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January 23, 2024

Listing Compliance & Legal Regulatory
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Stock Code: 543227, 974728, 974820 & 975101

Listing & Compliance
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Stock Code: HAPPSTMNDS

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on January 18, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Para A of Part A of Schedule III, please find enclosed the transcript of the Earnings Call held on January 18, 2024, post announcement of financial results of the Company for the quarter and nine months ended as on December 31, 2023. The transcript is also uploaded on the Company's website (https://www.happiestminds.com/investors).

This is for your information and records.

Thanking you,
Yours faithfully,
For **Happiest Minds Technologies Limited**

DARSHANKAR PRAVEEN KUMAR
Digitally signed by DARSHANKAR PRAVEEN KUMAR
Date: 2024.01.23 16:54:10 +05'30'

Happiest Minds Technologies Limited

Praveen Kumar Darshankar
Company Secretary & Compliance Officer
Membership No. F6706

"Happiest Minds Technologies Limited Q3 FY '24 Earnings Conference Call"

January 18, 2024

Management:	Mr. Ashok Soota – Executive Chairman Mr. Joseph Anantharaju – Executive Vice Chairman and Chief Executive Officer – Product and Digital Engineering Services Mr. Venkatraman N – Managing Director and Chief Financial Officer Mr. Rajiv Shah – President and Executive Board Member Mr. Ram Mohan – President and Chief Executive Officer – Infrastructure Management and Security Services Mr. Aurobinda Nanda – President, Operations and Deputy Chief Executive Officer, Product Engineering Services Mr. Sridhar Mantha – President and Chief Executive Officer, Generative AI Business Services Mr. Sunil Gujjar – Head of Investor Relations
Moderator:	Mr. Apurva Prasad – HDFC Securities

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '24 Earnings Conference Call of Happiest Minds Technologies hosted by HDFC Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Apurva Prasad from HDFC Securities. Thank you, and over to you, sir.

Apurva Prasad: Thank you, Zico. Good morning, ladies, and gentlemen. Thank you for joining us today on the Q3 FY '24 Earnings Call of Happiest Minds Technologies Limited. On behalf of HDFC Securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this earnings call.

I will now hand it over to Sunil for the safe harbour statement and take the proceedings forward. Thank you, and over to you, Sunil.

Sunil Gujjar: Thank you, Apurva. Good morning, and happy new year to all participants in the call. Welcome to this conference call to discuss the financial results for the third quarter ended December 31, 2023. I'm Sunil, Head of Investor Relations. We hope you have had the opportunity to review the earnings release we had issued yesterday evening.

Let me quickly outline the agenda for today's call. Ashok will begin the call by sharing his perspectives on the business environment and our results. Venkat and Joseph will then speak about our financial performance and operational highlights, after which we will have the floor open for Q&A.

Before I hand over, let me begin with the safe harbor statement. During the call, we could make forward-looking statements. These statements consider the environment we see as of today and carry a risk in terms of uncertainty, because of which the actual results could be different. We do not undertake to update those statements periodically.

Now let me pass it on to Ashok.

Ashok Soota: Thank you, Sunil. Good morning to everybody. Let me convey my best wishes for the new year to all the participants in the call. I am pleased to share that Happiest Minds reported a resilient performance with an industry-leading growth at 9.4% year-over-year on a constant currency, while beating EBITDA guidance for fifteen quarters in a row.

The results are on the backdrop of lesser working days, longer than usual furloughs and pockets of softness in demand. While Venkat and Joseph will talk about these in some detail, the results indeed reflect the sustained trust of the market in our value proposition.

I am happy to share that we continue to get recognized for our disclosure and annual reporting practices. Happiest Minds' integrated annual report for 2022 has been awarded gold at the South Asian Federation of Accountants best presented annual report award.

We have been recognized also amongst the top 50 best workplaces for women for the fourth year in succession by Great Places to Work, and this is cutting across all industries. We've also been recognized in this in the top 100 companies by Avtar & Seramount. These recognitions are in addition to the series of accolades we have received over the years underscoring our position as a leader in creating an exemplary workforce culture and validating our agenda on advancing diversity and inclusion within Happiest Minds.

Let me share with you some other important organization updates. As you know, we had come up with a 10-year vision statement in September 2021 on completion of 10 years as a company. I'm happy to share that we are progressing well in that journey.

