“Birlasoft Limited Q3 FY-22 Earnings Conference Call”

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Management:  Mr. Dharmender Kapoor – CEO & MD, Birlasoft Limited.
Mr. Chandrasekar Thyagarajan – CFO
Mr. Roop Singh – Chief Business Officer
Mr. Shreeranganath Kulkarni – Chief Delivery Officer
Mr. Arun Rao – Chief People Officer
Mr. Vikas Jadhav – Head, Investor Relations
Ladies and gentlemen, good day and welcome to Birlasoft Limited Q3 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. Thank you and over to you sir.

Vikas Jadhav: 
Thanks, Faizan. Thanks everybody for joining us this Vikas from investor relations and we have with us today on this call Mr. Dharmender Kapoor (DK), our CEO & MD, Mr. Chandrasekhar Thyagarajan (Chandru) our CFO, Mr. Roop Singh, our Chief Business Officer, and Mr. Shreeranganath Kulkarni (SK), who is our Chief Delivery Officer and Mr. Arun Rao, our Chief People Officer. So, we’ll begin the call with opening remarks from DK followed by Chandru and then move on to the Q&A session.

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 mentioned in our Q3 FY22 Investor Update, which has been uploaded on our website and also submitted to the exchanges. Now, I handover the call to DK. Over to you DK.

Dharmender Kapoor:
Thank you Vikas. Good evening, and welcome all of you to Birlasoft third quarter financial year 2022 earning call. Thank you for joining us on this call. I wish you and your loved ones a very happy, healthy and safe New Year. We are pleased to report yet another quarter of strong revenue growth with improved margins. Quarter three revenue was at $143.4 million registering a sequential growth of 4.7% and a year-on-year growth of 20.1%. Sequential growth in constant currency term was 5%. And year-on-year constant currency growth was 20.6% for quarter three. Quarter three total contracted value deal wins of $181.5 million were also healthy with the new business wins contributing $121 million. The quarter three YTD deal wins stood at $474 million and the new deal wins were $319 million.

As you can see there is a clear difference that the ratio of EN and NL which is the new deals has improved considerably, that would mean that the upcoming growth would be far more predictable in future. Net new wins contributed about 18% in the nine month deal wins compared to around 3% in the previous financial year. In quarter two earning call, we mentioned about good increase in the enterprise solution deals across upgrades, new implementations and transformational deals. While we saw some growth green shoots in the enterprise business in quarter two, this quarter it will lead the growth in the service line and delivered strong growth of 6.1% quarter-on-quarter and 8.1% on year-on-year basis.

The other two service lines also posted good growth, with business and technology transformation services growing 4.4% quarter-on-quarter and 31% year-on-year, while cloud and based services growing 2.7% quarter-on-quarter and 29.2% year-on-year. In verticals the growth was led by manufacturing, which was up 9% quarter-on-quarter and 20.4% year-on-year. At the back of stable oil prices and few large deal wins in the previous quarter, energy and utilities vertical also posted
strong growth of 8.4% quarter-on-quarter and 20.2% year-on-year. The good news is that growth continues to be driven by large accounts with Top 10 and Top 20 customer revenue growing at 5.4% and 4.6% quarter-on-quarter, and 21.4% and 22.9% on year-on-year basis, respectively. This not only continued to improve our relationship with key clients, but also ensures better growth prospects. With the growth traction coming from the net-new customers, the growth from ex-top 20 customers were also up 4.9% quarter-on-quarter and 15.9% year-on-year. Our customer count of $5 million revenue improved by one this quarter. In quarter three, the offshore revenue contribution of 49.5% is also at an all-time high.

EBITDA margin improved marginally, and stood at 15.2% which is despite high attrition, one additional month of wage hike impact and lower number of bill days and the furloughs impact in the quarter. And this as you know is the very seasonal quarter three phenomenon for IT industry. We have been able to maintain +15% EBITDA margin against unprecedented supply chain challenges witnessed in financial year ‘22 till now. This is reflected in our LTM attrition number which is at all time high at 31.4%. The good part is, we have seen some stability while we expect it to remain elevated for another quarter before cooling off from the beginning of the next fiscal.

PAT stood at 15.1 million versus 14 million in the quarter two, and it was up 9.1% quarter-on-quarter and 16.6% year-on-year. INR PAT was at Rs.114 crore up, 10.5% quarter-on-quarter and 18.2% year-on-year. The manpower headcount at end of quarter three stood at 11,945, and saw a decline of 120 professionals quarter-on-quarter, and the addition of 1546 professionals on a year-on-year basis. Our headcount optically seems to have declined, as it is reported on the quarter end basis. However, on an average basis, the billable headcount saw an increase during the quarter three. We worked well on optimizing our bench utilization during the quarter. We have started off campus hiring programs and further 80 additional freshers have joined in January month itself. Coming quarter, we’ll see higher fresher intake and shooting skills to scale initiative in meeting the upcoming demand as well as optimizing resource cost.

Birlasoft continues to get various recognitions. It was named a Top 15 forcing stand out by ISG and among the leading providers in the Booming 15 category globally, as well as for the Americas region based on annual contracted value won over the last 12 months. This is the seventh consecutive time that Birlasoft has been featured across named categories by ISG. Birlasoft was also named a leader in the SAP S/4HANA system transformation mid-market in the U.S. region by Information Services Group (ISG). Birlasoft Project Shodhan a CSR initiative to stop crop residual burning, bagged Special Jury Award in the edition 7 of CSR Impact Award 2021. In conclusion, I would like to add that the demand environment continues to remain robust. Although there is a lower number of large deals in the market, however, opportunities are multifold in nature of smaller deals, which augurs well for Birlasoft’s demand search continuity in digital and re-initiation of transformational programs. With customers looking at shorter and sharper returns and focusing on cost containment while improving their spend on value-driven initiatives.

