Birlasoft Limited Q4 FY23 Earnings Conference Call

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(1 crore = 10 million)

Moderator: Ladies and gentlemen good day and welcome to Birlasoft Q4 FY23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Abhinandan Singh, Head – Investor Relations, Birlasoft Limited. Thank you and over to you, sir.

Abhinandan Singh: Thank you, and welcome folks. By now you would have received or seen our results. Those are also available on our website www.birlasoft.com.

Joining me on this call today are our CEO and MD – Mr. Angan Guha, and our CFO – Ms. Kamini Shah, who as you are aware joined us recently. We will begin the call today with opening remarks from Angan and then Kamini.

Before I handover the floor to Angan, a quick reminder that anything that we say on this call on the Company's outlook for the future could be a forward-looking statement and therefore that must be heard or read in conjunction with the disclaimer that appears in our Q4 FY23 Investor Update, which has already been sent to you and is also uploaded on our website as well as filed with the Stock Exchanges.

With that let me hand over the floor now to Mr. Angan Guha, our CEO and MD. Over to you, Angan.

Angan Guha: Thank you Abhinandan. Good evening and good morning to everyone wherever you are and thank you for joining us today as we share some perspectives on our Q4 and financial FY23 performance.

As all of you know, this marks the full quarter of me taking over as a CEO and MD of Birlasoft. I am sure you'll recall that I joined the Company on 1st December 2022.

I am also pleased to have our new CFO – Kamini Shah present in the call today. She is a highly accomplished finance leader with a proven track record of driving financial transformation and profitability at scale. I believe her financial and business acumen will add significant value to our business. I will ask her to share some perspectives on our financials after my initial remarks.

But before I delve into the results, as I had mentioned in the last call, allow me to share some details on our growth strategy and some of the actions that we have taken to sharpen our go-to-market focus and build a growth mindset.

As all of you know and I have spoken to you in the last earnings call, we have embarked into a big cultural as well as an organization transformation program. So, broadly speaking we are changing our organization on two dimensions:

I. To become sharply focused on select verticals and service lines
II. To culturally become more nimble and an execution-oriented organization

Towards that end, firstly we are revamping our organization for better synergies, higher efficiencies, and deeper customer engagement. The organization has already been restructured with operations now aligned by verticals. More specifically the North American Geo which contributes to almost 85% of our global revenues will comprise of four verticals, Manufacturing, BFSI, Energy Utilities and Life Sciences. These verticals, where we have accumulated significant domain expertise over the years, can act as clear differentiators for us. Each of these verticals will have a P&L leader who will be responsible for the P&L and will report to the CEO for North America.

For Europe and the Rest of the World – we will have separate leaders whose mandate will be to expand the footprint in those geographies. Additionally, we will have a Chief Growth Officer, whose job will be to drive and create marketable solutions, strategic partnership, improve our industry as well as advisory outreach and manage our marketing function.

Coming to the India organization, we have created a Chief Operating Officer organization, under the COO. And the COO will be responsible for all delivery, building our capabilities through our service lines, running our CIO, InfoSec and the CTO function. As a result, with this move we will have a unified delivery organization which reports into the Chief Operating Officer, as well as very closely aligned to the geography organization.

From an industry vertical perspective, I have already talked about our focus areas. In terms of service lines, we will again focus on four strategic service lines: Digital & Cloud, Data Analytics, Infrastructure and ERP. We are getting all our ERP practices under one leader so that we have one common ERP practice.

The second big transformation that we are driving within our organization is the cultural transformation, which will make our organization more responsive and client focused. These cultural changes as you know does not happen overnight so you have to give us some time for the cultural transformation to take effect, but we are well on our journey.

The Cultural Transformation Initiatives will be predicated on six big tenets: High Say-Do ratio, Have a growth-oriented mindset, High customer centricity, Quick decision making, Employee centricity; but overall, the #1 initiative on the cultural transformation tenet will be Organization First. The goal here is to reorient and optimize for greater accountability and swifter actions.

With this now let me move quickly to our Quarterly and Annual Performance.

I am happy to report that we had a strong operating quarter in Q4, both on revenue and EBITDA performance. On revenue for the quarter, our revenue stood at $149.1 million, which was up 0.5% quarter-on-quarter (QoQ) in dollar terms. But if you really take Invacare out of the picture, the growth actually was 3.3% QoQ. This reflects the strong underlying strength in our business. And we hope to continue this performance.

Our EBITDA margins for the quarter under review also expanded 20 basis points QoQ. Looking at our full year performance, our revenue grew at 16.1% in rupee terms and 9.1% in constant currency terms. Again, ex of Invacare in dollar terms, from a constant currency perspective, we were able to manage a double-digit growth of 11.5%. Our EBITDA margins for the year stood at 14% before the one-time provision that we took for Invacare.

