



“Birlasoft Limited Q4FY21 Earnings Conference Call”

May 21, 2021



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Moderator:

Ladies and gentlemen, good evening and welcome to Birlasoft Limited Q4FY'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, Head, Investor Relations, Birlasoft Limited. Thank you and over to you Mr. Jadhav.

Vikas Jadhav:

Good evening, everybody, and thanks for joining us on a Friday evening's Earnings Call Discussion. I am Vikas from Investor Relations and joining us today on the call we have CEO and M.D. – Dharmender Kapoor, (DK); CFO – Chandrasekar Thyagarajan, (Chandru); Roop Singh – our Chief Business Officer; Shreeranganath Kulkarni (SK) – our Chief Delivery Officer and Arun Rao – our Chief People Officer.

Please note that anything which we say and which refers to the outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer which is there in our investor update which has been uploaded and sent to the exchanges. I now hand over the call to DK. Over to you, DK.

Dharmender Kapoor:

Thank you, Vikas. Dear all, good evening and welcome to Birlasoft Q4 Financial Year '21 Earnings Call.

Let me begin by spending a minute on the situation and challenges that each one of us is experiencing at global level, in India and around each in every sphere of ecosystem around us. The pandemic year have been a tough time for all of us in more than one way. The pandemic impacted financial year gone by has been one of the most challenging for all the global citizens. Many of us and our near and dear ones got infected. Most of them recovered while we lost a few unfortunate one. While today we look back at our performance for the year with a large satisfaction, it could not have happened without contribution from each one of them who fought during this time and kept the show alive for our clients and shareholders.

I would also like to acknowledge and appreciate the support of all our stakeholders in this fight against pandemic. Sincere thanks to each one of you for your significant contribution and support. As they say, the show must go on.

Let me narrate our performance for the year and Q4. Coming to the financial performance:

We just completed our second year of operations after the merger and I am very pleased that in COVID-impacted year we were able to report growth across all the key parameters. Financial year '21 revenue was at \$480 million and saw a growth of 3.4% year-on-year. We delivered 14.9% EBITDA margin, an improvement of 300 bps year-on-year. The profit after tax was up 37.1% year-on-year and stood at \$43.4 million.



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The quarter's revenue was at \$123.3 million, a quarter-on-quarter growth of 3.2%, EBITDA margin at 16.9% versus 16.4% in Q3 and this was despite an impact of wage hike. Profit after tax was at \$13.5 million, up by 3.4% quarter-on-quarter and 41.4% year-on-year.

Major achievement in the year which would seem counterintuitive especially with 45% ERP business for us, was the TCV deal wins amounting to \$888 million which was up 32.7% year-on-year, about 50% of these deals are new and other 50% are the renewals. Almost 97% of the total deal wins came from our existing clients in the Q4 and financial year both which reflects the strong cross-sell that we did and have been talking about this since the merger.

The COVID environment acted as a catalyst for us in our transformation journey and we were able to improve and share annuity business from 60% at the beginning of the year to a little over 70% by end of the fiscal. The increase in annuity also is reflected in the share of business from fixed price projects which have gone up from 47.5% to 60.5% in the Q4 financial year '21 which is 13% improvement in one year which is quite significant. Offshore revenue contribution also improved during this time from 41.1% in Q4 previous year to 46.1% ending quarter this financial year.

As we updated in our previous quarterly calls, we worked on pruning our tail accounts, that were non-strategic for us, these were very small and with potential of not much future growth. That exercise has been completed in Q3 and today we have very stable client's portfolio. Our active customer count stands at 291 as on 31st March '21.

The growth rate in our top customers also reflect the strategy of focus on our key customers; top-5, top-10 and top-20 customers grew 21.2%, 19.8% and 19.3% respectively during the year while the growth from outside top-20 customers declined on year-on-year basis. But that provides us a good confidence that our relationships with our key clients are becoming deeper and much more stronger and that would mean that going forward if we continue to show that level of growth with our top clients, the growth for us is going to come much, much easier and that makes us far more optimistic for coming year.

While the reported growth in financial year '21, our employee cost as a percentage of revenue came down from 60.7% to 59.5% in financial year '20, a drop of about 1.2% year-on-year. This was possible due to our effort to further broaden the pyramid as we continue to end up freshers and continue to strengthen our learning and development so that we focus on developing the talent inside and not always depend upon hiring from the outside. And that strategy has started showing the result and that means that we will continue to show the uptick in the profitability that we have shown in the previous few quarters. Our utilization improved from 80.9% in Q4 previous financial year to 82.8% in Q4 financial year '21. The health of the balance sheet continues to improve. As you all may remember that our DSO was 72-days when we entered the year, it stands at 56-days in March 2021 which is the lowest till date and probably best-in-class. Also, our cash and cash equivalents have gone up by \$64.7 million or Rs 450 crores during the year and that also is very-very significant contribution in the business. Our attrition stands at 11.6% versus 18.9% a year ago. So that brings the stability in our teams and hence our ability to deliver has become much better to our clients. We



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have 11,051 professionals as of 31st March '21 which is an addition of 783 professionals during the year.

