CK BIRLA GROUP

birlasoft

October 25, 2022

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001.

Scrip ID: BSOFT
Scrip Code: 532400

Kind Attn: The Manager,
Department of Corporate Services

National Stock Exchange of India Ltd.
Exchange Plaza, C/1, G Block,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400051.

Symbol: BSOFT
Series: EQ

Kind Attn: The Manager,
Listing Department

Subject: - Transcript of Earnings Call held on October 21, 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 held on October 21, 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**

Sneha Prashant Padve
Digitally signed by Sneha Prashant Padve
Date: 2022.10.25 10:00:08 +05'30'

BIRLASOFT LIMITED

Sneha Padve
Company Secretary & Compliance Officer

"Birlasoft Limited Q2 FY23 Earnings Conference Call"

October 21, 2022

MANAGEMENT	**MR. DHARMENDER KAPOOR -- CEO AND MD, BIRLASOFT LIMITED** **MR. CHANDRASEKAR THYAGARAJAN – CFO, BIRLASOFT LIMITED** **MR. ROOP SINGH -- CHIEF BUSINESS OFFICER, BIRLASOFT LIMITED** **MR. SHREERANGANATH KULKARNI -- CHIEF DELIVERY OFFICER, BIRLASOFT LIMITED** **MR. ARUN RAO -- CHIEF PEOPLE OFFICER, BIRLASOFT LIMITED** **MR. ANIRBAN THAKUR – HEAD, TREASURY & INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to Birlasoft Limited Q2 FY '23 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anirban Thakur. Thank you, and over to you.

Anirban Thakur: Thank you, Faizan, and welcome, everyone. This is Anirban from Investor Relations team. And joining us on this call, we have our CEO and MD – Mr. Dharmender Kapoor, DK as we call him; our CFO – Mr. Chandrasekar Thyagarajan; Chandru as we call him; Mr. Roop Singh – joining from U.S., our Chief Business Officer; Mr. Shreeranganath Kulkarni, SK, as we call him – our Chief Delivery Officer; and we also have with us Mr. Arun Rao – our Chief People Officer. We will begin the call with opening remarks from Mr. Kapoor and then Mr. Chandru.

Please note that anything that we say on this call on the company's outlook for the future is a forward-looking statement and must be read in conjunction with the disclaimer mentioned in our Q2 FY '23 investor update, which has been sent to you and also uploaded on the stock exchanges. I now hand over the call to DK. Over to you, DK. Thank you.

Dharmender Kapoor: Thank you, Anirban. Good evening, everyone, and welcome to Birlasoft's Second Quarter Financial Year '22-'23 earnings call. We continued our steady performance in the second quarter with revenue at $148.8 million, registering a sequential growth of 0.1% and a year-on-year growth of 8.7%. Sequential growth in constant currency terms is at 1.1% and year-on-year terms to constant currency growth is at 11% for Quarter 2.

New deal momentum continues to be good with new deal wins at $138 million in quarter 2, up by 32.6% on a year-on-year basis. In fact, this quarter is probably the best quarter in the last 4 or 5 quarters that we have seen from the wins perspective. The TCV for the quarter was also healthy at $166 million.

EBITDA margin stood at 14.8%, up 9 bps quarter-on-quarter. Chandru will provide more color on the margins later. In Quarter 1, we had switched to reporting attrition, which is more in line with the industry. The good news is that we have seen a further drop in our LTM attrition number, which fell from 27.9% in quarter 1 to 27.4% in Q2, a drop of 50 bps. While it still remains elevated, we expect to see further improvement going ahead, this will help to support our margins in the future. When I look at the impending attrition for the current quarter, which is quarter 3, it is already showing very healthy sign with respect to that attrition lowering down to the level where it will start getting comfortable for us.

Profit after tax stood at $14.4 million and was up 2.9% year-on-year and down 7.6% quarter-on-quarter. When we look at the PAT in rupee terms, it was at Rs. 1,151 million, up 11.6% year-on-year and down 4.7% quarter-on-quarter.

In terms of verticals, the growth was led by BFSI and CMT under manufacturing, BFSI was up 15% year-on-year and 7.7% quarter-on-quarter while CMT was up 19.4% year-on-year and 5.6% quarter-on-quarter. Horizontal growth was led by business and technology transformation with high growth of 17.5% year-on-year and 3.4% quarter-on-quarter. And cloud and based services with high growth of 10.4% year-on-year and 6.2% quarter-on-quarter.

