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birlasoft

May 31, 2022

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 May 24, 2022

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 May 24, 2022.

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**

SPadve

BIRLASOFT LIMITED

Sneha Padve
Company Secretary & Compliance Officer

“Birlasoft Ltd. Q4 and FY22 Earnings Conference Call”

May 24, 2022

MANAGEMENT: **MR. DHARMENDER KAPOOR – CHIEF EXECUTIVE OFFICER, BIRLASOFT LIMITED**
MR. CHANDRASEKAR THYAGARAJAN – CHIEF FINANCIAL OFFICER, BIRLASOFT LIMITED
MR. ROOP SINGH – CHIEF BUSINESS OFFICER
MR. SHREERANGANATH KULKARNI – CHIEF DELIVERY OFFICER
MR. ARUN RAO – CHIEF PEOPLE OFFICER
MR. VIKAS JADHAV – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to Birlasoft Limited Q4 & FY'22 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. Thank you and over to you Sir.

Vikas Jadhav: Hey, thanks Neerav. Good evening, everybody. Thank you for joining us. I am Vikas from Investor Relations and today we have the whole Birlasoft team with us, comprising of Mr. Dharmender Kapoor (DK) who is our CEO; Mr. Chandrasekar Thyagarajan, Chandru as we call him, he is our CFO; Mr. Roop Singh, our Chief Business Officer; Mr. Shreeranganath Kulkarni or SK as we call him, he is our Chief Delivery Officer; and Mr. Arun Rao, who is our Chief People Officer.

We will begin the call with an Overview of the Company's Performance from DK, followed by Chandru. Post that, we will move to the Q&A Session.

Please note that Birlasoft does not provide any profit or revenue guidance. , I mean, as we see on this call and refers to the company's outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer which were mentioned in our Q4 investor update which has been uploaded on the website and also shared with the exchanges. With this, I now handover the call to DK. Over to you, DK.

Dharmender Kapoor: Thank you, Vikas. Good morning, and good evening to all of you. Thanks for joining us for the Q4 and Financial Year 2022 Earning Call.

Ever since I took over as CEO of the merged entity about three years back, I had been mentioning that our first goal was 15% growth and 15% margin. And that had been the first strategy on which we started to put the organization together, which many of you would be aware of, and which meant a goal to see that we will grow by 15% and we will deliver a margin of 15%.

I'm very pleased to report that we have ended this year with over 15% revenue growth and over 15% margin. From a negative annual revenue growth and single digit EBITDA margin back then, we have made a significant progress. This is despite the odds of merger and integration challenges in the first year of my tenure., the COVID-19 crisis in the second year and significant supply side challenges in the financial year, which went by.

Coming to the financial year 2022 specifics, Birlasoft revenue was $555.2 million, a growth of 15.8%. In rupee terms, the annual revenue was at Rs 14,304 million and grew by 16.2%. EBITDA was at $ 86 million and EBITDA margin was at 15.5% versus 14.9% in the previous financial year, showing an improvement of 60 bps and a growth of 20.4% year-on-year. The profit after tax was at $ 62.3 million, registering a growth of 43.6% year-on-year.

We continue to witness strong deal wins and ended the year with TCV wins of $696 million, of which $444 million were from new business versus $427 million in the previous year. Further, the wins from the new customers improved significantly to 15.5% in this financial year versus 3% in the previous financial year. Growth was led by Americas which grew 32.9%.

In verticals, manufacturing-led growth was up 25.8% year-on-year. In services, business and technology transformation and cloud-based services grew 26.1% and 29.8% respectively.

Enterprise Solutions also saw some pickup in growth with year-on-year growth of 2.5%. With its year-on-year growth being in the high single digit in H2 financial year 2022, it is a clear signal that now the enterprise solution programs are coming back. The momentum is driven by additional on-premises or off-premises options, improving user experience and integrated environment and increasing demand for as a service model.

Offshore revenue continued to gain momentum in financial year 2022 and the revenue share improved by 450 bps to 49.3% in current financial year versus 44.8% in the previous financial year. Similarly, the revenue from fixed price contracts stood at 58.6% versus 56.2% in the previous financial year.

Top customers continue to drive growth in the current financial year also. Our top 6 to 10, top 10 and top 20 customers grew 46.9%, 18.4% and 20.4% respectively. Top five customers growth was 7.6% year-on-year due to normalization of growth in one of our life sciences customers. The active customer count was stable at 296 as of March 31st in the current financial year. In financial year '22, we added 4 customers to the $ 10 million plus bucket from 9 in financial year 2021 to 13 in the current financial year, reflecting an effective client mining and cross-selling strategy.

We added 1,153 professionals during the year, and the total headcount stood at 12,204 as of March 31, 2022, and we continue to maintain over 85% utilization level throughout the year.

We are making investments in transformation programs to help bring agility, drive faster growth, set of service line and invest in talent and skill developments and improve pricing and productivity.

