“Birlasoft Ltd, Q2 FY-22 Earnings Conference Call”

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Ladies and gentlemen good day and welcome to Birlasoft Limited Q2 FY22 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 call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav – Head Investor Relations, Birlasoft Limited. Thank you and over to you Mr. Jadhav.

Please note that anything that we say on this call and refers to the company’s outlook for the future, is a forward-looking statement and must be read in conjunction with the disclaimer which we have mentioned in our Q2 Investor Update, which has been uploaded on the stock exchanges. I will now handover this call to DK. Over to DK.

Thank you Vikas. Good evening, and welcome to Birlasoft’s second quarter financial year 2022 earnings call. I sincerely hope you all are keeping well and doing well with your respective businesses.

Let me provide some color to our quarterly performance. Our Quarter two revenue was at $136.9 million which is up 6.7% quarter-on-quarter and up 18.4% year-on-year. The revenue growth momentum has improved significantly in the past four quarters and has clocked a CQGR of 4.3% which is quite encouraging. Our commitment to create an organization that is predictable and sustainable is showing result and as we grow quarter-on-quarter consecutively for the fourth quarter. The deal win momentum continues to be good and we have won TCV deals of $140 million this quarter, of which $104 million came from new business. The share of digital deals and transformation programs are increasing post-COVID. The clients are also pushing for a deal structure that is modular in nature and hence that would mean there will be a series of smaller deals than monolithic large deals. Hence this has led to increase in the ACV revenue which is apparent through quarter-on-quarter growth that we are showing but it will provide lesser or delayed visibility to the TCV revenue. Hence, the TCV wins may not look as large as we have seen in the past. After witnessing a good pickup in the net new business in Quarter 1, this quarter saw a significant jump in the net new business which contributed to approximately 37% of the total wins versus 13% in Quarter 1. In fact, a lot of -multi-million dollar deal this quarter including a TCV $20 million large deal were from the new clients. The increase in net new wins is a clear result due to many clients opening up for discussions and ready to meet face-to-face as part of the evaluation process. In fact, I personally spent couple of weeks in US in the month of August and a couple of weeks in Europe in the month of September, and I could clearly see an openness to invest in emerging demand and opportunity, and that is what is demonstrated through the Quarter 1 net new wins that we are showing. Most importantly the quarter growth was very broad-based across all verticals and horizontals. As you may have seen from the reported Quarter 2 wins, there’s a good increase in the enterprise solution deals and these are across upgrades, new implementations and transformation deals.
Enterprise solutions grew 1% quarter-on-quarter, Cloud and based services have shown significant growth and have grown 19.1% quarter-on-quarter and 51.8% year-on-year. Similarly, the business and technology transformation saw a growth of 6.2% quarter-on-quarter, and 29.2% year-on-year. We are more optimistic today in almost every segment of technology, than we were about 6 months back which also is demonstrated in 50% increase in our deal pipeline. Even on the vertical side we saw all-round growth. Our focused verticals like BFSI and Lifesciences have grown 10%+ quarter-on-quarter and approximately 15% on a year-to-year basis. Manufacturing grew 4.9% quarter-on-quarter and 21.8% year-on-year. Even E&U which saw a subdued growth last year due to factors like oil prices, with crude oil pricing stabilizing at higher level now, we are seeing good pickup in E&U vertical as well and it grew 12% year-on-year. Growth also continues to be driven by large customers with top 10 and top 20 clients revenue growing over 8% quarter-on-quarter and over 21% on a year-on-year basis. Although there was a marginal decline in the active customer count from 291 to 280, the revenue growth from ex-top 20 customer was also up 4.7% quarter-on-quarter and 10.8% year-on-year. Our customer count of $10+ million revenue improved by 2 this quarter, 3 in year-on-year basis, bearing testimony to our mining and cross-selling efforts and focus on top customers.

EBITDA in absolute terms was flat at $20.5 million quarter-on-quarter and EBITDA margin for Quarter 2 was up from 13.9% in Quarter 2 financial year ‘21 to 15% in Quarter 2 financial year ‘22, while it saw a drop of 98 bps quarter-on-quarter. Margin was impacted due to wage hikes, increase in the subcontractors’ expenses and investments. Despite a significant pickup in attrition seen across the sector and across the industry, we managed to improve our utilization marginally to 85.8% in Quarter 2 from 85% in Quarter 1 and 83.7% in Quarter 2 of the financial year ‘21. PAT stood at $14 million versus $15.4 million in Quarter 1. PAT was down primarily due to lower FOREX gains in Quarter 2 versus Quarter 1. The manpower headcount at the end of Quarter 2 stood at 12,065 and saw an addition of 557 professionals quarter-on-quarter and 2,055 on a year-on-year basis. The attrition is a cause of concern for the sector and our Q2 LTM attrition stood at 24% which is the highest till date for Birlasoft. However, I believe that this elevated attrition is due to pent up demand and pent-up attrition which hopefully should be softer in about 1 to 2 quarters and we should see that the attrition will soften in the next 90 to 180 days. As freshers get into the billable roles and travel opens up, we expect the attrition to taper down in the next couple of quarters. We have added over 430 freshers in H1 alone. As far as work from office is concerned, our leadership team has been working from office for the past couple of months. We have also started to broaden our presence to work from office. However, we clearly know that we will have to adopt hybrid work environment and will have to provide role-based flexibility for our people to work from office, home, or client locations.

