"Saksoft Limited

Q2 FY25 Earnings Conference Call"

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MODERATOR: MR. VINAY MENON – MONARCH NETWORTH CAPITAL.

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY25 Earnings Conference Call of Saksoft Limited hosted by Monarch Capital. 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 this 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. Vinay Menon from Monarch Networth Capital. Thank you, and over to you, sir.

Vinay Menon: Thank you, Muskaan. Good afternoon, everyone. On behalf of Monarch Networth 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, the CFO and COO of the company. I will now hand the call to Mr. Aditya Krishna for his opening remarks, then we'll move to Q&A. Thank you, and over to you, sir.

Aditya Krishna: Thank you, Vinay. Hello, and good afternoon, everyone. Welcome to our earnings call to discuss the performance of the second quarter and the first half of FY25. Let me start off by briefing you on the key business highlights for the second quarter, after which my colleague Niraj, our Chief Operating Officer and Group CFO, will brief you on the financials.

As you're all aware, the IT sector has been facing severe headwinds globally. Despite these, I'm pleased to report that we managed to report good growth during the quarter and half year under review. We have reorganized our business into 4 high-growth business units, making us more market facing and customer focused. These business units are: Fintech; Hi-tech Media and Utilities; Transport & Logistics and Retail eCommerce.

Each business unit is now being headed by a leader responsible for ensuring that the company stays abreast of market trends and disruptions as well as the revenue and margin growth. In addition, this change will help us differentiate our offerings as the digital specialist based on domain in a fast-commoditizing industry.

Our realignment of business into focused verticals is on the back of our strategy and results obtained in the past thereof. We believe that the more we focus on verticals, the more we grow the business as we become more market facing. These verticals will be continued to be supported by our horizontal service offering spanning data, analytics, cloud solutions, legacy modernization, intelligent automation, product application engineering and quality assurance.

On business updates, the number of clients with annual spending exceeding USD1 million has grown from 15 to 17. We have added 2 new clients in the USD1 million category within the Hi-tech Media & Utilities vertical, thanks to our previous acquisition of Augmento, which facilitated the addition of these new customers in this sector.

In September 2024, the company made another acquisition of Ceptes Software Private Limited, which is a global sales force service provider that enhances the value of customers' sales force investments through consulting, digital transformation and innovative solutions. We are pleased to inform that the allotment of bonus shares has been completed in this quarter. The current quarter, the Board has also announced an interim dividend of 40 paisa, that is 40% of face value of INR1 fully paid-up shares on the post bonus share capital.

Now I would request 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 second quarter and half year ended of the financial year 2024-2025 under review. For the second quarter of financial year 2025, the revenues reported were at around INR215 crores representing a growth of about 13% year-on-year. The EBITDA stood at INR37 crores, which grew by around 3% year-on-year with the EBITDA margins being at 17.08%. The net profit for the quarter was around INR26 crores, which grew year-on-year by 4% and 2% quarter-on-quarter, with the profit after tax margins being at 12.15%.

For the first half of the financial year 2025, the revenues reported were at INR416 crores representing a growth of around 11% year-on-year. The EBITDA stood at INR72 crores, which grew by around 2% year-on-year representing an EBITDA margin of about 17.25%. The net profit was at around INR52 crores, which grew year-on-year by 3% and the PAT margins being at 12.43%.

Now coming to the revenues placed by geography. For the first half of the current year, the USA contributed 43% of our total revenues; Europe contributed 23%, while the remaining 34% came from Asia Pacific and other regions. The on-site revenue mix was 45% and offshore is at 55%. The revenue split across verticals for the current half of the year is as follows: Fintech contributed about 31% of our overall revenues. Hi-tech Media and Utilities contributed 42%, Transportation and Logistics contributed 16% and the last Retail eCommerce contributed to 11% of our total revenue.

The total employee count at the end of the quarter stood at 2,292, out of which 2,069 were technical with the utilization of the employees, excluding trainees, being at 84% for the first half of the current year. Moving to the balance sheet as of 30th September. The net available funds with the company were at INR150 crores.

That concludes the update on the quarter, and we can now open the floor for the Q&A session.

Moderator: Thank you very much. We will begin the question-and-answer session. The first question is from the line of Meet R from Equirus PMS.

Meet R: Thanks for the opportunity. First question is in terms of revenue growth for this quarter. So, if I look at the organic growth, excluding the recent acquisitions, revenue growth seems to be kind of flattish on QoQ as well as YoY basis. So, is my understanding in calculation, correct? And if yes, then what led to the subdued performance in Q2 on organic basis?