The deal pipelines stand at $1.2 billion, and this is despite the deal size is becoming smaller than before. And traction from both new and existing customer is better today. We continue to remain
optimistic and are well positioned on capitalizing the growth opportunities. With this, I’d like to hand over the call to Chandru for providing more color on our financial. Over to you Chandru.

**C. Thyagarajan:** Thank you DK. Good evening, good day everyone. Let me take you to the financial highlight for the third quarter in a little more detail. DK spoke about Q3 revenue which we had $143.4 million versus $136.9 million in the second quarter. This was up 4.7% quarter-on-quarter and 20.1% year-on-year.

We did have a cross currency headwind of 31 basis points and therefore in constant currency terms the growth was at 5% quarter-on-quarter. In rupee terms, we saw a quarter-on-quarter growth of 6% and a year-on-year growth of 21.7% and the revenue growth at 1072 crores. The EBITDA for Q3 was at $21.8 million versus $20.5 million in the previous quarter, up 6% quarter-on-quarter, 11.2% year-on-year. In rupee terms EBITDA was at 152.8 crore versus Rs.151.8 crores in Q2 and that translates to a growth of 7.2% quarter-on-quarter and 12.7% year-on-year. EBITDA margin went up marginally quarter-on-quarter by 18 basis points, up to 15.2%, but it was down by 122 basis points year-on-year for the reasons DK spoke about.

Margins were aided by volume growth and also there was a onetime contract related spend in Q2 that did not recur and that helped us as well but that was of course a small component of the improvement.

There was some impact on the one additional month of wage impact as DK spoke about, we also had an increase in our subcontractor expenses given the current surge in demand versus supply.

Our PAT for Q3 was at $15.2 million versus $14 million in Q2. PAT was up 9.1% quarter-on-quarter and 16.6% year-on-year. In rupee terms the PAT was at 114 crores, up 10.5% quarter-on-quarter and 18.2% year-on-year.

Our DSOs at 55 days we improved two days year-on-year, of course there was a slight dip of one day quarter-on-quarter however we believe that this is a very optimized performance. Cash and cash equivalent stood at a $152.6 million, Rs.1135 crores as of 31st of December verses $144.6 million that is Rs.1074 crores as of 30th September 2021. Our cash was up $16.6 million or Rs.124 crores on a year-on-year basis.

CAPEX for the quarter was $5.3 million which is Rs.39 crores this included the renewal of a legal treatment of one of our office premises which lead to an increase in our right to use asset by about 23.5 crores. There so the CAPEX are related to IT and related assets.

Our operating cash flow was at $16.4 million or Rs.121.6 crores and stood at 74.7% of EBITDA. Our free cash flow was at $11 million or Rs.82 crore. And that’s 71.8% of our net income. We continue to see improvement in our financial metrics, and we will 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 the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Congrats on a good quarter. A couple of questions, in the context of how buoyant environment it has been for hyper scalars and in our own relationship with a few of them. Our performance and cloud and based services seems a bit soft was there a one-off and how you see acceleration. And secondly given our healthier order intake has been would you reckon we will break out in growth rates starting now or would you advise caution in the absence of large deals per se, like you mentioned in the opening remarks and the high contribution of packaging presentation which could be … inaudible

Dharmender Kapoor: So, thanks Baidik. No, I would not bring any caution when it comes to the growth because, we definitely are seeing good momentum, good pipelines, good input of the query and the pipeline coming from the client side. So, we are seeing definitely good inflow from that perspective. So, there is no reason for having any caution with respect to the growth, because whether it is a cloud and based services or it is any other service line, I think in all the aspects we are seeing good set of momentum. Having said that, what we have to continue to watch is that, the biggest constraint today that is there in the industry is on the talent supply. Because growth is not an issue, it is the talent supply that is a challenge right now, as to how quickly can you bring it up and capture the growth that you want to do. That is the only challenge I see, other than that whether it is our larger customer or whether it is smaller customer, or even the deals which are, we know that the deals are large, but the contracted value is going to be smaller because those are broken into the modular approach. All that is there, and that definitely gives a very good confidence going forward that we have lot more predictability today, or the growth in the upcoming quarter.

Baidik Sarkar: So on margins DK, and Chandru, the worst of supply chain issues might be behind us. And keeping that in perspective, would our march towards a 16, 16.5 sustainable margin be possible in the first half of 23 or should be postponed that expectation as well?

Dharmender Kapoor: So, what I would expect is that we have started inching upward, we have addressed the fall that was happening in the margin. So, that is a very positive sign, now how much we really jump, it is going to be like every week, every month that we continue to discover that where all the optimization opportunities are there. But the attrition which I thought should start getting stable in this quarter, it is not yet. So, I would say that, we have to keep our fingers crossed. While we definitely are moving upwards now, but I would stay away from giving any commitment on what it would be in this quarter.