To give further inputs to this vision, we are taking a 3-pronged approach to strengthen our sales engine.

- First, we have created the Gen AI business unit (GBS) under Rajiv Shah and Sridhar Mantha, which has had an excellent start. The GBS business unit will have its own sales and consulting team, coupled with an agile delivery and alliance management team. We believe this approach will help us tap opportunities, develop ahead of time solutions that our customers need and build robust partnerships with the industry-leading platforms. It is pleasing to note that Zinnov has already placed us in their Niche & Established quadrant in their recently introduced Gen AI Engineering Services horizontal in the ER&D and Digital Engineering study that they have done.
- We will further strengthen our sales engine by hiring a sales head in North America, who will exclusively look at new logo additions globally. We are in active conversation with a few and we'll update the position on this when we close the position.
- As we become larger, it's important that we take a verticalized approach to the market. The last few years, we have built scale, domain expertise and technical depth in each of our domains. Going forward, these domains will be structured as industry groups under the PDES business. Each of these industry groups will be the fuel for multiple engines of growth for Happiest Minds.

With this, I conclude my commentary. Over to you, Venkat.

Venkatraman N: Thank you, Ashok. Wishing all the participants a very happy new year. In the next few minutes, I will take you through our performance for the quarter and the period of 9 months ended December 31.

Our operating revenues for the quarter was ₹410 crores, showing a growth of 0.8% Q-o-Q and 11.7% on a Y-o-Y basis. Growth in constant currency of U.S. $ was also 0.8% Q-o-Q and 9.4% Y-o-Y. For the nine-month period, revenues was ₹1,207 crores showing a year-over-year growth of 14.8%, while growth in constant currency was 11.5% and close to the annual guidance of 12% that we had shared earlier.

Coming back to the quarter. This quarter's revenue growth of 0.8% must be seen in the light of an unusually short quarter in terms of billing days. We had 60 workdays and a fair bit of year-end furloughs and people taking vacations. If you notice, we have about 73% of our revenues coming from T&M based contracts. A conservative estimate of the impact of the reduced billing days and the other factors I mentioned is about US $1.75 million to US $ 2 million. Our total income for the quarter stood at ₹434 crores, a growth of 1.3% Q-o-Q and about 16% Y-o-Y. EBITDA for the period was ₹105 crores and 24.2% of revenues. EBITDA has shown a year-over-year growth of 8.2%.

Happy to report that we continue to beat our margin guidance of 22% to 24%, and this is the fifteenth quarter in a row despite slower-than-anticipated revenue growth, wage hikes that we have taken, and onboarding of campus joiners as promised. Profit before tax was ₹81 crores at 18.6% of revenues showing a growth of 2% Q-o-Q and 7.3% Y-o-Y. And PAT was ₹60 crores at 13.7% of revenue growing at 2% quarter-over-quarter and 3.5% Y-o-Y.

Our effective tax rate has increased from 23.5% in Q3 of FY '23 to 26.1% in the reported quarter. Talking about our performance for the nine-month period, as mentioned earlier, our operating revenues for the period stood at ₹1,207 crores, showing a Y-o-Y growth of 14.8%. Growth in constant currency for the same period was 11.5% and close to the annual guidance of 12%. Total income was ₹1,268 crores and this has shown us a good growth of 19.1% from the same period in the prior year. EBITDA was ₹313 crores at 24.7% of revenues showing a growth of 12%.

Moving on to a few other highlights. DSO has slightly increased to 85 days compared to 83 days, and there is no cause for concern on this front with a subsequent selection brought us down to the normal trend that we have seen until now. We continue to report healthy cash conversion ratios with 94% of our EBITDA flowing down to our balance sheet. Our cash reserves at the end of the quarter stood at ₹1,327 crores. Capital return ratios, ROCE and ROE are at about 23% and 16.7%, respectively.

As explained in the previous quarter, the decrease in lease return ratios was account of the fund raise and the small expansion in capital. We believe our capital return ratios will improve as and when we deploy our capital into growth avenues like M&A and the new business line of Generative AI starts picking up. Our M&A pipeline continues to be good, and we are in active conversation with a few targets. We'll keep you updated as we make progress and move to the next steps.

