happiest minds
The Mindful IT Company
Born Digital . Born Agile

Happiest Minds Technologies Limited
Regd. Office: #53/1-4, Hosur Main Road, Madivala,
Bengaluru-560068, Karnataka, India
CIN of the Co. L72900KA2011PLC057931
P: +91 80 6196 0300, **F:** +91 80 6196 0700
Website: www.happiestminds.com
Email: investors@happiestminds.com

November 21, 2024

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

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

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on November 14, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed the transcript of the Earnings Call held on November 14, 2024, post announcement of financial results of the Company for the quarter and half year ended as on September 30, 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: 2024.11.21 16:14:26 +05'30'

Happiest Minds Technologies Limited

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

"Happiest Minds Technologies Limited

Q2 FY '25 Earnings Conference Call"

November 14, 2024

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:	**Mr. Apurva Prasad** – HDFC Securities

Moderator: Ladies and gentlemen, good day, and welcome to Happiest Minds Limited Q2 FY '25 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Apurva Prasad: Thank you, Steve. Good morning and thank you all for joining us today on the Q2 FY '25 earnings call of Happiest Minds Technologies Limited. On behalf of HDFC Securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this earnings call. So today, we have with us from the company, Mr. Ashok Soota, Executive Chairman; Mr. Joseph Anantharaju, Executive Vice Chairman and CEO, Product and Digital Engineering Services, PDES; Mr. Venkatraman Narayanan, Managing Director and CFO; Mr. Rajiv Shah, Executive Director; Mr. Ram Mohan, CEO, Infrastructure Management and Securities Services, IMSS; Mr. Sridhar Mantha, CEO, Generative AI Business Services, GBS; and Mr. Sunil Gujjar, Head of Investor Relations.

With that introduction, I'll hand it over to you, Sunil, for the Safe Harbor and to take the proceedings forward. Thank you, and over to you.

Sunil Gujjar: Thank you, Apurva. Good morning to all participants in this call. My apologies for a delayed start because of a small glitch. Welcome to this conference call to discuss the financial results for the second quarter ended September 30th, 2024. I am Sunil, Head of Investor Relations. We hope you have had the opportunity to review the earnings release we issued yesterday.

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

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

Ashok Soota: Good morning to everybody. I'm happy to inform you that Happiest Minds has delivered our best growth results since the last 2 years. We have had double-digit serial quarter-over-quarter growth, which is 12.7% and the year-over-year growth was 28.2%. The transformational changes we initiated this year are all gathering momentum.

These changes include the acquisition of PureSoftware and Aureus, the creation of our GenAI business unit named as GBS, hiring a senior leader to expand net new sales, which we call as NN sales; and creating 6 industry groups, each headed by an industry manager. The full impact of all these changes on revenue and growth will become visible in the quarters ahead.

PureSoftware and Aureus teams, now part of Happiest Minds family, are geared up to drive synergies. We will expand into each other's accounts, cross leverage our complementary skills and capabilities. For instance, we took our GenAI services to a large global financial services provider, who is a customer of PureSoftware.

Arttha our award-winning Banking-as-a-Service platform from PureSoftware, with a very strong brand recall in Southeast Asia and Africa, is now being taken to new markets such as Philippines. India is a large market and so far, unexplored for Arttha, and our combined teams will lead the entry of Arttha into India.

Our GenAI business, or GBS, continues to take rapid strides in building a leadership position by being a thought leader through innovation, strong partnerships with technology tool providers. We see huge potential for replicable scales as a new class of solutions are becoming available through GenAI, and you can take that to many customers.

We have such opportunities in areas like research, customer service, learning and contract management. Maninder, our Chief Growth Officer, who joined us in Q2, is now in charge of net new sales, and has already built a healthy new logo pipeline across our focus industry groups. We expect many more new logo wins, which will grow as the accounts are transitioned to the respective industry managers.

Each of our industry groups are maturing, all of them are into engines of growth and you can see from the results that some are already leading the growth like BFSI and Healthcare. We have developed strong capabilities in bioinformatics, which are unparalleled in the industry, with in-house experts on areas like molecular biology, data scientists, engineers and health care domain specialists, we work with some medical research community from prestigious medical institutions in India and abroad.

In the reported quarter, a European Health Research Institute shows Happiest Minds to build their AI and ML data platform. In another instance, for a leading medical care organization in India, Happiest Minds will leverage emerging analytics to review medical information and aid diagnosis. These are all very high end, very specialized areas, which I believe there is probably nobody within the country would ever be able to deliver because of the expertise we have built up.

