

Saksoft Limited
Earnings Conference Call
February 09, 2024

Moderator: Ladies and gentlemen, Good day and welcome to the Q3 and 9 Months FY24 Conference Call of Saksoft Limited.

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. I now hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you and over to you, ma’am.

Purvangi Jain: Good afternoon everyone and a warm welcome to you all.

My name is Purvangi Jain from Valorem Advisors. We represent the Investor relations of Saksoft Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the 3rd Quarter and 9 months ended of the Financial Year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings conference call may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainty which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today's Earnings Call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Let me now introduce you to the management participating with us in today's Earnings Call and hand it over to them for their opening remarks.

We have with us Mr. Aditya Krishna – Chairman and Managing Director and Mr. Niraj Kumar Ganerwal – Chief Operating Officer and CFO. Thank you and over to you, Aditya sir.

Aditya Krishna: Thank you Purvangi. Hello and good afternoon everyone. Welcome and thank you for joining our quarter 3 and 9 months ended 31st December 2023 Earnings Call today.

Let me first give you a brief introduction of Saksoft for the sake of some of the participants who may be new to the company. Saksoft is a digital transformation partner that assists its 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, Asia Pacific, UK and Europe. We have an associate strength of 2,000 plus. The key verticals that we operate in are Fintech, Hitech, Transportation logistics, Digital commerce and Healthtech. The interconnected nature of the verticals mentioned addresses 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 comprehensive suite of digital transformation services.

Now moving on to the quarter under review, despite facing headwinds in the US market I'm pleased to report that we managed to keep our revenues flat on a quarter-on-quarter basis. Our EBITDA margins took a little bit of a hit because we chose to invest more in improving our sales engine. This decision is part of our long-term strategy to reach a revenue target of USD 500 million by 2030.

On the front of sustainability, we are proud to reiterate that, "ESG" remains one of our major objectives at Saksoft. Now I would request my colleague Niraj to give you the financial highlights for the quarter under review.

Niraj Kumar Ganeriwal:

Thank you, Aditya and thank you everyone for taking the time and joining our earnings call today to discuss the Results of the 3rd Quarter and 9 months ended of the Financial Year 2024 under review.

For the 3rd Quarter of the current financial year, the revenues were reported at around 192.84 crores representing a growth of around 12.9% year-on-year. The EBITDA stood at INR 33.03 crores which grew by 20.38% year-on-year with the EBITDA margins reported at around 17.1%.

The net profit for the quarter was INR 22.54 crores, which grew by around 13.5% year-on-year and the PAT margins at around 11.7%. For the 9 months ended 31st December 2023, the revenues were reported at around INR 566.73 crores. This represents a growth of about 17.2% on a year-on-year basis. The EBITDA for this 9 months was at INR 103.38 crores, which grew by 36.7% year on year and the EBITDA margins were at around 18.2% with a growth of 259 basis points.

The net profit stood at INR 72.97 crores which is a growth of around 28% year-on-year representing a PAT margin of about 13%.

Now coming to the revenue split by geography for the 9 months ended 31st December 2023. The USA contributed 43% of our revenues, Europe contributed to 23%, while the remaining 34% came from Asia Pacific and other regions.

The mix of onsite and offshore revenues on site revenues was at around 45% and offshore at 55%. The revenue split amongst the verticals for these 9 months is as follows.

Fintech contributed about 34% telecom and utilities to about 20%, transportation and logistics contributed to 12%, public sector 4% and the balance came from retail and healthcare at around 8%.

Coming to some of our customer metrics Saksoft has around 15 customers of 1 million dollar plus revenue. The total employee count at the end of the quarter stood at 2,102, out of which 1,890 were technical with the utilization level of employees excluding trainees being at 82% for the 9 months ended 31st December 2023. This concludes the update on the quarter and we can now open the floor for the Q&A session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Vikas Shrivastav from RBC Financial. Please go ahead, Sir.

Vikas Shrivastav: Few related questions. The first question was why was this quarter tough? Was it seasonal, was it an aberration, are we seeing something different from what we were seeing earlier that's my first question and how are things looking for the next few quarters and of course long term your 2030 goal here remains intact, but short-term to medium term, how are things looking?

