most profitable whereas the other two geographies are less profitable, just wanted to understand whether that is structural in terms of the geography or the businesses you address in Europe and rest of the world or is it something where you can see an improvement where it catches up with the America margins?

Rajeev Gupta : So, America clearly is one of our largest market. We see almost (+76%) revenues coming from Americas and rightfully so you know our margins are better stacked up in that geography. However, we consciously want to grow the revenues in Europe and UK and also in the Asia regions. These are two geographies we feel high-growth geographies and our investment will also start accordingly by building leadership in both Europe and UK region and in Asia region, but you are right to say it is most structural at this point in time because majority of our revenues are coming from Americas regions.

Dharmender Kapoor: At the same time there will be possibility that we will have to also invest more in Europe and APAC because if we look at the recent studies that have come from ISG and other advisor is that the growth is going to be significant in Europe and APAC. So, we will have to look at from that perspective also that we will continue to make investments to grow there as well.

Alroy Lobo: And you also mentioned that Life Sciences and Manufacturing are your domains where you see better potential for growth or next BFSI, just wanted to where you say you are strong in these areas, are you winning business against the larger companies or are they businesses which you are winning is from the 2nd Tier companies but you compete for these contracts?

Dharmender Kapoor: So, it is in both, but we continue to win in the larger companies also and that is the reason as we said that the cross-selling is going to give us the advantage because one that we have to look at whether the client is significant for us or not, but even for those significant clients we want also to be significant to them and that is the reason this whole approach about cross-selling that we talked about. So, we continue to win from the larger players at the same time we are bringing in a more focus on the mid-segment also because we definitely will continue to see a growth coming from that segment of the industry as well. So, if you look at our wins they are from both, but cross-selling will lot more happen with our larger clients with whom we are already present and delivering well.

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

Abhishek S: I heard you saying that from a revenue standpoint we have bottomed out and you know you talked about other metrics as well, but just to kind of rephrase the question asked by earlier participant could you highlight the revenue and the EBITDA margin markers for Year 1, Year 2, Year 3 that you may have set internally which you know probably we can or you can evaluate subsequently?

Dharmender Kapoor: So, you know as we earlier said that we are not giving any guidance for the year coming as you would talk about we are 1, 2 or 3, but we are already undergoing our long term planning within the organization both for the 3 years and 5 years. So, we definitely want to have our internal expectations set and work towards that and our internal expectations are definitely going to be that we will continue to grow quarter-on-quarter and year-on-year. So, I would just like to retain that position and not give any guidance for the future in terms of numbers.

Abhishek S: From a growth from a revenue growth or a customer challenges perspective?

Dharmender Kapoor: On the revenue growth I definitely said that, on the customer side also we talked about that we are looking at who are the customer with whom we had to work much more deeper because our strategy is to cross-sell that offerings that we have in our portfolio. So, we continue to look at and evaluate our current customers. So, our current customer are in the range of 400 and this is sustaining for quite some time now. So, I do not see any significant change that is coming unless and until we find that some of the customers are not going to be strategic for us and we are too small for them and we tried to cut the tail if it is not really growing further, but there are customer who might be small for us, but there is a bigger opportunity for cross-selling those are the customer we will continue to focus on, but the list of the customers if you look at it had been very sustainable for customer that we have for quite some time.

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

Rohit Balakrishnan: I had a couple of questions in the balance sheet of FY19 there is an advance that you have given to I think KPIT of around 180 crores, I just wanted to understand as of so one, what is the nature

of the advance and two, what is the outstanding amount in when do we expect it to sort of recover?

Rajeev Gupta: So, that advance has already been recovered between KPIT and Birlasoft because of the merger, demerger we had a situation where certain contracts were not novated. Any intercompany transactions as of 30th June is only on account of the novation of contracts, but those as well have been addressed. So, as of 30th June, most of the contracts are novated for and in Q2 you would see very few intercompany transactions between KPIT and Birlasoft. It would only be on account of some transitions, services that they would take from us other than that all the amount gets paid off.