As a testimony to our growth trend or growing brand, we have received several accolades. Birlasoft is now Great Place to Work®-Certified and Birlasoft was among the leading provider in the Bloomberg XV Category, globally based on annual contract value won over the last 12-months according to first quarter '22 Global ISG Index. It is the eighth consecutive time that we have been featured across named category by ISG.

As you're aware, the board have announced a share buyback program. Chandru will take us through details of it in his remarks. But just wanted to state that the buyback is part of the company's philosophy to deliver consistent returns to the shareholders. The buyback in addition to the final dividend is being implemented to distribute part of the surplus capital of the company and is not expected to impact if organic and inorganic growth strategies and plan.

In conclusion, I would like to add that demand environment continues to remain robust, especially in digital cloud and re-initiation of transformation programs. This demand is powered by customer who is looking at shorter and sharp returns and focusing on cost containment while improving their spend on value-driven initiatives. The deal pipeline is robust, and traction from both new and existing customers is good. I remain optimistic about our growth journey and look forward to yet another successful year.

As I have been always saying that we want to be a predictable and sustainable company. I will also add that we now want to be a confident company and the steps taken in the direction of buyback and dividend in this current quarter are a clear demonstration that we are becoming more and more confident about our growth and profitability. And that's the way we want to continue our growth journey going forward.

Handing over the call to Chandru for some more insight into the financial.

C. Thyagarajan: Thank you, DK. I wish you all a good day, good evening, and I hope you're all doing well. Let me take you through some financial highlights for the fourth quarter of FY'22 and then for the full year of FY'22.

Our Q4 revenue was at $146.4 million, representing a growth of 2.1% sequentially and 18.8% year-on-year. In rupee terms, the revenue was at Rs.1,101 crores, a sequential growth of 2.8%, year-on-year growth of 22%.

Q4 had some cross currency headwind of 10 basis points. Therefore, the constant currency revenue growth was at 2.2% and Q4 year-on-year constant currency growth was at 19.6%. EBITDA for Q4 was at $23.2 million versus 21.8 million in the third quarter. And that means a growth of 6.5%, as DK said, and a year-on-year growth of 11.5%. EBITDA margin stood at 15.8%, which is an improvement of 60 basis points quarter-on-quarter.

Margin improvement was aided by revenue growth, reduction in our subcontractor cost and in improved pricing. We did have some impact on account of the increased travel cost and also continuing back on account of wage cost inflation, coming from new hiring and retention program.

Our Q4 PAT was at $17.7 million versus $15.2 million in the previous quarter and that's a growth of 15.9% quarter-on-quarter and a growth of 30.7% year-on-year. In rupee terms, this was 34.3% improvement on a year-on-year basis.

The effective tax rate was at 23.4% in the fourth quarter versus 25.8% in the third quarter. There was a one-time tax refund in one of our subsidiaries, and that led to a lower tax in Q4. I believe that a normalized tax rate would be closer to 26%.

Coming to the full year numbers, revenue was at $555.2 million and that's a growth of 15.8% on a year-on-year basis. In FY'22, we saw cross currency tailwind of about 20 basis points and revenue growth in constant currency terms was at 15.6%. EBITDA for FY'22 was $86 million versus $71.5 million in the previous year, and that's a growth of 20.4%. Margin saw an improvement of 60 basis points on a year-on-year basis. Factors that lead to an improved EBITDA margin were improvement in our utilization levels, better pricing, improved offshoring and a new business coming to us at better margin.

We did have impact on account of higher subcontractor expenses given the travel and visa situation, wage hikes, investment in capability building, and marginal pick up in travel expenses.

Other income was higher at $8.9 million for FY'22 versus $2.6 million in FY'21. Interest income on fixed deposits, and liquid mutual funds was around $4.5 million. FOREX gain was about $3.5 million versus FOREX loss of $1.5 million in FY'21, that's leading to a positive swing of $5 million on account of FOREX on a year-on-year basis.

FY'22 PAT was $62.3 million, up 43.6% year-on-year. You'd be aware in Q3 in the past financial year in FY'21 that is, we switched to the new tax regime, that led to a lower tax rate of 24.8% in FY'22 versus 29.5% in FY'21. PAT margin was at 11.2% versus 9% in the previous financial year, marking an improvement of 220 basis points year-on-year. Earnings per share for FY'22 stood at Rs.16.3 versus Rs.11.53 and that's a growth of 44.2%. Our DSO at the end of the year was 58 days, they saw an increase of two days on a year-on-year basis and three days sequentially.

We did have some billing skew towards the end of the quarter in the fourth quarter, and that was on account of the contract renewal process with several of our customers and the related documentation, which delayed our collection. We expect DSO to remain below the 60-day level going forward.

The CAPEX for FY'22 was $8.5 million versus $3.5 million in FY'21. CAPEX was primarily related to purchase of IT assets to fuel the growth that we were seeing in our business. The year-end, net cash and cash equivalents stood at $161.6 million, that's Rs 1,225 crores against a $153.1 million as of March 2021, and this was up $14 million year-on-year.

