CK BIRLA GROUP

birlasoft

October 30, 2024

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001.	**National Stock Exchange of India Ltd.** Exchange Plaza, C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai – 400051.
Scrip ID: BSOFT **Scrip Code:** 532400	**Symbol:** BSOFT **Series:** EQ
Kind Attn: The Manager, Department of Corporate Services	**Kind Attn:** The Manager, Listing Department

Subject: - Transcript of Earnings Call held on October 23, 2024.

Dear Sir/Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earnings call of the Company organized on October 23, 2024.

The same is also available on the Company's website at the link https://www.birlasoft.com/company/investors/policies-reports-filings#, under the head – Quarterly Reports → Earnings Call → Transcript.

Kindly take the same on record.

Thanking you.

Yours faithfully,

For **Birlasoft Limited**

Sneha Prashant Padve

Digitally signed by Sneha Prashant Padve
Date: 2024.10.30 12:29:17 +05'30'

BIRLASOFT LIMITED

Sneha Padve
Company Secretary & Compliance Officer
Membership No. ACS 9678

Birlasoft Limited Q2 FY25 Earnings Conference Call

6.30pm IST, 23 October 2024

MANAGEMENT: **MR. ANGAN GUHA, CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR**
MS. KAMINI SHAH, CHIEF FINANCIAL OFFICER
MR. ABHINANDAN SINGH, HEAD - INVESTOR RELATIONS

Note:

1. This is a transcription and may contain transcription errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.
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(1 crore = 10 million)

Moderator: Ladies and gentlemen, good day, and welcome to Birlasoft's Q2 FY '25 Post results 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. Abhinandan Singh, Head – Investor Relations, Birlasoft Limited. Thank you, and over to you, sir.

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

Joining me on this call today are our CEO and MD Mr. Angan Guha and our CFO Ms. Kamini Shah.

As usual, we will begin the call today with opening remarks from both Angan and Kamini, and then we will open the floor for your questions. 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 Second Quarter FY'25 investor update, which you would have received and that is also available on our website as well as filed with the stock exchanges.

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

Angan Guha: Thank you, 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 company's performance during the second quarter of the current financial year. I trust all of you have seen the results.

With regard to our Q2 performance, I would like to share a few observations. One, we are back to sequential growth in this quarter even as demand conditions continue to be challenging. The strong rebound in our revenue performance during the quarter under review has been led by growth that has been more broad based. So, most of our industry verticals and service lines and accounts have grown. With an improvement in our revenue trajectory, we expect recovery in our margins as the investments start paying in, as we go forward. Through all of this, I am pleased to note that we continue to generate very, very strong cash flows.

So, with that, now let me delve into the Q2 performance:

On a year-on-year basis, our revenues for the quarter grew 4.5% in rupee terms, 3.2% in dollar terms. On a quarter-on-quarter basis, our Q2 revenues have grown 3.1% in rupee terms and 2.6% in dollar terms, which really represents a strong rebound in our revenue growth from a Q2 standpoint. Our reported growth has been driven by stronger growth in our core services business because the quantum of pass-through has been much, much lower in Q2 than it was in Q1.

The rebound in our revenue performance has been driven by initiation and contribution of several of the delayed projects. As you may recall, we had spoken about it in Q1. Some of the projects had not started. They have started in Q2. And as a result, you are seeing improved growth from a revenue standpoint.

The incremental business is also coming from consolidation deals, which demonstrates our ability to gain wallet share in an operating environment that remains very difficult. Such deals, however, are often needed to be made with upfront investments and flexibility in terms of pricing, which affects margins in the short to medium term. But as the engagements normalize, I am sure you will see an uptick in the margins.

There has been strong growth in our Manufacturing and E&U verticals, along with continued traction in the BFSI business. As you would recall, BFSI has grown strongly for the last seven quarters. And we continue to see strong performance in BFSI as well. Our Life Sciences business has been a struggle. I believe it will continue to be soft for a couple of more quarters before we turn the corner there.

Our margin performance has not been very good. And that is a concern for us, and that is something that we will work on as we go forward in terms of how to improve the margins. We have a lot of levers that we will be speaking about, as we go forward, in order to improve the margins.

The consolidation deals that I have mentioned have witnessed pricing pressure. And it's a natural phenomenon in these businesses, where you start off the business with a lot of investments but as you mature the engagements, it helps us with enhanced margin as we go forward.

Looking forward, the demand environment has not really changed. And what we have seen over the past few quarters actually continue. Our client budgets have not gone down, but it is on a 'hold and wait' pattern. So, we will have to see how our client spending goes forward with the election looming in the U.S., which is our biggest market. It is a wait and watch for our clients.

Overall, while we do see some green shoots, there might not be too much clarity till the end of the year as things unfold in terms of whether our customers will continue to focus on cost take-outs or start investing in the transformation projects.

While the growth is now back, we expect to continue the growth momentum in the coming quarter. The coming quarter, as you know, is a soft quarter, thanks to furloughs. But we hope the growth momentum will continue. It will take a couple of quarters for us to get the margin back on track. In the coming quarter, because we will be giving a salary hike, there will be a little bit of a dent in terms of how we deliver margins, or we look at margins for 3Q. But we are very confident that starting 4Q, you will see the margin improving. And over the next subsequent quarters, every quarter, you will see margin improvement going forward.

Our proactive deal pipeline remains very healthy. The customer decision-making is taking a little bit of time, which is reflected on our TCV performance. But I strongly feel that in our Q3 and Q4, we will have a better TCV performance than what we have seen in the first half year.

Our deal funnel continues to be very strong. One good silver lining in this entire thing is the fact that almost 50% of our deals that are coming in are either in existing-new or in net-new, which is a positive. And that helps deliver better growth performance as we go forward.

So, with that, I will hand it over to Kamini, our Chief Financial Officer, to share her perspectives of the quarter that is under review. Over to you, Kamini.

Kamini Shah: Thank you, Angan. Good evening, everyone. Thank you for joining us. Let me take you through the financial highlights for the second quarter of the current financial year.

On the Quarter 2 performance, as Angan explained, our performance has been fairly broad-based, with the majority of our verticals and service lines registering sequential growth. You may recall that in the preceding quarter, we had witnessed some deferment of new project ramp-ups in our ERP service line, which had also impacted some of our verticals, Manufacturing in particular. Several of those delayed projects have started to ramp up during the quarter under review, and that is reflected in our financial performance.

Consequently, we have recorded healthy revenue growth during Q2 FY '25 on both a year-on-year basis as well as a quarter-on-quarter basis. Our consolidated revenues grew 2.6% in dollar terms to 163.3 million. In rupee terms, it has been Rs 1,368 crore, a sequential growth of 3.1%, and a year-on-year growth of 4.5%.

I am happy to say that the revenues of our top 5, top 10, and top 20 accounts have grown quarter-on-quarter by 3.9%, 2.4%, and 2.3%, respectively. As a result, our top 5, 10, and 20 accounts now contribute 36.7%, 52.5%, and 64.9%, respectively to our total revenues.

Amongst our verticals, both Manufacturing and E&U were up by 4.7% each quarter-on-quarter, while BFSI grew by about 1.4% quarter-on-quarter. The Life Sciences vertical remained weak during the quarter under review and we do expect this to return back to growth in a couple of quarters as Angan alluded to.