Birlasoft continues to get various recognition. It was named a Top 15 Sourcing Standout by ISG and among the leading providers in the Booming 15 category globally, as well as for the American region based on Annual Contracted Value won over the last 12 months. This is the sixth consecutive time that Birlasoft had been featured across named categories by ISG. The company was also named a leader in SAP S/4HANA System Transformation. It achieved Service Expertise in JD Edwards applications to Oracle Cloud and Oracle E-business suite applications to Oracle Cloud. Furthermore, Birlasoft was named as a Finalist of the 2021 Microsoft Partner of the Year award in the application modernization category. In Quarter 2, we also announced a strategic partnership with Freshworks Inc. to help global enterprises to nurture, and supplement their digital transformation programs by delivering enhanced customer experience management services.
To conclude, the demand environment remains robust, though some supply side challenges are likely to continue in the near term. We remain quite optimistic with the order booking, deal pipeline and opportunity for growth. With this, I would like to hand over the call to Chandru for providing more details on our financials. Over to you Chandru.

C. Thyagarajan: Thank you DK. Good evening, everyone.

Let me take you through some of the financial highlights for the second quarter of FY22. Our revenue was $136.9 million versus $128.4 million in the previous quarter. That's up 6.7% quarter-on-quarter and 18.4% year-on-year. We had a cross currency headwind of 47 basis points therefore, the revenue growth in constant currency terms was 7.2%. In rupee terms, revenue crossed the Rs 1,000 crores mark and stood at Rs 1,012 crores which was up 7% quarter-on-quarter and 18% on a year-on-year basis.

The EBITDA for the second quarter as DK said was at $ 20.5 million flat quarter-on-quarter and up 27.5% year-on-year. In rupee terms, our Q2 EBITDA was at Rs 151.8 crores versus Rs 151.1 crores, marginally up by 0.5%. Our EBITDA margin was at 15%, up 107 basis points year-on-year, but down 98 basis points quarter-on-quarter. The impact on margins came from wage inflation. In addition, we had some increase in our subcontractor expenses. We also had some strategic investments that we made in the second quarter. Margin were helped by volume growth and operational efficiency that we continue to push. Our PAT for the second quarter was $14 million versus $15.4 million in Q1. PAT was lower in the second quarter due to lower other income, which was down from $2.9 million in the first quarter to $1.3 million in the second quarter. And that’s primarily because our quarter end rate of the INR to US dollars was almost flattened in the second quarter versus a depreciation of about 1.7% that we saw in the first quarter over the fourth quarter of FY21. Therefore, in Q1 FY22 there was a revaluation gain versus only a very marginal gain in Q2 and that led to a lower FOREX gain in Q2 of $1.5 million which explains the reduction in PAT on a quarter-on-quarter basis.

DSO, we continue to do well in our collection. Our DSO stood at 54 days which is flat on a quarter-on-quarter basis however it improved 4 days on a year-on-year basis, and that's the lowest to date that we've done. Our cash and cash equivalence stood at $144.6 million. It is Rs 1073.6 crores as of 30th September of 2021 versus $154 million on 30th of June 2021, cash was up $20.3 million on a year-on-year basis. The quarter-on-quarter cash was down primarily on account of dividend payout and also additional working capital resulting from the growth in our business. CAPEX for the quarter was $2.4 million and all of this is primarily on IT assets that we had to procure to support the growth that we have had.

The board announced an interim dividend of Rs. 1.50 paisa per share and this is an increase of 50% over the prior year’s interim dividend. Overall, the financial metrics remained stable and we continue to strive to better them on an ongoing basis. With that let me throw the floor open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Baidik Sarkar from Unifi Capital.

Baidik Sarkar: Congrats DK on very strong headline number. A couple of questions; your Cloud and based business seems to have broken out very well this quarter, almost 20% sequentially. Could you perhaps flesh out
this practice line for us and the ISV that are moving this number? How do you see this pan out and importantly how much of this is project versus annuity based today?

Dharmender Kapoor: I'm sorry, Baidik if I understood the question right, you said that we have grown well on the Cloud and based services. You want me to elaborate on that, right?

Baidik Sarkar: Yes. If you could just flesh out the ISVs that are moving this for us and how do you see this panning out and importantly how much of this practice line is annuity versus project based.

Dharmender Kapoor: So, I would give the data of the breakup between the annuity and the project based. Just for that segment I probably will not have it very handy but we can provide you that data. I think our annuity definitely stands closer to 70% at the overall portfolio which is what we have been maintaining because the deal structures are changing. I was really hoping that from 70% we start moving up which will happen eventually. During this time in the H1, lot of deals that are coming are the ones which are pent up demand because these are the transformational programs have been there, that was stopped last year, and they have begun in this particular year. So, from that perspective if you look at the current year than usual because the clients are trying to catch up with the projects that they had stopped earlier or had put on the slow burner. Second, when it comes to the Cloud revenue, for us the Cloud revenue has started improving because you would've noticed that we have had our partnerships stitched with Microsoft, with AWS, with Google. We have stitched our partnerships in place and there's a significant interest that we are seeing in the application modernization category because that is where right now there is a significant momentum that is there. Lot of clients who thought that they should move to Cloud at some point of time because of pandemic they think that they were better off, if they had moved to Cloud already. So now they are in a hurry to really move to the Cloud, for their critical infrastructure and application so that in case anybody will have to work from any location it becomes much easier for them to do that. So, that is I think bringing up some advantage in that category. So from their perspective I believe that there's a good the momentum that we have started capturing on the Cloud side because that's what was our plan while we were stitching these partnerships.

