“Birlasoft Limited's Q1 FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Birlasoft Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav from Birlasoft. Thank you and over to you sir.

Vikas Jadhav: Thank you, Tanvi. Good evening to everyone. This is Vikas from investor relations team and joining us on this call, we have our CEO and MD, Mr. Dharmender Kapoor, DK as we call him; CFO, Mr. Chandrasekar Thyagarajan, Chandru as we call him; Mr. Roop Singh, our Chief Business Officer; Mr. Shreeranganath Kulkarni, SK as we call him, our Chief Delivery Officer and we also have Mr. Arun Rao, our Chief People Officer.

We will begin the call with opening remarks from Mr. Kapoor. Please note that anything that we say on this call on the company's outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer mentioned in our Q1 FY23 Investor Update which has been sent to you and also uploaded on the stock exchanges.

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

Dharmender Kapoor: Thank you, Vikas. Good evening, and welcome to Birlasoft Q1 FY23 Earnings Call.

We have begun the new financial year on a steady note. Q1 revenue was at $148.6 million, registering a sequential growth of 1.5% and a YoY growth of 15.8%. Sequential growth in constant currency terms was at 2.3% and YoY constant currency growth was at 17.7% for Q1.

New deal momentum continues to be good with wins of $112 million in Q1, which is up by 19% on a YoY basis. The total TCV wins were also healthy at $185.1 million. EBITDA margin stood at 14.7%. We have seen margin getting impacted due to high cost hiring and mid and junior level promotions, drop in utilization, investments and were aided by rupee depreciation.

We have switched to reporting attrition, which is more in-line with the industry and factors early attrition. The good news is that we have seen a drop in our LTM attrition number, which fell from 29.4% in Q4 to 27.9% in Q1, a drop of about 150 bps. However, needless to mention, it still remains elevated and we expect to see a further drop going ahead, which will help support margins going ahead.

Our PAT stood at $15.5 million and was up 0.7% YoY and down 12% QoQ. INR PAT was at Rs.121 crores, up 6.2% YoY and down 9.2% QoQ.

In verticals, the growth was led by BFSI and manufacturing verticals; BFSI saw a growth of 5.1% QoQ and 17.9% YoY, while manufacturing was up 2.8% QoQ and 22.4% YoY.
Horizontal growth was led by business & technology transformation services with high growth of 7.4% QoQ and 20.7% YoY. It clearly shows that slowly and surely we are becoming an enterprise digital company and our revenue around digital is growing faster than the traditional services.

Growth continues to be driven by larger accounts with Top 5, Top 10 and Top 20 customers growing at 16.5%, 22.7% and 21.0% on a YoY basis respectively.

Our YoY customer count of 5mn+ revenue improved by 3 and that of 1mn+ improved by 5. Active customer count remains steady at 300.

The headcount at end of Q1 stood at 12,565 and saw an addition of 361 professionals QoQ, and an addition of 1,057 professionals on a YoY basis. We have hired 280 fresher in Q1 and plan to hire 500 fresher in Q2.

Birlasoft continues to get various recognitions. It was named again as a top-15 sourcing stand out by ISG and among the leading providers in the Booming 15 category globally, as well as for the Americas region based on annual contract value won over the last 12 months. This is the ninth consecutive time that Birlasoft have been featured across name category by ISG.

During the quarter, Birlasoft adopted RISE with SAP to transform its global landscape on the cloud. With enterprises adopting a cloud first strategy, this move will enable Birlasoft to accelerate their clients transformation journey substantially. Most of the clients today are already looking at modernizing their ERPs, especially SAP and SAP on RISE is definitely a promising one, and we are very happy that we are the first few who have moved to RISE and I think that will help us go and take those opportunities in the market very confidently.

In conclusion, I would reiterate that the IT demand outlook over the next three years looks healthy despite some of the recession challenges. However, opportunities are multi-fold especially in digital and cloud ecosystem, which augurs well for Birlasoft. We continue to remain optimistic and are well positioned on capitalizing the growth opportunities.

