"Birlasoft Limited Q2 FY-20 Earnings Conference Call"

November 08, 2019

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MR. SAMIT DEB – CHIEF PEOPLE OFFICER
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Moderator: Good day ladies and gentlemen and a very warm welcome to the Birlasoft Limited Q2 FY20 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav – Head of Investor Relations at Birlasoft. Thank you and over to you sir.

Vikas Jadhav: Thanks Ali. Good afternoon everybody. Welcome to the Birlasoft Q2 FY20 Earnings Call. I am Vikas from Investor Relations and joining us today we have over leadership. So Mr. Dharmender Kapoor (DK) – our CEO, Rajeev Gupta – CFO, Samit Deb – Chief of HR, Shreeranganath Kulkarni – our Chief Delivery Officer and this time around we also have Roop Singh, our Chief Business Officer.

Please note that anything that we say on the call and which refers to the outlook or forward-looking statement must be read in conjunction with the disclaimer in our factsheet which we have sent to the exchanges which mentions the risks the company faces.

Now I handover the call to DK. Over to you DK.

Dharmender Kapoor: Thank you Vikas. Good afternoon everyone and welcome to Birlasoft Quarter 2, financial year '20 earning call. Our revenue for Quarter 2, financial year '20 was at $109.9 million, a decline of 1.7% quarter-on-quarter. This has declined from our internally stated projection of being flat for the Quarter 2 primarily due to delayed start of Invacare engagement. As you all are aware that Birlasoft had won transformational deal worth US$240 million from US. The deal is by far the largest deal in the Birlasoft's history. We had anticipated this deal to close in early September but we ended up signing up in mid-October due to contract finalization which led to delayed start and the window of revenue recognition shifting by a month and hence the revenue recognition will begin now in Q3 and not in September Q2. But having said that it was bit disheartening to fall short of our expectations. However at the same time we are very excited about the prospect of signing such a significant and transformational deal with Invacare.

We also signed a significantly large digital deal with one of our large client in energy and utility. At the same time of our life sciences and healthcare vertical has continued to show momentum by signing a multi-year IT outsourcing deal over $20 million with our partner in medical devices sub vertical. So all these deals are definitely showing a very good prospect for us going forward.

Just a quick reference to the Invacare transformational deal; while I have spoken on this before as well but I would just give a very quick summary on the Invacare transformation deal. It entails multiple aspects like modernization of their systems, building a new analytics platform, building a brand-new e-commerce store for the organization and improving their customer experience. We would also be dealing with their infrastructure and Cloud migration by looking at moving their data center to Cloud and implementing SAP S/4HANA and associated SAP solutions. The organization is looking towards improving their design and development of product for which we are implementing PLM solution for them. At the same time they look forward to improving and modernizing their supply chain which is the global supply chain and for that we are putting all their systems and moving them to S/4HANA. Birlasoft won this despite having very tough competition from Tier 1 players and came out winning. This was due to our ability to create the deal through advisory led discussions but also having a strong capability in the medical devices and the enterprise to distribute sales.

Further in this quarter we have strengthened our leadership footprint by on-boarding Roop Singh as our Chief Business Officer. He will be based out of New Jersey. Roop comes with his rich experience in sales in US and Europe market. He has joined us from IBM and has had long experience in Wipro as well. In Quarter 1 we had on-boarded SK as our Chief Delivery Officer and I did introduce him in our last discussion for the Quarter 1 earnings call. He joined us from Accenture. With that I am very pleased to mention that we have completed on-boarding of our key leadership team and we are well poised for improved growth and profitability.

We have started working on improving our margins. Our EBITDA for Q2 has improved by 9.5% quarter-on-quarter over 112 basis points. This is despite wage hike and integration efforts going on. As you all are aware that the Quarter 1 and Quarter 2 generally goes for the wage hike for our employees and we have still been able to sustain and improve our EBITDA despite that. Rajeev, our CFO will shortly provide more color to the EBITDA.