For the past couple of years, we've been receiving feedback from industry, requesting us to reflect on our capital allocation with cash and cash equivalents remaining healthy and as a step to improving our capital allocation.

As DK said, board of directors have proposed a buyback program and also a final dividend, the buyback of equity shares is for an aggregate amount, not exceeding Rs.390 crores at a buy back price of Rs.500 per share. This amount excludes taxes and other incidental costs of the buyback. The buyback will be undertaken through a tender offer in accordance with SEBI buyback regulations and is subject to shareholder approval.

The dividend is subject to the shareholders' approval as well. The final dividend that was proposed was Rs.3 per share. on the face value of Rs.2 per share.. Including the interim dividend of Rs.1.50 that that was announced after our Q2 results, the total dividend for FY'22 is Rs.4.50 per share. The dividend payout ratio comes out to 27.1% to the FY'22 PAT. The corresponding payout ratio for FY'21, as you'll recall was 30.2%. Including a buyback of shares which are worth Rs.390 crores excluding taxes, the payout will be approximately 111% of FY'22 PAT.

To conclude, I believe that this year's performance has been remarkable for us. We've seen good growth, improved margins, stable DSO and further strengthening of our balance sheet. We were able to drive multiple automation initiatives across the company including our finance function. We will continue to keep a balance between revenue growth, margins and cash flow and will keep tight control on key performance metrics.

With this, let me throw the floor open to questions. Thank you.

Moderator: We'll now begin the question-and-answer session. The first question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: I wanted to get an outlook on the demand environment per se. DK, how are you seeing the demand environment as of now? And you know extending this to the situation that if US enters into recession, at least the bond yields models are saying, how do we see ourselves. Do we still maintain that $1 billion kind of a target that we have for FY'25?

Dharmender Kapoor: I think you're right that there is a discussion about recession that is there. Some of the articles have started appearing in the media. But, as far as we're concerned, I have not yet experienced that demand is going down. I'm in US and I have been meeting our clients over the last two, three weeks also. I continue to see that they are continuing with their programs and with their projects. There is no discussion that has happened from their side in terms of reducing their budgets. So, from that perspective, I do think there are clear visible signs in the eyes of our customers that the demand is going to go down. But I also do read the reports that are coming on the recession side and all that. We may have to wait and watch, but so far, so good. I think the demand is there, and we continue to look at that our pipeline is going healthy, the shares pipeline as well as the win of the deals continue to happen. So, I remain completely optimistic. We are also very confident of achieving our $1 billion goal. And we are really putting all the efforts and strategy and plan that is required in order to achieve that.

Mihir Manohar: How should we understand the organic and inorganic component in these billion dollars?

Dharmender Kapoor: It remains same as it was in the previous quarter, where I said that we would reach to about $800 million to $850 million organically, and there should be about $150 to $200 million coming from inorganic growth.

Mihir Manohar: Just one more question on the attrition side. I mean, we are seeing that for us, the attrition is still at high at 34% versus we are seeing slight flattening happening for some other peers in the industry. So, how should we see the wage hikes going forward in this particular year FY'23 and consequently, the margins per se, I mean?

Dharmender Kapoor: So, even for us, the Q4 was better than Q3 on the attrition side. But if you look at the last 12 months, it remains in that range, which is definitely a concern for the industry, as well as for Birlasoft. So, we need to continue to look at how do we apply different strategies in order to contain the attrition and at the same time continue to attract the talent from outside, because we are continuing to see the growth also. So, there are multiple initiatives that we have taken, for example, we have advanced the promotions of our top performers, so that is one step that we have taken. At the same time, the increments are going to be better than before, that's the second step that we have taken. Third is the long-term incentive that we are planning for our key talent. And that is going to be the third way of really looking at and we're trying to broaden that where we start rewarding people in a way that they continue to build the wealth, if they continue to stay with Birlasoft. So, there are multiple such initiatives that we are taking in order to contain the attrition and we are hopeful that it should get addressed with that. At the same time, I'm sure that as the time fly by, probably, the work from office will also continue, though slowly, but that also may address the attrition issue because when people are working from home, a lot of times it is very difficult to continue to connect with them and build the relationship. When they start working from office, I think that is another thing, and so we'll be able to address the attrition.

Mihir Manohar: How do we see margins, consequently, wage hikes. What will be the quantum of wage hikes for FY'23 and when one should budget for it?

Dharmender Kapoor: It is going to be the single digit, but we are working on a different model, where we are going to look at both the performance and the variability which is going to be higher than before so that it has a component of retainership and that is how that we will give it. So, there is going to be multiple ways by which we will try to compensate them so that it is very attractive for our employees.

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

Sandeep Shah: DK, last quarter, we had shared we are winning many small size deals with a smaller tenure which will lead to a faster conversion of deal wins into growth as a whole. But if we look at the Q4 growth, it looks softer than most of the peers versus your own earlier quarters as well. So, anything to call out in terms of 4Q in terms of growth headwind and is it lower than your own expectation at the start of the quarter?