On deal signings, again we had a very strong deal signing quarter. Our TCV signing for the quarter stood at $286 million. As I am sure you remember in 3Q we delivered $231 million for the TCV. And in this quarter we have even bettered that with $286 million worth of TCV signings. So, all in all, I think it's been a very strong quarter and a strong end to the financial year.

Looking forward I just wanted to make one statement on Invacare, we have amicably entered into a settlement with Invacare. This is a significantly positive step forward for us, because as you know this will now allow us to focus our full attention on executing our growth plan, without getting worried about the Invacare situation that was upon us in the last quarter.

Over the last few months since I spoke to you, the macroeconomic environment is relatively subdued. And there are of course challenges in some of the sectors that I am sure, you all know about. We will expect slow client decision making as we go into the next couple of months, as their business priorities shift, and the landscape also shifts. Conversations with clients indicate that their organizations will continue to spend on IT, but the spending would be to drive more improvements and operational efficiency and cost efficiency rather than transformation work. Consequently, the outlook for the coming year is one of growth, although the gap that is created due to the absence of contribution from Invacare means that on reported terms overall top-line growth may look a little muted. Our suggestion is to measure us on QoQ performance going forward, because YoY performance will appear muted, thanks to the fact that Invacare will not show up in FY24.

As I have said in the past, I firmly believe that sharper focus, consistent and robust execution, as well as a very incentivized and vigorous team and a client centric organization with high Say-Do ratio can take us to our next phase of growth journey.

At this point I will ask Kamini, our Chief Financial Officer to share some perspectives on the quarter and the year under review.

Kamini Shah: Thank you Angan. Good day to all of you. Thank you for joining us. And I hope you are all doing well. I am very happy to be part of the Birlasoft team. I am looking forward to working with Angan and the rest of the leadership team to support the execution of our strategy while keeping a tight control on key performance and risk management metrics.

Quarter 4 Performance

As Angan had called out, we have reported revenues of $149.1 million for Q4FY23, while this represents a growth of 0.5% QoQ, ex-Invacare the growth translates to about 3.3% on Dollar terms and 3.1% on constant currency terms. I am happy to say that we have delivered 13.6% EBITDA, which is an expansion of 20 basis point QoQ. This is a comparison against our Q3FY23 EBITDA, before the Invacare one-time provision. There has been a lot of focus on operational metrics, improving our utilization, our pyramid and lower attrition that has contributed to it, despite absorbing the ongoing cost of providing services to Invacare.

PAT for the quarter was at $13.6 million, while our tax rate for the quarter appears to be lower, this has been due to a partial reversal of tax provisions in the previous quarter. However, on a full year basis our ETR would remain comparable to the preceding financial year of about 25%, and that is the normalized tax rate that we expect to operate with.

Full Year Performance

The revenue for the year increased to 7.2% in dollar terms, and ex-Invacare we would have been at about 9.6% in Dollar terms. Our Top-10 accounts have grown at 17% and our Top-20 accounts have grown at 11.6% YoY. We have reported an EBITDA of $84 million, implying an EBITDA margin of 14% for the year. This excludes the one-time provision on account of Invacare.

The PAT for the year is at $41.6, our other income has been lower due to lower interest income and forex loss on account of restatement of assets. You are aware that we have concluded our share buyback program in H1FY23 which has resulted in lower investible cash and hence a lower interest income during the year.

Key Balance-Sheet Items

Our cash and bank balances at the end of Q4 stood at $137.3 million, this is at 13% QoQ from the $121.1 million that we had closed. This reflects consistently good cash generation as evidenced by our DSO, we are happy to say that our DSO closed at 53 days, which you agree would probably be the best-in-class.

Our operating cash flow for Q4 was at $19.2 million, which is at about 95% of our Q4 EBITDA and about 141% of our PAT. And from a full year perspective, our cash generation has been at $84 million, which has been at about 100% of our adjusted EBITDA.

In-line with our track record of prudent capital allocation and rewarding shareholders, the Board of Directors have proposed a final dividend of Rs. 2 per share, subject to shareholder's approval. This proposed dividend along with the interim dividend paid out, and the buyback that was concluded during FY23 would together translate to a total payout amounting to 126% of adjusted PAT for the one-time provision.

To conclude, we have ended the year with a robust balance sheet. We are generating strong cash flows and we have the ability to make the investments necessary to drive growth in our business going forward. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: I actually had a question related to our segmental performance and we see that our segmental profitability across verticals with the exception of Life Sciences, which had a one-time cost for the quarter, but our margins have improved sequentially across all other segments. So, just wanted to understand what is driving that and if you could talk about our aspirational margins from a medium term standpoint?

Angan Guha: Yes, so if you look at our segmental performance there are two big segments, and I am assuming you are talking about the vertical performance. Our BFSI performance has been very strong, as you have seen it's grown 17%YoY. Our manufacturing performance also has been strong. And if you look at our E&U performance that has been a little muted. Obviously because of Invacare, the operating performance for Life Sciences looks far more muted. However, if you look at it from our perspective, we have been able to reduce attrition over the last quarter and that has helped improve our margins in a significant way.

