“Saksoft Limited Q4 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Saksoft Limited Q4 and 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 - Saksoft Limited. Thank you and over to you Sir!

Aditya Krishna: Thank you. Hello and Good afternoon everyone. First and foremost, I hope you are all keeping safe and healthy and our best wishes to all of you. On the call, I have with me, my senior colleague, Mr. Niraj Ganeriwal – our CFO from the team and SGA our Investor Relation Advisors.

We are living in an unprecedented time where health and wellness for all needs to be put before anything else. The black swan of COVID-19 has taken a huge toll on life not just from medical point of view but also economically. As the world fights this situation as one, we at Saksoft are striving to ensure the good health of all our employees and delivering the best to our customers parallely.

As a digital transformation solution provider, we support many core and mission critical applications for our customers. As a part of our well rehearsed business continuity plan we have enabled work from home to all employees through individual IT tools and connectivity solutions. Whilst work from home from has been a part of the work philosophy at Saksoft, the swift move to a 100% work from home module is testament of the agility and responsiveness of our entire organization.

The crisis management team at Saksoft comprising of senior leaders across functions are ensuring business as usual in this pandemic situation. Our employees remain committed to deliver outstanding business solutions and services to our clients. We have institutionalized an extensive client connect process to ensure that we work very closely with them to address and help them in any other areas that we could in these difficult times.

The company has evaluated impact of this pandemic on its business operations and based on its review and current indicators of future economic conditions there is no significant impact on its year end financial results. The extent of the impact of COVID-19 on the future operational and financial performance will depend on certain developments including duration and spread of the outbreak, the future impact on the customers, employees and vendors all of which are uncertain and cannot be predicted at this point in time. As the impact of COVID-19 if any on the future operational and financial performance of the company could be different from management's estimates in this regard, the company will continue to closely monitor any changes as they emerge and report them on a timely basis.

The IT industry is going through a rough phase as many institutions are postponing IT spending. However, at Saksoft we are well placed since the work done for our customers, is predominantly not in the discretionary spends rather in budgetary spends to keep the lights on. For FY20 as a whole, on the geographical front, our key markets of US and Europe witnessed softness in demand on the back of global uncertainties and Brexit fear and now COVID pandemic. However, I am pleased to inform that we were able to maintain our margins in this competitive environment with increased focus on delivering from our centers in India and UK.

With our presence in vertical such as healthcare and e-commerce and service offerings focused around Cloud and digital transformation, we believe that we are poised to grab good opportunity going ahead. The pandemic has been an eye opener for the organizations who have lacked foresight on the digital transformation. Any organization who has not transformed itself digitally is the one which is having the largest impact of the pandemic. We have increased our marketing efforts in reaching out to the existing and new customers to help them transform digitally in these challenging times. Over the year, we have added new clients and have renewed with the couple of key clients.

On the cost front, due to the prudent cost management and investing in the right areas we have been able to stabilize our margins despite modest growth in revenues. With humble pride we would also like to inform that we have not lost any major customer so far.

Now I will request Mr. Niraj Ganeriwal, our CFO to take you through the financial performance for Q4 and FY20.

Niraj Ganeriwal: Thank you Aditya. We will now move to the financial performance for Q4 and FY20.

On the revenues, the company recorded revenues of Rs. 92.90 Crores during Q4 FY20 as against Rs. 93.67 Crores in Q4 FY19. The revenue for the entire financial year FY20 stood at Rs.358.78 Crores as against 358.05 Crores in FY19 recording a marginal growth of 0.2%. The muted performance was on the back of softness in key markets of Europe and US due to global uncertainty and Brexit.

Moving onto operating EBITDA, the EBITDA for the quarter stood at Rs.13.85 Crores as compared to the Q4 FY19 of Rs.17.03 Crores. The EBITDA margins stood at 14.9% for Q4 FY20. The EBITDA for FY20 stood at Rs. 61.03 Crores as against Rs. 59.16 Crores in FY19 an increase of 3.2%.

EBITDA margin stood at 17% as compared to 16.5% for FY19 an increase of 49-basis point. The EBITDA for FY20 is higher by Rs. 5 Crores on account of adoption of Ind-AS resulting in an impact of 1.4%. The sluggish growth in EBITDA is on account of increase in the headcount during the year combined with the marginal drop in utilization.

