happiest minds
The Mindful IT Company
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October 23, 2023

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 October 18, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed the transcript of the Earnings Call held on October 18, 2023, post announcement of financial results of the Company for the quarter and half year ended as on September 30, 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: 2023.10.23 17:18:02 +05'30'

Happiest Minds Technologies Limited

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

"Happiest Minds Technologies Limited
Q2 FY '24 Earnings Conference Call"
October 18, 2023

MANAGEMENT:

Mr. Ashok Soota	Executive Chairman
Mr. Joseph Anantharaju	Executive Vice Chairman & CEO, Product Engineering Services
Mr. Rajiv Shah	President and CEO, DBS
Mr. Ram Mohan C	President and CEO, IMSS
Mr. Venkatraman Narayanan	Managing Director and Chief Financial Officer
Mr. Sridhar Mantha	Chief Technology Officer
Mr. Sunil Gujjar	Head, Investor Relations

Moderator: Sumeet Jain, ICICI Securities

Chorus Call Host: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Happiest Minds Technologies Limited, hosted by ICICI 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. Sumeet Jain from ICICI Securities. Thank you and over to you Mr. Jain.

Sumeet Jain: Thank you operator. Good morning, ladies, and gentlemen. Thanks for joining us today on Q2 FY24 Earnings Call of Happiest Mind Technologies Limited. On behalf of ICICI securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this earnings call. Today we have with us from Happiest Minds Mr. Ashok Soota, Executive Chairman. Mr. Joseph Anantharaju, Executive Vice Chairman and CEO, Product Engineering Services. Mr. Venkatraman Narayanan, Managing Director and CFO. Mr. Rajiv Shah, President and CEO, Digital Business Services. Mr. Ram Mohan, President and CEO, Infra Management and Security Services. Mr. Aurobindo Nanda, President, Operations and Deputy CEO, Product Engineering Services. Mr. Sridhar Manta, CTO, and Mr. Sunil Gujjar, Head of Investor Relations. With that, I will hand it over to Sunil for safe harbor statement and to take the proceedings forward. Thanks and over to you, Sunil.

Sunil Gujjar: Thank you, Sumeet. Good morning to all participants in the call. Welcome to this conference call to discuss the financial results for the second quarter ended September 30th, 2023. I'm Sunil, Head of Investor Relations. You can review our financial statements, quarterly fact sheet and press release which are uploaded on our website. The agenda for this call is as follows. Ashok will begin the call by sharing his perspectives on the business environment and our results.

Venkat, Joseph, and Rajiv will 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. A very good morning to all the participants in the call. I am happy to share with you that Happiest Minds has continued to deliver industry-leading performance, growing 3.6% sequentially in constant currency. On a revenue growth plus EBITDA, we were at 38.9%, which is another quarter of superior performance. Our EBITDA margin at 24.4% has been well above our guided range of 22%-24%, and this is now for the fourteenth quarter in a row.

We crossed two significant milestones during the quarter – We completed 12 years as a company, and we completed three years as a public entity. I would congratulate all the stakeholders who have contributed to and been a part of this journey and express my gratitude for your continued support.

During the quarter, we raised capital through a QIP, and I also sold a small portion of my equity at Happiest Minds. Both these events led to a small dilution of my equity interest. The latter was primarily done to fund the capital requirements of SKAN, the not-for-profit medical research entity that I started, and also to enhance the capital structure of Happiest Health. This capital infusion for these two entities should take care of their capital requirements for the medium term. As part of my commitment and belief to have Happiness Minds exist in perpetuity, my controlling interest in Happiness Minds will not be allowed to go below 40%. I should also clarify that my current shareholding percent of 50% is safely well above this threshold.

While many companies in our industry are seeing a declining headcount numbers, we in the quarter have added 237 Happiest Minds to our teams, in line with our commitment to work and execute on our larger vision to be a US $1 billion enterprise in sales by FY '31.

In Q1, we had given a revenue growth guidance of 25% without making a distinction between organic and inorganic growth. Based on an assessment of the market dynamics, we are revising this growth guidance for the year to 12% on an organic basis. Additional growth, if any, due to acquisition will be over and above this guidance. We retain our EBITDA guidance of 22% to 24%.

I'm now happy to announce a major new organizational and strategic initiative for Happiest Minds.

