Birlasoft Limited Q2 FY24 Earnings Conference Call

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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day and welcome to Birlasoft Q2 FY24 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 this 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 Abhinandan Singh – Head, Global Investor Relations, Birlasoft limited. Thank you and over to you, Mr. Singh.

Abhinandan Singh: Thank you and welcome folks. By now you have received or seen our results. Those are also available on our website www.birlasoft.com. Joining me on this call today with me are our CEO and MD Mr. Angan Guha and our CFO Ms. Kamini Shah. We will begin the call today with opening remarks from both Angan and Kamini.

But before I hand over 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 Q2 FY24 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 Guha: Thanks, Abhi. Good evening and good morning to everyone, wherever you are. And thank you for joining us today as we share some perspectives on our Q2 FY24 performance. But before I delve into our quarterly results, I would like to welcome our new Chief Operating Officer, Selvakumaran Mannappan to our leadership team. You would have seen an announcement on this earlier this month. Selva is a seasoned leader with over 29 years of experience in the IT services business. He brings with him a wealth of expertise and a global perspective to our organization thanks to the various pivotal roles that he has held over the years including as the COO of several large units while spearheading some numerous strategic initiatives at a tier 1 tech services firm.

You will recall that I had earlier outlined the two dimensions along which we are transforming our company to become sharply focused on select verticals and service lines and to culturally become more nimble and execution-orientated. Key to this has been a creation of a refreshed and a reinforced leadership team at Birlasoft, most of which is already completed. And when we last spoke, there were a couple of open positions that we spoke about, the COO being one of them. With Selva coming on board, we now have a unified delivery organization reporting it to him, closely aligned to the geography organization. As the Chief Operating officer of our firm, Selva will be at the helm of refining our operational efficiency, driving transformation initiatives to enhance customer centricity, and capability building for sustainable growth. He will oversee our global delivery and operations, our service lines, business excellence, along with our CTO and the CISO functions and this will ensure that Birlasoft remains at the forefront of IT services.

Now let me quickly come to our Q2 Results:

Coming to our Q2 Results, which I trust all of you have seen, we are very pleased to report a very strong financial and operating performance, delivering robust growth on all three fronts; revenue, margins and deal wins. Our revenue for the quarter has grown by 3.1% Q-o-Q in constant currency and 3% Q-o-Q on reported currency. Our reported currency figures are $158.3 million, whereas our constant currency figures are 159.1 million. This was possible because of great account mining and deal ramp ups. If you take the 2 million disengagement services fee that we receive from Invacare in Q1 out of the picture, then our growth in Q2 has been even stronger at 4.4% Q-o-Q. In rupee terms, our revenue for the quarter increased to Rs. 1,309.9 crore, a growth of 10% year-on-year. Again, if you were to take Invacare out of the equation, this will represent a growth of 13% year-on-year.

We also recorded an expansion in our EBITDA margins and this is despite implementing an organization wide compensation hike and promotion that was effective 1st of September. Our EBITDA margins expanded by 50 basis points Q-o-Q to 15.8% in Q2. We have also seen our cash flows and cash balances improved. These sustained improvements are an outcome of both of our operating leverage as well as our push to enhance our operational efficiencies. Kamini in her section will take you through more details around those.

Now, our performance comes on the back of a very strong 1st Quarter where we recorded a 3.1% sequential growth in dollar terms and also 170 basis point increase in our EBITDA margins.

On the deal front, you would remember that our Q1 was a little muted. In Q2, we have reversed that trend. We have signed TCV deals worth $271 million and this included one very large deal, which is a deal with TCV upwards of $100 million from a Fortune 500 company in North America. As a part of this partnership, the customer and Birlasoft will establish a strong foundation towards application maintenance, modernization and migration to cloud. Additionally, we will build capabilities around customer experience, enterprise data governance and management in our data and analytics practice. This contract is for a period of 5 years and includes renewal plus incremental business and I'm sure you would've guessed that it is from an existing client. This is a milestone deal for us which reflects our unwavering commitment to shaping a brighter data-driven future along with our customers. Our ability to successfully go after and execute such large engagements also demonstrates our ability to create and close complex deals. But there is one more point I would like to draw your attention on: this deal will have a transition period of almost 6 months and we will start seeing the revenue uptake only from April onwards.

On the capability front, we continue to scale up our emerging tech skills following the generative AI Center of Excellence, which we established in the last quarter along with Microsoft. Our initial training included 500 of our colleagues, but as we go forward, we have now extended it to cover all of our around 12,500 colleagues to be trained on generative AI. This is a big investment from our perspective. We firmly believe in making these investments to reinforce and enhance our long-term competitive edge.