Manik Taneja: So, are there any other factors that's driving the sequential improvement in segmental margin for these verticals?

Angan Guha: There are two factors - one is the attrition improvement that we spoke about. But apart from that I think the team has done a very good job in terms of driving operational efficiencies. As you also may recall, last quarter I had talked about the fact that we have driven a lot of synergies, thanks to the fact that we were able to consolidate our delivery structure under one organization. So, it's really a combination of all of these factors that has helped us improve the margins as we have stated this quarter.

Manik Taneja: And any indication on medium term margin outlook?

Angan Guha: It's hard for us to give our outlook going forward because the situation in the market is very volatile, but suffice to say that our endeavor, like I have said even last quarter, will be to maintain the margins at 15% level, because you must also remember we are investing in the business going forward. So, keeping in-line with all the investments that we will do over the next six to seven months, all the operational improvements that we will drive, I think we are confident to keep it within the range of 15% to 16%.

Manik Taneja: And last one before I get back in the queue, you have talked about the organizational restructuring for the organization, so where are we in this journey in terms of all the necessary changes?

Angan Guha: Yes, so we are already down this journey as you know, I mean we have been at it for the past four months. The organization restructuring is now complete. We have the critical roles already filled up. Of course, certain roles we still have to fill and we are in a position of filling them really quickly. But I would say 90% of the work is done, probably 10% of the work is left and we are on the job. If I were to take a call, I would say that it will probably take me three more months, but by the time June or July comes in, I think we will be done with all the hires, as well as the new operating model will be in force.

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

Dipesh Mehta: Just one clarification. Whether this Q4 performance includes Invacare related cost and if yes, what would be the normalized EBITDA margin, because now Invacare related cost may not recur post the settlement period, which is somewhere in May, so if you can provide that clarification.

The second question is about the broader trend what we are witnessing in four major verticals. Where do you think strength remains fairly high and you expect growth momentum to continue despite all the macro uncertainty and areas where you think some softness will be visible, because this quarter if one looks at, it is fairly broad based, except Life Sciences. So, if you can provide some perspective on vertical related growth trajectory?

And last is about the enterprise solution, after a few quarters of softness, this quarter it's showing some kind of positive growth trajectory. What's your expectation on that, ERP segment?

Angan Guha: I will take all the three questions. So, the first question on Invacare, look Invacare, first of all, the margin that we have delivered has Invacare cost built-in, in Q4. As you have rightly mentioned the Invacare cost will not be there hopefully starting 1st of June, but we can't really give you a specific in terms of what will be the percentage cost that will get released, because of the Invacare program getting closed out. We don't give customer specific commentary, so it will be hard for me to give a customer specific commentary. But suffice to say that the 13.6% EBITDA margin that we delivered had cost of Invacare built in.

On the growth part, as you have seen our Financial Services business is very strong. I feel it will continue to grow over the next couple of quarters. We see a lot of demand coming in our way, on the financial services side. But you must also realize our Financial Services business is very small. So, it's not really comparable to the other players in the market who have got large Financial Services businesses. So, that for us will continue to grow.

We see green shoots coming up in Manufacturing, I strongly believe that it will take us a couple more quarters, but manufacturing will come back to growth. E&U will be a little soft for us going forward; we will have to closely watch how that sector grows. And the last sector that we are focused on, Life Sciences, we are optimistic, but we will have to wait and watch that sector very closely, because there is lot of consolidation that is happening in that sector, and that sector in general, we are seeing some weak trends coming out. So, we are keeping a close watch on it, but if I were to be a betting person then the two businesses that we are betting heavily on will be Manufacturing and Financial Services.

The last question on ERP, yes you are right, we are seeing a reversal of trend on the ERP business. Like I said that we have decided to consolidate all our ERP offerings under one leader. The new leader is on board, in fact the new leader just came on board a week ago. So, hopefully, once the new leader settles down, we will see how that business pans out for us. But I think that business is bottomed out for us and from hereon we will only see growth there.

Dipesh Mehta: Just one follow up, if I adjust your Invacare revenue it appears to be $4 million kind of contribution. And if one believe the cost would be proportionate to the general business kind of thing then your margin expansion seems to be very strong once this Invacare related normalization starts. So, then your margin trajectory will reflect it or you will see any headwinds entering into let's say Q2 onwards.

Angan Guha: It is very hard for me to say what headwinds will come in. I can only tell you and I can't give specifics again on Invacare from a cost perspective. But I would like to point out the conversation that we were just having a little while ago, that we will continue to invest in the business. We believe in investing in our front-end, in our domain capability, in our service lines capability and we will utilize this opportunity to continue to invest for the future.