Dharmender Kapoor: There are a few things that we have to look at. One has to look at what part of the portfolio is getting normalized with respect to the revenue. So, there will always be one of those quarters where the revenue normalization will happen because the transformation programs will finish and it will look like that the normalization happen on the revenue front. So, there will be always that kind of quarter once in a while and I think Q4 was off that type. At the same time, we also started looking at how do we not really dilute our focus on the margin side, and how do we go after the deals that are going to be more profit focus, margin focus deal, because we wanted to combine the two so that we are able to go after the right deal. The good part is that the number of wins that we had for the deals that we won during the Q4 was much-much better than what we have been doing it before. So, that definitely was very promising, but definitely this was one of the quarters where we normalized our revenue.

Sandeep Shah: But do you believe, is there a supply side issue, which has led to a demand fulfillment in Q4?

Dharmender Kapoor: There has always been a little bit of impact of the supply side as well as an issue on the growth side. But I would not say that it is a major concern because we were able to add resources and we continued to attract the talent that is required. So, it is definitely a concern here just like it is in the industry. But is it significantly different? No, it is not. And it is well within control that we are able to attract the talent for the opportunity that we want to go after.

Sandeep Shah: If I look at the total TCV which you report and from that if I minus the new business TCV, that TCV in this year has been $253 million versus last year, it was $460 million. So, it's a sizable decline and it continues to remain volatile year-after-year. So, how to read renewal TCV year-after-year?

Dharmender Kapoor: You have to look at renewal of the deals depending upon what had been the contract period. So, last year, because it was the COVID-19 situation, we had gone and negotiated a lot with our existing customers, so that we can renew the deals out of the term. And at that point of time, our focus was to protect our revenue with our existing customers. And we negotiated with them so that we can sign three- and five-years deal. So, that's the reason that you saw more of the renewal deal in the previous year. This year, it was not required as much, because those deals are for three to five years, and the time is not there for them to renegotiate and renew. So, I don't think the renewal of the deal should be seen as a dip. It should be seen that it was not the year where the renewals are required, because those deals are already running with us. The deals that we renewed last year were actually with the top customers, and that's the reason the value was higher in the previous year

Sandeep Shah: Just a last question, in earlier quarters, we were aspiring to grow even in high teens in FY'23, which we have already shown in FY'22, but we were also aspiring to grow at a similar rate or higher than this year's growth rate in FY'23 with better EBITDA margin YoY. So, whether that aspiration continues to remain good or you believe the macro headwinds makes us slightly cautious and watchful?

Dharmender Kapoor: So, far, we have not experienced the headwinds, apart from the supply side of it, which continues. But otherwise, as the question came up earlier on the demand environment and the recession, that headwind we have not experienced so far. So, our goals remain the same as we plan during the budget cycle. So, we want to continue to do better than the previous year.

Sandeep Shah: Even both on revenue and margin?

Dharmender Kapoor: That's right.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential Mutual Fund. Please go ahead.

Sameer Dosani: Just one clarification on one answer that you gave. We have announced a buyback and dividend which we'll use around Rs.500, Rs 520 crores of cash from the Rs.1,250 crores of cash we have, right. To fund our aspirations of $150-200 million organic revenue part, we will need at least one-time sales of around Rs.1,250 crores of cash. Will we miss out on the opportunity when we are using this amount of cash for buyback and dividend? And how do you see that happening for Birlasoft?

Dharmender Kapoor: So, if you look at as of March 31, we had accumulated cash and short term investments in excess of Rs.1,200 crores which is higher than the comparable IT services companies as a percentage of market capitalization. The return of lot of that surplus cash will not affect the company's ability to grow organically or inorganically. Birlasoft can continue to consider acquisition up to $300 million or I would say that about Rs.1,200 to Rs.1,300 crores, that level of acquisition we can go for our, with leverage if required in future. So, I don't think that is going to impact our inorganic aspirations that we have.

Sameer Dosani: Second question is on the deal win side. $125 million of deal wins as compared to earlier quarters. I mean, when I compare it on the full year basis, it's flat, and when I compare it on a quarter-on-quarter basis, it's also flat. Is this not a sign of any slowdown of demand environment? And how are you seeing Q1 and Q2 in this relation from a deal win perspective?

Dharmender Kapoor: If I look at the way our sales pipeline is today, I don't see that there is a slowdown in the demand. We continue to look at the request from the clients where their participation into the deals that is there. So, that remains. If I look at it from that perspective, I believe that the demand has not slowed. At the same time, I also continue to hear the concerns across in terms of what is happening in a country due to geopolitical situations. But IT industry is a very interesting industry because a lot of time when our clients are under pressure. We actually do focus on cost reduction. And more and more when they focus on the cost reduction. They need help from the IT outsourcing service provides to come and help them in reducing the cost. So, sometimes, that can come across as an opportunity also. So, we are being optimistic keeping all the things that are going on in mind and I don't think that there is any need right now to change any plans that we have for the financial year.

