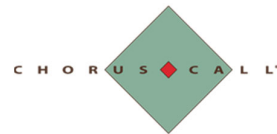




“Saksoft Limited
Q3 FY '25 Earnings Conference Call”
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MANAGEMENT: MR. ADITYA KRISHNA – CHIEF EXECUTIVE OFFICER – SAKSOFT LIMITED
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MODERATOR: MR. VINAY MENON – MONARCH NETWORK CAPITAL.

Moderator: Ladies and gentlemen, good day, and welcome to Saksoft Limited Q3 and FY '25 Earnings Conference Call, hosted by Monarch Network Capital 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 a Moderator: by pressing star, then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vinay Menon from Monarch Network Capital Limited. Thank you and over to you sir.

Vinay Menon: Thank you, Muskan. Good afternoon, everyone. On behalf of Monarch Network Capital, it's my pleasure to host the senior management of Saksoft. We have with us Mr. Aditya Krishna, CEO of the company; and Mr. Niraj Kumar Ganeriwal, CFO and COO of the company.

I'll now hand the call to Mr. Aditya Krishna for his opening remarks. Then we'll move to Q&A. Thank you.

Aditya Krishna: Thank you, Vinay. Hello and good afternoon, everyone. Welcome to our earnings call to discuss the performance of the third quarter and 9 months of FY '25. Let me first start off by thanking our host for today's earnings call, Monarch Network. Now let me brief you on the key business highlights for the third quarter, after which my colleague, Niraj, our Chief Operating Officer and Group CFO, will brief you on the financials.

Firstly, Saksoft celebrated 25 years since inception. This milestone underscores our years of commitment to delivering exceptional service to our customers. Moving on to the business. I'm pleased to report that we continue to report revenue growth during the quarter of 18% year-on-year and net profit growth of 20% year-on-year, which is higher than industry standard.

The in-line growth of our selected industry verticals is a reflection of our clear strategy and our market positioning for us to reach USD500 million in revenue by 2030. During the quarter, our high-value client base expanded with a number of clients spending over USD1 million, increasing from USD17 million to USD18 million, driven by the movement of one customer from USD500,000 to USD1 million.

Our global technical workforce grew significantly, wherein we added 437 employees, increasing from 1,838 as of March 31, 2024, to 2,275 as of December 31, 2024, due to our strong visibility of earnings. Despite furloughs in the third quarter, our utilization improved by 1% for the 9 months ended December 31, 2024, compared to the previous financial year. We have seen the impact of furloughs on our quarterly revenues. However, the impact on margins has been minimized by operational efficiencies.

In December 2024, we strengthened our capabilities with the acquisition of ZeTechno, a Premier ServiceNow partner, which will add on to our service offerings. We continue to invest in AI technologies and innovation so as to capture upcoming opportunities in future. This is in line with our key strategies, which is investment in capability and partnering with intelligent platforms.

Most enterprises with revenues greater than USD500 million have invested in intelligent platforms such as Salesforce, ServiceNow, Snowflake, etc., and this gives us an opportunity to increase the wallet share with these customers. We also have a road map to build AI frameworks in the coming year to help fast track our customers' product road map journey.

With that said, I would now like to request my colleague, Niraj, to give you the financial highlights for the quarter under review.

Niraj Kumar:

Thank you, Aditya, and thank you, everyone, for taking the time and joining our earnings call today to discuss the results of the third quarter and 9 months ended of financial year 2025 under review. For the third quarter of financial year 2025, our operating revenues were reported at INR227 crores, representing a growth of around 18% year-on-year. The quarter 3 EBITDA stood at INR38 crores, which grew by around 15% year-on-year, with the EBITDA margins being at 16.78%. Net profit for the quarter was around INR27 crores, which grew by 20% year-on-year and the profit after tax margins were at 11.91%.

For the 9 months ended of the financial year 2025, the operating revenues were reported at around INR643 crores, representing a growth of around 14% year-on-year. The EBITDA stood at INR110 crores, which grew by around 6% year-on-year with the EBITDA margins being at 17.08%. The net profit was at INR79 crores, which grew 8% year-on-year with the profit after tax margins at 12.25%.

Now coming to the year-to-date key performance metrics. The revenue split by geography. U.S.A. contributed 42% of our total revenues. Europe contributed 23%, while the remaining 35% came from Asia Pacific and other regions. The on-site revenue mix was 45% and the offshore was at 55%. The revenue split across the verticals is as follows: Fintech is at 31%, Hitech, media and utilities at 42%, transportation and logistics at 16% and retail e-commerce contributed to 11%.