In terms of looking forward, we have had some good deals. We also have a very, very strong pipeline. But as you are aware, the macro environment is still very unfavorable and the high interest rates that persist in the matured geographies and economic deceleration that is happening in the West will have some impact on our business. The current quarter, Q3, as we all know is a short quarter with lot of furloughs. So, I can say that the Q3 quarter will be a muted quarter for us, but obviously we cannot give guidance and, like I have always said, we will focus on in-quarter execution to land wherever we have to land. Our approach has been to stick to and leverage our strengths and actively drive proactive deals. We are seeing this play out in all areas where we enjoy strong competency, whether it's cloud, whether it's infra, digital and even the ERP business, which is now spanning out and starting to see growth.

Our strategy of retaining and mining existing accounts with both cross selling and upselling is delivering solid and positive results and this is visible in our deal flows. Our TCV in the past nine months, which is 3 quarters, is 21% higher than the total TCV during the preceding 9 months. Our effort is to exit the financial year with a higher total TCV than last year and that should set us up for a good growth year even for next year. We intend to remain very focused on execution as we go forward.

With this, I hand it over to Kamini, our CFO.

Kamini Shah: Thank you, Angan. A very good day to all of you. I hope all of you are doing well and thank you for joining our call.

Let me take you through the financial highlights for the 2nd Quarter of the current Financial Year:

We have reported revenues of Rs. 158.3 million in Q2 FY’24. This represents a growth of 3% quarter-on-quarter in dollar terms. If you had to exclude the impact of Invacare, the inflow of 2 million that we received in Q1, our revenues would have grown at about 4.4%. On a constant currency basis, the comparative numbers are 3.1% quarter-on-quarter and ex of Invacare 4.5%. This strong growth has been driven by a combination of sustained account mining and ramp up in the deals that are already secured. We have seen growth across all our key accounts with our top 20 accounts growing higher than the company average.

Among the verticals, our growth during Q2 has been led by BFSI and Manufacturing that have grown by 5.3% and 4.2% quarter-on-quarter respectively. From a service lines standpoint, while the growth has been largely driven by digital and cloud, the ERP and infrastructure service lines did not have any inflow from Invacare in Q2, but adjusting for that, these two have also grown quarter-on-quarter.

Moving on to margin performance, our EBITDA for the quarter stood at $25 million versus $23.5 million in Q1. This implies a 15.8% EBITDA margin which is an expansion of 50 basis points quarter-on-quarter. This margin performance has been achieved even after implementing an organization wide compensation and promotion increase effective September 1st, absence of the one-time Invacare disengagement fee flow, and continuing to make the investments which are necessary to drive growth in our business. These headwinds have been offset by sustained execution of multiple operational efficiencies that we have been driving, enhancing our utilization level, and optimizing our SG&A and discretionary spends. As a result, our PAT for the quarter increased to $17.5 million, resulting in a PAT margin of 11.1%. Our effective tax rate for the year is expected to be at about 25%.

Let me briefly touch upon some of the key balance sheet items. We have seen a sequential improvement in our quarterly collection during Q2 resulting in better DSO days, which now stand at 52 days. I'm very pleased to share that this is the fourth time in six quarters that we have recorded a quarterly collection above the $150 million mark and our operating cash flow to EBITDA is at about 93%. As a result, our cash and bank balances at the end of the quarter have increased by 13.5 million to $173.5 million. As you would have noticed, the board has recommended an interim dividend of Rs. 2.50 per share. This reflects our intention to reward shareholders for their ownership while also keeping in mind our capital allocation requirement, the record date for this dividend payout is 8th November 2023.

In conclusion, I would like to reiterate that our performance during the quarter reflects our ability to execute with financial rigor as we navigate our way through the macro headwinds that our industry has been facing. As I mentioned earlier, we have been making investments in our business and we will continue to do so which is required to create and scale up the capability that is required for long-term sustainable growth. We will be focused to win deals, generate cash flows and we are also seeing moderating attrition levels. All of this gives us the confidence to deliver a healthy performance for the full financial year.

Thank you very much. Back to you, Abhi.

Abhinandan Singh: Thank you, Angan and Kamini. Moderator, we can open the floor for questions, please.

Moderator: Thank you very much. We'll now begin the question and answer session. The first question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Congratulations on strong execution in the current environment. Angan, my first question is on the $100 million+ large deal, if you could throw some light on aspects that led to this outcome, perhaps in terms of deal sourcing, the competencies that supported this win, nature of competition and the margin profile?

Angan Guha: So, Apurva, first of all, thanks for attending the call and thanks for asking the question. The large deal, like I said, is in one of our existing clients. So, we know the client well, we've worked with the client for many years. So, we understand the client's landscape significantly well. The client has trusted our past execution capability and has given us an opportunity to do a large piece of work. Now, this has a combination of existing as well as net new and I can only say that net new is significant. I can't give you precise numbers because as you can imagine, I'm under NDA from the client and as a result, we can't talk about the client's name or which industry it belongs to. But suffice to say that it is a client that we know of. Now, I feel the reasons Apurva, why we won the deal are three: 1) we have executed flawlessly with the client over the last year or so; 2) we were able to gain the customer's confidence when it came to the application maintenance and the modernization bit of it; and 3) our ability to move the application of the cloud played a pivotal role. So, from a combination of great execution in the past, great relationships that we have built with the client and our ability to display some of the great capability both around the core modernization and the cloud migration helped us win the deal. We displaced an existing vendor and the vendor is a Tier 1 vendor. Obviously, I can't give any more details around this. Now, we don't talk about individual margin profiles, but suffice to say the current deal that we picked up was higher than the current account margins.