Sharing some operational highlights. We ended the quarter with 5,246 Happiest Minds, which included 110 campus graduates who joined us in December. Q2 had campus additions to the tune of 224, which takes the total campus hires until now to 334. While we had a slight drop in head count by 39 on a Q-o-Q basis, we have added 635 Happiest Minds over the previous year. Here, I would just like to highlight that our PES and DBS BUs have not seen a reduction in head count, except for IMSS which has seen a decline of about 10, both other BUs of GBS, PES and DBS have shown increase in head count. Our people attrition on a trailing 12-month basis was 14.1% compared to the 14.4% in the previous quarter and 20.9% for the same period last year.

We had 245 active customers at the end of the quarter and 45 million-dollar customers, which has shown an increase of one over the previous quarter. Similarly, large customers that's those whom we refer as billion-dollar customers has gone up by two, and the total number stands at 59. With our first batch of campus joiners slowly getting into billing, our utilization is also slowly beginning to inch up. It's moved to 76.7% compared to the 75.6% in the prior quarter.

Average revenue per customer has gone up to \$808,000 per customer from the \$804,000 in the previous quarter and \$794,000 in the previous year. while we continue to add customers through new logos, we are also slowly increasing our inroads into our existing customers and the new customers. Our new logo additions continue to be strong, and we have added ten new logos during this quarter. I request all of you to go through the investor deck on our website, which has many more details and operational highlights.

With this, I conclude my comments, and over to you, Joseph.

Joseph Anantharaju: Thank you, Venkat. Wishing all participants, a happy and healthy 2024. Our results demonstrate a sustained ability to deliver on our customers' priorities while continuing to invest in strategic areas like Gen AI. Growth was led by our product engineering and digital business units, while the performance of IMSS business was impacted by a few ramp downs and delayed starts. However, the pipeline looks strong, and we expect growth to come back strongly.

Our year-on-year performance has registered a good growth across all our focus markets, industry groups and service clients. Our customers continue to choose us to be at the centre of their strategic programs and the ongoing reinvention of their businesses. During the quarter, we added ten new logos, our count of 1 million to 3 million account increased by one to a total of 32 million and billion-dollar corporations as clients increased by two to a total of 59.

As one of the next engines of growth, Generative AI is set to revolutionize how we approach innovation within both our organization and engage with clients in their digital journeys. We took an early lead by being one of the very few companies to set up a dedicated unit for Generative AI, our Generative AI business services, which Ashok talked about. This has got off to a flying start. We are already in active conversations with multiple customers and on some of the Gen AI initiatives.

We've also been investing heavily in getting our engineers trained on open AI, Google's Bard, a Gen AI open source, LLMs to work both on customer engagements and internal initiatives. For example, a leading educational publishing company chose us to incorporate Gen AI in their student platform for hyper-personalized tutorship experience, generate study plan and provide real-time virtual assistance.

Our customers are trying to work in new ways to reduce structural complexity and reinvent their company. Take for example, in manufacturing, where they're looking at initiatives around IT-OT convergence, smart manufacturing and efficient shop floor operations.

A global manufacturer of materials handling equipment chose us to drive a consulting-led engagement to advise and build their data platform to improve operational efficiency. Only about 40% of workloads are in cloud and most of the applications are yet to be modernized. This brings in a whole lot of opportunities for us in the areas of cloud migration and transformation. In the reported quarter, a leading integrated automotive services company chose us as the preferred partner to accelerate their cloud journey on Microsoft Azure. Retailers, banks and financial institutions where the front runners to drive omni-channel experiences. Other industries like manufacturing are catching up too. For example, a large original equipment manufacturer in the automobile industry chose us to be their strategic partner to drive omnichannel experience for their customer-facing platform.

Coming to other updates, I'm happy to share that last week, we concluded our annual Tech Event Blitz which was celebrated across all our delivery centres. This year's theme was Ignite, Inspire, and Innovate, which brought together tech geeks, programmers, and domain experts to spur innovation and create inspiring and impactful technology solutions that can potentially help our customers reinvent businesses, drive efficiency, and provide superior experience. We witnessed promising technology solutions on Gen AI-powered BOTs, Industry 4.0, digital twin, cybersecurity, AI and embedded software.

