



“Birlasoft Limited's Q3 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Birlasoft Limited Q3 FY'21 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. Thank you. And over to you sir.

Vikas Jadhav: Good evening to all and thank you for joining Birlasoft Q3 earnings call discussion. Joining in today we have a full leadership team; we have (DK) Dharmender Kapoor -- CEO and M.D.; Chandrasekar Thyagarajan; Chandru as we call him -- our CFO; Roop Singh -- our Chief Business Officer; Shreeranganath Kulkarni -- Chief Delivery Officer; Arun Dinakar Rao -- our Chief People Officer.

So, please note that anything that we say or refer to relating to the outlook of the future is a forward-looking statement and must be read in conjunction with the disclaimer in our "Q3 Investor Update" which mention the risk that the company faces and you will find this investor update on Birlasoft website and also we have filed into the exchanges.

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

Dharmender Kapoor: Thank you, Vikas and good evening and welcome to Birlasoft's Q3 Financial Year '21 Earning Call. Thank you for joining us on this call on a late Saturday evening. Much appreciated. Hope you are safe and healthy. And I would like to Wish you a very happy, safe and rewarding New Year 2021.

We are glad to share the achievement of many milestones in our growth journey. In this quarter, we saw our EBITDA margin crossed the 15% mark and stood at 16.4%. Our billed DSO continue to improve and stood at 57-days, which is the best till date. Improved margin, better collection and higher PAT has led to the improved cash generation which helped our cash and cash equivalent cross Rs.1,000 crores mark. Our utilization is at highest level at 85.6% level.

We are back on a growth trajectory with a 3.3% sequential dollar revenue growth and a 2.3% year-on-year growth. Q3 growth was led by our top customers with top 5, 10 and 20 registering a very good sequential growth of 6.5%, 5.3% and 5.5% respectively. On a year-on-year basis, all the top 5, 10 and 20 customers grew by 20% each, which is -very encouraging for us.

In line with our strategy of pruning the tail accounts, the active client count came down from 310 in Q2 to 295 and came down by 86 on year-on-year basis. The year-on-year growth in ex top-20 customer was down 16% YoY and was flat sequentially.

Q3 however was slower than the other quarter for deal wins. We secured net new deals of TCV \$ 56 million in Q3 and the overall TCV win was of \$ 109 M. Despite being a shorter quarter with many holidays, it was a good quarter for Birlasoft overall.

However, on the pipeline side, we are seeing a consistent growth despite client challenges relating to both CAPEX and operating expenditure constraints. Our ability and desire to drive conversation with the clients proactively has helped both from an annuity as well as cross-selling basis. The constraints in the client expenditure have helped in generating additional pipeline given the client need to funnel their restrictive budget into secure and profitable revenue generating opportunities. This has been evident in client journey relating to cost optimization, customer experience, cyber security and legacy modernization.

Another noteworthy metric which is at the peak is the revenue contribution from fixed price, fixed maturity business, which stood at 57.7% of revenue in Q3, is up 11% on a year-on-year basis. Mirroring this is our annuity revenue contribution which now stands at 67%. Our aim is to take the annuity revenue to 75%, which will help us in better predictability of our revenue and of growth.

We continue to be in ISG Top-15 Sourcing Standout Globally. Birlasoft has been featured in the Global ISG Index for Three Times This Fiscal Year.

Further, Birlasoft was recognized as India's Most Admired and Valuable Power Brand Company for the Year 2020 at the India Leadership Conclave and Awards 2020.

Birlasoft also received the SABERA 2020 Award for its Community Benefiting Initiative called Project Shodhan, which was set up in 2017, with the aim of achieving zero crop residual burning in the wheat bowl states, covering 61 villages, and 53,000 acres of agricultural land. This is the third time in a row that Project Shodhan has been acknowledged and appreciated by the SABERA jury members. And we see this small contribution from team Birlasoft towards making this world a better place to live.

Let me provide some color and commentary going forward on industry outlook, keeping in mind, our clients' technology spend and growth opportunities in next one year. The market has started showing steady improvement and we see an unprecedented acceleration towards digital transformation, led largely by cloud adoption. Birlasoft has made some strategic investments to strengthen our cloud and digital capabilities, for example, we had signed the strategic alliance with Microsoft in Q2. These investments are enabling us to provide the thought leadership and speed to help our customers in their digital journey. In the first two quarters itself, we have been able to close multiple transformative deals covering cloud migration, application modernization, workplace digitalization, etc., Likewise, we are investing with other cloud ISVs as well to provide our customers the best fit solution.