Sameer Dosani: Lastly, have you done any freshers addition? And what is the quantum of fresher addition that we have seen in last 12-months, last quarter. Anything you want to speak about, and how does that help our margin in that sense?

Dharmender Kapoor: So, if you look at one year back, we started a program called “Skill-to-scale”. The objective was that how do we look at fresher? How do we look at the raw skills that we bring into the organization and put a method of developing their talent and skill going forward in order to scale faster, because you cannot have the dependence on the external talent coming in all the time. So, it was in the initial stages in the first three to six months, and we started seeing the result in the Q3 and Q4. And today, we have reached to a level where now we can really very confidently say that we have the model in place, where on one side, we continue to bring that fresher, keeping in mind the forecast that we have for the future and continue to develop that skill and develop that talent through our training programs, certification programs, and many other actions that we do. I think that is really working very well. And that definitely continues to bring the fresher as well as the junior people who are there working in the other companies and we attract that talent also, because we are going to put the growth opportunity in front of them and are giving them an opportunity to work in the engagements that they believe that it is going to be a steppingstone in their career in the future.

Sameer Dosani: But what is the number of additions that you have done in FY'22 and what is the plan for FY'23?

Dharmender Kapoor: We hired approximately 1,000 fresher For the financial year '22, it is going to be probably a little higher for FY23. My feeling is that we will plan to hire about 2,000 to 2,200 for the financial year '23.

Moderator: The next question is from the Hiten Jain from Invesco. Please go ahead.

Hiten Jain: Sir, you said the deal pipeline is quite strong given that the demand environment is also quite healthy. But somewhere, are you disappointed in terms of translation of those deals in the pipeline to actual wins, because as the earlier participant was also checking, FY'22 new deal wins is up just 3% over FY'21. So somewhere you think the translation into wins from pipeline is weak, at least it looks from the numbers?

Dharmender Kapoor: I don't think so and I don't think that I am disappointed with that because we have to look at one thing that historically and traditionally everyone has been focused on the TCV wins so far. We also continue to report the same way, but the model is changing from TCV in the traditional terms, because earlier the deals used to be long term and the deals used to be larger. But as we progress, these are becoming smaller and of shorter tenure. With that the TCV value will not look high, because there is absolutely no other way by which we can explain that the TCV deals are going down, whereas the quarter-on-quarter revenue for the organization continue to grow because the ACV is higher than before. That means what we have to deliver today and in the shorter period in this current financial year itself is higher because the deal sizes are smaller. But the clients are often looking at that when more and more deals are going to come as a digital deal and the global environment is not as predictable as we would like it to be. They also want to be sure that they go and commit to the deals that they have the visibility into. And when it is also a digital deal, they do not know what the end state is going to be. And hence they want to take the stepped approach. And you will see that a larger deal is going to get divided into four or five pieces and awarded one after another rather than they go for a multi-year deal and awarded in one-go. I think that is what we have to look at. Very soon we will see that there will be a different way for us to report that how the deal wins have to be looked at from the ACV perspective and not just a TCV perspective.

Hiten Jain: Actually, the reason that I asked was even if you look at your sequential growth of 2%, it's lower than what you've been reporting same time last year and even fourth quarter of FY'20. And even now, given that, the mid-size IT companies all of them have reported better growth than 2% sequential, so somewhere, it looks like there is some slowdown in the numbers that you have reported this quarter in growth?

Dharmender Kapoor: That is because of the normalization. As I reported earlier, there are certain programs that we continue to do on the Enterprise Solutions. When that program finishes, so that part of the revenue goes down, and we have to really bring the other deals. So, we continue to win the other deals, but the normalization does happen where the transformation program finishes. But when we look at the annuity revenue and the RTB (run the business) revenue, that continues to remain very stable and continues to improve also. So, I am not overly concerned by the slowness that you might be looking at. But yes, I also wish that the growth was higher than 2.1%. But it is all because of the normalization and not because the momentum is slowed down or our deal wins or pipeline has slowed down.

Hiten Jain: Is this a normalization behind or do we expect this normalization to carry on into FY'23 also? At the same time, also, you are operating at 85% utilization, headcount grew 10% year-on-year for a 15% revenue growth. Is it that you've hired less because you expect some more normalization going forward?

Dharmender Kapoor: No-no-no, it is the productivity enhancement. Because when you're going to pay people higher, you are going to expect more. If we had to make the margins, we have to introduce automation, we have to introduce the methods to improve the productivity. In fact, it is a very, very healthy indicator that we have been introducing both the productivity improvement as well as the automation so that we can deliver more with lesser number of people.

Hiten Jain: Is this normalization now behind or do you expect it will carry on into FY23 also?