So, if you really look at the services or the Horizontal, it is very much on the expected lines. And the trend that we are seeing in the industry, and we are able to align ourselves very well with the industry. Growth continues to be driven by larger accounts. With top 5, top 10 and top 20 customers continue to grow at 13.8%, 13.4% and 13.1% on a year-on-year basis, respectively.

Our year-on-year customer count of $5 million plus revenue improved by 7% and that of $10 million plus improved by 2%. Active customer count remains steady at 301. The head count at the end of 30th September stood at 12,758 and saw an addition of 193 professionals quarter-on-quarter and 693 professional on year-on-year basis. We have hired 253 freshers in Q2 and plan to hire approximately 500 in the next half of the financial year '23.

Birlasoft continues to get various recognitions. Birlasoft has been recognized as a U.S. mid-market leader in the SAP S/4HANA system transformation in the ISG Provider Lens SAP ecosystem report. This is the second consecutive year for Birlasoft to be positioned as a leader in the U.S. mid-market in SAP S/4HANA System Transformation space. Birlasoft has strengthened its relationship with SAP by leveraging the rise and SAP to transform its digital landscape on to the cloud with enterprises adopting a cloud for strategy. This move will enable us to accelerate our clients' transformation journey substantially.

In conclusion, as the uncertainty around the macros have increased with respect to the impending recession and the geopolitical issues, we continue to remain watchful. However, we expect opportunities in the digital and cloud ecosystem to remain very resilient.

With this, I would like to hand it over to Chandru. Chandru, over to you.

T. Chandrasekar: Thank you, DK. Good morning, good afternoon, good evening, everyone. Hope you're doing well. Let me take you through some financial highlights for the quarter Q2 FY '23. Revenue, as DK said, was at $148.8 million, growth of 10 basis points quarter-on-quarter, 8.7% year-on-year. In rupees terms, the revenue was Rs. 1,192 crore, a sequential growth of 3.3% and a year-on-year growth of 17.8%. Our constant currency revenue growth was at 1.1% for Q2 sequentially. Year-on-year, the revenue growth was 11%.

EBITDA for Q2 was at $22 million versus $21.9 million in Q1, which resonated growth of about 70 basis points quarter-on-quarter and 7.2% year-on-year. In INR terms, EBITDA was Rs. 176 crore versus Rs. 170 crore in the prior quarter, and that's a growth of 3.9% quarter-on-quarter and 16.2% year-on-year. EBITDA margin stood at 14.8% as DK said, and that's an improvement of 9 bps on a quarter-on-quarter basis. Margin improvements were aided by lower cost of service delivery, lower travel cost based on the various actions that we take. We took internally higher offshore mix and productivity improvement overall. Margins were impacted by higher cost hiring, which continue due to the attrition, 4 points that DK made. We also had some retention cost. And in addition, we had increment stack kicked in effective July 2022.

We have had significant improvement in our operating cash flow and free cash flow in the previous quarter. Our operating cash flow was $20 million, and that represents around 92% of EBITDA as against a negative EUR 0.2 million in the first quarter. Our free cash flow was $16.8 million, 78% of EBITDA, and it was a negative number in Q1 as well.

Our Q2 PAT stood at $14.4 million versus $15.5 million in the prior quarter, it was down 7.6% quarter-on-quarter, and up 2.9% year-on-year. The call-off here I wanted to make was, one, we did have lower finance income because of the payouts that we made towards buyback in the past quarter. In addition, there was an impact on account of exchange translation on a quarter-on-quarter basis and that cost reduction in PAT for the quarter.

In rupee terms, the PAT stood at Rs. 115.1 crore versus Rs. 120.7 crore in Q1. The ETR in the past quarter was lower at 21.8% versus 25.7% in Q1, and this was because of some tax refunds that we got in the U.S. for prior period. We expect the steady state ETR to be between 25% and 26%.

DSO stood at 56 days, that's an improvement of 2 days sequentially. As I said, we did have good cash collections and our cash performance last quarter reflecting a DSO as well. Cash and cash equivalents, including investments, stood at $97.7 million, that is Rs. 794.7 crore for Quarter 2 versus $152.5 million or Rs. 1,204 crore in Q1. The reduction is largely in account of the share buyback program that we completed in the second quarter.