This year the industry has clearly been heavily influenced by COVID-19, while in the early stages, the drive for digitalization were business resilience and continuity; however, now we see more of forward-looking and growth-oriented narrative. This has led to newer trends in the technology sector too, for example, one of the key highlights in the cloud industry is the improving partnership portion between the ERP major and public cloud ISVs. As you all know, that we have a strong presence in ERP, this definitely is helping us in a big way. This enables the customer whose business run on large ERPs to harness the power of cloud, along with elasticity on cost based on-demand solutions. With our leadership position across ERP platforms such as JDE, Oracle, SAP and our expanded capabilities and alliances on cloud platforms, Birlasoft is very well placed at helping our customers modernize their ERP.

We are already executing multiple programs and deals on SAP on Azure, JDE on Azure, etc and see this as a strong theme for Birlasoft for the next few quarters.

Our growth strategy will continue to focus on key objectives such as platform-based digital initiatives, cloud adoption and aggressive automation. Our growing relationship and partnership with platform providers is helping us structure transformational multi-services and long-term deals. Our digital as well as emerging technologies continue to show uptick in growth and share of revenue. We continue deeper penetration in our top accounts through cross sell and shift to increase annuity business. We continue to see positive traction in building and growing our pipeline by leveraging outcome-based deals and capabilities across verticals. New wins in our chosen area of focus both in defined micro verticals and select technology offerings.

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

C Thyagarajan:

Thank you, DK. Good evening, good morning, everybody. I hope you're well. Let me give you some more detail on the numbers to relate to what DK just said. Our third quarter revenue was at \$119.5 million. This is up 3.3% quarter-on-quarter and 2.3% year-on-year. We did have some cross-currency tailwinds of about 30 basis points, and therefore the revenue in constant currency was lower to that extent. Our Q3 EBITDA was at \$19.6 million. This again is an improvement from the \$ 16.1 million that we had in the previous quarter and it's up 21.6% quarter-on-quarter and 30% year-on-year. Our EBITDA margin stood at 16.4% like DK said, and that is a significant improvement both quarter-on-quarter and year-to-year, so we had a 247 basis points improvement quarter-on-quarter and 350 basis points improvement year-on-year. We have achieved the EBITDA margin of 16.4%; two quarters ahead of what we have been saying. So that's good news for us. The improvement came from a few specific targeted initiatives that we've taken; one, utilization, that went up from sub-84% in the second quarter to 85.6% in third quarter and that has improved to close to 200 basis point. Our subcontract expenses has come down quarter-on-quarter, and we see this as a constant effort as the mobility internationally improved. The realized revenue from deals that were transitioned in Q2, and you'll recall that we did talk about a few deals in transition. Our ongoing G&A cost optimization initiative have also gone through.

Our margin improvement has happened despite rupee appreciation of about 1.5% in Q3 versus the previous quarter.

We also took the decision this past quarter to move to the new tax regime in India. And this has helped improve our effective tax rate from 32% as it was in the previous quarter to 29.5%, and that has helped in a small part to improve our PAT for the quarter as well. The profitable growth that we've seen, the cost optimization initiatives that we've made, and the lower tax, have all helped in the PAT, which is at \$ 13.1 million versus \$ 9.3 million last quarter. And that's up 40.3% quarter-on-quarter and 28.3% year-to-year.

DK spoke about our cash and cash equivalents crossing the Rs 1,000 crores mark. Again, this has been a constant effort for us ensuring that we have grown collections, our improved profitability has helped as well, and that is seen Rs 94 crores or a \$14 million improvement on a quarter-on-quarter basis, up Rs. 325 crores or \$42 million on a year-to-year basis. About 60% of the cash is invested in India and that's helping us get some other income as well. Our operating cash flows stood at about \$ 27.5 million this past quarter. We made a small CAPEX spend in the quarter and our net free cash was about \$ 26 million which is 278% of our PAT. That explains the improved collection and DSO which stood at 57-days better one day quarter-on-quarter and eight days on a year-on-year basis.

Overall, I'm satisfied that we are progressing well on key metrics, and we will continue to monitor them closely on an ongoing basis.

With this let me throw the floor open for questions. Thank you all.

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

Baidik Sarkar: DK, Congrats on a great quarter, much appreciate it. My question is the cloud practices of your key SBUs across SAP, Oracle, Microsoft and other ERP majors, have reported growth in excess of 20% YoY and the guidance of multiple years ahead is in that range? When do you think we will be in a position to mirror these growth rates now that you have the additional lever of annuity that's beginning to fire as well?