Coming to some of our customer metrics, Saksoft has around 18 customers in the USD1 million plus revenue range. The total employee count at the end of the quarter stood at 2,513, out of which 2,275 were technical, with the utilization level of the employees, excluding trainees being at 84% for the 9 months ended financial year 2025. We do believe that the impact of the furloughs will be limited to the third quarter of FY '25.

Thank you. And with that, we now open the floor for the Q&A session.

Moderator:

The first question is from the line of Grishma Shah from Envision Capital.

Grishma Shah:

Curious to know how is the outlook for the fourth quarter, if you could throw some light as to how the demand environment is shaping up? And directionally, how is FY '26 looking? That's the first question.

Aditya Krishna:

I didn't get your name. Can you just repeat your name, please?

Grishma Shah:

My name is Grishma Shah: and I'm calling from Envision Capital.

- Aditya Krishna:** Okay. The future is always bright. So next year looks really good. And quarter 4 also, I think we are on track in terms of quarter-on-quarter growth. We should do reasonably well this quarter. I mean, 1 month of this quarter is over. So pretty much now we have decent visibility of the year. We will start next year on a good note in the sense we will enter with a good order book, and we are optimistic about next year.
- Grishma Shah:** Okay. The other one was during this quarter, the 18% growth that we've seen, is it completely organic or there is some acquisition which has been consolidated not present last year same period?
- Aditya Krishna:** As compared to last year, yes, there would be an acquisition of Augmento, which would contribute to the growth. I would say half the growth would come through the acquisition of Augmento, which was not there the previous year.
- Grishma Shah:** Okay. And also, if you could highlight the EBITDA margin or the EBITDA growth is 15%. So is there certain one-off cost during the quarter? Or have we added employees and therefore, the next quarter margins should be better?
- Aditya Krishna:** Yes, Niraj will give you an answer to that.
- Niraj Kumar:** Yes. There are two aspects for this question. One is, obviously, it's the period of the furlough. So there is impact on the billing and you do see some idle costs, which impacts the EBITDA. And second is also that a portion of the employees were given their annual appraisals effective October. So those are the two factors predominantly, which were instrumental for this EBITDA.
- Grishma Shah:** Okay. And I believe the Hitech Media vertical has done phenomenally well during this quarter. Is it largely due to the acquisition or this is part of our organic growth?
- Aditya Krishna:** I would say it's both. One of our key customers has increased wallet share there. And the acquisition give us two marquee customers, who we are making significant inroads into those two accounts. So it's fingers crossed, it's looking good.
- Moderator:** Our next question is from the line of from Ayush from Finterest Capital.
- Ayush:** I just wanted to ask you on the guidance that you provided of a top line of INR1,000 crores. I can see so far, we've reached an order of INR645 crores. That would be in the fourth quarter that would be a target of INR350 crores, right? So any plans on how that is going to be or if it's going to be a little delta?
- Aditya Krishna:** There's going to be a delta for sure. And I don't know, if you were there at the last earnings call, but we had indicated a range of between INR870 crores to INR1,000 crores, as probably what we'll end the year with INR1,000 crores being the upper end of our initial guidance. We're going to be towards the lower end of that range as it stands today.
- Ayush:** Right, sir. I had attended that.
- Aditya Krishna:** You would remember that.

- Moderator:** The next question is from the line of Miloni Mehta from Monarch Network Capital.
- Miloni Mehta:** My question was related to the recent acquisition. We recently acquired ZeTechno. I wanted to understand how will you do the growth trajectory be for the same?
- Aditya Krishna:** This is a very small company. We have acquired it because it's a premier partner of ServiceNow, one of our key platforms that we are focusing on. The platforms that we are focusing on are Salesforce, ServiceNow, Databricks, HCL Commerce. And ServiceNow was the last platform that we didn't have capability in.
- Now with ZeTechno, we have that capability, we have that partnership. So we are all set with all the platforms that we had initially strategized to invest in and build capability. So it's once again, like all our acquisitions, it's been a capability play, not a revenue play.
- Moderator:** Any other question?
- Miloni Mehta:** Yes. So how would like this capability, like how much could it contribute to our growth moving ahead is what I want to understand. If you could just throw some light on it?
- Aditya Krishna:** Like I said in my opening remarks, ServiceNow is a platform that a lot of organizations greater than 500 million invest in. And with this capability, a lot of our existing customers as well as new prospects, we will be able to target with this new capability. So exactly how it will add to our growth, very difficult to say, but it will be a significant contributor to our capability menu that we offer to our customers.
- Miloni Mehta:** Okay sir. And sir, another question was to understand how is the scenario in terms of discretionary spend will be? And what do we expect in the quarters moving ahead, any comments on that?
- Aditya Krishna:** Madam, there's a lot of disturbance at your end. So can you repeat that question?
- Miloni Mehta:** Any update on how the discretionary spend be in U.S. and U.K. like any comments on the discretionary spend side?
- Aditya Krishna:** Yes. You want me to comment on the discretionary spend. We don't see any drop in discretionary spending. In fact, we would see a bump up now with the U.S. elections all behind us, companies will be very clear going forward and the beginning of the year, new budgets, etc. So I don't see any negative impact on discretionary spends in the U.S. market. Europe, U.K., I mean, it's a different ball game. Economies are struggling, how much discretionary spending will happen. But again, our focus is in U.S. market.
- Moderator:** The next question is from the line of Rohan Mehta from Bafna Investments.
- Rohan Mehta:** Sir, I have two, three questions. First one, it is related to the CEPTES acquisition. So I just wanted to ask that during the quarter, how many clients have we added? And what kind of revenue are we expecting from this acquisition?