With this, I would like to open the floor for questions.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah:** DK, I think the Q4 results have come late on 24th of May and during that day, we were bullish both in terms of near-term growth as well as for FY23 kind of a growth. We were also expecting utilization to remain more or less stable. On all these counts, looking at the 1Q results again being soft, where are we going wrong in terms of execution and even predicting the near-term earnings visibility?
Dharmender Kapoor: Thank you, Sandeep. No, I don't think that we are going wrong anywhere, but I think there are a few reasons that are to be looked at considering the situation that is there. I think the first big reason was that there is a delayed start on couple of engagements that we have won in the previous quarter. It is not part of the wins that we have there, because one of the wins actually is part of the wins that we have shown, a part of $185 million. But the client wanted to start in Q1, but they delayed it because they are into a merger situation and they decided to delay it by a quarter. So, that revenue that we thought earlier would start flowing in did not come. Similarly, there is another deal that we have won, but there again it was a delayed start where client wanted to wait for some time and they did not want to go for that in Q1. It will get closed in Q2 and some revenue will start coming into Q2. So, that also impacted the Q1 revenue. These are the two engagements that are the large customers for us, one of them is a new customer, large engagement, but second is an existing customer, again, a large engagement, which is where we could not get the revenue that we thought and it was part of the plan. And it is primarily due to the transformation that they are doing or undergoing in their organizations and they took more time than what we thought they will be able to do that. So, that is one challenge that was there. Second, as I said in the previous quarter, there is going to be a revenue normalization for us in one particular vertical for the two quarters. We took that normalization first-hand in the previous quarter and the second was in this quarter, that was a planned one and that is also the another normalization that happened. Third, there is a little bit of supply constraint that continues to happen. Despite that, we are seeing lesser attrition, but at the same time for every organization, the joining ratio dropped during this time. You would have seen some of the reports where there are regrets with the new joinees, have they joined the right place and will that fit into their scheme of things or not. We have seen that ratio dropping a little bit and that also had an impact because when you do not get those people join in time, you end up not getting the revenue that you planned for. So, these are the three reasons. The reason I say that there's nothing wrong is because the wins wise I continue to see that the wins are happening. I continue to see that the clients who planned for the programs, they continue to come and sign the contract with us. So, there also is no slow down as of now. While I know that we continue to hear the constraint, continue to hear the recession fear, and that probably becoming more and more as the time passes. But I believe that it will be clearer in the Q3 for us. The projects that we are doing today are happening, except in a couple of cases where there is a delay, but the delay is not for the recession reasons, it is actually for their own transformation program of integration post-merger that has given them a little bit of delay in starting those projects.

Sandeep Shah: But this we were not knowing on 24th May where we were already two months in the quarter for the Q1 as a whole. It has been a surprise for all three elements being used for post 24th of May.

Moderator: Audio was not very clear. Sandeep Shah, can you please repeat your question?

Sandeep Shah: Thanks for the explanation. So, what I'm asking me is all these three reasons which you have said was not known on 24th of May when we were already two months into the quarter?

Dharmender Kapoor: We actually started some discussions and plans already considering that the discussion on the contract will get finalized in a week or two weeks and we never knew that it will not begin. In
fact, that is what has actually hit us on the utilization as well. When that gets delayed, it hits your utilization and it increases your bench because we had hired the people to go ahead and start working on the project. So, no, it was not clearly known, but we had already started, then we had to scale back because the discussion with the client was that we will have to move it by a few weeks before we start these engagements.

Sandeep Shah: DK, can you update about your FY23 outlook? Both in terms of US dollar revenue growth and on EBITDA margin for FY23 versus last time you said both will surpass what we have done in FY22 because even to achieve a 15% growth in US dollar terms, we have to do 4.8% compounded QoQ growth rate in the next three quarters which looks stretched (Inaudible 14:36). And then I have a follow up question for Mr. Chandru just on the DSO.

Dharmender Kapoor: I think we are continuing with the goals that we took in the beginning of the financial year. There is no change in our internal plans that are there for the growth perspective. We have not changed anything and we continue to push aggressively on how we go and meet the objectives and the goals that we set for ourselves. Right now, we are not scaling down anything from the goals perspective. On the margin side also, while there are going to be more headwinds during the Q2, as you know that we will have to give the increments, there are some of the levers that we are already working on so that we remain at least a flat or do a little better than what we have done in Q1. So, that's the plan that we do. It is a steep improvement that we want to bring in. There is a huge amount of focus on improving our margins. At least for Q2, I would like to remain flat or improve a little bit on top of that, but then in Q3, there are other productivity levers, and all that will kick in, and probably we will improve in Q3 and Q4 again, so that we deliver more than 15%. This quarter came with a significantly higher headwinds for a simple reason that we did not get the revenue that we thought as I explained earlier whereas we had taken the cost already. There was a little bit of disappointment in the delays that we saw but we are not seeing this with the other clients. So, it is not too widespread, it is only focused on one or two clients.