Dharmender Kapoor: As I said earlier, there will always be one of those quarters that will come every 4-5 quarters and all that and we should continue to foresee that if we can avoid those. But there will always be something like that which will come. But it is behind us, what was there in the quarter of Jan-Feb-March.

Moderator: Next question is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha: Just wanted to check on when is our salary hike cycles and you did indicate that attrition number for this quarter has come down. Is it possibly to quantify the annual attrition number for this quarter versus last quarter?

Dharmender Kapoor: So, I believe that quarter-on-quarter, the attrition number will be down. We still are into the middle of the quarter, and we are seeing the indicators, that show the attrition is going down. But will it be significantly different? I doubt because, we still have one more month to go. And as I said earlier that it is the too soon to start celebrating because our quarter four was better than quarter three. But we want to continue to initiate and upscale our activity of connecting with the people so that we want to continue and from that perspective, I think it is helping us and now that the cycle for the salary increment is coming up, I think that also is going to add and give us the benefit on the attrition side.

Shradha: When is the salary hike cycle, Q1?

Dharmender Kapoor: In the month of July.

Shradha: And can you quantify the annualized attrition number for Q3 and Q4.

Dharmender Kapoor: The attrition number you said?

Shradha: LTM number is what you have already given in the press release. I was talking about annualized attrition number for Q3 and Q4.

Dharmender Kapoor: Let me check if we have that. The annualized attrition in Q3 it was 34.7% and in the Q4 it was 34.3%.

Shradha: The quarterly annualized number you are saying?

Dharmender Kapoor: That's right.

Shradha: And sir, on the ERP segment, for the last two years, we have seen this segment being flattish, just a 2%-3% growth this year versus a decline last year. So, how should we look at growth trends in ERP segment? Any lead indicators to suggest that this segment will contribute to growth in FY23?

Dharmender Kapoor: So, what we really have to look is that in this the previous financial year, the growth looked like 2%, a lower single digit growth, but if you divide that into H1 and H2, the H2 was high on single digit growth. So, it is picking up, and that is a positive sign because really that the devil is in the details that if we go and look at quarter-on-quarter and H1 and H2, it tells the story that the trend is getting better. And more and more clients are also now looking at the transformation deals.

Shradha: So, what is changing in the demand environment for us to suggest that 23 growth rates in ERP segment should be better than what it has been in the last few years? Because we are already talking about some macro concerns emerging again what was the scene in the COVID environment. So, from that perspective do think clients will continue to go for discretionary transformational projections or again will that scene take a backseat?

Dharmender Kapoor: I don't think that we are changing any of our plans. We are continuing to maintain our internal guidance that we planned as part of the budget, both on the revenue side and on the margin side. So, no change for now and I hope that there is nothing new that emerges which will change in the future. But as far as I am talking to our clients, I am not experiencing that change.

Shradha: And sir, your guidance on margins is that 23 margins should better than 22 margins, is that reading right?

Dharmender Kapoor: That's right.

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

Devang Bhatt: There are two questions. One is that will the promoter participate in the buy back. And your BFSI growth is softer than manufacturing in ENU. So, is there any normalization in that segment too?

Dharmender Kapoor: I will answer your first question now and will ask you to repeat the second question later. So for the first question, the answer is that whatever information is available so far that we had declared is where we do not know which all shareholders will participate or not. I think at some point of time we will know that and then we will really put that declaration also. And every shareholder has the right to participate or not participate. And I think in the due course of time we are going to take their decisions and make it public.

Devang Bhatt: Okay, thanks. And if we see YoY growth of FY22 over FY23, your BFSI growth is softer than your manufacturing and your ENU vertical. So, is there any normalization of revenues in that segment too? That was my question.

Dharmender Kapoor: I would share that there was not as much normalization of revenue in the BFSI space, but we did have in the life sciences space. But yes, it is right that our manufacturing story has been selling much better than the other vertical. So, from percentage point of view, you will see that our share of manufacturing revenue has grown better than the others. So, from that perspective, was there a growth in BFSI? Yes, absolutely. There was a growth in the BFSI. So, I don't think that the revenue is declining. It is all growing there also, but the growth is lesser than what we have seen in the manufacturing space over energy and utility space during this time.

Devang Bhatt: Okay. And considering your comments that your deal wins are healthy, you have signed multi-year deals and you are seeing a strong healthy demand as of now. So, are you expecting that your growth will exceed the FY22 growth in FY23?

Dharmender Kapoor: That's the way we are working towards it. But we don't give any guidance as you know. We have the policy within the organization that we don't give any guidance, but as I said earlier that I am quite optimistic, and we are quite confident that we will continue to deliver better than the expectations that are in this financial year as well.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential Mutual Fund. Please go ahead.

Sameer Dosani: Just one thing, what we are seeing is that utilization levels are at a very high level right now. Do you think that will normalize? That is one thing. And second also on the margin front, right? With wage hikes coming in and utilization levels settling, normalizing, what are the levers that you think that will help you do better margins in FY23 than FY22? Thanks.

