



“Saksoft Limited Q2 FY'23
Earnings Conference Call”

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**MODERATOR: MR. HIRAL KENIYA, E&Y LLP - INVESTOR
RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Saksoft Limited Q2 & H1 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Hiral Keniya from E&Y Investor Relations. Thank you, and over to you.

Hiral Keniya: Good afternoon to all participants in the call. Welcome to Q2 & H1 FY'23 Earnings Call of Saksoft Limited. The Results and Investor Presentation has been already mailed to you and it is also available on our website www.saksoft.com. In case anyone does not have a copy of press release and presentation, please do write to us, we will be happy to send the same to you.

To take us through the results today and to answer your questions, we have with us the top management of the company represented by Mr. Aditya Krishna - Chairman and Managing Director and Mr. Niraj Ganeriwal - Chief Operating Officer and Group CFO. Mr. Aditya will start the call with a brief overview of the quarter and H1 FY'23, which will be followed by financials given by Mr. Niraj. We will then open the floor for Q&A session.

I would like to remind you that anything that is said in this call, which gives any outlook for the future or which can be construed as a forward-looking statements must be viewed in conjunction with risk and uncertainties that we face. These risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent Annual Reports which you can find it on our website.

With that said, I now hand over the call to Mr. Aditya. Over to you, Sir.

Aditya Krishna: Thank you Hiral. Hello and good afternoon everyone. Welcome and thank you for joining our Q2 and H1 FY'23 Earnings Call today. I know most of you are regular listeners to our Earnings Call. But I would like to take this opportunity to introduce Saksoft to some of our new investors and analysts who may have logged on to this call for the first time.

Saksoft is a digital transformation partner that assists the customers to automate, modernize and manage IT systems through a combination of domain specific technology solutions, and solution accelerators from consulting to support. We have been in business for almost two decades now, with offices across 16 locations, covering USA, UK, Asia Pacific and Europe. We have an associate strength of 2,000plus employees. The key verticals that we operate are FinTech, Telecom and Utilities, Transportation and Logistics, Public Sector, Retail and Healthcare.

The interconnected nature of the verticals mentioned address a huge market which also facilitates us to cross-sell and upsell service offerings to our clients. These verticals are supported by horizontal service offerings spanning analytics, cloud solutions, legacy modernization, intelligent automation, application development and testing. As a company we offer a bouquet

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In terms of performance, I am delighted to share with you that we have clocked our highest half yearly revenue of INR 312 crores, growth of 44% on a year-on-year basis. During the quarter our revenues grew by 43% on year-on-year basis and operating EBITDA grew by 33.5% YoY. The growth was primarily driven by our continuous focus around digital service offerings across selected industry verticals. Niraj, our Chief Operating Officer and Group Chief Financial Officer will share the detailed financials on these verticals.

Also, I would like to highlight here that recently our subsidiary Threesixty Logica Testing Services has completed the acquisition of Chennai-based Company Terafast Networks, an IT consulting service provider with nearly two decades of experience in Cloud Engineering solutions. They provide a wide range of technology service offerings such as Cloud, Containerization, DevOps, Virtualization services to various industry verticals. Cloud and Associated Services are growing in size and potential, especially with many organizations moving from premises-based setups to Cloud-based services.

Enterprise Cloud is an essential component of our digital transformation offerings, and this acquisition will strengthen our capabilities. The target market of Saksoft has been customers whose revenue is in the range of USD \$200 million to USD \$2 billion. And this segment is witnessing a good growth of Digital and Cloud adoption.

Legacy Modernization and moving applications from data centers to the Cloud, rearchitecting the applications for Cloud readiness are significant areas in which Terafast team will be able to hit the ground right away in the larger Saksoft customer base.

Currently, Saksoft has been witnessing good demand. Whilst there has been an odd client request to reduce the team size. In general, the demand scenario has been good. We have been able to add new clients and in addition to increasing the wallet share from the existing customer.

Contribution from Top 20 accounts and USD half a million plus accounts is growing quarter-on-quarter.

On the resource challenge front, Saksoft will be no different scenario from the peers. What differentiates us is that we continue to work on the hybrid mode, and continue to offer the required flexibility to our resources, whilst ensuring the productivity is not impacted.