Sandeep Shah: Last question to Mr. Chandru on the DSO, if I look at the absolute increase in US dollar DSO is $2.3 million, while your debtor increase is as big as $7.2 million and including unbilled, the increase is $11.3 million and we have reported a flat DSO on QoQ. So, I'm confused how these calculations are arrived at?

C Thyagarajan: Firstly, the DSO is billed DSO. So, to that extent, the calculation is correct, because DSO is obviously a function of the rolling three months, debtors as a function of the rolling three months revenue, right? So, the DSO number is correct. To your question on absolute increase in DSO, there are two parts to it. One is of course, the forex translation difference cost about 45% of the increase, and the balance 55% was the real increase in the absolute number of the billed receivable coming from the increase in revenue that we've seen over the past two quarters. So, in essence, therefore, the DSO number of 58 is in relation to the receivables as a function of the average revenue. Now, our unbilled also in real terms has gone up, but if you look at it as a percentage to revenue it is still staying flat on a QoQ basis. So, two metrics that we watch fairly closely. Let me also tell you that there were two clients that delayed payment, the payment
actually came on the second of July versus the last week of June. That could have actually reduced my DSO from 58 down to 55. But it does happen sometimes, right.

Moderator: The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha Agrawal: Hi, DK, a couple of questions. First, if I look at your other expenses, that have seen a significant increase of 10%. So, what has gone in the other expenses line item?

C Thyagarajan: The other expenses have a couple of components. One is the subcontractor payout that still accounts for a big portion of the other expenses. While we've seen a marginal reduction in subcontractors because we've started to replace them with regular employees, we still have to accelerate that bit as we are able to get more people, more regular resources deployed against subcontractors both onsite and offshore, primarily onsite. So, that is one area. Two, also as part of our growth strategy, we continue to invest in the newer areas. One of the things is around hiring talent, hiring capability. Some of the cost of hiring goes into the other expenses, while the resources themselves are part of the salary expenses. We continue to look at the cost of hiring staying where it is. While we spoke about reduced attrition, we are also ramping up for additional growth in the coming quarters, like DK spoke about. So, that that gets accounted for. And the third item that gets accounted here is that we have engaged third-party to work with us on our billion-dollar strategy and that also a set of cost that we've been incurring for our growth as we spoke about the investments that we continue to do. So, that's the third item.

Shradha Agrawal: Would it be possible to call out the one-off expense in this quarter, consulting charges that is paid, which will probably not get repeated in the next quarter?

C Thyagarajan: Shradha, there are some ongoing costs that will come for the next three to four quarters. To be honest with you, there will be some repeat costs which we will incur in the second quarter as well. In that sense, I wouldn't call it one-off.

Shradha Agrawal: Sir, you mentioned that sub-contractor expenses are high, but if I look at that number, it was almost 15.8% of our revenue last quarter. Is it possible to give out the percentage number for this quarter so that we know where directionally are we headed?

C Thyagarajan: I will get back to you on that, Shradha. Give me some time.

Shradha Agrawal: And sir, a related question is your other unallocable expenditure, that item remains very high at almost 10% of revenue. What basically goes into that line item?

C Thyagarajan: Yes, I'll come back to both of these questions. I'll get the answers while we work through the rest of it.

Shradha Agrawal: DK, to you, our cloud services, though we have been talking very positively on this service line, but that saw a decline in this quarter. So, how do we read that? And also, the deal TCV number was soft on a QoQ basis.
Dharmender Kapoor: On the cloud side, one of the work that is going on, on the strategy for a billion dollar. One is actually around the cloud. In fact, with the cloud, we are seeing a significant traction. So, little bit of up and down in the quarter, I don't think that should be seen as a trend because with the cloud, we are going to definitely grow significantly higher than the rest of the traditional services. You would have seen, now we have joined hands with Google also. And after that, we made two wins as well, along with Google and there is a significant amount of focus to set up a new GTM keeping in mind the partners with Microsoft as well as with Google and AWS. So, on the cloud side, I am absolutely upbeat that the revenue for us is going to grow. In fact, if we look at, even today, we are very much at par with what we see with the industry. But being a smaller company, we see the upside potential in a big way and we will continue to work on that. And the spend that we're doing on the strategy, actually, good part of that spend is on the direction of really increasing our revenue in the cloud and associated areas.

Shradha Agrawal: On the deal TCV numbers though on a YoY basis it's up, but we have seen some softness on both new deals and renewals on a QoQ basis?