Moving onto PAT, the profit after tax for the quarter stood at Rs.9.80 Crores as against 10.64 Crores in Q4 FY19. The company recorded a PAT margin of 10.5% for Q4 FY20. PAT for FY20 stood at Rs. 38.65 Crores as against Rs. 38.21 Crores in FY19 an increase of 1.2%. PAT margins for FY20 stood at 10.8% as against 10.7% in FY19. The impact of currency movement on our revenue and PAT for FY20 is not material.

The revenue split by geography - America contributed 50% of our revenues; Europe contributed around 27% while the remaining 23% was from Asia Pacific and other regions. When compared from FY19 to FY20, America's contribution has dropped from 55% in FY19 to 50% in FY20. This was mainly on the back of realignment of certain contracts with a few of our top ten customers from US to APAC geographies.

Onsite and offshore revenue mix was 49% onsite and 51% offshore in FY20. Our endeavor is to increase the concentration from offshore revenues.

Revenues split across verticals for FY20 is, Fintech and telecom contributed 29% and 20% respectively while logistics, retail, and healthcare and public sector contributed 10%, 13%, and 11% respectively.

Saksoft has 6 customers of million dollar plus and 7 customers of $0.5 million plus in the revenues range. The total employee count stands at 1,258 employees of which 1,121 are technical and the remaining 137 are support staff. Utilization level of the employee excluding trainees stands at 83% for FY20 as against 84% in FY19.

On the balance sheet side, the debt position has significantly reduced by Rs 12.48 crores, from Rs 40.93 crores as on 31st March 2019 to Rs 28.45 crores as on 31st March 2020. In addition to this reduction of 12.48 crores, we have made a further cash investment of Rs 7.65 crores in acquiring the final tranche of Dream Orbit making it a 100% wholly owned subsidiary of Saksoft effective July 2019.

In spite of the above debt reduction and incremental investment our cash position as on 31st March 2020 is Rs 42.93 crores which is higher than Rs 40.05 crores as at 31st March 2019.

For FY20, ROE stood at 18.6% and ROCE at 24.7%.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Viraj Mehta from Equirus. Please go ahead.

Viraj Mehta: Hi Sir and Congratulations for good set of numbers. Sir, First thing in the revenue that we have reported this year and this quarter, what is the constant currency growth that we have reported?

Niraj Ganeriwal: Viraj, you are looking specifically for the quarter or you are looking at for the full financial year?

Viraj Mehta: Both I mean even fourth quarter our numbers are flat or decline of a percent for the full year also our number was flat, so if you can give both the numbers?

Niraj Ganeriwal: For the full year there is no impact on account of exchange. Between 2018-2019 and 2019-20 there is no impact on revenue on the exchange, between Q3 and Q4 there is an impact around 2% on the revenues.

Viraj Mehta: Sir if we talk about this first quarter and second quarter, when we talk about reduced spending how much impact do you see in our topline in first and second quarter?

Aditya Krishna: Viraj, we are not seeing any reduced spending from our customers as we speak today. I do not know where you got that feeling from. What we are seeing is prospective customers are obviously taking some time to re-engage and respond because they have other priorities given the pandemic, so as we speak today, we do not see any reduction in spending from our investing customers.

Viraj Mehta: Sir if we essentially just look at our EBITDA margins this quarter; they have been affected due to support and third-party charges growing significantly higher from Rs. 20 Crores to 26 Crores, just wanted to understand is there any one-off case and will our EBITDA margin grow by 17%-18% from Q1 or is like 15% the new normal if you can throw some light?

Niraj Ganeriwal: Sure Viraj**,** this is Niraj. Q4 was little up due to one off situation. If you see for the entire year our utilization has gone down by 1%, which had gone down slightly higher in Q4 We did have a few employees who are incrementally on bench and in addition we had to take certain third party contractors because of which there was an impact on the EBITDA. We do expect that in Q1 which is April to June quarter it should improve.

Viraj Mehta: What will be your guidance for growth in constant currency and rupee dollar because obviously rupee-dollar has depreciated by around 7% this quarter, so what is our guidance for dollar revenue and rupee revenue this year?

Aditya Krishna: Viraj, we do not give any guidance especially forward-looking, the only thing I would say that times are tough. Company has done well in the last year. As we speak today, we are not that severely impacted by the pandemic as may be many other businesses, so the focus of me and my team will be to grow the business as fast and as rapidly as we can, so I cannot say anything more than that.