Let me briefly share my views on the outlook. The results demonstrate our continued ability to manage our business with rigor and discipline in a very dynamic business environment with the transformation in the agenda that I outlined, we are very excited about the future as the outlook has never looked better than what we see today.

Before I pass this on to Venkat, let me congratulate him as he was recognized during the quarter as the leading CFO of the Year in the IT, ITeS sector at the CII CFO Excellence Awards for '23 '24. I'm sure Happiest Minds will continue to be benefited by his leadership, and Venkat, along with his colleagues at the Executive Board and other senior leaders, including from the integrated teams of PureSoftware and Aureus, will play a very pivotal role in the exciting phase ahead for Happiest Minds.

With this, I conclude my commentary and pass this over to Venkat. Thank you.

Venkatraman Narayanan: Good morning. Thank you, Ashok. Let me begin my commentary by sharing the financial operational highlights for the quarter, followed by the half year. For the quarter, our revenue was \$62.4 million, showing a good growth in constant currency of 12.7% on a Q-o-Q basis and about 28.2% Y-o-Y. The growth was driven by a stable pricing environment, higher volumes and the full quarter consolidation benefit coming from PureSoftware and Aureus.

Our total income for the quarter was ₹549 crores, showing a growth of 12.1% over the previous quarter and 27.9% on a year-over-year basis. We reported an EBITDA of ₹119 crores, showing a growth of 1.8% over the previous quarter and 13.4% over the previous year. EBITDA as a percentage of total income stood at 21.7% this quarter.

The drop from 23.9% in the previous quarter was primarily due to pay increases that we instituted for most of our people, which was rolled out effective July 1st, which had an impact of almost 230 basis points. The more important aspect is an investment of about ₹9 crores to ₹10 crores that we have made in the quarter in our GenAI business, which is another 150 bps.

We have also made investments into the new sales engine with Maninder and his team, and that also had an impact on the EBITDA. EBITDA for the quarter adjusted just for the pay increase and the GenAI investments would be about 24%+ and like the previous quarter, reflecting the fundamental strength in our business and our commitment to investment in new and current technologies.

If we adjust for the pay increase and the investments that we are making as a services company, which gets consistently evaluated on profits into new technologies and expansion to new markets. Our EBITDA is slightly higher than the last quarter and maybe even similar to what we saw in the last year.

It is pertinent to note that on pay increases, we have gone ahead with our regular cycles, backdrop of many of our peer companies who have either deferred or cancelled their regular cycles. So that's something that's on the press. We've made significant investments into our new-new sales force, and that too has impacted our margins.

Our current sales and sales support team is now 62+. I'm happy to share that our margins of 21.7% is within the guided range of 20% to 22% for the year. From this quarter, we have started showing operating profit, which is defined as EBITDA excluding other income over operating revenues. This has grown from ₹92 crores in the previous quarter to ₹93 crores in the current.

It stands at about 17.9% of revenues compared to 19.8% in the previous quarter. The operating revenues takes out the slight noise that you can have due to other income. The drop in operating profit is primarily on account of the pay increases, investment in GBS, and the new- new sales team.

Growth in subsequent quarters, both volumetric and in terms of selling higher-priced services like Gen AI and repeatable sales services like GenAI, we should be able to get back to our earlier levels of profitability.

Moving from operating margin to PBT. The meaningful change that has happened is the increased interest cost on account of borrowings made for acquisitions. Noncash costs, which is amortization of intangibles from acquisitions, continue to remain the same as last quarter. PBT despite these changes, remained at ₹67 crores.

Now that the cost of acquisitions has stabilized, this would be the base for future quarters. We have, from this quarter, started reporting the metric of cash EPS, along with the normal diluted EPS in our presentations. I believe cash EPS gives an alternate and realistic view of shareholder returns shorn of noncash accounting charges, which one seems to take in larger proportions as we grow through acquisitions.

Our cash EPS for the quarter was ₹6.18 per share compared to ₹6.11 in the previous quarter and ₹5.64 in the previous year. Cash EPS for the quarter has just shown a growth of 9.5% Y-o-Y. Normal diluted EPS for the quarter was ₹3.29 compared to ₹3.39 in the previous quarter and ₹3.90 in the previous year.

Coming to our half yearly performance, our revenues for the first half of this year was $ 118 million with a growth of 23.1% in constant currency. Total income for the half year stood at ₹1,038 crores with a growth of 24.5% Y-o-Y. We have reached the ₹1,000 crores mark by half year-end. ₹2,000 crores for the year looks far from course.