Baidik Sarkar: And DK, now that the wage hike quarters behind us and given the pricing environment in industry would you reckon, we revert back to our 15% EBIT margin sooner than later?

Dharmender Kapoor: That's the that's the plan absolutely. I really wish that the attrition was not as a strong wave as everyone has seen in the last two quarters. But I continue to maintain my view on the attrition that it is going to start softening by the end of this quarter. It will soften to a good extent by end of the next quarter. I know these are the opinions. Many others have the opinion that no, it is going to stay for long. I believe some level of attrition will stay for longer, but I think it will soften by Quarter 4 end because the pent-up demand would have gone already, at the same pent-up attrition would have also softened. So that means the bubble that we are seeing in which people are moving from one company to another company that will burst and probably it will soften. So yes, that is the plan because our goal is definitely that we deliver the EBITDA and EBIT at par with the industry. We want to continue to move towards that. You're absolutely right that the salary hike is behind us. We need to look at how do we make the talent supply chain effective. That is what we have been doing in the last two quarters. But generally, when we bring in the fresher it takes 2 to 3 quarters before it starts showing results. I believe that you should start showing us the results on that front now and we will see some advantage coming in.
**Moderator:** The next question is from the line of Sandip Agarwal from Edelweiss.

**Sandip Agarwal:** Congrats DK and team on excellent execution. So, DK I have one question on the order book. What we understand from the industry as far as and when we speak to lot of consultants is that the demand is extremely strong and you have delivered good set of number, no denial on that. But the order book still doesn't reflect that. Is it that you are not intentionally taking some of the clients or you are saying no to few clients because either the pricing is not matching up to your expectation or your attrition situation is such that you don't want to get into a situation where we can have some execution challenges? Is it the reason or is there some other reason why our order book is not as strong as it should reflect the way demand situation and the way the attrition is showing up, so any idea on that front will be helpful.

**Dharmender Kapoor:** Absolutely. It’s good that you ask that question because the way we look at generally the order book for us is that or even when we show the TCV or ACV and all that, we generally show the deals that we win in a composite manner. Either in the form of a project or in the form of a deal that is what we count in the form of wins. But then there are other things that we continue to grow our revenue on, which is many of the time and material engagements where there are some change requests that comes into the play or we grow our existing running engagement by adding some resources on top of that. We generally don't count that into the TCV and ACV because if we start counting that then there are so many small things that you need to put together. While those small things can put together do look good revenue also but that is not what we count in our order book because then it becomes very difficult to start tracking for that. I think the way we have to look at is that the order book should be a clear reflection into the quarterly revenue that we make. When I look at it from that perspective, I think it is sounding very good for us because we are able to grow in both Quarter 1 and Quarter 2 much more than that we planned internally as our own goal, at the same time in comparison also in industry we are showing good growth in the Quarter 2. If I look at my order book, if I look at the number of wins and I look at my deal pipeline, I am very confident that we are capturing the momentum in a very handsome way. Where we sometimes do say no and these are the deals where we believe that the one that either the price is way too low or we believe that the scope is being defined in such a way that there will be effort overrun. Then there will be cost overrun. So, you may win actually the contract in the first place but you're going to bleed very quickly in that particular engagement. So, we have started evaluating and started doing go, no-go analysis far more carefully. So that is there but I don't have a figure that I can quickly give it to you that how much you would have said no to but then there are few things that we definitely say no to.

**Sandeep Agarwal:** DK thanks for that elaborate answer but a follow-up on that. The way we look at and we have limited information and as you rightly mentioned that you have far more information than us but we can only compare the numbers quarter-on-quarter and when we do that than it looks like there is a little lower momentum on the deal wins compared to the industry demand. I take your point that the actual quarter growth is very good and you seem to be very confident. Will it not be fair on your part to guide us something at least on the long-term basis which you have been guiding. If you can reiterate what is your thought process given now you have now seen two quarters of this year and you have good order book and you have some visibility into next year. What should we build in from a 2–3-year perspective overall revenues? Where do you see we will touch the revenues including inorganic-organic growth and where do you see the composite margins to be? Any idea on that point will be very helpful because otherwise it becomes very difficult because there are so many things which as you rightly said are not disclosed for client’s confidentiality as a result. If you can guide?
Dharmender Kapoor: I think it's a fair question. The intent is not to not share those things. The intent is to provide the right information and I will give you one example. I did talk in my opening statement also. One is looking at the TCV number, second is looking at the ACV number, and third is looking at the new business. If you look at within the TCV, how much is the new business and how much is the repeat business. Because the repeat business doesn’t give you any incremental revenue. A lot of time one can show that my TCV is higher, but if it is consisting of mostly repeat business and you have done renewals, that means there is no incremental revenue that you are going to get. If you look at carefully the last quarter and this quarter, we have significantly improved on the net new business. On two things that there is a new business that is coming from our existing clients and new business that is coming from the new clients, it has significantly improved. That gives me the confidence that my ACV is getting better, my new business is getting better, my net new or new logos are getting better. There is no reason why I would not go and demonstrate better quarter-on-quarter growth. However, if my TCV were higher where as my renewal was also very higher, then there could be concern that it is a repeat business that I am showing as a win and not really the new business that I am showing as a win. That is the subtle difference in the numbers that comes into the win. I am very confident because the new business that we are winning has started to improve a lot and the net new wins have significantly improved in quarter-over-quarter. Last year if you look at it was very low because no client was meeting but we picked up this momentum in the Quarter 1 and Quarter 2 to start meeting our clients in US, in Europe, in India, everywhere. That has started closing new deals. Now these new deals, a lot of times will start small and we will grow bigger over a period of time for simple reason that whenever there are digital deals that are coming, to begin with, it is a smaller deal, the second one will be even bigger, the third one will be much longer because it actually results into Support & Maintenance, annuity revenue also. We have to understand the nature of the digital deals which will be very different from the enterprise solution deals.