Dharmender Kapoor: Correct, because it is not just cloud, because in that bucket it is the cloud plus the base services. So, one of the engagements I talked about that got delayed, so we have won large deal, that we could not finish the contracting at that point of time and the client wanted to go through a little longer process with an advisor. So, it took time. That actually was going to be in the base services and that will be followed by cloud, but that will come later. So, if that was going to be there, our percentage could have been higher in the QoQ base as well.

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

Mihir Manohar: DK, you mentioned about the two engagements which got delayed in this particular quarter. If you could quantify them, and how should we see these accounts ramping back? And the second was on the Europe. We saw quite a sharper contraction in Europe. So, how should we read this and what is leading to this contraction in Europe?

Dharmender Kapoor: If you look at these deals, these are in the range of $15 to $20 million, both the deals are of that range. Hopefully we will now go and declare that in the Q2, and I wish it was started at that time, as it would have given some good revenue in Q1 as well. So, that's the size of the deal. Contraction on the Europe side is more towards when you look at, and Chandru, let me know if I am correct with that, we are actually flat, but percentage wise it looks smaller because the dollar has appreciated against the euro as well and when you convert that revenue into the dollar, the dollar equivalent becomes smaller. But we are pretty much flat in Europe QoQ.

Mihir Manohar: Lastly on the Google Cloud and digital transformation, the update that you mentioned. So, how should we read this, what significance does it have, if you could throw some light on that?

Dharmender Kapoor: So, on the cloud side, we mostly kept our focus on digital services as a larger umbrella. While we have been working with our partners as well as with our clients and going and taking up the
opportunity. It is the first time that we are putting the GTM in place for cloud, while within every vertical, and with every horizontal, we were addressing it. But now we are putting a GTM focus, that means there will be someone who will be focused just on the cloud, because cloud doesn't come only in the cloud & base services. There is a significant amount of cloud that has started to happen in the business & technology transformation services as well. And we should look at not only migrating organization to the cloud, but what is that we can achieve once they are already on the cloud, because there's a lot of transformation that happens once someone moves to the cloud. So, now we have broadened our horizon from that perspective. What we are doing is we are picking up cloud as the bucket and we are looking at what kind of services can be there at various stages, starting from the consulting to the migration, to the modernization, and then finally, transforming. We are looking at what could be the offerings and how do we go and address every offering, rather than trying to restrict ourselves only to fewer offerings and going there. Now that we have a significant amount of cloud revenue with us. We believe that we are in a good position where we can actually participate in the transformation program also for our customers, and that is the focus that we are working on.

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

Abhishek Shindadkar: I think I heard you say that one of the challenges in the customer impacted the cloud & base services business. If you can just highlight, was there any enterprise solutions related work there as well? From a vertical standpoint, is it largely reflected in the energy and life sciences vertical or the manufacturing piece is also witnessing the moderation because of these customer specific issues?

Dharmender Kapoor: I talked about the two clients. One of the clients is purely enterprise solutions. The other client has a smaller piece, because it is more into the kind of total IT outsourcing. So, definitely enterprise solutions is also a piece, but a smaller piece. The other engagement that I talked about, it is purely the transformation program on the enterprise solutions side. So yes, if I put both of them together, about 50% of that will actually be enterprise solutions.

Abhishek Shindadkar: In the past, we’ve been highlighting that the enterprise recovery, which started in the H2 of fiscal ’22 might continue in fiscal ’23. So, based on your assessment, and what you saw recently, you think that the enterprise projects that we had run a risk where some of them may be delayed or there could be some other instances, any color on that side could be really helpful?

Dharmender Kapoor: During the COVID time, yes, it became a binary situation where somebody clearly said that, no, I don’t think that we should take up the project, and they kind of stopped it. At that point of time, not for the reason of the investments, but for the reasons that even the talent was not available onsite for them to really execute those projects, because most of those projects actually begin with a lot of planning and consulting, where you require onsite presence along with the customer. It is very different now. Actually, when we look at going forward, when the discussion is on the slowdown or on the recession or something like that, I always believe that there is always a blessing in disguise for IT services when we talk about recession, but at the same time, the sentiments also have their own impact. What I believe is that one thing everybody realizes that
they need to adopt digitalization in a very stronger way and in a faster way, so it is all about that matter of survival. But the biggest question all those are asking is that – will I succeed with digitalization if I do not modernize my SAP, my Oracle, my JD or my other ERP or Enterprise Solutions below that? So, what is happening is that they have realized during this time that they will need to take the underlying transformation also if they want to get the right benefits for all the digitalization because you can very easily imagine that most of the data and the processes lie within the enterprise solutions. And when you have to get the digitalization done, you need to invoke the value of the processes and the data that lies in the enterprise solutions. So, they definitely want to continue to modernize, they want to continue to go ahead. That's the discussion that I am seeing most of the time. Nobody is saying that – no, right now, we will drop and we will only look at doing it in the next year. So far that discussion is not coming up.