Let me talk a little bit about the demand environment. While the environment continues to see softness in some pockets of our business, meaningful opportunities of size and scale still exist in areas of cloud migration, core modernization, digital transformation, cybersecurity, analytics, and AI. At Happiest Minds, we continue to chase and win such opportunities with great vigor but saw an elongated deal cycle in the past quarter.

We expect the demand environment to improve as the year progresses with technology spending expected to grow and sustain over the long run. At Happiest Minds, we are well positioned to tap into these opportunities by building capabilities ahead of time and through our consulting-led approach.

With this, I conclude my commentary. Operator, we can now open the floor for Q&A. Thank you.

Moderator: Thank you. Our first question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Yes. So just wanted to prod further on your comment on growth to come back strongly. So, what's really the organic business outlook for the year ahead? And if you could tie that with the progress that the company has made on the PDES segment, combining the DBS and PES, if you could also talk about that, please.

Joseph Anantharaju: Sure. So, for the PES segment, we are in the process of setting up the industry groups and we identified leaders for these groups. We've identified the delivery and salespeople and the domain heads who will form part of this group. Weare in the process of drawing up strategies for each of these groups. Each industry group would be an engine of growth in the form of having an integrated sales and delivery capability. This will help us to take advantage of the opportunities that we see in the market. These industry groups will add to the growth that we expect from Gen AI. We are having multiple conversations going on doing POCs and demos, and that's how we are starting off in the Gen AI space with many customers cutting across our industry groups, and we expect these also to translate into larger projects as the year progresses.

Apurva Prasad: And could you highlight further on these five industry groups and in terms of what are the investments as you're going to be transitioning to a vertical structure in terms of building the sourcing advisory channels of the client partner, the solution architects and so on.

Joseph Anantharaju: One of the areas of investment will be the New New or NN sales team that we are setting up. And this will be led by a senior global sales head that we are in the process of identifying and we will be probably transitioning a couple of the existing sales team members into this team and go out into the market and bring on board seasoned hunters or NN sales folks. We also have identified a set of people who will be acting as client partners that we get aligned to each of these industry groups that we talked about, who will work on further taking our land and expand strategy to the next level. Their whole attention would then be focused on how to mine and expand our presence in some of our large existing accounts as opposed to the current model where they're trying to expand in existing customers and pursue new opportunities. So this will help to bring a little bit of focus to each of these areas, and we expect that this will lead to better growth and performance.

Ashok Soota: Joseph, you may want to also add a little bit about the talent transformation program, which we've been investing in heavily through the fall of this financial year. That will provide all the building blocks to help make this new vertical structure more successful.

Joseph Anantharaju: I think that's a very good point. So earlier part of this year, we kicked off an initiative to develop talent across multiple fronts. As of now, we have programs going on to develop our talent in three specific areas on the architect front, on the delivery manager front and on our business analysts and consultants.

And each of these programs have gone through one batch, and we expect to cover the rest of the folks in the next three to four months. This has been a huge initiative that's a combination of internal and external partners that we brought on board to carry out this training. In the next phase, what we plan to do is also extend this to our sales team, and we already started putting together a program and identifying partners that can help us on this front.

This will ensure that from a supply side that we would also be ready to cater to the demand that would get generated by the verticalization strategies that we are adopting. Again, in the Generative AI business unit, the set of more than 100 people that have been identified and who are part of the team that are getting trained on various aspects of Gen AI and we're already involved both, as I mentioned, both from some of the customer projects that we're working on. And internally, we are looking at what are some of the processes that we can automate or that we can enhance using Gen AI.

Apurva Prasad: This is very useful. And just staying on Gen AI point. How do you think Happiest Minds can compete with larger peers here, especially as Gen AI deals are more volume-driven premium, which could potentially benefit larger peers at least in the exploratory phase currently and how are the size of deals in Gen AI as compared to traditional deal size that is seen with Happiest Minds? If you could highlight how is the flow from POCs to production happening in this segment.

Ashok Soota: I just want to highlight one thing about new areas like this when they begin. And let's say, deal sizes are not large in the context of what the larger companies require. So, there was an article, for example, in Mint that it is not going to make a difference in terms of changing the numbers for those people. But those deal sizes are the sweet spots for us.