In conclusion, I believe that we are building on our steady performance. We've been seeing healthy new wheel wins, improved DSO and moderating attrition. At the same time, we're closely tracking the macro and geopolitical development across markets. With it, let me turn it open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shradha Agrawal from Asian Market Securities. Please go ahead.

Shradha Agrawal: The question was given the demand environment that we are in, how do we look at the revenue trajectory in the second half? And also, do you expect the usual seasonality of 2H to play out? And if that is the case, then we might fall short of doing double-digit growth in '23 versus earlier expectations of doing 15% growth. So, of your comments on demand environment and how do you see 2H stacking up?

Dharmender Kapoor: Yes. Thank you, Shradha. If I look at the demand environment, so far the discussions that I have been having with our clients and the response that we have seen so far, I would say that the clients are being cautious, I would say that. They know that the initiatives that they have to take, those are very, very important initiatives for their business.

So, they are not saying that they are going to drop those initiatives. But very clearly, I can see the trend where they are taking longer than before to decide and take a decision on awarding the projects. At the same time, they are extending the timeline. That means that they are not dropping the project, but they may take longer to finish the project so that the outflow in the cash is lesser, but they still have to continue to go ahead with the initiatives that they planned. So, that would mean that the execution will become slower because I can clearly see in the quarter 2 that the number of wins if you look at, our number of wins are very good. The new wins that we had, EN plus NN is better than the previous quarters.

But if I continue to look at many of the programs, the execution has slowed down where the client is taking time to begin the projects, okay? They are taking longer on that. At the same time, they are saying that can we finish the project in a longer period of time so that then their cash outflow is planned accordingly. So, that is what I'm seeing.

Now are we really looking at double-digit growth, we are still looking for the double-digit growth because we believe that we have some significant wins that have been made in this quarter and some of the previous quarters, that will start giving us better revenue as the attrition goes down because one of the reasons the execution goes slow from our side is the high attrition and the joining ratio, okay, getting dropped because of the people not joining in time. And this is pretty much with everyone in the industry.

We are seeing that our impending attrition is now dropping by 4%, 5% in the quarter 3. We are still in the first month, but we are already seeing that it is going to be lower than the quarter 2. But that is the case that would mean that we will be able to realize our revenue in a much better way than what we have been able to do in the quarter 1 and quarter 2. So, we have the wins. We have the projects that have to start. At the same time, we had to take the revenue realization done in time. And I think that quarter 3 from that perspective will be better.

However, there are certain headwinds that you said that seasonality for quarter 3 is always there where it is a relatively shorter quarter from the number of days perspective because of the number of holidays that are there. But we are working on how do we keep our people productive and how do we plan the vacations or other things in such a way that the impact is minimal.

At the same time, we are working with our clients in order to really look at what should be the strategy in case any one of them decide that they have to have a furlough? Because we saw 2 cases coming for furlough in the quarter 2 as well. So, we are working on that. And at the same time, we are able to negotiate with our clients as to how will we have a better approach to manage giving the services in the continuous basis. So, from that perspective, we remain hopeful that, yes, we will show the double-digit growth for the year overall.

Shradha Agrawal: And another question is, I mean, we saw very strong growth in BFSI. So, was it to do with some deal ramp-up? And likewise, we saw a decline in Life Sciences. Could you call out the reasons for the performance in these 2 verticals?

Dharmender Kapoor: Absolutely. Yes, BFSI absolutely that there is a good deal. There are some new deals. At the same time, we are growing very well with a couple of large customers, okay? So, our strategy of cross-selling is working very well. And as I have been saying that BSFI as a sector is really finding their feet in the digital space in a much more confident way now because they had taken care of their legacy modernization during this time of last 3, 4 quarters or a little more than that. I think BFSI is coming back.

With Life Sciences, I don't see anything wrong with the sector per se. But as you know that we have been rationalizing some of our revenues in the last quarter because of some of the projects getting finished. But in the quarter 2, we did have the furlough also. If that was not going to be there, probably it would have ended up flat. But unfortunately, we got the furlough on the Life Sciences side. But if I look at the conversation that we are having with our customers, I don't see if there's any impact on the demand or any challenge with the sector per se.