The average cost of hiring resources has definitely increased, while the attrition has slightly softened. Further would like to add that we have a healthy cash and cash equivalents of INR 119 crores and our return on capital employed stood at 28.5% in H1 FY'23.

We will continue to reward our stakeholders with a healthy dividend. Our dividend track record over the last five years is a testament to our policy of rewarding the shareholders. In the meeting held on 10th November, the Board of Directors declared an interim dividend of INR 0.35 per equity share which is 35% of face value of Rs. 1 each for FY22-23.

We are confident to achieve 25% revenue growth in FY'23 thanks to our unique combination of 'Inch Wide, Mile Deep' and 'String of Pearl' strategy. We will continue to explore the inorganic route which will further strengthened Saksoft business model.

Despite several global macroeconomic and industry challenges, we are swiftly moving towards our vision to become \$100 million Company by '25, with a mix of organic and inorganic growth. We are confident that the operating model which we are in is yielding and will continue to yield results in the future.

The selected industry verticals in which we are present is a well thought strategy from a long term perspective. Our teams and team structure being agile and capable makes us more confident that we would be able to achieve our goal.

I would now hand over the floor to Niraj to take us through the financials.

Niraj Ganeriwal:

Thank you Aditya. Thank you everyone for taking the time and joining our H1 FY'23 Earnings Call today. I will now go over the financial performance for the Q2 & H1FY'23.

To start with on the revenue side, the Q2 FY'23 revenues were at INR 163.84 crores as compared to INR 114.73 crores in Q2 FY'22 and INR 148.02 crores in the previous quarter of FY'23 which registered a growth of 42.8% YoY and 10.7% QoQ. For the first half of FY'23 the revenue stood at INR 311.87 crores as compared to INR 216.87 crores in the first half of FY'22 witnessing a growth of 43.8% YoY.

Now looking at the operating EBITDA, the Q2 FY'23 operating EBITDA was at INR 25.73 crores as compared to INR 19.27 crores in Quarter 2 of FY'22, and INR 22.47 crores in Quarter 1 of FY'23, registering a growth of 33.5% YoY and a 14.5% QoQ growth. The operating EBITDA margin for the quarter stood at 15.7% as compared to 16.8% in Q2 of FY'22 and 15.2% in Q1 of FY'23. The improvement in EBITDA margins in the current quarter, as against the Q1FY23 is a result of the softened attrition and improved offshore revenues. For the H1 FY'23, the operating EBITDA stood at INR 48.21 crores registering a healthy growth of 38.5% YoY. During the current quarter, despite the challenging environment, we are able to sustain a double-digit margin growth.

Now coming to the Profit after Tax, the Q2 FY'23 Profit after Tax stood at INR 19.32 crores as compared to INR 13.09 crores in Q2 FY'22 and INR 17.8 crores in Q1 FY'23, registering a growth of 47.6% YoY and 8.5% QoQ. The first half of FY'23, Profit after Tax stood at INR 37.13 crores witnessing a growth of 20.6% YoY.

Our Earnings per Share stood at INR 3.71 for H1FY'23 as compared to INR 3.09 per share of H1 FY'22 registering a growth of 20.6% YoY. Please do note that the EPS in the current quarter and all the comparative periods have been restated to give effect to the share split, such that the equity shares having face value of INR 10 fully paid up was subdivided into 10 equity shares, having face value of INR 1 each fully paid up, with effect from 26th September 2022, which was the record date.

The impact of currency movement on our revenues is only 0.3% for the current half year. Based on that the pure volume driven growth in revenues is about 43.5% as compared to the previous year.

Now coming to the revenue split by geography for H1FY'23, the Americas contributed to 47% of our revenues. Europe contributed 27% while the remaining 26% came from Asia Pacific and other regions.

The onsite and offshore revenue mix was onsite being at 46% and offshore at 54%. As mentioned in our previous calls also, we do expect the mix to be inclined towards the offshore on an ongoing basis.

The revenue split across verticals for the H1 FY23 is as follows: FinTech and Telecom and utilities contributed to about 33% and 23% of our total revenues respectively, while Transportation and Logistics, Retail and Healthcare and Public sector contributed 11%, 6% and 5% respectively. One of our large customers is in the utility sector. And we are seeing increase in demand in this sector, and hence reclassifying and consolidating the Telecom and Utilities vertical together.