Few more updates before I hand it over to Rajeev. The on-boarded Anjan Sen from Cognizant as our SAP Delivery Head in US. We are seeing significant traction in SAP space and with new leaders joining us we are very confident to address this growth because SAP is one place where we are seeing maximum traction today. To improve our cross-selling we just concluded our sales and leadership enablement program because I have talked earlier couple of times with many of you that cross-selling would remain one of our key focus and keeping that in mind we have to bring the sales team for both the organizations or in the integrated organization on the same page to understand offering and we just concluded our sales and leadership enablement program.

In last two quarters we have had discussions around consolidation of our verticals where many of suggestions were there that why with $500 million revenue we should have six verticals because that spreads up thin. It had always been our plan and we did commit that we will do the consolidation and keeping that in mind we consolidated our three verticals which are more closer to the manufacturing and created one larger vertical called manufacturing. So our Auto, CPG and DHM (Discreet and High-tech Manufacturing), these three verticals have been consolidated to form a new vertical called manufacturing. With that the manufacturing alone would be written over 40% of our revenue for Birlasoft and that also means that a lot of solution which gets consolidated our proposition becomes much more stronger and we are able to address the needs and requirements of our manufacturing clients in a much better way.

Now despite our Invacare deal pushing out to Q3, our new deal wins have been steady around US$ 30 million in Quarter 2. We have also renewed an additional $ 74 million worth of deal to continue to sustain our revenue with key customer because one of the crucial parameters that we keep for ourselves is how do we continue to renew our deal, how do we continue to have the annuity business so that we see less and less surprises, our projects getting finished. So keeping that in mind we worked hard, and we have renewed $74 million of deals in this quarter. While we continue to focus on our top accounts which we have been doing. Now we are working towards bringing the critical review of our tail accounts because we have large number of tail accounts. These are large companies, large organizations, but we are smaller with them and we are niche player. But we have very respectable position with them and what we have created is a separate program in which we would go after these clients and cross-sell our other services because now being vertical focused company we are able to cross sell multiple other service offerings that are there in our portfolio today and for that we have already enabled our sales teams to go and take those conversations and start working on improving our revenue with our tail accounts. We have been able to protect our margins and EBITDA through gains from cost optimization in quarter 2. We will continue to put our sharper focus on improving and sustaining it further in Q3 and Q4 as well.

Let me provide a quick update on the integration because I'm sure that will be of interest as we had just finished 2 quarters of our integration. So let me give a very quick update on that. One of the biggest ticket items that was there on the plate was, how do we do the policy and grade harmonization. In this quarter, we did the grade and policy harmonization, and now that is behind us. And that means that now we are a fully verticalized company, at the same time, the grades are harmonized across the 2 companies, and we do not have any things that can disrupt the people of the organization. I think this has been taken up very well. And now it is behind us, and we are fully integrated from that perspective as well.

Going ahead, the priorities will remain, stabilizing the integration of the 2 companies across process, people and systems. I think IT integration is still in the process and a lot of IT systems are already integrated, but one of the core systems that we plan to integrate in the month of January, and that is going as per plan.

We would continue to increase the traction to cross-sell within the existing combined customer base. We will continue to invest in strengthening sales capability because that is something that we have put a special focus on that how do we continue to invest there. And we transitioned from a technology-centric to a business-and customer-centric approach, keeping in mind that we are enterprise and digital company, but it is not only about the digital technology. What we are looking at is how do we help organizations achieve digital business. And our full pitch on Enterprise Digital has taken very good traction with the customers, and we are able to see that we are getting the deals which are purely digital in nature and helping us become more competitive in the market space.

Grow the proportion of revenue from their digital business, we will continue to do that. In fact, I have been saying from last 2 quarters, that slowly, it will become irrelevant to talk about the digital business because every new business that we are winning is actually a digital business. And that is what now market has also started seeing, that this is going to become a norm and every new business that is going to come, it is going to come in the digital space itself.

We will continue to sharpen Birlasoft's focus on capability development of its people through leadership program and digital learning initiatives and certification programs that we have put in place so that there is a one effective methodology through which we go and train our people. We have started putting the full program of hiring the fresher, which did not happen in the financial year '19. But in the financial year '20, we have put that program back in place so that we are able to correct our pyramid and take the advantage of reducing our cost to improve the profitability.

