happiest minds
The Mindful IT Company
Born Digital . Born Agile

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February 11, 2025

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 February 05, 2025

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024, please find enclosed the transcript of the Earnings Call held on February 05, 2025, post announcement of financial results of the Company for the quarter and nine months ended as on December 31, 2024. 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: 2025.02.11 14:43:12 +05'30'

Happiest Minds Technologies Limited

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

"Happiest Minds Technologies Limited
Q3 FY '25 Earnings Conference Call"
February 05, 2025

MANAGEMENT:	**Mr. Ashok Soota** – Executive Chairman
	Mr. Joseph Anantharaju – Executive Vice Chairman and Chief Executive Officer – Product and Digital Engineering Services
	Mr. Venkatraman Narayanan – Managing Director and Chief Financial Officer
	Mr. Rajiv Shah – Executive Director
	Mr. Ram Mohan – President and Chief Executive Officer – Infrastructure Management and Security Services
	Mr. Sridhar Mantha – President and Chief Executive Officer, Generative AI Business Services
	Mr. Sunil Gujjar – Head of Investor Relations
MODERATOR:	**Ms. Aditi Patil** – ICICI Securities

Moderator: Ladies and gentlemen, good day, and welcome to Happiest Minds Technologies Limited Q3 FY '25 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Aditi Patil from ICICI Securities. Thank you, and over to you.

Aditi Patil: Thank you, Steve. Good morning, ladies and gentlemen. Thanks for joining us today on Q3 FY '25 Earnings Call of Happiest Minds 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 Mr. Ashok Soota:, Executive Chairman; Mr. Joseph Anantharaju Executive Vice Chairman and CEO, Product and Digital Engineering Services; Mr. Venkatraman Narayanan, Managing Director and Chief Financial Officer; Mr. Rajiv Shah, Executive Director; Mr. Ram Mohan, President and CEO of Infrastructure Management and Securities Services; Mr. Sridhar Mantha, President and CEO, Generative AI Business Services; and Mr. Sunil Gujjar; Head of Investor Relations.

I will hand it over to Sunil for Safe Harbor statement and to take the proceedings forward. Thank you, and over to you, Sunil.

Sunil Gujjar: Thank you, Aditi. Good morning to all participants in the call. Welcome to this conference call to discuss the financial results for the third quarter ended December 31, 2024. I'm Sunil, Head of Investor Relations. We hope you had an opportunity to review the earnings release issued yesterday evening.

For this call, let me quickly outline the agenda. Ashok will begin the call by sharing his perspective on the business environment and our results. Venkat and Joseph will then speak about our financial performance and operational highlights, after which we'll 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.

Ashok Soota: Thank you, Sunil, and good morning to everyone. Happiest Minds has reported another quarter of strong deal momentum and performance with a revenue growth of 28.2% year-on-year in constant currency, and we are set to report our best performance since the IPO in absolute terms. We launched four transformational initiatives this year, which included the acquisitions of PureSoftware and Aureus. The success of the same is evident from our year-over-year growth.

The other three initiatives will accelerate our organic growth in the year ahead. These initiatives are the creation of the GenAI business unit, verticalization into six industry groups and induction of our Chief Growth Officer.

At our Generative AI Business services, we are collaborating with our clients to explore opportunities for leveraging Generative AI to enhance business value, increase efficiency and productivity. Our goal is to integrate generative AI features into their products, services and provide them with a competitive advantage.

The adoption of this promising technology has picked up speed with our customers embarking into enterprise-wide adoption. Apart from the projects we have already delivered in these few months, we have about fifteen projects in a proof-of-concept(PoC) stage, which will lead to significant orders and projects in the next fiscal.

I will leave Joseph to describe our success in the other transformational initiatives. We will persist in advancing the transformation agenda we have set forth, which I believe will position Happiest Minds for superior performance in the years ahead.

Venkatraman Narayanan: Thank you, Ashok. Good morning, all. We continue our march into the second half of this fiscal with a good set of numbers. A 28.2% year-over-year growth in constant currency, our industry-leading performance has only accelerated since the beginning of this fiscal. As Ashok alluded to, our results are showing the impact of the solid execution banking on our transformational agenda that we undertook at the beginning of this year.

Our revenues for the quarter in dollar terms stood at US $ 62.7 million. Lower working days, higher leaves and furloughs affected a seasonally soft quarter. However, we were able to compensate for the same by virtue of higher volumes and improved utilization.

In rupee terms, we reported a total income of ₹ 554 crores, showing a growth of 0.9% Q-o-Q and about 27.5% Y-o-Y. EBITDA, including other income came in at about ₹117 crores, which is 21.1% of our total income compared to 21.7% in the previous quarter. EBITDA has grown 11.1% over the previous year.

We have maintained our margins despite continuing to make investments into our new business unit of Generative AI Business Services, which continues to be in an investment mode. The fast-paced changes one is seeing in the AI space is something we must take head on as we try to develop and grow our GBS business.