Aditya Krishna: Quarter was tough for two reasons. One, there are headwinds in the US market our biggest market you can't fight these headwinds and you have to survive. So, it was tough from that perspective. Now the other thing that we've been talking about in the last few calls is that to grow organically we have to strengthen our sales front end and for that I have been saying repeatedly that every quarter we will try and add a senior sales guy to our team and whether it's a struggling quarter, average quarter, good quarter we have to keep doing that.

Otherwise, the 500 million target of 2030 is not going to be achievable. So, we did that and that's expensive. There's a recruitment cost and there's a cost of the new hire, etc., that hit our EBITDA margins, and this was compounded by the fact that revenue in that quarter did not grow as much as we would have expected it to because of the headwinds.

So, it was a double whammy. Now how does quarter 4 look, how does the next year look? I would say it's definitely going to be better than quarter 3, headwinds are still there we are trying very hard to make sure that we mitigate as much risk as we can, but these are the challenges of a small cap that's the risk reward scenario.

There will be ups and downs for sure. I don't think this quarter is a sign of bad times ahead and that is definitely not visible and it's probably a little bit of a reality check for us. We've had some really good quarters. I think it's a wakeup call for us to work harder and move the company forward on a stronger footing.

Vikas Shrivastav:

I was more interested. When we spoke the last few quarters the headwinds were always there. There can be enough smaller companies, there can be short term aberration. What I was looking for is that overall, we knew there were headwinds in the US overall there can be setbacks a quarter here or quarter there, but your confidence, your medium to long term view on growth, profitability etcetera in your view remains intact that's one follow up question.

And in terms of, how is in terms of the new sales engine which you are adding and with additional cost which is in my view an investment are we going to see some more results in terms of higher number of high ticket clients. I heard that you are probably 15 clients of our million dollars, do you expect that to happen, do you expect the sales engines to which you're investing in to start kicking in and in terms of doing 500 million by 30,000 in a rough back of the envelope calculation you're looking at 20% to 25% year-on-year growth, do you think in the short when I say short I'm not talking about quarterly, but on an annualized to medium basis. We are still aiming, and target and we haven't lost sight of that target.

Aditya Krishna:

Absolutely Vikas. There is no silver bullet. I mean, there is no silver bullet so we can't really say okay a sales guy joins this quarter, he's going to hit a home run and we're going to get million dollar client next quarter it doesn't work like that. It is a long haul objective. We have to invest, we have to stay the course, we have to be patient, we have to put the right performance metrics for the sales team in place to perform and grow the business and that is what my job is and my teams job is and we are focusing on that.

In terms of the future nothing has changed it's just a little bit of a rocky quarter and the target of 500 million by 2030 is definitely on the cards. It means aggressive growth, but then growth as much as anybody else Vikas that expense or cost always comes before revenue. So, that is the challenge of a listed entity. We have to balance this investment vis-a-vis the quarterly results and that's a sort of a very careful balance that we have to always play.

So to answer your question this quarter, first of all it's a flat quarter. Profits are down because of the investment in sales. What will quarter 4 look like definitely it will be better. What will next year look like clearly in line with 500 million by 2030 as of now nothing changes, but we will see one or two quarters here and there and shareholders have to be patient. They have to believe because what goes up comes down Vikas you know that.

Vikas Shrivastav:

So Aditya I'm very comfortable with that. I just wanted to in fact to add to what you said while we are listed, while we are short term there may be pressures from shareholders or the markets because of quarterly results, but in terms of investment while the Indian accounting

standard don't allow, but as I said if you're putting money into sales engine that's an investment clearly, it's a deferred revenue expenditure in Indian accounting and US accounting you have to write it off which is perfectly all right, it's your plant and machinery as far as I'm concerned, in terms of generating sales. So, short term as an investor doesn't bother me at all as long as what you're saying and what I'm hearing is in my view very comforting. I can only speak for myself.

Aditya Krishna: Thank you Vikas for your support and understanding.

Moderator: Thank you sir. The next question is from the line of Harik Soni, an Individual Investor. Please go ahead.