Dharmender Kapoor: Yes, thank you, Baidik. Absolutely, I think we are also seeing good uptick in the cloud revenue. And more importantly, that there is a revenue of the deals that are moving ERP on the cloud. I think that combination has really started working well for us. Our partnership with the cloud platform provider, such as Microsoft has started giving us a good leverage and good traction in our market. In fact, today, Microsoft, SAP and Birlasoft have a common GTM, in which we go to market together so that we can help our clients migrate their ERP, their SAP, S4 or the legacy ERP also onto the cloud. Similarly, we are looking at how we can have JDE platform ERP moving on to the cloud platform also. Then there are other opportunities where there are custom applications

and legacy applications that need to be migrated to the cloud, and we have started working very well on that side also. So we also have started seeing a very good traction in the cloud already. And that definitely will be one clear goal for us to go and achieve significant growth in that. That was answer to your first question.

Baidik Sarkar:

You mentioned that your top accounts grew 20%. So, looks like there was a large tail that fell off. I'm just looking at your YoY growth rates. So how should we interpret that? And also as an addendum to the first question, you did answer that the environment is looking good, but when do you think we'll be in a position to better those growth rates?

Dharmender Kapoor:

So, with the top accounts, growing very well for us is definitely good news. That means our annuity revenue is growing, that means our cross-selling is working well, and our relationships are becoming much stronger with our strategic customers. On the other hand, we looked at our tail as I have mentioned that in a couple of calls before also that we have had some amount of revenue coming from the commercial transactions with some of the customers where the revenue was very small, and the margin was either negative or close to zero, and we have taken the call that we do not need to continue to focus on the accounts that are not having our strategic offering, at the same time, where we do not see growth coming in. So, we took this call so that we are able to cut the tail, so that we are completely focused on our strategic customers. And I think I'm absolutely very pleased with that progress because it is a harder decision for any management team when they have to cut the tail and shift their resources on to more strategic engagements. We have been able to do it in a consistent way without hurting our revenue, at the same time while improving our profitability because there is no point working on non-strategic engagements where you're bleeding for your profits.

Baidik Sarkar:

The margin of great journey has been very sharp especially given that the offshoring needle hasn't moved much for us. Is it fair to assume that we hit the 17% threshold sooner than expected, how should we look at margins for the fiscal ahead?

Dharmender Kapoor:

So, I think a larger portion of the margins that we are showing is very sustainable. I wanted to keep it more closer to 15% (EBITDA) as we start planning in the next financial year for the investments that we had to make going forward so that we can see higher growth in the market. So, we continue to sustain our margins above 15%. And any additional margin that we get, we would also plan for investing it back for the higher growth.

Moderator:

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

Sandip Agarwal:

I have a couple of questions, and I think Baidik already asked in a lot of detail, but just wanted to know, in this quarter numbers, let's say, if we were not hit with the tail account cleanup which is happening, how superior would the growth have been? And secondly, how far we have come in that journey where we are basically cleaning up the very non-contributing type of accounts, and when do you think it will get over so that the net tops in the overall growth? So that is number one.

And number two, going by the cumulative order book which you have as of today, and you obviously have a very good idea in how much of it is executed next year and next year, so what is your sense, where we can see our growth rate? I am not asking for any consecutive data, but I am asking for a direction.

Dharmender Kapoor: Absolutely, I think, good questions, Sandip. On the tail side, if I look at, it is going to be very insignificant, maybe \$100 -200K, that's all, if not significant that would have shifted the needle from the growth perspective. So, it is not going to make too much of difference. At the same time, the way we have done is not cutting the tail by taking the impact, what we are doing is that we are cutting the tail after shifting our resources to more strategic engagements, because at the end of it, every company has limited resources. So, we do not have to cut the tail and suffer in the process. What we look at is that all these strategic resources that are locked in those engagements that are our tail accounts, we shift them into strategic engagements so that we do not take too much of impact on the revenue side also. So, I don't think that it will be anything worth mentioning as to how much we would have taken an impact by cutting the tail. In fact, it would have improved our profit definitely, because we do not have to continue to bleed, at the same time it will also help us going forward to have a better pyramid and better span of control because once you have your resources in fewer engagements, that would mean that we can have far more effective pyramid in the organization. Coming to the order book, the second question, as I said that our annuity revenue now is at 67%. And this is what used to be 51% in the previous financial year when we began. And this financial year when we started, we were at 60%. Today, if we look at, we are at 67%. I am expecting that we should be either 69% or 70% by the end of this financial year. And if that is the case, that would mean that we will have much better annuity revenue and order book for the next financial year and that should be able to give us double-digit growth in the next financial year.

Moderator: Thank you. The next question is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha: Firstly, on the margin data, you said that you're looking at sustainable margin above 15%. But when some costs come back, when the work from home environment normalizes, do you expect we can still be able to sustain margins at the current level?

Dharmender Kapoor: So Shradha, as we have a EBITDA of 16.4%, now I am absolutely confident that we will continue to report more than 15% because we have factored in the increments as well as any travel coming back in the future, so we have already factored that in. We know that there is some more window and opportunity possible to grow the margin. At the same time, I know that some margin we will have to sacrifice where we give the increments but span of control and pyramid is one such opportunity on which we are already working on, and I definitely see that we will continue to deliver more than 15% going forward.