As we enter quarter 3, I am quite optimistic about the quality and strength of the merged entity and expect good traction going ahead. With this, I will hand over to Rajeev for providing more color to financials.

Rajeev Gupta: Thank you, DK. Good afternoon to all of you. I will provide some further perspective on the financials. So we did close the quarter at 109.9 million in terms of revenue. Compared to previous quarter, we saw a decline of 1.7%. DK mentioned about the challenge, which was delay in closure of Invacare deal. Despite lower revenues, we've seen our EBITDA improved by 112 basis points.

And then we also want to highlight that, though we have seen challenge in revenue growth over the last 3 quarters, we've been successfully able to sustain EBITDA margins. And particularly in quarter 2, despite wage hike and integration-related efforts, we've seen improvement in EBITDA. Our cost optimization efforts have yielded some results, and we continue to see this as work in progress. We saw benefits in terms of lower bench costs in this quarter and in terms of improvement in pyramid. For Q2 '20, we saw EBITDA margins improved by 112 basis point, and of course, lower bench cost improvement in pyramid. These are some efforts have contributed in terms of EBITDA improvement.

From a constant currency reporting perspective, we have about 80% of our billing in USD, and hence did not see much of an impact on the revenue. On the margins, we saw USD, of course, with the movement of 1.2% quarter-on-quarter. We saw a 30-basis-point improvement in EBITDA margins. Q2 PAT at US$ 5.8 million versus US$ 6.1 million in quarter 1. We saw lower PAT despite EBITDA improvement, mainly because of lower other income. Of course, we have other income in Q1 because of liquidation of mutual funds, and that was also to derisk given the NBFC crisis. Of course, in Q2, we don't see any liquidation of mutual funds. And we saw a higher tax rate in quarter 2 compared to previous quarter.

I would like to provide some brief on tax as well. As most of you are aware, that there has been a corporate tax rate cut from 30% to 22% for domestic companies so companies can opt for reduced tax rates. However, once the option on lower tax is exercised, it cannot be revised in subsequent years. So this is a good news for Birlasoft. We can certainly opt for lower tax rates, and it seems beneficial. However, Birlasoft will have to forgo MAT of almost $7.4 million and will have to revalue the deferred tax assets of close to 21 million as per lower tax rates. So the management's assessment of the impact of reduced tax rate vis-à-vis the MAT credit that the company would have to forgo, Birlasoft has not opted for the reduced tax rate for the current financial year and will evaluate this in the coming year.

I also want to highlight and I'm glad to say so, that our efforts in terms of improving the quality of balance sheet has yielded some positive results. We had a massive focus in terms of reducing our receivables and have collected $120 million of receivables in this quarter, which is, of course, a cash conversion ratio of 108%. We already have become debt free. This was, of course, an event in Q1. Our unbilled reduced by $ 8 million from $ 20.4 in Q1 to $ 12.4 million in Q2. As a result of efforts around reducing receivables and unbilled, our cash and cash equivalents have improved from $ 69.3 million in Q1 to $ 76.7 million in Q2, and this is despite a dividend payout of $ 9.4 million. Further, we have improved our hedge position and have taken the benefit of INR depreciation, so our hedge has improved from 59% to 77% in Q2, and our average hedge rate has improved from Rs 71.6 to Rs 72.2 in Q2.

Further, we have been prudent in terms of our spend on CAPEX. Our H1 CAPEX spend has been around $3 million, of which $1 million is for Bengaluru facility. We had earlier guided for a CAPEX spend of $ 20 million based on the then assumptions. However, we do not foresee this level of spend going forward, and we expect that this year it could be in the vicinity of $ 10 million.

We've rolled out a cost optimization program across delivery, enabling functions, and we'll continue our efforts on managing costs through multiple initiatives across business.

With this, I would like to now invite questions from the audience.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: So it's been a 2 quarters, so how the cross-selling initiatives have played out among the verticals within the top accounts? So can you give more details on that?