Viraj Mehta: Sir just had one last question, a lot of participants have been asking about buyback. I mean now we have 40 Crores cash on books and our stock price is also depressed considering our intrinsic value of the business, if ever there was an opportunity to go for buyback, do you think this would be it, so this was just suggestion from a minority shareholder?

Aditya Krishna: Understood Viraj but you know our floating stock is low and we feel there is a lot of value for investors to buy at this price and that is the sort of shareholders we were looking for, so I take your point and the Board will definitely consider it.

Viraj Mehta: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from DoorDarshi. Please go ahead.

Rajeev Agarwal: Thanks for taking my question. My first question is when I look at the various technology services from India I think the commentary is that overall the place from being very weak and they are not sure what will happen to somebody like yours where you are painting a pretty strong picture for your existing clients and not necessarily assure in terms of acquiring new clients, so what is giving us this confidence which is enabling us to say that as our revenue growth should be similar or you have not given the guidance but you are giving the comfort that things should continue on a similar line as what they have been, so can you give us some sense of what are your conversations like with your customers?

Aditya Krishna: Our focus verticals are Fintech which is not be confused with financial services organization. When we mention Fintech we do not talk about large banks, which are facing a lot of headwinds in this pandemic, so Fintech is one of our vertical. The second vertical is transportation and logistics. The third is the healthcare and the fourth is e-commerce. Now in all these four verticals our customers are SMEs - Small Medium Enterprises, they are not large organizations, multimillion dollars who are always on cost cutting and they have different objectives. Our applications that can work with them are mission critical applications which are necessary for them to run their business. Now if we do not support these applications their businesses will not be able to run and that is where the confidence is coming from that in these four verticals and the fact that within mission critical applications for these customers, we do not at this point see any slow down.

Rajeev Agarwal: Got it and is this sort of COVID situation giving the additional opportunity with these clients like, are you seeing more request of your services from these clients?

Aditya Krishna: See that is little tricky because of whenever something like this happens especially this pandemic, nobody knows when it is going to end, so the first reaction every customer has is let me spend for what I am spending now and what is essential right now, let me think twice before spending more and that is why I said earlier I am not very clear as to prospects and growth what that foresees for us in the coming quarters. I think with the couple of weeks or may be a month, we will have better picture.

Rajeev Agarwal: Sure. My next question is when I look at Saksoft it has done pretty successful acquisitions and that has been our strategy to find potential companies and then try to go into those Companies which can grow, giving this situation currently, are you seeing better target for acquisitions and better price and can you talk about what you are seeing in the acquisition front?

Aditya Krishna: You know it better than anybody else that the seller never reduces price. So expectations I do not think has come down. We are always looking at targets and the focus of my team and my focus and Niraj's focus would be to grow the business whether we grow at organically, inorganically or combination thereof, growth is what matters and we will do it without diluting capital so that is what I can say.

Rajeev Agarwal: Okay and then lastly in terms of the geography as you mentioned that Americas was a little weak primarily because of the reclassification of our customers right from US geography to Asia Pacific that is why there was a delta, there reduction of 5% in US at the year and an increase of 8% in Asia Pacific, can you little bit from a geography perspective what we are seeing and for what your opportunities look like?

Aditya Krishna: Our focus has been and will continue to remain the US geography and the UK geography. We feel both these geographies offer us lots of opportunities of growth in the four verticals that we have chosen, so at this point we do not see any need for us to change track or to change our strategy from our focus to this.

Rajeev Agarwal: Okay if you may just one follow up there in UK geography has been facing difficult times in the past due to Brexit and now the COVID, what are we seeing there?

Aditya Krishna: You are right that, UK had seen a lot of stress but the UK government has also been very supportive of this pandemic, they were the first to launch what is called the furlough scheme which gives employers lot of flexibility in terms of retaining work force and also paying them at a very cost effective manner, so yes new business is stressed, will take time to build, we do not know what will happen but I would say the UK government has probably been more responsive and better equipped than even the US government, so in that context we are in a better position.

Agarwal: Thank you very much.

Moderator: Thank you. The next question is from the line of Sachin Kasera from SVAN Investments. Please go ahead.

Sachin Kasera: Just one data question, did you mention the full year constant currency growth. I missed that?