The other transformational steps of Verticalization and establishing a new logo sales team in the US to drive new sales which is a departure from the structure we had in place until recently of a hybrid sales team are also investments. Our EBITDA margins after the above investments continue to be within the guided range of 20% to 22%. This is our 18th quarter where we have performed in line or ahead of our margin guidance. Operating margins stand at ₹92.7 crores which is about 17.5% of our total income and has shown a growth of 12.5% y-o-y.

Adjusted for investments on GBS, the new sales team and investments in verticalization, EBITDA and operating margins would have been like the previous year and at least a couple of percentage points higher than what has been currently reported.

Our Profit Before Tax (PBT) for the quarter came in at ₹69 crores, which is 12.5% of our total income, showing a sequential growth of about 1.8%. Year-over-year growth of PBT, I would say it's not very relevant as we have certain large noncash charges related to acquisition in this quarter and the previous quarter. Profit after Tax (PAT) came in at ₹50 crores, showing a sequential growth of 1.2%.

Given the non-cash charges, a metric which reflects the health of our business, our growth and profitability is the Cash Earnings per Share. Cash EPS removes the noise one sees from GAAP accounting for these non-cash accounting costs. Our cash EPS for the quarter was ₹6.16, showing a good year-over-year growth of 12.6%. Annualized Cash EPS stands at about ₹24.6 per share compared to the ₹22.93 in the previous year.

A quick highlight of the performance for the nine months. We reported revenues of US $181 million, showing a growth of 24.8% in constant currency. Total income in rupee terms was ₹1,591 crores, showing a growth of 25.6%. EBITDA stood at ₹352 crores, growing by 12.6%, while operating margins at ₹278 crores grew by 8.4%.

We reported a healthy cash and cash equivalent balances of about ₹1,495 crores with a continued strong conversion ratio of 97.5% of EBITDA. Our Day Sales Outstanding (DSO) continues to be stable at about 84 days. Capital ratios of Return on Capital Employed (RoCE) at 21.8% and Return on Equity (RoE) of 14% on an annualized basis continue to remain strong, and we continue to focus on these metrics.

We have flexed our delivery engine with an increased uptick in our utilization levels for the quarter stand at about 78% compared to the 76.3% last quarter, and 76.7% for the same period last year. We must get the utilization numbers up and this is a lever available to us, and we are working to get these back to the 78% to 80% number that we earlier used to have.

Campus graduates are slowly getting into billable mode, and this is going to help on with the utilization numbers. We have reported net people additions in Happiest Minds of about 50. We ended the quarter with 6,630 Happiest Minds. Attrition has seen a small uptick, and it stands at about 15.3%, which we believe is more a seasonal phenomenon, and we expect this to trend downwards in the next quarter.

Finally, I'm happy to share that on 2nd February, we signed agreement to acquire the Middle East business of GAVS Technologies Limited. Intention of this transaction is to consolidate existing customer relations in the region, along with a local delivery team with capabilities in application development, maintenance and infrastructure services. Almost all the business that comes to us through this consolidation will fall within the Banking Financial Services and Insurance(BFSI) vertical and the Infrastructure Management and Security Services (IMSS) business unit. The transferred business comes with 90-plus people, a few very good customer relationships.

I take this opportunity to welcome the newest Happiest Minds to our family and now look to expanding on the relationships by taking our capabilities in BFSI vertical, Arttha banking and other capabilities into these acquired accounts. Middle East will become a significant contributor over the next year, and we will be making more investments in the region.

Talking a little about the future, we aim to close the year with margins to be in our guided range of 20% to 22%. For the nine-month period, we are ahead of those guidance number.

On revenues, as mentioned earlier, we had given a forecast, again, not a guidance, of about 30% to 35% growth for the year. Consolidation of PureSoftware and Aureus got slightly delayed in our first quarter. Due to which, we had a shortfall in the growth numbers in the first quarter. However, as you may have noticed, we have in subsequent quarters done a Q-o-Q growth of 27% and 28% and intend to do a similar if not better number in Q4, and our attempt will be to come as close as possible to the 30% growth number in constant currency that we had set for ourselves.

Joseph Anantharaju: Good morning, everybody. As we reflect on the past quarter, it's encouraging to note that we have maintained our momentum on our transformation agenda, even during a period typically characterized by seasonal weaknesses such as furloughs and vacations that result in fewer working days. I'm pleased that we have achieved solid revenue growth while upholding our impressive margin profile. This performance reaffirms our commitment to driving sustainable progress and adapting effectively in a dynamic business environment.

Product Digital Engineering Services led the performance with a growth of 28.2% year-on-year. All our focus markets have reported good set of numbers. Seven out of eight verticals have registered good growth with the exception of EduTech, which is seeing some softness in some subsegments. Our customers rely on us for a distinctive blend of services that encompass engineering, transformation, data analytics, artificial intelligence, cloud solutions and cybersecurity. With a dedicated team of 6,630 professionals at Happiest Minds, we embody a diverse array of roles, strategists, industry experts, functional specialists and technology aficionados.