Dharmender Kapoor: When you talk about details, what kind of detail because...

Madhu Babu: I mean, any example or a case study of so, let us say, within this account, we could add these particular services. I mean, this current...

Dharmender Kapoor: A very good point. I talked about 3 deals in this. One of the deal is Invacare, which is actually net new. The other 2 deals are actually from the existing customers. The digital deal that I talked about, it is from our second largest customer, where we went and sold our digital services to them. Right now, we are talking about it as a $ 6.4 million deal, but the total potential for 3 years for that deal is about $ 20 or $ 21 million in total. But right now, we assigned the first phase with them for about $ 6.4 million. This is a very good example of cross-selling. The second one is in the medical devices that I talked about, which is over a $ 20 million deal. It is a support and maintenance deal. We have been playing with them on the SAP side, but now this is a new deal that we signed up with them in this quarter. The transition for that is already over, and we have started clocking the revenue with them from 1st November. So these are 2 very good examples. But a lot of traction that we are getting with our other customers, where we had not earlier gone with the data services in a way that we have started going now. So we are seeing very good traction from that perspective. At the same time, CRM was much stronger service line in 1 of the organization out of the 2, and now we are able to take that as a service line to all our customers, and we have seen the traction on the CRM side also. So I think there are numerous such examples that are there. And our objective is that how do we not be single-threaded with our customers because if we continue to remain single-threaded, then that would mean that when the project is over, our revenue actually goes down. So in order for us to continue to sustain and protect our revenue, we need to cross-sell, and we have started seeing the benefits of that.

Madhu Babu: Okay. And second, so now that we are guiding for a lower CAPEX, and we have a very good cash balance. So how do we see, if at all, we are looking for acquisitions, what is the ticket size, and what are the areas where we want to acquire? Or if you want to increase the payout ratio, what is the outlook on that?

Dharmender Kapoor: So as I always said that there are multiple options on the table, and we'll continue to assess that. There are already discussions that continue to come on our table for the acquisition, but we want to be very careful. Because for the large acquisition that Birlasoft did and this is going to take a little bit of time on the integration, we believe that by January, most of it will be done. In fact, actually, most of it is done, but it is just the IT integration that we will conclude in January. And after that, we will start looking at what are the options that are there on the table that we can go after. We are very carefully looking at a few cases and evaluating because we have to go and acquire to address the gap in the capabilities that we have. And for that, we need to have a good understanding what is our sense and what are areas of development within the organization. Based on that, we will take the decision. But this decision is going to be in the next financial year, not in this financial year.

Madhu Babu: And anything on the payout ratio?

Rajeev Gupta: So I can take that. On the dividend payout, we have mentioned about this in the earlier quarterly earnings call as well. So we did improve the dividend payout ratio. We paid 28% compared to 22% last year, and we will look at this going forward as well. So this will be one of the areas that we will prioritize from a capital allocation standpoint.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: My first question is just to clarify that you mentioned that you are combining a few verticals into one, which will be 40% of the revenues. So could you just say those verticals again, which are the ones that you are combining together?

Dharmender Kapoor: So we are combining our CPG, automotive and discrete manufacturing verticals, and we will call that manufacturing. Because if you look at the automotive and CPG, there is a lot of similarity with respect to the processes, with respect to the pain areas that the customers have or with respect to the needs that customers have. So there is no point that we continue to run that as separate verticals because that one attracts larger cost to sell and deliver. At the same time, it also spreads thin, because there could be multiple solutions that we can sell across the 3 verticals. So we have combined that together, so that we are able to put much stronger position in order to deliver the solutions and service offerings. So these 3 will become one. So with that, we'll have 4 verticals: Manufacturing, BFSI, Energy and Utilities and Life Sciences.

V.P. Rajesh: Got it. And in terms of the service offering, so this roughly 44% will be mostly which particular service offering? Will it be SAP or IES or just if you can give some color on that side?