Aditya Krishna: The acquisition of Augmento contributed about INR8 crores, how much?

Niraj Kumar: The incremental for the quarter was INR8 crores.

Aditya Krishna: Incremental for the quarter of INR8 crores. So, between INR215 crores and INR202 crores, so we grew by INR13 crores. So, the organic growth was INR5 crores.

Meet R: On QoQ basis?

Aditya Krishna: Yes, on a quarter-on-quarter basis. I think that's more relevant. So, we are trying very hard to increase the growth rate. We are seeing signs of increased momentum. We are seeing signs of increased activity in our sales pipelines. And it will take us some time, but we'll get there. And it's difficult in a market which is commoditizing, it's difficult with these headwinds in the US market, which is our biggest market. So, it's been tough. But I'm not saying it's an easy task and your question is very pertinent. At the end of it, with the same capital we have grown, whether it's through acquisition or organic, both are growing organically as well as inorganically, and that's going to be our strategy going forward.

Meet R: So, related question in terms of vertical wise revenue. If I look at the vertical wise revenue, Fintech and Transportation & Logistics vertical, if I compare the first half FY25 revenue versus first half FY24 revenue, then it seems a 10% decline in both the verticals on a YoY basis, first half to first half. So just trying to understand the demand trends, maybe some demand headwinds in this vertical, if you can specifically highlight?

Aditya Krishna: Fintech has gone down because there has been a little bit of some challenges for us in our biggest account there. There's been some changes in the organization of our customer, some reorg, which has deferred spending, but that's going to pick up in the second half of this year. So, I think these are temporary blips which will get corrected over the next 6 months. I think over the next 2 quarters, you should see this correcting out.

Meet R: Okay. Understood. And third question regarding our recent acquisition Ceptes, so can you give some color about its margin profile? And what are the synergies do we expect from this acquisition?

Aditya Krishna: The biggest synergy is our building up capability on Salesforce. If you're familiar with the Salesforce platform, it is used by most medium to large enterprise organizations. And our target market is the mid-market, companies which are 200 million or 250 million in revenue to USD2 billion or USD3 billion in revenue. A lot of them, I would say, almost 75%-plus use the Salesforce platform. We are now going to be able to offer them capabilities in this space. It's a fast-growing market, it's a fast-developing market. You would have heard of most people when they talk about Salesforce, they think of CRM.

But Salesforce is not only CRM, CRM is the marketing cloud or the sales cloud, but they also have a service cloud, they also have a finance cloud, they also have a commerce cloud and they have a data cloud. And these are all very integral parts of today's focus. And most importantly, they have an AI part, which is called Agent Force. We are seeing a lot of interest in that space. And you will see in the coming quarters, our focus on Artificial Intelligence and AI and how that is changing the game for our increased farming of our existing customers as well as reaching out to new prospects.

So, Salesforce is going to be, from a sectors perspective, a big feather in our cap from a capability perspective. In terms of margin, it's about 15% EBITDA margin. We are confident of taking that up to 20%-plus because we'll be able to take those services to a lot of our existing customers.

Meet R: Thanks a lot for the answers.

Moderator: Thank you. The next question is from the line of Miloni Mehta from Monarch Networth Capital.

Miloni Mehta: Thank you for the opportunity. So, in this quarter, we see that the EBITDA margins have been a little on the lower side when we compare it even on a year-on-year basis. It's mainly because of increase in employee cost. So, I just wanted you to throw some light on that? And also, how do we expect it in H2?

Aditya Krishna: The only reason for muted EBITDA has been the increments. We gave the appraisals and the increments to our workforce, to our employees effective 1st July. So that has had an impact this quarter. It will get corrected. Normally, this impact happens in the first quarter. This year, we've deferred it to the second quarter. This will get corrected out in the next 6 months.

Miloni Mehta: Yes. So now Ceptes is contributing 15% to it. Will we see a number higher to 18% as to what we are targeting or it will be in the range of lower to like 17%?

Aditya Krishna: Between 17% and 18% is what you can expect for the full year.

Miloni Mehta: Okay. And sir, for this quarter, how much was the contribution from Augmento and what is the run rate that we see moving ahead?

Niraj Kumar: So, the total contribution from Augmento was around INR12 crores for this quarter, and that we are expecting it to be the run rate.

Miloni Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mehta from Bafna Investments. Please go ahead.

Rohan Mehta: Thank you for the opportunity. Sir, my first question would be how much can we grow our Ceptes over the next few years?