Niraj Ganeriwal: Yes Sachin, we did mention and we said that there was not significant impact on account of exchange for the full year as compared to the last year.

Sachin Kasera: So basically, on constant currency it is more or less flattish?

Niraj Ganeriwal: That is right.

Sachin Kasera: Any reasons for why it was a flat year for us, any specific client's issues or some vertical issue? As most of the peers in the industry have reported between 5% and 8% growth including some of the leading ones?

Aditya Krishna: Sachin, this is becoming a tough industry. Growth is always difficult and you can never compare us with a Tier-I player. We are different so in spite of the lots of efforts to grow, growth has eluded us last year; we are hoping that this year we will be able to grow better.

Sachin Kasera: That is fine. We can understand but if you would like to comment what was the reason why I can understand that we may not be exactly comparable and as you mentioned we have been putting in lot of effort and despite to those effort what do you think was the key reason we were not able to grow, is it certain clients we face certain lot of market share or something else if you could just highlight on that?

Aditya Krishna: One main reason was that one of our large customers started a captive in India and that hit our revenues a little bit and it took some time to recover from that, so that is probably the only thing that comes to mind otherwise like everything else some business and some of customers spend less, the others spend more and we are able to bring in new customers obviously we were not be able to bring in new customers and new business faster than what we lost and that is where I think that the disappointment is there for us for me and my team which we will try to rectify.

Sachin Kasera: Sure and just to take it further, is it that this is what you budgeted also or is not that when you started the year you were looking at far better number just because on execution we had certain challenges or some issues like this captive which you mentioned we ended the year with more flattish number or is it something that we anticipate the beginning of the year?

Aditya Krishna: Definitely we did not anticipate and we were expecting to grow and expecting to grow better than industry average.

Sachin Kasera: Sir my question is because last year the industry had a still okay year and we had certain challenges and this year the industry outlook because of COVID is definitely far more challenging, so in a year we are looking at revenue industry growth and despite the industry doing ok we could not grow, what gives you the confidence that this year despite the companies and industries are facing we should be able to show some growth if you could just delve a little bit more about that?

Aditya Krishna: So, I come back to what I said earlier. Look at our verticals, we have Fintech, we have healthcare, we have e-commerce and we have transportation and logistics. Now take the healthcare. Our focus on healthcare is telehealth. Will the telehealth increase spending because of the pandemic? The logic is yes. Can we capitalize on that? I cannot say for sure yes, we will definitely make every attempt to capitalize on it. So the same thing goes for e-commerce, the same thing goes for Fintech, I think we are in the right place, now may be the pandemic will help us with more opportunities because considering that our services around digital transformation companies that have not embarked on digital transformation had suffered the most, so they will definitely learn from that and spend more, so I think that we are in the right space pandemic might give us opportunity which were not there last year. This might be something that may help us.

Sachin Kasera: On transportation and logistics you do not see any impact because that is supposedly one of the industries that could have been impacted or we are more on the logistics side and that is why the impact will be far lesser?

Aditya Krishna: When I say transport and logistics, I am not talking airlines, I am talking mainly trucking which has not got impacted because of goods will still have to move and that business has not seen any downturn as of now.

Sachin Kasera: Sure.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Thanks for providing this opportunity. In initial remarks you mentioned that there has been some reclassification from US geography to Asia Pacific, so just wanted to understand that from the numbers from last three years Asia Pac has shown substantial growth even in 2019 or 2018, so this reclassification impacted in which year both FY19 and FY20 or it was just 2020 phenomenon?

Niraj Ganeriwal: Vaibhav, so this has impacted is only in the current year which is FY20 and when I am saying reclassification what I mean is there are some top ten customers who contract with us from a US perspective but in the current year they do have some subsidiaries and other entities in India, so they have split the contract and the same amount of revenue is now coming from both the India and the US customers rather than only US, so that is basically the reclassification.

Vaibhav Badjatya: Now that explains the 2020 Asia Pac high growth. But in 2019 if I see the Asia Pacific revenue numbers, which increased from Rs. 23 Crores in FY18 to around Rs. 55 Crores which is more than double so, what would you attribute this high growth in 2019?

Niraj Ganeriwal: That was again one of the top ten customers with whom we have a global MSA and most of the revenues used to be Europe and UK denominated. They also have started giving business from their global centers in India so you know that is where the APAC piece of revenue of the last year had grown.