We consolidated our position by making structural changes in our organizational fabric and business strategy, thus preparing the course for accelerated growth. Over these two years since the merger, we have steadily built a reputation for being a formidable player in the market with our strong enterprise solutions as well as digital capabilities.

As a testimony, to our growing brand, we have received several accolades and awards from being recognized as India's most admired and valuable power brand company in 2020, to winning the Aegis Graham Bell Award for our entirely open solution that we built very-very quickly during the pandemic year and were able to start earning revenue by selling it to some of our key clients.

We also got SABERA 2020 Award for Manufacturing Leadership Partner Award for our community benefit initiatives in the Project Shodhan to be featured in the Global ISG Index across category for three times.

If you look at the growth levers, we have sharpened our business capabilities by defining and building a micro vertical strategy. I have spoken about micro vertical strategy in the last three quarters that how that is going to shape up the future for the organization so that we are able to deliver much better than in those micro verticals than the larger players. And that strategy has really worked very well for us and that have empowered us to grow at a faster pace than the rest of our main verticals. And that would mean that earlier if we focus on two micro verticals, the newer strategy will have four micro verticals so that we continue to build more deeper capabilities rather than trying to spread across multiple verticals.

Investments have been made in the right talent and partnership to build our horizontal levers such as Cloud Migration, IoT and Industry 4.0 adoption, Data Analytics and Blockchain so that clearly shows that how we have started building the horizontal capabilities on top of the strong enterprise solution capabilities that we always have had. These important investments will also drive our company's prospect and position us to grow and prosper some of the wins that we have seen in the previous quarter which is Q4 as well as what we continue to see is coming because we have started strengthening our horizontal in a big way in core capabilities so that we continue to deliver value to our clients in a way that they get best return on their investments when they are working with Birlasoft.

Going forward, our priorities will be as follows: #1, our focus on platform-based digital initiatives, cloud adoption and aggressive automation will be our key growth levers. I have spoken about platform-based digital initiatives in the last couple of quarters as to how it has started giving us newer wins. Our growing relationships and partnerships with platform providers are helping us structure the transformational multi-services and long-term deals. We will continue to make strategic investments to develop platforms for core industry processes of our clients where the need for



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digitalization is much higher and we can offer them the servitization model to enable an outcome-based and faster transformation.

We will also continue to focus on our top accounts through cross-sell and persevere to increase our annuity business. These have been the two core pillars of our strategy in the last two years where we focus on the cross-selling on the top accounts. Going forward, we have identified top-30 accounts that is going to be our major focus so that maximum growth comes from our select list of customers in creating the deeper relationship with them and creating the deals that are going to be much longer-term, multi-services and the size is bigger than before. By leveraging on outcome-based deal constructs and build capabilities across verticals, we aim to build and grow a very healthy pipeline. In fact, if you look at our pipeline, our pipeline in the last one year has grown from \$600 million to approximately \$1.2 billion dollars already and we continue to incentivize our sales team, continue to focus on building the pipeline and also improve our winning ratio so that the growth becomes a sustainable feature for us. And today by looking at our exit rate with the Q4, I am becoming very-very optimistic and confident for the upcoming year the growth that we will get.

At the same time, as I talked about the operational rigor will always be a focus for us. We have continued improving our profitability over the last seven quarters. Every quarter we have looked at the specific area that we need to improve upon, whether it is with respect to the way we deliver or the way we sell or the way we operate our operations and every single aspect that we continue to look at and continue to bring the operational rigor so that we are a very-very efficient company when it comes to the execution and that I am very-very confident that we will continue to provide a very good result from the profitability perspective going forward as well.

Finally, in a year that are full of unpredictable events and expectations, we are exiting the financial year at a very high note and baseline of growth and profitability which makes me extremely optimistic in setting the stage for robust performance for upcoming next financial year '22.

Let me now hand over the discussion over to our CFO – Chandru to provide more perspective on numbers. Over to you, Chandru.

C Thyagarajan:

Thank you, DK. I hope everybody can hear me clearly. Good evening to you all. I do hope that you are staying safe and are taking care of your loved ones too.

Let me give you some more detail on the financials that DK spoke about:

Our Q4 revenue was at \$123.3 million, this was Rs. 902.9 crores and this represented a growth of 3.2% on a quarter-on-quarter basis. Q4 had a cross-currency benefit of about 20 basis points and hence the constant currency revenue growth was at 3%. Q4 EBITDA was at \$20.8 million and that's Rs.152.4 crores versus \$19.6 million in Q3 and this represents a growth of 6.2% quarter-to-quarter and 28.8% on a year-to-year basis. The year-to-year improvement in rupee terms was 30.5%. EBITDA margin stood at 16.9% and this is an improvement of about 48 basis points in a quarter-to-quarter basis and 401 bps year-to-year.