Shradha Agrawal: And the revenue moderation that we were seeing in the large account in health care, is that over? And is that a steady account for us now?

Dharmender Kapoor: Yes, it is a steady account for us now.

Moderator: The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, just a follow-up on the previous one. Sir, I'm not clear why we are not seeing growth in health care vertical or Life Sciences vertical for many quarters now. It has been, I think 4, 5 quarters. So, how should we see growth in that vertical? And what is causing the stagnation in the health care life business?

Dharmender Kapoor: So, I would not say the stagnation. If you look at traditionally, and I think we have to look at the vertical presence that we have in the light of the horizontal work that we have been doing for both customers. If you look at in the Life Sciences, we were very strong in the enterprise solutions, okay? And we have started growing on the digital direction there. If you look at in the Life Sciences vertical because of the presence in the enterprise solutions or the ERP, those are the nature of the projects that will eventually finish at some point of time. And the support revenue will be lower than the revenue that was there in the project execution.

So, there is no movement with respect to whether we have closed any account or something like that. In fact, we continue to win more number of clients also. But because our project-based revenue and ERP revenue was higher in the Life Sciences, it has shown the impact because we will take -- we are taking time in really converting that into the digital. We are growing in the digital data area, cloud area. But of course, it will take time for us to really turn the tide in that direction.

Mohit Jain: So, as a follow-up, if we don't have to look at it from a vertical perspective and more from a service line perspective, what is your view on the enterprise solutions given the deal pipeline and the TCVs you have? It is certainly not growing, but should we expect some declines ahead in enterprise solution?

Dharmender Kapoor: No, I don't think that we should expect the declines ahead because slowly, we are reaching to a point where we continue to win and deliver almost similar to what we will continue to have any drop due to the ERP project completion. So, now I think we are in a stage where we should start growing our digital revenue as well as our annuity revenue in this particular area as well.

I don't think that we need to look at this on the service line perspective. I'm only giving the color right now because of the shift in the revenue that we have been making in a way as a part of thought-out strategy because we have been able to do very well in the manufacturing space for high-tech and CMT space actually, or even if you look at in the BFSI space, we have been able to grow our annuity and digital revenue much, much faster. I think we need to pick up the speed on the life sciences also on that front. And I don't think that this is going to be the case where we'll continue to see the decline.

Mohit Jain: But sir, on ERP, do you have any split available like how should we see ERP service line split like anything which can help us project some trajectory?

Dharmender Kapoor: No, absolutely, we have. But it will be like too much of granular information that we will end up reporting because then there are multiple parameters that we look at, but at the vertical level, at the horizontal level, okay, we always have a metric structure. And when we create the budget as well as when we focus our revenue, report our revenue internally for the MIS purpose, we look at every dimension in order for us to look at what are the areas that need more attention and where is that we need to really put our sales force behind the offerings that we need to sell more.

Mohit Jain: And last, was there any account transition from on-site to offshore during the quarter? Any project?

Dharmender Kapoor: There are a few, but there is nothing significant that I would say that there is a significant change that has happened. Yes, there is 1 large account where we have moved a significant number of people from on-site to offshore, okay, because of the compliance-related aspects that our client has, okay? So, we have moved a significant number of people in that particular account. But then there are some of the other accounts where, yes, we have moved the services to offshore in order for us to address the margin-related issues also because at the onsite, it is becoming difficult to have people as employees, more and more contractors are joining. So, we do not want to be in a position where we have overdependence on the contractors. So, there is a clear focus on that so that we can move that work to offshore. And that does impact us a little bit on the top line, but it does help from the bottom line perspective because as you know that we had to go through the increments and everything and the impact of that was about 2.1%, whereas we were able to really claw back approximately 1% to 1.2% from the operating levers, the margin improvement levers and that required us to move away from subcontractors moving work from on-site to offshore as well.

Mohit Jain: And sir, last is on margins. Like, now supply side issues going behind, wage hikes done for the year, and our margins were quite low compared to previous year. Should we expect a claw back towards 16%, 17% in the next few quarters?

Dharmender Kapoor: It will. I think could be movement -- not movement actually, but the quarter when our attrition starts coming down closer to 20%, okay, then I believe that we can start looking at the upward trend on the margins because there is nothing fundamentally wrong in the execution, except that the cost of people has gone up significantly during these 3, 4 quarters. But as we normalize, as we bring more and more freshers on board, as we correct our pyramid, as we migrate some of the work from on-site to offshore by letting some of the subcontractors go, this is going to come up.