C Thyagarajan: There was a question from Shradha Agrawal. I thought I will respond to the two outstanding questions. One was on subcontractor expenses – what is the percentage of revenue in Q1? The percentage of revenue in Q1 was kind of flat QoQ at the overall level. Like I said, we’ve started to see a reduction at the end of the quarter. So, we should see improvement in the second quarter. The unallocated expenses in the segment report relates primarily to SG&A which is our selling, general & admin expenses. It also has spend on our practice (inaudible 34:14), which is the leaders in practice (inaudible 34:19) that we have hired in the first quarter.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Just want to understand this $ 15 to $ 20 million deals that we have signed. Want to understand how big is the tenure of these two deals? And as you said, these got delayed in Q1 and as on date or in mid of this quarter, have these projects actually started ramping up in your view, if you can give color?

Dharmender Kapoor: On the two deals, one of the deals is about for about one to one and a half year, that's the timeframe that we see. The other deal which is total IT outsourcing is for three years.

Sameer Dosani: And second is on the margin. We have delivered 13% EBIT margins and Q2 would have some wage hikes where we probably are saying it would be flat or maybe some improvement. But to improve your margins on a YoY basis for FY23, you will have to substantially take up your margins maybe even more than 15% which you have delivered in last year. So, how do you think that journey will be for us… how confident are we around that number? One more point is that we have started a quarter with 2% to 3% kind of dollar CC growth. To reach up to 15 or deliver more than 15%, 16% what we delivered in last quarter would need 4% to 5% growth for next three quarters. So, how confident are you around both these numbers if you can just speak about that?

Dharmender Kapoor: On the margin side, very clearly there are headwinds and the headwind is about the increase that we had to give to our employees. So, that definitely is a headwind. But if I look at the planning that we have done with respect to where all we pull the levers for getting the cost saving
advantage, I anticipate, and this is not a guidance, that we should remain flat. That is how I look at it. I do believe that there could be few unknowns because as you know that in the last quarter also, nobody thought that there will be a drop, because there is so much that is changing on the talent front, supply front, and the cost of hiring which are really making us think again and again that should I go and capture the growth or should I really continue to look at the margin. Of course, the decisions are different at different times. But these are some of the things for the decisions or the choices that we had to continue to make. So far that I see, I believe that we want to remain flat QoQ and I think as the time passes, probably another month or so, we may have more clarity with respect to how things are unfolding. But with the current plans that we have, hopefully, QoQ will be flat. Now coming to the growth side, as I told you that in this quarter, we had some revenue normalization that we had to do, and some delays that also happened. That tells me that I think we want to continue to look at much better growth in the rest of the quarter and that is what we are gunning for. We don’t give the guidance, but definitely the plan is to do much better than what we have done in this quarter.

Sameer Dosani: But do we stay with the overall directional picture that we would be able to deliver better EBITDA margins than FY22?

Dharmender Kapoor: So, my view is that it will be in the ballpark, that is what I see. You would have seen in the industry-wide, there is a lot of talk and there are different views about the recession, there are different views about the budgets that clients are going to come up and the adoption of the technology that they want to go for. So, everybody is coming up with those kind of plans. My view would be that how do we do same or a little better than what we did in the previous year.

Sameer Dosani: That's fair, we can't control the macros evolving. Also, we have spoken about a lot around that how recession or downturn would be much better for IT as a sector. Because what happens is the scale players benefit more, but obviously, times have changed in the last two years. So, can you throw some light around the capabilities that we would have built that will help us actually take the benefit of the downturn like the scale players do usually?