Coming to some of our customer metrics, Saksoft has 13 customers of million dollar plus revenue and 9 customers whose revenue is about USD 0.5 million plus. On a quarter-on-quarter comparison basis we have moved one customer in the current quarter from the half a million category to a million-dollar category. And two new customers have been added in the half a million category.

The total employee count stands at 1,789 at the end of H1 FY23, out of which 1,624 are technical, and the remaining 165 are the support staff. The utilization level of the employees excluding trainee stands at 86% for H1 FY23.

Moving to the Balance Sheet as of 30th September, 2022, our debt position stood at INR 4 crores and cash position stood at INR 118.74 crores, which makes us a net cash company. The improvement in cash position was mainly led by the improved margins, continued focus on collection of debtors, resulting in better AR collection period and cost efficiency. For H1 FY'23, the return on equity stood at 21.5% and the return on capital employed stood at 28.5%

That now concludes the update on the financials, and we will now open the discussion for any Q&A.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with a question and answer session. The first question is in the line of Vaibhav Badjatya from Honesty and Integrity Investments. Please go ahead.
- Vaibhav Badjatya:** Thanks for providing the opportunity. Congratulate the management on the performance of the company for the first half year. So just wanted to understand one thing, if I look at revenues, over last say, if I compare it to September 2021 quarter, so nearly Rs. 50 crores of additional revenue has come. So, in your assessment, and I just need broad commentary, not the exact numbers. Out of the Rs. 50 crores, how much is from existing clients and how much is from the new clients that we have acquired?
- Aditya Krishna:** Hi Vaibhav. I think, a general rule and this would also apply here is an 80-20 rule, so 80% of that would have come from existing customer growth and 20% from new logos.
- Vaibhav Badjatya:** So adding on to that if I see the vertical wise, FinTech has obviously seen quite a lot of growth. And you have been saying since long time that FinTech is our focus area. So additional spends in FinTech clients, if you can help us understand in which areas they are going to. And secondly, if you can give us an example of one or two clients, actually, what, who are they and how they are using our services.
- Aditya Krishna:** So the main industry vertical is FinTech, but the way we approach this industry vertical is we sub-classify it into sub-verticals. And our strength is our knowledge of the domain of these sub-verticals. So one of the sub-verticals in which we are very strong is called RegTech, which is basically compliance to various laws, etc for our customers. The other area where we very strong is payment solutions. And one of our new logos was in this space, which does money transfer.
- And your question was, what sort of services do we offer to them, this company, we offer almost all our services from application development, to data, to testing, and also infrastructure services. So I hope that answered your question, but on a generic basis, because our focus is so sharp, adding new logos has become now much easier than it was two years ago. And that's why you see a lot of momentum in our sales, you have seen a lot of momentum in our revenue.
- Vaibhav Badjatya:** And in a broader sense, we are seeing increasingly difficult environment for the VC funded players and a lot of FinTechs are in early stage. And they rely on lot of fundraising. So, just wanted to understand how much of our revenue is from those kinds of clients which are in early stage of their business development, that is still not making profit or more relying on the funding that they can receive.
- Aditya Krishna:** None of our clients are early stage. Okay, having said that we have a number of clients who are dependent on VC funding, but let me assure you that the maturity level of our FinTech clients is reasonably good. So their availability of funding of cash on their balance sheet is adequate. I don't see any concern with our customers from a funding perspective. And we are very careful about this when we look at new logos. When we look at a prospect, we make sure that they are

reasonably funded if they are not an enterprise, if they are a startup, very unlikely we will be chasing them.

Moderator: Thank you. The next question is from the line of Hiloni from Pi Square Investments. Please go ahead.

Hiloni: Just wanted to know Management Outlook and guidance for FY23 and the next few quarters?

Aditya Krishna: The guidance we had given was 25% year-on-year growth, and we are very confident that we will make that this year also. Last year, we did Rs. 480 crores for the full year, that is FY 2021-22. So 25% on that is what we are targeting.

Hiloni: And what do you think will be the key growth driver going ahead for the Company?