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

Sandip Agarwal: Just one or two questions first, DK while you don’t want to give any optimistic statement or something on this, but if you see the way clients are spending, the type of spends they are doing, and what the spend accomplishes for them, how do you see the spends to be there for next three, four years, you think them to be robust or it is hard for you to comment on next two, three years that is number one. Number two, while attrition industry wide, attrition going up is always a good sign
because it is a leading indicator of high good demand. But the way it is going up now, do you see signs of it retention from here, or you still think that there is a chance of it not falling anytime soon?

**Dharmender Kapoor:** Okay. No, thank you Sandip very relevant questions. Before you said that, I don’t want to give the optimistic outlook No, I am absolutely optimistic first of all, whether it is revenue or whether it is margin, I’m absolutely optimistic. Because when will you ever be more optimistic than when the demand is very good. I’m absolutely optimistic. However, we had a policy that we don’t give the number and that the reason I’m staying away from that, but I’m absolutely optimistic. Having said that, the revenue spend if we look at that, there is a marginal increase in the revenue spend that the clients are bringing up. So, which is a positive news, but we also had to look at that how the revenue or how the spend is shifting. So, what they are looking at is that how do they continue to become more productive, more efficient in the run business whereas, they put more and more money on to the transformational programs. So, the buckets will change, that is one thing will happen. At the same time there is definitely increase in the IT spend that a lot of customers are having. So, which is a good news, many of the other customer will actually start slowly opening up as we move forward, but I am seeing the positive signal in the market definitely. So, that is one aspect of it.

Now, when it comes to the attrition, yes, you are 100% right that, it is good news that it is a leading indicator for higher momentum that we are seeing. So, yes attrition is high. We might complain about the attrition, but we are not complaining about the growth. So yes, that will be there. My view is that, if you look at it carefully, most companies are somewhere around 27% to 30%, 31% of the attrition. Now, there is at least about 10%, 12% of the people who are actually moving from one company to another company, rather than that is the real growth-related attrition. So, I believe that whether it is in one or two months, or in a quarter or two quarter, it is going to come down because people are not going to continue to move. So it is going to go and stabilize in the shorter or midterm. So, I believe that somewhere the attrition with the current level of demand should be in the range of about 18% to 19%. That is where it will stabilize over a period of time. We are yet to see that it starts stabilizing there were few days that we saw in the quarter three, that it might be getting better, but then the Omicron came in and then we are seeing people getting back to home again. And then there is this whole thing is continuing. So, I believe that as things start getting normalized, start becoming more and more stable, the attrition will also stabilize with probably another few months to go.

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

**Shradha Agrawal:** DK you did indicate that the deal pipeline number is close to $1.2 billion for us. But would it be possible for you to say how much is it up on a Q-on-Q or a Y-o-Y basis?

**Dharmender Kapoor:** No, this is a sales pipeline. What are the deals that we are working on. So, I don’t think that until we reach to the stage of the deal that we know how much it is going to be ACV or TCV that will be yet to be seen, but a lot of deals are actually of a good number, a good size that would mean that while it will increase a good ACV number, there will be some good amount of revenue that we will be able to win on the TCV perspective also.
Shradha Agrawal: The sales pipeline of $1.2 billion that we’re talking about in this quarter, what was that number last quarter, any indicative number?

Dharmender Kapoor: It was about 100 million lesser in the previous quarter. If we look at the same quarter last year, it was approximately $700 or $800 million if I remember right.

Shradha Agrawal: Okay, got it and you also indicated that your ERP deals are back in the market. So, last year we have seen almost a flattish kind of a run rate in the ERP service line for us. So, do you thing going into FY23 we can expect a good bounce back in ERP and if not higher than company average growth rate it can still grow much faster than what it had done last year?

Dharmender Kapoor: Absolutely, and we definitely are already seeing that happening with most of the enterprise solution deals.

Shradha Agrawal: Good. And lastly on the life sciences vertical, it seem some moderation in growth rate in this vertical for some time now. Some could be because of the normalization of numbers in Invacare. But apart from that, is there anything that was happening in life sciences because on a Y-o-Y number also we have come down to almost a 10% growth in this vertical, which was one of the fastest growing verticals for us three years back?

Dharmender Kapoor: Yes. You are absolutely right. Your guess is absolutely right, that it is because of the normalization on number in Invacare, because we have done a big release in the previous quarter, that was the first month of that. So for the quarter we did not get the revenue for the transformation program, we are already defining the next set of scope for them. And we hopefully will begin again on that side in some time in the month of February. And that would mean that, some part of that revenue will start coming back. So yes, it is about the transformation program reaching to a particular milestone. And now there is a break in terms of defining the next set.

Shradha Agrawal: And DK just, I missed a number, you gave out the number of net new deal TCV contribution, what was that for this quarter?

Dharmender Kapoor: For this quarter, it was about (+7%) - the net new.

Shradha Agrawal: But it has come up from last quarter, if I recall it right, last quarter was a high net-net contribution number?

Dharmender Kapoor: If I look at the last quarter, we had total wins of about 121 or 123 million and this quarter, we are talking about 182 million; and 121 million are the new deals itself. So, this quarter is far-far better, we are talking about the percentage because percentages is deceptive generally, but the absolute number is higher in this quarter for the net new wins.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.
Mihir Manohar: My question was on the pricing front, how are you seeing pricing, what kind of pricing are clients ready to give in this current environment given there is attrition and demand environment is also good?