Dharmender Kapoor: I don't think capability in addressing the opportunities is an issue. But we need to look at it from the ecosystem perspective, for example, one of the major focus that we have right now is that how do we improve the talent supply chain. For example, we focused on the talent acquisition for a very long time, but with the twist that is there with the talent availability and the resignations or the attrition and also this work-from-home somehow these six to nine months had been a perfect storm that nobody wanted to really see in their lifetime, but then it always happens, that we get to see the unexpected in the market. So, when that period was going on, we have looked at one thing – now that the recession is there, when we come out of the recession, how do we get into similar situation again at that point of time. Let us assume the recession is there and from Q3, Q4, Q5 we see the slowdown, and it impacts everybody. But when we are coming out of the recession, we should not be saying sorry to ourselves at that point of time and we should have anticipated the higher growth or see growth at that point of time. So, it's not about getting ready only for this and next quarter, it is also about getting ready for six or seven quarters down the line, that if there is again a steep demand that we encounter, we should be able
to manage the talent supply chain in a much better way. That's the reason our intake on freshers is much higher, our intake on the juniors is very high. We are spending money on the learning and development, we are spending money on various other initiatives so that we are able to address this better if we confront the situation, let's say three, four quarters down the line again. It is a more long-term solution. I did talk about in the previous meetings also that we need to work on the longer-term solution. Even if we have to sacrifice a little bit of margin now, so that I get much better benefit in the future, we should do that, because that would be the right approach in order for us to have a predictable revenue and margin.

**Sameer Dosani:** I think one question got unanswered was, are those two contracts which were delayed has started ramping up as we speak, or is it yet to actually start ramping for us?

**Dharmender Kapoor:** For that, we already did the ramp up actually. It is only that now we need to deploy and work on those and work on one of them has already actually started. So, we did the deployment in the previous quarter itself. It is just that it did not start and it ended up hitting our utilization and the margin and of course, the revenue as well.

**Sameer Dosani:** One contract started at the end of Q1 and second is yet to start?

**Dharmender Kapoor:** That's right, yes.

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

**Dipesh Mehta:** DK, a couple of questions. Starting with the deal pipeline, if you can help us understand how the deal pipeline is shaping up? I think earlier, you used to give some numbers. If you can provide deal pipeline number at the end of Q1 and give some comparable number maybe QoQ, YoY, whichever you're comfortable with? Second question is about the revenue normalization, which you earlier alluded, which partly experienced weakness in Q1. Can you provide some more detail on it, what you mean by revenue normalization and which vertical largely you refer to, whether life sciences is what you are referring to, and how you expect it to evolve over next few quarters? Third question is about the Microsoft relationship. I think a couple of quarters back, you indicated $100 million aspiration by FY24. So, if you can provide some update where we are in that journey from that relationship and how is it scaling up? And last question for Chandru is about the OCF. OCF remained weak this quarter, it was negative. So, if you can provide some sense, what explains it?

**Dharmender Kapoor:** Let me go one-by-one. If you look at our pipeline, I'm talking about the sales pipeline, that we continue to pursue with our customers, it actually moved up significantly. At the end of the previous financial year, we were at about $1.2 billion, we are touching already $1.7 billion. When it comes to the billing pipeline, I do not have the number upfront with me, but let me check and come back by the time I answer other questions. Let me come back to the revenue normalization. The revenue normalization as you know it is the same account that we talked about and the same vertical that we talked about in the life sciences last time also. It is the planned normalization, because generally when you have the large deal, and when you have the
run and change part at different times, when the project finishes, your revenue will get softer and get more steady going forward and that is where we are and we have to do that over the two quarters. We have done most of it already. It is only about half a million that is there, which probably we will do it in the next quarter. But we may actually be able to get that also. But we were supposed to do that over two quarters, which finishes with the Q1, most of it. So, that was the revenue normalization. The third is on Microsoft. We continue to do very well. In fact, now we have started getting revenue from Microsoft as a customer as well. So, that is a good change that has happened in the last three, four months where now we are not only discussing, going to market with the offerings, which are Microsoft offering, but also going to Microsoft and delivering services to them. So, we remain very upbeat on the Microsoft side and I believe that we should be able to achieve our goals of being a $100 million partnership in time for us to really achieve that.

C Thyagarajan: To your question on the operating cash flow, there are a couple of items; one, we spoke about the increase in receivables, both the billed and unbilled receivables, we spoke about that a little earlier that is one item. The other, we also had lower financial liabilities coming from the fact that we had the variable performance incentive pay-out in the first quarter based on our performance in FY22. So, net result of that is we did have movement in working capital that caused are lower operating cash flow in Q1 versus the prior quarter.

Dipesh Mehta: What should one look at OCF-to-EBITDA conversion, if you can provide some sense from full year perspective?

C Thyagarajan: Sorry, ask that question again please.

Dipesh Mehta: OCF-to-EBITDA conversion, what is the right number or optimal number, one should expect on full year basis?