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

Sandeep Shah: The first question Angan is, you in your opening remarks said that the growth momentum of 3.1% constant currency QoQ hope to continue on a going forward basis. So, do you expect this trajectory to continue over all four quarters of FY24 or how do you see and how do we interpret this comment as a whole, that's the first question.

Second is, settlement amount of $2 million, which we have with Invacare, will it be shown as a revenue in Q2 or will it be shown as cash flow against the debtors which have been outstanding in the books. I believe that debtors have been written-off totally, so this would be shown as a revenue as a whole.

And third, the EBITDA margins of 15% to 16% which you have highlighted, that you are actually indicating excluding the Invacare cost as a whole. And what would be the wage hikes and which quarter would it be effective.

Angan Guha: So, you know first let me address the first question, the growth first. Now when I was saying the growth momentum will continue, I didn't mean the 3% growth will continue, right. The 3% quite frankly has been a great execution by us this quarter. This quarter was exceptional in many ways, because the deal wins that we were able to get in 3Q, we were able to convert that into revenue in 4Q. Quite frankly, I don't expect us to continue to grow at 3% every quarter going forward that will be a very big stretch. And again, we don't know how the headwind comes in and when will the headwind come in. Because things are getting very softer and as far as the market is concerned, it is very volatile. So, it will be very hard for us to come to any conclusion that whether a 3%, 2%, 1% growth will be the real growth for us.

My only comment to that was that our growth momentum we hope to continue as we see today. Now tomorrow if the markets change, if the headwinds are much larger than what we think then everything is off the table. But today as we stand today and we see the situation. I am hoping that the growth momentum will continue. I can't comment on the percentage.

Now second, as far as Invacare is concerned, so you are right I commented that we will want to keep our margins at 15% to 16%. And again, I can't really comment on how much amount of cost will go away from Invacare, because remember Invacare we only get out on the 1st of June, so two months of cost we still carry that's #1.

#2, like I have said earlier, we will continue to invest in our business. We will not cut back on our investment. For the medium term, we want to keep our EBITDA margins in that 15% to 16% range, while we build our team and make our company future growth ready.

So, the wage hike, we will do a wage hike this year, as we have always done, and we will follow the policy as we did last year. The wage hike will come in, so you were actually right apart from investments, apart from the fact that we will continue to build our capability around domain even the wage hike will take away, some of the margin expansion that we are doing operationally, which is why I said, I can comfortably say that we will be within the 15% to 16% range.

Now as far as Invacare is concerned the settlement is very clear, that settlement is $2 million which we will get, but we will only recognize the $2 million worth of revenue, when we get paid for it, right. So, we are waiting for the tenure to get over, and once the money comes in, then we will decide how we take that as a part of our balance sheet. But Kamini will throw some light on it.

Kamini Shah: With regard to the recognition of the $2 million of Invacare settlement, I think this is something that we will discuss with our auditors and decide on the right and appropriate accounting treatment. So, I think at this point of time, it would be difficult for us to confirm as to exactly how that would be treated.

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

Shradha Agrawal: Angan on the client bit, we have seen again another quarter of decline in our active client count. And we thought probably that the clientele rationalization is almost over. So, are we still looking at cutting down on some clients who are at the fag end of revenue or how should we look at the active client count going ahead?

Angan Guha: As we had indicated in the last call as well that we want to work with fewer number of clients so that we can build strong, deep relationships with them. So, as a part of the tail rationalization you will probably see a couple of more quarters of the tail coming down, because at our size and as we push forward, working with more than 250 or 300 clients becomes extremely difficult. So, you will see that rationalization going forward as well.

Shradha Agrawal: And another thing on cloud and base services, this segment has otherwise been strong for us for quite many quarters, but this time around we saw a decline of almost 5%. So, is it related to the Invacare deal or is it related to some other client project ramp down or how should we read the decline in cloud services?

Angan Guha: Yes, that is because of Invacare, you are correct.

Shradha Agrawal: And just last bit on the hiring front, so you have indicated that you have created a new office of Chief Operating Officer and Chief Growth Officer, can you give some indication on which companies have these people been hired from and what is the kind of hiring in sales team that we have done, because we have seen a smart increase in the sales count as well. Any incremental color on the kind of people you have hired would be helpful?

Angan Guha: Yes, so Shradha, I can only say that we are hiring the best talent in the industry, we have been able to attract very good talent in our company. I can't obviously give specifics in terms of which company they have come in from, because we have hired upwards of about 25 leaders externally, but equally I must also tell you that we have promoted 25 to 30 leaders internally. So, it's not only about external hiring, it is also about internal promoting because we want to keep the balance right. But I can only say that we are hiring from the best in the industry, and we are able to attract very good talent.

Moderator: Thank you. We have the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is on FY24 outlook, now most of the commentary seems to be around macro, so can you give and should we assume that your growth will broadly be in-line with the industry, adjusted for Invacare?