Vaibhav Badjatya: Now coming on the vertical side I think you have also mentioned about Fintech, transportation and I think e-commerce is included in retail and healthcare vertical but if you look at the telecom vertical the growth in telecom vertical has been quite good, so just wanted to understand as to what is driving this growth, have we gained market share from customer or has it benefited from any consolidation in the telecom sector?

Aditya Krishna: In the telecom sector we work with a large telecom operator headquartered in Europe and they went through a vendor consolidation and they selected two vendors and we were one among the two vendors, so that has helped us, sort of cement our position in that vertical with that customer.

Vaibhav Badjatya: But nothing to do with couple of M&As that we have seen in last few years in India or abroad?

Aditya Krishna: No**.** This is not a B2C telecom operator. It is a B2B telecom operator.

Vaibhav Badjatya: The last question from me, if we look at the cash position and you also had some level of debt of a balance sheet about cash and debt and I believe that most of the cash is there in the subsidiaries and debt is in the holding company, are there any ways where we can use this cash to become gross debt free rather than having inefficiencies lying around in the system?

Aditya Krishna: Do you think it is better to have no debt?

Vaibhav Badjatya: Actually, it depends on the trade of rate of interest I am not sure what is that both the numbers are. I am sure we might be earning less on cash and we might be paying more on debt in terms of rate of interest?

Aditya Krishna: Actually, to maximize shareholder value you must have debt. I mean that is our approach. As long as we are not excessively burdened by debt and we can easily service debt and you are right, as long as we can get debt not at a very expensive rate so it is always prudent to have some debt so I would rather keep some cash with us for situations like this, for good opportunity to come from an M&A perspective than to have debt free business because I think debt free business just ticks a box for some analysts it does not help the business.

Vaibhav Badjatya: I understand that it provides us flexibility in terms of acquisition then it is workable and lastly if I look at your employees cost, just trying to work around some numbers so the employee cost that is there on a consolidated basis which is there in the financial statement is around Rs. 181 Crores for FY20, so if I want to derive the per employee cost should I divide it with the number of employees which has been given in the presentation which is 1,258 or this number of employees includes subcontracting cost as well?

Niraj Ganeriwal: So, you can divide it by the number of employees, the subcontracting cost could come in the separate line which is the support third party charges.

Vaibhav Badjatya: Yes, but this number of 1,258 employees does not include subcontracting employees, right?

Niraj Ganeriwal: No, that does not include subcontracted employees.

Vaibhav Badjatya: That is helpful. I think that is it from my side. I will come back in the question queue.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: In fourth quarter, our standalone sales went up by around 20% YoY but consolidated basis sales are marginally down and even our standalone operating profit is Rs. 9 Crores and consolidated is Rs. 11 Crores so basically we did very well on standalone basis but not that well on consolidated, so basically there has been degrowth from our subsidiaries both in terms of revenue and operating profit, so what is the reason for that?

Niraj Ganeriwal: Keshav, as I had mentioned little bit earlier, in terms of the realignment of the revenues from the America's to the APAC geography. The top customer who had re-signed contract with us splitting the contracts between US and India, the India piece of the business gets accounted now in the standalone financials which earlier would be a part of the subsidiary, that is the reason you see that there is a good increase in the standalone whereas on the consolidated basis it is flat or it is slightly lesser so to a large extent it is the realignment with the couple of top customers splitting their revenues between US, UK and Asia Pacific.

Keshav Garg: Sir and are the customers asking for any discounts or extension of credit period?

Aditya Krishna: Yes, we have had a couple of cases of customers asking for better prices, nobody really asking for credit extensions but wherever they have asked we have given because we feel that this is the time when we need to be as supportive of our customers as possible now of course this is within reasonable limits. In fact, in some cases where customers have said temporarily, they want to reduce their strength we have given them some resources free of cost so that we stay connected and of relevance to these customers.

Keshav Garg: Sir, basically despite this you are expecting margins to go up?

Aditya Krishna: Absolutely because this is not the norm, this is an exception but please remember that these are times which are unprecedented so if we cannot help our customers in these times, we have no reasons to exist.