Aditya Krishna: There is a lot of opportunity in the Salesforce space. Now how much can we grow? I mean it's a difficult question to answer because what Salesforce will do is, it will not only allow us to offer sales force capabilities to our existing customers, we'll also be able to open new accounts through this capability or through this offering. And when we open that account, we might sell many things other than Salesforce.

So it's a difficult question to answer, but in summary, what I can say is it's a very essential part of our capability build. All our acquisitions so far have been capability-driven acquisitions. This is also one more capability-driven acquisition. It will add to our capabilities, which will add to our ability to farm existing accounts as well as open new prospects.

Rohan Mehta: Okay, sir. Got it. And sir, my next question would be earlier we had given a guidance of INR1,000 crores in revenue terms for FY25 and till date, we've achieved close to INR416 crores-odd of revenue. So, are we sticking to the guidance or is there any alteration in that?

Aditya Krishna: As of now, we are sticking to the guidance. It's a tough target. We're going to try and get to as close to it as possible.

Rohan Mehta: And sir, what would drive that growth?

Aditya Krishna: Existing customer growth. Like I said, we've got another two USD1 million-plus customers. If we can grow them rapidly, that will help us. Existing customer pipeline is picking up momentum. There's a lot of activity in our sales pipeline. In the last call, you would have heard, we have added sales teams in the US as well as in the UK. It takes time for them to add to the pipeline, bring value, bring sales.

That momentum is picking up. So organically, the engine is starting to show results. And that engine, we are very confident will pick up momentum in the coming quarters. Now INR1,000 crores seem a tough ask today. It's going to be something that we are still aspiring for. We're still pushing our teams. Let's see how close we get to INR1,000 crores, but that's still our goal.

Rohan Mehta: Sir, just last question. Sir, will H2 be better than the H1?

Aditya Krishna: Of course.

Rohan Mehta: **Ok sir** thank you.

Moderator: Thank you. The next question is from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.

Pratap Maliwal: Thanks for taking my questions. Sorry, if I missed this out, but did you point out the revenue base and the PAT margins of the recent acquisition of Ceptes, what is their revenue base?

Niraj Kumar: Their revenue base is around INR20 crores, and their PAT margins is in the range of 12%.

Pratap Maliwal: Okay. Understood, sir. And just one confusion I had regarding Augmento. Initially you had said that the contribution for this quarter was INR8 crores, and then you said that total contribution was INR12 crores. So how much did Augmento actually contribute in our incremental revenue this quarter?

Niraj Kumar: Yes. So, what we have meant was, the question was how much of the increase came from Augmento. So, the increase which had come in from Augmento because that was acquired in the month of June, so we had some revenues which had come in from them around INR4 crores of revenue, which had come in, in the previous quarter and current quarter's revenue were INR12 crores. So, the incremental revenue on account of Augmento was INR8 crores and the total revenue from Augmento was INR12 crores. I hope that clarifies.

Pratap Maliwal: So Augmento revenue in Q2 was INR12 crores, is it?

Niraj Kumar: Correct.

Pratap Maliwal: Okay. And I just had 1 question regarding Augmento. So, like we call it, it's part of our digital engineering offering. So, what exactly is our offering here? What problems do we solve for our clients? What is the use case that Augmento kind of brings in for the clients?

Aditya Krishna: It is the entire SDLC. When we say digital engineering, it is application development, product engineering, product sustenance, product support, enhancements, the entire life cycle of software development is what we are referring to in digital engineering. And today, that is a hot area not only because of the large number of spends in this space, but also because of Artificial Intelligence. So, we have a number of frameworks in the company. Augmento also contributed towards that, which are helping us get business in the digital engineering/product engineering space.

Pratap Maliwal: And just finally, what is the amount that we are paying for the recent acquisition of Ceptes? What is the acquisition amount?

Niraj Kumar: The overall consideration, including the earn-out will be in the range of INR62 crores, about.

Pratap Maliwal: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vikas Srivastav from RBC Financial. Please go ahead.

Vikas Srivastav: A couple of questions. A little bit on Ceptes. While I understand the potential in terms of integration hitting the ground running, where are we in terms of, is the acquisition complete in all respect? And will there not be a gestation period between now and maybe 3 months, 6 months before the results from Ceptes start coming in?

Aditya Krishna: Vikas, these are small businesses. These are not large businesses, which require major integration efforts. Predominantly, what is the integration? It's the accounting or the finance part, which it's very easy to migrate now because we're all on Microsoft Dynamics. So whatever Ceptes or the company we acquire, we quickly within a month to 5 weeks, we're able to migrate them to Microsoft Dynamics. So that's one part. Then the front part, which is the CRM, the sales pipeline, we use an in-house tool called Saktrack. That's something where our time sheet system is, where our sales pipeline is, CRM is. That is also effective 1st November for Ceptes. So, integration has happened. The teams are working with our sales teams to take this offering to existing customers. So, we have hit the ground running. There's going to be no lag from adding that capability to our set of offerings.