So, we are seeing literally dozens of cases in the typical deal sizes that we have. Remember the Gen AI business unitis just a few months old. We've not put revenue pressure on the new revenues to come in because we want the whole org to settle in. It will become a significant growth engine in the next year. But just to give you a feel on the size and the wide variety of flavour of all the leads we're getting, let's turn this over to our President and CEO of GBS business unit. Sridhar, you could perhaps take over.

Sridhar Mantha: Sure. Thank you very much, Ashok. The first part of the question is how can we compete with the larger players? And pretty much from the inception of Happiest Minds, we have been constantly focusing on disruptive technologies. And any time a new disruptive technology comes, we believe that the disruption acts as a neutralizer because everybody is starting at a ground zero.

And with our focus and the emphasis historically has been on the innovation and disruptive technologies. Our understanding along with our partnerships is much better and higher to help our customers because the customer is also trying to figure out how to create their road maps, right?

And what the technology can do today versus what is the potential of the technology within one year, within two years. And in most of the conversations, we have been working very closely with our customers and acting as an R&D team for them and helping them create a road map that can deliver value today as well as down the line one year and two years based on the technology adoption curve.

Moderator: Thank you. Our next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Yes. The other question I had was on your outlook on the health care vertical, which seems to have been a big driver since its recent inception. So, any comments around this?

Joseph Anantharaju: Yes. So, I know we see health care as being a high potential area, Apurva and this is cutting across multiple subsegments of health care.. First one is bioinformatics, it has a huge use case and employment of AI, analytics and other such technologies, digital technologies . Wehave several customers as well as conversations going on. Again, if you look at medical devices, there's a lot of advancement and innovation taking place out there, and this is an area that we started focusing on a couple of years back.

And this year, we've had a couple of large medical device company that we've signed up as a customer, along with a couple of smaller ones. That's the second area where we are seeing quite a bit of traction. The third area that I would call out is the providers, the hospitals, clinics and others, they're starting off or they are midway into their digital transformation journey, and there's a lot of work that's being done on enhancing patient experience, streamlining some of their supply chain and inventory management, enhancing the quality of care through better diagnostic equipment. So that's the other area that we are seeing quite a bit of traction in.

And the fourth area is you must look at life sciences again and I called that out separate from pharma. Again, there's a lot of analytics and AI that's being used. These are all technologies that Happiest Minds has focused on and has built deep capability. So, for us, we are looking at health care as being one of our growth engines, and this will be one of the industry groups that we'll be investing in and focusing on.

Ashok Soota: Joseph if I can also add to that question. Firstly, it's a very pertinent question and well noticed, Apurva because we only started reporting health care and pulled it out as a separate industry group in which we were reporting in Q2, it's already 14.8% of our sales and in addition to all of the areas which Joseph mentioned, going back to your question on Gen AI, we must be having at least half a dozen use cases, which are being discussed at the moment with customers for saying how we convert those into SOWs and orders. So exciting opportunities, all working on the leading edge of technology.

Moderator: Thank you. Our next question is from the line of Aditi Patil from ICICI Securities. Please go ahead.

Aditi Patil: Thank you for the opportunity. My question is on revenue outlook for Q4. So as per the full year guidance of 12% Y-o-Y CC, the ask rate for Q4 is around 4.5% Q-o-Q CC. So, like how comfortable are we in achieving that given the continued pressure on discretionary spend.

Venkatraman N: You're right. We do have a relatively steep climb compared to what we have done until now in Q2 and Q3. The idea is to get that $2 million or $1.7 to $2 million that I talked about, which was on account of furloughs and lesser working days. We are back to a 63-day quarter in Q4. So that's on the operating side. We have also signed up these new ten logos that we talked about and almost 25 in the earlier part of the year. So many of them are starting to fire. We also are looking to grow deeper into some of the accounts and some of the total proposals that are there right now with our customers.

So immediate focus is, to hit the 12% mark on guidance on an organic growth basis. That's what we'll be focusing on. Just to also call out last year, in Q4, we had the acquisition of SMI. So that has kind of given us a higher base to work on. But nevertheless, we must cover that and try to reach the target of 12% in Q4.

Aditi Patil: Okay. Can you give some color on the new clients added in your $1 billion-plus category, like are these new clients? Or like have you won new deals in this quarter from those clients?