Dharmender Kapoor: No, there is a reset of pricing definitely happening, a bit of lower than one would like to have but as I said in the previous quarter also that we have started discussion with many of our clients to revise the price and quite a few of them had changed that in the quarter three itself, then there are some who are changing it from the 1st January. So there are different dates based on the SOW and the contract date these prices are getting revised. It is a slow process because clients would like to delay as much as possible and we would like to do it as soon as possible. So, there is a negotiation that goes on, but the prices are getting refactored definitely, and clients are far more willing to have the discussion now.

Mihir Manohar: Understood. If you can give a number and indicative range as to what kind of pricing adjustments are the client ready to give?

Dharmender Kapoor: So, there are a couple of elements, there is a cola element that is there, the revise pricing for the new demand that is there so both the things are happening. Many of the clients who said that they will negotiate cola at every year. And eventually they will say that that no, we cannot take it off. Now they all are giving us actually the cola wherever we were not able to get it. The cola is back for this year, that is one thing or anything around 3% to 4% that is happening. And then for the new demand that is there. It is easier to negotiate the higher price because you don’t have to go and fight for the existing business yet only fight for the new business. And that often started happening and anything from 5% to 10% depending upon what kind of role, what kind of profile, what kind of skill it is, you can go and attract 5% to 10% additional charges on those skills actually.

Mihir Manohar: Understood. And just one more question. You mentioned about the good demand environment being there. How should we see this demand environment and would the current growth rates be there for the next two years, any color on that would be really helpful. May we understand that demand environment is good, but how is the sustainability of this growth rate that would be good to understand.

Dharmender Kapoor: Yes. See, it is also going to follow the pattern that it has followed always that there are early adopters who have jumped the bandwagon and said that we need to transform, we need to digitalize, we need to move to the cloud, we need to have better security, so all that has started happening already and these are mostly the early adopters. And the people who are ready to pay a little bit of premium in order to get the access to the talent, so that has started happening, but then there will be others who will be the followers, followed by those who are laggards actually. So in my opinion, for about two to three years minimum that potential is there, for the growth and for the momentum.

Mihir Manohar: Okay, for the current growth rates to sustain there is still two to three years of headroom?

Dharmender Kapoor: Absolutely.
Mihir Manohar: Understood. And just one more question if I can squeeze in. How many freshers are you looking to add in next quarter and FY23?

Dharmender Kapoor: This year, by going by the way we have planned we want anything around 1500 freshers coming up and joining us.

Mihir Manohar: And next year?

Dharmender Kapoor: Yes, I am talking about the next year, this year we should be able to go up to about 900 or so. We planned it for a little higher number in the mid-year, but then there are dropouts also because of the whole demand suddenly picking it up. But the next financial year, we are going to add because we have given the offers in many colleges. So we expect that about 1500, freshers will join.

Moderator: As there is no response from the current participant, we'll move on to the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, I missed your opening remark a bit. You said there was this headcount decline, what was the reason for decline during the quarter?

Dharmender Kapoor: No, it is only the quarter end count that we have given because we have given it at the end of the quarter account, but overall if you look at the billed resources and billed hours are far higher, and that’s the reason that we are showing the growth also. But it is only that at the quarter end the number is that, and there are multiple reasons one that I talked about our transformation program got finished, so we moved the resources whereas the growth came, but not as many resources. We also optimize on our bench, at the same time there are few things that we have moved from time and material to fixed price and that is also where we have optimized. So, there are multiple, small factors in the line of improving our margins, we have gone and looked at how do we improve our productivity and efficiency and that is a reason that additionally we are at this level of headcount.

Mohit Jain: So, assuming people left towards the end of the quarter that is what you mean to, or was it?

Dharmender Kapoor: Either left okay, but we have kind of replace, what you call for example in time and material to fixed price, we have reduced the size without reducing the billing in some of the cases, so that has happened at the same time there are a bench efficiency that we have improved. So, that is the other aspect of it and that is how it is at the end of the quarter.

Mohit Jain: So, what is the plan for next quarter, are you giving any hiring numbers?

Dharmender Kapoor: I am not giving the hiring numbers, but if we had to grow with the same pace, then we will have to have net addition from the point where we were in the quarter two, because whatever efficiency that we wanted to gain that we gained here. Now wherever we will improve the productivity that much will be there but there will be a net gain and net hiring that will happen.
Mohit Jain: Okay. And sir second one, anything on wage hikes for this calendar given that our attrition is also above the industry in some sense, and you want to hire more. So, from that perspective, should we assume that it will be as stressful as this year?

Dharmender Kapoor: Absolutely, yes the wage is of course a universal issue now that we have to continue to watch out, but we have to continue to attract the talent by ensuring that we are giving them the compensation that is in line with the industry norm right now. It is a new norm that has been set, but we had to remain competitive in that front also. So, yes that will happen.

Mohit Jain: So, which quarter is it planned for like Q1 or should we assume that it will happen throughout the year?

Dharmender Kapoor: I’m sorry, what is the question, say it again?

Mohit Jain: The hike is planned for Q1, or should we assume it will happen across quarters, ?

Dharmender Kapoor: No, it doesn’t happen across quarters, one has to continue to balance. But we have to have the model that will really look at, that what is that you are giving when you are hiring lateral, what is that you had to give it to your existing people. So, that you continue to keep the balance. That is the model on which we work and if we look at that, there will be some impact that will come in every quarter but it has to match with the expectation that we had to fend for ourselves on the margin front. So, both have to go hand in hand, rather than there is an abrupt jump in the compensation in one quarter, and then abrupt jump in the margin in the other one, it doesn’t happen that way. For we had to take both hand in hand and in some cases we commit today, but we stagger the benefit to the employees and the commitment. So all that we do so that we are able to gain the retention by giving the incentive to employees, that increases their compensation, but it doesn’t have an immediate impact at that point of time.