Keshav Garg: Sure, and one last comment, last year we did Rs. 56 Crores operating cash flow and our market capitalization is Rs. 186 Crores, so basically in three years we are making as much money as our market capitalization and despite that you are further expecting growth, so this is a very opportune time to do a share buyback because if you go for M&A, where will you get an acquisition opportunity which is available at three times the cash flow and since our company we have already acquired many companies so by purchasing our own shares and extinguishing them, the EPS of the remaining shares will go up even though the profit might remain flat and secondly if you consider the tax angle, now dividends are being taxed at 43% marginal rate but in buybacks the tax rate is only 23% and there is no capital gain tax, so even from that point of view it is great and dividend once it is given cash goes out of the company but the buyback the effect is permanent that the number of shares permanently get reduced, so the EPS will get permanently get increased, so please consider this.

Aditya Krishna: Definitely but you should also consider buying the stock because you just justified it.

Keshav Garg: Sir, the thing is that the market is saying when the management itself has got no value for the stock I mean at no price the company is doing buyback even though it has got financial strength in the balance sheet to do a buyback so then why should the market give value to the company if the management itself does not see value in the stock?

Niraj Ganeriwal: Keshav, just to clarify that the promoter holding is closing to 70% and we have ESOP trust shareholding which is roughly 5% so the non-promoter, the public holdings is only close to 25 %. Even if we have to do a buyback it can be very limited. Now either the promoter buys which is not possible in this scenario and company buying back is something we are not evaluating currently because that again will increase promoter share to a higher percentage and the public holdings will come below 25% so that is the challenge over here.

Keshav Garg: Thank you.

Moderator: Thank you. The next question is from the line of Saumil Shah an individual investor. Please go ahead.

Saumil Shah: Good afternoon Aditya, good afternoon Niraj. Just wanted to reconfirm, almost two months have passed for the current quarter and till now we are not seeing any impact in US and UK geographies due to this pandemic?

Aditya Krishna: Yes, we are not seeing any major impact. Like I said previous gentleman asked a question about customers asking for discounts, credit extension, of course there is an impact but is it going to majorly impact our revenues, as of now we do not see that.

Saumil Shah: Okay and is it possible this year due to this pandemic, offshore revenues can be much more than the onsite revenue, is it possible?

Aditya Krishna: You might recollect our conversation of sometime ago where the question was similar but it was in a different context which is that more and more countries, the UK and the US are becoming nationalistic and immigration policies are coming under lot of scrutiny so can we really rely on H1Bs and foreign workers from India going there and generating revenues and our answer to that was that we are delivering through our centers in India. Now that has been our focus for a reasonably long period of time and we will continue that focus. So yes =that will be our intention and now with the pandemic putting the world at where it is, customers are more open to getting the work done out of India than they were before especially the UK and we see that it is a very positive sign.

Saumil Shah: Okay and are we working on any ballpark number for the next two years or three years I mean any revenue targets internally which we have set?

Aditya Krishna: Growth is key, we have not grown last year; we definitely want to grow this year that is my focus, my team's focus. We are putting in all our efforts to grow. Now whether we will grow by 5% or 10% it is very difficult to say but the one thing that is keeping me awake then it is the growth.

Saumil Shah: Okay, because I had seen one article of Indian Infoline that we are targeting some 700 Crores revenues for the next 3 years?

Aditya Krishna: It is always good to have some long-term plans because it sets the perspective. Yes, we would want to do that but I am sure this article was before this pandemic happened. So, whether we will get there or not, maybe we will get there faster than three years, I really cannot commit but all I can commit you is that we will grow.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Good afternoon Sir. Congratulations on a good performance. Sir, I have two-three questions. First is when I look at the numbers and the kind of cash flow that we are generating, the dividend ratio looks very low, what is the reason for that also as per the industry standard?

Aditya Krishna: We have always tried to increase dividend year-on-year and if you see our record, we have been doing that so last year it is 45% that is Rs. 4.50 paisa.

Ayush Mittal: I mean the other way to look at the dividend is the dividend payout ratio which is the dividend upon net profit, so usually the IT companies payout somewhere more than 20% to 25% of their profits as dividends because cash flow is not needed for growth in most of the cases.

Aditya Krishna: Yes, we are about half of that.

Ayush Mittal: We are at around 10% to 12% payout.

Aditya Krishna: We have just been a little prudent on this because we have debt, which we need to service and we were always been keeping/conserving cash for M&A so that is the reason we have been prudent. Definitely, the board will look at increased dividend payout.