Joseph Anantharaju: Yes. Let me talk little bit about new logos and give you color from two angles, Aditi. The first is after we had ten new logos that we were able to close in Q3, five of them were in India, three in North America and two in Australia and one thing that we've been noting and observing and which I'm sure you also observed is that the Indian economy is holding up well and is growing quite well, leading to quite a few opportunities out here. And many of them are beginning to invest in their digital strategy and this has given us the five logos that I talked about.

If you look at it from an industry group angle, again, it's been the new logos that we have is spread across multiple logos. We had two logos in health care. We had one logo in the retail space, four logos in industrial and manufacturing, two in high-tech and one in EduTech. So, as you can see, it cuts across all the industry groups that we have. I hope this helps, Aditi.

Ashok Soota: Can I also add few points here. Aditi, this is again a very interesting point in terms of some of the strength that you see in our business. If you look at this number of our million-dollar-plus accounts, in the current quarter, we've two ways in which we measure it. One, on an annualized basis and then we go back to the total value of those in the last 12-month period. Now the last 12-month period, it is 43. When the same thing in the same quarter last year was 36.

So, you can see an increase of 7%. If you see annualized, it is 45% this year and same quarter was 40%.So it's a very significant increase in the number of accounts. I think one of the questions, which I'm not sure if that was the intent you asked was any of these new additions, are they completely new accounts? I'm not sure about that because I don't think an account will start and reach $1 million in a current year.

But there are many that we've signed in the current year, which will start getting reflected into the same category next year as we continue to increase this number of greater than $1-million accounts.

Aditi Patil: Okay. Thank you for the detailed colour. I wanted to know more about the billion-dollar corporation, which is like 59 in this quarter. So, there is addition of two. So, like have you added any large like for Fortune 2000 or Fortune 500 clients in that category?

Joseph Anantharaju: They are in the industrial and manufacturing space. One of them is one of the largest automotive manufacturers and the other one is a company that helps in the automotive equipment space. We also have two other customers; former is one of the largest high-tech companies and the latter is a large company in the marine supply space. We had two billion-dollar customers that dropped off. So essentially, we've added four and two dropped off..

Moderator: Thank you. Our next question is from the line of Sumit Jain from CLSA. Please go ahead.

Sumit Jain: So, question is to Mr. Ashok Soota in terms of how you are visualizing this whole Gen AI opportunity in front of the Indian IT industry, given you have seen 5 to 6 decades of the technology cycle. Do you think the India's position is extremely strong in this current cycle. And within that context, given that you are working with multiple players in different industry verticals, how you are positioned to make a difference over the next 2 to 3 years?

Ashok Soota: Yes. I will respond to that, Sumit, but I should pass this also to either Rajiv, who is the Executive Board member looking after Gen AI and Sridhar Mantha. But I would just say this, that in all of these years that I've been in the industry, frankly, we've never seen a transformational change like this. And which is why we've created a separate Gen AI business unit. It is going to need interfacing with virtually every industry group.

Now it will have sales which are completely, let me say, Gen AI only. So, there will be supplementing solutions as well as dedicated solutions, which are Gen AI and that is very interesting. And as I think we've mentioned, we've seen so many use cases. Sridhar, you've highlighted that cutting across all industries. I mentioned specifically the end use cases we have in health care right now. In one vertical, we have 5 or 6, which we will convert into formal orders in the next six months.

It takes a little time discussing with customers, but each one of these are progressing. You also asked how India is positioned. I think India is marvellously positioned on any new thing now a days. We get in earlier, we build scale faster than others can, and we get our share of business in that, which is why India's total share of the global outsourcing market has never declined. In all of this, with so many countries saying we can do this, etcetera, also the share keeps increasing.

You're also seeing how more and more people are making India the larger centre, apart from the business they give us. They're increasing their presence in India. So, there's a huge momentum if you ask me. And I believe where the benefit will take place in the short run will be much more for the midsize players. Because deal sizes take time to build up. The larger guys need much bigger deals to transform their business. I think for us, it will be transformational from the very next year.

And on an ongoing business, I think it will be transformational for the whole industry. Rajiv or Sridhar, would you like to add to that?