Apurva Prasad: Thanks for the color on that. My second question is how should we look at the trade-off between growth and margins? And I'm asking this in terms of the room to expand margins further from here as you attain higher end of industry growth, this is more medium term?

Angan Guha: So, Apurva, you would recollect that I've always maintained that we will exit this year, 4Q, at 16% EBITDA, right? Our 3Q will be muted and I will admit 3Q is a shorter quarter. It has got furloughs and it's an industry phenomena. So, 3Q will be muted for us, as it will be for the industry. But what we are committed to as a management team is to exit 4Q with a 16% EBITDA. Now in the medium to long term, I would like to keep the company in that range of 15.5% to 16.5% EBITDA range as we invest for future growth. See, we are still in an investment phase. You know we are going to hire more leadership. We are going to sharpen our domain. We are going to create newer and newer service lines and internally we are also investing in our own tech transformation which is investing in technologies and tech stacks that we use to run our company. And like I keep saying, we are here to build a long term sustainable profitable business and not necessarily a quarter-on-quarter business. So, my sense is if I can get to an industry level growth and keep the margin at the narrow band of 15.5% to 16.5% or maybe even to the 17% ranges, I think that will be a good solid execution on our part.

Apurva Prasad: Just one final bookkeeping one. On the other expenses side, what led to the 10% sequential increase?

Angan Guha: We will come back to you on this. [*Post script: Please page 11 of this transcript for the response to this query*]

Moderator: Thank you. Next question is from Krish Beriwal from Nomura. Please go ahead.

Krish Beriwal: My first question is on your new unified delivery structure. When should we expect the benefit from it to come in and what kind of margin tailwind can we expect from this initiative in the medium term?

Angan Guha: So, Krish**,** we just have hired Selva as our Chief Operating Officer, but our new unified delivery structure has been in practice right from 1st April as I have said in the past. So, some of the benefits have already accrued which is why if you recollect, last year our margins were at 14% EBITDA and now we have almost touched 15.8% EBITDA even after giving salary hike starting 1st September. So, the benefits of unified delivery organization. some of the kind of work that we execute for our customers, are already in play. As I've said, in the long run we would want to report EBITDA margins anywhere between 15.5% to 16.5% to 17% range. Now we may make more money than that, but we will invest in our business going forward because we want to build a long term sustainable business, so our investment profile will only go up and while our investment goes up, we want to keep the margins in that narrow band, which I spoke about, Krish**.**

Krish Beriwal: Understood. That's very helpful. So, Angan, we have now had three quarters of growth with consistent margin expansion. Now do you think it is the right time to maybe start looking for inorganic opportunities and if yes, then what kind of capability vertical or maybe geography that you have in your mind where we can look to improve our positioning?

Angan Guha: So, there are a couple of things I would want to mention. You're right, we've had 3 quarters of consistent performance, but we want to deliver consistency over a long period of time. So, we are not celebrating victory just yet. That's point number one. Point number two, as I've said earlier and I want to mention that again, Q3 will see muted performance. Now I can't obviously say what exact the growth we will deliver, hard to say. And of course from an execution perspective, the management team will do everything to deliver strong execution led performance, but it will be a muted performance just to bring that out on the table. So, you know, if you were to take Q3 out of the picture, by Q4 we should be back on good execution led performance again. Our belief in the company is that we need to at least deliver 4, 5, 6 quarters of good performance, continue to generate positive cash flow as we've been generating, and strengthen our balance sheet further before we look for an acquisition. We will definitely get an acquisition done, but I can't tell you the timeframe and quite frankly, we've not even started looking at it because we are still building the organization, hiring leadership, settling down leadership. But my commitment to all of you is that we will focus on in-quarter execution even going forward and then once we feel comfortable, then we will look at an acquisition. Acquisition, whenever we decide to do it, we will do it in a couple of areas. We will do it in a domain that we are comfortable in and a domain that will see tremendous growth. We will do it in a technology or a service line that we feel can give us tremendous pivot. It could be a gen AI service line, it could be an engineering service line, and we will do an acquisition that helps us build capability. We will never acquire a company for revenue aggregation or revenue growth, but that has to give us solid capability around the two domains or the two service lines that I spoke about.

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

Dipesh Mehta: Couple of questions. First about the large deal, I think you've covered a lot of detail, but just want to understand the number of services or overall offerings covered under it. Just trying to understand in terms of cross service index, what progress we are making because this is a fairly large deal, so if you can provide some sense how we are able to cross sell number of services in our bucket. Second question is about utilization. Now we are already above 86% this quarter. So, how one should look utilization over medium term, whether we are comfortable at this or you think further scope for expansion? And last question is, just want to get your sense considering overall macro uncertainty and different commentaries which we hear from different managements. So, if you can provide some sense about vertical outlook, the 4 major verticals where we operate? And geographically, Europe seems to be weak, but if you can provide some sense, thanks.