Harik Soni: Just had a couple of questions when it comes to your acquisitions in the past. Firstly, I would like to understand the operational performance of those. So, are your acquisitions profitable now?

Aditya Krishna: Yes, all the companies that we acquired were profitable when we acquired them and they remain profitable.

Harik Soni: And what kind of organic growth percentage would we be expecting going ahead?

Aditya Krishna: We have to grow 25% year-on-year. Now 25% on 800 crores is 200 crores. We can't afford an inorganic growth of 200 crores because we don't have that sort of money. So, at best you're looking at 50 crores of inorganic and 150 and I'm giving you ballpark 150 crores of organic. So, give or take 10%. So, 150 is what you're looking at from a inorganic and organic perspective. So, that ties in with the earlier question and my response about investment in the sales engine. Now to grow organically you have to have a larger sales team, larger sales team means you have to put money before the revenue comes in and the cost of recruitment is higher, headhunters charge 30%, 33% of the first-year compensation all that hits the quarterly numbers. So, maybe I'm preempting a question from you, but please keep that in mind as we look at quarterly numbers.

Harik Soni: And what would be the expected say increase in what have we experienced in the increase in employee cost in the past year since you said that we'll be looking at hiring to expand the sales team as well as that's how that would benefit our expansion into the overall business?

Aditya Krishna: So, the technical average cost is different from these sales average cost. I don't have the numbers off hand, but I can send them to you. So, from a technical average cost average employee cost I would say last year we would have increased by maybe 10% to 15%, but the sales cost would have gone up by I would say on average, average sales cost would have gone up by 30% per employee, but I'll give you the numbers.

Harik Soni: And do we think that this will be sustainable in the future?

Aditya Krishna: Say that again.

Harik Soni: Do we expect that increase in cost to be sustained by us, by our numbers in the future at least for the coming few quarters?

Aditya Krishna: This is going to happen because like I said we have to keep adding to the sales front end. So, averages will not go up by that much, but there will be an increase in sales cost every quarter for the next at least 6 to 8 quarters as we add more people. Now as far as technical average cost is concerned, I think next year should not be such a big increase in average cost because attrition levels have come down considerably. So, hopefully next year expectations from the market will be less.

Moderator: Thank you sir. We take the next question from the line of Parth an Individual Investor. Please go ahead.

Parth: So, my question was more on the macroeconomic side of things. So, we'll be seeing some interest that's also coming in the West in the next year. So, how do we see that panning out in our revenues and margins as such?

Aditya Krishna: Could you repeat that question when you say macroeconomic what indicator are you referring to?

Parth: I'm talking about the interest rate cuts that we are anticipating in the next year. So, how do you see that affecting us as a company?

Aditya Krishna: Well, two things on that. One is we have very limited debt on our books. So, I mean from an interest expense perspective I don't think it's going to have a significant impact on us. But from an economy perspective, if the prime comes down in the US which is the largest market definitely growth will accelerate of some of our customers as well as prospects which will mean more discretionary spending on the IT side, which will help us.

So, if that happens, if Prime comes down, interest rates come down over a period of time it should help us from a demand perspective.

Moderator: Thank you, Sir. We take the next question from the line of Vikas Srivastava from RBC Financial. Please go ahead.

Vikas Srivastava: Aditya if I heard right you obviously had some big-ticket acquisition on sales are we going to be hiring at that level through the next 3 quarters, 4 quarters or is it going to be intermittent, maybe for example in the next 5 quarters, too more senior sales guys that was one question.

And the second question was how's your M&A pipeline looking as you mentioned that we are both organic and inorganic and I know you can't disclose anything specific, but what are we looking in terms of M&A in terms of what typically what size of companies are you looking at and I won't even ask you what areas, but how much can we absorb and what kind of time span are we talking about before our next M&A. I know you can't say anything for sure till it's done, but how's it looking in terms if you had things your way how would it go in the coming say 5 quarters?

Aditya Krishna:

I mean if I had a crystal ball with us next 5 quarters I would really like to do 2 inorganics of 50 crores top line each and add 1 sales person every quarter. So, 5 new sales guys 2 acquisitions of 50 crores each totaling 100 crores over the next 5 quarters.