Rohit Balakrishnan: So, you are saying so it has already received?

Rajeev Gupta: 180 is already history for us that is collected and squared-off.

Rohit Balakrishnan: So, in that context just I mean so if you would look at the balance sheet of FY19 and compare it to the Q1 balance sheet that you have said so I mean cash and cash equivalents were about 520 crores if I am not wrong if my numbers are right and they have declined to about 460 crores. Now if you were to sort of look at this advance as well and then see the cash movement because I am assuming this was a cash settlement that happened, so I just wanted to reconcile those number if you can just help me?

Rajeev Gupta: So, the 180 crores that you talk of was settled as of 31st March we did not carry it into Q1. So, when you are comparing the position of 31st March and 30th June from a like-to-like basis you need to take that 180 crores outside it was already a part of the 31st March. Now to your point the cash levels that were there on 31st March and that you see as of 30th June, the reason I have already mentioned there were two items – one, we paid-off our working capital loan which was of course taken earlier prior to the merger about \$5.5 million of working capital loan was paid off and the second is our variable compensation that gets provided for throughout the year or rather the second half of last year got paid out in Q1. Barring those two items we continue to be at the same level of cash as of what it was in 31st March.

Rohit Balakrishnan: So, actually if I can just sort of understand this a bit better because as of 31st March the number I mean it was not as a part of cash where it was coming as part of the loans and advances or other financial assets, maybe I will take it offline.

Rajeev Gupta: Yes you could take it offline I think what you are doing is just looking at it as an advance. So, you have an advance and you also have a payable there is a net situation that would be as of 31st March so when you net that out there is a certain lower number. As I said that number has come down quite significantly between 31st March and 30th June and going forward you would not see much of in the company transactions barring the transition services that you have between KPIT and Birlasoft, but we can take more specifically offline.

- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** I joined the call a little bit late, but I was just trying to understand you mentioned DK that there was onetime revenue hit and if you can just repeat that that will be just helpful?
- Dharmender Kapoor:** This is with one of the customers where before the merger we have had some delivery issue and that continue for some time and as you know that revenue recognition if it has happened then you need to reverse that. While we are still working with them and negotiating the payments, but as a good accounting practice we do not carry any unpaid revenue hence, we had to reverse \$1.2 million in this quarter, but in parallel we continue to work with the customer and negotiate on delivering and getting paid for what we have already delivered to them.
- VP Rajesh:** And had you booked anything from that particular client in Q4 which also needs to be reversed or what was the situation in Q4 with respect to that client?
- Dharmender Kapoor:** So, we had reversed whatever we had taken earlier in our books we have already reverse that because we do not take anything beyond the said number of days. So, that is the position that we have over the accounting principle that we have that we continue to follow.
- Rajeev Gupta:** And to add this was revenue recognized prior to the merger. So, we see the reversal is of course the delivery issue that continued post the merger and after deliberation we have consciously and conservatively reverse the revenue in Q1. While the negotiation is continued to trying to collect this much.
- BP Rajesh:** So, let me just repeat so that I make sure I get it. There was some revenue collected from this customer let us say few quarters ago not Q4 and that is being reversed in Q1 quarter because of the conservatism in the accounting principles and we are still negotiating so that can be recognized in the future quarter once you get the money from them.
- Rajeev Gupta:** Hopefully so that is under negotiation so whatever revenue was recognized prior to Q4 and because of that delivery issue we have reversed in Q1 our negotiation with the client continue. So, if and when we collect we should likely be able to recognize that revenue.
- BP Rajesh:** My second question DK is I think I heard you say that Manufacturing its 50% of your business is that correct or did I mishear that?
- Dharmender Kapoor:** Correct because Manufacturing is not only part of one vertical. Manufacturing spreads across the industries. So, from the focus point of view I talked about that it is a larger set of capability that we have and we want to continue to be known for providing good services around the functions Manufacturing as it be.
- VP Rajesh:** So, when you talk about the industry verticals in your deck which in B6, so clearly there is discrete Manufacturing which is approximately 20% and CPG/Retail is around 14%. So, the

remaining 35% are you including Energy and Utilities and Automotive I mean how should one think about that?