So, yes, I am confident that we will eventually come up to the same level but it is generally a slow movement, but we are confident that we will come back to the same level.

Mohit Jain: Is there any headwind ahead in terms of margins, which we are missing? Like, there are a plenty of…..

Dharmender Kapoor: The only headwind that I'll see will be in the quarter 3, if there is any furloughs that come up, okay? Because if there are any furloughs at the client after so far, there is no pending furlough that we have or client has requested and we had to think about it, so far no. But quarter 3 is generally known for that. So, if that happens, then that would mean that we will end up taking a little bit of hit and that definitely a headwind on the margin side.

And then for the support staff, we have shifted the increments to a later month, okay? So, that will happen in this month. But it will not be as much impacted as we saw in the quarter 2. So, that is another headwind. But at the same time, we have planned the margin improvement levers also. We continue to work on the pyramid correction. We continue to make the projection of billable and continue to bring junior people for or against senior people to all that we continue to do in order for us to improve the margins also.

Mohit Jain: So, how much wage hike is left? Like how much impact would it be on cadence and how much is done?

Dharmender Kapoor: How much impact is left meaning, I didn't get the question.

Mohit Jain: For the third quarter, the wage hike that are planned for support staff, how much impact in terms of basis points.

Dharmender Kapoor: I believe about 0.8% to 1%, not because significant piece, about 65%, 70% hit we have taken already in the quarter 2.

Mohit Jain: So, quarter 2 is around 2% impact, is it?

Dharmender Kapoor: That's correct. Yes.

Mohit Jain: And 1% will come in third quarter?

Dharmender Kapoor: Correct.

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

Dipesh Mehta: Just want to get sense about the quarter 2 performance. Whether it played out in line with your expectation at the beginning of quarter, if better or weaker than what you expected. Can you help us understand what sectors played out? Second thing is about what areas of weakness or pocket of weakness, if you can help us understand where you are seeing signs of weakness emerging?

Dharmender Kapoor: It was lower than our expectations because I expected it to be much better, okay? Because when I look at the wins, okay, we were confident that I think we'll be able to realize the revenue, but we have not been able to realize as much as we would have liked it to be, okay?

For example, I talked about 2 programs in the quarter 1, which got delayed. One of the programs started in the middle of the quarter 4, quarter 2, but the other one did not, okay? So, our expectation definitely from the quarter were high. Then the other headwind that I talked about that happened was furlough, okay? Then there was a project that got finished. While we knew that the project will finish but it was known that the client will actually go for some of the extended work on that direction before they get into the support and maintenance. But they decided that they will do that extension only in the later part of the financial year. So, that also did not come.

So, there were those things that had happened, which at macro level I talked about that there is a slower execution or slower realization that has happened during the quarter 2. So, to answer your question in short, what we have delivered is definitely lesser than what we thought we could deliver.

Dipesh Mehta: And just to probe it further, is it more execution kind of issues? If it is execution kind of issues, what we are doing it to improve from here on so such similar things should not happen into coming quarters? And the second question is, I think yet to be answered about pocket of weakness, which areas you are seeing from weakness?

Dharmender Kapoor: Yes. So, if I look at, do we know that what are the areas that we need to focus, okay? Because what question that you have asked both the questions or the parts are very similar in nature that do we know what are the weaker areas that we need to address? Or what is that that we don't repeat in the coming quarters? So, yes, absolutely, we have identified.

One that if you look at, we need to look at how do we get the better realization of the revenue for the deals that we have won, okay? And that required speed at which we can hire the talent, and we can upskill or reskill the existing employees so that we can redeploy them into the other engagement. So, that is one very clear focus area that we're identifying not only in the quarter 2, but we identified actually in the quarter 4 and quarter 1 that we will have to address that because attrition is not going to go away very, very soon and hence we need to be better prepared.

And even when the attrition becomes better, to correct our pyramid, we will have to reskill and redeploy our people, okay, over the junior engineer that we hire. So, from that perspective, you would have even noticed that we have partnered with Coursera and we came out with that partnership this week. We announced that partnership this week. And the objective is very clear that how do we now get connected with the collegiate so that we train them there and bring.