EBITDA has grown to ₹235 crores from ₹208 crores, showing a growth of 13.1%. EBITDA as a percentage of revenue is at 22.7%, which is in line with our forecast for the year of 20% to 22%. Operating margin has grown to ₹185 crores from ₹174 crores, showing a growth of 6.5%.

All the reasons shared earlier for the quarter, which are investments in GenAI business, new sales team, pay increases have had an impact on margins even for the half year and it's despite all of those that we have shown expansion in absolute terms. When we come to PBT, we have taken an additional noncash charge of approximately ₹17 crores.

Cash and onetime acquisition cost of about ₹6.5 crores for the half year. These have pulled down our PBT from ₹157 crores to ₹136 crores. That's because of the acquisition amortization and the onetime acquisition costs that we had in the first quarter. So that's an impact of about ₹23.5 crores, which has pulled down the PBT.

Adjusted for that, our PBT continues to grow and expand in absolute terms. Here is why I said the cash EPS number gives a clearer picture of our financials and growth. Cash EPS for the first half year stood at ₹12.34 compared to the ₹11.83 in the last year, showing a growth of 4.5%. EPS for the first half was ₹6.68 compared to the ₹7.92 in the previous year.

Switching gears to some operational metrics. Our DSO on a consolidated basis stands steady at 83 days. Cash on our books stands at about ₹1,470 crores. We continue to report solid cash conversion ratios, and our half yearly free cash conversion was about ₹232 crores, which is about 98.4% of EBITDA.

Return on capital metrics of ROCE and ROE are at 23.1% and 13.5% respectively. We closed quarter with 6,580 Happiest Minds and during the first half, we had 144 Happiest Minds join us from campus. Trailing 12-month attrition has inched up slightly to 14.4% from the 13.5% in the previous quarter.

Our utilization during the quarter was 76.3% compared to 78.2% in the last quarter and the dip primarily is because of the campus hires and the GenAI continuing to be in the 20% to 25% utilization as in the previous quarter. We ended the quarter with 281 customers, 59 million-dollar customers, 82 customers who have got revenues of more than $1 billion, and average revenue per customer of $842,000.

If you look at all these metrics and take it together with a repeat sale of 95%, it gives you a fair handle of the solid ground that we are currently on. We have made satisfactory progress in integrating the acquired entities, driving operational synergies, ERP, people and process integration plans and various other back-end support systems, which are in advanced stages of completion.

Progress on deals is tracked and measured regularly. What is more important is the integration at the sales and delivery customer upsell, cross-sell standpoint, all of which is happening at a very fervent pace. As of today, we have about 700+ open positions, and this is in anticipation of both a demand builds and existing demand from our customers.

We are building capacity across our delivery centre in Bangalore, Pune, and Noida and we've added about 500 in the first half of this year, and we are looking to expand into a larger delivery centre in Hyderabad.

Finally, in line with our progressive dividend policy, the Board of Directors of the company have recommended an interim dividend of ₹2.50 per equity share. Record date for the payout has been fixed as November 27, 2024. Cash flow on discount will be ₹38 crores, very similar to the interim dividend paid out in the last year.

Coming to the outlook for the rest of the year. We are hopeful of meeting our revenue growth projections of 30% to 35% for this fiscal. We are beginning to see positive changes in the demand environment and like the rest of the industry, expecting to see a fillip in the fourth quarter.

While Q2 is a quarter with pay increases, Q3 is one with lesser number of working days due to vacations and furloughs by clients. We are also likely to see a small impact on account of the pay increase for the leadership team. On margins, both above, the lower working days and the leadership pay increases will have an effect and which we will address in Q3.

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

Joseph Anantharaju: Good morning to all the participants in the call. Building on a strong and transformational Q1, we have delivered yet another quarter of strong performance across all fronts. The results demonstrate Happiest Minds commitment to its customers to deliver value at scale, our ability to keep ahead of market and technology shifts, add value to our customers' transformation initiatives and be the partner of choice in their strategic imperatives.

Our results and growth have been well rounded with all geos and verticals demonstrating excellent performance. We have expanded our base of deep client relationships through our strong account mining practices and proactively anticipating the needs of our customers. We received an industry-leading Net Promoter Score of 65, Extending the impressive NPS scores that we have received over the last few years, which is a validation of the commitment of our Happiest Minds through our mission of happiest people, happiest customers, and the drive to deliver value in our execution. During the reported quarter, our \$ 3 million to \$ 5 million customers have increased by 4 to a total of 6, while average revenue per customer picked up to \$842,000.