Dharmender Kapoor: So, let me take the first question on utilization. Utilization is absolutely normalized for us, and it is flattened because if you look at in the last 3-4 quarters, we are in the range of about 85% or 86% utilization. And this is the healthy level that we want to continue to maintain. That is the first piece. So, it is all in a good balance right now. Now, when it comes to the margin, there are multiple ways by which we have to look at. You are right that there are going to be headwinds such as the wage hike and other factors that are going to come into the play or the cost of resources that is going to come into the play, but there are various other levers such as we continue to optimize our pyramid. We continue to bring in more and more automation. We continue to introduce more and more freshers through the skill to scale program. Okay? Then we continue to go after our clients so that we can renew our pricing and we are negotiating for last six months with our key clients that we negotiate the price upwards, and we are getting it in a stepped approach. So, that also is helping them. Then there are other factors where sometimes take the margin hit because we want to go in full swing for a particular engagement and the only way possible at that time was that we hire the subcontractors. And the subcontractors as you know become more expensive. And we have been able to rationalize a lot in the last three to six months, and we want to continue to maintain that as we bring more and more subcontractors. We either convert them into the employees or continue to replace them with our employees that we develop through skill to scale program. So, I think these are some of the levers that are helping us keep our margin in a range where we are growing quarter-on-quarter though it is small improvement. But I think on the margin side, even small improvements these days is looking for a hard work.

Sameer Dosani: Right. On the subcon side, you have already rationalized or there is more rationalization to happen over there?

Dharmender Kapoor: It is an ongoing thing because as we continue to rationalize, there are new ways that you continue to make and there are more you know will continue to come. So, my feeling is that if we are at the level where we are today, I think we will be able to really use the other levers in order to optimize our margin going forward. But as the supply side of issues are easier to manage at that point of time, we will do a further rationalization. But looking at the current conditions, I think we are at a good place right now.

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

V.P. Rajesh: Most of my questions have been answered, but just one on the M&A side, if you can qualitatively give us a feel for what you are looking at and are the valuations coming down and what kind of areas are you looking to acquire in?

Dharmender Kapoor: So, the strategy, I think once or twice I have talked about, and the idea was that how do we use the funnel approach to continue to look at and zero down on what kind of company and what kind of skills that we will go after. As I earlier said that I will always continue to look at three parameters. One, what kind of industry that customer is in and is there any significant amount of revenue that comes from one industry of our interest. Second is that is there any niche that they have. And third is that do they have few clients where they have a significant revenue, and it is not that we end up buying the tail. So, out of these three, if I get two, then that's a good company for me and we are going and scanning the market for that. While looking at the revenue and the growth that we are seeing, and the momentum that we are seeing, I think everything around digital, and cloud is going to be a preference that going forward we will also have. So, we yet have to identify a company. But definitely, there are candidates that we are scanning. And as soon as we get something that is going to be more interesting probably then we'll start the discussion.

V.P. Rajesh: And are you looking for 1 deal size to get you to your target inorganic growth or will there be multiple deals over the next 3 years?

Dharmender Kapoor: Preferably, one deal. But we had to then look at when there is not 1 then probably 2, but we are not interested in multiple tuck-in deals because it doesn't matter if a company is of $200 million or $20 million. The effort required for integration are same. And sometimes, actually, it is easier to integrate a $200 million company than a $20 million company. So, we are interested in a single large deal rather than multiple tuck-in acquisitions.

Moderator: The next question is from the line of Debashish Mazumdar from B&K Securities.

Debashish Mazumdar: I have only one question. Most of my questions have been answered. So, if I see the last 2 quarters' performance, there's a very clear indication that ERP has kind of picked up for us and kind of reporting a growth of 8% to 9% Y-o-Y. Whereas the other part of the business is continuing to report anywhere between 28% to 32% growth. So, I just wanted to understand, as you remain pretty confident on deal pipelines and growth trajectories, and ERP kind of picking up, what resists us to tell that in FY '23 growth numbers would be far higher than 15%, 16%, it would be in the territory of 18% to 20%? That's the only query I have.

Dharmender Kapoor: So, I would absolutely like to have that kind of status when we're talking at the same time next year that the growth was much higher than the previous year and that's the goal. But as you know that we have to continue to look at how market responds because there is definitely a clear preference that our clients have towards the deal, which are transformational deals in the digital and cloud area or customer experience area, okay? So, that is where there are better margins. That is where there are more number of deals that are happening. And we are also continuing to experience the same thing and our deal wins and the growth that shows that indicator. So, from that perspective, the ERP picking up is a good story because we always have maintained that we wanted to be an enterprise digital company which we are today. And that continues to give us the confidence that the ERP is not going to go away. But ERP is going to be very helpful in going and winning more and more digital deals because ERP is what has been processing it. ERP is what contains the data of many years. And if somebody wants to really have better AI, ML or data and analytics, it has to be sitting on top of the ERPs. So, actually, the ERP growth, a high single-digit growth is a very good news for us. And you're absolutely right that if it remains that way, we will show better results going forward.