Now will that give me the benefit in quarter 3? No. But in quarter 4 and quarter 1, I'll start seeing some benefits coming from the students that I get who get trained initially and then we hire them for that. The time to make them productive in our organization is much shorter. At the same time, we are making all the content available to each employee within the organization so that the training can happen in a far more effective manner and cross-selling enough skilling can happen in a far more effective manner.

That's one revenue realization because of the speedier talent acquisition and all that as something that, in my opinion is a major focus area because it's not that we have not been hiring, we have been hiring, but at the same time, when the attrition is high, the incremental hiring is only so much, and that means that you are not able to realize the revenue that you thought you will be able to do because you continued having wins.

So, that is the challenge that is the top most in our mind. I talked about the life sciences just in the previous questions that, where is that we need to grow our annuity revenue, where is that we need to grow our digital revenue is also another focus area. Because of the digital projects and the enterprise projects, okay, the annuity revenue always stood at around 70% for us. But looking at the way market is moving, now we are planning that how do we go after the deal so that we can actually move our annuity revenue from 70% to 75% so that we can become more sustainable going forward.

So, I think those are the specific area on top of my mind that strategically, we need to address in order for us to become more predictable and sustainable with the revenue.

Dipesh Mehta: Understood. And the last part is about in which verticals or which subvertical you are seeing signs of weakness?

Dharmender Kapoor: Yes. So, I believe that we will remain strong in the manufacturing and manufacturing, CMT and BFSI. We will remain strong, and we continue to see very good momentum coming from our key clients. The life, I say, as well as the emergent utilities one where we have to really push harder. I am very hopeful that we should be able to turn the tide and start moving up in both of the verticals very soon.

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

Sandeep Shah: Just wanted to understand, DK, what is the definition of our double-digit growth aspiration for FY 2023? Would it be close to 10%? Or will it be less than 15% as a whole?

Dharmender Kapoor: Yes. I mean I believe that it will be higher than 10% and lesser than 15%. They are looking more and more apparent there, okay. While it may appear that it will be closer to the 10%, but we are really pushing hard as to how do we recoup the lost ground that we had in the quarter 1 and quarter 2 so that we can inch towards 15%. That's the way I look at current view with respect to our annual growth where we will see ourselves.

Sandeep Shah: And can you share what was the subcontracting cost in this quarter and the last quarter?

Dharmender Kapoor: Chandru, do you have that data handy with you if you can share that?

T. Chandrasekar: Yes, I do. The subcontractor spend in dollar terms was flat quarter-on-quarter. While we did have a reduction in subcontractors around the end of the quarter, we expect to see an improvement in the third quarter.

Sandeep Shah: So, DK, just wanted to understand, in the reply to previous question, you still say that demand fulfillment because of supply side issues continues to remain an issue. So, if subcontractor has been available, why we are not able to fulfill? And the demand fulfillment as an issue because of attrition is actually now 4 to 6 quarters in purchasing for the industry. Why are we still not working on this and not getting a proper handle and we are still calling out that this is an issue in terms of an execution as a whole?

Dharmender Kapoor: No, I think we are addressing, but I would say that probably we haven't seen as much benefit as we would like to see for various reasons because it is also that the nature of people that you require, the nature of engagements and the deals that you're winning, okay? So, there are multiple things that are there. At the same time, how do we try to have a fine balance between the top line and the bottom line so that we don't sacrifice the margin too much just by running after the top line also.

So, there are multiple factors that are there. I mean we expect that, I mean, we should have done better on that front. But the end result is that the net addition that we had, it was lower than that we planned for because the attrition did happen while they have shaped better than in the previous quarter, but it is still significantly high to the level that it is still uncomfortable for any business. And I think that is what we want to address.

It has started working not that we've not taken the action. We have taken the action, it has started working. As I said that if I look at the impending attrition for the quarter 3, it is looking to be much, much better than the attrition that we had in the quarter 2, okay? So, we need to continue to remain watchful. We need to continue to work on the cost of resources that we hire. At the same time, how do we continue to reduce the attrition. So, it is showing the result. But probably you are not able to see as much a result in quarter 2. I hope that you'll be able to see that more in quarter 3.