Sandeep Agarwal: When do you expect to touch $1 billion revenue?

Dharmender Kapoor: March 2025 we will be $1 billion. That goal remains and we said that, that we want to touch 18% EBITDA at that point of time.

Moderator: The next question is from the line of Mohit Jain from Anand Rathi Financial Services Limited.

Mohit Jain: One was on the enterprise solution side, so that service line was little on the weaker side. What should we expect there going forward, that's one? And second was there was this bump up in other expenses from a quarter-on-quarter perspective. What kind of expenses were these and what happened during the quarter?

Dharmender Kapoor: Just repeat the second part of the question.

Mohit Jain: There was a bump up in other expenses on a quarter-on-quarter basis. Was it a one-time cost or something which you guys took in this particular quarter? Or should we expect that as the new other expenses number?

Dharmender Kapoor: I will give the answer to the first question and I would request Chandru to provide the answer for the second part of your question. On the enterprise solutions, the good news is that we have started seeing the growth. In fact, in this quarter there is no part of the business that has not grown. Every single part
of the business has shown positive growth which is very good actually because whether it is geo or whether it is vertical or horizontal, everywhere we have shown the growth and I am very happy that the transformation deals have started to come by, because last year we saw that there was a dip in that and this year we are seeing that it has started to improve upon. At the same time, we defined our strategy clearly very well that we need to have our channel sales strategy to be positioned in a different manner so that it can continue to focus on net new business under enterprise solutions by working along with the OEMs. That has started to show us the benefits so that is also very encouraging. So, from the enterprise solution perspective, I believe that we have started doing very well and we have grown positive in this particular quarter, that it is going to happen the same way going forward because I am seeing better pipeline than before. That is one way of looking at it. Second way of looking at is that, as the organizations are planning their digital journey, they are realizing that they may also have to transform their enterprise solutions also such as SAP Oracle or JD Edwards. They will have to transform their task so because sometimes you are not able to get the real advantage, if your processes behind that are not strong enough and agile enough, and hence we have started seeing the deals which are to transform or improve or upgrade the enterprise solution so that the clients can implement digital layer on top of that. Those kinds of deals are also giving the fillip to the revenue that will come into the enterprise solutions. So, looking at this point and when I look back that we kept our strategy around, enterprise digital, that digital always sits on top of the core solutions such as SAP, Oracle, JD Edwards, Infor, Service Now or Salesforce, that is coming to be true because clients are realizing that the entire data lives in the transaction processing system which is the ERP. To implement digital, they need to depend upon the data that is below in that layer and that has started to give us the advantage and I believe that we will be a winner by having that strategy in place and having our strengths pretty much balanced between enterprise solutions and digital. Chandru over to you for the second part of the question on the other expenses

**Chandrasekar T:** The other expenses, that is where the subcontractor expenses are actually get included in and I talked about in my opening remarks the increase in subcontractor expense on a quarter-to-quarter basis that has definitely added to our costs in this last quarter. This is to meet the demand and also to wait through the talent supply chain challenges that we have had this past quarter. That's the primary driver for increase in the quarter-to quarter-basis and we expect that as travels opens, as the talent supply situation improves and the attrition situation improves, we expect to bring that back into the steady state I would say.

**Mohit Jain:** As a follow-up like you were talking about these smaller deals, $1 million and $5 million clients were little on the lower side for us specifically during the quarter also over the last two-three quarters. What is causing this movement and how do you expect this scale up to happen along with your commentary on lower side or smaller deals compared to the previous one?

**Dharmender Kapoor:** What was the question? I missed the question?

**Mohit Jain:** $1 million and $5 million clients, that bucket was looking on the lower side, if you look at addition over the last 12 months or so. While your books have maintained the deals are becoming smaller and therefore some of it is not getting captured in the TCV. So, what is the expectation there from a smaller client addition perspective?
Dharmender Kapoor: I think, actually the larger deals, $5-10 million have started to improve. So, some of the deals are seeing the movement also. At the same time, we are also looking at many of $1 million deals are generally the projects. We still have a significant 25% to 30% of our revenue coming from the non-annuity business, which is a project-based business so that means that we have to continue to work in order to win more and more projects. There will always be some quarterly variations that will happen but so far when we are continuing to show the growth which is much above the target that we keep for ourselves on quarter-on-quarter growth, I don't think that should be a concern because most of these are generally the one-time project and we continue to make an attempt that when the project is finished we continue to win more projects with the customer, so sometimes there will be variations from quarter-to-quarter and that is specially going to be in the category of $1 million.

Moderator: The next question is from the line of Shradha from Asian Market Securities Private Limited.

Shradha: Just wanted to check that you had initially indicated of a double-digit growth in FY22. Now with a very strong 2Q, do you think at least a 15% growth is what you can easily commit to?

Dharmender Kapoor: Absolutely, I think that has always been our goal that we should show 15x15. That had been our strategy. So, I am pretty confident that we will be able to achieve that. Don't read that as a guidance from my side but we are definitely very confident.