Rajiv Shah Yes. So, a couple of things, Sumit. One is that it is, as Ashok highlighted, it's probably the biggest disruption that has taken place over the last 6 months or so. The second thing, I think it goes across the industry segment. So earlier technologies came in and said, okay, can it be applicable to one industry segment, or it will be applied to manufacturing industrial world in IoT, connected devices, etc, versus Generative AI which has larger or greater applicability across all industry segments.

Joseph highlighted several of them whether it's health care, BFSI, including the security services and how w**e can** take advantage of the Generative AI at the same time, put together the layers on. So, I think it has a larger applicability compared to the earlier technologies we have seen as well.

While from our perspective, all our customers across every domain are interested in utilizing Gen AI in the businesses. But at the same time, there is some confusion as well. What specific use cases can be taken up and we are continuing to do multiple consulting and discovery activities as well.

So I think from that perspective, with our strong technology platform, applicability across all the verticals and strong client relationships where more than 90% of our revenue comes from our existing set of customer, I think we are in a good place to really take advantage of it as well.

Sumit Jain: Got it. Maybe just a follow-up. So in the cloud transformation journey started in 2012 to 2016 period, we could see the benefit of that coming more to consulting companies first and then to the Indian IT services industry. Now in this Gen AI evolution, we are already seeing benefit coming to the companies like Accenture where in the last three quarters, they have disclosed their revenues from Generative AI, which has seen quite a significant jump.

So just wanted to understand in this wave as well, do you think first, and you also mentioned there will be a more consulting kind of a requirement. So will the consulting companies, again be beneficiary slightly ahead of the implementers. So, I just want to understand perspective there.

Ashok Soota: Sridhar, do you want to address this and use as a base with all the use cases we are working on. They all have some consulting component, too, but also, we get very quickly into end-use implementation.

Sridhar Mantha: So there are two points from our observation of various technology waves that happen historically, You have taken the cloud as an example. When it comes to migration to cloud, it is a big bang approach. Organizations cannot move only a single server and then move other servers. It must be a big bang strategy with a two-year kind of rollout. Hence, naturally, they're embracing such as big things.

So, there is a lot of thought process and consulting must happen in the beginning stages, and it is a much larger scale of consulting. However, when it comes to Generative AI, there is a possibility of implementing a point use case to multiple use cases to multiple features in the product and the road maps generally turn into more of an iterative, which very well aligns with our agile approach, take 1 use case, additional use cases, , that's how the road maps are being treated, that is a fundamental difference.

Hence, naturally, the consulting and engineering and R&D go hand in hand very much. Hence, all the big players, small players and very focused players like us, everybody has a piece of the pie they can get, and we believe that for our positioning, we can get larger.

Now the second thing is, we have taken a strong domain-oriented approach because, as Ashok has been alluding, the clients are not clear about how Generative AI today can help, That's the most important question because here, the technology also is not like a onetime, it just happened. The technology also is very rapidly evolving.

So constantly, we are creating various use cases across all our domains so the clients can actually visualize and understand what kind of business problems, actually the technology today can solve as well as the tomorrow's transit into the road map.

And the last point I want to add is, when we say consulting, it is very strongly supported by the R&D activities that we do, where we try to solve the client's problem with the technology.

Joseph Anantharaju: The parallel I would draw out here is with IoT, where you need to bring multiple technologies to help our customers. And our experience in 2014, again, we started our initiative around IoT a year or so earlier before the other companies. And we were able to really establish ourselves as one of the leading IoT players and many of the industrial companies that we currently have as our customers, I think seven of the top ten industrial companies are our customers, we're able to get through our IoT expertise and capabilities.

So, customers do value the focus and the depth that relatively smaller player like Happiest Minds takes to the table.

Sumit Jain: Got it. And just very last question, whatever Gen AI use cases you are working with your clients, and you mentioned a particular use case with the EduTech customer. So, what kind of hurdles are you facing to scale up those use cases? And when do you think those hurdles will go away, in how much time.

Sridhar Mantha: I'll talk on the dimensions, like how it is in terms of the clients to roll out these solutions in a large way. And second dimension is in terms of the order size for us, So there is an ambiguity in terms of how to marry the technology with the domain use case or the business problems in the client's mind, hence, they want to actually take smaller problems first, smaller use cases first and then slowly scale up in the next one year, which is the case generally with any technology adoption curve, which we have seen in the industry.

