



“Saksoft Limited
Q2 FY20 Earnings Conference Call”

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MANAGEMENT: **MR. ADITYA KRISHNA - CHAIRMAN AND
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Moderator: Ladies and gentlemen, good day and welcome to the Saksoft Limited Q2 FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on their beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 would now like to hand the conference over to Mr. Aditya Krishna – Chairman and Managing Director. Thank you and over to you sir!

Aditya Krishna: Good afternoon and a very warm welcome to all the participants. I hope everyone must have had a chance to review the press release and presentation by now.

Starting with the economic environment our key markets of Europe and US are witnessing softness in demand on the back of the Brexit and global uncertainties. However, for the first half of the financial year, our revenue grew by 3.9% and we expect the slowdown in demand in the market to improve in the coming quarters. We have added new clients and have renewed with a couple of key clients during this quarter.

Customers, who once selected to work only with large and branded service providers, are now trusting mission critical assignments to relatively small and more specialized solution providers who deliver a superior return on IT spending. This is where we have created our forte over the years.

The shift in strategy from simple delivery of a range of technology and business capability to focusing on inch wide-mile deep positioning had strengthened our aspects of specialization. The change in approach from delivering stand-alone services that address client needs to leveraging proprietary, string of pearls strategy comprising various competencies has led to enhance customer revenues, margins, and competitiveness.

I am happy to state that on the cost front due to prudent cost management and investing in the right areas, we have been able to increase our margins despite modest growth in revenues.

There was a time when we considered widening our presence across the range of verticals and industry spaces on the grounds of being able to do anything for anybody. We have since selected to focus on six verticals which accounts for more than 80% for our revenues creating in the process of formidable body of completed assignments that can be used as an effective reference of our capability.

In these verticals typically we have address customers with revenue sizes ranging between US 200 million to US 5 billion. Companies below this revenue size do not generally possess adequate technology spending budgets and on the other hand companies larger are typically processed driven and prefer Tier I companies. This is where we have created a niche business model where more than 90% of our business is coming from repeat clients from the mid-corporate entities. We serve customers across the world with US and Europe being our key markets accounting for 81% of the first half revenue.

At Saksoft, we believe we are present at a sweet spot and we will be able to capitalize on this sectoral phenomenon of a level playing field in selection of IT supplies by customers. We are confident of delivering stronger and sustainable performance from each of our business verticals which have immense growth opportunities moving ahead.

Now I will request Mr. Niraj Ganeriwal, our CFO to take you through the financial performance for Q2 and first half FY20.

Niraj Ganeriwal:

Thank you Aditya. We will now move on to the financial performance for Q2 and the first half of the FY20. In terms of revenue, the company recorded revenues of 87.19 Crores during the second quarter of FY20 as against 89.15 Crores in Q2 of FY19. The muted performance was on the back of sluggish demand in the UK market. The company recorded revenue of 178.39 Crores during the first half of FY20 as against 171.70 Crores in the first half of FY19, which is a growth of about 3.9%.

In terms of the EBITDA, the EBITDA for the quarter stood at Rs.16.16 Crores which is higher by 16% as compared to the Q2 of the previous year of Rs.13.90 Crores. The EBITDA margins for the quarter expanded by 294 basis point to 18.5% as compared to the Q2 of the previous year which included 141 basis point on account of the Ind-AS 116 adjustment which has become applicable from the 1st April of this year. The increase in the margin was on the back of increase in offshore revenues and better quality of revenues due to the dedicated team model. The EBITDA for the first half of FY20 stood at Rs.32.33 Crores as compared to Rs.25.44 Crores for the first half of last year, a growth of 27.1%. The EBITDA margin for the half year expanded by 331 basis points to 18.1% as compared to the first half of the previous year.