From an offering standpoint, our ERP business grew by about 4.3% sequentially due to the fact that some of our delayed projects came back on track. Our Digital and Data business that has been under pressure over the preceding couple of quarters has registered a strong rebound and it grew 6.6% quarter-on-quarter. The Infra business which had recorded a very strong growth in the preceding quarter witnessed a sequential drop due to the base effect, but this is expected to be returned to a growth trajectory going forward.

Moving on to the EBITDA performance:

Our EBITDA for the quarter was at $19.7 million versus $23.4 million in the previous quarter and the EBITDA margin stood at about 12.1%. You would recall that in the sequentially preceding quarter, that is in Q1, there was a onetime benefit of Rs 222 million which had been written back. Quarter 2 FY '25 performance reflects the absence of that.

Moreover, as Angan had also spoken about, we have gained some wallet share through consolidation fees that do require some pricing flexibility. These deals tend to be more onsite centric to start with, which is also reflected in our onsite ratio in the current quarter and this becomes a margin lever as our engagements mature.

The investments that we have been making have already started reflecting in increased recognitions of our capabilities in the marketplace. We will continue to make investments as necessary, but we are now focused on driving returns from this investment.

Our PAT stood at about $15.2 million, which is about Rs 1,275 million in rupee terms. Effective tax rate for the quarter has been at about 24.9%. We do expect the ETR for the full year to be in the range of 25% to 26%.

Coming to some key balance sheet items, our cash and bank balance at the end of Q2 stood at about $221.8 million, which is up by 27.8%. This is after reflecting the payout of $13 million as dividend, which was made in Q2.

Operating cash flow for the quarter was at about $12.9 million on the back of the sequential improvement in our quarterly collections during Quarter 2, which stood at $176 million. This has been the highest in the last six quarters.

DSO continues to be a focus area for us. While it was at about 58 days for Q2, this has gone up quarter-on-quarter primarily because of shifting of some collections that came in the first couple of days of October and this will definitely show up in the quarter 3 DSO, which traditionally has been better and in line with our historical levels.

As you would have observed, the Board today has recommended an interim dividend of Rs. 2.50 per share. This reflects our intention to reward shareholders, while also keeping in mind our capital allocation requirements.

In conclusion, I would say that we expect to stay on the growth-oriented trajectory moving forward. We are making investments necessary to ensure that we have a differentiated value proposition in the marketplace. We will continue to focus on generating strong cash flows with an eye on key performance metrics in order to drive margin recovery. And this will be aided by an upturn in demand condition as and when this happens.

Thank you very much. Back to you, Abhi.

Abhinandan Singh: Thank you, Kamini. Thanks, Angan. Moderator, let's start with the Q&A session, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: I think we will talk a bit about the onsite increase in revenue about 13 million or so and offshore. Why has it declined by 9 million? I imagine this also had a big impact on the margin. So, Kamini can comment on that?

Kamini Shah: Yes, you are absolutely right Ravi, because of the shift in the onsite ratio that we have seen in this quarter moving up to almost 51%. And, like we mentioned that a lot of our consolidation deals are largely in the onsite space, and that's the reason why we have had this impact from a margin standpoint.

Ravi Menon: So, over time, we would expect this to shift offshore? Would this shift offshore over time? Is that what we should expect?

Kamini Shah: Yes, Ravi, that is the intention, which is why I also called that out, right? Typically, in some of these consolidation deals, they start to be more onsite centric, and we do expect that to start shifting more offshore.

Ravi Menon: That really explains the onsite revenue increase, but offshore, why should this decline?

Kamini Shah: So, there are, I think, some of our engagements that came to an end, Ravi, which is the reason why, but from a ratio standpoint, and that's the reason you see more of the growth that is coming from an onsite standpoint.

Ravi Menon: And one last follow-up, if I may. The deal wins, we are still a bit below what we were clocking even last year. Thought the demand situation is a bit better. So, Angan, if you could comment on that.

Angan Guha: So, Ravi, first of all, thank you for that question. If you look at our half-year performance on deal flow, we have delivered about $300 million worth of signing. That is obviously lower than what we delivered last year. But that is not such a big concern for us at this point in time, because we have not lost any deals. Some of our decision making of our customers has got pushed out to 3Q and 4Q. So, you will see an uptick in deal flow in 3rd Quarter as well as 4th Quarter.

But the good news in this entire thing is our pipeline is still improving and almost 50% of our deal wins are in the net-new or the existing-new space. So, there are some green shoots there. But if there are two focus, Ravi, that I would call out in the next six months, it will be improving deal flow and of course, needless to say, improving margin.

Moderator: We will take our next question from the line of Sudheer Guntupalli from Kotak AMC. Please go ahead.

Sudheer Guntupalli: The first question is, I am just trying to understand what your underlying core business growth would have been, given that there is a reduction in the quantum of pass-through compared to last quarter. So, is it fair to say that your core underlying business growth would have been somewhere in the range of 4.5% because there is a 220-230 basis points of a sequential reduction in pass-through? Is that a correct assessment?

Angan Guha: Yes. So, Sudheer, well, the way we look at it and pass-through obviously has reduced significantly. So, you are right that the core business, services business would have grown at a faster clip.

But equally, we would love to say that as our Infrastructure business matures, the pass-throughs are not a manifestation of a pass-through in itself. It will be a part of the deal going forward.

So, from that standpoint, a pass-through is also a kind of services. But at a fundamental level, what you are saying is right, Sudheer, that the growth has got rebounded because of the projects starting in the ERP space that Kamini mentioned in her opening remark.

Sudheer Guntupalli: So, I understand that now pass-through has been an integral part for most of the companies. But I was just trying to separate out and see how the underlying business momentum would have been from the previous quarter to this quarter. So, you are saying that it is fairly in the range of that 4.5% ballpark?

Angan Guha: That's correct. Yes.

Sudheer Guntupalli: And just on this 260-270 basis points of margin drop, let's say, I think following up on Ravi's question earlier, some impact of it was obviously because of the on-site ramp-up that happened, on-site heavy nature of it. But you also alluded to the word "pricing flexibility". So, how much of this 270 bps drop was due to pricing flexibility and how much is because of the early on-site centric of that ramp-up?

Angan Guha: Yes, so Sudheer, let me try and answer that question and maybe then I will hand it over to Kamini for her comments also. So, Sudheer, if you really think about it, right, in quarter 1, we delivered an EBITDA of about 14.7%, correct? Now that obviously had an exceptional item of about 222 million, which we kind of didn't have in Quarter 2. So, technically, our like-to-like margins would have been at about 13%-13.1% EBITDA.

Now this quarter we have delivered 12.1% EBITDA, right? So, of that 1 percentage point, 100 basis points drop, probably half of it will be because our revenues have come more on-site, which by nature is lower margin business as a part of the consolidation build, and half of it is because of the pricing flexibility.

But like Kamini said, these are new deals that we are winning. We are helping our customers transition. And over a period of the next two-three quarters, when new deals will mature, you will see the margin coming back.

But equally, Sudheer, I would also take this opportunity to make one more comment. See, we are going ahead with our salary hike in quarter 3. So, really, salary hike will dent our margins by 150 basis points further, but obviously a part of it, we will definitely recover operationally. So, Q3 will be a muted quarter from a margin standpoint, but Q4 onwards, you will see a clear margin improvement.