Together, we collaborate closely with our clients across various industries to not only understand their unique challenges, but also to shape and deliver exceptional value-aligned strategic goals. We continue to make progress in our efforts to build large customer accounts. During the quarter, we have added another US $10 million customer taking account in this cohort to three. The number of customers in the US $3 million to US $5 million cohort has increased by one to a total of seven. We worked with 278 customers and our average revenue per customer increased significantly during the quarter to $898,000 inching towards the $1 million mark that we set as a goal.

We have eighty five billion $ corporations that are customers with more than US $1 billion in annual revenues who contribute to 47% of our overall revenues. To put things in perspective, this count of US $1 billion customers was sixty same time last year. These customer engagement metrics demonstrate our keen focus on customer happiness and effective execution in terms of account mining, farming and acquiring significant new clients.

The verticalization of our industry groups, which we announced earlier this year, is now empowering our sales team to collaborate closely with domain experts within their respective sectors. This alignment allows us to better understand and respond to our customers' needs through our consulting and solution-oriented approach.

Our GBS business unit continues to see demand across various sectors, specifically with high-tech for product innovation and user engagement, while sectors like travel, retail, EduTech and manufacturing are implementing GenAI to enhance customer and employee experience and optimize operations.

We continue to strengthen our collaboration with Microsoft and AWS. Leveraging our strong partnership with Microsoft Azure AI, we have implemented conversational interface at Coca-Cola Beverages Vietnam, improving their efficiency. With BotGauge and Neurohive, our other alliances in the ecosystem, we are helping build scalable AI innovations for our customers.

During this quarter, a global leader of parcel spends management and supply chain planning chose us to develop GenAI-powered chatbots that simplifies data querying, offering real time insights and dynamic visualization to make informed data-driven decisions with ease, thereby improving user experience and driving operational efficiency.

With the onboarding of Chief Growth Officer recently, we have put in place a large account strategy, targeting new logos of consequence. The team is coming together and already built a good pipeline. The reported quarter saw some good new logo wins. Some of the noteworthy are for a U.S. logistics tech provider, Happiest Minds is driving their digital transformation agenda and building intelligent conversational dashboard using GenAI.

We have incubated strong partnerships with leading Hyperscalers and ISVs through which we are innovating, co-creating solutions which our customers need. In the reported quarter, our strong capabilities in the Microsoft Power platform enabled us to win an engagement with a global MedTech company to build their engineering platform.

We are excited about the opportunity to better serve our clients and differentiate in the market, leveraging the capabilities and reach of the acquisitions we made this fiscal year.Our acquisitions are helping us establish presence in adjacent markets while we are enabling their growth by giving impetus to their presales solution capabilities by enhancing the offerings with our domain and technical capabilities. In the reported quarter, an American multinational financial services company chose Aureus business of Happiest Minds to transform their enterprise content management systems.

In another case, a U.S. health tech company chose PureSoftware to provide infrastructure management services based on the capability of our IMSS business unit. PureSoftware and Aureus, companies we acquired in the past year have been successfully integrated under One Happiest Minds, and we are together driving efficiencies in sales, delivery and more importantly, operations. We will continue to work with razor-sharp focus to advance our positioning of services amongst customers on both sides.

Enterprises are adopting quantitative risk assessment techniques to prioritize risk and allocate resources. Cybersecurity continues to be a business imperative for our customers. Through our comprehensive offerings in this space, we are helping business navigate towards a global regulatory convergence. During the quarter, a Middle East-based global bank chose us to provide risk and governance consulting services.

In other updates, I'm pleased to announce that Happiest Minds has been recognized by Great Place to Work® as one of India's top 100 Best Workplaces and as one of the best companies for women in India by Avtar & Seramount®. These prestigious accolades underscore our commitment to fostering a diverse and inclusive workplace and our superior execution of these strategies.

Let me share my insights on the demand drivers for Happiest Minds. The financial services sector in the U.S. is thriving bolstered by a robust economy, stable inflation and a buoyant job market. Our strong narrative in the banking, financial services and insurance space, enhanced by our recent acquisitions position us well to seize these opportunities. Healthcare and Life Sciences, now among the top three verticals for Happiest Minds, has grown very rapidly in the past year, and we are building momentum to be a formidable player as a digital health partner for our customers in the areas of personalized medicine, value-based care and biosimilars.

We are also witnessing a positive shift in the retail and consumer products industry with discretionary pressures easing. While demand trends remain stable across most sectors, we have observed some softness in the EduTech space, especially the higher education subsegment as customers reassess their business strategies amid disruptions caused by changing student preferences. However, it's encouraging to note that technology continues to be central to the decisions, and we do see more focus on the workforce development subsegment in this space.

Our customers are prioritizing key technology areas such as artificial intelligence, application modernization, cloud solutions, transformation initiatives and cybersecurity with investment flowing into these areas. I believe this upcoming calendar year will open new frontiers for growth for Happiest Mind due to the combined affect of our four transformational initiatives and an improved demand environment. I'm excited by the prospects that lie ahead for our company.