Shradha: Another question is our deal wins have been a bit softer. I agree that we are coming off a very high base. But when we look at the pipeline, how do you see that pipeline emerging relative to last year,

and how should we then look at deal conversions going into next quarter as well as first half of next year?

Dharmender Kapoor: Correct. While I know that \$109 million wins in this quarter will look pale in front of what we did in Q2. That's the irony of doing one quarter very, very well and getting a lot of wins. But that's how life is. Even in the previous quarter, I said that while we had done \$273 million wins, but if we continue to sustain our number of wins between \$100 to \$150 million, I think we should be very happy. Also, we should note down that the Q3 is a very tricky quarter, because most of our customers are creating their budgets, budgets are already over in the Q3 for us and that is Q4 for Clients. So, most of the budget Clients have already consumed, at the same time, it is a shorter quarter because the number of days are lesser. Third, it is also where clients take up some furloughs. In this quarter, some of our customers took furloughs. At the same time, the number of days were lesser that definitely had some impact on our growth. But if you look at it also has an impact from the perspective of how many deals can be closed. So, I personally am very happy with \$109 million worth of deals. And I continue to see that the pipeline is growing very well for us. As the new budget has started kicking in the Q4 for us, which is Q1 for most of our customers, that means they have a new budget and the new opportunities are coming on the table, so we should see better quarters coming in the Q4 and thereafter.

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

Abhishek Shindadkar: My first question is again regarding you mentioned about furloughs. So did Q3 growth was, as anticipated at the start of the quarter or given our significant manufacturing exposure, were there any incremental furloughs that we had to go through?

Dharmender Kapoor: I think you have absolutely asked the right question because manufacturing is the largest vertical for us. And they are the one who will generally take a furlough in the last one or two weeks. So, we did anticipate but, in this quarter, and in this financial year due to COVID, the decision taken by the clients was much later in the quarter. Until the second week of December, we did not know if anybody is going to take a furlough. It was only in the third week they decided that the last week they will take furlough. So, some impact definitely was there on us for furlough. But I think that is something that we always factor in. In this quarter, it came a little later. But we always anticipate that some amount of furlough will always be there in the Q3.

Abhishek Shindadkar: Sir, what I'm also trying to get an answer is, the growth rates across service lines and verticals in the context that we have almost dropped 86 accounts on a year-on-year basis and 15 accounts on a quarter-on-quarter basis. At least optically, it appears that growth is driven by other horizontal. But if you can give us a color as to what could have been the growth in the others service lines and verticals had we not dropped these number of accounts, so that could be useful?

Dharmender Kapoor: Abhishek, as I said that I don't think it will be significant if we will have to look at our tail, and the revenue that would go away when we dropped the tail, that is insignificant in the last four quarters if that has dropped by 86, it could have had impact of \$ 1M or \$ 2M, maybe \$2 million. But we saved our resources and shifted over those resources into the strategic engagements, we would have also secured similar revenue in the other accounts also. So, we are doing very careful analysis, before we are taking the decision, where we interact with the customers, we look at whether that service offering is strategic for us or not, we also look at if there is an incremental project that we are going to win from the client or not. When we see that each of the answer is moving us towards that, there is not going to be any growth with that client at that time we take the decision. We have a very strong analysis process in place through which only we determine that. And that is the reason you would have not seen that. While we started doing the analysis three, four quarters back, we did not take a drastic decision. Every quarter, we have been taking 10 or 12 clients away from us. And we have been shifting those resources onto our strategic engagements. So, I would say that it is insignificant. I don't think that we would have had any different growth percentage even if we were continuing with those accounts. However, when it comes to the profitability, I'm sure it would have impacted us if we would have continued working with those clients.

Abhishek Shindadkar: The reason I was trying to understand this is the increase in technical headcount was not necessarily to replenish the employees lost because of drop in these accounts. So, what you're saying is we have repurposed those employees and still we have hired on a quarter-on-quarter basis, is that the correct understanding?

Dharmender Kapoor: Absolutely, absolutely, we moved all those resources to our strategic engagements, And, of course, we continue to hire from outside.

Abhishek Shindadkar: If I can ask maybe one or two data point questions, I think there is a mention of reclassification of revenue mix in the press release. I may have missed it. Can you just highlight what that reclassification was all about?