Angan Guha: So, Mohit, again very hard to say and I would love to be at the industry level adjusted for Invacare, that is obviously our goal internally. But my only commentary, like I had said earlier, Mohit, measure us on QoQ performance, because YoY is very difficult when $14 to $16 million revenue has gone away on a base of $600 million .

Mohit Jain: Adjusted for Invacare, so when we look at the adjusted numbers then it should more or less be in this or do you think more as headwinds may come because of our higher exposure to maybe transformation service line or anything else that comes to your mind?

Angan Guha: No, so from where we stand today, Mohit, from where we stand today, we would like to drive ourselves for QoQ revenue growth that's all I can say. Now whether I will be at industry level adjusted for Invacare etc., only time will tell, we don't give guidance for the year or for the quarter, but I can only tell you that we have put a very strong execution engine behind us and we will continue to execute well, Mohit.

Mohit Jain: And how much was Invacare for FY23 as a whole year?

Kamini Shah: It was about $14 million.

Angan Guha: Yes, $14 million is what was in the books. And the last quarter we did not recognize $4 million. So, technically it was $18 million, out of which $14 we recognized $4 we didn't.

Mohit Jain: $14 million for nine months.

Angan Guha: For nine months, that's correct.

Mohit Jain: And last question on Healthcare. Now your commentary was relatively soft for Healthcare. And Invacare has gone in this quarter. So, going forward on a sequential basis, should we expect some decline to sort of continue in healthcare or do you think healthcare now that it is ex-Invacare, should be back to growth?

Angan Guha: So, it's hard for me to say again and the only reason I say this Mohit is because the customers that we, the clients that we serve are also going through a enormously tough time, right. There is lot of consolidation, there is lot of layoffs by large pharma, healthcare companies globally as I am sure you know. So, it is hard for us to say because there is an issue, when it comes to discretionary spend. So, our endeavor will be to continue to serve our customers, the customers that we have. And continue to open new logos so that we can be growing the business going forward. Immediately for the next couple of quarters, you will see a little bit of a softness and I keep saying we are continuing to invest in all the four verticals that we have identified.

Mohit Jain: So, the whole TCV thing that we are reporting for last two quarters, I am assuming it is, most of it is BFSI, Manufacturing as you said in the opening remarks, is that a correct --?

Angan Guha: No, not really, it is broad based actually, it is not, but if you look at the $231 million that we did in 3Q, and $286 million that we did in 4Q, actually the TCV is broad based. The issue is not so much about TCV, Mohit. We are winning deals. We are winning a lot of deals. We have a very strong pipeline. The issue is about project closures, and the runoff that one may have. Now I can't predict the runoff. We may still continue to win good deals, continue to drive a lot of signings, but we will have to keep a very close watch on the project conclusions and the project getting over or the runoffs that happens.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: So, my question was on the deal flow number, so as you mentioned that there is too much of uncertainties right now in terms of when those, the deal flow closure happens and when the revenue starts getting recognized. But in terms of at least deal flow, do we have good visibility that similar kind of deal flow could actually continue for next two to three quarters?

And do you think there are pockets where you could see some negative surprises or pockets of strength that you are seeing in our portfolio?

Angan Guha: Yes, so in our portfolio look our pipeline is only improving. Now the deal closure is also a manifestation of clients wanting to sign the deals, right? So, if you look at the performance that we delivered in 3Q and 4Q, it's probably one of the better performances that we have had any quarters in so many quarters earlier, outside of the Invacare deal in 2019. So, from that perspective the last two quarters have been very strong.

Now going forward, it is a little hard for me to comment, in terms of deal closures because we don't know whether the customers will sign, will push out the deal closures etc. But if the deal pipeline is any indication our pipeline is only going up, every month, every day, every week. The closures are a different issue and we will keep a very close watch on it.

Vibhor Singhal: And any color on the Manufacturing vertical, if you could just maybe provide how are we seeing the client conversations in that verticals. Typically, when we have an economic slowdown or a recession as we are looking at in terms of the geography, typically the B2C companies tend to cut spends earlier and then followed by B2B companies like Manufacturing segment, anything that we are seeing on that part or anything that you picked up in the conversation with the client?

Angan Guha: Yes, so Manufacturing like I said, if you look at our performance, it has been the second biggest growth driver for us outside of BFSI. BFSI clearly has been a big growth driver. Now going forward, you are right we are seeing some softness in Manufacturing as well. But I feel Manufacturing will bounce back much sooner than the Healthcare business, only because -- and that is also reflection of our ERP business.

Somebody asked me that question, is the ERP business going to turn around now. And I said ERP we are in the bottom going forward we will only grow. And that also has a big rub-off on the Manufacturing vertical as you know. I feel the discretionary spend will stop, but the spending will be actually moving into more efficiency-based conversation, rather than transformation based conversation. So, we will keep a close eye on it, but again the funnel is improving, so I am cautiously optimistic on manufacturing.