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Q4 EBITDA margin improved despite the full impact of wage hikes that we had given effective 1st of January 2021. Our improvement in EBITDA margin was aided by revenue growth primarily about 0.8%, lower bad debt provisions in Q4 about 1%. There were no furloughs and of course higher billing days in Q4 that helped 1.5%. There was an impact as I spoke about the wage hike which was about 2% and a higher recruitment cost given that we hired about 652 employees in the fourth quarter. Our profit after tax for Q4 was at \$13.5 million, Rs. 99 crores roughly versus \$13.1 million in Q3 which represents the growth of 3.4% quarter-on-quarter and 2.7% in rupee terms. And on a year-to-year basis the growth was 41.4%. The effective tax rate was lower at 27.7% in Q4 versus 29.5% in Q3. You'll be aware that we had taken the decision to move to the new tax regime in FY'21 and this decision was taken in the third quarter last year.

Coming to the full year numbers:

The revenue was at \$ 479.6 million, Rs. 3,556 crores and this means a growth of 3.4% year-to-year and in rupee terms, that was 8% year-to-year. FY'21 saw cross-currency tail wind of about 20 basis points and hence the revenue growth in constant currency terms were at 3.2%.

FY'21 had a rupee depreciation of about 4.5% against the US dollar which is why the rupee growth you can see is higher than the growth in dollar terms. The full year EBITDA was at \$71.5 million versus \$55.3 million, this means a growth of 29.4% year-to-year, 35% in rupee terms.

Margin saw an improvement of 300 basis points during the year. Factors that led to EBITDA expansion I spoke about the Q4 factors, just to add to that, we had a significant improvement in our utilization of our billed resources, we had a lower bench, we also optimized our G&A spending and all of this together gave us about 1.5% of increase. There was reduced travel because of the pandemic and that benefited us by about 2%. We had better FOREX rates and that was about 1.3% of improvement. There were lowered maintenance costs and renegotiation that we did with our subcontractor vendors, all of which have helped us close to about two percent.

Margin did have an impact due to higher costs of travel delivery, that again comes from the increase in revenue plus our dynamic onsite and offshore mix and that was about 3.2%. We had wage hikes. And also, there were some one-time discounts that we had provided back in FY'21.

Our other income was lower during the year and this was primarily because while we did have gain from our FOREX hedges, we saw our mark-to-market losses going up because of the valuation of our debtors in relation to the foreign exchange movements.

FY'21 PAT was at \$43.4 million which is Rs.321 crores approximately and was up by 37.1% year-on-year, in rupee terms that was 43% year-on-year.

DK spoke about the increase that we did in our year-end cash; cash, and cash equivalents stood at \$153.1 million, that's Rs.1,119 crores, again \$88.4 million dollars as of March 31, 2020 and this meant an increase of \$64.7 million on a full year basis. Revenue growth, margin improvement, lower



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tax rate and significant improvement in our cash collection and therefore our DSO has led to this improved cash balance.

Considering a healthy cash balance despite the COVID crisis, the board has announced a final dividend of Rs.2.50 per share, over and above the interim dividend of Rs.1 per share which we had announced back in second quarter of FY'21. The total dividend for the year therefore was Rs.3.50 per share for FY'21 and that makes up the payout ratio at 30.2% versus 27.2% in FY'20.

Our CAPEX spends in FY'21 was about \$3.5 million and our free cash flow for the year was at \$80.5 million which was 185% of our net income.

In conclusion, this year has been phenomenal for us so far as improvement in the financial metrics is concerned and we will keep working hard to maintain it. While we saw some benefit from costs like travel, facility management, etc., in FY'21, we are keeping a tight control on all cost line items and are critically evaluating efficiencies at the operational level to hold on to our full year margin.

With this, 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 Shradha from AMSEC. Please go ahead.

Shradha: Congratulations to the management team on a great quarter. The first question is very solid deal wins in the quarter. So, was is this led by a single shot large deal like we had during the Invacare time in third quarter '20 or is it more of mid-sized deals getting bunched up together, so any light on the largest deal that we would have got in this quarter in terms of its size and how does the pipeline look like now that we have had just got these conversions in this quarter, so some outlook there will be helpful?

Dharmender Kapoor: Thanks, Shradha. There is no Invacare kind of deal or larger Invacare, but there are deals which are mid-size deals that have happened during the quarter and that is in my opinion very encouraging because some of the deals that may look today to be \$15 million dollars a year deal, actually if you look at the TCV, it has a potential of at least becoming four or five times the size that may appear today because the nature of the deals have really changed very much and these have started becoming the series of mid-size deals rather than one large size deal. So, there are significant number of deals that are there. The largest deal that happened during this year, the size was approximately \$38 million, but there are other deals which are in the size of about \$15 million to \$20 million deals that have happened.

Shradha: How does the pipeline look like? You did indicate that the pipeline has now moved up to \$1.2 billion up from \$600 million a year back. So, any color on the pipeline as to from which vertical, which service line because if I look at how the SAP offering has moved, SAP business has been down significantly this year. So, what does the pipeline indicate in terms of any pickup in SAP implementation kind of work?