Mohit Jain: Okay, so two on the sales side like one is on manufacturing. What kind of growth rates are you expecting, what happened during the quarter. And second was there is this stagnation in +1 million accounts, which is there for a few quarters. So how do you plan to sort of correct that or does it reflect new client addition is little on the softer side versus?

Dharmender Kapoor: So, $1 million account we increased by one this quarter, if I remember right. So that is right here. Now we have 27. So, I don’t see that as a concern top five we have also improved it by one. So before the $5 million account also increased by one. So, I don’t see that as a concern, because $1 million account for the accounts also where there are a lot of transformational programs that are happening. And many a times these are the accounts where SOWs are signed in the series. And not in the form of a TCV value. So at any point of time, we may not show that, that account is giving us a TCV of a very larger amount. So, I believe that it is not too much of concern for us. But yes, we would continue to look and hunt for the larger deals so that we continue to gain the presence in the top 30 accounts or top 38 accounts.

Mohit Jain: Okay. And sir last on the manufacturing.
Dharmender Kapoor: I’m sorry, I missed the question on the manufacturing.

Mohit Jain: The manufacturing vertical growth for the quarter and what is the outlook going ahead?

Dharmender Kapoor: I believe we grew manufacturing almost by 9% in this quarter, Chandru do we have that number in front of us?

C. Thyagarajan: Yes.

Mohit Jain: You are right, what I meant was, what is the nature of this growth and are there some projects which will end or did you get some demand ahead of the time or should we expect strong growth to continue in manufacturing sector?

Dharmender Kapoor: No, we should expect that growth will continue to go on. There are a lot of work that we are doing in the high-tech space, in the digital space where there are significant amount of opportunities are coming on the platform side. I have spoken about our strategy moving forward. We’re going to be business-ready platform, where we are going to bring about the benefit in the tech space in every single industry and manufacturing definitely we have seen good benefit because we have some good present service offerings that are digital in nature on the business platforms, and that is giving us the good growth.

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

Sandeep Shah: DK, when I look into your lead indicators, the nine months new business TCV has gone up by 20%. You are saying enterprise solution likely to do better in the next coming year versus what we have seen in the last four quarters. Also, the deal pipeline on a Y-o-Y basis is up by 30% to 40%. So is it fair to say entering FY23 or calendar year 2022, you are much more confident versus entering CY21 or FY22 and growth rate has a more upward bias in terms of a growth in FY23 versus FY22?

Dharmender Kapoor: The simple answer is yes. And it is very much clearly visible from any of the parameter that you talked about. That is giving the indication that the next financial year is going to be better.

Sandeep Shah: Perfect, that is helpful. And just on the fourth quarter margin, because most of the wage hikes is largely done, you are also confident in terms of the pricing as well. You are also doing better in terms of productivity gains. So why are we shying away to at least give a flattish kind of margin outlook in fourth quarter versus third quarter as a whole and do you believe margin management could be better in FY23 with attrition challenges may be slowing down and the pricing could have a full year benefit versus may have a part benefit in FY22?

Dharmender Kapoor: Yes, so the only reason that I don’t commit actually there are two reasons, one is that we don’t give the guidance as per our policy. So, that is the one reason, but I have indicated that we have addressed the fall in the margins and we want to continue to improve from here. So, that is one thing. Second is that we are also looking to invest, because if you clearly look at, I talked about our strategy or image was that we are an ERP company, we have moved from there in the last three years and have
become an enterprise digital company, very good revenue, very good balance in the digital as well as in the enterprise solutions and ERP also now, from ERP we have grown to enterprise solutions, and we have brought in multiple solutions into the portfolio. So, from that perspective, we are far more confident. But going forward, I believe that the reason there is a significant momentum in the market is that there is a spend in the tech sector, whether it is a manufacturing, whether it is high-tech, whether it is banking and financial services like Insurtech for FinTech or it is the medical devices like Medtech. So, there is a technology sector coming up in every single industry. Now, how do we cater to that, how do we serve that? There are different set of offerings that will be required for them. And we need to be prepared for that and our going forward strategy will be that we want to be a business ready platform company. Now to do that we need to invest also. So, that means that while we continue to improve the efficiency, and we continue to deliver the margin that we are committing that we will deliver, we also have to look at how do we save some so that we continue to invest also, because we don’t want to squeeze every single penny and say that no, we will not invest because then that would mean that our story will be finished in next two years or three years. So if we have to become a billion dollar company faster, and become an even bigger company, that means that we will have to also continue to invest in newer offerings, because more and more revenue will start coming from the newer offerings and newer set of clients in every single industry.

**Sandeep Shah:** Okay. So can you throw some light in terms of your comfort range on EBITDA margin for the next medium to longer term?

**Dharmender Kapoor:** I have always committed that I want to deliver more than 15% and I have delivered even up to 16.9%. But even then, at that point of time I said that my commitment will remain that, I remain upwards of 15%.

**Sandeep Shah:** Okay. And just last short term question. There are no furloughs in the fourth quarter versus third quarter as a whole, plus new business TCV on a Q-on-Q basis also looks good. Is it fair to say we have a chance to do better growth momentum in 4Q versus 3Q?