I wanted to give you the entire picture, Sudheer, so that you are clear. But we have a complete program that is running in our company today, where we are looking at every single lever to get the margin back to where it ideally should be, which is our desired levels. And that you will see a lot of effort from the management team starting Q4, because Q3, like I said, it is what it is due to the salary hike. But Q4 onwards, you will see an uptick in the margins. And then subsequently every quarter, you will see an uptick in margins. Kamini, do you have a comment?

Kamini Shah: No, Angan, I think you have covered it. Sudheer, I think to a large extent, the focus will be on how all the levers that we have defined, to be able to get the margins back on track. And it's really a combination of, the impact is a combination of being more onsite centric. As we look at more offshoring, I think we will be able to recover that back.

Sudheer Guntupalli: So, Angan, again, just to clarify, so you are saying, if you remove the one-off benefits that you had in the denominator in June quarter, operationally your margins have contracted just 100 basis points this quarter. Despite the very sharp rise in onsite centric nature of the ramp up and some amount of pricing flexibility. So, this operational contraction margin is just 100 basis points.

Angan Guha: Yes, arithmetically that is true, Sudheer, but obviously, we are not happy. I mean, it's just stating the obvious because we would love our, as I had always said in the last year that we wanted our margins to be between the 15, 15.5 to 16.5 per cent range. So, we are far away from there.

The point I am making is yes, if you were to compare quarter-on-quarter, we have 100 basis points of degradation of margin, but clearly we are nowhere close to the 15% to 16% range. So, our endeavor is to start improving starting Q4 onwards and then over the next four, five, six quarters, get to our desired levels.

Sudheer Guntupalli: And just one last question, if I may. So, while TCV trends obviously on a year-on-year basis were down, and I know that you don't report on an ACV basis, but internally, when you look at the ACV trends for the H1 on an year-on-year basis, are you very worried? Are you concerned about the growth implication that it may have, or that is broadly in the same ballpark that you might be expecting?

Angan Guha: So, two things, Sudheer. Our win ratios are anywhere ranging between the 30% to 32% range at this point in time. Clearly, there is an opportunity to improve the win ratio. Ideally, we want our win ratios to be 35% to 38%. So, there is an opportunity there, but it is also a manifestation of how the clients are deciding.

Now I can only tell you two things. One, we have not lost a deal to competition, a significant deal. I mean, we would have lost some small little deals here and there, but we have not lost a significant deal. And our pipeline is probably only improving at this point in time.

So, I am not so worried per se, because to add to it, like I said, almost 50% of our order book is now either EN or NN, which also adds to the fact that it gives me a little bit of confidence that the growth momentum will continue in the future quarters.

But Sudheer, at the end of the day, we aspire to grow order book year-on-year also, which we have not done well. Which is why I said, apart from the revenue growth that we have to absolutely focus on, the two key focus areas for us as a management team is to deliver a strong order book in Q3 and Q4 and start the margin improvement journey, which may not happen in Q3 for obvious reasons, but starting Q4, keep improving quarter-on-quarter so that over the next four, five quarters, we can get to our desired level.

Sudheer Guntupalli: And you are actually, despite the impact of furloughs, you seem to be confident about the current growth momentum continuing into Q3. Is that because of the fact that the ERP seasonally has a good within the quarter every time? Is that the correct assessment that gives you confidence or is there something else in the pipeline which might be giving you that confidence as well?

Angan Guha: Yes, so, Sudheer, two reasons. One is we are also affected by furloughs, right? So, I don't want you to take away saying that the growth momentum will be significant. I am only saying the growth momentum is back in Q2 which we missed in Q1. Q1 if you remember, we degrew revenue quarter-on-quarter. So, in Q2 we are back on quarter-on-quarter growth. We will strive to deliver quarter-on-quarter growth even in Q3. Quantum I can't say. It may be a muted quarter overall, but we will still be on the growth trajectory.

Our focus, however, will be to keep investing in our business, which we have always done, and start improving margins starting Q4. But yes, we are relatively comfortable to say that our growth momentum will continue from here on.

Moderator: Next question is from the line of Hasmukh Vishariya from Tata Mutual Fund. Please go ahead.

Hasmukh Vishariya: I have two questions. One is, you have fairly spoken about the deal wins and existing EN or NN component of it, and probably H2 would be better than H1 from deal wins perspective. But can you throw some light in terms of renewal rates for you guys?

Angan Guha: So, Hasmukh, again, a very important question. Look, our renewal cycle essentially comes in more in the 3rd quarter and the 4th quarter of the financial year. So, our renewals will be much more than it is in the first and second quarter. So, obviously, our net new and existing new business will be a lower percentage of our overall order book because there will be a lot of renewals that happens typically as a business cycle between October and March, which we will play through.

Now we are discussing this with our clients in terms of the renewal work as we speak. So, I can't really comment whether renewal work will have pricing pressure or not. It is hard for me to say. We are working on it at this point in time, and we will see how we can continue to negotiate with our clients and work with our clients to make sure that we keep renewing our business at healthy margins. So, it is a little bit of a wait and watch, but we will not lose any renewal business, if that is what you are referring to, Hasmukh. We will renew everything. At what price points we renew, we will only know as we go through our Q3 and Q4.

Kamini Shah: And if I may just add on to what you said, Angan. Hasmukh, I think most of our renewals are typically in the second half of the year and we have no indications as of now that there is any concern from a renewal standpoint.

Hasmukh Vishariya: My second question is on your comment that you have not lost any significant deal to competition. So, just wanted to understand whether this has any elements of, let's say, pricing discounts or probably on-site heavy sort of ramp-ups and relatively lower margins in the near term. Does that link to this point, or is it anything else?

Angan Guha: Because we are winning some of the deals which are more consolidation-orientated, in the medium term, you will see pricing pressures, because in the medium term, the revenue is coming from on-site. And over time, as the engagement matures, the revenues will start moving offshore, which will automatically give us higher margins. So, from that perspective, Hasmukh, our on-site revenues are up, which is why you see the margin pressure.

In terms of new deal wins, when I said that we have not lost a deal with anybody, any significant deal, it is also a manifestation of our real estate, right? The deals that we are fighting in our existing clients and deals that we are fighting in our new clients. In that space, in our real estate, we have not lost anything. Some of the deals have got pushed out to future quarters, which we are still tracking on. And we don't see that to be a big concern, because at some point in time, we will close those deals.

Hasmukh Vishariya: And my last question is on the ERP front. So, we have seen companies talking about the traction coming in the ERP front, be it SAP, Oracle, or any other ERP system, right? But if I look at your deal wins, your growth, that traction doesn't look in your numbers. So, any clarification there?

Angan Guha: Yes, Hasmukh, one is, our ERP business has grown in this quarter. Now, I am not saying whether we are happy with that growth or not, because just like you alluded, there is an enormous opportunity in the ERP space going forward based on everything that we have heard from both SAP and Oracle. So, we want to capitalize on that opportunity. So, we are putting in place a proper strategy to win more deals there.

Our pipeline on the ERP side is looking up. Q2, we have seen growth. Q3, seasonally, it's a weak quarter, so it will be muted. But I am reasonably confident that Q4 also, you will see good growth in the ERP business.

Moderator: We will take our next question from the line of Dipesh Mehta from Emkay. Please go ahead.