Angan Guha: So, Dipesh, couple of things. First of all, the large deal that we have won, we have won from an existing client like I have said and like I talked about, we've been able to cross sell lot of our services. So, this is application maintenance which is a big service line for us. We are also participating in our client’s modernization effort. We are helping the client migrate to the cloud. In many ways we are touching all of our service lines, including data and advanced analytics. So, it's a combination of multi service lines. And that shows our strength and our customer’s confidence in us to trust us with work which is across service lines. In terms of our utilization, I think we are on the top end of the industry and improving from hereon is going to be impossible quite frankly. We would be happy to keep our utilization in a narrow band of 84% to 86% and I think that is the right number to go with. You must also remember Dipesh, we are continuing to invest, investing in talent for future growth, including training our people on AI, identifying leaders and resources and associates from the market to enable to funnel our future growth. So, delivering better utilization I think will stutter our long term growth and we would like to keep it in that narrow band. What was your third question? I couldn't get the third question. Can you repeat that please?

Dipesh Mehta: So, just about the major verticals, if you can provide some demand drivers and geographically, US, Europe?

Angan Guha: Thank you, Dipesh. So, look, we are seeing tremendous traction in BFSI and like Kamini also called out even in this quarter, the two verticals that led growth for us were Manufacturing and BFSI. Healthcare has been a little soft, but I'm very confident that healthcare will sooner or later bounce back. Energy & Utilities is our soft sector, but it's an industry trend. If you look at the industry in general, the E&U sector has been soft and it's been soft for us. I can't really comment when that business will turn around, but that business is definitely a focus business for us. From a geography perspective, Americas continue to deliver strong growth to the tune of the fact that Americas are now touching 85% to 86% of our overall revenues, but we are focused on the Europe market also as you know. And I've said this before, we are hiring a leader to lead our rest of the world business, not because of anything else but because we want to diversify and grow the other geographies as well as America continues to deliver strong growth for us.

Dipesh Mehta: If I can squeeze one question, because I think you made two or three comments about utilization, moderation, earlier we gave increments intake and then furloughs related Q3 mutedness. So, whether these factors put together weigh on Q3 margin trajectory? Thanks.

Angan Guha: So, I can't give exact guidance, Dipesh. As you know, we don't give guidance. I can only say that Q3 will be muted, but equally the management team's job is to drive good execution within the muted quarter.

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

Shradha Agrawal: Couple of questions here, Angan. First is we've seen very solid growth in our top 6 to 10 clients bucket. So, was it led by some particular account in that bucket or was it some widespread growth that you've seen in that band?

Angan Guha: Shradha, first of all thank you for asking that question. So, look, in our top 10 accounts, we see widespread growth, but what is even more heartening is that our top 20 accounts have also grown ahead of the company average, which is obviously very heartening because that tells us that our mining strategy of our top 20 accounts is working well. So, there's no one particular account that is growing, I think universally all our top 10 accounts have shown reasonable growth. In fact, all our top 20 accounts have shown reasonable growth as well, Shradha.

Shradha Agrawal: Right. And in terms of margins, if I look at the segmental margins, margins in Life Sciences have seen a sharp decline on a Q-on-Q basis. So, barring the Invacare adjustment, is there anything else to read into it?

Angan Guha: No, there is nothing else to read into it. It is basically the Invacare adjustment. But traditionally, you know, if you look at our margin profile, our traditional margin on the healthcare business has been a little soft, but we are investing in the healthcare business. This is one of the called out verticals that we want to invest in, going forward. We are doing well in Manufacturing and BFSI. We are very small. We are still growing and we want to invest in it and we want to invest in healthcare. So, it is because of the investment profile, you are seeing a little bit of downtick on the margins, but I will not be too concerned about it because we are in the investment phase and as you see the business turnaround and get back to growth, you will see the margin also improving going forward.

Shradha: And just last question, with appointment of Mr. Selvakumaran, is our leadership team in place broadly or are we looking at more senior leadership hiring over the next few quarters?

Angan Guha: Yes, Shradha like I said, we are very focused on the Rest of the World geography as well. So, we will hire a CEO for the Rest of the World that is pending. We have made an offer and hopefully the leader will join us towards the end of November or starting December and when the leader joins, we will make an announcement. The only other couple of roles that we will hire, not at the CXO level though, will be a strategy officer and a growth officer. The growth officer like I have said will be focused on partnerships, will be focused on marketing, will be focused on analyst relationship and these are technology analysts, not financial analysts, and the strategy office will essentially help the CXOs to drive our long-term 3-to-5-year strategy, but outside of that, we have filled all the roles, Shradha.