We worked with 59 customers who contribute more than \$1 million in revenues, up from 58 last quarter. We worked with 82 billion-dollar corporations, which offers us scope to increase wallet share and drive growth through the efforts of our newly formed industry groups. I would now like to share some interesting work that we are doing with our customers.

Our rich experience in Mobility, Analytics and IoT allow us to combine machine-generated data with human insights to help develop products that reengineer businesses to drive effective outcomes. In the reported quarter, this new win entails Happiest Minds to provide consulting-led solutions to develop unified IoT platform for a North American-based energy tech company.

Customers are seeking to reinvent their business and looking at new ways of working by leveraging AI technologies to drive productivity. For a European health research institute, Happiest Minds is building their AI/ML data platform leveraging advanced analytical techniques to help them discover new paradigms.

Our IMSS business enables agile infrastructure through a consult, transform and manage approach in hybrid and multicloud digital environments. I'm happy to share that during the quarter, we won our single largest multimillion dollar deal to provide cybersecurity services for one of the largest pharmaceutical contract manufacturers.

During the reported period, we launched Happiest Minds Secure 360, GenAI-powered cutting-edge solution, designed to deliver unmatched speed and precision in identifying and responding to cyber threats. This solution enables organizations to address even the most complex and unprecedented security incidents at 3x the speed of traditional remediation processes.

During this quarter, Happiest Minds was chosen as a strategic Cybersecurity partner to oversee end-to-end design and implementation of Cybersecurity program for one of the largest banks in India. Talking about our Generative AI business unit, which is enabling companies to accelerate their digital transformation by leveraging the part of GenAI, our 120 GenAI specialists, along with the larger 350+ AI specialized workforce, are working on 25 different projects, as we speak, with several of these POCs moving into production and starting to deliver business value.

Happiest Minds is also co-creating solutions with our customers in the areas of employee productivity, audio sentiment analysis, information with stream and contextualization and persona-based virtual engagements. First is, a GenAI low-code, no-code test automation platform, streamlines and automates the testing processes, enabling rapid development cycle and hence enhancing software quality.

Happiest Minds is a proud member of the Microsoft AI Partner Council program, a recognition of our AI expertise and our commitment to driving digital transformation through Microsoft AI ecosystem. For large beverage makers, we are leveraging Microsoft Azure AI to implement a GenAI solution to drive workforce efficiency and improve utilization of customer-facing assets.

For a world's leading digital print platform in the energy sector, Happiest Minds was chosen to drive their GenAI innovation in the field data collection and retrieval. Faster collection and retrieval give the possibilities of speedier resolution and lower downtimes. As an innovator and technology leader, Happiest Minds is also rapidly adopting GenAI internally to drive productivity.

We have identified a list of areas and use cases across various corporate functions and have put together a plan to execute on these use cases, which is being driven by our GBS business unit. For instance, our recently rolled out SmilesBot has been trained on our people's policies and contact which retrieves and answers queries and questions related to our HR policies.

Our talent acquisition teams are piloting the use of an in-house developed resume matcher with GenAI-based solution that automatically matches the job description to matching profile, enabling recruiters to search for files faster. Talking about our acquisition, we have established joint go-to sales with PureSoftware and Aureus teams with focused effort on cross-selling both ways. This initiative is being led by industry group heads.

We are working closely with Aureus and PureSoftware sales and delivery teams to ensure expertise to leverage both ways to serve our customers better. For example, we were able to take our GenAI services to a large global financial service provider, who is a customer of PureSoftware. The sales teams on both sides are very excited about the value proposition of the larger Happiest Minds entity and are striving to spread their wings into each other's accounts.

During the quarter, our award-winning platform, Arttha, was implemented for an Africa-based market leader in logistics and supply chain. Coming to the demand environment, we are seeing customers continue to leverage a wide range of digital technologies to reinvent their business and drive productivity and growth.

While geopolitical uncertainties continue, the continued good performance of the U.S. economy, the resolution of U.S. election in a rather decisive manner and the cut in interest rates are acting as a tailwind encouraging customers to start planning new transformation initiatives for 2025. We've already seen trends of this in sectors like BFSI and capital-intensive sectors like manufacturing and expect other verticals to demonstrate a similar behaviour.

Customers continue to look for ways to leverage the data using analytics and AI, while using GenAI to bring in operational efficiencies and drive revenue growth. Our expertise and ecosystem relationships, the significant investment and early leadership positions in promising technologies like GenAI, AI, Automation, IoT and other digital technologies will help us capitalize on these opportunities that we expect to come our way.