Moderator: Thank you. We have the next question from the line of Abhishek Shindadkr from InCred Capital. Please go ahead.

Abhishek Shindadkr: Two questions, the first is, is our commentary on ERP also hinged on what we heard from SAP, that is one. Or it is more about the Oracle practice, if you can just elaborate that.

And the second is, on the financial services side again encouraging commentary on Financial Services, in the backdrop. So, what's driving and what are the kind of spends that we are seeing on the digital side, if you can just help us understand that?

Angan Guha: Okay, Abhishek, first of all, let me take the Financial Services question. So, we must not confuse our Financial Services business with some of the other commentary that you are seeing, because like I said, our Financial Services business is very small, right. So, we are seeing, at least the clients that we serve in the Financial Services business are spending with us, may not be driving transformation program, but definitely driving cost and efficiency programs and we are benefitting from the client spends in Financial Services, only because our base is small, and we hope to kind of capitalize and grow in that area.

On the ERP side, again I am not aware of the SAP commentary but I can only tell you that our growth on ERP is very broad based, whether it's JDE, Oracle, whether it's SAP, it is broad based. So, I am seeing green shoots of the ERP revival and that may have a rub-off effect on our manufacturing vertical as well.

Abhishek Shindadkr: Just a follow up on the Financial Services side, so we are not seeing any risk of vendor consolidation. I am trying to understand the risk in the vendor consolidation exercise that could come. So, that was the whole idea of asking the question.

Angan Guha: Yes, the clients we serve, we are benefitting from vendor consolidation as far as we are concerned.

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

Sandeep Shah: Just, Angan wanted to understand because of some macro change, are you witnessing any client specific issues within your Top-10, Top-20 accounts as a whole?

Angan Guha: So, Sandeep, look, I mean again, whatever I say is a point in time, I can't predict the future. But at a point in time, as of today amongst all our Top-20, Top-30 clients, we don't see a client specific issue. But that is again today, I can't comment about tomorrow or how things will change, because as you know, typically in the Financial Services industry, the Healthcare industry, things can turn overnight and can turn bad. So, I can only give you a comment that as we stand today, based on the conversations that we have had with all of our clients, I don't see any client specific issue in the clients that we serve.

Now our clients are also having a lot of challenge in terms of their discretionary spending going away, and they are wanting to stop spending around transformation projects, which is why I talked about the run-off a little while ago, right. So, we can book all the orders that we are booking but if the run-offs become higher than it is very difficult to predict. But today we don't see that issue and I can't comment on the future.

Sandeep Shah: And the vertical wise demand color which you have provided, is it fair to say in the near term, BFSI where we are more optimistic which is roughly 20% to 25% of our revenues versus that from the portfolio we may see a better visibility and recovery starting from H2?

Angan Guha: Yes, I would tend to agree with that. So, Financial Services at our size, I think, will be a growth leader. But the other three verticals, we will probably have a better picture H2 onwards.

Sandeep Shah: And Angan, just a broad question, before you joined, Birlasoft had seen a lot of volatility in the growth rates where some of that was also been driven through some project-based nature of the revenue. So, in your restructuring, how are you addressing and repairing this issue as a whole?

And second on the BFSI, is there any exposure to regional banks which we cater to, especially in the U.S.?

Angan Guha: Yes, so I will answer the second question first. So, we don't have any exposure to regional banks that we don't have. From the first question perspective, again it's a long-term journey, Sandeep. Look we understand that one of the reasons why it was becoming very difficult to predict revenue was because we had a lot project-based work. So, slowly and steadily we are moving away from just project based to more outcome based, more transformational work, more annuity work. So, we are incentivizing people, we are seeing the pipeline slowly move into annuity kind of work. But remember, this kind of a change does not happen over a couple of quarters, it will probably happen over the next 12 to 18 months. But we are committed to do that.

But again, we must also realize that the macroeconomic situation is not very favorable. So, you may still see run-offs, I think that's what you are referring to. So, if the run-offs happen, then obviously it becomes very difficult for a management team to predict anything in the future. But I can only tell you that as a management team and as team Birlasoft our endeavor will be to continue to deliver strong execution QoQ, while we work on the long term in terms of moving our revenue cycle into more annuity based, rather than project based.

Sandeep Shah: And last two questions if I can squeeze more clarity. When are we planning for wage hikes, effective which quarter?

And your EBITDA margin commentary for 15% to 16% ex-Invacare, is it for the whole of FY24 or would be largely Q3/Q4 driven kind of a target achievement?

Angan Guha: Yes, so we will have our wage hikes in Q2, so Q2 is when we will impact the wage hikes. So, H2 is when I think we will be able to stabilize between 15% and 16%. So, I can't comment on the full year, Sandeep, as you know it's going to be very difficult. But our endeavor will be to get to the 15% and 16% as we go to H2. And hopefully exit at 16% as we exit FY'24.