Shradha: Do we also see some impact of furloughs in 3Q or would 3Q also be an equally strong quarter for us?

Dharmender Kapoor: It is a very interesting thing that we want to see how it pans out in the current quarter. One or two customers we have heard that they may plan to have a furlough, but we are also trying to really look at to work out that one side there is a pressure from our clients on getting them the resources and have a quicker time to market. On the other side, why there should be a furlough. So, we are trying to really look at that. If any such cases come in, we go and negotiate with the client that, how can we cover up without really getting any furlough impact in the month of December. So, we are having the discussions with our clients. So far it is not looking to be a big impact, so far, but generally I have seen that there are always couple of clients who will bring the surprise only at the last moment, but then we are already in touch with those cases where we think that kind of surprise can come, and we are trying to mitigate that risk.

Shradha: Secondly on margins, despite a very strong 1Q, we had indicated that our full-year margins would be 15% and now in first half our margins are already at 15.5% and we had said that we would like to build some cushion because of supplies side challenges. Now with first half margins are already at 15.5% and salary at quarter already out of the way. Do we see margins improvement going into the second half and then how should we look at full-year margins?

Dharmender Kapoor: The biggest focus that the organization today have is to address the margins because when you are looking at the margin that means that you have to look at many other parameters in parallel to that, the talent supply chain, be it induction of the freshers, or looking at reducing the cost for resource or looking at delivery costs or going and trying to negotiate better prices with the clients. So, there are multiple initiatives that we have started in that direction so that we can address the margin, because that is the key focus right now. I think in terms of growth we are far more confident today based on the structure that
we have created with respect to our sales as well as our large deals. Now that we are very confident on that we have to really look at how do we address our margin, because it is a near-term, we are of course everybody is getting hit with the whole attrition and other things but there is a way to address it and we are already working on that direction.

Shradha: Directionally how do we look at 3Q margin? Should it spread?

Dharmender Kapoor: Directionally, I think it should be positive. We should move positively in the quarter.

Shradha: One book keeping question. In the segmental margin break-up that we have provided; I see the manufacturing margins being down almost 400 bps on a sequential basis. So, anything particular you might want to call out here?

Dharmender Kapoor: Just repeat that question again Shradha.

Shradha: Segmental margin from manufacturing business segment is down almost 400 bps on a sequential basis?

Dharmender Kapoor: If you look at that, when we talk about manufacturing, that is where we are yet to get the real price advantage. In some of the other cases where we have started negotiating, the better prices I think that have started happening in manufacturing, we are I trying to achieve that. So, I believe that we should be able to pretty much catch up with manufacturing also during this time. At the same time, if you look at every single industry in manufacturing is one industry which is far more cost-efficiency-focused themselves. So, from their side you will always see the price increase slower than the other industries, such as Life Sciences or BFSI because they are far more growth-oriented industries, when it comes with the technology. I think it is in nature of the industry that the speed you will see at different pace.

Shradha: Was there any revenue we could not capture in the quarter because of fulfillment issues?

Dharmender Kapoor: No, I don't think so. I think we have been really working very hard on hiring. I am sure there will be some time and material engagement where there could be something in the captive side where we may not have captured some part, but it is going to be very insignificant.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities Private Limited.

Sandeep Shah: Just wanted to understand, looking at the attrition spike and that too on our LTM basis which is one of the highest in industry for any company. On a quarterly annualized the attrition could have been at a much higher level in a quarter. Despite that the absolute employee cost on a Q-on-Q basis has gone up by just 3.7% despite wage hike. Whether the wage hike has been even for part of the quarter or it has come for all the 3 months for the Q2 and may not repeat going forward? That's the question number one.

Dharmender Kapoor: We did that from the month of August. So, what you are seeing the impact is for August and September in the Quarter 2.

Sandeep Shah: You believe, any further hikes are possible going forward to control the attritions or a second round of wage hikes in the Q3-Q4?
Dharmender Kapoor: No, it is not going to be, there will not be a hike across the board. Now everybody knows who deals with IT Industry, that there are always going to be selective cases where you may have to have some retention and our objective is that we keep the retention as a long-term incentive rather than just changing the hike for the people, because just changing the salary structure has far bigger consequences. So, we try to address it through the long-term incentive that we provide in order for us to address the attrition.

Sandeep Shah: Despite one month of wage hike spending in Q3, furloughs being there plus maybe some selective retention measures you are taking, you are saying Q3-Q4 margins will be better than Q2 or you are saying it may be in the similar range as a whole? Because for Q2 also, we are talking about flattish margin but we could not achieve?

Dharmender Kapoor: Correct, and we didn't know that Quarter 2 attritions is going to be far higher than the Quarter 1. Nobody thought about it, but that's how then we started facing it. And it only started to become stronger when the talk was happening that there will be a back-to-office strategy that everybody will put in place which has not yet put in place. So, the plan that we are working on that, we have identified the lever that we need to address in order for us to improve the margin quarter-on-quarter. But then there are always some of the surprises that can happen. But, if I look at the attrition for the last one month, it is more flattish and, in some cases, it is little lesser rather than it is picking up the pace. If I look at from that perspective, I believe that there will not be any surprise. There is one surprise that is definitely there that the furlough can happen with our clients. Yes, that surprise is there. So far it looks like that we will be able to address it. I think if we are able to address these couple of challenges then in my opinion, we will show some improvement in our margins.