Now in which area - we're going to take a bet on product engineering / digital engineering. We have seen a lot of success of companies like Persistent, GlobalLogic, Cyient and we have a lot of capability in house on that, but I think to get to 500 million we need to put a stake in the ground and I think the stake in the ground for us is going to be product engineering.

So, the companies that we're going to look to acquire are going to be in that space which are going to help us from a capability as well as customer base. Now given that there are 50 crore companies we are not going to get any sales engine, we are only going to get capability and maybe a few strong marquee customer so that's the hope, but hope is not strategy.

So, very clearly the focus is in which we can control is hiring sales people to the front, to the team, good competent guys who will stay with the company not churn number one. Number two keep the M&A pipeline and do at least every year do at least 1 or 2.

Moderator:

Thank you, Sir. The next question is from the line of Amit Jain from Monarch Network Capital. Please go ahead.

Amit Jain:

So Aditya just a question on what you just replied to Vikas about the strategic point of view the areas that we are targeting for future growth and my second question is about the verticals where you're seeing more space, so if you can just reply to that?

Aditya Krishna:

Amit like I mentioned to Vikas, we're going to take a bet on Product engineering . So, from a strategic capability building and focus perspective that's going to be a pitch and that's going to be our play. Now which business vertical or industry vertical and that it will be what we are currently good at which is Fintech, Hi-tech and transportation logistics.

So, I don't think it makes sense to spread ourselves too thin. I think it's important to be very, very competent in a narrow area because it's for a company of our size to be profitable and to keep growing and to have sustainable momentum we need to operate in market niches. So what's our niche?

A niche has to be industry verticals and within that industry vertical it has to be product engineering as an example. So, we'll stick to that. So it's sticking to our inch wide mile deep strategy.

Amit Jain: And Aditya you mentioned about product engineering. Is it possible if we can do some break up currently how much we are deriving our revenue from that path or is it still a work in progress?

Aditya Krishna: Currently from product engineering we would be almost 50% of our revenues today are coming from application engineering. Now a subset of that is product engineering. I would say at least 80% ,so about 40% of our revenues are coming already from product engineering. So, we need to build on that.

Amit Jain: And when you say Aditya just from the positioning point of view because we just bifurcate the IT industry. So, we have on one hand the large entities which are majorly deriving their revenue from application services and when I see a company like Persistent e maybe they have some products or other companies. It is more a sticker business please correct me if I am wrong.

So, that is where we are trying to that to get more stickiness from our customers to have both products so that that stickiness remains.

Aditya Krishna: Amit the question it's not clear what you're saying. Can you repeat it slowly, please?

Amit Jain: No, Aditya I am just asking from the perspective of the positioning ourselves. So, what I am asking is about when you say a product company, product engineering. So, my understanding is that if you have a product then there is a more stickiness, so client is more remains with you?

Aditya Krishna: When I say product engineering, it's not a product company we are product engineering company. So, we will build products for our customers like the Globallogics, Like the Persistent, like the Cyient

Amit Jain: Aditya one thing in terms of your employee headcounts if I see that utilization going on the 9-month basis. So, is it more to do with the demand slowdown or something we are adding more employees to just a quick take on this?

Aditya Krishna: Quarter 3 has a number of holidays as well as some of our customers utilize something called furloughs where they will not utilize the teams for sometimes 10 days, sometimes 15 days. So, that has hit the utilization. You will see that back on track in quarter 4.

Moderator: Thank you, sir. The next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead ma'am.

Jyoti Singh: Sir my question is on the acquisition side that we are looking to do it like a 50 crore each for the two acquisition. So, what kind of criteria we are looking for that those company?

Aditya Krishna: Number one profitable companies EBITDA of 20% plus. Second focused predominantly on the US geography. Third, strong capability and in product engineering and lastly founders who align with the way we think and will stay with the business for at least the next 3 years.

Jyoti Singh: And sir for this two acquisition, I mean what like if you can comment on the order book size that we have currently for this particular segment like we are looking for the product engineering side?

Aditya Krishna: Current order book for product engineering would be in the region of let me tell you 400 crores.