In order to avail the transformational opportunity being presented to the entire industry, through Generative AI, we are creating a new business unit called Generative AI Business Unit, which will be abbreviated as GBS. This will become a new engine of growth and it will require a lot of collaboration because the sales will take place through the entire organization and through every industry group. Accordingly, we have selected Sridhar Mantha as the President and CEO of GBS. Sridhar is a Happiest Mind stalwart since inception and the best person to lead this in view of the interactions and collaboration that are required. The initiative will be led further by Rajiv Shah as a member of the Executive Board. While we are doing this, we are also integrating our existing PES and DBS businesses into one combined business called PDES and this will be under Joseph Anantharaju who has led our most successful business unit up till now. There will be no change in IMSS. Therefore, we will retain our three BUs, PDES, IMSS, and now the third one will become GBS. We believe these three engines of growth will take us forward to our future goals.

I do want to emphasize again, though, that since it will take time to build up the whole organization in GBS, there will be no meaningful revenue until the beginning of the next financial year. And accordingly, we will only start reporting their numbers once that new year begins as a part of a plan that we will draw out. Let me conclude my commentary by wishing all on this call a very Happy Navratri and with this over to you Venkat.

Venkatraman Narayanan: Thank you Ashok. A very good morning to all of you on the call, wishing you and family a very Happy Navratri. The next few minutes, I will take you all through the financial performance and certain key operational highlights for the quarter and the half year ended September 30. For a start, amidst all that's happening in the world, I'm very grateful for the place we are in. Coming to the financials, I am very happy to share that our total income for the quarter for the first time has crossed the US $50 million mark.

Total income for the half year at the same time has crossed the US $100 million mark. Now coming back to the quarter, operating revenues at US $ 49 million grew sequentially by about 3.3% in dollar terms and about 10.8% year over year. While in constant currency, this growth was 3.6% and 11.6% respectively. Clearly, our results demonstrate our ability to do what is right for our customers and stay relevant and agile to their needs. Total income for the quarter was ₹ 429 crores, showing a sequential growth of 6% and 19.3% year-over-year.

EBITDA margins for the quarter stands at 24.4%, compared to 25.5% in the previous quarter. The 100 bps impact was mainly due to wage hike that was rolled out to a major part of our people effective July 1st of this year. It's important to note that we continue to beat our margin guidance of 22% to 24% despite above industry pay increases, payment of variable pay, and net addition in people, all areas where we have seen divergent approaches taken by other industry participants.

After taking the increases as said, our EBITDA for the quarter stands at ₹ 105 crores, showing a sequential and year-over-year growth of 1.8% and 11.1% respectively. Profit before tax was ₹ 79 crores, which is 18.5% of revenues, and showing a growth of 0.6% sequentially. The marginal decline of 1.2% on a year-over-year basis was primarily due to the amortization of intangible assets that came about from the acquisition of SMI that we did in January of last fiscal. We are taking a quarterly hit of about ₹ 7.5 crores on this count. Profit after tax was ₹ 58 crores, which is 13.6% of revenues.

Now switching to our numbers for the half year, like I said, our total income for the first half of the year crossed US $100 million. Operating revenues grew 11.7% to US $ 97 million, while in constant currency, the growth was 12.7% half year-over-half year. Total income stood at ₹ 833 crores, which was a growth of 21%.

We continue to demonstrate good cash flow conversion with almost 98% of our EBITDA coming in as free cash flows. We ended the quarter with about ₹ 1,300 crores of cash and cash equivalents, which includes the ₹ 500 crores that we raised through QIP and the ₹ 135 crores that we raised through issue of NCDs. I'm grateful to all market participants for their continued support to the company.

Talking about a few operational highlights, at the end of the reported period, we have 5,285 Happiest Minds, a good addition of 237 over the previous quarter, which include joiners from campus. Our utilization has improved from 74.5% in the previous quarter to 76%.

Attrition levels on a trailing 12-month basis have trended down nicely, and now it's at about 14.4% compared to the 16.6% in the previous quarter and a significant reduction from the 23.5% we saw a year back. As expected, our return on capital employed has dropped to 23% from the 33% in the previous quarter, primarily on account of the capital raise that I talked about earlier.