Vikas Srivastav: My second question was on Augmento. You are projecting a flat contribution. When we bought Augmento, there was a potential which you estimated. But quarter-on-quarter and next 2 quarters, we are still talking about INR12 crores contribution per quarter from Augmento. Is that a conservative estimate? Is there an upside risk to that number? Where are we on that? Or are you extrapolating it on a flat basis and telling me that, okay, this is the minimum we'll do?

Aditya Krishna: Augmento is contributing about INR4 crores a month to our revenue and that is something that we can take at least for the next 6 to 8 months.

Vikas Srivastav: So, you're saying that, that will remain more or less stable at INR4 crores a month for the next 6 to 8 months. One doesn't see any major upside on that?

Aditya Krishna: Not immediately. Like I said, there are two USD1 million accounts in that customer. We are mining those accounts. We will see improvement, but we're not factoring in it. I'm just saying that for now, let's take INR4 crores a month from Augmento.

Vikas Srivastav: Okay. Aditya, the next question is on first half versus second half. We've done about INR416 crores. I could have math, which is wrong. If you're still targeting, we're talking about another INR580 crores in the next 2 quarters. We are into November, which means that out of the 6 months, 1 month is already gone. So, we have actually 4 months and 20 days left in this quarter. At these kind of numbers in terms, you're still holding on to your bold call or at least a target, which you're admitting that it's not an easy task. But you made sure you have some visibility, right? 40 days in these 6 months has gone.

What is it the kind of bag? We are still targeting INR1,000 crores, what kind of range are we talking about? What is the downward risk to this INR1,000 crores? Is it 10%, 20%? How much of it is already in the back? And considering that we have invested in this in the Salesforce now this investment has gone on for a while and things have been in the pipeline, is it reflecting in an already existing crystallized order book, which we have to execute over the last 5 months because there has to be a time lag between new orders and delivery in the next 5 months? And if you can give us a little more color on where you are getting your ambitious confidence or this very stretched confidence, where is it coming from? And what's the comfort level? Where are we on this? How should we be looking at it?

Aditya Krishna: Vikas, if you remember in our last call, you asked me this question about sales teams. Are the guys we have hired still with us? And I told you that they're all with us. Most of the sales guys joined us in this financial year, the new sales guys. Maybe one joined us at the fag end of the last financial year. It takes time for these sales guys to show results. They have to understand the company. They have to understand our target market. They have to understand our offerings.

We have started to add pipeline, started to add momentum, which is why I've been saying that we are seeing increased levels of activity in the pipeline. And we saw one big win of a large Hi-tech company in California recently, which we added to our logo, and we're very hopeful that there will be more. So organically, it takes time to build the momentum, and I'm very confident that it's happening. Can it be faster? Yes, it can be faster, but it's happening. That's number one.

Number two, on the range of revenue, you're right, INR1,000 crores is an ambitious goal. I don't want to let it go, Vikas, because letting go is the easiest thing. And everybody is listening to this call, including the sales teams. The minute I say that, yes, we're letting go of the ambitious goal, I can guarantee you that forget that goal, we won't even hit the lower end of the range. So the range that we're looking at and I'll be very upfront with you is on the downside we're looking at anywhere around INR870 crores which is about INR100 crores more than last year. And on the upside, I'm still sticking to around INR1,000.

Vikas Srivastav: Okay. Fair enough. So you're saying that 870 to 1,000, so -- but currently, if you are doing -- correct me if I'm wrong, we have done about 416 in the first half, right?

Aditya Krishna: Right.

Vikas Srivastav: First half. So we are now looking at anywhere between 870 to 1,000 or somewhere in between or whatever and hopefully, 1,000, but you're saying 1,000 is still within the realm of possibility. It can -- in terms of structurally, in terms of delivery, in terms of time lag between -- and are you factoring in more acquisitions of this number in the next 6 months? Is there a possibility?

Aditya Krishna: Yes, there is a possibility. We are working on a couple of deals, but again these are not going to be -- we don't have that much money. So these are going to be small deals because...

Vikas Srivastav: Yes. Sorry, I just -- so therefore, you're talking about these numbers more or less coming wherever they come from mostly organically?