Sandeep Shah: And just a related question. We are doing well in terms of new business TCV quarter-on-quarter, but that is not getting translated in the revenue. Almost now 3 quarters in the row where our growth is lower than your internal budgets as well. So, is it the nature of the deals which we are signing are more project based versus our aspiration was to balance out both side and improve the annuity side of the business? So, why we have not focused this despite this was one of the key objectives that you highlighted when you actually merged the KPIT's revenue with yourself? Because at that time also, we have done well but still looks like the project-based revenue continues to remain higher and plant specific issue keeps cropping up despite that and because of which the new business TCV is not getting translated into the revenue.

Dharmender Kapoor: Correct. See, I think your question had the answer in it. We were doing well with 70%, 71% of the annuity when the project sizes were bigger, okay? As we are moving forward, the project sizes have become smaller. And the duration also have become smaller for those projects. And then the reason that the annuity at 70%, 71% may not be seen enough, okay? We did a good root cause analysis during this quarter as to what is that is not working well because we are having the wins that are required, okay? So, then why the realization is not there? And I'm not seeing realization from the perspective of the attrition or slower talent hiring. That is a known fact, okay, or the market situation. But there is more that we can do with respect to the annuity revenue. And that's the reason how I'm upping our goal for moving from 70%, 71% to 75% because if this is the kind of nature of the project that is going to happen, probably we need a higher annuity revenue.

So, I think we need to really work on going after such deal where we can sign it for the longer period so that the runoff revenue that we have seen in the quarter 2 and some in actually in the quarter 1 also, if you can reduce that percentage, then it will be better. There will always be some cases where run-off revenue will be there. But then that percentage has to be reduced so that it leads us to the growth higher than we are seeing right now.

Sandeep Shah: Okay. And just last 2 questions. Is it fair to say these project-based revenues, which are not getting started are still there in the order book? And once the macro issue may stabilize, there could be blowout quarters or is it where clients are actually scrapping these projects and those impact may not come when the macro issue stabilizes?

Second, how to look at margins in the Q3, Q4? Is it fair to say it may remain flat or may not decline or there could be an upward bias? And third, looking at offshore transition, is it fair to say the volume growth is much higher versus the constant currency growth of 1.1%?

Dharmender Kapoor: Yes. So, if you look at on the margin side, we are working towards getting back the hit that we have because of the increments or higher people costs, okay, so that we continue to work on that. As I said, that it is a slower process, okay? And as the attrition comes under control, I think it will pick up, we pay, and we will be able to show the upward trend on our margin side. Given the headwinds that we have in the quarter 3, I believe that we should try to maybe move up a little bit, otherwise, even if I am flat quarter-on-quarter, I'd be very happy because if I'm flat quarter-on-quarter, that means they are taken care of the increment headwind or any of the shorter quarter headwinds successfully.

And if I come flat in quarter that also mean that my quarter 4 is going to become much better. Because with the same run rate, okay, we will be able to deliver definitely much better margin in the quarter 4. So, it will move upward. But quarter 3 is a tricky quarter, as you all know. So, we need to be watchful on that front. Since you asked, I think a couple of questions in your statement, probably I missed, what was the other point that you were talking about? If you can repeat, then I can answer.

Sandeep Shah: Yes, two things because there is a longer conversion cycle of projects into revenue conversion. Is it fair to say these projects will stay in the order book or there could be scrap of projects because of macro?

Dharmender Kapoor: So, far, I haven't seen where the clients have dropped a project. I have seen the cases where they have slowed down. For example, one of our manufacturing clients, okay, who was supposed to go live in the quarter 3, now they have extended that to the end of quarter 4. That means that now you are going to spread the same level of revenue across the 2 quarters, okay, remaining revenue across the 2 quarters. So, from that perspective, the project has not dropped, but I had to reduce my team that is working on the program in order for me to finish it by that time. So, from that perspective, the revenue realization have become lower on those cases. But I haven't seen where customers said that let us drop the project, I don't have the money because that is not the conversation. Thankfully, that's not the conversation that we are seeing.

And if somebody predicted the doom that because of recession, there will be a negative growth and all that, we are not anticipating that, okay? I know that our growth could have been better in this quarter, but that doesn't mean that now we are too worried on that front.

Sandeep Shah: And last question, which I asked was Chandru sir, if you can reply whether is it fair to say volume growth has been decently higher than 1.1% constant currency revenue growth because of the offshore flip?