**Dharmender Kapoor:** Yes, it looks like but let me tell that the number of days are not much higher than the quarter three, I’m sure that every, IT service provider would have said the same thing, because there are going to be weekends and leaves and holiday even in this quarter as well, that is there. But still, I don’t think that furlough will be here because, furlough whatever happens, generally happens in the month of December, we were able to address through a good action, but of course furlough still happened and that is the benefit in this quarter that we will definitely get.

**Sandeep Shah:** Okay. And last question if I can squeeze just on enterprise solution, the kind of nature of demand which we are witnessing, you believe is it a short lived or may have a life for medium to longer term, where people are converting from or upgrading from on premise to the cloud version, where demand could last even more than two years, three years as a whole?

**Dharmender Kapoor:** So, I tell you the value is coming now at a next level of ERP, the value that was required at the business process level people have got it. It is only at the next level where there is an intercompany exchange of the data and intelligence, that is where the next value of ERPs or enterprise solutions is
coming. So, you will see that all the ERPs are going to grow in that direction. And that is what we have been calling for last three years about enterprise digital, that how the digital will fit on top of the ERP and how even the ERP providers will become equally digital. And that is what is happening and that is a reason that this is not a short term phenomenon. This is going to be long term phenomena, because it is not about migration to the cloud. But what do we do when we move to the cloud? What benefits do we get, what extra value that I get by moving to the cloud; that is what the clients are looking for, and that’s the reason I believe that our enterprise digital story sells very well on those places.

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

Abhishek Shindadkar: My question is again on the ERP side, maybe you can just give us a color in terms of the order book that we are gaining, what’s the mix on SAP, Oracle, JV side, what are the kind of deals that we are assigning? That could be helpful, related question to that is what’s the fungibility of our existing employees, if we are seeing a higher attrition in the employee base which is catering to the ERP demand, would that entail hiring of laterals and will that have an impact on margins and, in case if we kind of go ahead and deploy freshers on those projects is there any difference in develop training number of months for those freshers for those ERP programs. Thank you for taking my questions.

Dharmender Kapoor: On the ERP side, we are seeing growth in all the ERPs, in the SAP side or in the Oracle side we are seeing growth in all the places. In fact, we are also looking at that the other enterprise solutions such as sales force or service now, many other niche solutions the growth is there also and it has started to pick up very well. So that’s a very good news that is there, now coming to the attrition. Yes, wherever you will see more specialized roles, the attrition has picked up. But we do have the pipeline to grow and up skill our people also and that is how we are managing that. In many of the cases, yes we had to hire the lateral. And we have to really look at how do we go and have a discussion with the client to attract the better prices also because it is not only that, we have this issue, even our clients are facing the same issues because as I earlier said that the fight is about talent access and not about the rates. And when it is about the transformation programs, the level of value that gets delivered is far higher than the price or the additional price that the clients pay. So, we are seeing that yes, we had to hire lateral people also, at the same time, we are hiring junior people and up scaling them also, so cost definitely is increasing, but in many of the cases we are able to attract better prices also.

Abhishek Shindadkar: Okay, that helpful and in this the last question in terms of deploying freshers on those projects, is there any difference in terms of training programs or the number of months?

Dharmender Kapoor: Yes, so, the skill-to-scale program that we have, that is precisely for that reason, because we have started looking at various level of people that we hire either from the colleges or we hire laterally junior people who can be up skilled in order to play the larger role. So both the things that we are doing, and there are training programs both online as well as offline that are being provided in order for them to get up skilled very, very quickly, so that they can be deployed on the programs and the projects. So those both the things are happening. In fact, what we are also looking at is the rotation,
because then you are increasing the compensation for people to retain them. You also go and negotiate with the client, that how will you rotate those people out to the other engagements so that you can tag them with the other people who are coming from the skill to scale program, and jointly, they can build the team to deliver the engagement that is required. So there are three or four different strategies that we follow on that.

Abhishek Shindadkar: That’s helpful and just one last data point attrition, can you just help us understand what has been the quarterly annualized number both for last quarter or at least how it is trending over the quarters, because that would help us understand your comments on attrition. Thank you for taking the questions.

Dharmender Kapoor: Yes thank you. The attrition was about 31%. SK do you have exact number in front of you, if you can give that?

Shreeranganath Kulkarni: Yes, DK the 31% is the right number that you mentioned.

Dharmender Kapoor: 31% is the number that is there.

Abhishek Shindadkar: Sorry, is that the quarterly annualized attrition?

Dharmender Kapoor: This is for the quarter three yes, 31.4% is for the quarter three.

Abhishek Shindadkar: Okay. That mentions in the investor it is mentioned as LTM right?

Shreeranganath Kulkarni: Yes, so quarterly annualize is 34%.

Abhishek Shindadkar: Okay, perfect and what was it the previous quarter?

Shreeranganath Kulkarni: Vikas, do you have that data with you?

Vikas Jadhav: It was about 30%.

Moderator: Thank you. The next question is from the line of Nilesh Jethani from BOI AXA Mutual Fund. Please go ahead.

Nilesh Jethani: Sir, my first question was on the margin walk or margin bridge. So Q-o-Q we have seen improvement in the margin despite attrition, et cetera going up. So, wanted to understand if one wants to break up this growth. So, what was benefit coming from operating leverage, what impact was due to wage hike, what impact was due to currency depreciation, so any bridge would be really helpful?