Ayush Mittal: Sir, when I look at the historical numbers of the company one thing that I see is that the growth rate has been around like it happens in phases and it has been around 10% odd. Going forward you have been talking about growth, any number that you have in mind and also historically our margins used to be around 10% to 12%, now they are 17% to 18% so what has changed in last three years to four years and how sustainable are these margins?

Aditya Krishna: Our focus always has been to grow but grow with profitability and we have been managing the business as optimally as we can by focusing on utilization, by focusing on average delivery cost and that has aided dividend, in fact you will recollect in our previous calls, I have always said that as a team we want to focus on delivering from our centers in India with dedicated teams working from India that gives companies like ours maximum margin. Now, as the proportion of that business and total revenue increases margins go up and that is why you have seen EBITDA margins rise from where they were to where they are today at 17%. Now, can they keep going up? At some point they will plateau off that is something to keep in mind but yes there is no reason why we will not be able to maintain these margins going forward.

Ayush Mittal: The growth rate like in the past we have done around 10% odd, what kind of number do you keep in your mind when you target the growth going forward?

Aditya Krishna: Last year we did not grow at all and if you look at it, it is like every alternate year we grow at reasonable amount to make up that 10% so this is our lucky year, I hope.

Moderator: Thank you. We move on to the next question and that is from the line of Kapil Chopra, an individual investor. Please go ahead.

Kapil Chopra: Many congrats Mr. Krishna and Mr. Niraj on the great set of numbers. Sir, this is the year where every company is trying to reinvent itself in the post COVID scenario, so what you have spoken so far I just want to discuss one positive and negative thing, lot of Tier 1 companies in the IT itself has agreed that the business may shift to the companies like Saksoft globally, so how you plan to cut the cost and offer your clients a reasonable deal in the coming times?

Aditya Krishna: It is important to understand that our target market is companies which are 100 million to 2 billion dollars in the topline, so our target market is not the very large organizations or the fortune 100 or top 50 companies. Now, will a company which is let us say 500 million in sales deal with a Tier 1 player who is fifty times their types, will they get the attention that they need for their business and the answer is very clear that is why they come to Saksoft. If you were running your business and you were wanting attention for your IT, would you go to somebody who is fifty times your type or would you come to somebody who is smaller than more responsive and I think that is where our opportunity is and that is why it is disappointing that we have not grown and we will try to fix it this year.

Kapil Chopra: Okay and as per slide number 9 of your PPT, last year telecom, retail and healthcare did well for Saksoft, so what are the sectors if you can specify I am not asking for any ballpark numbers, but what are the sectors which may do well for Saksoft in this year?

Aditya Krishna: Healthcare would definitely do well and the other one that will do well is e-commerce. We feel these two will benefit from what is happening to the world today especially in the healthcare in the telehealth space. One of our customers for example, does translation work in US hospitals. So, when a patient comes into a US hospital, the law requires that there must be a translator for every language for the patient and the doctor. So, there is a third person between the doctor and the patient there is a translator. Now, these are all virtual. So, the translator is virtual, could be anywhere in the world, the patient could be virtual and the doctor is virtual. Now, that is where our opportunity is, we have framework there and this is the space that we are trying to exploit.

Kapil Chopra: Okay and in the last AGM also lot of people have spoken about the buyback, in this conference call also lot of analysts were talking about the buy-back but if you will do the buyback there would be a great amount of liquidity problem normally not on the result days but normal delivery volumes are below 5,000 or 10,000 on a daily basis so if you do the buyback, that is a feedback this will reduce it and our share capital and paid up capital may go below 10 Crores also, for NSE listing there is a minimum requirement of 10 Crores paid up capital what I believe Sir.

Aditya Krishna: Thank you. I am glad you support our views right now.

Kapil Chopra: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Kasera from SVAN Investments. Please go ahead.

Sachin Kasera: One question regarding margins you mentioned that because of better offshore the margins have improved, so how do you see the offshore and onshore mix next two years to three years from where it is today?

Aditya Krishna: Today 49% is onsite and 51% is offshore. I would say our target is 45% and 55%. Will we get there next year- unlikely but that is where our objective and our goal is.

Sachin Kasera: What is the type of margin benefit assuming we achieve it over a period of two years to three years so what is the positive delta for margins that this 5% can give, this is like 100 basis point, 150 basis point, what do you think in general?