Aditya Krishna: Correct. And that's the -- we have to fix that problem of organic growth. See, acquisitions only hide the problem. We need to fix the problem of organic growth. And that is where I'm spending all our time. My team is spending all their time because if we can fix that problem of momentum in our pipeline, then next year, the year after doesn't remain a problem.

It's the first hump we have to get over which can give confidence to the sales guys, make them successful so that they stay with the company, make sure that all the muscle is behind the sales guys so that they're able to grow the business, existing accounts, new prospects. Once that starts kicking in, then the momentum takes you forward. If we keep adding acquisitions, it just -- it gives you a short-term kick, but it doesn't solve your problem.

Vikas Srivastav: So can we therefore say that about 870 is we have those signed contracts and other things remaining the same and any mishap here and there, can we say that 870 is in the back, assuming there are no aberrations?

Aditya Krishna: Yes, you can say that.

Vikas Srivastav: Okay. And typically from -- in all our digitalizations, if I ask you for a general rule, typically, if you get new contracts between now and the next 1.5 months, till which month do they still kick into the revenue? What is the time lag between signing a contract? And I'm asking a very difficult question. And -- between signing a contract and actually converting into revenue in the financial year. What would be your cutoff date beyond which the new contracts would spill over into next year?

Aditya Krishna: Yes, I would take a guess in about 3 weeks. So if I was to sign a contract today, we should be able to take some revenue within 3 weeks.

Vikas Srivastav: Okay. The time span is so short, right?

Aditya Krishna: Yes, very short because we are a focused niche player. We are offering services for which we have capability and resources available.

Vikas Srivastav: Got itl. If that be the case, why are we in terms -- isn't our EBITDA forecast of 17% -- I'm assuming that as of now, of course, wage hike has happened, are we planning to hire more people in the sales force in the next 6 months or are we going to just wait for some returns this year?

Why is our EBITDA margins or forecast still 17% to 18%. In terms of operating leverage and scale, whichever way whatever you want to use, should our EBITDA margins not be above 18% then? What is stopping it from being above 18%? Is it possible or is it again that's not possible or if I'm missing something?

Aditya Krishna: Very difficult above 18%, Vikas, because historically what has helped is the rupee-dollar and that's not happening. Rupee-dollar or the rupee weakening is not happening to the extent it has happened in the last 5 years, 6 years. So I think 17%, 18% is probably the max for us from a growth perspective because keep also in mind, Vikas, that we need the business. So when we go into a new prospect, we might compromise on our rate cuts because unless we're in the game, we can't grow the business.

So we will -- whatever it takes, we will get into that account, even if it means discounting, even if it means giving something away for free to enter that account because once we're able to demonstrate the value we bring, then at a later stage, we're able to raise prices. And the customer is also okay. Customers also judging us. So you will see over the next two, three, four quarters, you will see a great impact of how AI is changing our business. And that is where a company like Saksoft is very well positioned versus some of the larger companies. They have much more to lose because of AI. AI is a disruptor.

Now when there is a disruptor, market leaders lose the maximum. And we are not a market leader by any stretch of imagination. So we have the maximum to gain while the others have the maximum to lose and that is what we're going to capitalize on. It's a bet we're going to take, and you will see that in the next two, three, four quarters. I'm very hopeful and very motivated and encouraged by what we see on the AI front.

Vikas Srivastav: So I would like you to spend a little more time, Aditya, and explain this to me and others on this call a little better in terms of this opportunity and the logic. I may be a little handicapped to understand it better, but others might and maybe if you elaborate on this, it might...

Moderator: Sorry to interrupt Mr. Vikas sir I just request you to return to the question queue.

Vikas Srivastav: Okay. I will do that. Thanks.

Moderator: Thanks. The next question is from Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, when we look at our first half performance and the segmental revenue, we have seen the growth coming in the Hitech, Media & Utilitiessegment. And Fintech Transportation remaining lower, retail e-commerce getting a big bump. So if you could just explain how are these verticals likely to look like for H2? And secondly, on the other expenses line item also when we see the first half, those have gone up from say INR20 crores to INR34 crores, so are the variable costs if you could just explain the nature of the same?

Aditya Krishna: I'll answer the first question on the verticals. Our biggest vertical today is Hi-Tech Media & Utilities. And that is where you will see the maximum growth in the coming quarters. We are very bullish about Hi-Tech. It's -- there, a lot of spending is happening in our biggest market, which is the U.S. Also, our capabilities are best aligned towards Hi-Tech again because of the advent of artificial intelligence. So in the next half as well as the next year and the years ahead, Hi-Tech is probably going to be the largest vertical for us.