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Dharmender Kapoor:

If I go by the percentage wise, even SAP probably may have a higher percentage than the other because what is happening is that the projects those were stopped last year because of pandemic, those have started coming back, the clients have started coming back and started taking up those projects. So from the pipeline perspective, the percentage on my SAP might be higher, but the good part is that it is across, of course, it is led by the digital deals more and more now because the kind of deals that are there on the full stack platform, they are the ones who are becoming more and more significant for us and that does involve sometimes the ERP deal as well as part of that. So, the big shift that has happened for Birlasoft in the last two years is that deals are now more and more multi-services deals rather than single service deal. So there is hardly any deal that we can call that, this is just an ERP deal, there might be smaller one but there is a deal which is ERP is coming along with the data and analytics and creating a customer experience layer on top of that and also implementing their e-commerce along with that so the deal size is becoming much bigger and it is not only about ERP, but it is also the surround technologies that we have to implement for a particular client. So, such a deal in my opinion are much more broad-based now and much more digital in nature even when ERP is a core part of that.

Shradha:

Now that we are exiting the year on such a high deal TCV note. We've always sounded out that we would be doing double-digit growth in FY'22. But any quantitative direction whether that number would be 13% or it could be 15% plus now given that this quarter was a record deal closure for us.

Dharmender Kapoor:

Absolutely, I was actually trying to reflect on our own result in the Q4 and the way our annuity revenue has improved, the dependence on the project strategy has come down significantly, so I have been reflecting on that that if becoming a billion dollar was a dream three quarters back it was an aspiration two quarters back, today is looking a very good reality to me. I am very-very optimistic about financial year '22 now and I'm absolutely very-very happy. We do not give the guidance as policy but I am far more optimistic today than I was one or two quarters back, because the parameters or the fundamental changes that we wanted to build in the organization that has happened. I was very happy the way we were improving our annuity revenue but if we will be able to touch and go above 70% it was still a question mark, but we have been able to achieve that, at the same time 20% growth coming from my top-20 customers is something that is a reality now because that is what we have seen significant improvement in. So now when we are picking up the top-30 accounts and if we grow 20% on those there is no reason why we will not have a very-very handsome growth in financial year '22 now. I am very optimistic.

Moderator:

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

Sandeep Agarwal:

DK, I will ask one question to you, one to Roop Singh and one to Chandru. I will start with my question on to you first. DK, all the problems which were there in our business model two years back, you have very nicely and very consistently, completely solved all those problems. I do not know why ERP even should be seen negatively because ERP gives you the complete control on the client ecosystem. So all these new technologies you get more advantage to implement in those scenarios. So my question to you is that why we are also so cagey about acknowledging that we have turned around all our problems in a very-very big way and very quick way and acknowledging that



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the coming years will be much-much better, I know your billion-dollar number and all but why this such an open-ended guidance of just double-digit guidance? It looks more like all the FANG companies where they are consistently for last few quarters under guiding so badly like if Amazon is beating its revenue estimates by \$7, \$10 billion a quarter, I do not know whether it is a good thing or a bad thing. We are also somehow unfortunately a kind of guiding in that way in an open-ended way. So what is the reason behind that are you scared of something or it is normal way you want to guide so that is to you? And then I have a question to Roop. Do you see that these restrictions which are still there in the consultancy space for people to travel, is that really impacting in a big way the cloud implementation part? Because when we speak to technologists in the US, they are saying that the travel should open for the services revenue to make a big move. So, you agree with that or you think that it is not necessarily impacted to that extent? And finally, to Chandru, what should we build in our taxes because now you have changed to new regime. So how should we project our taxes for next couple of years?

Dharmender Kapoor:

You asked absolutely the right three questions. First, "are we scared of anything?" Absolutely not. And I am very happy that you acknowledge that we have taken those problems that come with the merger and acquisition and we have been able to solve one-by-one because that had been my single focus in ensuring that we become a company which is having very sustainable performance so that we have been able to achieve. I am also very happy that you said that when we have a stronger presence in ERP, we have a good grip on the core of IT for our clients and that is true. And the good part is that that ERP is becoming very-very digital in nature because ERP is migrating to the cloud in many cases, ERP is becoming digital, it is connecting with the best-of-breed solutions. So that is giving us so much of leverage because when we understand the core very well, it becomes far easier for going and helping our clients. Now, when it comes to the guidance I tell you, we have taken that policy in the last two years that until we become very-very confident about the sustainability of our revenue and we start delivering always better than that we commit, we will come back and actually change our policy. This is a matter of only policy, not that we want to shy away from giving it because essentially internally we have to work against certain goals, and we have to continue to beat our goals also. And even if you look at in the last six quarters, there would never have been a case where we would have said that this is what we will deliver and we will deliver better than that, we would have always delivered better than that and we want to continue to remain like that in the shorter-term before we change the policy, before we become very-very confident that now our numbers are all very predictable numbers because if you look at our integration on the IT side is just about four months old. Now that we have all the internal controls in place, the numbers are there in place, the guidance has started happening and everything, we are far more confident and that is the reason why I said that what looked like a dream three quarters back, today to me it looks a big reality that we will be a billion dollar. You can very easily compute back for four years that if I had to become a billion dollar, what should be my guidance. I can only tell you that we have already defined our guidance quarterly, annually keeping all that in mind. So that means that we will grow better than many of the expectations that you all will have, but as a policy right now we do not give the guidance. So please excuse me for that. But I really hope in the quarter or two quarters from now, we will start coming back and change our policy of sharing the guidance upfront also.