Dharmender Kapoor: If you remember I think this question came up in the last quarter as well, that our onsite revenue has suddenly increased. We thought that it was because of one transition that was going on, but it baffled me actually that why it should be that case. We went back and looked at the data. And we found that there was a mistake in computing the way we calculate our onsite and offshore revenue. We counted in that quarter some of the revenue that is with the captives in India as onsite revenue whereas that should have been an offshore revenue, it is not an onsite revenue, because that work was being delivered in India, in rupee terms. So, we corrected that data for the previous quarter. Since that data item will be different from what we have already reported, we mentioned here that this have been reclassified.

Abhishek Shindadkar: That's helpful. Secondly, on the data point side is, what could be assumed now for the tax rates for FY'22?

- Dharmender Kapoor:** Now, we will go with the next tax regime and I would request Chandru if he can provide more color to the tax rate that will follow in the coming financial year.
- C Thyagarajan:** The effective tax rate for FY'22 could range between 26% and 29% on a steady state basis. I say 26% to 29%, because you know it depends on the mix of margin coming from the various geographies outside of India. While we know, India tax rate is 25.17%, there will be different tax rates coming from the other geographies. Between 26% to 29% is the range I can give you.
- Abhishek Shindadkar:** Sir, you mentioned about moving workloads to the Azure platform. Given our strong SAP exposure, and we have been talking about Microsoft, and you mentioned in this call as well. Can you just elaborate what conversations in terms of where we are playing mid-market, which market are we playing, and what is the quantum of deals that are there in the pipeline, any color on that could be helpful?
- Dharmender Kapoor:** If you look at, there was a partnership already between SAP and Microsoft, where they have joined hands as to how can they migrate their SAP clients onto the Azure platform, and we joined that partnership, and now we are collectively working on securing those opportunities. So, the deals of varied size, whenever there is a legacy modernization the deals are coming. It is ranging from anywhere from \$3 million, \$4 million to \$20 million deals. And it also depends on the client at what speed are they going to take it up because sometimes the first and second deal is generally a smaller deal, followed by the larger deal, because by that time, the client has got the confidence that they can actually move larger workload on to the cloud, because they started getting the confidence in doing that. During the COVID period, I believe the deal sizes are not as big as they can be. But as we come out of COVID, I think the deal sizes will increase because a lot of experimentation, and smaller deals have been done by the client during this time, because they do not want to take a much larger initiative. But as we are getting success in those smaller initiatives for our mid initiatives, I think the larger initiative will start coming up in the next year.
- Moderator:** Thank you. The next question is from the line of Hiten Jain from Invesco AMC. Please go ahead.
- Hiten Jain:** Can you give me nine months subcontracting expense for this year and last year?
- C Thyagarajan:** I do not have that information offhand, but I can tell you that in the past quarter, we have reduced it significantly as I had said earlier, I don't have that information on a year to date basis right away, I think I can get it offline.
- Dharmender Kapoor:** You can always get in touch with Chandru offline or with Vikas and we can get you that data.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: DK, most of the questions are answered and good to see that you have moved to the new tax rate. Just one question on cash, now it is more than Rs.1,000 crores and it's a great asset. Just wanted to know your thoughts, how are you guys thinking about it, are you thinking about dividends, what is the overall thought process?

Dharmender Kapoor: Yes, Rohit, we will continue to deliver dividend as we have delivered in the previous financial year also and the other quarters also, so we'll continue to do that, I don't think there is any change of thoughts from that perspective. However, we have started thinking that what are the newer investments that we need to make in order for us to grow faster -- should it be looking at going after certain type of deals or should it be going after looking at if it is the right time for doing any merger and acquisition. So, we have started thinking in that direction. As soon as we have a clear answer and strategy, we are going to come back and publish as to what is going to be the approach and strategy for Birlasoft.

Rohit Balakrishnan:: Maybe this is just a repeat of the questions, first asked by Baidik. So we've been around \$126 million dollars was the highest. So, you mentioned in the last quarter that before we regain the scale that we achieved in Q3 of last year around \$125 million. So I just want to understand, can we sort of look at 4%, 5%, quarter-on-quarter dollar revenue growth from here on, DK, we had obviously a couple of disruptions in between due to COVID, etc., and now we're sort of looking at curtailing the tail, from here on let us say FY'22 onwards, can we sort of look at 4% or 5% quarter-on-quarter dollar revenue growth, is that what we're working towards?

Dharmender Kapoor: I think that is absolutely the goal that we had to continue to grow quarter-on-quarter. This is something that is so essential for us to have in our plans. And I am very hopeful also that we will continue to show that. During this time, we have made our revenue and growth very predictable. And I'm absolutely certain that we will continue to show good result going forward. And I would also like to say once again, that do not have any concerns about the tail. Now, it actually is a good strategy to remain focus on fewer accounts, I know this question has come multiple times. And Rohit, you also asked that. So, I would say that remain confident that there are not going to be any impact on our growth due to cutting the tail.