C Thyagarajan: Let me get back to you on that question while we go ahead, I'll come back to you in a moment.

Moderator: We'll move to the next question from the line of Devang Bhatt from IDBI Capital. Please go ahead.

Devang Bhatt: So, how much utilization can improve in the next quarter based on your deal ramp ups? And what kind of subcon cost you expect to reduce? What kind of quantum of wage hike in Q2 will be there in the impact? And is there any transition cost in the large deals that would impact the margin?

Dharmender Kapoor: Sorry, just repeat the last line that you said?

Devang Bhatt: So, is there any transition cost in the large deals that might impact the margins in the near term?

Dharmender Kapoor: Utilization, I believe that we should be able to come back to the levels that we used to be anything between 84% to 85%. That is something we have delivered very consistently. So, I don't think
that should be a too much of an issue for us. When it comes to looking at the quantum of wage hike, I expect that it will be approximately closer to 3%, average that we believe will be an impact due to the wage hike. There is some wage hike that we have done in parts for some of the people in order to retain them over a period of time. So, that means that we will have to do it in such a way that we keep the impact to around 3%. That plan is in place, and I expect anything from 2.5% to 3% is the impact we will get on that perspective. On the transition side, there will be a minor transition impact that might come in. I don't think it'd be very significant one in the overall scheme of things. So, it is not going to change, but yes, we do have the transition for one of the deals that we are talking about, but I don't think it will be too much of an impact on that front, because some of the costs that we had to take in order to create the plan have already been taken, so incremental we will not have much.

**Devang Bhatt:** How much subcon cost you expect to reduce? And secondly, if the macros turn worse, what percentage of revenue would be impacted?

**C Thyagarajan:** Can you ask the second question again, please?

**Devang Bhatt:** So, if the macros turn worse, what percentage of revenue you think would be impacted because of the macros or there might be delay in ramping up those kinds of deals.

**C Thyagarajan:** Let me answer the first question on reduction in subcon cost. The expectation is that we will gradually improve on our subcon spending from the current level of sub-15% of revenue. My expectation is that we should be able to shave off at least 100 to 150 basis points in Q2 and Q3. Maybe Q3 will be a little less than Q2, but we should be able to shave off 150 basis points over the next quarter or so.

**Dharmender Kapoor:** One additional point that I will talk which is more qualitative on the subcontractor side is that traditionally we have always seen subcontractor to be very cost-consuming. But with this whole flip on the costs increasing across the board for onsite and offshore people, many times we are seeing that the subcontractors are now either at par and in some of the cases it is also lower, because it is quicker to get them on the project and off the project, whereas with the employees, there is always a bench time that comes into the play. So, over a period of time, I don't think that right now is the right time to really change the way we look at the subcontractor, but over a period of time, probably, we will have to look at subcontractor in a way where we do the planning in such a way that it is a quick onboarding and off boarding so that both the directions when you end up losing the utilization when somebody is onboard as an employee, you can actually save on that money. At the same time, this work-from-home is going to lead more and more people opting for the subcontractor. So, we need to really improve our process in the way we manage that and reduce the costs rather than just looking at the count of the subcontractors. So, from that perspective also we are working on. So, this is being looked at with a new lens. I think it is very important that we look at with a new light. But we will continue to come back as it is something that is emerging now as a new reality for the business and we may have to decide our benchmarks going forward accordingly.
Devang Bhatt: On the macro part what percentage of revenue can be impacted if the macro turns worse.

Dharmender Kapoor: It is very difficult to say that. I hope that it doesn't turn for the worse. But it is very difficult because people talk about different range and everybody has a jury that how wrong it can go. In my opinion, there is not going to be one yardstick through which you can define, because it will be different for different industries, geos, and companies within the same industry also. So, it is very difficult to right now say how much will be the impact on us? We hope not. We hope that we continue to grow the way we have planned and there is no adverse impact. We are preparing ourselves for that, for only one reason, keeping in mind how can we reduce the impact on the margins in case that happens? So, that's the focus area that we are looking at. But it is very difficult to really put a finger on what figure that would be.