Operator, we can now open the floor for Q&A.

Moderator: The first question is from the line of Aditi Patil from ICICI Securities.

Aditi Patil: My question is on the EduTech vertical. In the prepared remarks, you had shared some color on this vertical, but can you provide an outlook on our top client? Performance of our top client has been soft for the past few quarters. Additionally, excluding our top client, when do we expect a recovery in this vertical?

Joseph Anantharaju: I'll first touch the previous quarter and then get into the broader segment outlook as well as what we see coming. So for the past quarter, there were two main reasons why we saw a dip in our quarterly revenues. The first was one of our midsized customers with a captive centre in India decided based on their PE strategy to in-source all of that work.

The second one was for one of our customers in the K-12 space, we completed the development of their platform. As a result, the size of the team got reduced because you need a smaller team to continue adding features and supporting the platform.

If you look at the EduTech segment, you can broadly break it up into four areas: Higher Education, K-12, Professional Development, and Universities because it is an ancillary of EduTech and we've not really done much with universities because it's a very specialized segment. Most of our work has been in Higher Education, and that's the area that has got impacted significantly due to changing customer preferences, digital transformation and also some secular trends around enrolment and costs that these Universities are facing.

As part of our FY 26 strategy, one of the strategies that we identified is to leverage some of the strengths that we have in this space to parlay that into service offerings for the Professional Development, where there's a fair bit of focus and investment that's going, just to look at how to upskill, multi-skill and reskill the workforce with all the rapid changes that we are seeing both in terms of technology and business models.

The other thing that we are looking at is to see if there are some channels that we can develop to look at the top universities that tend to develop their own platforms as well as to take a couple of the leading platforms and be their implementation partner. So these are two strategies that we will name among a few others that we'll be looking at to get back growth and stability in the EduTech segment.

Ashok Soota: We should also be clear on our expectations from the EduTech market. Deborah Quazzo of GSV Ventures recently said that the EduTech may stay in the slow lane this year as companies grapple with artificial intelligence. The fact is it's been a very high-growth segment right through the pandemic, etc.

The good thing for us is that even while this is going to be steady or lower growth rates than perhaps some of the other verticals, we are clearly seeing Happiest Minds well positioned in verticals where there's a high growth rate, and we are in a position to leverage and take advantage of that growth rate. The first is, Healthcare from virtually nowhere has become our third largest vertical, and we see strong continued growth. We have got a great presence in BFSI, which has also come through our acquisitions as well as some of the developments that we have been undertaking. So, one segment will offset the other. We don't want to project that EduTech is going to be a major growth segment for us. It will grow and recover from where it is. But if the whole segment is slow, there's very little for you to do to be able to make it as a major growth driver.

Aditi Patil: My second question is about on Arttha banking platform. So, in previous earnings call, we had mentioned about the strong pipeline we are seeing in the Arttha banking platform. Can you share how the pipeline is shaping up over here? Have we already won some deals or are the deal closures on expected lines?

Joseph Anantharaju: If you notice the BFSI segment was the best performing segment for us last quarter. I would attribute a big part of that to the Arttha banking platform because we were able to close two deals, finish the implementation and the recognition of those revenues is what has led to quite a bit of the growth that we see in the BFSI vertical.

The organic pipeline that PureSoftware has for Arttha banking platform continues to be good, and it should be one of the contributors to our growth and to the growth of the BFSI segment during this quarter. We have taken a strategic view to Arttha, and we've put together a couple of task forces.

One of them is to look at different markets and use cases that we want to take Arttha banking into. We are evaluating functionalities that needed to be added to the platform, our strategy that we need to adopt, and ways to improvise our go-to-market strategy. The second is we are seeing quite a bit of traction in the Indian market. We have been in discussion with a few of the banks, and many of them are undergoing their digital transformation initiatives, and they're looking for a digital banking platform like Arttha which will provide their customers with the kind of digital experience they seek.

We have quite a few good conversations going on, and the net new (NN) team under the Chief Growth Officer is developing very well, and our BDMs in India have successfully opened a few doors.

We are excited about the prospect that Arttha brings to the table in terms of nonlinear revenue,

Aditi Patil: Could you remind us for Arttha, is Q3 or Q4 typically the strongest quarter seasonally?

Venkatraman Narayanan: We are looking at a much better Q4 from Arttha banking as far as revenue closures are concerned. License has got two elements. One is the implementation service, which goes over a period of time, but the license being a term license, the revenues get recognized on closing the transaction.

The consolidation that we did through acquisition of Middle East business of GAVS Technologies has opened up possibilities to take our Arttha platform to these geographies, which is today very strong in East Asia and parts of Africa.

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Aditi Patil: What is the timeline for completion of the GAVS acquisition?

Venkatraman Narayanan: We should be done in few days. It was more of a transition of business because we had certain common customers, and they had a large presence in the Middle East with about 92 people and two very good BFSI customers who will get into our roaster.