Shradha Agrawal: And sir, just one last question, if I can, what are the trends that we are seeing in the ERP space, I understand that it was a flat quarter because of no revenue from Invacare, but otherwise what trends are we seeing because last quarter we were sounding quite positive on the service line?

Angan Guha: Yes, now we are still positive, Shradha. So, if you really take Invacare out of the equation, ERP has also grown and I think they have grown about 1% quarter-on-quarter outside of Invacare. We are very bullish on ERP and like I have said, we have a leader that we have gotten for the ERP business. He has joined us about 6 months ago. He is rebuilding his organization. I am bullish for two reasons; one is the entire SAP S/4HANA movement will happen by 2027 and that represents an enormous opportunity for a company like ourselves. Our capability around JDE, there are a very few companies in the world who are still in the JDE business, we are one of them and that is the big opportunity for us as well. And the last opportunity that I spoke about in the last earnings call is the mid tier manufacturing segment in North America. So, these are our target markets. We strongly believe that over the next few quarters, you will see growth coming back in ERP, but just to mention Shradha, outside of Invacare, the ERP business has grown this quarter, bottomed out.

Moderator: Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: First question was for Kamani, just to understand the extent of wage hikes that were implemented in the current quarter and what was the impact on margins due to the one month implementation and the second question was with regards to the extent of furloughs for December quarter, if you could help us understand, do you expect normal furloughs or it will be much higher than normal and how should we be thinking about the number of working days in December versus typically December?

Kamini Shah: Let me answer the second question first. See as far as furloughs are concerned, we are not seeing an extended furlough request from our customers at this point of time. So, I think would be range of the typical furloughs that we have seen at any point of time, so while we don't discuss specific numbers, we are not seeing anything exceptional from a furlough standpoint. As far as the impact of the increments are, our increments have been in line with the industry wherever the companies have given. It has been about approximately about 90 basis point, which is the impact as far as the Q2 numbers are concerned. We would of course have the impact as far as the next quarter is concerned, which will be about 2 months of additional impact.

Malik Taneja: And the last question was for Angan. Angan, at Birlasoft, the focus over the course of last 2-3 years was to reduce the long tail of accounts and some of it has continued even into your tenure, how should we be thinking about this on a go forward basis and simultaneously the changes in terms of our client revenue buckets?

Angan Guha: What accounts? I couldn't quite get your question.

Malik Taneja: Sir, we have been continuing to prune the long tail of accounts and also if you could talk about the client metrics in terms of the higher revenue buckets, the changes that we see in the current quarter?

Angan Guha: Yes, we continue to prune our accounts and like I have constantly said that we want to work with lesser number of accounts, so our accounts have gone down by another 7, if I remember right even in this quarter, our accounts have now come down to 278 from 285, so the number of accounts are continuing to go down. We will clearly focus on our top 40, top 60 accounts and try and grow it from one bucket to the other. Now, we don't exactly report the bucket of accounts yet, and that is a best practice we want to get into going forward, but suffice to say that today we have a couple of accounts which are above the $50 million range. We have at least one account which is above the $75 million range, but eventually we will come back to you with reporting in terms of how many accounts are in what bucket. We will continue to focus on our top 200 accounts for future growth. I think we have enough real estate in those to continue to drive a lot of growth and as you saw in our results and if you see our last 3 quarter results, our top 20 accounts have continued to perform better than company average.

Kamini Shah: So, maybe I will just take this opportunity to clarify on Apurva's question, on other expenses that have increased. Apurva, this is largely because of subcontractors and we have had additional working days as far as quarter 2 is concerned and quite a few of niche skills is what we have currently staffed through subcontractors, which is why you are seeing an increase as far as this is concerned. So, that is the reason behind it. I just wanted to clarify that. So, that query stands concluded during this call itself.

Moderator: Thank you very much, ma'am. Next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: One or two questions, one is on TCV, like I think last time when you took over, there was some change in incentive plan because of which TCVs were supposed to convert into revenues little faster or better, is there something we should expect in FY24-25 or do you think that will take some time to reflect?

Angan Guha: Our TCV will definitely convert to revenue for sure because at the end of the day, we are very closely monitoring in terms of the orders that we book and what is the correlation to the revenue number that has come up. As I had stated in the conversation earlier, you would have noticed that I talked about the fact that during the past 9 months, TCV signings have been up 21% over the preceding 9 months. It only says two things, one is we are signing deals, but equally we are signing long-term deals. So, that gives us a surety of revenue. Our growth of 3%-3.5% consistently for the last 3-4 quarters is testimony to the fact that our order booking is getting converted to revenue. Now, what can derail this is of course a leaky bucket, so if projects get closed or people get ramped down, this equation becomes hard to depend, but at least going forward, we are not seeing that situation as far as our company is concerned. Our order book will convert into revenue. It has converted into revenue in FY24 and I don't see anything changing in FY25.

Mohit Jain: And the second is related to your margin outlook, like 15.5 to 16.5 per cent seems to be at the lower end of the industry, I think from top 20 companies perspective, whereas wage hikes are behind hiring may pick up, but subcon you have an opportunity, so is there a scope for this to sort of go more towards 17%-18% rather than staying at 15.5% or 16%?