Moderator: Thank you. The next question is from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: I had a couple of questions, firstly we have been declaring strong deal wins in the last couple of quarters, which is taking our book-to-bill ratio of almost at 2x for this quarter. From that perspective, just wanted to understand has there been any increase or change in the duration of the deals that we have won in the last two quarter?

And secondly, just wanted to understand how are we looking at our M&A and what is the strategy behind the scenes?

Angan Guha: See, for the first question, if you look at our deal wins, Q3 $231 million TCV, in Q4 $286 million TCV, but out of the $286 million TCV, 40% was new, 60% was renewal. So, just to let you know and there is extreme clarity of the fact that 40% of that $286 million was essentially new signings. And like I said, we will convert all the new signings into revenue. Our problem is not that. Our problem is, how much amount of run-offs will happen and how much amount of run-offs can we avoid, is the key question, which is why the predictability on the revenue for the year becomes very hard, which is why I am not giving a forward looking statement in terms of revenue growth.

In terms of M&A, we will definitely look at it, but I don't think now is the right time. Right now we are focusing on hiring talents, making investments, creating a leadership team, which will be focused on execution for the next three, four, five quarters. But, and like Kamini said, and you heard Kamini say this, we are generating free cash flow, we are strengthening our balance sheet and we will continue to add cash to our balance sheet. And whenever the right asset comes along we will definitely look at it.

Anmol Garg: Just one follow up on the first question that I asked, is this $286 million includes any large deals wins?

Angan Guha: So, we don't give a deal commentary around individual customers, but I can tell you, we won one deal, from a customer of ours which was $50 million, that was our largest deal. And 60% of that was renewal, and 40% was new.

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

Abhishek Shindadkr: Two questions or data points, first is, is it possible to quantify the growth ex-Invacare for Quarter 3?

And second is, the $869 million TCV for FY23, what would have been that number if we kind of exclude Invacare, what we are trying to understand is has the book been adjusted for the loss of Invacare account, and what could have been the actual growth rate if we had backed that in the numbers?

Angan Guha: Yes, so as you know in Q3 we had a flattish quarter including the $4 million of Invacare, right. So, if you were to back that $4 million, I mean you can do the math we'll probably be negative growth. But including Invacare we were at a flat growth 3Q. In Q4, however backing of Invacare we delivered 3% QoQ growth, but if you were to take Invacare operation as in reportedly we delivered about 0.5%.

Now as far as the TCV signings are concerned as you know, our TCV signings grew at about 25% YoY. Now we have not considered any Invacare in that TCV signings, because Invacare was signed probably two years ago so that obviously did not reflect in FY23 signing. So, FY23 signings of $886 million which is a 24% growth is outside of Invacare.

Moderator: Thank you. The next question would be from the line of Sugandhi Sud from InCred Asset Management. Please go ahead.

Sugandhi Sud: I just wanted to understand your margin guidance what kind of revenue expectation are you building in because there is a little bit of uncertainty and you have guided to a muted number given the macro and also Invacare. And also, if you could manage the levers you are building in terms of optimization, if you could break that down?

Angan Guha: So, Sugandhi, for us we are not working on revenue guidance at all. Like I said, we will continue to execute quarter-by-quarter taking each quarter at a time. And every quarter our endeavor will be to try and show positive revenue growth. On the other hand, operationally, like I said we have restructured the organization, we have driven a lot of synergy, thanks to delivery coming under one roof. And all of the other restructuring items have helped us to save a little bit of cost. So, that's one lever.

The second lever, of course, is our ability to get more pricing power from our clients, that's a second lever, but also to drive more pyramid. So, we are looking at all the parameters, but Sugandhi you must also understand operationally we will do a lot of stuff in terms of cutting cost out so that our EBITDA could improve, but equally we will make investments on the frontend as you would have seen our sales headcount and our sales investments have gone up so that will continue to go up.

So, you should look at our performance based on all the operating levels that we use to drive cost down. We continue to invest in our business and netting that off, we as a management team are confident to get to the 15% to 16% as we enter H2. And hopefully exit the year FY24 with 16%. Kamini, any comments.

Kamini Shah: No, I think, Angan you have covered it all. Yes, Sugandhi I think that covers all of it what Angan has called out, we will continue to optimize. And I think a lot would depend on the macroeconomic and the pricing power, if you are able to get that. And we will continue to invest in our business, because that would become a vehicle for growth for us.

Sugandhi Sud: And if you could just throw some color on trends that you see on the Enterprise ERP strategy -- what has changed that is leading to a little bit more optimism and being able to call out the bottom?