Aditya Krishna: It's more of the same. Our focus and offerings are very sharp, our target market is very well defined. We are working in a niche market. And we are trying to create more and more niches in a marketplace that is getting more and more crowded. And that's where we see our success. Our growth in the last 18 months to 24 months has been because of this strategy. And we plan to continue with that strategy. We will describe this in what we call "Inch Wide Mile Deep" strategy.

Moderator: Thank you. The next question is in the line of Arvind Kumar, an individual investor. Please go ahead.

Arvind Kumar: I am an investor in Saksoft for about five years. I have watched your interview on CNBC TV 18 before two months. In the end you have said never say no to the question, when he asked if you intend to sell this company? Are you going to sell this company?

Aditya Krishna: No, plans as of now. Please give me your number, you will be the first one to know.

Arvind Kumar: In business verticals, in other section, it is 20% what are the sectors are you performing in this?

Aditya Krishna: Is your question what industries is in the "others"?

Arvind Kumar: Yes, what industry, how you performing, are you working on?

Aditya Krishna: What happens is as you grow a business, there always will be some opportunities which will come along, either through network or through people who are past associates with us or past customers of us. So two industry verticals come to mind in the others category one is Ed-Tech, the other is Media. It's not a big sector for us in the others category. And our focus will always be to try and get prospects as well as new logos in our key verticals.

Moderator: Thank you. The next question is Amit Jain from Monarch Network Capital. Please go ahead.

Amit Jain: My question, just one question on your recent acquisition of Terafast Network, so just if you can share some details about this, because I couldn't find much detail about that, how much the transaction value and what would be the impact on financials?

Aditya Krishna: Amit you know our strategy on acquisition is, we never look at bolt on, we never look at doing an acquisition to add revenue. Because you know it better than anybody else, that track record of companies that do that has been very poor. Our acquisitions are always for capabilities, they are never for revenue. So what we saw in this business was a very strong Cloud capability. Cloud today is a very hot sector, in the digital space. Every organization is wanting to move from on-premise to Cloud, which involves rearchitecting applications, moving the application, building the application, supporting the applications, on the Cloud. And this company Terafast which is run by an IIT Madras alumni is very strong in that space. So we have acquired this business, predominantly to strengthen our capabilities in the Cloud space. The company also has a reasonably strong customer base, it's got a very strong customer, also in the Cloud space. And we want to leverage that as we go forward. So really, to answer your question in terms of numbers it's not something that is very significant. What is significant is that it will strengthen our arsenal to grow the business at the rate that we are projecting if not faster.

Moderator: Thank you. The next question is on the line of Diwakar Pingle. Please proceed.

Diwakar Pingle: Just curious, Aditya you mentioned something about making inroads into the RegTech area. Just want to understand what exactly is Saksoft doing in that particular space, it just got me intrigued so just want to understand that.

Aditya Krishna: Diwakar, one of our million dollar plus customers is a company that builds compliance software for hedge funds. So as you know in the US hedge funds has to constantly adhere to changing regulations and the penalties for not following regulations are very severe. So we build software for them, or we build, we provide them assistance to build software, which helps hedge funds manage their compliance requirements.

Moderator: Thank you. The next question is on the line of Dhiraj Sachdev from Roha Asset Management. Please go ahead.

Dhiraj Sachdev: Just wanted to know, you have decent employee addition, what kind of headcount are you looking at based on the pipeline or the inquiries that you believe you will get in terms of confirmed order book?

Aditya Krishna: Like Niraj mentioned, in terms of numbers, we ended the quarter with about 1,800 plus. And right now we are at 2,000 plus employees. So quarter-on-quarter, we are doing reasonably well, I would say that, considering that we are adding our guidance is 20% to 25% revenue growth. I would say, employee headcount growth would be in the range of 15% to 18%.

Dhiraj Sachdev: When I look at the your domain expertise, seems to be on par with a lot of new offerings across mobile cash disbursement solutions, and payment gateways and big data analytics, etc. So,

ideally, your margins should be at least higher or not be a big difference versus larger peer set. So do we expect in the scope of work or the mix changing towards more qualitative, complex part of your offerings to the clients. Can we expect margins to also move up overtime?

Aditya Krishna: The big difference between us and the bigger players in terms of margin is scale. The EBITDA difference is definitely where scale plays a big part in it. Now, as we scale up, margins will go up for sure. But in terms of rate cards, today, I would say that, the rate cards are pretty constant, whether it's a big player or a small player. I think the place where the bigger guys are able to manage margins better is one scale and the second is larger teams, because we have smaller customers, when I say smaller in terms of revenue size, our teams also, with each customer are smaller than a Tier 1 player as an example.