It will be our endeavor to improve the capital return ratios by deploying capital into growth avenues like the new GBS Business Unit that we are creating as Ashok talked about earlier and also through acquisitions.

I request all of you to go through the investor deck on our website, which has much more details and operational highlights.

Finally, in line with our progressive dividend policy, the board of directors of the company have recommended an interim dividend of ₹ 2.50 per equity share. The record date for this payout has been fixed as October 30th. Cash outflows on this count will be about ₹ 38 crores.

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

Joseph Anantharaju: Thanks Venkat. A very good morning to all the participants in the call. We have yet again delivered industry leading growth in the second quarter, which reflects the continued confidence of our customers in our value proposition. During the reported quarter, we acquired seven new logos, with many of them being large Fortune 500 enterprises. Our continued ability to open doors across these large high-tech companies, energy conglomerates and retailers emphasizes our value proposition.

We continue to execute on a land and expand strategy as reflected by the consistent increase in the average revenue per customer, which is at US $ 804,000 now. We were also able to increase the number of large customers as evidenced in an increase of in US $ 5 Mn - $10 million customer cohort during the quarter.

Now I would like to share a sense of the conversations we are having with some of our customers. I'd like to share that a leading global online retailer and hyperscaler chose Happiest Minds as the engineering partner to design interactive user interfaces and to provide automation services for the IoT platform based on our IoT cloud automation and product engineering DNA.

With our mindful 4D framework which is Explore, Envision, Engineer, and Enhance, we have been assisting companies in the innovation and digital transformation journey. For a multi-billion-dollar enterprise in the energy distribution sector, we leverage this framework to transform their document management systems for automated retention, intelligent search, and faster retrieval, thereby improving customer experience.

Our comprehensive and integrated suite of solutions are helping our customers secure their distributed IT environment 24/7. During the quarter, a leading warehouse club operator in the United States chose us to provide security assessment services on threat modeling and application security.

Companies are reinventing every part of the enterprise using technology, data, and AI to optimize operations and accelerate growth. For a large US-based utilities company, we have been chosen as a key partner to provide data engineering and governance services. We are working closely with the Alliance partners to deliver the benefits of digital technologies and in one of a common customer, we are helping an industrial internet platform provider to build a data platform for their farm-to-table process using a deep IoT data and AI capabilities.

Speaking a little bit about the demand environment, multi-year digital transformation initiatives are being broken down into shorter, composable engagements. This creates the right kind of opportunities for a company like Happiest Minds to exhibit agility, create value faster, and gradually expand into other related areas.

However, in the face of macro and geopolitical uncertainties, customers are getting more prudent and seeking more bang for their buck and taking longer to take decisions. To accommodate this shift in preference and uncertainty, we have decided to revisit the guidance as alluded by Ashok earlier.

With the creation of the Gen AI BU, I'm happy to share that we are merging PES and DBS business units into one Product and Digital Engineering Services(PDES) business unit as a first step in our strategy to work life and better leverage synergies and capabilities as part of our US $1 billion goal by 2031.

I'm excited to be given the responsibility to lead this integrated business unit and draw learnings across customers, better focus on white spaces and take our land and expand strategy to the next level.

With this, I would like to end my commentary, wishing all of you a happy Dussehra, and I will now hand over to my colleague, Rajiv.

Rajiv Shah: Thanks, Joseph. I'm really excited to guide this new function of GBS and work with a fantastic team led by Sridhar Mantha, President and CEO of GBS. At Happiest Minds we are known to take technology bets well ahead of time. Take for example IoT, which we started building capabilities well ahead of time around 2015 before it became a mainstream area of investments for the customers.

We've been working since 2018 on the earlier form of Gen AI as part of our AI focus. With a strong base of AI and analytics capability, the dedicated focus to GenAI will open significant opportunities for Happiest Minds. Over the next few months, me and Sridhar will

1. Define processes and timelines to ensure that all our 5,000 plus Happiest Minds get exposed to the practical application of Gen AI in their line of work.The charter includes training on GenAI and develop teams to engineer business solutions.
2. An outreach to our existing customers to showcase our prowess in the space. We are already working with 20 plus customers in the Gen AI area.
3. We will strengthen and forge new partnerships in the Alliance ecosystem, including working with Microsoft, OpenAI, Google, AWS, etc., and other open source platforms.
4. We will develop a broader go-to-market strategy to the addressable market with our value proposition.
5. We will start tracking the financial parameters of GBS going forward and we'll be announcing them for the next financial year as highlighted by Ashok.