In terms of PAT, the net profit after tax before minority interest for the Q2 stood at Rs.9.76 Crores with a margin growth of 45 basis points to 11.2%. The net profit after tax for the first half of current year stood at Rs.19.27 Crores as compared to Rs.17.32 Crores for the same half last year which is a growth of 11.3%. The company recorded a PAT margin of 10.8% which is higher by 71 basis points as compared to the previous half year.

In terms of currency, the impact of currency movement on our revenues for the current half year is about 1% wherein revenue for this half year would have been higher by Rs.1.7 Crores. Based on the same, the pure volume driven growth is about 4.9% in revenue as against 3.9%

We will now talk about the revenue split by geography. America contributed around 55% of our revenues, Europe around 26% while the remaining 19% came from Asia Pacific and other regions. In terms of onsite and offshore revenue mix, for the current half year 49% of the revenues were onsite and 51% were offshore revenue as compared to 50% onsite and 50% offshore in the previous year. Going ahead we expect this mix to be more on the offshore site.

In terms of revenue by verticals, during this half year, fintech and telecom contributed to about 29% and 20% of the total revenue. Whilst logistics, retail, and healthcare and public sector contributed 10%, 14%, and 11% respectively.

Saksoft has about six customers of million dollar plus and seven customers of \$0.5 million and above in terms of revenues. The total employee count stands at 1,205 as in the end of September out of which 1,068 are technical and the remaining 137 are support staff. The utilization of employee excluding trainees stands at 87% for the half year as against 84% in the previous half year.

Now on the balance sheet side. Our debt position stood at Rs.38.9 Crores and the cash position stood at Rs.46.09 Crores which makes us a net cash company.

For the first half of FY20 on an annualized basis, the return of equity stood at 21% and the return of capital employed at 27.6%. We are confident of sustaining and enhancing these return ratios.

That concludes my update and we will now open the discussion for Q&A.

Moderator:

Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Keshav Garg from Counter Cycle. Please go ahead.

Keshav Garg:

Just three months back you said that you are expecting 15% to 25% growth and now you are saying that you are finding that UK market is soft and some other sluggishness is there so for the second half what do you think the company can grow by keeping in mind all the slowdown that is happening?

Aditya Krishna:

Keshav it is a good question and believe me we are also very embarrassed to be in this position having said what we did three months ago, but unfortunately that is the reality. When we

spoke last Brexit was at a date when it was going to happen. Now there is no certainty when it happens so there are lot of moving parts, which unfortunately we cannot control and at the end of it we are a small cap, you see what is happening to some of the large caps. So I am not giving that as an excuse, all I am saying is that your point is valid and I am equally embarrassed to say what I am saying today versus what I said three months ago, but having said that second half looks better than the first half, but I do not want to make the same mistake again. I want to be conservative in what I am saying so we should do at the same growth, if not a little better that is what I would at this point be comfortable in saying.

Keshav Garg:

So I understand that the difference is dynamics and the things can happen, but what I am saying that if you are confident about the future growth if not this quarter then maybe two quarters later so then what you can do. Sir what you can do is share buyback so that our equity capital is reduced and whatever future growth comes will get divided into a smaller bits as all these TCS, Infosys, every year now they are doing huge buyback so that is why their earnings per share is increasing faster than their profit growth because you are paying dividend, dividend once paid it is gone, but Sir if you do share buyback it will be permanent so please consider that.

Aditya Krishna:

Sure Keshav, but keep in mind we are already a very low capitalized company, our capital is 10 Crores, our earnings per share last year was on a consolidated basis close to Rs.40 so our price earnings is fixed. Market or industry is at 22, so by doing share buyback how will we get rerated I do not understand?

Keshav Garg:

Sir I can assure you that by doing share buyback the company share will definitely get rerated because if you see our PE is 6, so if you divide 100 by 6, 16.66 is the earning yield, so I mean it is a very good opportunity to deploy the capital in buying back the own share so that the earning per share goes up, so the price will go up even if the PE remains 6 if the number of shares reduce, then of course the price will go up proportionately.