Dipesh Mehta: Couple of questions. Angan, you highlighted a couple of times some of the factors which weigh on the performance. And deal intake I think for last few quarters, we expected it to improve – so far not improved. So, progress on some of these improvement measures is not progressing to the extent which we might have anticipated a few quarters there. So, can you help us understand how much of it is because of external factors and how much would be because of internal factors, which you can course-correct and which you have identified, and let's say, steps taken to improve on those parameters, if you can give some broad sense around it?

Second related question is also on margin side because our aspirational range is much higher than where we are currently operating. So, if you can provide some color around those things from medium-term perspective? And last question is about…..maybe if you can answer these, and then I have one follow-up.

Angan Guha: Dipesh, I will give you my point of view and then I will ask Kamini also to add in. So, Dipesh, the reality is that in quarter 1 and quarter 2, we have not delivered on our margin goals. That is the reality. But we have a clear plan that has got outlined.

Now, you know, I can't discuss the plan in too much detail, but suffice to say there are 3 or 4 areas that we will definitely look at which are more internal. So, one is clearly the onsite and offshore ratio. Like we said a little while ago, our onsite revenues have gone up. Over time, as there is maturity in the engagements, we are very confident and we have done it in the past, so that gives me confidence that the team will be able to execute well, move more revenues offshore and automatically, the margins for those engagements will start looking up. So, clearly, onsite-offshore ratio is one area.

The second big lever for us is in terms of our utilization. Our utilization is off from the peak. Our peak utilization was at a much different level and our endeavor would be to continue to drive utilization upward. So, that will also give us another lever for margin improvement.

As a part of regular business, course of business, we are also looking at working with our customers. Though we have pricing pressure on the new deals in our existing book of work, where we have served customers for the last 4 years, 5 years, 6 years we are going to customers to see if we can get some pricing enhancements with those customers. Not enhancements for all our colleagues in that particular project, but some of the very senior colleagues. So, that is another lever that we will use.

And finally, our quality of revenue. Though our Infrastructure business is looking up slightly, but you have seen our Digital business also grow. So, as a part of our digital business thrust, our quality of revenue will significantly improve.

So, these are the three or four levers that, Dipesh, we are very confident of implementing to get the margins back to where we want it to be. The only reason I say that Q3 will, in a matter of sense, be muted is because we will give a salary hike. And like I clearly pointed out, that will have 150 basis points impact on our margins. But of course, we will recover. We will try and recover part of it or most of it as we go forward. We will see how that goes. But Q4 onwards, you clearly see a margin improvement.

Now, when you win deals, we also have to gain market share, which we are gaining. Some of these deal margins will come up as you go forward, which is why I said, Dipesh, you must give us a couple of more quarters to really see the margin turn around. And over the next four, five, six quarters, you will see the margin bounce back to the levels that we were in, let's say Q3 and Q4 of last year.

Dipesh Mehta: So, similar question on revenue side and deal intake side. You addressed it well on the margin side. If you can help us understand, because your deal intake continues to remain muted, revenue growth is also, let's say, this quarter is decent, but if I look Y-o-Y, it is still weaker if I put that in context of 100 million deal, which started ramping from April. So, two-part question. First, 100 million deal, whether ramp-up is there on schedule? And the second thing is, despite the 100 million deal, growth is muted. If you can address it, thanks.

Angan Guha: So, Dipesh, again, a great question. First of all, the $100 million deal is on schedule. And one more thing I want to state, Dipesh. Structurally, there is no issue, neither with our clients nor with us. It is only a matter of seasonality in terms of when we win a new deal, at our size of the business, how much time will it take me to turn that into profit.

So, with that backdrop, let me talk a little bit about the revenue. We have grown revenues seven quarters in a row till the last quarter, where we de-grew revenues. And this quarter, we have bounced back on revenue growth. I am reasonably confident that the revenue growth will continue.

Now, Q3, again, let me state this upfront, is going to be a muted quarter because of seasonality. But you will see growth in Q4 for sure, and even in Q3 to a very large extent. So, from my standpoint, the growth momentum will continue.

Now, the order book, and I will tell you why. There is a scientific analysis there. Though my order book is being muted, like Kamini also suggested a little while ago, most of my renewals happen in Q3 and Q4. So, in Q1 and Q2, a large part of our order intake has been net new, which will obviously give some growth momentum going forward.

Now, the trick though, Dipesh, I will admit that apart from renewing our existing book of work, which we do in Q3 and Q4, we have to win more net new deals in Q3 and Q4 also. If we can make that happen, then one can confidently say that not only Q3 and Q4, but Q1 and Q2 of next year will also show good revenue growth.

Dipesh Mehta: Last question related is, whether it requires some course correction to improve it, or do you think current way of operation is sufficient for us to deliver desired results?

Angan Guha: No, so Dipesh, we always look at ways to improve. We don't need to course-correct. We are set on a course. We have identified the areas that we want to focus in and we are firmly on our way to building a great business. We don't need to course-correct on anything, but there are a lot of areas of improvement.

For example, our sales cycle needs to improve. We are investing in that. Our capabilities need to continue to be stronger. We will invest in that. We have created a Rest of the World business. We want to invest in that and start growing businesses in those areas. So, lot of these small little areas that we need to invest and grow. Our Life Sciences business has not delivered for the last three quarters. That has to come back to growth.

So, the overall strategy of the company remains the same. There is no change there, but we definitely need to course-correct in these small little areas where we need to double-down on our investment.

Now Dipesh, one of the questions that you asked me on margins, we have over-invested, in my mind, in capability building, but our investments will not stop. We will continue to build on this investment and as we build this investment, these investments have to deliver results to us and that is what we will very closely monitor going forward that whether these investments that we have already made or we will continue to make in the future, what returns are they delivering to us and that is also another big lever we are looking at, Dipesh.

Moderator: Thank you. We will take our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Angan, just wanted to understand what has made you go so aggressive in terms of a vendor consolidation deal because in the last six quarters, we were investing, we were expecting the growth to remain better on a Y-o-Y basis which we have delivered in the first four quarters. So, is it some portfolio specific issue, client specific issue which makes you compelled to go on vendor consolidation deals and take the margin to 10% which is multi-quarter low?

Angan Guha: First of all, Sandeep, let me start by saying we are not proud of the margin situation that we are in today. I mean, we definitely want to get the margins to our desired levels, which I have consistently maintained at 15% to 16%. So, are we comfortable? Are we happy where we are at the margin levels? We are not happy. And it is my commitment to you, and when I say my commitment I mean the entire management team's commitment, that we will over time get the margins back to where it should be.

But let me answer the question that you asked, which is a very pertinent question. See, we grew six quarters in a row, quarter-on-quarter. Now, the consolidation deals are important, Sandeep, because we also need revenue certainty, right? As the world becomes much more, how do I say it, it's very difficult to predict, unpredictable, it is important for me also to start winning some annuity kind of business. And as you focus on annuity business, Sandeep, you know that in any case, that in the first couple of quarters, it is about investment, it is about knowledge transfer till those investments mature, and then you can start making money.

So, it is important because look, Sandeep, I mean, I understand what you are saying that, you know, what was the need of going after consolidation deals when we had a high margin and a reasonable growth business. But remember, Sandeep, we are not here for quarter-on-quarter. Quarter-on-quarter is important, but we have to build a business for the next decade, if you will. And unless I pivot the company to build more annuity kind of work, we will never ever get there.