Dharmender Kapoor: I do have the bridge, but it will be more detailed answer let me just fetch that and provide that.

C. Thyagarajan: Let me take that question DK, if you are okay.

C. Thyagarajan:  Yes, Chandru here, Nilesh. So, in terms of the margin improvement they came from primarily, volume growth and improved operating lever and DK spoke about delivering the work we’ve done optimizing our engine optimizing utilization resources during the quarter. So, those are roughly we got about 90%, 90 bps on account of volume growth. We also got some improvement on account of the fact that on a quarter-on-quarter basically like I said, there were some one time contract related spend that was about 50 basis points. Impact standpoint there was like I said one additional month of wage impact that were negative about 70 basis point and there was also an increase in our subcontract expenses, quarter-on-quarter that gave us a negative about 50 basis point. So, roughly this was the bridge, Nilesh.

Nilesh Jethani:  Got it, really helpful. And second question was on the growth outlook. So historically, just to give our outlook as far as T-20, T-21 clients are concerned the growth outlook on them. So wanted to understand where we stand today as far as growth outlook for the Top 20 customers is?

Dharmender Kapoor:  So, if you look at even today, we are growing more than 20% for the top customers. So, that definitely remains very, very robust for us. And, that is because we have a very clear initiative and focus on growing with our Top 38 accounts. And as a reason you will continue to see that we will bring more and more and better and better growth in the top accounts.

Moderator:  Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya:  Just wanted to understand on the sales front, do you think over the course of say next six to one year, do you think there will be a substantial change required in terms of a sales effort or do we have to substantially change the incentive of the salespeople or hire aggressively on the sales front or you are currently satisfied with the pace we are going currently on the sales side?

Dharmender Kapoor:  So, I don’t think that efforts are going to change as much but our sales continues to evolve and I have spoken before also how we moved from project based company and move to become an annuity focused company, and we had to change the incentive keeping that in mind. Similarly, we said that rather than just being a project base, how do we do cross-selling because we wanted to become verticalized completely and that we changed the incentive structure. For that we looked at and then we looked at that, how do we go OEM-based net new selling as a separate initiative and we did that in the nine months as an experiment to create a hunting engine in the organization, that got successful and we had kept separate focus on that front also. And that gave us the benefit and the incentive to be people that we kept it that way. Going forward we are going to have a shared or you can say dedicated hunting engine. And that will be on the commission base. Whereas there will be an account management deeper focus, so that we continue to cross-sell based on the benefit that we saw in the last two years. So we continue to grow our larger accounts also by having a very stronger focus on the client relationship. So there’ll be a two set of incentives that will come up. Our incentive have changed in the last three years, every year. And we have evolved to current stage so, yes we absolutely have continued changing and this year also we will change. I don’t know for the
next year, we will continue to watch out because change is good, and that change is the only thing constant and we have to continue to bring the new changes in order for us to remain very effective, so we will do that. But, I believe that when we are going to put hunting engine separate from the farming or from the account management, I believe that we are creating a path for becoming more focused on the platforms, because then I will have to focus on lesser number of sales people to train them on newer set of services. Not to be entire set of the sales. Not that everybody has enough source to win. Inaudible... they will because we have cross sell also. But when you’re going fresh in the market with the new offering, your hunting engine is the one who takes the lead. And that would mean that in the beginning we will have to really bring them up to the same level and that is what we will do, but I believe that six months down the line or one year down the line in the next financial year, probably we will have to look at when we are ready for taking it to the farming engine also. And whether we need to make it, incentives-based on the offerings as well. So, we will continue to evolve, continue to change as far as the incentive schemes are concerned because market is changing very, very fast. And we definitely want to continue to change the behavior in which way we go, and sell it to our clients.

**Vaibhav Badjatya:** Correct. Just a small observation or a request, in your KPIs that you disclose. So you have this headcount disclosed in terms of sales and support. So if you can bifurcate that within sales and support, what is sales and what is support that would be really helpful, because support is also generally a very large number. So that we can see that how the sales efforts are going specifically. So, that’s it from my side.

**Dharmender Kapoor:** Arun, will you be able to answer the data with that, we have said that sales and support today is 1104, in comparison to 1120 in the quarter two, so what is the shift because as far as I know, the sales we have grown a little bit whereas support we have reduced, that’s the assumption that I have, but if we have the breakup, if you can give that?

**Vaibhav Badjatya:** I was not just talking about one quarter, I just wanted to see the progression for last two, three years and from that perspective, I just made the assertion that if KPI can be disclosure and KPI can be bifurcated between sales and support separately. That would be helpful.

**Dharmender Kapoor:** We can definitely do that. But in the meanwhile, maybe I can definitely get you the answer on the sales side. Roop you are there, or maybe you will know how people in the sales team has increased during the previous year to this year and then quarter-on-quarter, just to give the color to that?

**Roop Singh:** I still did count this year results by between 8% to 12% based on like-to-like last year.

**Moderator:** Thank you. The next question is from the line of the Debashish from B&K Securities. Please go ahead.

**Debashish Mazumdar:** This is Debashish from B&K. So, good to see that ERP started coming back for us, I have first question relative to ERP only. So, the growth that we are seeing 6% sequentially and 8% Y-o-Y, can we bifurcate this how much of this growth is coming from our traditional price hike SAP Oracle or
JD and how much growth is coming from the new agreement that we have done this the new hyperscalers, if we can bifurcate even qualitative guidance will also be fine.