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Roop Singh:

Sandeep, the last 14 months with the COVID crisis has provided the flexibility where you can engage with clients on a virtual basis. With the travel restrictions opening further as we go along and as we meet clients more, I think the two models will continue to coexist especially in the near future, I would say at least this year, right. So from our perspective, I think the customers are now more flexible, more willing to have the virtual conversations and they tend to get to know you through the discussions of what you see the reference ability that you have in the market. So as we open up, there will always be an improvement, face-to-face is obviously always better but I do not see that impacting the potential growth that we can actually see coming out during the year, but it can always improve as we communicate with our customers face-to-face.

Sandeep Agarwal:

I have a counter question to that Roop. Sorry, Roop. I get that point of yours, there is no problem in that. But what I am trying to understand is that the point you mentioned and if you listen to what the global consultants are talking about whether it is KPMG, Deloitte or Accenture CEO, they are saying that we will not allow our people to travel till there is a health risk and that is what they mentioned in March end. When I speak to people in the US in the technology space, they are also saying the same thing and they are saying that there is a huge amount of demand and that demand needs some kind of physical as you rightly mentioned presence to start those projects. So I was just trying to understand, is there a pent up demand which is already there but it is cut because of the travel restrictions or you do not think that any such kind of thing is existing, so that was my actual question, sorry?

Roop Singh:

There is always a benefit to be able to meet face-to-face and meet with customers and further understand them not only on a work basis, on a personal basis, right, in terms of what makes them really evolve in tech. But I think the acceptance over the last 14 months has increased significantly with the virtual world. As I said the benefits will always be there of meeting in person and I think the thinking both from a customer side and also from the consultants or service providers is that you do not want to put your employees at risk upfront, right, you do not want to do that, so I think the acceptance level is much higher to work in a virtual world at this point in time. But I think that will evolve over the next six to nine months depending on location, depending on country

Dharmender Kapoor:

Travel may open up a lot for the sales teams whereas the technical people may still continue to work remotely because clients also understand the dependency on them and they also do not want to take any undue risk just so that they travel and they get sick. So clients are also very much willing to continue to work remotely with the technical teams, but I think sales news will start traveling within US or within Europe, I think that will start happening very soon because both the countries are opening up in a very-very good way.

C Thyagarajan:

Your question, Sandeep, was on the effective tax rate. Like I said, we moved from 33.3% in FY'20, down to 29.5% in FY'21. I expect that it will steady to between 28% and 29% on a go forward basis, Sandeep.

Moderator:

Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.



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Mohit Jain:

Three questions. One is on your onsite/offshore mix. So, as you just mentioned in the previous question, the offshore part of technical delivery will continue to improve. For us it is little distorted currently versus the industry. 4Q saw some improvement towards offshore but do you think you can sustain this over the next few quarters and so? Second on the net new TCV side. Is there something which is to do with seasonality or one large deal in the fourth quarter or should we expect this as a trend that gradually our average TCV is sort of moving up at a very fast pace? And third is on the M&A side. Any update because payout seems to be low compared to the cash that you guys have generated. So, what should we expect in terms of M&A over let us say whatever visibility you have next two, three quarters?

Dharmender Kapoor:

Our offshore/onshore mix I think will continue to change for us because as we answered in the previous question also that the clients are far more willing to work with the talent wherever it exists and also now that we have implemented certain technologies in which the virtual teams can work together along with client, so that has started becoming much-much easier. So, from that perspective in my opinion the offshore mix will improve or continue to improve as we move forward, that is one shift that will continue to happen. And then we are well covered on that because it does provide us also the advantage of being able to create the talent through our internal learning and development approaches also. So that is one thing. When it comes to the new wins, of course, this quarter is far, far better than any other quarter. As I said earlier that if we can have the TCV wins which are going to be anything around \$175 million, \$200 million in a quarter, that is something we will always continue to gun for. And in my opinion out of the four quarters if we get two quarters which are higher than \$200 million and two which are around \$175 million I think then that would mean that we have a significant amount of wins for us so that we continue to see a good growth for the upcoming years. So, \$800 million is the benchmark that now we have set for ourselves. We would like to always look at how do we get closer to that in every financial year because that is what can start creating the baseline for higher and higher growth going forward. So, that is the benchmark that now we are setting it for ourselves.

Mohit Jain:

This is for net new, is it?

Dharmender Kapoor:

No-no, it is mix of both net new and the renewals.

Mohit Jain:

My question was more on net new, like net new is also seeing a bump up like every alternate quarter kind of a thing. Should we expect that as a trend, or do you think there is one deal which has contributed more to 4Q and then it will sort of get back to our...