Dharmender Kapoor: Correct, so, if you look at Manufacturing cuts across Manufacturing as a discipline okay I am not talking about the vertical the way industry is seen but the Manufacturing as a discipline is into the DHM then it is there as part of the process Manufacturing then it comes also around automotive because that also is part of the larger portion of work that happens it is around Manufacturing. So, I include all those to really talk about what is the strength that the company has because when we go with that discipline there is an advantage that one industry can take from the other while they are seen as a different industry but underlying process are very much closer to the Manufacturing and we must continue to take the advantage of our larger presence in that domain.

VP Rajesh: And just quick question on the balance sheet, your unbuild revenues grew almost 40% over the last quarter, so can you just give some color as to what you are putting in this line item on the current asset side?

Rajeev Gupta: So, the unbuild revenues grew this quarter on account of one that we had certain novation of contracts pending between KPIT and Birlasoft. I talked about it earlier as well as part of the merger and demerger process, the contracts continue to be primed by respective companies and we do not want to impact the client and we continue to do business. So, those novation of contracts large part of them concluded in 30th June. We have seen some impact on account of unbuild because of that novation of contract and the second is of course there are certain statement of work and purchase order that we await from the customer while we have a verbal go ahead from them those generally get collected by middle of July. So, we saw an increase in unbuild, but we see that to be a normal practice and it should come down as we see some of the process is strengthening quarter-on-quarter.

VP Rajesh: And this is primarily I should assume as the AMC revenue would that be the right assumption?

Rajeev Gupta: It could also be a mix of our EN and NN and it might be across both projects and AMC kind of revenues.

VP. Rajesh: So, roughly what would be the split between AMC and non-AMC?

Dharmender Kapoor: So, at the organization level if you look at our AMC revenue would be in the range of about 65% and 35% comes from the larger program or the project.

VP Rajesh: So, that sort of same ratio I would think that in this particular line item you will have more of AMC because people are paying you in advance, so that is why I was just trying to understand if that is like 80%, 90% of this or there is project related unbuild revenue also?

Rajeev Gupta: You could have a high percentage of AMC I think your point is right that is how it could be.

VP Rajesh: And then on the margin side I think if I remember correctly on the last call the expectations set was that you know we will probably have bottomed out a 10.6% which is adjusted for merger and integration cost and now this quarter we are lower than that, so could you just help us understand that where is the bottom in the business as far as the margin is concerned because you know I would assume that majority of the integration is now behind us and if we look at going forward what sort of level we can set that will be very helpful?

Rajeev Gupta: Sure. So, if you look at our adjusted EBITDA margins at 10% compared to 10.6% last quarter there are three, four impact that I would like to explain so that you know we understand that from a margin standpoint also we continue to maintain and this is sustainable margin. One you had an IndAS impact which is an adverse impact of 0.4 million and that almost establishes that from a margin standpoint we are almost like-to-like. We saw a higher tax rate in this quarter compared to previous quarter while that explains the PAT part, but as I said if I were to just look at the IndAS impact and then compare it to previous quarter we are at a sustainable level of 10.6%.

V. P Rajesh: And is the expectation that from here on this should improve or you think this is going to be the case for the rest of this financial year?

Rajeev Gupta: With quarter-on-quarter growth as we have talked about earlier, we should see our EBITDA margin also improving.

V.P Rajesh: And DK finally, are you seeing any demand challenges in your largest market in the US or if you can just give some commentary around that will be very useful and that is my question?