Sandeep Shah: You worry about high attrition impacting your delivery capability, execution capability, demand fulfillment issue in the Q3-Q4 or you still believe those won't be a problem to look for in the future?

Dharmender Kapoor: You are saying that whether demand fulfillment and all that will be problem in the future or not?

Sandeep Shah: Yes, because of attrition being so high, there could be some time and material contract where you cannot replace the employee so easily and that can impact your project ramp up by maybe few months as a whole. So, will it impact the sales ramp-up in Q3-Q4?

Dharmender Kapoor: Correct. So first of all, just let me explain that it is not an issue of just time and material. Just that at times client can put a finger on someone and equivalent experience and may demand similar kind of profile, but you can always negotiate with the client; that is one thing. Second in the fixed price, just because I can go and put a junior person without discussing that with the client doesn't mean that I can do so because at the end I am responsible for the execution and delivery. If I bring the people who are not able to deliver it, it doesn't matter how low the cost is, I may get into effort overruns and that would mean that I may have a lower cost resource but because of the effort overrun I may still end up spending the same amount of money. So, both the sides have the issues. What I believe is that the nature of the work going forward is not going to change significantly. That digital deals are going to be there, enterprise solution deals are going to be there, some level of momentum will remain. Probably the pent-up demand is going to go down, but rest of the momentum is going to remain. So, there is going to be an attempt that how do we get the supply chain right by start bringing in the freshers, take a little bit of hit in the shorter term but in the medium term to longer term we create an engine that can fulfill within, rather than
always depending upon the external parties or external markets. That is what we are working on, and on the shorter term I believe that most of the companies will continue to face a challenge, but I think everybody will work towards finding a solution. I believe for the IT industry, if we ignore the short-term challenge that is there, I think we are in a good situation because it is going to create a model that was long awaited, and will probably create an environment of hybrid work, at the same time being able to create more methods of creating the talent, whether it is in India or it is in the Eastern Europe, or it is in the Americas or it is in the Philippines. There are all those attempts that we have started to make so that we can broaden the talent supply and could infuse good talent for the IT industry.

Sandeep Shah: The last question is just on the enterprise solution. This used to be a leaking bucket for a right reason. But as you are saying most of the demand, deal wins are happening on SAP and the Oracle upgradation. You believe the worst is over and the enterprise solution 41% revenue contribution may have some further upside rather than the downside as going forward?

Dharmender Kapoor: I believe definitely so that the enterprise solution will show positive movement now for simple reason that the clients have started to understand that they need to also strengthen their legacy platform and hence they are started to invest back into both systems also. So, I definitely believe that this area will continue to give us a good growth and good part of our revenue will continue to come from enterprise solutions.

Moderator: The next question is from the line of Abhishek from InCred Capital.

Abhishek: The first question is on the sales and support employee I mean we've been just sampling up at workforce significantly over the past four quarters. When could we see that is reflecting in our higher bookings that is first question and second, I may have missed but did you quantify what was the subcontracting contribution this quarter as a percentage in revenue and the last is the I'm going to ask this again you have answered it in part earlier questions but this is on the ERP side, so 40% of our business is dragging the 60% of our business? Should we expect that when once this pent-up cycle is over maybe the ERP business can help us grow 4% CQGR longer than some of the other companies because as a percentage of revenue ERPs substantial in our books, so if you can address that would be helpful.

Dharmender Kapoor: I think very pertinent questions, our order books are growing. It is just that you will see one difference that if there were deals 3 years and 5 years earlier these are the deal now 1 year and 2 years that's the only difference. I believe that otherwise our quarter-on-quarter growth is indicator that we have a much better order booking. Our new wins is also an indication that it is a better order booking at the same time, if you evaluate being better than previous quarter is also the indication in that side. So, I am happier with this situation rather than showing higher TCV value but lower ACV value, that is one thing. On the support side maybe Chandrasekar if you can let me know what is the percentage that we have right now or maybe Arun if you've the data?

Chandrasekar T: I have the data, subcontract expenses as a percentages revenue in the second quarter were 16% and it went up from 14.5% in the first quarter, so there has been a quarter increase in our subcontractor expenses.
Dharmender Kapoor: And because travel has not yet opened up, we have a lot of H1 visa ready people who are still there with us. Now that it looks like it is going to open up, I think that there is an opportunity that we can actually make these employees travel, and replace our subcontractor, so the objective is that we come back to 13% or so level or 12% level in the sub-con, because that had been our generally the percentage of sub-con expenses.

Abhishek: If you can just address on the ERP part and just a follow up to what you said. I mean completely appreciate our bookings number. What we are trying to understand is with this increased headcount, what's the mix of increase? Is it more hunters or it is more farmers? So I'm just trying to understand that perspective.

Dharmender Kapoor: I think there's on both the side but Roop is here in the call, so let me ask Roop to give the more qualitative answer on the breakup between the hunters and farmers and how we are utilizing that on enterprise solution side as well as on the other offerings.

Roop Singh: With our focus on our top 36 accounts, we boosted up our account management headcount. This is to ensure that we catering to our client, that's one area, addition has been in account management which is existing clients. The second area is enterprise solutions, so we've created a dedicated Sales force for both our SAP and Oracle Sales. These are individuals who come with the background that is needed to be a routine basis for enterprise solutions. As DK very rightly said, it's a mixture of both account management and net new.

Moderator: The next question is from the line of Ashish Aggarwal from Principal Mutual Fund.