Dharmender Kapoor:

It is not one deal, it is across, there are multiple deals which is what is giving us the confidence for the next financial year also because if it is one deal, that would mean that it will be very few and very far but when there are multiple deals of mid-size, that means that there is a consistent way by which we are getting connected with our customers and we are connected with the right set of deals that are coming up. So, we are connected on the deals which are mid-sized two larger deals and I think that gives us the confidence that it is a very sustainable feature of getting into those kinds of deals going forward. On the payout, I think this is going to be better than what we did last year, and



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our objective is that of course we continue to do that. On the M&A side, as I said that we are ready but with M&A we want to be very clear with our strategy, that strategy is in place. I am particularly not very keen on just going and acquiring anything for the purpose of just showing the growth alone because I want very significant growth coming in an organic way first and I think we are there with that. Now with the M&A, we are looking at an opportunity, we are looking for a candidate which will be able to provide us at least two key features out of the three. I am not going to narrate those three features that we are looking for. That is the mandate that we are giving it to some of the bankers to go and identify the candidates which can focus on certain industry technology and the client set and out of that if we are going to get two then that would mean that we will go after that candidate because we want to do larger one and we want to do a very strategic one so that it is going to lead to increase in the portfolio or the revenue that we currently have as part of our own revenue portfolio, but at the same time whichever company that we acquire, we should be able to add value to their revenue also. So, from that perspective that is the candidate that we are looking for. But we are ready today with respect to doing any acquisition and we already have clarity of mandate that we can go ahead but there is not going to be any hurry in which we will do an acquisition.

Mohit Jain: Larger meaning like, is there a percentage to a company size or how do you define larger one?

Dharmender Kapoor: We expect that if we had to become a billion dollar, my inorganic growth as part of the billion dollars should be anything from \$150 million to \$200 million in revenue.

Mohit Jain: On the million-dollar accounts, there is no addition over the last few quarters. So this is reflecting account pruning or do you think there is something more to it, one million plus accounts, account was coming off, so is it because of the curtailment of tail accounts or is it like the addition is right now slow and is likely to pick up?

Dharmender Kapoor: If it is a \$1 million account, that is not the tail account that we consider because we believe that that account can grow and that is not going to be the part of tail, tail is a very-very small account that we have really looked at, but otherwise we continue to grow those accounts. I did not see any significant change on the \$1 million account, let me reflect on that data offline and we can answer this question even later also. I do not see anything confirming on that front.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: A couple of questions predominantly around the Oracle practice. Oracle has been very aggressive this past year and the market share gains from SAP has been growing by the day and it has products about north of 25% YoY. I am not sure if we are seeing that amount of traction in our portfolio or am, I am missing something here because we have seen smaller vendors out of India piggyback on Oracle's traction very well. How should we understand how this has evolved and what should we look forward to here?

Dharmender Kapoor: I think we are seeing the same thing. Oracle has picked up some pace in the last one or two quarters because earlier they have been trying to find their feet on cloud and now they have their strategy



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clear and they have started going after the market that is there with either SAP or with other ERPs that they have to start going after that also. I am very happy that they started getting aggressive after that because we do get the advantage and I will explain what is the change that we have done to address that. Same is the case with SAP also because SAP is also getting very aggressive to really get into the S4 bandwagon and onto the cloud and also looking at expanding their portfolio into the e-commerce and other solutions. So, both are coming with that. In my opinion, whenever those two giants are competing we always get the benefit okay. So that is very good for us. What we have done to address that is we have called out the channel sales and created that as a separate growth engine. That was not the case earlier, it was part of the SAP, part of the Oracle, it was part of the practices that we were going after them. Now, what we have done is that we have a focus channel sales, there is a leader who leads that and is responsible for net new and winning within the business from the existing clients wherever we have relationship with OEMs such as Oracle and SAP. So what has started happening is that we have started taking that as a channel and started measuring our progress and growth in that direction also because there will be a special goal in that direction because what we realize is that slowly we do not have to talk just about SAP, we do not have to just talk about Oracle or JDE or for that matter any solution, we need to look at this as an enterprise solution category as the one full category because the interdependence of best-of-breed solutions has started becoming very critical. In lot of times you will end up having a core solution coming from Oracle but many other enterprise solutions sitting on top of that that may not come from Oracle. And same is true for SAP or any other cases. And that is the reason that the enterprise solution category should be a one consolidated category. You will see that from next quarter actually we will be reporting it according to that so that we see that as a comprehensive category, we have very comprehensive goal towards that, we have a leadership dedicated towards that, and we take that as an area of growth for us. So, we are absolutely connected both with Oracle, SAP, Salesforce.com, ServiceNow with all other SAP solutions we are very closely connected and taking that as a channel phase now.

Baidik Sarkar: This is a repetition from Mohit's question for some more clarity. Given how the offshoring and the pricing contract mix to the buffering, should we assume that defending an EBIT margin of 15% is a given pass of course starting Q1 and beyond?

Dharmender Kapoor: Yeah, I think so absolutely, it is looking very sustainable now as everybody anticipated that when we will do the increments in the Q4, it is going to go and drop, no, we have further improved our EBITDA even after that. So, I am pretty confident that that will continue to deliver a very sustainable profit going forward also. There are other levers that we continue to work on and it will continue to provide us more opportunity of improvement.

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

Abhishek: A couple of questions. On the EBIT margin side, so just taking off from where Baidik left, the 15% number we are talking of is EBIT number or we are talking of EBITDA number because....