Dharmender Kapoor: No, I do not think that there is only a demand challenge that I could see in the market. So, as I earlier said that we had continued to maintain our win ratio at the same time our pipeline continuous to grow and we are seeing more and more traction with the offering that we have in the market. So, I do not see any negative impact or anything negative around the demand coming from the market that you operate in. I am just hoping that as we continue to work with the advisors that the Europe should start picking up also in the demand on IT side and we should take the advantage of that.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Couple of questions one was you mentioned that you may also look in terms of investing the cash flow towards deal wins so if you could highlight is it that you need to make substantial investment or what is the type of ticket size it will involve because you already have a 20 million CAPEX program this year, so is that we may have to utilize some of our cash reserves also for the deal wins?

Dharmender Kapoor: This is only to really look at what are the possibilities. We have said that, that does not mean that tomorrow we are just going and hunting for the deals where we had to spent our cash flow.

It is only that what are the possible options that are there on the table, do we have very clear things on the table where we can say that this is what we are committing? Right now, no because we are a lot more working on creating the right foundation rather we are really looking at should we go for another deal or should we go and pick up another company for the acquisition I think those are only the options that we are talking right now, but how that will get factored by the opportunities that we see coming. It will be only at that point of time we will really look at that whether it is meeting our long-term strategic objective or not and at that time we will take those decisions.

Sachin Kasera: So, sir if you could tell us what exactly are the key financial matrix you look at before you deploy any large sum towards the deal wins?

Dharmender Kapoor: No very clearly what growth that it is going to bring us how it is going to improve or sustainable revenue, then is it going to give a stable profitability that is the third element that we will look at, but at the same time you have to look at that if we are going after something is it repeatable or not. We do not want to go after anything that is a onetime blip. We want to really look at how it is strengthening the overall packaging and proposition of service offerings and will we be able to repeat that success to other deals or not and whether that acts as a case study for us to go after the market. I will take an example there is one piece we are working with the customer and we are going through the process. Now if you build that product it is applicable to the entire industry if you build it jointly with them. So, there is a little bit of investment we may end up doing there, but the objective should be that overall, we should still be able to grow and at the same time we should be able to get our margins that we want from such deals.

Sachin Kasera: Sir, just one data point I believe you mentioned that the net cash is \$67 million is that number correct as on June?

Rajeev Gupta: That is correct.

Sachin Kasera: And what was the net cash number net of debt as on 31st March?

Rajeev Gupta: 530 crores was the net cash as of 31st March.

Sachin Kasera: So, basically, the net cash has seen little bit of reduction is that fair understanding sir?

Rajeev Gupta: Slightly reduction because we also paid our debt during this quarter and we had a onetime impact of paying variable payouts in this quarter.

Sachin Kasera: No sir but from what I understand when we say net cash as on last March that must be net of the debt, net cash is basically cashless debt that you so how does the debt reduction lead to any changes in net cash that I am not able to calculate the math?

Rajeev Gupta: So, we do not have any further debt now as of 30th June.

- Sachin Kasera:** No sir that I understand what I am saying is that when you are telling me the net cash as on March was 535 crores which is now roughly \$67 million and you said that debt has got reduced because of the debt repayment I am saying when we are quoting that is why I just wanted to clarify the figures on March when you say 535 is net of debt or it is at gross level that is why there is some confusion?
- Rajeev Gupta:** So, there are also areas where you know we have settled payables and these were on our balance sheet. So, from a quality of balance sheet standpoint we have paid off our vendors, we have settled a lot of those areas and you see some impact on account of that, but from the \$76 million of debt levels to a \$67 million debt levels there is also the variable payout impact that I talked off.
- Moderator:** Thank you. We will take the last question from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain:** So, I have couple of questions firstly if you could give some input in terms of what is the growth of TCV on a YoY basis on a like-for-like basis I know that is not very comparable, but anything that you could share there and what is the average tenure for us on these deals and any color that we can give on the renewal debt because we are sharing only the net new and EN kind of a deal, so basically I am trying to derive the right way to look at this TCV metrics to understand the growth momentum in the business, so if you could help me bridge that gap?
- Rajeev Gupta:** So, we would refrain in terms of the guidelines on a year-on-year basis, but a lot of that we have already responded to say that you know we expect at these quarter-on-quarter growth this year and from a year-on-year standpoint, we would look at least over the next couple of years to grow at market-leading growth rate.
- Rahul Jain:** Sorry, but actually I was asking the same number on a historical YoY basis how it would have look on a like-to-like basis and basically to understand the gap because we give only the new deals so how one should read in terms of what are the typical retention on the historical revenue or the renewal rate or the project basis kind of a deal mix so that this number should be read in the conjunction of our total revenue in that way?
- Vikas Jadhav:** I mean if you really look at the total deal wins, they would be in the vicinity of about 88 million so that includes renewal, if you exclude renewal there are about \$58 million.
- Dharmender Kapoor:** Correct the 58 million that we said it does not include the renewal rate.
- Vikas Jadhav:** And last year this time I am sorry I am afraid I do not think it was the historic data you know we would not have that. If you want may be, I will put out that.
- Rahul Jain:** Secondly what is our typical positioning at client vendor pool, are we one of the larger vendors on the IT side or we mostly exist along with one or more large peer and if answer to the second part is yes then what are the risks from a vendor consolidation perspective?