What is going to catch up is Fintech. We've had a little bit of a setback on Fintech. As I explained earlier, our largest customer has had some changes, so they have deferred spending, that will get corrected over the next few quarters, but Fintech will catch up. E-commerce and retail also, we see as a huge spend pool because companies are spending more and more on e-commerce. They're transforming the platforms on which they are working.

Logistics has had a rough year because there has been a consolidation in that space in the US market. There's been a lot of bankruptcies in that space. There is a shakeout. It contributes about 16% of our revenues. I don't see great growth in that, but it's a sector where we have a lot of expertise. It's a sector where we have a lot of domain knowledge. And I'm confident that in the coming years, it will also start showing an upward trend. So that's as far as the verticals are concerned. You had a question on the expenses. Niraj will answer that.

Niraj Kumar: Sure, Aditya. Sure. So what you see on the expenses line when you're referring to an increase from almost INR20 crores to INR34 crores, this is predominantly because of our retail e-commerce vertical. In that vertical, we have a very strong partnership with HCL Commerce. And as a part of the revenue which we generate, there is a component of the license of the HCL Commerce platform, which gets sold to our customers. So the cost associated with that is not captured in the employee line, it gets captured in the other expenses line. So that is a cost which is proportionate to the revenue, which is the main reason for the increase.

Saket Kapoor: And sir, we have also seen our finance cost and it is also moving up significantly from the first half. It is equal to what we paid last year. So if you could just explain, these are the bank charges or what could be the reason for this increase? And then two follow-ups I have?

Niraj Kumar: Sure. See, the finance charges, what happens is when we do our acquisitions, there is an upfront payment which is involved and there is a deferred payment in terms of earn-out, which we pay over the next 2 years. These payments which have to be paid in the subsequent years from an accounting perspective gets classified as financial liabilities. And they have to be fair value to the current date. And you will have to do an interest reversal over it over a period of time.

So predominantly, these are hypothetical interest charges which are the unwinding charges in relation to the future financial liabilities, which we will incur. That is the main component of this increase in the finance costs.

Saket Kapoor: So these are only provision increase and not actual cash outgo as of now?

Niraj Kumar: Yes, predominantly not. What will happen? The actual cash outflow will happen when the earn-out payments happen to the founders when they meet their targets.

Saket Kapoor: Okay. And for the other income component also, sir, we have seen that rising gradually. Does it have any proportion to the rupee-dollar equation or what attributes to this doubling of other income for the first half?

Niraj Kumar: First half, I think whenever you look at previous year, it becomes very challenging because in an IT company, it's more sequential quarter-on-quarter which you need to look, but definitely the exchange has been a little favourable, especially if you see the GBP movement, which has happened in the current year, it has gone up significantly. So a large chunk of it is predominantly exchange plus because of some of the treasury-related operations, the idle funds which were invested, they have also given some better results because of the higher rates which are available in the market, either in terms of fees or mutual funds. That is the main reason for the increase in the other income line.

Saket Kapoor: Right. Sir, can you specify what is the cash on book?

Moderator: Sorry to interrupt.

Saket Kapoor: Ma'am just these questions I will join back.

Moderator: Okay sir.

Niraj Kumar: Yes. The net cash on book as on date is around INR150 crores.

Saket Kapoor: Okay sir. I have the couple of questions on the verticals and join the queue and respect the time.

Moderator: Thank you. The next question is from the line of Meet Rachchh from Equirus PMS. Please go ahead.

Meet R: So from a capability standpoint, we have recently concluded the Ceptes acquisition to gain sales force capability. So just trying to understand what is the next set of capabilities we are trying to target in terms of our hyperscaler partnerships network, etc maybe from acquisitions, not in this year, but let's say, in FY '26 or FY '27?

Aditya Krishna: We're looking for an acquisition. I know you guys have an M&A team. So we're looking for an acquisition, a strong Azure -- Microsoft Azure partner or a strong ServiceNow partner.

Meet R: ServiceNow and Azure?

Aditya Krishna: Yes.

Meet Rachchh: Okay. And sir, coming to Q3 so in terms of furloughs, do we expect the seasonal furloughs to be there as usual or there is any change in the furlough pattern this time?

Aditya Krishna: You're asking your question if Christmas going to happen this year or not? Of course, there will be furloughs.

Meet Rachchh: No. So in our two to three peers what I have observed is in some of the verticals, furloughs have been preponed to Q2, that would be maybe client-specific things, but in general terms, you are expecting furlough to be as usual, right?

Aditya Krishna: Absolutely.