Dharmender Kapoor: EBITDA.



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Abhishek:

The second thing is maybe if CFO sir can just repeat the margin bridge, maybe the line was bad for me and I heard a reversal of provision in margin of around 150 or 200 bps, just wanted to get a clarification? And also, in the same context, can you also talk about, was there any goodwill impairment in the D&A number and what is a sustainable depreciation number that we should look for? And lastly, on the tax rates, our assumption earlier was that we will go to 25%, we are guiding for 27%, so any comments there could be helpful?

C Thyagarajan:

I assume you are talking about the Q4 EBITDA bridge, right. I talked about five items. On the upside, one, we had revenue growth helping by about point 0.8%, lower bad debt provision by about 1% and higher billable days in Q4 and no furloughs in Q4 versus Q3, that was 1.5%. There was a negative impact on account of wage hike, that is 2.1% and incremental recruitment cost of about 0.5% coming from hiring of 652 employees in the fourth quarter. On your next question, there was no goodwill impairment in FY'21 or in the fourth quarter. You also asked about the depreciation rate. The FY'21 was kind of a special year, right, so we did not invest much. Even going forward, I do not see that the depreciation rate will go up significantly in relation to revenue, in fact, we should see the numbers kind of stabilizing. So, there was no extraordinary item in the depreciation either plus or minus. The third one is on the effective tax rate. I said 27% to 29%. We should bear in mind that at 25.17% rate only relates to India and as you know we have businesses across the world and therefore our effective tax rate is a function of tax rates from the margins that we generate from across the world and that is why the number on a full year basis was 29.5% and should steady between 27% and 29% going forward.

Abhishek:

My apologies. I am just trying to understand on the goodwill amortization side. So earlier we understand it was tax deductible. So just wanted to get a perspective on that? And the second thing I also wanted to ask DK is that if I look at the growth rate across our client metric, the non-top 20 have declined 13% on a YoY basis while the top-20 buckets have seen a very substantial 18% average growth. Now the question is within this decline of 13%, how much of this was rationalization of clients and how much of is because of the project nature of the business where we have moved to almost 70% and there could be some reversals because of that?

Dharmender Kapoor:

A very good question. First, it was no rationalization of accounts in that category because wherever the tail accounts have been cut, those are very negligible. So, I do not think that there is any impact of that on our revenue. It is very-very negligible wherever we have cut the tail. Second, coming to the point that "Why a decline in those accounts?" See, if you look at before the pandemic year, the cases in the energy and utilities sector went through tough time because of the oil prices, the pharma companies now are really looking forward to spending more and more or the medical devices companies who are now spending more and more, but if you look at the first a few quarters, they have had that as a challenge where they had to stop certain projects. So, that is the second impact that was there. Third is that, yes, we do have some part of our business which is the project based business and when the project is finished, we need to go and win newer business from the same clients in order for us to grow with them. So, as we are growing our annuity revenue, I think that problem is becoming smaller and smaller for us which is a very good news but the year was very special here because in this case we did find some of the projects getting stopped, for example, one



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of the key clients where we believe that we will be growing more than 50% this year, has already brought in the projects, though those were stopped last year. So, projects have already started. So, if you look at that there was a decline of growth in the previous year, is going to grow over 50% in the next two or three quarters itself. I think that is the change that has happened during this time because it was a very different year and very unpredictable year and that has resulted into such kind of situations also, but the good part that we wanted to reflect was that despite having that kind of year, at least the top line has started, have given the confidence to us that they can continue to grow with us and we can continue to deepen our relationship with them and that gives us the confidence that it's your focus on top 20 earlier, now we should take at supersizing top 30 accounts because if we grow faster with them there is no reason why the growth at the overall portfolio level will now be better.

Abhishek: Chandru, sir, if you can just highlight the goodwill amortization part why the depreciation was lower quarter-on-quarter, just that could be helpful?

C Thyagarajan: The goodwill amortization piece, from a statutory book perspective we do not have goodwill but as you know from a tax standpoint, we were eligible for amortization of goodwill. So, there will be a small impact in our effective tax rate on account of the goodwill amortization going away effective the financial year. So, in my mind there will be roughly about a 0.3 to 0.4 basis points or a 30 basis points change on account of goodwill depreciation going away. So, I do not see that as a significant impact to our ETR.

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

Dipesh Mehta: A couple of questions. Starting with first about the salary hike now we have given this quarter, so how we are looking for FY'22 salary hike? How you are looking at EBITDA margin? Broadly, you indicated around 15 percentage, but considering utilization and some of the levers which you earlier alluded, 15 percentage seems to be conservative. So, what kind of headwind you are factoring into next year margin guidance? Second question is if you can provide some comment about vertical wise how you are seeing demand trend and geography wise? US seems to be flattish this year. Large part of the growth this year driven by Europe. So, if you can provide some perspective there how you expect vertical and geo to do? Third question is about the deal booking and other thing. Now, considering the US is opening up and normalcy is returning to developed market, do you expect acceleration in deal booking to happen because for us 5% to 7% revenue coming from new client kind of thing every year, if you can provide whether we are looking significant acceleration because from exit perspective we have some headwind, Q4 we ended YoY negative, so if you can provide some perspective?