And if you take an IoT, as Joseph's earlier example, typically, the year one will be heavy experimentation and year two is the production and three is match and scale-up kind of, And in terms of our orders, the way we see is because we don't operate in a very large single order kind of model because we are very agile development with multiple projects as a team extension typically doing for customers. And most of the deals are falling in that kind of model, where the overall SOW value goes around.

Moderator: Thank you. Our next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Question I had on the sharp drop in the top account. If you could talk about the outlook there as well as the outlook in the EduTech vertical. And to that as the mix continue to trend downwards.

Joseph Anantharaju: The largest customer, as you rightly pointed out, has seen on a percentage basis, a large decline, but on a dollar absolute value, the decline has been much lower. And the reason why that's happened, Apurva, is the actual growth came in lower than the projection that they had made based on which they have made the investments and plans.

So, they have relooked at the investment. And accordingly, there's been an adjustment in the kind of R&D and technology budget and spend that they've allocated. And that's what's reflected in the numbers. I think going forward, you will see the spill over into as well because that's where the adjustment happened over these two quarters. But after that, we expect the revenues to stabilize. And hopefully, growth picks up and we may also do some acquisitions, which will result in additional work coming from this customer.

If you look at EduTech, there are multiple areas, there's K-12, higher education, workforce development, and corporate learning we are seeing a fair bit of traction One area which is still a little uncertain has been higher education and you would have also read about some of the challenges that this industry has faced especially in the U.S. which is declining enrolment and other things.

But what we have been doing is we've been making sure that our customer base is diversified across the various elements of EduTech and some of the customers that we did sign-up last year were in the other three segments, the workforce development and in the K-12 segment, which are relatively more stable.

Apurva Prasad: Got that. And just a couple of final ones from my side. So with all the investments around the Gen AI business unit, what explains the two quarters of sequential drop in the analytics and AI service line. Is that tied to a particular client project?

Joseph Anantharaju: Not really. I think it's more of how we classify these revenues because if you look at any analytics or data engineering that we do, which is all part of the analytics and AI CoE, these would typically be on the cloud, and sometimes you would be using SaaS platforms. So, I think it's more of a classification. If you look at the head count of the analytics and AI CoE, that number has grown up till now, by 35% or 40%, and we expect that for the year, the head count of this CoE would grow by close to 50%.

So, we continue to see heavy demand in the analytics and AI space. And with the Gen AI element also coming in, both are ancillary or very close to each other, and they would be feeding off each other. We expect this trend to accelerate and continue. And we will continue building capabilities in this area to work with the Gen AI team on various customer initiatives.

Apurva Prasad: Okay. And on the operational side, this is pertaining utilization, companies operated at higher levels of utilization in a faster growth environment a year back. Now what's the scope for utilizations to go higher as you get into better demand at least next year? So how should the utilization number look over a period? Because offshoring levels are also pretty much at highs.

Aurobinda Nanda: the utilizations are at this level today because of the overall market condition and situation. And we have also brought in quite a few of the campus that have joined in the three batches. And that's the reason why the utilization has gone down slightly at this point of time. But as we are seeing the momentum in business increasing, most of these people will start getting absorbed into the new projects that are coming up and also with the training that we are doing around Gen AI and others, the new projects also will be getting started from most of the people who are in the existing pool. So, we're confident that, this will help us achieve improved utilization.

Apurva Prasad: Got it. And could you highlight what's the head count additions planned for next year?

Ashok Soota: Too early. We are not even into doing our planning cycle for the next year. So, I think we can really park that one.

Apurva Prasad: Sure. And just a bookkeeping one, what was the subcontracting expenses for the quarter?

Venkatraman N: Yes. Apurva, that was about 7.6% of our revenues this time. And if you look at the total, I'm looking at the numbers about ₹ 31 crores.

Apurva Prasad: Got it. Thank you and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question of question-and-answer session. As there are no further questions, I would now like to hand the conference over to Mr. Sunil Gujjar: for closing comments.

Sunil Gujjar: Thank you all for joining us today. We thank HDFC Securities for hosting this call. We look forward to interacting with you. You can reach out to us on ir@happiestminds.com. Good day.

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

Please note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.