Ashish Aggarwal: Most of my questions have been answered just two things from my side. First of all, given our growth rates and attrition do you think this type of utilization is sustainable over a medium to a longer-term basis? And secondly on the enterprise business sense if the growth returns in that and it seems that you're very confident on that, do you think that would be a lever for the margins also?

Dharmender Kapoor: First of all, let me answer on the enterprise solution side. The margins are better in the enterprise solution side than into the newer deals in digital or similar technology for a simple reason that these are clients who are there for many years, and we have the execution engine already with us that is really delivering us the better margins. Any new deals by the nature will always come with some level of investment from our side; so in the beginning generally the margin will be lower and slowly we start to pick up the margin with every such deal. From that perspective, we remain confident that the enterprise solutions will always give you better margins especially in the Birlasoft case it will always give us a better margin, that is one thing.

Second when it comes to the growth rate and attrition and having the utilization at the higher level. If you look at that very carefully, we need to really look at, how do we utilize our bench very effectively, so that we are able to improve the utilization on the billable side. It is all about how you utilize your bench and how quickly can you up-skill them, so that you can utilize them in the engagements very quickly, and I think that improves the utilization, so I believe that 85% or so is sustainable. Now the good part is that it is giving you an edge of about a percent, so that at any point of time if you want to look at more investment for a particular client or for a set of clients you have that headroom. Today we have that
head room, rather than giving the utilization which is very lower than 85% and you find that the headroom for the investment has completely dried up. From that perspective I believe that’s there, but at the same time on the other side we had to look at it that how do we continue to increase many other elements with respect to pricing, rate, or many other levers that we have planned on the pyramid side, so that we also improve the margin because both had to go hand in hand.

Moderator: The next question is from the line of Dipesh Mehta from Emkay Global Financial Service.

Dipesh Mehta: A couple of questions, first about Europe, if I look Europe continued to remain weak for us. Last time you indicated we are taking some corrective actions and we expect some recovery to happen in Europe. If we can provide some update on the progress which we made where we can see recovery happening in Europe? Second question is about other expenses increase. Now we have seen 280 basis point increases in this quarter, 150 basis points explain but still it is 130 basis points higher. If you can provide some detail about what is driving the higher other expenses and how sustainability is it driven because of some one-of item or it is more sustainable update. And last question is about OCF, so in case of conversion where I look this year, we have generated Rs 58-59 crores OCF versus last year Rs 300 crores?

Dharmender Kapoor: So, I would ask Chandrasekar to answer the second and third question that you asked. But, on Europe let me answer.. On the Europe side we have started putting our chips on the table, we have started to see some improvement, though the result may not be seen in the Quarter 2 but we made a good win with one of the client in the Quarter 2 which is part of our net new revenue added when that had happened in Europe. You will start seeing that there will be a growth in the revenue that will start coming from Quarter 3. That is already happening, and we have started to go after those deals. That is one element that is there. As far as the other expenses are concerned, I think Chandrasekar did answer that question before but I will let him clarify that again, and also on the OCF side he can provide the answer.

Chandrasekar T: The primary driver for the quarter-on-quarter increase in other expenses were subcontractor costs. There were also some strategic investments that we made in our effort to drive to our $1 billion-dollar aspiration that Dharmender has set for us. That cost as well was on our second quarter number but your question was is it sustainable? The answer is yes, we expect that subcontractor cost will slowdown, based on some of the efforts that we’re making that Dharmender already talked about and when travel opens, when the whole attrition situation kind of goes away. Your third question was on the operating cash flow, why is it lower in the second quarter? There were three items that we had to bake in once was there was a dividend payout in a second quarter in the month of May and we paid it out in August after the Annual general body meeting. Second, we also had to increase our outlay in our working capital for us to fund the additional growth that we had in the past quarter, and the advance tax payout in India, and from a larger geography also took some cash payout which is why you see our cash flow in the second quarter being lower than the first.

Dipesh Mehta: Just on the second question about you said we are making some strategic investments to accelerate revenue growth in our $1 billion aspiration, if you can provide some more detail what kind of investment are we making?

Dharmender Kapoor: There are quite a few investments that we had to look at. One is that we need to firm up our strategy and the strategy has multiple elements into it. One is that what are the newer technologies that we should
develop or what are the capabilities that we need to develop in the newer technology or emerging
technologies? That is one type of investment that has to continue to happen. Second is the domain
expertise that we need to do, because we have moved from vertical to micro-vertical, and when you're
going into the micro vertical you need to go into more say at the domain expertise in those micro-verticals
and building proposing the solutions. That is also for the second level of investment that we have to do
in order for us to go and capture the demand that comes our way with respect to providing the industry
specific solutions or platforms specific solutions, that is the second thing that is there.

Third is that we are also trying to engage on creating a full-blown strategy for a billion-dollar company
that requires an M&A also to be a significant part of that, because when we had to look at the M&A, we
have to look at what is the kind of candidate that we will go after that and efforts in order to identify,
work on that, and also ensure that we are going after the evaluation of the right set of candidates. So,
some level of consulting charges that will be there on that front also, those kinds of expenses are going
to come in that front. These are the three-four type of significant level of investments that will happen.
Now if I look at it on the other side is that how do you continue to have a larger set of feet in the market?
That means that am I hiring more account manager? and the hunters and also looking at structuring wise
sales and the way that I can take the advantage of the offering that I have. For example, six months back
or nine months back we came up with the whole channel strategy we crafted that as a separate team so
that we can focus along with our OEMs that has shown us some good result. So, what we are seeing is
that it is worth investing the efforts and money on such kind of structural changes in the organization, so
that we can capture better momentum.