Dharmender Kapoor: Actually, it will be across. I think we are quite balanced now when it comes to the services. Of course, the digital is the one which is growing faster, followed by, I would say, the SAP side because there is a lot of interest on migrating to SAP S/4HANA. So that, I continue to see a lot of traction. On the CRM side, I think the service cloud is one thing where we are seeing a lot of traction. But I would not really say that it is heavily loaded into one particular service line. It is very well balanced across all the service lines.

V.P. Rajesh: Got it. And on the SAP side, there is a decline this quarter in terms of the contribution of revenue. So anything you want to call out there? Because as you earlier said, that seems to be the growth service offering that you are expecting.

Dharmender Kapoor: Well, it definitely is and we are still very bullish about the SAP. It is just that we have had our own integration-related challenges because this is one particular piece, which you used to run like a very separate entity and we wanted to create one integrated organization and we fully merged that back into the Birlasoft. And the integration-related challenges had slowed us down. But there is a new delivery leader, as I talked about, Anjan Sen, who has just joined us in U.S. The Global Leader for SAP is joining us in 1 weeks' time here in India. So with that, we will have full leadership for the SAP as well. So from that perspective, now we will have one global SAP delivery as well as sales. So I believe that will put us much stronger in the verticals which are heavily into the SAP, but we had not played as much. But that opens up multiple doors for us to grow much faster in the SAP side.

V.P. Rajesh: Got it. And question on the salespeople that you have since organization. Are the 2 organizations now one in terms of the comp plan, incentive structures etc.?

Dharmender Kapoor: Yes, it is. And let me also give that opportunity to Roop to say a few words on that. I introduce, Roop. He joined us as a Chief Business Officer.

Roop Singh: Thank you, DK. And with the integration activity that went on, one of the key focus areas was to ensure that we normally get the synergies between the 2 organizations of sale, but really actually come forward with one sales organization, and that has actually been achieved.

V.P. Rajesh: Okay. Good, and then the last question is, in your EBITDA number, are there still some restructuring-related charges in this particular quarter? Or this is sort of the "clean" EBITDA number this quarter?

Rajeev Gupta: So there are some integration-related costs, but they are not that significant, hence we'd not called out separately. So what I would probably have you understand is that you should now take this as more business as usual.

Dharmender Kapoor: Business as usual and we will work on the cost optimization to continue to improve on our EBITDA.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, I wanted to ask you that last quarter, we had said that we would have bottomed out in terms of our topline. Now are we crystal clear confident that we have bottomed out and we will not see any more degrowth in our quarter-on-quarter topline?

Dharmender Kapoor: Yes, as you know, when we say that and it doesn't happen, the next time actually we should show it with the numbers. Sure in the next quarter, we will show it with the numbers. But yes, we definitely have because it was, I would not say unfortunate that the contracting got delayed because we need to be far more careful the way we signed the contract rather than trying to hurry it up just so that we can recognize some revenue. I think we thought that it will be good to have a better negotiation and have a better contract. And even if it means that we delay the revenue by a month and gets into the next quarter, that is okay. So it is just because of the Invacare that we have fell short, otherwise, we would have shown growth in this quarter.

Nisarg Vakharia: Sure. And secondly, sir, I think what is commendable, is that our EBITDA margins have gone up despite the degrowth. Is it safe to assume that the margins will naturally head up as soon as we start showing some growth in our revenue?

Dharmender Kapoor: Absolutely. That's the plan. I think now let me also say that there'll be a little bit of cost as we get into the transition for the Invacare side. So there will be a little bit of cost also that we will incur. But keeping still that in mind, our objective would remain that we sustain our EBITDA for Q3 at this level and then grow again in Q4. That is how it is looking like. But I am sure that there'll be some positive surprises that we'll get by winning more that are there in our pipeline. So that should definitely bring some positive surprises also.

Nisarg Vakharia: And sir, what is our endeavor to reach EBITDA margins of like our peers are at between 13% and 15%. Since now you have handled the ship for a couple of quarters, what is your inherent belief as to when do you think we can reach those level of margins?