Dhiraj Sachdev: So, you think that you have scope for productivity increases that will improve the margins on scale?

Aditya Krishna: Our utilization is at 86%. So maybe another 1% or 2% more that's 100 or 200 basis points more is the max we can do in terms of efficiency and productivity. So I think we are capped out in terms of productivity. The place where we can improve margins is which we haven't done in the past is go for price increases and I think that is going to happen. So far currency movements has helped mitigate wage pressure increases for most Indian IT services companies. But I think going forward, rates have to go up. And there's still a fair amount of arbitrage between getting work done in India and getting work done overseas, besides the domain knowledge and besides the value add, the value proposition that Indian IT companies provide, globally. I think there is a big gap still in the arbitration between labor costs here as well as labor costs in the U.S. So there is play there and I think that's what's going to drive margins also as we go forward.

Dhiraj Sachdev: And just a bookkeeping question, a few of them, what is the unique client base which are active now in terms of stickiness that we can assume or do you think that your deepening the relationship further and it is not just one or two project bases and they go away.

Aditya Krishna: As of today, we would have, what would be the number of active customers probably 120. We would have about 120 active customers. And so far, in the last 18 months, we have lost six customers.

Dhiraj Sachdev: And all the noise that the background on developed markets etc. slow down, you are not sensing pressure on the small retail clients of yours?

Aditya Krishna: One of the reasons we are not seeing that pressure is because the news or the media that you are that you seeing in terms of slowdown is always for the Fortune 100 or Fortune 200 companies- Facebook lays off 11,000 people, Twitter lays off 50% of it's workforce. We don't work for customers like that. We work for customers who are smaller. When I say smaller, smaller vis-à-vis Fortune 100 & Fortune 200, I think the pain whenever there's a slowdown is much more with the larger companies which have large market share. The companies that are smaller in scale than the Fortune 100 or the Fortune 200 even the Fortune 250 feel less pain in a slowdown.

Dhiraj Sachdev: And just a moment on in terms of deepening of the relationship, how is the movement of your clients who started small and they moved up to million dollar plus clients? Can you also have the data in the presentation?

Aditya Krishna: We shared some of it that we moved two of our customers in the last quarter into the half million, and we moved one customer from half million to a million plus. So that's a very active part of our revenue growth or revenue growth momentum, mining customers to make sure we are able to keep moving them upwards in terms of revenue. But to answer that question a little deeper the way we do our prospecting is we always look at customers, we try and categorize prospects into A, B and C. What we call A customer is a customer, which is a Fortune 100 or a Fortune 200 customer, a customer where our value proposition will not have an edge over a Tier 1 player, so we stay away from them. Then there is the category C which is too small, the IT budget is too small for us to chase. And then there is the B category, which is really where our target market is the 100 million or the 200 million to the 2 billion. Now in that space we make sure that the IT budget allows us to at least get the customer to a million dollar plus. And our focus is aget the customer at any cost, start the engagement even if it's a small engagement, and then keep at it and moving on to the million dollar.

So quarter-on-quarter, you will see more and more of our customers slowly moving up to the million dollar plus.

Dhiraj Sachdev: So that's the right strategy for sustainable growth. Just one last thing Aditya. You have always been mentioning and vocal about 100 million dollar inorganic etc. So now generating sufficient cash flows, is it all funded out of internal. I mean, the plan is to fund out of internal accruals.

Aditya Krishna: Yeah, we have never raised capital other than the initial IPO. And yes, sometimes we use debt and if a good opportunity comes where we need to use whatever cash we have, plus borrow some money, we might do that. But clearly the idea would be to use as much of internal accruals as possible.

Moderator: Thank you. As there are no further questions in the participants I now hand the conference over to the Management for the closing comments.

Aditya Krishna: We thank everyone for taking out time to participate in this call and for their interest in Saksoft. We believe that we are in track to achieve our goal of Vision 2025. I hope we have been able to answer your queries. In case of any other queries please reach out to us or our Investor Relations advisors Ernst & Young. Thank you everyone for joining us.

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