Debashish Mazumdar: One last question, Sir, on capital allocation. It is directed to Chandru, basically. So, this year, we have definitely seen a very high payout ratio. So, is there any fixed payout ratio that we have in our mind for the future years?

C. Thyagarajan: The short answer is no. We do not have a policy on payout yet. But as we have done in the past, we will continue to look at, one, the capital allocation, what is the best thing to do for the company and for our stakeholders, and we'll continue to work through that, Debashish.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, my first question is from a vertical perspective, I mean, I think you spoke about this in the last quarter as well. Life Sciences is one vertical that has underperformed the company growth in this year. Now you had alluded that the projects have gotten completed and hence, there is a delay before the next set of projects start. Other than that, is there any off-shoring also that is happening there and that is leading to a slower growth that is visible for us, per say? And how to think of this vertical firing? And that is the first question from a vertical perspective. Secondly, Energy & Utilities as a vertical, are there any headwinds that you are seeing from any customers there on the Energy & Utilities vertical? I mean over a period of 3 years, this vertical has been largely a little bit sluggish.

This year, we have done a very good job. But if you dial it a little bit back this vertically has not grown much, per se, for us. Now given the changed environment, are there any headwinds that we are facing in the energy and utilities side?

Dharmender Kapoor: So, a good question. You would have seen that we have shown better growth in the Energy & Utilities than the Life Sciences because of the revenue normalization and all that. But if I look at my optimism, my optimism comes more from the Life Sciences because it is far more stable vertical or industry than the Energy & Utilities because Energy & Utilities is one sector which is always in news for one reason or another. And right now, because of the energy-related crisis that is happening because of geopolitical situation, there could be something that may emerge which we may have not foreseen. So, from that perspective, I continue to remain more optimistic in the Life Sciences space than Energy & Utilities. But we do have good pipeline in both the verticals, and we are definitely hoping that we'll continue to grow in both.

Shyam Sundar Sriram: Sir, my next question is, just from a balance sheet perspective, we see that our receivable days and unbilled receivables together has gone up compared to last year, per se. Are there any change in terms of how we sign contracts with our customers? Any perspective that you can share on that front, per se? Because the operating cash flow to the EBITDA has been quite low this year because of the working capital that has hit us. So, just trying to understand, is there any change in terms of how our contracts are structured, per se, from a receivable billing cycle perspective?

C. Thyagarajan: Chandru here, and I'll take that question. So, there are 2 things that need to be kept in mind. One is that in the fourth quarter, which is the quarter where a few of our clients did the renewal of the contracts and the related documentation happen in the fourth quarter. And when that gets initiated, it does take until the later part of the quarter for some of those documentation to get completed, and therefore, the billing gets done earlier in the quarter, right? So, that was one reason why the receivables in the fourth quarter were slightly up versus the prior quarter. And some of it also was shown in the unbilled receivables, right, because of the billing happening later than earlier. The good part is that we have seen better DSO performance in the month of April. The April DSO was 54 and that reflects the fact that we did make our collections in the current quarter. Having said that, I also have to say that clients continue to put pressure on us to increase payment terms. This is both in the case of existing clients and new clients. And that is a constant battle, if you win, right? So, we will continue to work through that. So, in a sense, I would say that the DSO performance is still amongst the best that you would see amongst our peer group. We will continue to work within the 60-day range as far as possible, and we will continue to make sure that we do our best with our clients on delivery and, therefore, collections.

Shyam Sundar Sriram: Sir, one last question. The SG&A this quarter has been slightly lower. Is it got to do with the subcontracting costs that DK Sir alluded earlier, per se? How much would be the subcontracting costs in Q4, if you can share that percentage for our reference? And ideally, where would we like that number to be?

C. Thyagarajan: So, the question on the subcontract cost as a percentage of revenue in the fourth quarter, the number was 15.8% of revenue. In the third quarter, corresponding number was 17.5%. And that is why I had said in my remarks we did improved subcontractor spending or lowered subcontractor spending in the fourth quarter. So, we're seeing that abate a bit and that is what reflects in our lower SG&A in the fourth quarter versus the third quarter. You know that we've been at levels about 11% or even under 11% in FY21. The FY21 number was 11.9%, right? So, obviously, the FY22 numbers are not what we can sustain. And with travel opening up and with the talent supply situation hopefully improving, we should see these numbers move back to more same levels going forward.

Moderator: I now hand the conference over to Mr. Dharmender Kapoor for closing comments.

Dharmender Kapoor: Once again, thank you, everyone, for joining the call at this time. As I said earlier, we always wanted to be a predictable and sustainable company. And going forward, we are just adding confidence into it. So, we want to be predictable, sustainable and confident company. And I think our growth for the financial year is a good indicator of that. I'm sure that we'll continue to deliver better than the expectations in the upcoming year also. So, thank you very much for all of your support. Looking forward to talking to you again in the next quarter.

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