T. Chandrasekar: Yes. So, a short answer to the question is yes. Because of the on-site offshore flip that DK was talking about, the effective volume was higher if you look at the number of hours that we've deployed, but the revenues are pretty low because of differential rates that you look at.

Sandeep Shah: Okay. Possible to disclose that volume growth?

T. Chandrasekar: It will be too much of information, Sandeep. But I can give you some broad details. I don't have it handy, but either Anirban or I will get back to you.

Sandeep Shah: No issue.

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

Debashish Mazumdar: Wish you all a very Happy Diwali. So, most of my questions have been answered. One small query that I have is that it is very clear that situation has become uncertain, especially for us, maybe. And in this scenario, how the pricing thing is moving for us? Are we able to pass on the prices? I understand because of offshore shift, we are not able to improve realization in this quarter. But is the rate card improvement or COLA adjustments are happening or we are facing difficulty there also?

Dharmender Kapoor: Yes. So, it is happening. In fact, with a very large client, we just finished our negotiation on that front. And then we will be getting the price increase and all that very soon. So, all that negotiations are happening. The clients are agreeing also. There are other cases where we are getting the pushback also because clients say, they also have challenges on their side.

So, if I look at from that perspective, I think it is still moving up on the existing engagement, okay, in a manner that we are tracking it and we are taking it up with the client so that we continue to sign up for the better prices. However, when it comes to the newer deals that we are signing, that all is coming with the higher margin and with the higher prices because we have updated our price list and any new deal that we go after, we go with the new price only. So, we continue to work on the multipronged strategy in order for us to get the better prices for the services that we deliver.

Moderator: The current participant has left the question queue. The next question is from the line of Duby Rex from Cumulus Systems. Please go ahead.

Duby Rex: Sir, this is regarding our aspirational target of $1 billion. Is there a shift in it? And second would be on the acquisition plans. Is there any update on that?

Dharmender Kapoor: No. There is no change in our plan for being $1 billion. We continue to keep that as a call because 1 quarter here and there can always happen. And that doesn't mean that we have to change our goal. So, right now, we are keeping that goal to become a $1 billion at the time that we decide it.

Duby Rex: And regarding the acquisition, sir, any update on that, sir?

Dharmender Kapoor: On the acquisition side?

Duby Rex: Is there any update on that, sir?

Dharmender Kapoor: There's no new update as of now. I mean the only thing that I can say is that the hunt is on for the right candidate, but there is no update worth mentioning where we have moved forward in a more definitive way.

Duby Rex: Because the reason I was asking is with the $1 billion target, there was a component of the inorganic ease also coming into it, right, sir? So, that is why I was asking if there is any shift in the timeline or anything to add?

Dharmender Kapoor: Your question is absolutely correct question. Yes, that's the plan.

Duby Rex: So, the timeline won't be affected because of the acquisition plan, the target time line.

Dharmender Kapoor: No, we are keeping it as it is.

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

Devang Bhatt: Sir, sorry to prod you on the same thing. But since there are macro headwinds, there is challenges in life science, E&U and furloughs in Q3. So, for us to even cross 10%, it seems difficult. So, what gives you the confidence that we would be able to manage?

Dharmender Kapoor: No. See, despite having the number of wins and the visibility that doesn't mean that I don't have to call a headwind a headwind, okay? There are headwinds that are there, but at the same time, we continue to work on the plans that how do we significantly improve on our top line as well as on the bottom line. So, headwinds are supposed to be there and they are there. But to have plans, the objective should be that when we are hit, okay, a dapple of time, do we stand up and make a plan in order to correct the situation? And I think we are in control, and we know what action we had to take. For that, we improve on both our top line and bottom line.

Operator, if we don't have a question, I've just been closing remarks on that case there. So, once again, thank you very much for joining the call. Actually, my closing remarks are the same that I just said as an answer to the last question that we need to continue to look at what are the area of improvement for us. We need to dispassionately or sometime passionately also look at that these are the points that we need to address in order for us to become more and more sustainable and predictable. I think we moved the needle quite a bit okay, in the last 3 years, but it looks like that we once again have to work harder in order for us to improve our annuity revenue and also continue to look at that. We bring back the growth in the verticals where we have seen a decline. So, we'll continue to work on that, and I absolutely remain optimistic that we will be able to bring back the growth and the margins that is going to cheer all of you.

With that, let me wish all of you a happy Diwali. Thank you.

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