Aditya Krishna: Niraj can you guess?

Niraj Ganeriwal: Yes, it is little difficult Sachin because with the currency and everything which gets impacted but ideally with a 1% to 1.5% improvement towards offshore, we would expect 15 to 20 basis points improvement in margins to happen, that is generally the thumb rule which we see.

Sachin Kasera: Second question was regarding the headcount, so the headcount has gone up by approximately around 90 people and whereas the revenue has been flat so is that we face some pricing pressure and that is why the billing rate has come down or is it that we had more fresher than we still become more productive?

Niraj Ganeriwal: So Sachin, our revenue also until a few years back and until last year had some component of one time licensing revenues if you look at the last line which is the other expenses that has substantial decline from 42 Crores to 26 Crores, , 5 Crores is rent because of the Ind-AS 116 but we had license sales of more than a million GBP last year which are not there in the current year so the one time license revenue has gone away and it has been moved into services revenue which is more consistent and that is why you see the shift of the expense from one time cost in the other expense to the employee cost.

Sachin Kasera: Just one thing, there has been lot of discussion regarding the cash and all and you mentioned that there are certain issues even technical because the company cannot go for buyback and my suggestion would be that see most of IT companies were in 15% to 20% and they all have now moved between 50% and 75% so I think the least we can do is that we can keep certain amount of cash which we think are required for exigency like COVID, maybe cash for acquisition and have a very clear cut policy and this is the amount of cash that we roll beyond that whatever the cash available we will payout to the shareholders and I think that will definitely be noticed by the markets and that should definitely lead to some better rerating of the company. That is from my side. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Thanks for providing the follow up. So, just from the sales strategy of the company, I understand that because of the size of the company we cannot have heavy sales driven strategy but given the cash that the company is generating, I just wanted to hear your views is it worthwhile to consider that to invest in sales at the cost of short-term profitability because I think that would be in the long-term interest of the organization maybe if you do not consider the short-term impact on the financials due to heavy sales cost but that can actually give fillip to organic growth from a longer-term perspective.

Aditya Krishna: Life has become quarter-to-quarter. I would love to say that we could forget quarter-to-quarter and hire three sales guys and do not worry if quarter-to-quarter we do not do so well for the next four quarters to five quarters but I know these earnings call will kill us so what you said is theoretically makes lot of sense but if it is practical - I do not know. The challenge is always facing ourselves which is what we have been trying to do. Invest in sales at the same time, keep an eye on the quarterly results because that is very important and honestly listing and this quarterly pressure I think is also very good for discipline, it keeps us on our toes, it keeps us honest, if business cannot make money then there is no reason for business to exist, if we cannot reward shareholders then we do not need to do exist if we cannot take care of our customers we do not need to exist so I am not disagreeing with you but I am saying that I think it is difficult for us to invest excessively in sales and not worry about the quarter.

Vaibhav Badjatya: Lastly, we have spoken about our dedicated team model but just wanted to understand that how is it different than the fixed price contract because if the utilization of the team is client's responsibility and we are responsible for executing the project, how do these two things go together?

Aditya Krishna: The difference really is in understanding that customers want some element of consistency with the teams that are working with them. They do not want to lose the domain knowledge, business knowledge that a resource has and for that they pay so even though they might not have work for that resource in a particular month, the fact that they want that resource still to be part of their team they have to pay for it. So that is how we sell it and obviously the customers sees value because otherwise they would not agree to it but honestly if you ask me I think it is a good deal because you are getting a resource at a margin of what it would cost you in your home country- number one. Number two this resource has the required domain knowledge, technical skills that you need for your business, he understands your business, he understands your teams that he is working with and obviously for that you will pay a price.

Vaibhav Badjatya: Got it. I think that is it from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for giving their closing comments.

Aditya Krishna: We believe that things will normalize over a period of time. Businesses will once again emerge as they were in pre-COVID times. We would like to assure all our stakeholders that we are confident that our selection of industry verticals and the drive for specialization would be the key enablers for growth in the coming quarters. We believe that we are in a sweet spot to leverage this opportunity.

I hope we have been able to answer all you queries. In case you require any further details, you may please contact us or our investor relation advisors Strategic Growth Advisors. Thank you everyone for joining us.

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