Aditi Patil: So, we should see incremental revenue from the GAVS acquisition in Q4 itself?

Venkatraman Narayanan: Yes.

Aditi Patil: Can you share about the progress on focusing on adding net new logos?

Joseph Anantharaju: We took a very strategic decision to separate out our business development or sales team, which was hybrid till then, into farmers and client partners and hunters who would focus on NN new logos.

We have Maninder, who joined us as the Chief Growth Officer in August. we have most of the team in place now, comprised of very seasoned sales executives. Our strategy has been to bring in people and align them with the verticals that we have. So each sales Business Development Manager (BDM) has significant years of experience and depth in one vertical, and that would be the primary vertical. They were onboarded in the November- December time frame. I am very happy to state that we're already seeing a very healthy buildup of pipeline, as I mentioned in my notes at the beginning of this call.

We already have one closure and couple of prospects in very advanced stage, which should lead to decent-sized revenues. The strategic initiative that we put in place has taken root. It's in the execution phase right now, and we're already seeing output out of this. We had seven new logos cutting across various geos and verticals last quarter, and we expect this momentum to continue into Q4 and into FY 26.

Moderator: The next question is from the line of Prasad Padala from SBI Mutual Funds.

Prasad Padala: Any quantitative colour, in terms of deal wins, are they like substantially better than over the like last 3-year average? If so, would that actually translate to a better organic growth for next year?

Joseph Anantharaju: The team came together in November-December time frame, and we had one closure already and a couple of them will surely get closed in this quarter. Apart from that, there's a good healthy buildup of pipeline because this team right now is focused on India and North America.

Next year, we will extend it to probably Europe. ANZ is too small right now and if you look at India, there's a huge synergy with Arttha and in a couple of verticals, we are seeing good traction. One of them is in the BFSI space. We just got empanelled by two of the public sector banks, and we are in discussion to both take Arttha to them and provide other services.

Additionally, for one of the largest public sector banks in India, we are providing them with managed security services, which is a large deal, and we are adding additional components to this offering. We're also seeing quite a bit of traction in the industrial and manufacturing space. In North America, there are at least three or four prospects are in an advanced stage and hopefully should close during this quarter.

We had salespeople that are covering Midwest, East Coast from New Jersey and the Bay Area. We also have brought on board a seasoned BDM in Canada because we see quite a few opportunities out there and this sales leader has hold into the Canadian market.

Our NN pipeline is looking strong. It's not a number that we share. But I can say that it's been among the best that we've had, if you look at just the NN part of our business.

Ashok Soota: We had four transformational initiatives taken earlier this year. The one was clearly designed to show growth in the current year, and that is the acquisitions, which has been demonstrated by the results.

If you just take GenAI, we've reached a point where we are executing maybe about upwards of 10 or 15 proofs of concept. Maybe 80% of those will get converted into orders. They need not be giant-sized orders, but they can contribute significantly to revenue and inorganic growth in the next year, which wasn't available this year because you had to go through the POC stage to be able to complete it.

Those numbers are not even reflected in the pipeline as yet because we will include them in the pipeline once we finish the POCs and we then get a firm indication from the customer that they will go ahead and convert to the larger order. So that's one fundamental area of growth.

The third area is the verticalization. Obviously, you have industry managers settling into new roles, each one taking varying degrees of time to build up their own pipelines, which is progressing.

In some areas, it's happened a little faster than the others and my belief is that in the next quarter, all of these will become major engines of organic growth. So that's really the thrust for the next year going ahead, arising out of the changes we made in this year.

Prasad Padala: To what extent is the improved pipeline a result of the strategic initiatives you're undertaking, and how much is due to a general improvement in the market? The first point, regarding the initiatives, is clearer based on your explanation. I'm trying to understand the second point better; could you give some color on that?

Joseph Anantharaju: The acquisitions have got us depth and the Arttha banking platform positions us well in BFSI, which is an area that's I think, showing more signs of growth than others. The fact that we verticalized and have a BFSI vertical with an IG head and the delivery and sales aligned to it helps us go to market better.

Similarly for Health Care, we have some leeway that we've got from PureSoftware. They have a few customers in this space, getting us some new capabilities. But they are benefiting from some of the capabilities and work that we have done in the Health Care Industry Group (IG), which has IG head. We've built some really good cutting-edge capabilities working with SKAN and with Happiest Health. So all of this, we are able to take to market. So, I would say it's very synergistic and goes hand-in-hand and acts as a catalyst for each other.

Moderator: The next question is from the line of Vinesh Vala from HDFC Securities.

Vinesh Vala: Can you highlight on the retail vertical where you see ease in some discretionary spending, which is coming in?

Joseph Anantharaju: If you look at the retail segment in U.S., especially some of the midsized retail companies, which have been a little behind in their digital transformation strategy, things like e-commerce, leveraging analytics, using some of the technologies like beacon and others that allow for personalization.