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

Ashish Aggarwal: Sir, my question was also similar to what the previous participant asked on the growth side. Because if we look at the second half of last year, a lot of that growth was also driven by one large deal which we won if I'm not wrong, and our revenue in the first three quarters have been significantly lower than our peers in terms of growth rate, etc., So how should we look at this number changing materially in FY'22? That is one. And secondly, just one data point, when are we looking to do salary hike for the employees?

Dharmender Kapoor: So, let me answer the salary question first. The increments are being done from January, i.e., Q4. So that has already been factored in our plan. Coming to the growth side, there are some significant wins that we made even in this financial year also. I did talk about those wins in the earlier two quarters that what kind of wins that we made, for example, there was a deal I talked about \$72 million, there are three or four deals about \$30 million that we have done, there was another deal that we had done with a European company, which was \$20 million dollar, then there was a medical devices company with which we closed at \$28 million deal. I think there are a significant number of deals that we had done in the financial year also. So, I don't see now overdependence on one large deal. Now, we started having more number of deals that are going to bring growth for us. And the reason as I mentioned earlier, our top five, top 10 and top 20 customers all have grown very well in these three quarters, and I think that is going to bring a lot of growth in the future as well. And that comes because of our significant focus on improving our annuity revenue and also improving our cross-selling.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Just wanted to get more color on the margins. How should we look at margins because if we look at our offshore ratio, the restated offshore number that you've given, we've improved by about 40 basis points. So, my sense is that a lot of the margin improvement would have come from the subcontracting costs coming down. Now, my question is going forward, is the reduction in subcontracting cost a conscious decision or is it that probably when things normalize subcontracting costs, sort of come back? My second question is your confidence on double digit growth in FY'22 is well appreciated. On your newly created Microsoft Azure partnership, how much will that contribute in the double-digit growth ambition in F'22?

Dharmender Kapoor: So yes, part of the margin definitely come from the subcontract cost rationalization and as we look at continuing improving our mix of revenue between onsite, offshore, between time and material and fixed price, we are slowly moving towards having higher margin coming from our engagements. So that definitely is one thing. The second benefit comes from cutting the tail where we have been breeding for the profits. So that also has given us some advantage. We improved significantly on our SG&A also, because we had to continue to look at how do we become more efficient company. So, we looked at every single aspect of SG&A and we improved upon that. There are a lot of automation that we did. We completed our integration, because a lot of costs are going on the integration side also, because we were running the two IT organizations in parallel. And now we have fully integrated after the month of June July, so that has started giving us the benefit also. So, all these benefits are sustainable benefits, and we will continue to see that we start playing at par with most of our peers. So that's on to the profitability side. Coming to the growth side, yes, we are confident that I think double-digit growth will come in the future. When it comes through the type of growth, Microsoft definitely is going to help us in a big way, it is very hard to say that just based on one particular technology, how much growth will come. But as I give the

macro view, after the partnership, we definitely want to achieve \$100 million practice from Microsoft. And that goal remains, and we continue to work in that direction.

C Thyagarajan: DK, if I may add to the question on subcon cost, Hiten Jain had this question as well, the full year subcon cost in financial year FY'20 was about 13.7% of revenue. And in the first three quarters, which is year-to-date Q3 FY'21, we have 11.9%. So just corroborates DK's point that optimization is a continuing activity, and we will further improve this as I said as mobility improves globally.

Vimal Gohil: Great to hear that. Again, on subcon cost if I were to look at the average subcon cost for some of the larger peers, it is closer to maybe 10%, probably for the largest peer it's about 7%. When you talk about delivering margins in line with peers, if I were to look at some of the mid-size peers, they have EBITDA margins closer to 20%. How should we think about this commentary?

Dharmender Kapoor: I think if you look at the 20% margin, we have to look at that in a more sustainable basis, I think we should look at the numbers pre-COVID, and we should also look at the number of post-COVID. So, we definitely are going to play in a way that we continue to give the margins closer to our peers. We are the smallest company among our peers. So, economy of scale that they have, we may not have that. But despite that, we are confident that we will continue to give. However, I also mentioned that we need to look at what are the newer capabilities where we go and invest. So, should there be a possibility of sacrificing a little bit of margin so that we grow faster, and I think that is another part of our strategy that we will execute going forward. And that is the reason, I have always maintained that we will continue to deliver EBITDA more than 15%, and we will also ensure that we invest back so that we start growing much faster.

Vimal Gohil: When you talk about investment, this would be on maybe the technical headcount or what exactly do we mean when we say that?