- Aditya Krishna:** So far, CEPTES has been very promising. Since the acquisition, we would have close to 100 people opportunity as we speak in sales force with our existing customers. Now all of them have not materialized, but they will. I mean these are proposals in the pipeline, which we wouldn't have had if we didn't have CEPTES.
- So, so far, fingers crossed, it looks very good for CEPTES and us. Now how much revenue will contribute, it's a little early to say that. I mean these things take a little bit of time to go to existing customers with a new capability. They have to believe in it. They will ask for a proof of concept, then you give a proposal. So it takes a little while, but things are moving in the right direction.
- Rohan Mehta:** Got it, sir. And sir, how many employees are onboarded for this?
- Aditya Krishna:** Okay. In CEPTES, you mean?
- Rohan Mehta:** Yes, both in CEPTES and overall as well for the quarter.
- Aditya Krishna:** So I said in CEPTES had about 100 people. Overall, for the quarter, we have added...
- Niraj Kumar:** Almost 200 people.
- Aditya Krishna:** 200 people in the quarter.
- Rohan Mehta:** So sir in the next quarter, I mean, the quarter which is going on, so how many more employees are we going to add?
- Aditya Krishna:** I would say approximately the same number.
- Moderator:** The next question is from the line of Mohit, an Individual Investor.
- Mohit:** My first question is with respect to the organic growth of the company from the perspective of the currency. The rupee has depreciated recently. So I just wanted to understand how much is the growth is due to the rupee depreciation? And how much would the growth be in dollar terms?
- Aditya Krishna:** In constant currency, or put it this way, the currency impact has been marginal, because number one, we hedge. And secondly, a lot of our costs are in the local currency. So impact of currency, rupee depreciation has been very, very marginal, I would say, less than 1%.
- Mohit:** Okay. And sir, what percentage of the exposure do we hedge?
- Aditya Krishna:** 50% we hedge. 50% we leave open.
- Mohit:** Understood. But since we may have missed out on this rupee depreciation then, if we are hedging then, I mean, what I want to indicate is with the rupee depreciating, this actually helps in our revenue growth. But with hedging, we may have missed out on this rupee depreciation gain, right?
- Aditya Krishna:** Mohit, I've tried to stick to our core competency, managing or trading in foreign exchange is not our core competency. So I will stay out of that. We will follow a consistent policy of hedging.

And what I've seen in the last 25 years is that a constant policy, whatever it might be, is the best approach to markets, especially foreign exchange markets.

Mohit: Understood, sir. Sir, my next question is with respect to more broadly with the policy change in the U.S. do you see any kind of strategy change with respect to the industry that you or your peers are incorporating so as to adjust to any kind of policy changes in the U.S.?

Aditya Krishna: We are definitely transforming the company because we firmly believe that every 3 to 4 years, business needs to transform to continue to grow and survive. Our focus, and I mentioned this in our last call also, is moving rapidly towards being known and building capability and leading from the perspective of an AI-led software engineering company.

In fact, if you look at our website, you will see the landing page reflects that. So our key focus now is AI-led product engineering. And for that, we have built very good frameworks in testing and in development, and we're continuing to fine-tune and evolve these frameworks, which shorten the time for development as well as testing for product companies and independent software vendors in the U.S. market.

And we are very confident that will be our growth driver for the next 2 to 3 years. That's what I mean by transformation, and that's what I mean by making a strategic shift in that market.