Aditya Krishna:

But you know the thing I think we have better use for the money, it makes sense to buy if you have money which you cannot deploy so we just become a positive cash company and we are seeing a lot of opportunities to invest whether it is acquisition, whether it is buying companies which would help us grow faster, but your point is taken we will definitely consider.

Keshav Garg:

Sir so if you are getting acquisition opportunities below 6 then you should go ahead, but if you are buying above like let us say 10 times any company then it is better off purchasing your own share because after all this earnings power behind share of our company also, so Sir please consider. Thank you.

Aditya Krishna:

Yeah sure.

- Moderator:** Thank you. The next question is from the line of Sachin Shah from SS Securities. Please go ahead.
- Sachin Shah:** Thank you for the opportunity. I have a couple of questions. One is what will be your ideal mix for onsite and offsite revenue as on date and what will be your future potential for next probably two to three years, what do you foresee for that??
- Aditya Krishna:** Our go to number for onsite offshore is 45:55 that is what we would like to achieve now. We are not going to achieve it that quickly because it is difficult I mean if you see in the numbers that we just tabled, we have improved by 1% so it has taken us six months to improve by 1% so it will take us a while to get to 45:55 but that is our goal. What was the second question, sorry Sachin?
- Sachin Shah:** What is your current mix?
- Aditya Krishna:** The current mix is 49:51 and we want to be at 45:55.
- Sachin Shah:** 45 on the onsite right?
- Aditya Krishna:** Correct.
- Sachin Shah:** Are you planning for any acquisition right now immediately and how will you fund it, this was already discussed in the previous question, but just want more elaboration on that you will be requiring money for your working capital cycle and all those things, so how will you fund your upcoming capex that you are planning for?
- Aditya Krishna:** We are always looking at companies and businesses to buy like I said in our last call we will always buy companies which add capability for us and some revenue so we will never look at acquisition which is very large in size which means it has to be affordable and we will fund it through internal accruals and we have lines with banks and we have some cash so we will do it through that route.
- Sachin Shah:** Currently, is there anything in pipeline?
- Aditya Krishna:** Yes we have couple of these in pipeline but how it is structured the things sometimes looks like they are going to close tomorrow and then suddenly they disappear so I cannot really give you a date, but something should happen.
- Sachin Shah:** Okay my final question have we completed this last part of the acquisition of DreamOrbit and how much is it?

- Aditya Krishna:** We paid 8 Crores for it and now Dreamorbit is 100% subsidiary of Saksoft.
- Sachin Shah:** Okay. That is it from mine. Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus. Please go ahead.
- Viraj Mehta:** Hello Sir. Sir in our margins what will be the effect of cross currency so if let say dollar goes to 75 how much will it be margin accretive?
- Niraj Ganeriwal:** Viraj it is very difficult to do a basis to basis point comparison because as we said almost 55% of our revenues is coming from US and almost 27% to 30% is coming from Europe, so there are cross currency effect which comes in picture, but if we improve from the current levels today also dollar touched almost 72 and then it went back a little bit. It will definitely be accretive but exactly in terms of the basis point, this would be difficult to comment at this stage.
- Viraj Mehta:** No if you can just give a rough example that if dollar appreciates by 1% against rupee then can our margins improve by 50 basis point, 70 basis point if you can just give some idea of that. Every company does that every IT company gives that data?
- Niraj Ganeriwal:** Viraj as I said there are two components for us both pound and dollar, so if pound moves in one direction and the dollar in the reverse. The increase of one gets offset by the other so let me give you hypothetical situation. If pound remains at where it is and dollar improves by Rs.1, I would say around 0.3% to 0.4% improvement in margins can be expected.
- Viraj Mehta:** Right and Sir I just wanted to concur with the previous participant, I think somebody who has very low equity like us and trading at low PE compared to the market and compared to our longer term earnings power, we are trading at six times earnings, I mean if our earnings are real and I believe so then there cannot be a better opportunity for us to buyback our stock. I think it is absolutely irrelevant what is our capital structure today because whatever is the earnings, it is going to be divided in the same proportion going forward so if you can buyback our stock, I would think there is nothing better for the company and we have been discussing that for two quarters now and our company just keeps on becoming cheaper. I run a SEBI-registered PMS we can assure you that if we do a reasonable large size buyback, there is bound to be rerating in our stock going forward because market will look at it as a favorable capital allocation rather than doing an acquisition at 10 or 12 or 15 that is just a suggestion from my side.
- Aditya Krishna:** Okay. Thank you, suggestion taken.