But the trick, Sandeep, would be to continue winning consolidation deals, but also start winning much more digital deals, transformational deals. And as you know, because of the uncertainty, there are not too many transformation deals on the table. There is tremendous uncertainty in the market.

So, in an ideal world, Sandeep, I would like to win many more transformation deals in our customers, especially in the Life Sciences and the BFSI space, as we start winning market share on the consolidation bit. So, I agree with you, it is a couple of quarters of dip in margins, but when I look at the long-term goals and the long-term picture, you will realize that it is a sound strategy.

Sandeep Shah: So, Angan, any number you would like to throw in terms of percentage annuity business versus project base today versus when you joined?

Angan Guha: No, we don't want to give a view like that at this point in time, Sandeep, only because some of these deals we have just won. We are just about to work on building on those deals. But give us a couple of quarters. Then we will clearly call out in terms of what will be our annuity business be, which will be a part of our quality of revenue, right? How am I moving the quality of revenue from more staff outage to more annuity work? So, at some point in time, we will come back on that, not that we don't have the figures today, but it is more of a foundational level today. So, in a couple of quarters, we will be back with those statistics as well.

Sandeep Shah: So, in this journey from taking a vendor consolidation deal to improve the annuity, don't you believe a margin aspiration which you still have at 15% to 16% would be difficult because these vendor consolidation deals are more competitive and in that scenario, this aspiration of 15% to 16% could be difficult?

Angan Guha: Sandeep, I wouldn't say that, and I will tell you why I wouldn't say that. Look, it may take time for me. Okay. It may take longer than expected, but the reason why we want to keep that margin profile going is because it is not that we want to build our company only on consolidation deals.

Consolidation deals will be a part of our business from a market share perspective, but we also want to build a great Digital business, a great Data business, and that business is also growing.

I don't know if you realize this, but I am sure you do, our Digital and Data business has also grown to become almost $250-$280 million, right? So, I am not so worried that we will not win Digital and Data. So, if I were to win more consolidation deals and make more money in the digital deals that we will continue to win, I think we can balance the margins out. Now, can I get to a 15% margin two quarters out? The answer is no, but over period of time, is that my aspiration? It absolutely is, and we will drive towards that.

Sandeep Shah: Just to follow, in the earlier reply, you said we may touch the margins of 3Q and 4Q of FY '24 after four to six quarters. Is it, I have heard correctly?

Angan Guha: That is our aspiration. Now we have to see. In today's market, Sandeep, it is very hard to predict what is going to happen five quarters out, but I can only say two things, Sandeep. One, after Q3, which will be our absolute bottom because of the salary hike, Q4 onwards we will start improving margins and Q4, Q1, Q2, Q3 the next four quarters you will see our margin uptick coming in because by the time all the deals that I and Kamini spoke about will also mature and the margin uptick will happen. Now, when will I get to our Q4 levels which was at 16, 15.8 to 16.3 per cent, that is hard for me to say. It's too volatile for me to comment on that, Sandeep, at this stage.

Sandeep Shah: And the last question, despite core services growth being higher, why has the utilization just gone up by 30 bps? Because this time the growth is more through services and less through pass-through.

Angan Guha: So, Kamini, would you take that question, please?

Kamini Shah: So, Sandeep, I think that's largely because of the fact that some of our revenue growth has come through, as you mentioned earlier, consolidation deals, and a lot of it has been done also through subcontracting agencies that we have worked with, which will not get reflected in our utilization to that effect. So, that's the reason why you would probably see the utilization only at a marginal increase.

Sandeep Shah: So, Kamini, in that scenario, if these deals move from onsite to offshore, even subcontracting cost will come down?

Kamini Shah: Yes, that's the expectation as we start replacing these people with our own employees. Yes, we would expect this cost to come down, Sandeep.

Sandeep Shah: Just any color in terms of what was this sub-con cost in 1Q and 2Q FY '25?

Kamini Shah: So, Sandeep, we don't give specifics regarding that. But it's definitely a lever on which we will work on.

Sandeep Shah: Go ahead, Angan.

Angan Guha: I was saying, Sandeep, that is the point that Kamini was making. As these deals mature and the work moves from onsite to offshore, offshore becomes a far more higher leverage for margin improvement. That was the only point I was making.

Moderator: We will take our next question from the line of Shradha Agrawal from AMSEC. Please go ahead.

Shradha Agrawal: Two questions, Angan. First is, we have seen that our on-site mix has improved by some 700 bps and despite that, revenue has grown by only 2%. So, I just wanted to check the underlying volume growth because much of the revenue growth seems to be led by shift in business towards onsite?

Angan Guha: Shradha, it is not that we have shifted work from India to the U.S. It is a manifestation of the deal wins that we have had. The newer deal ramp up have been more on site, correct? Now the reason why our revenue growth has been 2.6% quarter-on-quarter, whereas the on-site ratios have gone up higher, it is only because there are certain projects that have also come to a closure. So, you have to look at from that perspective, but clearly like Kamini said, from a margin improvement standpoint, over time we would like to improve our offshore ratios to get back.

Kamini Shah: And Shradha, if I can just add to what Angan said, in the last quarter we had some element of pass through revenue that we spoke about which were more offshore centric, and I think that has also played a role in terms of our on-site being a little lower in last quarter from a ratio standpoint. Which is why I think you shouldn't compare it directly. If you look at our previous quarters trend, I think the differential would be we were operating at about 46%, 48% levels, and that's probably what's gone up to about 50%-51% that you see this time. I hope that clarifies.

Shradha Agrawal: Is it also to do, Kamini, with the fact that probably our on-roll employee growth has seen a decline whereas revenue growth this quarter would have been led by an increase in subcontractors?

Kamini Shah: I think it would be a combination of both, Shradha, because a lot of the consolidation deals do involve taking over of subcontracting parties that are based onsite, and that's the reason why you would see that.

Shradha Agrawal: And secondly, when I look at the sales and support headcount, that has also seen a decline of almost 10% sequentially. So, just to get clarity out here, is it more of support staff rationalization or are we consciously looking at some sales headcount rationalization as well?

Kamini Shah: Shradha, right now our focus is a lot on support staff optimization that you see over here at this point of time. Like Angan said, I think we continue to invest in sales, both general and specialist sales. So, I don't think that's an area of investment that we would cut back on. We are looking at optimization all the time, in terms of how we do a lot more automation in our existing processes that will enable us to reduce headcount associated with that.

Shradha Agrawal: And just last question. Angan, you have been mentioning that the deal pipeline looks quite strong and robust. So, any characterization in terms of what is the mix of small or large deals, or is it still more of vendor consolidation deals in the pipeline, or do you see more of transformational-led deals with some improvement in the macro environment? So, just some characterization on the deals pipeline would be helpful.

Angan Guha: So, Shradha, our deal pipeline is definitely strong, and it is improving quarter-on-quarter. I feel that the answer to your question will only lie after the stability comes in. Now, if the cost of doing business for our customers becomes higher going forward depending upon the outcome of the election results, I see more cost optimization deals back on the table.

Now, Shradha, I don't want you to take away the fact that cost optimization deals are margin diluters. They may be margin diluter in the medium term, but in the long term, they can definitely deliver a lot more margins for us as we go forward. So, consolidation deals are not a bad word. It is, in fact, good that we will be winning market share.