Moderator: The next question is from the line of Naman Shah from IT Services Limited.

Naman Shah: My first question is what was the utilization for the quarter? Are there any chances of improving on it?

Niraj Kumar: Yes. The utilization for the quarter was around 84%. Obviously, this was a quarter impacted by furloughs. So we do expect that around 1 percentage to 1.5 percentage there could be some improvement in the coming quarter.

Naman Shah: Why did we see a degrowth in the retail division?

Niraj Kumar: Why did we see a degrowth in the retail division? The retail/ commerce, as we call it, the quarter 3 is the slowest quarter for the commerce vertical. And it was also additionally impacted by certain furloughs. So that was predominantly the main reason for the marginal degrowth in the Retail segment.

Naman Shah: Right. And what are the reasons behind the revival of Fintech and T&L?

Aditya Krishna: Strong customer mining and strong sales growth.

Naman Shah: Okay. And any particular reason for the huge addition in number of employees?

Aditya Krishna: It's a linear industry. You want to grow revenue, you have to add people. So as we grow the business, there will be headcount additions. All services industries, especially tech services it is like that.

Moderator: The next question is from the line of Udit, an Individual Investor.

- Udit:** Yes, Sir, just wanted to know like whether for this quarter, we could see that the employee cost is on a higher trajectory. So like what will be the levels in going ahead?
- Aditya Krishna:** Niraj mentioned that employee costs were higher because we did a segment of appraisals effective October. That should even out in the coming quarter. But again, next year, appraisals in the next financial year will happen. So this is a constant increase, which we have to offset by more efficiency as well as higher top line. And that's what we keep doing. Unfortunately, customers are not willing to accept price increases.
- So we have to drive better realization through either fixed price bids or managed services, which we are attempting to do. And the basket is what matters. So if the basket is driven by better utilization and price realization, that is one way by which we can reduce the percentage of employee costs.
- Udit:** Okay. Sir, I also wanted to know whether this farming and hunting measures for the company, are they showing any results for the company?
- Aditya Krishna:** Yes, yes, absolutely. Yes, they are showing results. There is a big focus on farming existing accounts and a lot of our growth is coming from that. And a separate focus is on hunting. So the sales team has been broken up into hunting and farming, and nobody does both, and that is beginning to show results.
- Udit:** Okay. Okay. And sir, I had one particular question regarding the disclosure. So like if you can throw some light on the average contract value and the total contract value? And also, are we planning to give these numbers in the future?
- Aditya Krishna:** We normally don't talk about contract value. All I can say is that what we try and aim for is when we start the new year, we try and at least have 80% of the order book of the previous revenue. So if we finish the year with, say, INR100 crores, we try and enter the next year with at least INR80 crores of order book, just as a rule of thumb.
- Moderator:** The next question is from the line of Neha Agarwal from DB Capital.
- Neha Agarwal:** Sir, two questions. One is, do we see deal size increasing going forward? And what kind of deal size are we targeting now?
- Aditya Krishna:** Deal sizes, we don't get business through RFPs predominantly. So there's no concept of a deal size. All I can say is our average project value, when we start an engagement is anywhere between \$150,000 to \$250,000. That's how we start.
- Once we start, we try and do a dedicated team concept, where we build the team with the customer and try and get the customer dependent on that team so that there is consistency and predictability of revenues. So that's our engagement model.
- Neha Agarwal:** Sure, that was helpful. And secondly, we are seeing some margin dip below 17%. I just wanted to kind of get sense, if this trend is going to continue going ahead?

Aditya Krishna: An EBITDA of anywhere between 17% to 18% is what we are aiming for. As we grow top line, there will be occasions, when we will have to acquire business at competitive rates. So as long as we are within that 17% to 18%, we will do that. So as the company grows, there has to be plus/minus 1% of EBITDA margin, which has to be expected.

Moderator: The next question is from the line of Amit Jain from Monarch Network Capital.

Amit Jain: Aditya, just a couple of things more on the macro point of view from the long-term perspective. So what we are seeing that share of Hitech has been increasing, that's a good sign. But in that component, I just want to understand exactly the kind of work we are doing.

I just read it's more of AI. But if you can explain it further, what exactly you are doing and how we are seeing going forward because I read last con call that we are expecting that this share is growing and Hitech will be the biggest contributor in the coming years. So I just want to understand more from the technology perspective, the kind of work we are doing in this vertical?

Aditya Krishna: We define Hitech as the segment in which independent software vendors are classified. So there are two types of independent software vendors or what is called ISVs, companies that build a product to sell in the market and companies that have products, which they take to their customers. So either they are enterprise ISVs or vertical ISVs.