We see these companies undertaking or getting into the next phase of the digital transformation journey with a lot of emphasis on analytics and AI. That's one area that we are seeing quite a bit of traction.

In the CPG space, some of the large CPG companies are our customers or we've signed them up recently and we've seen that in the last 6 to 8 months, they all went through a little bit of a strategic review at the beginning of last year. Towards the end of 2024, we saw that these reviews were getting completed, organizational restructurings were being done.

Therefore, new initiatives started being executed and we are beginning to see that reflecting in additional requirements and pipeline. As you see for last quarter, we did have the retail CPG vertical showing pretty good growth of around 3% to 4% quarter-on-quarter, and we expect this to continue.

One of the strategies that we'll be playing out, especially on the CPG side of the vertical is to focus on how we expand our presence and mine more aggressively in the customers that we have. Among the top ten companies, we count four as our customers. They all have considerable IT budgets, so there's a fair amount of opportunity available.

We would have to take a very focused view to our account mining and expansion, which, again, I think our whole verticalization strategy would help by bringing delivery, sales and domain together to come up with account development plans, account strategies and to go about it in a very focused manner.

Vinesh Vala: Another one was on the BFSI vertical, as you said that the recovery is there in the U.S. market. So, I wanted to know which are the subsegments which is showing the recovery or it is across all the verticals?

And another question was on the margin front, you said that the utilization would be improving to 78% to 80% and this is the range you are comfortable with. So, what are the other levers which would be helping us to get the margin?

Joseph Anantharaju: So if you look at BFSI, I would say that the banking and financial services is an area that we are seeing more of a propensity to spend. I think the insurance subsegment, especially given what's happened in California, they may be a little bit more careful in how they would approach it. But on the banking and financial services side, as I mentioned, a significant contributor to the growth we saw in Q3 and anticipate in Q4 will be the banking and financial services sector.

On the insurance front, what we are doing is we are taking a very focused approach. We have a few large customers and we are assessing their strategic imperatives. And I think in the next six months, that should get done and then they should start rolling out initiatives. In parallel, we are looking at what are the current pain points and how do we really address them in a very focused manner.

The other thing we are doing is for some of the smaller insurance companies, we are coming up with a productized service offering where we put together what we call an insurance-in-a-box that covers all the way from sourcing a customer to signing them up to getting their claims, underwriting.

We have had a couple of customers already sign up for this in South Africa. And based on that experience, we are trying to see if we can replicate it in other geos as well. So these are some of the things that we're doing in the BFSI space.

Venkatraman Narayanan: On the margins, there are quite a few variables going in our favor and some of them going against. The big one is obviously the foreign currency, it is likely to help us the way things are moving. Second is obviously utilization. We must get it up from the 76%, 77% upwards to 80%. So that's a good lever that's available to us.

The third is Arttha banking. What we have seen is it has got a very positive impact on margin because the moment a license is sold, almost all of it is to the bottom line. So it helps us immensely on margins and that's the way non-linear business works.

If I were to give you –a walkthrough of the margins Investments into GenAI that would be number 1. It's about US $1.5 million for the first 6 months and now it's running at about US $3.5 million up to the nine-month period. So that's something that has been subsumed into these numbers.

The second thing is we have gone ahead and given pay increases, the variable pay. We have not missed any timelines on that unlike what most of the other companies or our peer companies have done. We have not resorted to any of those pushing things or keeping the numbers at a lower level than what the typical industry expectation is. So, the puts are these aspects of investments. The net new sales engine, which we talked about, there is a lead lag effect. that's also impacting the margins as we speak.

But despite all of that, nine-month period, we have done 22.1% in EBITDA. We are getting in both operating margin and EBITDA is at about 22.1% and ahead of the guidance of 20% to 22%. We would like to end the year within the guidance range or ahead of the guidance range.

Next year, pull out all stops to make sure that we continue to improve margins because consolidation benefits will start showing up. We have had three acquisitions including GAVS Middle East business

Vinesh Vala: Can you quantify me the wage impact during this quarter on the margins?

Venkatraman Narayanan: This quarter, we have for the senior profile, so it will be about 0.9%.

Moderator: The next question is from the line of Ruchi Mukhija from ICICI Securities.

Ruchi Mukhija: Do we see organic growth traction improving with the combination of demand improvement and the efforts that the company has put in?

Venkatraman Narayanan: We don't split the growth into organic or inorganic. We have given the base for the last year. On that base, we have grown reasonably well in the current year.

Going forward into the next year, this will be the base, and the expectation is to continue the organic growth. We have said that we will be at least 1 to 1.5x market, which is what we have set as a long-term growth target. This is something that we had set out even at the time of our IPO, and we continue to hold on to that.

We are in the planning stage for next year. We'll come back to you after Q4 with what we are seeing. But yes, we are seeing good traction. the new sales engine, the verticalization, the acquisitions that we have made, the consolidation that we are seeing in some of the market spaces, generative AI services kicking in, we should see a decent amount of growth and aided by what we are seeing in the market.