Dharmender Kapoor: It is about looking at the capability enhancement and the talent enhancement. We have gone by the micro verticals strategy. I have talked about that in the last two, three quarters. When we go after the micro verticals, that means that we want to get behind those micro verticals and say that we are not bigger than the larger players, but we can definitely be better than them in those micro verticals. But that would require that we build significant domain skills, as well as the technology skills in that, and that is where the investment will be required. We are also working on certain solutions that are required for that market so that the repeatability is higher, and we are able to work on these patterns for which we get an easier discussion to solve the common problems that the industry has, and there is an investment that will be required in that direction as well.

Vimal Gohil: Sir, last question, just a follow up on what Ashish asked. Our growth rate in the past three quarters has been slightly lower than some of the peers, and we do expect from company like Birlasoft, that growth to be top quartile. Given the fact that the bottom client exit, processes have been complete, some of the deals will probably get into execution stage, do we expect the growth to reverse back to top quartile in Q4?

Dharmender Kapoor: So, I believe that we are working towards that, but I don't think that I'll give any guidance in that direction, because one of the major focus for us had been asked to change the mix of our revenue. As I mentioned earlier, that if your annuity revenue is lower, that means that you need to work much, much harder to get the growth that you want. That has improved considerably for us, but is still lower than most of our peers. And I think that revenue mix is very necessary to change for us to get into that. Now, because it is changing, and it is changing much, much better way than what we initially thought, I am getting more and more confident by every quarter that we will start delivering the result, which will be in the top quartile. But will it happen in Q4 or not? I would not answer that yet, because we are still working in that direction.

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

Ravi Menon: I wanted to understand the hiring trends. So this quarter if I look at the technical headcount hiring, this is the strongest hiring that we've ever had, yes, utilization is at an all-time high, and probably this might be as high as you'd be comfortable in operating. But even when we won the Invacare deal, we didn't actually see this kind of hiring. So should we look at the deal that we have in FY'21 slightly shorter than what we signed it Invacare, most of FY'20, so should we actually think about the deal durations being (Inaudible) up by resulting in such strong hiring?

Dharmender Kapoor: Ravi, absolutely, we should definitely look for that. But we had to continue to look at that how do we optimally utilize the talent that we have. That is going to be my first focus. Because if we do that, that would mean that we would still be able to extract better profitability when the talent and the capacity that we have today. At the same time, we have to continue to hire the talent from outside. If I look at one year back, the growth came without hiring too much from outside, because we did have that capacity with us. It was only that we had to utilize it in a better way, and hence, without hiring too much from outside, we were still able to deliver even that large deal. So, it worked very well. But I would say that the low hanging fruits are already done. What we have to look at is now, as I clearly stated that one clear focus would be that how do we improve our pyramid and how do we improve our span of control. So, I think there is still some optimization possible on that front. But further revenue will get delivered by hiring from outside. So yes, you will see more hiring from outside than what you have seen in the last four quarters. But at the same time, we will continue to look at how do we optimize our current capacity as well.

Ravi Menon: Considering the strong demand environment, do you think that you want to really operate at much lower utilization, probably, 80%, 81% instead of 83% to 85%, what would be your preference?

Dharmender Kapoor: I don't think there'll be too much difference. I believe that if we remain at 83% utilization, we are very comfortable.

Ravi Menon: And when you spoke about the investment, the new micro verticals that you are looking at, could you give us an example of one or two of them?

Dharmender Kapoor: I think we are definitely looking at the investments on certain strategic deals, that is one aspect of investment that we are looking for. Second, we are looking at if there is any possibility of acquiring any talent or any tuck-in acquisition, we are yet evaluating, but if I look at from the readiness perspective, I think we are ready today. If you would have asked me two quarters back, we were not ready and I actually was very open in mentioning that we will come back when we are ready. But after the integration of our IT and many other aspects, I believe that our structure is stable, I believe our IT systems are stable, our processes are in place, our policies are already stabilized. So, we are absolutely having the right management team that can go and absorb any tuck-in acquisition that we may have to do. So, we have started evaluating in that direction and started preparing our strategy.

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

Dipesh Mehta: I have three questions; first, so maybe broadly if you can provide qualitative comment about recovery how you expect it to play out? Second question is about if I look \$1 plus million client, we have seen weakness and limited success. So, whether limited success is hunting because of virtual selling or how one should read the thing? And third question is if I look margin expansion over last two, three quarters, your standalone margin remain largely stable. But subsidiary performance has improved. So, if you can provide some color what is playing out there and what is further scope to expand margin in subsidiary?

Dharmender Kapoor: On the net new, I think your guess is absolutely right that due to the virtual selling and no travel, the net new has taken hit for every company and I believe that should come back as we move forward. So that is where I believe that there is a growth possible by bringing in more net new. But the good part also is that, in that process, the cross-selling has started working very well and our efforts paid off, because we proactively planned that we had to go after the cross-selling and annuity revenue, and that started working very well, and has given us the advantage. So that's the way I look at going forward that net new will increase. Looking at the margin side, I would request maybe Chandru, to provide the breakup between the standalone and consolidated as to how is the margin looking on both the sides?