Meet Rachchh: Okay. And what was the attrition for this quarter, Q2?

Aditya Krishna: 13%.

Meet Rachchh: Okay. Thank you.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Yes, sir. Thank you for the opportunity again. Sir, looking at our verticals, you were mentioning that we are looking for growth on the higher side, especially for our High-Tech media verticals? And how is this transportation and logistics vertical looking like in terms of the deal pipeline?

And as you mentioned about AI, we did read an article today in a leading business newspaper, which also alluded to the fact which you are articulating to the midsized IT firms are at an advantage and they have also named one of the organization, so it's in public domain. Sonata Software getting USD100 million deals also that has been aided by AI. So are we also guiding to that part of the theory which you just -- Mr. Aditya mentioned about AI being a big enabler in getting larger-size deals going ahead?

Aditya Krishna: Yes. AI is here to stay and AI is an enabler for anything in technology from development work, to infrastructure work, to customer service work and to infrastructure work. So I don't think any technology company can hide AI and how AI will disrupt their business model in the coming quarters and the coming years. We are no exception, because we are a niche player, we are a Tier 3 supplier, I would even call ourselves at the lower end of Tier 3. We have the maximum to gain.

And I -- that is what I was telling Vikas earlier, we have the maximum to gain, because when there's a disruptor, the market leader loses the maximum. So we are very bullish on AI and we are working extremely hard to see how AI can complement what we offer. That's number one. Number two, we are using partnerships very extensively in each of our verticals to help our lead generation and our new customer acquisition.

So, for example, since you brought logistics. In logistics, we are looking at partnerships with Cleo, which is an integration tool. We're looking for partnership with CargoWise which is a TMS supplier, a partnership with Mercury Gate, again a TMS supplier. So these partnerships will help us open new accounts as well as deepen our footprint in existing accounts and we are working on partnerships in all the other verticals. In Retail, Niraj already mentioned, we have a very strong partnership with HCL Commerce.

We also have a strong partnership with Adobe on the commerce side. On the Fintech side, we're looking at partnerships with Plaid, with Modern Treasury, with Encino, with Q2 and Hitech, we're looking at partnerships with BTC as an example. So you will see a lot of our focus will be on partnerships that we can add not only new logos, but also deepen our relationships with existing accounts.

Saket Kapoor: Right, sir. And sir, one small understanding and correct me here if in our presentation also, we could provide some more insight on the type of -- on the number of acquisitions which we have done over the period of time and how have those contributed to the revenue and the profitability that would suffice a lot of our questions. And also going ahead, whenever we acquire since we are in the foray for acquisition, we will grow by both organic and inorganic. So if you could present a slide in the presentation that would be very helpful for us so that a like-to-like comparison can be easily drawn?

Aditya Krishna: What will be very helpful for us is if you -- since you are attending a lot of these calls, if you can give us a sample of what you mean, we will definitely include it.

Saket Kapoor: Yes, sir, I can take offline. Thank you sir and all the best for the very insightful discussion and giving us an opportune time to discuss the same in length.

Moderator: Thank you. The next question is from the line of Udit Kanodia an individual investor. Please go ahead. As there is no response from the participant, so we'll move to the next. The next question is from the line of Vikas Srivastav from RBC Financial. Please go ahead.

Vikas Srivastav: So the earnout, I understand is that finance earnout, future potential earnout at assuming that they meet their targets have been already accounted for in the finance cost? Is my understanding?

Niraj Kumar: No, Vikas, it's Niraj. Just to clarify what we meant is since there is a liability to pay the earnout in future, that liability is accounted for in the books and that liability is fair valued. Let's say, if we have to -- we assume that we need to pay INR50 crores at the end of 1 year using the current market rates of 8% to 10%, you would fair value it at around INR45 crores or INR46 crores currently and the INR4 crores would be unwound as interest expense over the year. That is what I meant.

Vikas Srivastav: So -- okay. Can I ask that question? Therefore, are you saying that approximately 70% to 80% of your potential earn-out liability has been provided for?

Niraj Kumar: The 100% of the potential liability is sitting in the balance sheet as financial liabilities. We have to provide the liability for the future estimated payments as a part of our financial statement. So whatever best estimate we believe is the earn-out which is going to happen that is already provided in the balance sheet.

So if you look at the liability, there will be two components under both the noncurrent liabilities, financial liabilities will be there. And under the current liabilities, there will be financial liabilities. So all the amounts is already provided.