Angan Guha: That is a great question and look, I am not saying we will be at 15.5, I am saying it will be a range of 15.5 to 16.5 and it could also go to 17. I mean, it is hard for me to commit on that today, but our endeavor will be to drive sharper execution and you must also appreciate that it is not that we will not make more money, we will definitely make more money, but I am a strong believer that we will invest 1% or 2% of our margin back into the business because we want to create long-term sustainability of our business. Like I said, we are embarking on a huge tech transformation which both Selva and Kamini will lead and that will need a lot of investments. We are creating a domain-led sales organization that will need a lot of investments and as I have said in the past that for us to build a long-term sustainable business, investments here and now are important. So, I would suspect that in the medium term and the medium term could be a year, year and a half, we will be in that 15.5% to 16.5% to 17% range wherever you can call it out, but as our business grows beyond the billion dollar mark and touches the $1.5 billion mark, you will see margins improving as well because then all the investments will be behind us, but over the next 24 months, we will be in the investment mode.

Mohit Jain: And last is on hiring, like if you have any targets to share because our utilization is already high, so what should we expect in terms of hiring over the next 12 months or 24 or 25?

Angan Guha: You mean the leadership?

Mohit Jain: No, the employee headcount increase?

Angan Guha: Again that is a little bit of a hard number to give because we are adding headcount, even if you see this quarter, we have added headcount, but equally I want to drive a lot of automation and drive a lot of nonlinear revenues. So, headcount may not necessarily associate itself to revenue growth all the time though. Our endeavor will be to drive a lot of automation and try and get revenue on a nonlinear basis, which we will continue to do, but we will continue to add employees. Now, it is also a manifestation of the kind of deals that we win and the kind of deals that we are gunning after. So, it is hard to give a number, but I can only tell you for this financial year, we will have a positive headcount add.

Mohit Jain: For FY24, alright?

Angan Guha: FY24, correct, yes.

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

Sandeep Shah: In terms of after winning the $100 million deal that you took from an existing account and displacing the tier 1 vendor, is it fair to say this can replicate in most of the other existing accounts? So, my question is, how's our large deal set up? I am not asking to close $100 million deal each quarter, but is there a set target to have a deal closure about 10, 15 million for the quarter because that will set the growth profile in the medium-to-longer term?

Angan Guha: So, Sandeep, that again is a great question and thank you for asking that. Look, we are winning lot of $5, $10, $15 million deals. That is our run rate and even this quarter outside of the large deal, we have still won about $140-$150 million worth of run rate deals. So, that is now par for course as far as Birlasoft is concerned. Obviously, as a management team, we are gearing ourselves to close larger and larger deals, but that doesn't mean that we will not focus on smaller deals because by nature smaller deals are more profitable. And with Selva coming on board and our company now being able to attract great talent, I am also very confident that if we pick up large deals, we will be able to execute those large deals and execute them profitably. So, I am very bullish around this, but you are right, we will still focus on a run rate basis on winning more $10-$20 million deals. Now if you look at our funnel profile, our funnel profile is ever increasing. Even after closing a very large deal this quarter, our funnel is back up to one of our highest levels and that consists of lot of small and medium sized deals which we will be focused on. But like I have always said Sandeep, we will have very superior focus on execution because if we can get execution right of large deals, then I am very certain that customers will trust us with more and more large deals going forward.

Sandeep Shah: And just to follow up, it is a great execution on large deal as well as client mining. Is it a result of changing the variable incentive program and if yes, can you share what has been changed now versus what the structure was earlier?

Angan Guha: Sandeep, I think I have said this earlier also. One of the big changes that we have made is we are now compensating our people on both profitability as well as revenue. Earlier, it was only revenue. Now, we have brought in the profitability angle and I think that is important. We also have hunting commission, which is very attractive and the hunting commission, if a leader opens a new account, is quite attractive and we will follow through on that, but more importantly, we are paying people for performance. We have a LTI plan that Arun, our CHRO, has institutionalized on meeting our long-term goals. So, there is a short-term goal and there is a long-term goal. For short-term goal is the bonus and for the long-term goal is the LTI, and LTI can be a combination of cash LTI plus ESOPs plus stocks or whatever. So, we kind of pivoted to a more performance-based compensation culture than rather than a fixed base compensation culture and like I said, as we go ahead and open newer and newer accounts, our incentive will be tuned to take care of hunting commissions as well.

Moderator: Thank you. Next question is from the line of Abhishek ShindadKr from InCred Capital. Please go ahead.

Abhishek Shindadkr: My first question is regarding Q3, you said Q3 will be muted due to furloughs, so do you expect a loss of revenue due to furloughs that could bounce back in Q4, would Q4 be more as business as usual and that is first? The second is this quarter digital and cloud service lines saw strong growth both sequentially and year-on-year, maybe any color could be helpful? And the third question is, if I look at the growth of top 5, 6 to 10 and 11 to 20 and also compare that with the client metrics for $1 million, $5 million and $10 million, the number of clients in those buckets, we have seen a decline in the buckets across the large clients, but the growth is very strong, so how should we read these two data points?