To conclude we foresee that generative AI can be a significant revenue source for us in the years ahead and help us reach our vision of becoming a billion-dollar enterprise by 2031. With this I end my commentary and we can now open the floor for Q&A.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. We'll take the first question from the line of Ashish Dash from Mirae Asset Capital. Please go ahead.

Ashish Dash: Hi, Good Morning. Thank you for the opportunity. So, my question is on the guidance. You have made a cut in organic revenue growth guidance. I wanted to know what happened during the quarter so that you got this guidance directly, from 25% to 12%. And also you mentioned last quarter that there is a recovery in the demand you are expecting a recovery in demand in 2H. What is your view on that right now?

Ashok Soota: Venkat, shall I just address the point overall on the guidance and then I guess really all the business people can talk about what they see about demand vis-a-vis any other statements we may have made. And you're right in one sense that we've never differentiated in the past between organic and inorganic growth.

We were certainly expecting to close a large acquisition which should have got reflected in our results. And therefore, the numbers that we had projected were not out of line to the extent that this revise guidance will indicate. On the other hand, we also know that getting an acquisition through is sometimes a bit of an uncertain event.

You really don't know whether the deal will go through or not. This deal we are talking of actually has not gone off the table even now. And yet we don't expect we'll get any revenue out of that assuming we even close it this year. So that is the major dramatic item which has led to the difference in this guidance.

Overall, there's no question that the markets has had declines. You see this in the results of all the entities who've been declaring their results. And in that respect, I'd say our result continues to be an industry-leading performance. Some of the issues in terms of giving color to this, as well as the demand outlook, my colleagues will take up for you, and I think it's best if each of the three business units gives you their response to this particular point that you raised.

I do want to add that we do see a need for giving a further thrust to growth. And that is one of the reasons why we have created this GenAI business unit. It's a major change. We believe nobody's taken a change of this sort towards addressing this opportunity. It won't yield results overnight, but we believe that this will certainly play an important role– not only medium and long run but also in terms of taking us on to our declared vision of achieving a billion dollars by 2031.

So, with this let me pass this over to Joseph, Ram and lastly Rajiv because he can then also talk about the new business area.

Joseph Anantharaju: Thank you Ashok and before I talk about the overall demand environment, I just want to give a little bit of context on Q3. I think all of us have to be cognizant that Q3 has a lower number of working days, which is around three days lesser than the other quarters because of Dussehra, Diwali, and Christmas holidays.

And we're trying to work our way through that. So I just want to put that as a context. Now, if you look at the broader demand environment, I see customers having enough needs and initiatives that they need to get done to digitize their processes, their offerings, and the way they interact with customers.

So that's at an Uber level and I think that demand is there. What we also are seeing is that just given some of the macroeconomic, I would say, a little bit of uncertainty, but more importantly, at repeated intervals some geopolitical developments. let's look at what's going to happen - instead of having large initiatives that they would typically have started, they're looking at doing things in multiple smaller packages.

As I mentioned earlier, this works out to Happiest Minds advantage because we're not looking for US $ 200 million kind of engagements. We're looking at engagements where you can go and work closely with the customer, validate some of their assumptions, doing PoCs, pilots, and then take it to implementation. While it elongates the sales cycle a bit, it actually works to our advantage as a company that's more agile, that's nimble, and more of a partner than a vendor. And that's what we are seeing in terms of demand.

Ram Mohan: As Joseph mentioned, there will be holiday season and lesser number of working days in quarter 3, but that is also a period where lot of budgets are going to be finalized for the subsequent year. And we believe that the beginning of the next year will be much better and that is something which we are seeing in the market.

Apart from that, what I am excited is about our integration of PES and DBS business, which actually makes the IMSS a horizontal across all the verticals and thereby enhancing our land and expand strategy. And also, the GBS business which will also bring a lot of Generative AI capabilities in the IMSS space as well, whether it is in terms of service desk automation or in terms of security and infrastructure operations where Gen AI can be very easily integrated to provide better solutions for our customers and that is what customers are also looking at.