Dharmender Kapoor: See, we had always said that we also want to be in the same range of our peers. And probably over a period of time, we want to actually touch to the 15% EBITDA. That's the goal that we have, and we are working towards that. It is just that sometimes the integration and other aspects continue to keep us having that at the lower level than what we would think about it or project. But for last 2 quarters, we are moving up. That means our cost optimization initiatives are showing positive results. We still believe that there are few low-hanging fruits that we should continue to touch so you continue to see that we grow. But we definitely want to be in the same range that our peers are and would actually have the ambition to do better than our peers.

Nisarg Vakharia: Okay. And lastly, sir, any more big deal wins that we have in our pipeline, like we had Invacare in the near-term horizon?

Dharmender Kapoor: So from TCV perspective, no, not at that range. But I talked about another medical devices company, where we closed this deal, okay, for over $ 20 million, which actually has resulted into a large deal again. At the same time, we do have couple of other which are right now in the initial stages of the opportunity. The good part is that with this Invacare piece, there are more conversations that are getting onto our pipeline because many of our prospects want to understand what this deal was all about. And they see that how we have combined the transformation, digital and the entire support and maintenance of applications and infrastructure. So they are in the process of understanding that. So that, I believe, some of those would become very interested in this thing over a period of time. So definitely, it has opened up a lot of conversation for us.

Nisarg Vakharia: Okay, great. And lastly, sir, we would urge the Board through you to increase the payout for shareholders because I think we have one of the healthiest cash generation ratios across the industry, and we are already sitting on a very healthy pile of cash. So we would urge the management to pay out as high as 50% of the profits in the near future.

Dharmender Kapoor: I will definitely send your message across to our Board.

Moderator: Thank you. The next question is from the Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Sir, I think you did allude to the pipeline a bit, but just want to understand in terms of, I mean what is our endeavor to sort of get bigger deals like the one that you just signed in the last few weeks? I mean, in terms of our positioning, and now that we have a leadership structure which is pretty much in place now. So just want to get your sense, anything around pipeline or any thought process that you have in terms of numerical targets that you have. These are the kind of things that we want to win, maybe not in the next quarter, but maybe, let's say, 3, 4, 5 quarters out?

Dharmender Kapoor: Actually, what we have to look at is that we have been very good at looking at the transformation programs as projects. What we are looking at is that it's not all about signing another $ 250 million deal. But can we pick up a $10 million project that we would have signed at $ 10 million, but now how do we combine it with the other service offering so that, that 10 million becomes $ 15 million or $ 20 million. Similarly, a $ 20 million program, can it become $ 30 or $ 35 million program. So what we need to look at is that how do we do the bundling of our services effectively. Because if I sell a single service, that would mean that I'll end up doing a project. But if I bundle my services, my ability to sustain the client, my ability to sustain that engagement is very high. So what we are working on with our sales team and leadership team is that how do we do the bundling of these services. So the size should increase. It need not necessarily be always $ 250 or $ 300 million deal. I know that it does give us a lot of high to look at such a large deal, but we also have to really look at that at the annuity level, any deal that comes into $ 20 million, $ 30 million of range, I think it is a very healthy deal, and we should actually go and run for those. We also need to look at that how we look at the competition and find out how can we significantly provide better proposition to our clients. That means it will not only open up the door for the newer IT outsourcing deals, but it will also to open the door to the deals that have happened a few years back, but there's an opportunity to really structure it in a different fashion so that the clients can see the benefit.

Rohit Balakrishnan: Okay. And sir as we sort of do more of cross-selling, and you also mentioned some culling out of long tail, so just to understand do you see some sort of clients moving out because maybe they are not profitable or they could not scale there, and thus, there could be some sort of few quarters of more being left? I know you categorically mentioned that this is like simply the bottom, but still want to just understand.

Dharmender Kapoor: No, I don't think that we are going to see the clients moving out, especially the clients who are going to be significant for us. It could be something which is at the fag end of the tail that is not being profitable, and we can use same resources for opening something new. I think that we will get structured. The tail is never cut in the manner that it reduces your revenue. The tail should be cut so that you are able to gain healthier customers because you always have limited resources. You always have limited capabilities in the market, and you need to look at where do you put the capabilities and resources so that you get the maximum benefit. So our objective is not to really not work with some of the customers. Our objective is to work with customers who can give us the larger revenue and the larger profit.