- Moderator:** Thank you. The next question is from the line of Vaibhav Bhardajia from HNI Investments. Please go ahead.
- Vaibhav Bhardajia:** Hi Sir. Thanks for providing this opportunity. Just wanted to know that the UK business is related to UK Government or it also includes subsidiary or it is substantially private business?
- Aditya Krishna:** It is predominantly public sector or UK Government base.
- Vaibhav Bhardajia:** So our top 3 or 4 clients will include UK Government or it will still not include UK Government.
- Aditya Krishna:** We do not include any of our million dollar deals from the public sector in our million dollar clients because they do not tend to be relationship driven, they tend to be tender based so we could have a \$3 million or £3 million pound contract but at the end of the contract it becomes 0. So it would be very misleading to add that to the million dollar client.
- Vaibhav Bhardajia:** Thirdly in our current revenue run rate, obviously we have done some acquisition but is there any kind of project related revenue which you expect to get over in the next one or two years or it something which can be bend upon for long term.
- Aditya Krishna:** As a rule we do not do large project based revenue except for UK Public Sector which I just mentioned so when it comes enterprise clients, we typically start an engagement with either a proof of concept or a small project, but then we quickly move that towards a dedicated team model. If the customer is not willing to do that then we move away from that customer so to answer your question I would say close to 85% of our revenues are in the dedicated team model not project based.
- Vaibhav Bhardajia:** So that revenue can be more certain to continue over a year than otherwise?
- Aditya Krishna:** That is correct.
- Vaibhav Bhardajia:** Last I just wanted to know how much Saksoft standalone has grown over the year excluding acquisition if you can help me out with the revenue that the company has earned from the DreamOrbit for FY2018 and FY2019 that could be helpful, how much is the organic revenue has grown?
- Aditya Krishna:** I do not have that number on hand we will take your details and we will try to give you some information.
- Vaibhav Bhardajia:** Okay sir, I will send a separate mail, to whom I can send a separate e-mail for this.

- Aditya Krishna:** You can send it to SGA, they will forward it to us.
- Vaibhav Bhardajia:** Okay. No problem. I will do that. Thank you.
- Moderator:** Thank you. The next question is from the line of Soumil Shah, Individual Investor. Please go ahead.
- Soumil Shah:** Good afternoon Aditya. Good afternoon Niraj. Thanks for giving me the opportunity. Well this quarter performance was not impressive. I have a few questions why depreciation has gone up so much. Have we purchased any new property or equipments?
- Niraj Ganeriwal:** Depreciation when we are saying it has not gone up if you are aware there is a new standard, Ind-AS 116 on accounting which has been introduced wherein the leases which have been taken by the company and this is applicable across India across all companies as they have to be capitalized as a right to use asset and the rental expenses as a part of depreciation in P&L rather than previously included in other expenses above EBITDA.. Even when I have taken you through my financial update, I had mentioned that because of Ind-AS 116 there is an impact on EBITDA which was clarified.
- Soumil Shah:** Okay, so this other expenses is also the part of that because other expenses have gone down considerably compared to last quarter?
- Niraj Ganeriwal:** Correct so that is one of the components which has resulted at other expenses going down and the depreciation going up
- Soumil Shah:** Okay and Europe you said only 26% revenue growth and 26% revenue of the total revenue if I have heard it correctly?
- Niraj Ganeriwal:** Yes the Europe which does include both UK and Europe is 26%, that is right.
- Soumil Shah:** So I think it has gone down, last quarter how much was it on the total percentage?
- Niraj Ganeriwal:** Last quarter was around 29% and this quarter it is 26% which is one of the reasons for the slight dip in our overall quarter revenue.
- Soumil Shah:** So now for this year how much revenue growth we can target? As there is sluggishness have you revised our targets for this year?
- Aditya Krishna:** Like I said earlier we have done about 4% growth on a half yearly basis compared to last year, we will try and maintain or beat that in the next six months so you will see some growth, but it would not be in the lines of what we said three months ago.