So, currently, the deals that we have on table is really 50/50. We have got 50% transformation deals. We have got 50% vendor consolidation deals. But these deals have to convert. Even the transformation deals are marquee deals. We are doing some great work with our E&U customers, with our BFSI customers. There are some really, really good work and good deals on the table.

The issue is when will the stability happen and those deals convert? If some of those convert in Q3, you will see the deal flows, one, improving, but the quality of those deals will also be far better than just doing consolidation, Shradha. So, we will wait and watch. We are hopeful that some of them will convert in Q3.

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

Manik Taneja: Angan, I just wanted to get your thoughts with regards to something that you have emphasized since you came on board. You have been talking about significant focus on in-quarter execution and bringing credibility to the company. But what we have seen play out over the course of the last couple of quarters is things unraveling quite sharply. So, essentially, would you want to give us some sense as to what adverse things may have happened at an internal or within the organization level, given the fact that from a macro-backdrop standpoint, FY '24 was equally bad, but you ended up delivering reasonably well, and now we have seen this unravel. So, would be great to understand what challenges you face internally because of which the performance has taken such a big hit?

Angan Guha: Manik, I will be as brutally honest as I possibly can on this question. It's a very important question. I am not worried about our execution capability. We have got a strong team. Our teams can execute. And I feel very confident that we have the right team to execute. Now, of course, we will look at people based on performance. If people do not deliver, then we obviously will get new leaders in. But by and large, I am pretty confident that the team that we have on the ground can deliver. But look, we will continue to make that investment. So, I wanted to get that out of the way to begin with.

So, Manik, look, last seven quarters, we have executed significantly well. So, what went wrong in the last two quarters? And I will say that we are not very proud of it. In the last two quarters, we focused on winning some deals from a market share standpoint, which is basically Infrastructure deals, which give us long term revenue, certainty, etc.

Now, like I was probably answering Dipesh, I could have taken a call that we will not do those deals at all, we will stay out of it. But then, at some point in time, my growth trajectory would have stopped, Manik, because the market is getting incredibly volatile, as well as competitive, and I need to win market share.

Now, as you win deals of this nature, you know, traditionally these deals, you will have to invest in them before you can start seeing returns. And that is what has happened. That is why you see the last two quarters being very unpredictable. And it is also a manifestation of how our clients perform. Say for instance, Q1. Why did our revenue shrink? Because the deals that we had won, our customers did not ramp them up. As a result, we could not get revenues in Q1. That has come back in Q2.

Similarly, now the deals that we won on the Infra space or the other consolidation space eventually will start delivering margins as well. So, Manik, in an ideal world, I would have loved to say that I will always be predictable. But a couple of quarters, you have situations like that. We are not proud of it. But we don't want to be defensive on it. My job is to create more predictability. I understand that. And we will create more predictability going forward.

But Manik, I will also say this. Even in the future, will there be a couple of quarters where there will be a little bit of unpredictability? It will happen, because the markets are very volatile. But our job now going forward is to be very predictable over the next 6, 7, 8, 9 quarters so that investors like yourself also get a view on it. But there will be, I will admit, there will be a couple of quarters in between when the unpredictability will be there. But I do not for one moment doubt the execution capability of the team. That I think is strong. Equally, like I said, we are a performance-oriented organization. If people do not deliver, we will make necessary changes.

Manik Taneja: Appreciate that input. Angan, a couple of clarification questions. Given the challenging demand that you have spoken about, do we probably see a rehash of our strategy around cutting the long tail of customers? That is question number one.

The second question was a bookkeeping question around the sales and support headcount. This number had gone up sharply between Q4 of last year to Q1 of FY '25 and then once again has come back to a similar level in the current quarter. What explains these quarterly changes on this headcount, on this metric?

Angan Guha: I will answer the first question. The second question I will probably ask Kamini to comment on. So, look, we are on an endeavor to cut our tail. We have done a lot, but given the circumstances like you have rightly pointed out, Manik, we will do even more.

My original thought was that we were at an optimal level, but with the market uncertainty and with the way things are happening in the world, I feel we have more possibility to cut down the tail and so the team has a plan in place to reduce the tail even further. So, we will be on it because that also has a manifestation of redeploying our human capital for growth rather than for sustenance. So, that we will continue to do.

On the SG&A, I will hand it over to Kamini for Kamini's comments.

Kamini Shah: Thank you, Angan. So, Manik, while it does appear to be that in one quarter the headcounts gone up and come down in the next quarter, it is primarily because of two reasons. The reason the headcounts went up is, a couple of quarters we have spoken about our investment in our tech transformation internally within Birlasoft, what we called Project Optimus, where we had actually started ramping headcount on that project and that continues.

The reduction this quarter that has happened has been in other areas where we have started optimizing some of our support staff in areas that have been automated and as we are realizing the benefits out of that. So, I think that there are two different and distinct events while it appears to have happened quarter-on-quarter.

Moderator: Next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: And Angan, real appreciation from my side, I think you have taken real trouble to explain the situation that the company is in. I really appreciate. I think the company, as you rightly said, I think there will be volatile quarters here and there. And amidst that, a company or the management should not lose the long-term goal that they are after. So, I completely appreciate that. But I have a more strategic question, which is not related to just one or two quarters, but from a longer-term point of view.

Now, we have been saying that the last two quarters have been weak in terms of TCV. But if I look at our FY '24 TCV also, that was also up only 1% Y-on-Y. So, actually, if you look at it, if you compare the numbers from FY '23 onwards, our deal close for the past six quarters have not been that great or have been quite modest. And in that, we have also taken some vendor consolidation and infrastructure deals, which have basically impacted our margin.

So, if I remove those deals, the deal wins in our core area, which was transformation projects and all, that has been pretty weak, so to speak. So, is it that these kind of deals have dried up or is it that we are not able to match up as to what exactly is required in those kind of deals? And when do you think this situation can change over the course of, let's say, maybe two, three, four, whatever quarters, whatever time that it takes? And then I have a follow up to that question.

Angan Guha: Vibhor, first of all, I think your analysis was spot on, so, last year, if you look at it, our order signings were just 1% growth over the previous year, FY '24 over FY '23. So, clearly, that was a cause of concern.

But even though that happened, if you look at our net new and existing new business, that has shown reasonable traction, which is why, barring Q1, we are able to show growth in Q2 and hopefully in Q3, though Q3 is a muted quarter again, but definitely in Q4. So, that is a manifestation of the fact that though the overall deal flow may be soft, but at least the net new is going up. So, that's number one.

Number two, are we happy with the situation of our deal signings? Absolutely not. There is a lot of focus within the company as a part of the management team to drive the deals up. So, hopefully Q3 and Q4 will be better.

But in the longer term, there are two points that I want to make, Vibhor. See, we have the pipeline. That I am absolutely certain about. The pipeline also has a large number of transformation projects that we are working on. Apart from, we are also working a lot of vendor consolidation projects.

There are two issues in the market though. The real estate that is our current real estate, I can't talk about the market in general, but in our current real estate, our deal signings are getting delayed.

Now, not that our customers that we serve are in financial trouble or anything. I mean, they are very strong financially, but it's a wait and watch model in our customer real estate in terms of how the election results will pan out. And hopefully after that, the things will start looking up and start looking better.