Angan Guha: Let me take the first question first. Look Q3, we all know is a short quarter and on top of that there are furloughs. As you know it is very hard for anybody to kind of comment in terms of where the revenue will exactly lie, but our commitment, as I have always said to all of you is we as a management team will be very focused on execution. We will be focused on execution, we will be focused on serving our clients, we will be focused on finding newer and newer deals and large deals. That is our job and we will continue to do it. Now, where the revenues will fall, we will see, we can't give a guidance, we don't give a guidance, so I can't exactly tell you where our revenues will be, but in Q4 we will be back to business as usual. You have seen our performance in Q4, 1Q and now 2Q and I think 4Q again of this year will be back at that level, but obviously it will depend upon how we execute in Q3, which is why the execution in Q3 is important, so that is number two. Number three, you must also appreciate that today we don't know what we don't know, the situation in the market is very volatile. So, it is very hard for me to give even a two quarters out view, but what I am feeling good about is our pipeline, our execution rigor and the fact that the customers are willing to talk to us on largish deals and that gives me the confidence that going forward, I think the situation will only improve for us as we look at the real medium term to the long term. But in the short term because of the quarter we will have issues. Now, on the accounts, you must also appreciate that in the large accounts we had Invacare last year. We don't have Invacare this year and that makes a big difference, because that shows one large account going away. But I can only tell you that the overall set of the top 10 and top 20 accounts as we call it today have all shown very good solid execution led growth.

Abhishek Shindadkr: And if you can just comment on the service lines, is it Microsoft driven because last quarter we talked about a lot about Microsoft? So I am just trying to curious to know the growth in the digital and the cloud service line?

Angan Guha: Yes, Microsoft is a large part of our business that continues to show solid growth. I can't give you exact numbers because we don't report numbers like that, but from our own service lines perspective, like I said, Digital has shown great growth, our Infrastructure business is a growing business. The reason you don't see it show up in Infrastructure and ERP service lines growth metrics is because it has the hangover of Invacare. But if you take Invacare out, both of them have grown well. Our Data & Analytics business is also showing signs of revival, so all service lines have grown reasonably and I am pretty confident that going forward all the service lines will do well.

Kamini Shah: And Angan, if I may add to that also, I think our Infrastructure business has been growing at the company average of growth that we have seen and ERP has been in the range of about 1%. So, I think we are confident that the other service lines will also start picking up from a growth standpoint.

Moderator: Thank you. We have Sandeep Shah back in the queue. Sandeep, please go ahead and complete with your question.

Sandeep Shah: My question was just bookkeeping on the third quarter. You did mention that it would be a soft quarter because of furloughs, but because of strong execution, is it fair to say we can be at least in a positive growth trajectory?

Angan Guha: Sandeep, that is hard for me to comment, and we don't give guidance. So, I will not be able to answer that question specifically, but there are, I was telling the other folks on the call, two things that I can commit to you. We will continue to focus on execution and execution is something that is table stakes at the Birlasoft now and we will continue to focus on that, that's one. We will continue to serve our customers well and we will continue to win more and more deals. Now exactly where the revenue falls, we will see and it also, like you rightly pointed out, has a bearing on margins. And if we can execute well, I am sure we can do well on margins as well. But Sandeep, I will really request you to focus on a little bit of a longer term. Q3 is a seasonally weak quarter for the industry and for everybody, and we are no different. So, the muted growth that I talked about will continue in Q3, but while you were away, I was telling the other folks on the call that if we have a strong execution quarter in Q3, then by Q4 we will be back on the kind of performance that we have delivered in the first three quarters.

Sandeep Shah: And in terms of margins in 3Q, we will have two months of additional wage hikes, we will have furloughs, may have this large deal transition cost because you said it may take 6 months before it starts ramping up from April, is it fair to assume directionally margin may decline in Q3 and then there could be a strong bounce back in the fourth quarter and from there we can actually lift the margin further?

Angan Guha: So, Sandeep, while you were away, I was also telling the team a couple of data points. So, one's on our long-term goal. And again, I can't comment on Q3 specifically, but our long-term goal is to keep the margin within the band of 15.5% to 16.5% to 17% EBITDA, in that range. That doesn't mean we will not make more money, we will definitely make more money, but we will reinvest that money into our business. We are building our business, which is more domain-oriented, and we are also embarking on a huge tech transformation within our company which will have great benefits in the long term. So, I don't want to kind of be penny wise and pound foolish. I want to invest in the business because we are here to create a business for the next decade. So, my suggestion and my request is, look at us from a medium to long-term perspective instead of a quarter-on-quarter perspective, but in the medium term, I can only commit that we will maintain the margins in that 15.5% to 16.5% to 17% range.