So for example, Salesforce would be an ISV. ServiceNow would be an ISV. But these are what they call the big tech names. There are in the Bay Area itself, 3,000 ISVs of various sizes. So you can imagine if in the Bay Area, which is a portion of California, there are 3,000 ISVs, you can imagine how many ISVs there are in the U.S. market.

So it's a huge segment, and that's our main focus today as we build the company's revenues. Now what do we do there? We do 3 main things, and they are all AI-led. #1, we do AI-led product development. Second, we do AI-led product maintenance and sustenance. And third, we do AI-led enhancements. So for an ISV, we will do development of a new product idea. We will do maintenance and sustenance of an existing product or we will enhance the product with AI embedded features. So those are the 3 areas we work for ISVs in that Hitech space.

Amit Jain: Okay. And Aditya, about this new technology, everyone is hearing about this DeepSeek. But there are a few things which makes it very interesting. One is it's an open source. Secondly, both the security part is there because the servers like in our case, even we are adopting it because the servers will decide and you can do that.

So anything -- I mean, about the impact on your business, if there are a lot of things which may or may not come through, there are a lot of hype also. But let's assume that if it comes to be true, what they are claiming. So what exactly do you see the future? I mean, how it can disturb the business?

Aditya Krishna: Companies like DeepSeek are AI platforms. They are AI enterprise software. We are not in the enterprise software product business. We are a services company. So we in the context of DeepSeek, we would be a supplier to DeepSeek to build that product. So for us, nothing changes.

- Amit Jain:** No, no, that I understood. I mean that will help our case. I'm just asking from that. I completely agree that it will not disrupt your business. I'm just seeing from the -- how it can help us in the long run?
- Aditya Krishna:** Absolutely, it will help because companies like DeepSeek come on to the picture, there will be 1,000 DeepSeek look alikes or wannabe. So there will be 1,000 more DeepSeek ideas like DeepSeek ideas, which will surface. And for every ideas of services, there is a company like Saksoft, which is willing to go after them to provide services. So market should grow and become bigger.
- Amit Jain:** And Aditya, about this on the technology side, I think in last conversation, you say that digital engineering and just share of those revenue that is coming from different, different technologies or offerings, I would say, your testing services and digital engineering. So if you can just spell it out about this quarter, how things are shaping, how much it is contributing the vertical-wise, the offerings-wise, our breakup revenue breakup?
- Aditya Krishna:** We'll have to give you the breakup offline. But to simplify it, I would look at our offerings in 2 categories. One is what we call intelligent products and the other is called intelligent platforms. In the intelligent products, it is the AI-led software development life cycle proposition. So anything around testing, development, enhancement, sustenance, using AI will come under intelligent products.
- The other is the intelligent platforms, which is our capability around Salesforce, ServiceNow, HCL Commerce, Databricks, which I mentioned earlier in the call. So that's how we are classifying our service offerings. The focus of intelligent platforms is on farming our existing accounts. And on intelligent products, it is for hunting on new logos.
- Moderator:** The next question is from the line of Pratap Maliwal from Mount Intra Finance.
- Pratap Maliwal:** I just had one question that in our roughly 18% Y-o-Y growth, so the inorganic component consists both of Augmento as well as CEPTES. Is that correct?
- Aditya Krishna:** That's correct.
- Pratap Maliwal:** So can you help me quantify the incremental impact? I believe you pointed out that I think about half of it was from Augmento. What was the contribution of CEPTES?
- Aditya Krishna:** Together, it was half.
- Pratap Maliwal:** Okay. So Augmento and CEPTES together is half, right?
- Aditya Krishna:** Yes.
- Pratap Maliwal:** Okay. And you I think pointed out that the monthly run rate of Augmento is about INR4 crores per quarter. What is the comparable number for CEPTES?
- Aditya Krishna:** CEPTES is a small company, annual revenue is INR20 crores. So INR1.5 crores a month.

- Pratap Maliwal:** Understood. And our latest acquisition, I believe you did point out it's a very small company, but just any numbers around its revenue or something?
- Aditya Krishna:** It will be about INR3 crores, INR3.5 crores annually.
- Moderator:** If there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir.
- Aditya Krishna:** We thank everyone for taking out time to participate in this call and for their interest in Saksoft. I hope we've been able to answer your queries. In case of any other queries, please reach out to us or our Investor Relations Advisors, Valorem Advisors. Thank you, everyone, for joining us.
- Moderator:** Thank you. On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.