Angan Guha: Nothing has fundamentally changed, Sugandhi, the only issue is, our ERP business quite frankly has not done very well over the last couple of years. So, from that perspective we are seeing a bottoming out of our performance and going forward we are only seeing a little bit of green shoot only because the pipeline is getting stronger as we go forward. But look, I don't want to call victory so early, we have just shown a little bit of growth, we have to sustain this growth over a period of the next two, three quarters before we can claim victory.

Moderator: Thank you. The next question is from the line of Karan Uppal from Phillip Capital, India. Please go ahead.

Karan Uppal: Just one question in terms of vendor consolidation, so here you mentioned that within BFSI you are benefiting because of the clients you have. But for the rest of the three verticals the commentary was a little cautious. So, is it because of the competition getting more aggressive in these vertical and you are facing some challenges, vendor consolidation there?

Angan Guha: No, so Karan it is only because you know BFSI, we are very small vertical, our other verticals are bigger than the BFSI. And it is also a manifestation of the kind of clients you serve, right. As you know vendor consolidation obviously happens in your own client base where you either benefit or you lose out. Or even in clients that you are not present in, and you can positively impact on it. So, remember our Financial Services business is small, it is still on the nascent stage and as a result, the clients that we work on we are only benefiting.

And in many ways it is also a manifestation of the strong execution engine that we have in BFSI. We have a strong team, we have a good team, we have a good leader. And along with that I think we will continue on that execution. On the other segments, again we have built a very strong team in all segments, we have built a strong team in manufacturing, we have built a strong team in Life Sciences, we have built a very strong team in E&U. Like I was saying in the last earnings call and one of these earnings call, some of these vertical heads are very new, and they are building up their teams and they are building up their businesses. So, it is more than fair that we look at these verticals over a next two, three quarter period. And I am reasonably certain that at least in our clients that we are present in, we will only be on the positive side of vendor consolidation if at all.

Moderator: Thank you. The next question is from the line of Devang Bhatt from IDBI Capital. Please go ahead.

Devang Bhatt: In BFSI which segments particularly are you seeing good traction? And in terms of you know you still have good cash in your balance sheet, so are you planning to go for some inorganic growth?

Angan Guha: Yes, so Devang I answered this question earlier also, we will definitely look at inorganic but right now, I don't know whether inorganic growth is the right thing to do for now. For now we will be focused on executing our QoQ performance. We will be focused on building our capability and we will be focused on building our leadership. And once we have the talent and capability and everything in place then we will look at an acquisition in the future. But right now, we are not looking at anything actively.

In BFSI, two segments which are strong for us, one is lending and one is payments, and we are seeing big traction, both on lending and payments.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Just one question that I wanted to ask that if I, like you are very optimistic about the macroeconomic concern and about the growth in all these segments so what exactly your view for FY24, what we can expect as compared to FY23?

Angan Guha: No, so I am not optimistic at all, quite the contrary actually. I am not bullish about the macroeconomic environment, in fact I feel there is a lot of headwind that is coming our way and it is very uncertain out there. So, far from being optimistic, I am actually a pessimist when it comes to the macroeconomic situation.

All I am saying is, for us, as Birlasoft the job will be QoQ execution. And because the situation is so volatile, it will be very hard to give a growth commentary for the year. I am getting the company to focus on QoQ execution. And that is something that we will be sharply focused on going into the next couple of quarters.

Jyoti Singh: Second question on the Financial side, like as we are doing great, has the company given any thoughts that we can increase revenue contribution in that segment as we are doing great in that?

Angan Guha: Sorry, which segment again?

Jyoti Singh: BFSI.

Angan Guha: Yes, so BFSI, we continue to be bullish, and we are continuing to invest in BFSI, but you must also understand we are investing in all our businesses, it is not only about BFSI. BFSI has shown the highest growth in the quarter that just concluded. But that doesn't mean we are not invested in Life Sciences or Manufacturing or E&U, we are equally invested in all the verticals. These are the four verticals that we have chosen to go for, and we will be more than invested in all the four verticals.

Jyoti Singh: Yes, definitely, but if we compare other competitors they have more revenue contribution as we have.

Angan Guha: Yes I know. So, like I said, BFSI is a small vertical for us. Obviously, we want to grow it ahead of the market so that the contribution of BFSI in our overall business continues to increase.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to Mr. Angan Guha, CEO and MD, Birlasoft Limited for closing comments. Over to you, sir.

Angan Guha: Thank you. Thank you so much. So, look I would like to thank each one of you for your interest in Birlasoft for the time that you have taken and spent with all of us today and for your insightful questions. As we shared the solid fundamentals of our business, the momentum with which we are entering into the new financial year, and the investments that we are making to strengthen our capabilities will position us very well to meet the challenges and the increasingly uncertain macro that we spoke about. But I look forward to speaking with you and interacting with you next quarter again. In the meanwhile, please feel free to reach out to Abhinandan for any clarifications or feedback. So, thank you once again, and have a great evening. Thank you.

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

(This document has been edited for readability purpose)

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