So, looking ahead with the integration of PES and DBS and creation of GBS, I believe that there will be much better opportunities for us to land and expand in our existing customers and go after new business.

Over to you Rajiv.

Rajiv Shah: So just adding to what Joseph and Ram said, there is some sort of uncertainty that continues to happen and there is a pressure on the macroeconomic environment. But given that, I think, the kind of work that we perform for our customers and the value that we deliver, we continue to see a level of traction. Though, they're still under continuous cost pressures customers still want to take advantage of the newer technologies, Open AI, Chat GPT, Generative AI, etc. And with our platform of integration of low-code, data, and AI, I think we are in the right space for us to provide, create value for our customers.

At the same time, you have larger integration opportunities as well. That is, customers are looking at optimizing their own environment, monetize their own set of investments. This continues to see more and more integration opportunities. So, from that perspective, , the reason we set up the GenAI unit is to really work with the customer, to help them drive how to set up their own organization, how to increase consumption in their own environment, at the same time drive consumption in their own environment to become more efficient and effective as well.

So yes, there is pressure, there are disruptions that are affecting all of us but fortunately there is no cancellation of contracts or no real price pressures that we are experiencing

Ashish Dash: Okay. So one follow-up question on that. You are saying there is no cancellations and no pricing pressure, so are we thinking that the inorganic contribution would have been more than 10% but as it got delayed so that contribution is not coming? do you see that also you cut down your own organic growth guidance to 12%? Just wanted to know your view.

Ashok Soota: Yes. Venkat, I'll take it and maybe this time you may want to add a little bit. So, the first really important thing is to say that actually there was never any distinction in our guidance between organic and inorganic. We ourselves didn't internally say so much will be organic, so much will be inorganic,largely because we were to visualize that when a company of our size is planning even a decent size acquisition. Let's assume it's a company with US $ 50 million. That's going to contribute to our growth story in a very significant way, but if you take a multi-billion dollar company, even if they do $100 million as an acquisition, it doesn't matter. They don't need to make the distinction. They may get a US $100 million account or they may get that acquisition. Either way, it will become a part of their growth story.

Whereas in our case, it's a very distinct difference. It must make a distinct difference. And it's another matter that in the previous years, we managed to reach the guidance number although we did very few acquisitions. Negligible, I would say. Here obviously, while we were hoping for one, it isn't that we made the distinction even this year. So to that extent, it's difficult for me to say that because we had planned to say X percent, but now we've reached 12%, that's a reduction. That is not the case. It was a composite total, and that is why we are now giving you a non-composite total because we know the acquisition element is not going through. And therefore, we are giving you the number reflecting the current state of the market.

Venkat, you want to add anything to it?

Ashish Dash: My next question is do you still pursue the acquisition plan during second half year even though it got delayed?

Ashok Soota: Yes, I mentioned that in the very beginning, we clearly had an expectation of a very large acquisition and I also mentioned that it's not gone off the table, but we don't expect any, if you're considering the stage we're in now, if we've not signed, let's say, at least a letter of intent and begun due diligence, you won't get any revenue into this year. Maybe in a smaller entity, we may get a small bit of revenue, which is why we've said additional revenue from acquisition, if any, will be above the 12%.

But the larger one, if it's signed during this year, it will yield revenue only in the next year.But it's not gone off the table. That is the good news. And hopefully it will come through.

Ashish Dash: Okay. Thank you so much.

Moderator: Thank you. We'll take the next question from the line of Sumeet Jain from ICICI Securities. Please go ahead.

Sumeet Jain: Yes, thanks for the opportunity. You know, just want to probe on your guidance. So, if I look at your 12% organic growth guidance for FY '24, that does imply a CQGR of around 5% to 6% for the second half of FY '24. So just want to understand, what gives you confidence of a sharp revival and growth in second half, given overall a weak macro environment from the discretionary spend perspective. is it the current order book or certain top clients increasing their spend? Just want to understand what is giving you that confidence?

Venkatraman Narayanan: Yes, Sumeet, so the first half of the year, we have done 12.7% in constant currency. That's half year over half year. So we are hoping to continue a similar trend of growth for the next two quarters and that's how you get the 12% for the year.