Our dream is to deliver growth on order book even this year, though it is going to be a very tall order because in the first half year, we have delivered only 300 millions of signings and I really need to deliver more than 550 million in the next two quarters even to show growth. But we will endeavor to do that because at the end of the day, if those deals close, we can really make it happen.

But in the longer term, once the election cycle is over, I think, basis on what I know today, based on all my customer interactions, the transformation projects will be back on the table. Typically, after an election cycle happens in the U.S., since almost 86%-87% of our business is in the U.S., it'll take a lag of about six months, but I am sure that all the transformation projects will be back on the table.

But equally, Vibhor, we have put a lot of investments in Europe and in Asia and under Manju's leadership, who's our leader for the Rest of the World (ROW), we are now starting to at least get pipeline in the table, which are more transformation in nature, rather than vendor consolidation in nature. So, it will take me about six-seven quarters to get the deal flow right, but we are in the right trajectory and we are in the right direction, Vibhor.

Vibhor Singhal: Just a follow up to that, Angan. I mean, at this point of time from a near-term point of view, it appears that we have got into a kind of a vicious loop. We are chasing, I mean, we got maybe one or two infrastructure consolidation deals because of which our margins have fallen from 14% to 10% this quarter. And maybe next quarter, because of wage hike will probably come to maybe some single-digit numbers.

On one hand, just one or two deals have taken our margins to this. And now we are actually looking to expand margins next year because most of these projects will move from onsite to offshore, but at the same time, we are chasing more deals in the consolidation and the infrastructure space in which the year one itself will be margin dilutive. So, that will be kind of a recurring phenomenon for us. If we don't go for those deals, our TCV growth will be muted, so our revenue growth won't come. But if we go for those deals, they will be margin dilutive and our margins won't come. So, I think it's become a kind of a judgment call on, let's say, a call that we have to make, a dilemma between whether we go for revenue growth or margins, because it appears from the current scenario in the near term, it is difficult to achieve more.

Angan Guha: No, no, but Vibhor, and again, I will not debate what you are saying, I think you are saying the right thing. But Vibhor, look at it from our perspective as a management team, right? Our job is to focus on all the three parameters, revenue, margins, as well as order book, all three parameters.

Now the trick would be to kind of deliver margins through our existing program, drive a lot of efficiency, cut costs in our existing programs, and still continue to deliver to our clients, cutting the tail. And I think we have enough and more opportunities to improve margins there.

But clearly, I am going to go after market share. I am going to win deals at slightly lower margins in the market. But if I am being able to balance that out, and Vibhor, and again, I can't tell you everything that we are running within the company in terms of initiatives, but I am reasonably confident that I can win market share through the vendor consolidation deals. I can win more Digital and Data deals as well, as the markets turn.

Equally, there is a lot of opportunities of cutting the tail, optimizing my cost. Project Optimus that Kamini spoke about will contribute over the next three-four quarters to cost takeout. All of these initiatives will come together.

I know what you are saying in the medium term, it may look like that. But you know, we don't see it like that. Because end of the day, it's not a question of one quarter or two quarters or three quarters. I want to clearly win market share, deliver a lot of growth and still maintain the margin band.

Now, you are right, I mean, in the medium term, it may look like that. But we in the management team are pretty focused on the long-term goal.

Vibhor Singhal: Appreciate that detailed explanation. And I hope the management continues to focus on the long-term growth. I think that is what will probably deliver value to the shareholders also.

Moderator: We will take a next question from the line of Anmol Garg from DAM Capital. Please go ahead.

Anmol Garg: So, couple of things firstly wanted to understand what is the size of the vendor consolidation deals that we are talking about, because these deals generally tend to be longer in sizes? And if you can also talk about what kind of vendors which we are consolidating these deals from and what is the typical nature of such deals?

Angan Guha: So, Anmol, I can't tell you which vendors we are consolidating from because that is really confidential information, but these deal sizes range from anywhere between $10 million to $30 million. But there is a small change, Anmol. You know, in today's world, the long-tenure deals are pretty much over. I don't think there is any customer who's going to come to the table and find a five-year deal. So, we are also seeing consolidation deals from a one-year to a three-year perspective. But I can't talk about who we are consolidating from etc. Because that will be pretty confidential information, Anmol.

Anmol Garg: And like you said that these deals are typically not that longer in duration, so would you say that the revenue conversion in such deals would be much faster?

Angan Guha: Not necessarily. See, again it's very difficult for me to answer that question, Anmol, because it depends upon client to client. In certain client situations, yes, what you are saying is right. In certain client situation, they may have signed up for a year, but with a confirmed extension going forward. And you also must understand, Anmol, why customers are signing deals for a lesser tenure than a longer tenure today. It is only because of the uncertainty.

The same reasons why large mega deals are not yet on the table, the deals are becoming smaller, is the same reason why the tenure is also becoming smaller. So, we will have to see how that plays out, Anmol. It's hard for me to answer that question specifically.

Anmol Garg: And just one last thing is that we are talking about a lot of winning more vendor consolidation deals going forward and like you said that these deals are typically $10 million to $30 million in size or maybe even bigger. So, from that perspective, can we expect that overall the TCV for the company can get relatively better from here on and can even get bigger upwards of $250 million or so?

Angan Guha: Yes, so Anmol, look, first of all, I don't again want any of you to feel that we will only run the company on vendor consolidation deals. That's not what I have said. I said vendor consolidation deal will be a part of my overall deal flow, maybe 30%, 40% to 50%, but I will also win 50% transformation deals.

It's only taking a little bit of time because of the seasonality and the uncertainty there in the market, but we are also winning our fair share of transformation deals. Otherwise, you know my discussion with Vibhor and Manik, I will never be able to get the margins up to my desired levels if I don't win transformation deals.

So, for one moment, please don't take away the fact that we are only focused on vendor consolidation deals. We will definitely do vendor consolidation deals, but we will do transformation deals as well. So, that's number two.

Kamini Shah: I was just about to say to Anmol, yes it makes sense for us to do only consolidation deals where it is strategic and where we are able to actually integrate sideways in terms of the opportunities and that gives more play to the areas that Angan spoke about in the digital space, right? So, I think it will essentially be a strategic call. It's not that we are going to be looking at vendor consolidation for every opportunity. I just wanted to call that out. Given the fact that you shouldn't take away anything else from what we are trying to do. Sorry, Angan. Please go ahead.

Angan Guha: So, the second question, Anmol, in terms of whether we can get to a 250 million per quarter deal signing, that's our dream. We want to get into that mode so that every quarter we can sign $250 million. I don't know whether Q3 can be that. It's a short quarter, but do we want to attempt to get to 250 million of deal signings in 4Q? Absolutely. That's our goal. But we will see. We will see how Q3 converts and then we will start focusing on Q4.

Moderator: We will take our next question from the line of Aayush Rastogi from B&K Securities. Please go ahead.

Aayush Rastogi: So, just a couple of questions. So, if I recall it later, so last quarter, before the last quarter, we were chasing the shorter-term deals and now we are chasing the vendor consolidation deals. So, is it true to understand that we are chasing growth on the back of margins right now and sacrificing to just get the growth wherever we are seeing the opportunity? That's the first question.