Ram Mohan: We mentioned about the two engines of growth. One is the hiring of Chief Growth Officer looking at the net new accounts and creation of the GenAI business unit. Both these will contribute to the organic growth.

Ashok Soota: We would be disappointed if we don't move into double-digit organic growth next year. You'll get more definitive ideas about where we are heading when we have done the plan exercise, which we are in the middle of. But we are well poised with all the four transformational agenda helping us increasing organic growth for the next year.

Ruchi Mukhija: For our guidance, you mentioned we want to land as close to 30% mark. This implies a very steep acceleration in March quarter. Now with furloughs reversing, Arttha platform, and a good seasonality in the quarter, do we imply that the March quarter would be substantially growth quarter?

Venkatraman Narayanan: If you have looked at our quarter-over-quarter, which is Q2 and Q3, we have done 27% to 28%. That's the kind of number that we are going into Q4 and the benefits of some more movements that we get from the GAVS Middle East consolidation and the reversals that you talked about in terms of work days.

But see, we did have furloughs, we did catch up quite a bit of that through certain revenue enhancement measures, which obviously will be a base that we'll have to work on into Q4. But the attempt will be to touch that 30% and as of now, it looks to be about 27%-28%.

Ruchi Mukhija: For insurance vertical do we have direct exposure to the largest insurer in that geography, State Farm Insurance or we are talking a general implication on the insurance vertical?

Joseph Anantharaju: Just talking about general implication on the insurance vertical. Our customers are more Europe based insurance companies. That's where we have larger presence, and those are the customers that I talked about that would be among the top five insurance companies in the world and that we would be focusing on with very specific strategies.

Moderator: The next question is from the line of Sumeet Jain from CLSA.

Sumeet Jain: So my questions are largely around your generative AI business. It's still very early days and just three quarters of revenue disclosure from your end. But for the last two quarters, we have not seen any material pickup out there. So I want to understand how are you defining the kind of work what you are doing in generative AI, because when we look at other competitor's reported GenAI revenues or order book, there's a substantial growth. So I just want to understand that.

Sridhar Mantha: So one of the things we have done is that we wanted to closely track what is purely generative AI. There could be always a possibility of a much larger project, which is typically a .NET project or a 3-tier architecture, which also could be having a generative AI component, and a multimillion-dollar RFP, there could be a very small project of generative AI.

Internally, we are very clear of not tracking it. So that way, by creating GBS as a separate business unit, we wanted to completely focus on the generative AI and the solutions primarily around generative AI. So that way the revenue that goes into the PDES or IMSS is not counted as a generative AI-related project.

So that actually makes us purely to track generative AI projects, and that could be one of the fundamental differences compared to many other organizations, which could be having very large projects with small generative AI component and counting on it.

The second thing is, as with any technology adoption, many of the customers are actually in the mode of especially the digital transformation, they want to try a few prototypes and then only they want to move forward.

And that's the reason why we repeatedly keep talking about the POCs. We have very few customers who are either technology pioneers or willing to take the risk, they are willing to make a little bit more progress compared to the POCs. That's how broadly we are looking at the revenues and Ashok and Joseph already covered about the small upticks we started seeing, and we surely will see it in the next couple of quarters.

Market is trying to figure out what they can do with the generative AI technologies compared to any other technology we have seen. Here, the changes and innovations or the new large language models, reasoning models.

So most of our customers are trying to solve very similar problems and trying to figure out how things will work out. Hence, the approach we have taken a couple of quarters before itself is to take a problem that we solve for one customer and try to take it to other customers.

Research organizations or academic institutions where researchers are trying to actually look at what they can do with generative AI to help with their research. For example, is most of you will be going to public companies' websites as investors, and there will be a lot of PDFs that are available on the website?

If you really want to know like how it was trending in the last 3 years or how was specific information 1 year back, you have to go to the specific PDFs typically that are posted on the website.

So we created an investor relations BOT which actually uses a large language model and as you naturally can visualize, this is applicable pretty much for most of our customers where a simple chat interface to all the financial information publicly available on a specific organization's website can be conversed against.

We also have taken it along with Microsoft, we have put it on Microsoft Azure Marketplace so that most of our other customers and new prospects can actually utilize this. So similar to this, we have multiple repeatable solutions that we are doing somewhat horizontally in a specific vertical like EdTech`.

Sumeet Jain: So just to clarify, the foundation work in terms of data analysis, data aggregation or some bit of a cloud migration to access to the GPUs, that part of the work is not included in GBS, but rather in IMSS??

Venkatraman Narayanan: Absolutely. That's right, Sumeet. We are trying to be as clear on that distinction, but it's becoming a little difficult because we are not able to figure out when that handover takeover happens, but we are trying to do that to the extent possible.

Sumeet Jain: Are you seeing with the launch of DeepSeek a couple of weeks back, are you seeing the incentive cost to come down materially, that discussion happening with your client base and a lot of POCs probably moving to implementation stages. Any advancement in discussions happening on the back of it?