Vikas Srivastav: Yes. To provide a credit for liabilities, you have -- the debit has to hit the profit and loss account, right, Niraj? So my question is that -- if you don't make -- and okay, let me put it simply, if we don't make any more acquisitions, this financial liability which has come in this quarter, this financial cost will come down significantly from next quarter onwards. Is my understanding right?

Niraj Kumar: That's correct.

Vikas Srivastav: That's what I wanted to know. So that was one. My second question was what's the breakup of dollar-euro and the pound-sterling breakup of a turnover today?

Aditya Krishna: Dollar will be based on what we've seen in the Geo-wise. So roughly 45% will be the dollar denominated. Pound will be almost 25% which is more or less the geo breakup which I have provided. So all the euro, which you see is predominantly GBP. So that's around 23%. And the balance would be INR and Singapore dollar, which is the 34% from the Asia-Pacific.

Vikas Srivastav: And when you make forecasts or whatever estimate of your EBITDA. Specifically for dollar, are you considering your past rupee not weakening enough? What kind of -- how do you put a rupee conversion or exchange rate number to that?

Niraj Kumar: See, it's a very difficult calculation, Vikas, to be very frank. The only thing which we try and do is we can't really estimate how much it can depreciate or appreciate, but from an exchange factor perspective, what we do is we take forwards and we cover more than -- I won't say more, nearly 50% of our exposure for up to 12 months. Earlier, we used to cover up to 6 months. Now we cover up to 12 months. So that whatever estimate we take in the beginning of the year, at least 50% of that holds good.

Vikas Srivastav: Got it. And if the rupee weakens significantly, there's an upside there.

Aditya Krishna: Absolutely.

Vikas Srivastav: Okay. My next question, coming back to Aditya. Aditya, on the AI, and I think this is my last question. In terms of AI enabler, are we saying that we will be using AI to execute better and sell better or are we saying that because clients are getting disrupted by AI, they will need us more. Would you just elaborate on that, please?

Aditya Krishna: Yes. Almost 55% of our revenue -- 50% of our revenue comes from digital engineering. And digital engineering is the most evidently impacted by AI. Now I'll give you an example. Quality assurance or testing is a big part of the software development life cycle or what we call digital engineering. I mean these are words which are -- or phrases which are used interchangeably, product engineering, digital engineering, SDLC, etc.

Now testing is a big part of the SDLC life cycle. We have developed a tool called TestVerse . It is an AI test case generation. It uses AI to generate test cases which were earlier done manually. It saves 40% effort. Now we can go to a customer of Persistent and say, look, we can do what Persistent is doing for you at 40% less because of this tool. Now Persistent is also doing the same. It's not that we are flying the space shuttle or something that they can't fly. It's just that for them it's cannibalization. For us, it's new business.

Vikas Srivastav: Got it. So the smaller and people who are more hungry, who are growing are in a better position to use -- so basically how you can deliver more value to your customers in terms of execution. Are these products, AI-enabled products, which you have developed or are developing internally is where you get an advantage over others because obviously, a Persistent -- psychologically, right, if somebody like let's not name any company, but if your competitor which is larger, he needs to then probably and which is change is always very difficult.

So in terms of reducing people, manpower, systems and getting psychologically used to the idea of charging 40% less without it actually improving their margin really is where your advantage is?

Aditya Krishna: Yes.

Vikas Srivastav: Yes. And my follow-up question would be that this is what we are using. And in terms of sales effort, we would be at par with another Persistent or anybody if you are using AI. It's more on the execution side where the benefit comes?

Aditya Krishna: Yes. On the sales side, larger companies would have an advantage because they obviously have larger sales teams. We have smaller teams. So we would be on a back foot vis-a-vis larger companies there, but from a value perspective, we will be able to demonstrate better value.

Vikas Srivastav: And there is a lot of the proof of concept and in the last 6 months.

Moderator: I am sorry to interrupt Vikas sir.

Vikas Srivastav: Just let me complete this question, please, and I'm done. I don't think that too many people would be waiting. So from this entire process and flavor if there is something that you've already kind of tested and established and you're seeing very positive signs here?

Aditya Krishna: Yes, because we have these frameworks ready. So TestVerseis an example of test case generation using AI. On the development side, we have something called TaskPilot which is used like Microsoft Copilot. It helps in the development cycle. So these frameworks are in place. We can demo these frameworks to prospects as well as customers. So what I'm talking about is not vapourware. It's actually in place.

Vikas Srivastav: Got it. That's all from me. Thank you.

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

Aditya Krishna: We thank everyone for taking our time to participate in this call and for their interest in Saksoft. I hope we've been able to answer some queries. And in case you have 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 Networth Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.