Sandeep Shah: And last question Angan, is there any client specific issue outside Invacare in any of the accounts?

Angan Guha: No, we don't have any client specific issue outside of Invacare, but again Sandeep, it is a very difficult world. We don't know who files for bankruptcy when, but I speak to clients every day and as far as we know, all of our clients are healthy. They are doing well and we are serving our clients well.

Moderator: Thank you. Next question is from line of Jyoti Singh from Arihant Capital. Please go ahead.

Jyoti Singh: Sir, my question is following up on the earlier participants about the furloughs, will it be quite high compared to last year Q3 or it will remain consistent?

Angan Guha: Thank you for asking that question. That is an important question. Look, our BFSI business is only growing as you see and I am sure you know this already that the majority of the furloughs happen in the financial services space and as our BFSI business grows, our furloughs obviously will grow. So, to your question, our furloughs will be more than last year only because the BFSI businesses are growing. But look, the kind of work that we are doing and with the clients that we are doing are very strong. They are big names and we are executing very well for them. So, even if the furloughs hit us, it is only a temporary thing which is why I keep saying that we will focus on execution and we will see where we land in Q3. But Q4 obviously will be a much better quarter.

Jyoti Singh: And sir, another question is that like earlier last quarter we had discussed that we will be focusing more on the Banking side as we have more deployment on Insurance, so any update on that you can discuss with us?

Angan Guha: Sure, Jyoti, so which is why you see in our results, our BFSI business is continuing to grow. It is showing strong growth, and we are investing in that business and I continue to see BFSI doing well, but again, in Q3 because of the furloughs and shorter quarter, you may see an impact on BFSI. But overall, I am very bullish on BFSI and you will see much more growth from us going forward.

Jyoti Singh: And sir, last question from my side, do we have any plan in place for a potential acquisition that's in the cards or in discussion?

Angan Guha: We don't have any acquisition discussion going on currently. We are not even looking at it and I think I was telling some other participants that we will focus on organic growth immediately for a couple of more quarters, we will look at strengthening our balance sheet, generating more cash and then when the time is right and we get the right asset, we will do an acquisition. We will never do an acquisition for revenue aggregation, that we do not want to do. We will only acquire a company which we find is a strategic fit for us, will build some capability for us either on the domain or the technology side and is culturally aligned to our culture. If we find an asset like that, we will definitely look at it at that point in time.

Moderator: Thank you. Next question is from the line of Chirag K from Ashika Institutional Equities. Please go ahead.

Chirag K: Sir, I have one question on the furlough side. You mentioned that the growth on Q2 would be muted in Q3, so while it will bounce back in Q4, will the trajectory remain intact like what we have experienced in the past 3 quarters? Or is it that, due to the impact of the annual budget revision, investments, market and the incremental flow, growth will come? And second, on large deal pipeline side, are there any other engagements similar to what we have experienced during the quarter of $100 million plus kind of TCV in the pipeline? Will we witness some more announcements going forward?

Angan Guha: First of all, in Q4 we will definitely do better than Q3. I can't say what Q3 will be, but Q4 will be better than Q3. What we have experienced in the past is something that we will gun for, we will attempt to get and it is too hard for me to say one quarter out only because the market situation is so volatile. Our endeavor will be to deliver sustainable growth as we have delivered in 4Q, 1Q and 2Q, that's number one. Number two, our large deal pipeline is only increasing. Do we have more $100 million deals in the pipeline? Well, yes, we do have $100 million deals in the pipeline. Will it close in our favor or whether it will close in the next couple of quarters? Again, very hard for me to say, Chirag because it is a manifestation of what the client wants to do. But I can only tell you, and I have said this so many times before, that as a team we will be focused on our execution, our rigor on serving clients, closing deals and helping our clients in their transformation journey.

Chirag K: And just one follow up on the first question, what do you think about FY25, situation will revert and we move to optimistic scenario than what we have seen in the FY23 or FY24 also? Your guidance or any comment would be helpful?

Angan Guha: I don't know, in today's market, as you know it is hard to comment on two quarters out, so commenting on FY25 is very tough. I can only say that based on what I can see today, it will all depend upon how things shape up in our clients' space. So, we are staying very close to our clients. As you rightly pointed out, the budgeting exercise happens in January-February and March and we will have more color for FY25 only then.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. Angan Guha, CEO and MD, Birlasoft for closing comments.

Angan Guha: Thank you. First of all, I would like to thank all of you once again for joining us on this call today and for your insightful questions. I really appreciate your interest in Birlasoft. We have had a very good first half of the financial year as you have seen, we have grown our business and the growth has been profitable. Our fundamentals are very solid and we have a well incentivized team that is building a client centric organization that can take us to the next phase of our growth journey. Despite the challenges that our industry is facing, we will continue to be focused on execution. I look forward to speaking with you once again next quarter. Meanwhile, if you have any further questions, please feel free to reach out to Abhinandan for any clarification or feedback. Thank you once again and talk to you very soon. Thank you.

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

(This document has been edited for readability purpose)

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