Dharmender Kapoor: On the EBITDA side, every single part of the EBITDA today that we have is very-very sustainable. Yes, there will be headwinds because the talent war is there in front of every single company and that is definitely going to impact every single company in one way or another when the time for the increments comes from the next financial year and we have to continue to look at how will we go and neutralize that impact by continuing to provide more and more efficiency in the other things.



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And then there are multiple levers that are there. We have been optimizing our subcontractor cost, we have been optimizing on onsite/offshore mix and other things that are giving us the advantage also. Chandru did talk about some of the items on the margin improvement side. So I believe that definitely every company will have some headwinds when it comes to the cost of the resources with respect to giving the increments but I am sure that we all are working on finding the levers in order to neutralize the impact that is going to be there so that we continue to keep it very-very sustainable EBITDA that we continue to deliver. Having said that, this is also going to be a time when we have to be very careful about what investments we make because the clients are now expecting that they will do the technology of adoption much, much faster than before and that would mean that there will be a speed that will be required in which we can develop the talent, we can hire the talent, so all that will be required. So from that perspective we must be very open about what investments that we make for us to capture the higher growth than what we have been planning earlier. So that means that there is a little bit of a trade-off there might be required between the growth and the profitability. But having said that that does not mean that the profit is going to drop in a significantly low. I think it is only the headwinds that we must continue to focus on so that we can utilize them. When it comes to the verticals and the geos, I believe manufacturing has done very well for us and have started showing very consistent growth, at the same time it is very large vertical for us, we created a micro vertical within that which we call as a hi tech micro vertical and that hi tech micro vertical within the overall vertical is growing much-much faster for us. So that strategy will continue to give us good growth in manufacturing and in the life sciences. Energy and utilities, we have started improving because the oil prices started coming back and we have seen that the clients have started taking the discussions but it will still be wait and watch for some more time. BFSI also is becoming on the bandwagon of digital adoption and everything. So, I believe that we will continue to see more and more opportunities coming in the BFSI space also. But I believe that our growth will be led by manufacturing and life sciences. Europe had been not as fast as we wanted it to be in the previous year because of that being pandemic year, no travel, no new relationship that we could build. Things have started opening up and we have also invested in the leadership in the Europe already and we expect that Europe should give us significant footprint in this year so that it becomes a higher percentage of revenue in the overall scheme of things. That will be a geo kind of focus that we will have. Last, I think you have talked about the net new. Because for every company the net new was not that great in the previous financial year. Most of the people focus on the cross-selling during the year so that we can leverage our existing relationship. Net new for us had always been 6% to 7%, but this year it has been just about 2%. So, there is a delta of 3%, 4% that is there. When things open up that means that there is a much more significant net new growth that we can also aim for and that would mean that it is going to help us grow faster than what we have been thinking about. And that is the reason I earlier said that I am very-very optimistic about the upcoming year. It is still open because how much travel will happen, how much clients will start meeting the sales team, it is yet to be seen, but things have started opening in the US and Europe which is encouraging.

Dipesh Mehta:

DK, because of the pandemic in India and severity of it, are we seeing any delivery related or execution challenges which can impact Q1 performance?



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Dharmender Kapoor:

I do not think that I see any issue with the Q1 performance so far. I have not seen the issues with respect to we not being able to achieve our milestones or being able to deliver. There have been issues where people getting sick and not being available for a short period of time but we developed our backup strategy with respect to how do we utilize our talent across the different horizontals and the verticals so that they can develop whenever there are certain people who are sick at that point of time. So we took those actions very early on and that has helped us sail through during this time, but we have to remain very vigilant, we have to remain very careful because we are still not out of it, everybody is showing that the curve has started coming down and it is positive but I don't think that we can take it very lightly because if there is a curve coming down on the wave-2, there is also a talk of wave-3 that is happening. So, we must remain very careful. There are multiple programs that we have started and ensuring that how do we keep our employees safe. There are a lot of things that we have started on the employee care side also so that we can take care of them when they are delivering whether it is on the medicine side, doctors availability side or anything that is required for them to be safe. There are multiple initiatives that we have taken. We have already partnered for the vaccine side also so that we can vaccinate those people. So, I think we are doing all that that is required for us to ensure that we do not get too much of surprises in that direction. Little bit of surprise we have already factored in and we have the backup strategy available for us.

Moderator:

Thank you. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Dharmender Kapoor for closing comments.

Dharmender Kapoor:

Thank you very much everyone for joining. I know it was a late evening call for all of you. So, thank you very much for joining and really participating wholeheartedly into the discussion. As I said that the way we have exited Q4, I am far more confident than before that that our next financial year is going to be very-very strong financial year and we will continue to look at how do we deliver more than what we set the expectations in the market. So that is going to remain as a focus for us, but at the same time I would continue to appreciate all the support that you have been giving us and would also like to wish that you all remain very-very safe and remain very healthy. So please take very good care of your health and a good health for your loved ones so that we continue to work on seeing the growth for our respective businesses. Thank you very much.

Moderator:

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

Disclaimer.

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

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