This is essentially coming from the repeat spend, the repeat client business that we are getting, the pickup in business from the new logos that we have signed up, seven logos this quarter, 18 the previous quarter and 16 the quarter before. So, it's been a strong sign up that's happened. It's been taking a little while than what you would have expected maybe a year, year and a half back on the ramp-up. So those aspects have been considered and most importantly, two less working days in this quarter. So we have to really take some alternate steps on that to explore making a Saturday working day. We are working with the project teams to make sure that we are able to make up for those lost days because a day is close to $ 700,000 in revenues.

So we have assumed all of those and a repeat of the first two quarters, reasonable repeat of the first two quarters and that's how the number of 12% comes from.

Ashok Soota: Sumeet in summary, that we're not projecting any major increase in the quarterly growth in the second half of the year. We are literally saying if we did what we've done in the first half, we will achieve this number.

Sumeet Jain: Okay, got it. So secondly, want to understand, you guys obviously are sitting on a significant amount of cash from the QIP. So, what kind of M&A candidates are you currently evaluating in terms of capabilities or industry verticals?

Ashok Soota: I think we could really get Joseph to talk about the angle or types of capabilities because we do know the size is the reflection of the fact that we've raised cash to do a big one. But maybe Joseph, you could talk about the types of things we are interested in and it can be so many of them for that matter.

Joseph Anantharaju: Yes, so you know Sumeet, there are multiple angles that we are looking at when we are evaluating or even shortlisting our acquisition candidates. The first one is looking at from a domain angle, looking at where we can get companies that would fill in white spaces that we have from a sub-segment standpoint. Right, if you take, let's say, BFSI, in BFSI there's insurance. In Insurance, we have reinsurance and multiple kinds of things. So, we've identified a few white spaces in terms of our sub-segments or sub-domains where we would like to strengthen our capabilities. So that's one angle that we are evaluating.

The second one is again, from a technology standpoint, there are white spaces, whether low-code no-code platforms, data and AI platforms and products that we are partnering with, where we would like to have more skills and more customers and revenues. So that's the other one, the technology part of it.

We're also looking at it from, how it can get us into some of the accounts of large customers that we have as a target. If you look at the SMI acquisition that we made, it led us into a customer that we had been targeting for some time that got us into the healthcare space where they were the largest spenders for a long period of time and hence understood the customer environment. So that's the third angle that you're looking at where it gets us into a short list of customers that we want to break into that can also map onto the first two parameters that I talked about.

And the fourth, which is a good to have is whether it give us capabilities or market presence in a new geo that we've not been in. But having said all of that, I think the common parameter or criteria that we use is to ensure that whichever company that we are considering, there's a good cultural fit so that from an integration standpoint, we don't run into challenges.

Ashok Soota: If I can add Sumeet, it's equally important sometimes in an acquisition to be clear what we will not do. So, one thing we are not going to go and do is to do anything which takes us away from our 100% digital business. Second is, we will not do something just for the size of scale. Third, though we will look at areas in AI, which is important, we are not going to look at saying, hey, the latest area is now Gen AI, let's go and acquire that capability.

We believe, we will build that capability, we're going to build an organization, and we are already doing that. It will be wrong to go out and try and leverage on what others are doing. This must be done very closely linked to the nature of our business and add to each one of our industry groups so that's something we will build ourselves and within that, you can add to it the areas that Joseph said we will do.

Sumeet Jain: I got it. That's helpful. And just last question, maybe for Ram. I can see your infrastructure management and security services business line has been now flat for the last six quarters. So can you explain the reasons for the weakness and when can you see the ramp up happening in the service line?

Ram Mohan: Yes, what has happened is one of our large customers had some difficulty in their business which reduced some of the revenues for us. But on the other hand, we have been growing and making up for all those revenue reductions which has happened. So, that is the reason you are seeing flat revenues. And as I told you before, we are seeing a possible growth in this particular account as well in the future.

So, we are hopeful that we will be able to continue our growth starting quarter four of this year. And we are also seeing an increased demand in the security area, which we believe will be in a position to make up for all these issues which we had with respect to growth, starting quarter four of this year.

Ashok Soota: It is still a very valid observation, and I am sure now Ram is looking into it from a period of confidence because it has been a stress the fact that we have had this well observed statement of yours that, yes, there has been a softness for several quarters in a row. But sometimes, it takes time to revive from that when you had a setback for no real reason. It's a reflection of the customer's own business, but that business is a steady, robust business and is now beginning to get back into giving us the sort of business that we were used to getting from that.