**Moderator:** The next question is from the line of Nirmal Gohil from Union Asset Management.

**Nirmal Gohil:** I just want to understand the segmentation of your service lines in which you include business and
tech transformation enterprise, and cloud. Now what our understanding is on enterprise is that the way
in which ERP solutions will be delivered incrementally will be more SAAS-based and the way in which
it is delivered is changing, so on-premise is going to shift to cloud. Basically, what is happening is the
higher number of on-premise customers you have will probably shift on cloud which means incremental
revenue growth will come from Cloud-based revenues rather than enterprise solutions. I just wanted to
understand further your comment on your standalone enterprise solution doing well despite having some
a Greenfield stress; that is point number one. The second point is within business in tech transformation
how much of your revenues in this particular service line would you broadly if you can give me a broad
number over here what would be the split between pure digital services and maybe a legacy one?

**Dharmender Kapoor:** Business and technology transformation will mostly be your digital revenue, mostly. There could be only
one or two items that might be there but those will be not very significant, so you can assume that 90%-
95% of that revenue will be digital revenue. Now there'll be certain digital revenue that we count, if
somebody counts the way rest of the industry does for example cloud revenue, you can count that as
digital revenue. Many of the companies do that. Similarly on the enterprise solutions side some of the
SAAS solutions such as CRM can also be counted as digital revenue. We have kept that as part of the
enterprise solution because if SAP, CRM is getting implemented, we consider that as part of SAP and
not as a separate digital revenue, because somehow all these enterprise solutions are also becoming
equally digital.
Now you're question about the cloud-based solutions, SAS based solutions most of the ERP’s are going to the cloud and how do we look at that? If there is a SAAS-based Oracle or SAP solution, we count that as part of the SAP and Oracle only, we don't count that as a separate cloud solution or cloud revenue. The cloud revenue that we have talked here is mostly around the application modernization or infrastructure migration to the cloud. That is what we accounted here rather than counting everything, because cloud could mean anything to everybody. So we have segregated that for that we can very clearly define what is going to be the cloud and what is going to remain attached to the OEM because that is the way your relationship with OEM works. They do not want their revenue to be broken into the CRM separately, ERP separately, and Cloud revenue separately, SAAS separately; no they want everything to be in one bucket and that the reason we keep that a part of the enterprise solutions.

Vimal Gohil:

Just to understand I mean the cloud-based services that you report and as you just said that this will be more application modernization. So, would it be fair to say that while the growth in cloud or cloud-based services is higher currently, but the most structural story for you will play out within business and tech transformation, would that be a correct assessment? Because at some point in time most of the applications warehouses for clients would have modernized and would have gone into cloud, post which you can cross-sale other services like maybe analytics or mobility etc. on the digital side. So, on a structural basis, on a long-term basis the business in tech transformation is a more in terms of growth, that could be a better growth story as compared to cloud on a longer-term basis. The near-term growth of course will come from cloud.

Dharmender Kapoor:

Absolutely. Because at the end of it, it doesn't matter whether you are on cloud or on premise as far as you are able to get the business value that you are asking for. What has happened is that many times now, by having Azure in place or AWS in place or Google in place there are certain type of value that is part of the cloud that one can leverage when they move some of their applications data to the cloud. For example, if you want to have a better analytics story, one, we'll move to the Google Cloud because they are very strong in the data analytics side. Similarly, if you want to move your ERP pieces there or industry-specific solution, probably AWS and Azure will be far better. At the same time SAP has much better solution on the Azure; that is the way the clients are moving. At the end what we have to look at is that whether we will be able to deliver the services or up-sell the services once somebody is on the cloud, because migration is not a big-ticket item. Many of the migrations are just lift and shift, and may not have significant revenue, but the significant revenue cost and client want to transform after they have migrated to the cloud. That revenue we will see as part of digital. So, your observation is absolutely right that eventually the organization will want to transform, and that kind of revenue will be far more sustainable when it is part of the business and technology transformation.

Moderator:

Thank you. I now hand the conference over to Mr. Dharmender Kapoor for closing comments.

Dharmender Kapoor:

Thank you very much everyone for joining the call, and asking a very pertinent questions, It is always good to reflect after a every quarter as to one are we directionally right. Second the commitment that I have made to the market as well as to ourselves within Birlasoft is that we want to be very predictable and a sustainable company. I'm very happy that it was the fourth quarter where we had shown quarter on quarter consecutive growth. It is looking now clearly visible that we will continue to show quarter and quarter growth for a very long time. I know there is momentum in the market also but then the organization must be prepared to capture the momentum that comes their way rather than really looking
like a cat on the road where we are not able to run in either direction when the car is approaching. I think this is a good position to be in. I know that we need to improve again on the EBITDA side. We improved from 9% to 16.9% in those 6 quarters: 5 or 6 quarters after acquisition of KPIT’s IT business. We grew to that level and then we have seen attrition and higher cost of resources hitting us by about 200 BPS in the last two quarter.

But I'm very confident that with this whole attrition softening up in a quarter or so I think we will start getting back to where were, because we have already tasted how to be there at 16.9% or 17%. There is no reason why will not touch back to the same place where were in the Quarter 4. Thank you very much for all your support and your participation. I am looking forward to continue to show better and better quarters going forward. Thank you very much once again. Stay Safe.

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

Disclaimer.

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

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