- Dharmender Kapoor:** So, your question is that what is the position that we have in front of our client, is that right?
- Rahul Jain:** I am trying to understand what is the typical mix we have as a vendor pool? Are we one of the larger vendors to our clients or we are typically along with one or two Tier-1 which are also present in those clients?
- Dharmender Kapoor:** Generally, whenever it is a large client you will always see that there are mix of vendor of equal size that are there and there are cases where we are along with the other competition serving to our customers, but these are generally typical very large customer who have very large IT spent and they try to split it among multiple vendor, but then there are other who are smaller in nature where we are having a significant revenue. So, there are both kind of customer that we have with us and it will all generally depend upon what is the size of IT spent that our client has.
- Rahul Jain:** So, the point is do we see any risk from a vendor consolidation perspective or we are winning market share in this clients?
- Dharmender Kapoor:** No, I do not see any risk. So, far if I look at in the last two quarter, have I seen any clients dropping us and moving to somebody else no we have not seen that. In fact, there are good renewal that have happened in the last two quarters also. In fact, even just before the merger also I could see that very clearly if I look at the historical data that is available for the larger client and while looking at our plan, we have looked at that. So, those are all renewed so I do not see any risks with my any of the customer today where I would expect that in the renewal process, we may not get selected or if there is any larger renewal that is just coming in the next couple of quarters. So, from both perspective I do not see too much of a risk anywhere at the same time we always continue to watch for what are the renewals that are coming up and the objective is always that how do we get a larger share of that pie by now bringing in other service lines into the portfolio as well. So, from that perspective I think we are safer at the same time for the larger customer we are actually supporting them in a very significant part of the portfolio which is ERP and it is not easier for them to shift or transition that to the other vendor because if it was peripheral services it is easier, but when it is core of the business they generally try to remain with their existing service provider because there is a good amount of dependency that gets build over a period of time. So, from that perspective also I believe that the risk for us to getting eliminated in any larger deal is very negligible, but of course we have to continue to do a good job in front of the clients so that we continue to win and continue to renew.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.
- Dharmender Kapoor:** Thank you very much everyone for joining. As I talked earlier while we are 1.2 down from Q4, but I am very excited with the way we have started approaching and how do I look in the future because one of the key expectation that I had from myself was that how are we going to stabilize the operation and we are doing very well on that direction. At the same time the biggest goal that we have is that we create the stronger foundation because if we try to just run after the market without having the stronger foundation, we may get the blips of the success, but it may

not be sustainable. Our objective is very clearly that we structure organization in such a way, we define our service offering in such a way that we continue to go after sustainable growth and sustainable profit. So, from their perspective I believe that we are in the right direction and I am sure that you will continue to see that we are moving forward with lot more confidence. With that thank you very much.

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

Disclaimer.

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