- Soumil Shah:** At least we can have double digit growth?
- Aditya Krishna:** We are working towards that, that you can be rest assure about that.
- Soumil Shah:** Who are our top 3 competitors in the listed space, I mean considering the size of our business?
- Aditya Krishna:** Top 3 competitors similar to our size I think the next company which should be similar to us like KPIT, they would be much larger so there are not too many companies which are listed which are like us of our size.
- Soumil Shah:** Okay. That's it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Atul Kothari from Progwell Securities. Please go ahead.
- Atul Kothari:** Thank you Sir for the opportunity. Sir my query is what is the industry outlook for FY20 and FY21 especially since the last quarter was overall weak for the industry so are we seeing any further headwinds?
- Aditya Krishna:** Unfortunately none of us have a view, so the way I see it today, the biggest uncertainty in front of us because of our reliance on the UK market and Brexit because Brexit has not happened because there is uncertainty around Brexit what will happen, decision making especially by the UK public sector is drawn out and getting very slow so that is impacting us, now will that continue, will Brexit happen on January 31st it is a big question, I do not think anybody today can give you an answer for that. So that is one big headwind.
- The other big headwind is the policy around US. You know because of what is happening in the US there is a fair amount of sluggishness in decision making. If both these things improve we should have more visibility of growth in front of us and unfortunately I cannot give you a better answer on that because these are things which nobody can control.
- Atul Kothari:** Sir how many clients we have added in H1 FY2020?
- Aditya Krishna:** Okay, we add roughly between 8 to 12 new clients every quarter, so in the first half we have added at least 20 new clients, but please remember these 20 new clients will be small clients because engagement starts at a very small stage and then slowly builds up.
- Atul Kothari:** Sir what has been the retention rate of the client so far this year?
- Aditya Krishna:** Attrition rate of the client, we basically do not lose a client, but like I said earlier, if a client does not move to a dedicated team model then we move away from that client. So it is not

that a client stops doing business with us, but we move away because if we cannot get revenue which is predictable and consistent from the client we then start focusing on either getting new client or an existing new client.

- Atul Kothari:** Which are the verticals of the business segments, where we are witnessing a good traction?
- Aditya Krishna:** Logistics and transportation is the number one vertical where we are seeing tremendous amount of new client acquisition as well as a lot of prospecting and interest. The second space is fintech, I would say so in terms of importance and in terms of traction those are the top two verticals among our verticals.
- Atul Kothari:** Okay Sir. That was helpful. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Amit Shah from NM Securities. Please go ahead.
- Amit Shah:** Sir I wanted to know what would be our revenue growth in constant currency?
- Niraj Ganeriwala:** As I explained the revenue growth in constant currency for the current half year is around 4.9% which is 1% above without the currency impact.
- Amit Shah:** What is the sales force we have by acquiring these new customers that you mentioned?
- Aditya Krishna:** We have fairly large sales team in US, we would have totally between people working from US offices and from our India offices but focused on the US geography the team would be 30 people and in the UK the team would be 10 people.
- Amit Shah:** Okay. Sir can you explain more on this dedicated team model, how did it work and benefitted you?
- Aditya Krishna:** What we mean by dedicated team is that customer gives us work which keeps a team engaged for a certain period of time. We are insulated from ups and downs of the work of the customer. Typically the way the customer give out IT work either they do it on a project basis or do it on a team basis. So what happens in project is you scope out the project and you say the project is size of let us say \$100,000. You start a work and when that projects gets over your revenue from \$100,000 becomes 0. In a dedicated team you have consistency of revenue because if you have 10 member team and each team member is being billed at \$4000 a month then you have assured revenue of.40,000 per month. Now it is up to the customer to give work for those 10 members. If the customer does not give work for 10 members then he still has to pay for those 10 members that is what we mean by dedicated team and the reason how and way we sell it is, we say look this team is dedicated to you, they understand your business,