Rohit Balakrishnan: Understood. And sir just a couple of more questions. So you are talking about cross-selling and increasing the overall service to the customers. So broadly, how do you see this evolving in terms of the deal size, the new deals that we win? Will it be more from the existing customers, where we sort of increase the pie with them? Or it will be more like new customers like the one that we did recently? So just want to understand that.

Roop Singh: So this is Roop. Just to answer your question, so given our capability that we've shown in the functional area, which is our strength for the organization, it gives us a lot of room to actually grow and expand and cross-sell within our accounts. So that's number one, and that is going to continue to be our focus. At the same time, given the type of deal that we just closed with Invacare, it opens up another set of market, given the segmentation that we are after, to enable us to get more new clients. So we will complement both, based on the resource capability that we bring to the market at this point.

Rohit Balakrishnan: And finally, sir, in terms of you were talking about some of the opportunities that you are evaluating in terms of inorganic. So any specific areas that you want to call out or any industry or any functional area or any specific factors that you want to sort of look at?

Dharmender Kapoor: No, not yet. I would not jump onto pinpointing one area as of now because we are fairly open to looking at what can help us grow faster. It could be digital, and it could be something else. But more and more as we go along, as I said that a lot of new products are coming into the play and where you can give stiff competition to be established legacy players. So we will look at what are the products or what are the services that can open some blue ocean for us. And we will actually try to go after that. So we want to be careful in terms of picking up something that is a tuck-in acquisition, but it gives us a lot of leverage because it is going to open up a new market segment for us.

Moderator: Thank you. The next question is from the line of Yogesh Bhatia from Sequent Investments. Please go ahead.

Yogesh Bhatia: So most of my questions are answered. If you could shed some light on, we've generated 153 crores of cash from operations, throw some light on this, basically, going forward.

Rajeev Gupta: Yes. So one, of course, given the receivables that we inherited, we saw an opportunity to clearly clean the books. So there was a massive drive in terms of collecting receivables across the board. And as an organization, we involved sales, we involved all our connect in terms of clients etc. to make sure that we clean the book. Even going forward, what we want to do is we aspire that we bring our DSO, which is currently at 81 days, down to 75, and then down to 70 over a period of time. So we will look at optimizing receivables, one, from an effort standpoint; and we also ensuring that from a collection period standpoint, we incentivize people to get to more disciplined ways of collecting receivables.

Yogesh Bhatia: Okay. And sir, is there any sort of inorganic growth or any sort of CAPEX that you look that is possible in any of the areas?

Rajeev Gupta: So inorganic growth, DK did refer to that with the current acquisition that we have had good 9-10 months ago, we might see this stabilizing over the next 2 to 3 months, of course, with IT integration being the last step in the course. We may explore tuck-in acquisitions. Those are the ones that we will see over the course of 6-12 months or opportunity-based. I think in terms of CAPEX, I did clarify, we had estimated CAPEX of $ 20 million at the start of this financial year. However, in H1, we have only spent $3 million, and a substantial part of that is for the Bengaluru facility, which clearly was a facility needed that we have invested upon. We may have some further CAPEX in H2. So we estimate that for this current financial year, we would spend CAPEX to the tune of $ 10 million. So there as well, we've been prudent, and we've managed our CAPEX in such a way that we do not spend cash on areas that are not the more optimal ones.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Yes, just a clarification. In the client added, there was a negative number of 17. So should we assume that you're just sort of cleaning the clients in terms of the ones that you perhaps don't want to carry on the relationship? Or there were some other reasons? If you can just give some color on that.

Dharmender Kapoor: I think that's absolutely right that as we said that, we continue to look at and prune the clients where we are completely insignificant and how do we really use those resources to do more strategic engagements with our strategic customers. So from that perspective, yes. Some consolidation, rationalization you'll continue to see.