C Thyagarajan: On the margin breakdown between the standalone and subsidiary, we look at it at a consolidated level, because it's a business model that we look at in terms of how we deliver, where we deliver. So, when you have costs coming mostly onsite, they sit on the subsidiaries and that's where the greater grooming has been possible for us, we continue to run an optimized shop offshore. Like we said, we're also replacing some of our onsite subcons with regulars both offshore and onsite. So, this is a continuing process. So, you will see the mix improving as we continue to look for cost stake or opportunity. So, what you're seeing right now is based on how we manage to pull down costs while growing our revenue in offshore and onsite and that's why you will see revenue growth kind of consistent while better margin improvement coming from our subsidiary versus the business of standalone entity.

Dipesh Mehta: So, one question I think remain unanswered was about SAP and IES, how you expect that horizontal to recover, because that is where the weakness and roughly 40% of our revenue coming from these two horizontals, so if you can provide some perspective, I think to some extent our overall revenue also get impacted because of weakness there?

Dharmender Kapoor: There are two things that we need to look at in that. One, the COVID situation forced many companies to slow down on the larger transformation program, where there was an ERP adoption, ERP migration, for example, Oracle migration to cloud went slow, because if the ERP was already running on-premises, there was no incentive of migrating to cloud during this time for them. However, the newer customer who wanted to adopt, they definitely have started going to the cloud. Similarly, on the SAP S/4 HANA side, the migration to S4 slowed down during this process because there is incremental business benefit that everybody will look for, and that would happen probably once the business stabilizes post-COVID for most of our customers in US and in Europe. So, I think that slowdown is primarily because of that. But at the same time, this is one area which is changing the shape significantly. Sometimes we look at ERP revenue in the standalone form in a traditional way. But a lot of such revenue is now getting divided between the ERP and digital. Some of the things that used to happen in a monolithic application in a traditional way, now that revenue gets distributed between a digital opportunity and in a traditional ERP, for example, if somebody was implementing SAP with SAP CRM earlier, or same with Oracle CRM or Siebel CRM earlier, today, the CRM revenue comes in the form of Salesforce over Microsoft Dynamics. But that revenue is there, but it may be now counted as part of digital over emerging technology rather than being counted as part of IES over SAP, I think that is the way we had to continue to look at as to how the shape of the revenue will change. Going forward also, you will see that sometimes the deal size may look smaller when it is being done on the cloud. But that will be one deal that will be smaller, but there'll be many smaller deals together that will form the whole transformation program. So, earlier, it was one large expense that used to happen on one ERP. But today that gets broken between the ERP on the cloud integration and some of the best of the breed applications that get integrated with the core ERP. So the spend is same, but it gets distributed in different buckets.

Dipesh Mehta: Can you quantify impact of salary hike in Q4, and what kind of quantum hike we are giving to employees?

Dharmender Kapoor: We are going as per the industry norm, which is most of the industry players are going with about anything from 6% to 6.5%, so we are also at about 6.4%, that is going to be the increment that we will give. That should have an impact of about 2.2% to 2.3% of revenue. And then we of course continue to look at working on fixed price contract and the span of control and the pyramid improvement so that we can claw back what we lose on the increments we claw back that by improving our margins.

Dipesh Mehta: Is there any data which you can share about our pyramid, how it is currently and what optimal range you might have in plan?

Dharmender Kapoor: So, I do not have the ratio handy with me, but I believe that there is definitely about a percent that we can further improve from here in our gross margin by improving the span of control.

Moderator: Thank you. Ladies and gentlemen, due to limitation of time, that was the last question. I now hand the conference over to Mr. Dharmender Kapoor for closing comments.

Dharmender Kapoor: Thank you very much, everyone, for joining the call. Q3, I am, absolutely delighted that we have been able to deliver the EBITDA margin two quarters in advance, I have always committed that we will be achieving 15% in the Q1 (FY22), but there were a lot of hard work that was put in by the team in order for us to get the optimization in a much faster way. So, I'm absolutely very pleased that the result that we have given in the Q3 on the profitability side. The growth could have been a shade better. But of course, we all know that it was Q3, and generally Q3 is a tricky quarter for everybody. But we are back getting the quarter-on-quarter growth, that is good news for us, at the same time as we go and move to have higher annuity revenue, we will have much better predictability going forward also. So, thank you very much for your confidence in Birlasoft and thank you very much for participating. If you have any question that remained unanswered or you could not ask any questions, please feel free to reach out to Vikas and we would love to provide all the answers that you may need. Thank you very much.

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

Disclaimer.

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

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