they understand your business problems and because of that it is in your interest to keep the team together. The customers also interested because he does not want to lose the knowledge that the team has about his business, about his solutions that he is trying to build and we are also benefitted because we get consistency of revenue.

Amit Shah:

Okay. Thank you Sir. That's all.

Moderator:

Thank you. The next question is from the line of Keshav Garg from Counter Cycle. Please go ahead.

Keshav Garg:

Sir just wanted to understand so that despite flattish revenues, our employee expense has increased from 80 to 90 Crores in the first half so are there any major salary hike pending or expected to remain at this level only for the remaining part of the year?

Niraj Ganeriwal:

There are no salary hike which are pending and the increase will be in line with the head count which might increase, but our increases traditionally happen at the beginning of April so as such if there is any increase in the employee expenses it could be more on account of head count rather than on account of any increases.

Keshav Garg:

Sir, basically head count is it expected to go up substantially for the remaining part of the year?

Niraj Ganeriwal:

We work at a very stringent utilization levels if you have noticed for this half year we are at 87% and we have been trying to maintain at about 85% so if just in time hiring which we are doing in line with the growth of the revenue so as the revenue grows, we would expect this cost to go up so it very clearly a factor of the revenue rather than head count in itself.

Keshav Garg:

Sir also wanted to understand last year we paid around 5 Crores finance cost whereas at the net level we are almost debt free so then this 5 Crores interest cost is on account of what?

Niraj Ganeriwal:

We are not debt free, we said that we have a net surplus cash of 6 Crores so we still have a debt in the books of 38 Crores as on date and cash in the book is around 46 Crores so the debt is still there in the book and reason for us to have the cash balance is obviously one is the working capital and two to reinvest in the business, and three if any other acquisition comes up so there are some internal accruals which would get counted. So that is the reason for the interest cost on the P&L.

Keshav Garg:

Sir, is the debt in domestic currency or foreign currency and what is the cost of debt?

Niraj Ganeriwal:

Debt is in INR and average cost of debt is around 10% to 11%.

- Keshav Garg:** Sir, 10% to 11% is on the higher side, a company with our credit profile can obtain I mean better terms?
- Aditya Krishna:** If you have any ideas please recommend because let me assure you that we negotiate hard and all this debt has been obtained with personal guarantee from me.
- Keshav Garg:** Okay Sir. Thank you very much.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments.
- Aditya Krishna:** At Saksoft, we believe that this unprecedented and virtually limitless market opportunities warrant a strategic and operating discipline. At Saksoft we have developed a reputation for promising X, but consistently delivering X plus Y strengthening customer base. The result of this initiative is expected to sustain the growth momentum and revenues and profitability over the next few years. I believe that this approach is achievable and sustainable with the possibility of enhancing shareholder value across the foreseeable future.
- I hope we have been able to answer all your queries. In case you require any further details, you may please contact us or our investor relations advisors, Strategic Growth Advisors. Thank you to everyone for joining us.
- Moderator:** Thank you. On behalf of Saksoft Limited that concludes this conference. Thank you for joining and you may now disconnect your lines now.