Plus we are exploring many new opportunities which have taken time to build up. Ram, would it be right to say that, we've signed a few contracts which we hope will grow? Because it takes time for an account to grow and it's those new accounts which will then make up for providing growth even while the account which went down still takes a quarter or two to revive.

Ram Mohan: Yes, the new deals which we have signed up though we have started small, there is a tendency to grow these accounts because the services have been good and our customers are seeing the growth happening in their segments as well. So, the new deals which were closed in the last couple of weeks, we believe that they are going to grow in the next couple of quarters, it will start seeing growth.

Sumeet Jain: That's helpful, thanks for taking my questions, I will come back in the queue.

Moderator: Thank you. We'll take the next question from the line of Dipesh from Emkay Global. Please go ahead.

Dipesh: Yes. Thanks for the opportunity. Just one clarification, did we consider SMI acquisition as a part of organic revenue growth guidance or would it be additional? Because last year, it was added for about a quarter. So just want to get that clarity. And second thing is about the M&A. We are pursuing M&A for some time, no major progress so far.

So whether the valuation mismatch is driving some kind of delay in closer or in terms of the targets are becoming difficult considering their performance might have suffered considering overall macro uncertainty. If you can provide some reason which explains delaying some of the M&A deal closure? Thanks.

Ashok Soota: Sure. I guess, Venkat and Joseph, both of you could respond to that.

Venkatraman Narayanan: Yes. We closed SMI last quarter and last quarter of last year adding in about US $2.4 million to revenues. Part of that has been taken into the organic growth, which is how we had planned. And if you look at it, technically also, it is organic because they came in with three good accounts and we have been growing on the base of those accounts in this year. With respect to the M&A delay, Joseph will help.

Joseph Anantharaju: Yes, so, what I would say, Dipesh, is that we've almost, on a weekly or biweekly basis, we've been in conversations with possible M&A candidates and there have been two, three reasons, why we've not been able to get a closure. One is some of the companies that we spoke to, we didn't feel that there was a cultural fit out and therefore we didn't move forward.

The other reason, why we were not able to close is that some of these companies also had private equity funds that were pursuing them and they tend to be much more aggressive than we would be in terms of valuation. And the third is, we also saw that there was some difference in the deal structure in terms of, what is the upfront and the earnings component. These are some of the reasons. But having said that, we did hope that the current market conditions would get some of the valuation expectations from acquisition candidates to a manageable level and you still have not seen that.

And as I said, we are in conversation almost on a weekly or a bi-weekly basis with acquisition candidates. Ashok and the Board has made it clear that, we need to really deliver results out here. So, Venkat, I and the rest of the Executive Board are working hard on.

Ashok Soota: And I'll add just one thing which may be a bit of a consolation for ourselves. If you see the way valuations have gone in the industry, as reflected not only by the deals, but by the market cap of the companies in the industry. You can see that these valuations have declined enormously. So, if we had bought something two years ago, we would have been left with an asset which is reduced maybe 40%- 50% in its own value, which is what's happened to the entire industry if you look at it. So that's a consolation.

This may just be the right time. There's also another angle, and this is a psychology of the founder who puts his company for sale. That founder says, look, I could have got so much more two years ago, now why am I going to settle for less. And there's a little resistance then to accept what is we believe has been a realistic valuation offer. So, it is an exercise that we are learning and there's no question that sooner or later, we'll strike that one big deal.

And these things in a sense it's more important to get the right one than it is to say hey okay, sure, we didn't get that growth in the previous year, but it doesn't matter. It's more important that we get the right deal when we do the deal. And again, as Joseph said, we're clearly very much focused on that task right now.

Moderator: Thank you. We'll take the next question from the line of Gauri Mishra from Narotam Sekhsaria Family Office. Please go ahead.

Moderator: Thank you. We'll take the next question from the line of Anand Sodhani from Sodhani Securities. Please go ahead.

Anand Sodhani: Yes. Good morning. I am Anand Sodhani from Sodhani Securities. I am a retail shareholder of your company. Seeing the results of last five quarters, PAT is always coming flat. In the expenses column, we are seeing more than ₹ 1,000 crores as a finance cost. So can you elaborate on, what does the finance cost include? Is it the pledge, the shares which have been pledged by the company? So, does that add to the finance cost?