C Thyagarajan: There was a question on OCF. I will quickly respond to that. The OCF number as we go forward for the rest of the year, will clearly depend on a couple of things. One is of course managing our working capital, managing to make sure that we continue to drive higher collections, keep our receivables in check and also make sure that we manage the unbilled component, as I spoke earlier. The ideal of course is 100%. But we will have to work through this for the rest of the year given some of the headwinds we spoke about at the macro level. While I do not see any concerns from a credit standpoint, and from our receivable standpoint. I also think we'll have to look at what kind AR days we end up, having to sign up with some of our new clients in the new geographies, where we are having a lot of push, particularly in Europe where typically payment days are longer than in the US. It is something that we will continue to watch closely.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Just on the previous question, for the two delayed contracts, as we are in the first week of August, you said, one of the delayed contracts has already started at the start of the quarter and another is yet to start, is it the right understanding?

Dharmender Kapoor: The other one is yet to start, yes, correct.

Sandeep Shah: DK, in terms of enterprise solutions, are you worried about your growth plans and the budgeting for the enterprise solutions if recession happens, because that could be termed as a discretionary IT spend for some of the clients as a whole?

Dharmender Kapoor: No, I don't think so. In my opinion, if you look at the enterprise solutions, slowly what is happening is that they are also becoming digital and hence their growth also is coming in the newer area of modernization. So, everybody's going up in the digitalization and when anybody is doing in the span of the enterprise solutions, then that continues to happen. Traditional solutions, yes, it will be lesser growth overall, because that will happen, but the newer area within the enterprise solutions, they are growing as good as digital, though the quantum may be much lesser than the overall digital pie that is there around us. And it also depends upon how and where you count the revenue. So, I don't think that there should be too much of an issue. But
on the traditional side, slowdown will always have an impact. But I believe that it will be limited and lesser than what we actually saw during the COVID times.

Sandeep Shah: Just a clarification, DK. What could have been a quantitative impact of these two deals which got delayed, if they could have been realized on time? How the growth could have looked like in the first quarter? And second on the wage increase of 2.5% to 3%, are you saying a margin impact in 2Q or are you saying it's an average wage hike to be given to the employees as a whole? And where are we in terms of the annuity revenues or sticky revenues as a percentage to the total revenues, which we used to disclose a year as a whole?

Dharmender Kapoor: The 2.5% to 3% was not the margin impact, but it's a percentage of the revenue. Is that right, Chandru, that percentage we computed? Yes, it's a percentage of the revenue that is there. There are other factors through which we are improving it also. So, that's the case on the revenue side. And when it comes to the deal, I believe that we could have got approximately $2 million of revenue if it was going to start in time.

Sandeep Shah: In terms of annuity revenue?

Dharmender Kapoor: Annuity revenue stands at 70% - 71%.

Sandeep Shah: So, we are slightly off-track in terms of our target of 75% which we were targeting by Q4 of FY'22, right?

Dharmender Kapoor: What has happened is that now the deals that are coming as we have I think taken that point multiple times that the deals are shorter, and the quicker deals and not the long-term deals. So, from that perspective, it does have impact on the annuity revenue. And second, more and more digital deals or the transformation deals are becoming project based. And in fact, this is being seen that the project revenue for almost every company has become more than what it used to be earlier. We thought that we should be able to reach at 75% which is ideal, but 71% is a good percentage for us to continue to follow and we remain at 70% - 71%.

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

Mihir Manohar: DK, in between the remarks, you've started providing services to Microsoft as a customer and you are aspiring of roughly $100 million kind of partnership here. Is this $100 million number include the earlier Microsoft Cloud revenue that we were aspiring, because that target was also $100 million. Are both of them similar or different?

Dharmender Kapoor: $100 million is our revenue for that practice. It will include revenue being sold to Microsoft as a client, plus the revenue that we sell on the services on the Microsoft platforms to any other customer. It includes everything, yes.

Mihir Manohar: So, this $100 million number includes Microsoft Cloud plus Microsoft to the customer?
Dharmender Kapoor: That's right, yes.

Mihir Manohar: What kind of services are we giving to Microsoft, just any understanding on that?

Dharmender Kapoor: Most of these are actually either on the Microsoft Dynamics side. It could be CRM or it could be the other enterprise solutions that they have, and on the cloud as well.

Moderator: This was the last question for today. I now hand the conference over to Mr. Dharmender Kapoor for closing comments.

Dharmender Kapoor: Thank you very much everyone for your participation and the questions that you asked. Yes, we could have done better in the Q1, but there are always going to be some time where there are unforeseen items that come in front of us. But from the capability perspective, from the client perspective, from the way we are winning the deals and how our pipeline has increased, we stay confident that we are on the right track. And I believe that should give the confidence to us and to everyone around us that we will continue to do better. With that, I wish good luck to all of you as well as to us for the next quarter. Thank you very much.

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

(This document has been edited for readability purpose)