V.P. Rajesh: Okay. And then coming back to the revenues. So in the first half, we have done about 221 or thereabouts. Do you see that you can get back to the 450 million revenue that you had at the beginning of this financial year by the time we are done with this year? Or do you see any impediments, given all the transition and restructuring and integration that has been going on in the company?

Dharmender Kapoor: So you know that we don't give any projection and guidance for our revenue. So I would stay away from really talking about it. But as you can imagine easily that with some of the deals that we have signed up, so we definitely have an upside that is coming our way. But I would refrain from giving any guidance or projections.

V.P. Rajesh: Okay. Fair enough. So on the EBITDA side, you mentioned that the aspiration is to get to 15% margin. So if I want to ask you that whether you think you can achieve that in 2 years, 3 years or 5 years' timeframe, just if you can directionally give us some idea as to where do you think that goal is achievable, in what timeframe?

Dharmender Kapoor: So I would be very happy if my Board gives me 2 to 3 years to reach to 15%, okay? So I think we need to do it much faster than that. And I believe once our consolidation and integration is done, I think after that, we will definitely have a much better controls in place, one system in place. Lots of other integration costs that gets into the integration is going down. So we will definitely start seeing a much faster way towards achieving 15% EBITDA.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: So from the CPG and retail, how much would be retail between CPG and retail?

Dharmender Kapoor: So actually, we have a couple of big customers in the CPG retail side, but it is mostly around the process manufacturing that we have been doing more and more work rather than pure-play retail work. And that was the reason that we had combined it with the manufacturing. So it is very insignificant when it comes to the pure-play retail.

Rohit Balakrishnan: And as a consequence of that, sir, is that a focus area for us in terms of retail as an opportunity? Or given that we have only a couple of clients and maybe just focus on that and incrementally not focus on the new one, is that right?

Dharmender Kapoor: It is like this that we need to choose which are the verticals where we can have broader set of services applied to them. So we would like to have more and more focus on that. For example when it comes to manufacturing or BFSI or energy and utilities and Life sciences, we have almost all kind of services being used in those verticals whereas in the retail, if any opportunity comes, we will be far more opportunistic and niche. If it comes across in the niche area that we can deal with, we will go ahead. But we are not going to proactively go after retail business from our side because we kind of want to remain focused to the 4 verticals.

Rohit Balakrishnan: How much would be insurance sir within the BFSI?

Dharmender Kapoor: I think between insurance, capital markets and banking, it is fairly evenly distributed 30%-30% on all the three.

Rohit Balakrishnan: And sir, just one quick question. I mean, just wanted to understand, do you see this overall mix for you, let's say, a couple of years out, changing in terms. So you are now consolidated auto and CPG into manufacturing. So you have life sciences, BFSI, manufacturing. So the contribution that you have today with manufacturing around 46% and BFSI around 20% and the rest around 30%. So do you see that changing? Or do you see this being broadly the mix even as you sort of grow in the next 2, 3 years?

Dharmender Kapoor: I think it is going to remain in the ballpark. I think some may improve a little bit from that perspective. But I think it is going to remain in the very much ballpark.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. DK for closing comments.

Dharmender Kapoor: Okay. Thank you very much everyone, for your very insightful questions. As I said, we definitely are very optimistic about our Q3 and Q4. The good part is that we have maintained our win ratio or winning the new deals as well as we started putting focus on renewing our deals. We will continue to focus on how do we continue to make our deals bigger and bigger, bigger as well as longer so that our annuity revenue ratio improves, and that would mean that we'll have less and less surprises for the runoff revenue. With that, I believe that I think we are well poised for the growth coming up. And we continue to keep our focus and eyes on sustaining and improving the EBITDA and continue to show the good results. So thank you very much for all your support. And if there is any other question at any point of time, please feel free to write to Vikas, to Rajeev or me, and we would be very happy to jump into a call or answer your question. Thank you very much.

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

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Some of the statements in this update that are not historical facts are forward-looking statements. These forward-looking statements include our financial and growth projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business and the markets in which we operate. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and

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