Ashok Soota: I am not sure, are you talking about the revenue being flat or are you talking about the share price being flat?

Anand Sodhani: No, profit. Quarter-on-quarter, there is no growth. The revenues are improving but because of the finance cost, the expenses are growing every quarter. The PAT is coming flat.

Ashok Soota: There is some statement you made which I am not sure, what bearing it has to your question and whether the pledge on the shares is relevant. I will just give you an absolute idea that pledge is negligible. The pledge is going into very good cause and funding a not for profit research entity. We are putting a lot of money and that entity is going to be a showcase for the whole country.

So it's a very valuable entity being created. There's is no speculative process here. My shareholding remains above 50% versus the fact that, we said I would at least always keep it above 40%. So, I am not sure whether that question has got any bearing on what your first part of your question but let me get Venkat to answer that for you.

Venkatraman Narayanan: Yes, Ashok, thanks. So, Anand, like Ashok mentioned, pledges on a personal side, Ashok as promoter has pledged a very small portion for continuing to raise funds and some interim gap financing that he is doing for the for the activities that he just mentioned. That's got no cost on the company, so that's one. Second is, if you come down to our PAT, you should not look at interest costs in isolation you should also look at the money that it generates.

The average cost of funds for us that is the interest we pay, is about 4% to 5%, whereas our other income is generating 7.49% because we have about 95% to 99% of money in safe fixed deposits. So, the arbitrage is one.

Second is the funds that we are raising is to obviously build, a sort of corpus for the acquisitions that we are talking about. This is the interim place where we are raising money through capital and through a little bit of debt, which will then be deployed on acquiring companies where the return on capital will be more than 20%.

So, if your cost of funds is about 7% and 7.5%, and you are able to generate 22% - 23% on the capital that you employ in an acquisition or for that matter into your existing business or to a new business that will generate the alpha return that we talk about on the company. So that's the reason.

The drop for profitability year over year if I should say is because we have taken close to ₹ 8 crores to ₹ 9 crores of intangible write-off this year because we had a couple of acquisitions, we follow a quite an aggressive way of accounting for the split of the purchase consideration. We have acquired the company SMI and before that PGS and there is a significant part of that purchase consideration which goes and sits in our intangible. We don't put all of it in goodwill. So, there is an assessment which is done based on that it goes into your intangible and the intangible is in written off over five years. We don't carry it.

So, if you really look at the PAT number, you should compare it to the cash flow that we talk about. 98% of your EBITDA going back to cash has to be seen in line with PAT as well. So, there are leverages that are there in your financials.

Second is year-over-year on the EBITDA front we have taken a drop, there's no two ways about it, primarily because unlike other companies, we have met our commitment to the campus joiners, we are making investments into the business in terms of people.

We are giving pay increases. So, if you have seen our competitors or comparators, other industry participants as I like to call it, they have all deferred their pay increases. They're talking about headcount reduction. Compare that to what we are doing. We are increasing our headcount.

Ashok Soota: I don't think we should say that all have deferred pay, some may have done and some have not.

Venkatraman Narayanan: some of them have deferred the payout, some of them have made differences in how they do their, variable-pay payout commitment and how we are meeting them. So, there are divergent approaches being taken with an intention to, manage that cost.

Whereas we, keeping in line with what we see as we've been saying, building that billion-dollar company, the platform is being built with investments being made into the company. And it was with that in mind, we had always made this guidance of 22% to 24%. While we were breaching 25% - 26%. It would not have taken much to say, hey, you know, we are upping our guidance to 25%, but we always mentioned that we would not sacrifice future growth possibilities by not making the investment that is needed today.

So, you have to see all of this in conjunction and that that will give you a better fit of the company that we are trying to build and the organization that we are trying to build.

Moderator: Sir, the participants have left the queue. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sunil Gujjar for closing comments. Over to you, sir.

Sunil Gujjar: Thank you for joining us today. We thank ICICI Securities for hosting this call on our behalf. We look forward to interacting with you. You can reach out to us at ir@happiestminds.com. Thank you.

Moderator: Thank you, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

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