**Dharmender Kapoor:** So, Debashish we have actually stopped tracking the bifurcation on the ERP bases, for a simple reason that there is so much of revenue that happens with the shared service between all the ERPs, we’ve changed the model a little bit where there are shared services also between ERP for example, doing a testing or for example doing the master data management. Now, we have stopped tracking because it creates more and more confusion. And that is a reason that we said that we will look at the enterprise solution all together rather than try to look at every single piece so, I don’t have the numbers as of now with me. But if you would like to know maybe Vikas can provide you those number, sometime later.

**Debashish Mazumdar:** Sure. And the second question is related to the attrition numbers that we are seeing. So we are currently one of the highest among peers, whether we compare with our larger peers, or we compare with our smaller peers. So, do you think that some policy level problems that has happened with us, it has kind of pushed our attrition higher among all or it is like that a general sense that you are that advantage to high attrition for everybody is high and it is expected to come down for us and a related question is, that do we have any growth sacrifice for the number of, for the supply constraint that we have seen in this quarter?

**Dharmender Kapoor:** No, there is no policy related aspects that will contribute to the attrition or something like that, it is just that sometimes a couple of percentages will be up and down for all the peers because, for example last quarter there were others who were showing higher attrition than us. So, that was there and most of the peers are in the 25 27 range. And sometimes also it is about the way the numbers get reported. So, that also, I don’t know whether it is consistent across the companies or not. So, that is also I heard issues are there, but concern is there in every single company beyond the level of comfort, so we have to look at how do we continue to change our policies, how do we continue to evolve our model, so that we bring the attrition in control. 1%, 2% here and there in my opinion is less of a concern in the shorter term.

**Debashish Mazumdar:** Okay. And about that growth sacrifice because of supply constraints in this quarter?

**Dharmender Kapoor:** So, no we have been able to grow well. And that means that we have been able to attract the talent that remains definitely very, very positive. And I believe that is not changing much and we are in fact only broadening our way to attract the talent further so, constraint definitely is there. I will not say that the constraint is not there, but are we able to attract talent; Yes, we are able to attract the talent. Will there be pressure on the cost. Yes, that will be there. But, I also believe that soon, things should start getting normal because the 8% or 10% that is the rotation between the companies. At any point of time people are roaming between the companies. And then the stabilize most for the company will come back to the level of about 17%, 18% of the attrition, which we have seen it multiple times in our career, and we know how to handle that very well.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.
Dipesh Mehta: First, on the data part, can you say the number of fresher we added in nine months?

Dharmender Kapoor: Sorry, can you please ask the question again, your voice dropped for me.

Dipesh Mehta: The number of fresher we added in nine months?

Dharmender Kapoor: Approximately 900 that we would have added, in the last nine to 12 months, if I remember. Okay, and going forward our plan is that the next year, we are planning to add 1500.

Dipesh Mehta: If I remember our number correctly, in first six months we added only 430. So do you mean we added around 500 in Q3?

Dharmender Kapoor: No, in the quarter three we would have added approximately if I remember maybe 200 or so. Arun, do we have the number for the quarter three, the fresher?

Arun Rao: Quarter three will be close to about 300-odd, DK.

Dharmender Kapoor: Okay. So, that’s what I said last three to four quarters.

Arun Rao: I was saying that in Q3 we have added close to 300, I was just pointing to that fact that the new, when you spoke of 900, you’re talking about time range between the last nine to 12 months.

Dipesh Mehta: Understand. And the second question which are about annuity revenue mix, can you say what number now we will be?

Dharmender Kapoor: Last quarter we are at 72%, we have not computed it this quarter. We will compute it again in in the quarter four. But we were at about 72% in the last quarter numbers.

Dipesh Mehta: Understood and last question is about considering the overall attrition and very strong demand. Are we seeing any revenue which we are leaving on table kind of thing because of such a high attrition. And any slowdown you’re witnessing, let’s say in terms of our new client, because new client is also one of the good growth engine for us, because of Omicron and surge in COVID cases, any slowdown in new client related interaction?

Dharmender Kapoor: No, we are not seeing any slowdown. But, there is definitely some revenue that now we leave it on the table where the margins are lower and it has not a strategic customer for us. So, earlier we may be far more open to add a tail account, but now we have become far more careful. Because when the resources are limited, then you want to serve first to your strategic and important customers, rather than trying to add non-strategic tail end customers.

Dipesh Mehta: So, because if I look your +1 million account, which we used to have let’s say 85, 86, pre COVID era. Now that number is around 77, which is almost 10 odd kind of decline. Do you think considering focus on strategic account, relatively large account, these numbers should inch up faster in next few quarters?
Dharmender Kapoor: No, I expect that this number will go up.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Dharmender Kapoor for closing comments. Thank you, and over to you, sir.

Dharmender Kapoor: Thank you very much everyone for joining the call and asking very pertinent and direct questions to understand the one that what our near term and long term strategy is, but also understanding that how the momentum is really giving us the confidence at the same time. Also understanding that what all levers we are pulling in, in order for us to continue to provide predictable growth as well as the margins that are above 15%. So that is what will remain our focus going forward. Also, we remain committed to our billion dollar dream. It is not changing by 2025 we want to be a billion dollar company. And, I believe that as every quarter passes, our confidence in achieving that continues to increase. And with all your wishes, I’m sure that we will be able to achieve that in time. Thank you very much. Once again, please stay safe and continue to remain in touch. Thank you.

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

Disclaimer.

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