Sridhar Mantha: So naturally, like when we started six months back with ChatGPT, which is like a extremely large model. And as you rightly point out, inference is quite expensive, and however, in the last 6 months, the industry is constantly coming up with smaller models, which are much more efficient.

DeepSeek I still consider as a revolutionary step on the top of the smaller models. So that way, as part of our work, we are constantly looking at smaller language models, which are typically 1.5 billion to 7 billion parameters as opposed to be extremely large ones, 75-plus billion parameter models

So we already are actually working with our customers on how to make inference much more efficient with smaller language models and DeepSeek turns into a logical next step. With all the innovation happening, there will be many more similar kind of steps. My point is that there are scenarios where we use extremely large language models and there are scenarios where we use smaller language models and market already has quite a few and DeepSeek is the next evolution on the top of it.

Sumeet Jain: GenAI is being counted as to provide significant productivity benefits to the IMSS service line as well as product and digital engineering services. And we saw that one of your larger peers did pass on a lot of productivity benefits to one of the largest Hyperscalers and even you work with them. So I want to understand, are you also passing on these benefits to them? Or are you able to retain them?

Venkatraman Narayanan: Yes. See, I think when we started this initiative on GenAI, we found that there were two areas of significant impact. One is on the supply and the demand. I think the demand side; Sridhar has covered it in great detail. On the supply side, the expected contraction at the development stage is between 5% to 10%. In new business, we are beginning to see some bit of that. Using AI automation CoPilot and the similar tools, we should see the benefit. So I'm talking about it from a pricing model.

The second is whenever you are in an Request for Proposal (RFP) mode, typically in the IMSS business, there is an ask of saying, there used to be something called efficiency gain that we used to give whenever we start a model for a 3-year, 4-year transition of an infra project, there is always an efficiency gain and frankly, the efficiency gain is a percentage taken based on certain best guess and estimates. Right now, you have tools which permit you to show that and quantify that when you do your RFP.

So 2 ways to look at it. On the supply side, the efficiency gains are being passed on in renewal. But the demand is making up recently, Satya Nadella talked about the Jevons Paradox, where he said that the demand will outstrip the constraints on the supply. So that's what we'll see going back many, many years.

Ashok Soota: In simpler terms, the fact is that the margins in the business are not going down because of GenAI or productivity improvement. The productivity improved because it brings down our costs obviously, it leads to a lower price for the customer, but that's not at the cost of our margin. So that's when you say, you pass the benefit because you have got a lower cost and now you have passed on that benefit to the customer and the margin remains the same.

Venkatraman Narayanan: The bill rates on GenAI services is superior to even our traditional, but our PDES, Analytics, and related Digital services.

Sumeet Jain: So the margin opportunity is very clear, but does it imply that your revenue opportunity comes down because initially, there is a more deflationary environment and probably the Jevons Paradox kicks in after some time where the volumes come in, which will be reflected in your GBS revenues maybe with a few quarters lag?

Ashok Soota: On all leading applications, you're really seeing the value you're providing to the customer, which they could not have got elsewhere because of the expertise we have built on areas in which we are focusing, doing more and more replicable sales.

When Sridhar talked about replicable sales, frankly, the more you do this, you take the same solution to, say, 3 customers, and we've got many of them even right now in the pipeline. The moment you've done that; your own cost of production comes down far more than the customer could logically have expected. Would this per se have led to reduction in the top line, Not necessarily.

It's a little bit of a hybrid here because what you're doing is you're getting more revenue being generated, which would not otherwise have been available. And on a per order basis, you may say, yes, you passed on that productivity benefit. It has cost you a little less and that benefit you passed on, and that reflects as a reduction in what could have been the revenue. So that's what the thing is. The net effect is we're not expecting any decline in revenues as a result. We are really saying we're looking forward to very solid organic growth, particularly with GBS.

Joseph Anantharaju: All the customers that we've engaged with, broadly on the AI side, customers, even last few years, anything related to AI, maybe even data engineering, Snowflake, Kafka, and skills like that. Customers understand that these are high-end skills and therefore, they are willing to pay, as Venkat pointed out, the rates that you get are at a premium for some of these skills, especially on the GenAI side and all of these engagements are being done at a fixed price.

So we do an estimation and we apply the higher rates and we also track the margins from these. They're on the higher side, and there's no revenue drop off. Whatever effort that we are expanding, we recover that in terms of the pricing that we use. And in some cases, AWS and Microsoft do land up providing what they call ECIF in Microsoft's case, like seed funding to get some of these things started. A little bit of that get offsets the customers' cost. But for us, we get whatever revenue for whatever effort that we put in.

Moderator: Ladies and gentlemen, due to time constraint, this was the last question. I now hand the conference over to the management for their closing comments.

Sunil Gujjar: Thank you operator and thank you all 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 on ir@happiestminds.com. Good day.

Moderator: On behalf of ICICI Securities Limited, 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.