The second question is that why we are facing the pricing headwind? Because if we see the commentary of the larger peers or maybe the mid-cap peers of ours, there has not been such negative commentary on the pricing side. So, is it something that has to do with the capabilities that we are having in or what's the rationale behind that we are having some of the pricing pressure in the consolidation deal?

Angan Guha: First of all, sorry, could you repeat your first question again, Aayush. I got confused with your second question. Repeat the first question.

Aayush Rastogi: So, first question was that if we recall it better, so last quarter to last quarter, we were kind of chasing the shorter-term deals, we were seeing kind of an uptick. So, we got the growth from there onwards and in this quarter, we are highlighting that we are chasing kind of the consolidation deals. So, is it some kind of a change in its strategy is there that we are ready to sacrifice the margin to just to obtain the growth or the opportunities that are available in the market?

Angan Guha: No, no, Aayush, I don't think or agree with that at all. Even our shorter-term deals, which we did last year and you must also realize when we talked about shorter-term deals, it was pertaining to our clients. When our clients had shorter-term projects, we came in to help our clients execute those projects. Those projects necessarily did not mean they were low margin projects. They were domain related projects. They were technology related projects. We made good money and we helped our clients. Our clients wanted us to come in and execute a particular program in a fixed period of time, which we did. We made our money. So, it was not margin dilutive.

The vendor consolidation deals are also not margin dilutive. It is only the timing issue that when you do a vendor consolidation deal, you take over people, etc. For the medium term, you will see pricing pressures and margin pressures. But over time, when you start moving work offshore like Kamini spoke about, you drive a lot of efficiencies within the program, productivity gains you get, you will be able to get the margins back on track.

So, we absolutely do not want to chase growth and sacrifice margins. That's not our strategy at all. We will be a growth-oriented business, and we strongly feel that if we can drive our investments and get return on our investments well, if we can do that part well and we are on the journey of doing that, revenue growth will automatically deliver more margins because then the operating leverage kicks in. So, we are very focused on revenue growth, which is profitable growth, Aayush. So, I do not want you to think about us as a company that will do growth at whatever cost by sacrificing margin. Far from it. We want to build a healthy growth business with a reasonable margin profile.

Kamini Shah: And Angan, if I can add to what you said. Aayush, like I mentioned earlier also, see our consolidation deals are not going to be a large part of the growth or the TCV that we will be going behind, right? It will make sense for us to only look at those part of the deals which give us integration opportunities to grab a larger wallet share. So, it will be very strategic in nature. I want to re-emphasize that so that it becomes very important for us to understand as to why we are doing some of these and not because we just want to grab some revenue at this point of time. I think that is the kind of view that we are taking as far as consolidation deals are concerned.

So, clearly, on top of consolidation deals that we get, in the interim, like Angan said, we are looking at getting more and more digital and data transformation work that will help us grow our existing portfolio and also move into adjacent areas.

Aayush Rastogi: And the second question is that if we see the TCV across the board, it is kind of in the comfortable range for each and every other company. So, just trying to understand what are the problems that we are facing that the TCV still remains subdued or maybe below the comfortable range what we actually aspire for. So, just trying to gauge what is going wrong or what has led to the soft TCV numbers in this quarter?

Angan Guha: So, Aayush, nothing is going wrong. Fundamentally, I think our customers are fine. Our customers are healthy. So, there is no issue there. It is only a delay of decision making. Like for instance, I mean, there were certain deals that the papers got signed only after the quarter was over. So, we couldn't count it in the previous quarter. The deals were already won and the deals are done and the papers came in only now. So, like I said, am I satisfied with our deal wins? Absolutely not. We have a lot more to do, but I don't think I am concerned about it from a revenue growth for the future perspective. So, if your question is, if there is a soft TCV position this year, will my revenue growth for next year not happen? I don't think so. My revenue growth for next year will continue. But of course I've to fix my TCV. Like I said, I will be more comfortable if I can consistently deliver 250 to 300 million worth of TCVs every quarter. We are not there yet. The first two quarters have been a disappointment. Let's see how Q3 goes. Hopefully, Q3 will be slightly better. But again, it's a shorter quarter. Maybe Q4 we will be back on delivering a good quarter in terms of TCV signing. So, we will see Aayush, we will work towards that.

Kamini Shah: And Angan, we also would like to add, that we have a healthy pipeline at this point of time. And I think some of the conversions that have gone a little delayed will hopefully start getting converted in the upcoming quarters. So, I think that lead indicator gives us the confidence to say that it's not that we don't have a pipeline that we should be worried about. It is a question of conversion which we are working with our real estate at this point of time.

Aayush Rastogi: So, just to follow up on that question only. So, if we see the commentary of SAP or the hyperscalers or whatever the companies that we are entrenched with. So, those have been calling it out, very strong demand kind of a thing. But our numbers aren't showing in terms of deal win. So, is it something to do with the capabilities that the investments are still going on for to catch that demand, that what the SAP and other companies are kind of saying?

Angan Guha: So, Aayush look, whether it's SAP, Oracle, everybody is giving a strong commentary going forward, right? So, there is a cycle. There is a big cycle coming in with some of these large hyperscalers or the ERP businesses as well. We hope to catch that cycle. We have a lot of deals that are currently on in both sides of the aisle. A lot of JDE work, SAP work, a lot of Digital deals are on the table. We are fighting to win it. We will win our fair share. So, look, I mean, I don't know what more to say. I mean, we are well invested in those businesses. We are going after customers. The pipeline is there. Now it is the question of converting. But to your question, Aayush, that you asked a little while ago, is there a problem with our clients? I don't think there is a problem with our clients. It is only the fact that the timing of these deal closures is an issue, which is what we are working on.

Aayush Rastogi: So, in healthcare vertical when we say that we are not facing a client issue, so is it fair to understand that on the healthcare side also, we are not facing the specific kind of a issue?

Abhinandan Singh: Hi Aayush, Abhinandan here. We have run overtime substantially by the way. Why don't you just make this your last follow up and then we can wrap up?

Angan Guha: Yes, Abhi, let me answer this question. So, Aayush, look, in healthcare, I admit that for the last two to three quarters we have a muted growth, right? But you give it a couple of quarters, you will see the healthcare bounce back very, very strongly. Now why has this happened? It is not a sector issue or a client specific issue. It is only because the real estate that we have, the projects that we sign. Like I said, the projects are maybe a one year project or a two year project. The project has got completed. We have delivered the program. The new project is taking probably another quarter to come, and that's all there is. But in the healthcare space, in fact, we work with very marquee names, very strong companies with strong balance sheets. So, it's only a question of timing, but I am very confident that the team will get the healthcare business also back on growth very, very quickly.

Moderator: Thank you. I now hand the conference over to Mr. Angan Guha, CEO and MD, Birlasoft Limited for closing comments. Over to you, sir.

Angan Guha: Thank you. First of all, thank you, everyone. Thank you for joining us in this conference call. Hopefully, we have been able to answer all your questions. But if you have any further questions, please do reach out to Abhi and we will try and attempt to answer all other questions that you may have. Thank you once again for your support to Birlasoft. We and the management team are committed to building a long-term sustainable growth-oriented business with a high margin profile, that we are committed on. Quarter-on-quarter, we will focus on execution, and we will get our company there. I look forward to speaking with you again as a part of our next earnings call. Thank you once again. Have a good evening, good morning, wherever you are. Thank you.

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

(This document has been edited for readability purpose)

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