Moderator: Thank you. We take the next question from the line of Shruti Shah an Individual Investor. Please go ahead.

Shruti Shah: My first question is from the side of our sectors which we cater to. So, currently I can see that Fintech is a major revenue contributor. Sir, how is the profitability from Fintech sector and going forward which of the sectors we may have an increase in our revenue and how would be the profitability from that sector?

Niraj Kumar Ganeriwal: The Fintech sector is actually the most profitable for us. It's also our largest vertical and from a profitability perspective compared to the other verticals it's profitable. The second largest vertical which we are having is on transportation and logistics which is equally picking up and we have very good reference ability in this sector in the US market.

We are also aggressively moving in this vertical in the UK market too and the margins are catching up in this vertical too. So, I think Fintech and transportation and logistics these are the two verticals which are contributing significantly and the margins between them the Fintech is a better contributor.

Shruti Shah: Can you quantify the margins?

Niraj Kumar Ganeriwal: I will not have that split up, but you will be able to share that subsequently.

Shruti Shah: Another question was on the geographical presence wise. So, I just wanted to have an idea how much was the revenue from India and going forward what are our prospects on to the India revenue front like going forward how do we planning to have further revenue presence in India or reducing or strategy for that?

Aditya Krishna : It was there in our investor presentation the US is 43%, Europe is 34% and Asia Pacific is...

Niraj Kumar Ganeriwal : Europe is 23 the Asia Pacific is 34%.

Aditya Krishna : Asia Pacific is 34%. The reason why Asia Pacific is going up is because some of our US customers are building global capability centers in India and we are following the customer and providing services in their GCC in India. So, over the coming years you will see an increase in Asia Pacific because of that. In effect it's the same US customer but being serviced out of India.

Shruti Shah: And how is profitability wise of the US, Europe and APAC region, which is the highest profitability region from?

Aditya Krishna: The highest is the US followed by Asia Pacific and then Europe.

Shruti Shah: I had an operational highlights that was mentioned if it may be addressed I have joined late, but it's mentioned that the EBITDA margins are majorly declined due to we have made investment into sales engine of 500 million USD to have our target revenues of 500 million USD by 2025. So, I just wanted to have idea that when can we see our EBITDA margins coming on to the previous levels or even have on a better position going forward?

Aditya Krishna: EBITDA margins took a hit in quarter 3 because of the investment in sales and also because of furloughs and the reduced billing days which typically quarter 3 has. A quarter 4 should see better EBITDA margins.

Shruti Shah: So can we expect from the range of something 18% to 20% or so?

Aditya Krishna: I wish I don't think we ever got to 18, 20, but yes 18% would be aspirational yes.

Moderator: Thank you. We'll take the next question from the line of Abhishek Sharma an Individual Investor. Please go ahead.

Abhishek Sharma: What new business strategies have been made over the last few years to accelerate the growth?

Aditya Krishna: Repeat the question what are the strategy?

Abhishek Sharma: What are the new business strategies that have been made over the last few years to accelerate the growth and on what ground is Saksoft projecting \$100 million revenue growth by the end of this fiscal year? I would like to know what the growth strategies are being followed?

Aditya Krishna: Over the last two years Abhishek no real change has been made in strategy because to implement strategy you can't keep making changes, you have to put a stake in the ground and implement it and follow it through.

So our strategy has always been over the last 3 years to 4 years when we when we embarked on this growth objective of 100 million by this year, it has always been to work in market

missions and protect our business in these market missions and what are those missions the missions are the industry verticals of Fintech, transportation logistics, Hi-tech and Health-tech.

So, we are continuing to do that and in those industry verticals we provide horizontal service offerings of data and analytics, testing and digital engineering and infrastructure. So, no real change in this approach over the last 3 years and the growth that you've seen over the last 3 years is a result of this strategy.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management from Saksoft Limited for closing comments.

Aditya Krishna: We thank everyone for taking out time to participate in this call and for your interest in Saksoft. I hope we have been able to answer your queries. In case of any other queries please reach out to us or to our Investor Relations Advisors Valorem Advisors. Thank you everyone for joining us.

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