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

Moderator: The first question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: Good show on margins. If I look at the growth guidance, even at the lower end of 30%, that translates to over a 6% sequential growth in the next 2 quarters. I wanted to understand if that visibility is there in terms of deals, SOWs, especially as Q3 will be having furlough and working days impact.

Venkatraman Narayanan: We realized that a significant amount of work needs to be done to reach that number to 30%. Today, we are at about 24% in dollar terms or constant currency of about 24%. So there is that growth that we have to bring in because we had acquired PureSoftware and Aureus.

We had baked in a certain expectation coming in from Arttha banking. Arttha banking, is an award-winning banking platform. The revenue flow from there tends to be lumpy. So we have got a very good pipeline on that front, and there is expectation to close at least 2 large deals in the next 2 quarters.

The second is, we had taken a little bit of an aggressive decision on the growth coming in through cross-sell, upsell, because that's the only way to drive integration. There is a significant element of cross-sell, upsell on both sides, and we have seen quite a bit of traction happening.

The third upside that we are really looking for are some of the large deals that are in the pipeline. We did add 2 significant $5 million run rate customers during the half year, which we are expecting to ramp up.

The fourth is for the GenAI POC to work, we are looking for a steady stream of work & repeatable sales. Finally, we have Maninder firing the new- new sales engine, but there has to be a certain amount of fairness, you can expect from a team which is just about joined. But while that be, so he is also contributing quite a bit to the pipeline addition.

Ashok Soota: I'm just asking you Venkat a question here. Would it be fair to say on that question which said that we'll have a 6% average needed in the next 2 quarters that Q3 will be a little lower.

Q4 where the bulk of the benefit of some of the large deals, including even that bioinformatic deal that we are working on, they will start generating revenue in Q4. Therefore, clearly, Q4 will be better than Q3, heading towards on a grand total basis along the lines we have indicated. Would you say that is correct?

Venkatraman Narayanan: That is right, Ashok. Q4 is where we have deals and hoping for Arttha banking license deals also.

Apurva Prasad: Just on the point of the seasonality, what is the normal seasonality on Puresoftware and Aureus through the quarters? Does it tend to get stronger Q3 on Arttha?

Venkatraman Narayanan: What we have seen as a trend is Q4 tends to be the best quarter because that's when budgets get released and it's about a 6-month to 9-month sales cycle and it's a term license kind of a structure.

Last year, we saw that, and we are seeing the same this year as we go through the financials. Q3, Q4 is when the signoffs happen.

To be very honest, as a services company we had IP-linked sales in the past and about 10% comes from that sort of a business. But the pure product business and the lumpiness is something that we will now start seeing as this starts growing, we'll have to plan to see how that will get factored into our revenue projections and flows.

Apurva Prasad: The other question is with the restructuring done on the industry groups, the verticalized structure with the investments in building the sales engine. What opportunity do you see in the large client cohort versus the mid-market client segment over the medium term. How can sort of that revenue per client number look like over the next few years?

Joseph Anantharaju: Our goal creating the industry group and then in sales was to ensure that we bring in more focused specialization and accountability to both functions. The charter for the new logo sales team has been to pursue larger deals and to target more of larger customers. We do have 82 billion-dollar customers that I've already talked about. But I feel that going forward, we should be targeting more of these companies so that the initial deal sizes themselves pick up and become larger as this group starts functioning.

The industry groups that we form, the industry group heads will be working closely with our account managers and client partners to further expand into our existing customers, especially the large customers, and increase our wallet of share, which should also again start driving growth. Both of these will lead to an increase in the number of million-dollar customers, $5 million customers and $10 million customers, and also drive up the average revenue per customer.

Moderator: The next question is from the line of Chirag from Ashika Institutional Equities.

Chirag: As we aim for a $1 billion kind of top line post FY '30, what would be the thought process on this onshore/offshore mix? From an industry perspective, the companies which have crossed that milestone and have relatively high base revenue. The mix is around 60-40. Second, our margin is relatively higher on EBITDA, considering it from ex of wage hike impact.

We have been aiming for a high growth of 20%+, for the next 3, 4 years. Is there any impact on margin or will we go in line with what industry standard is compared to the other similar size of companies? When do you think the Edtech vertical will be back to the normal growth trajectory?

Ashok Soota: When you talk about our on-site/offshore ratios, we are very pleased with that percentage. Of course, we'd like to get more because it drives more revenue, and it helps to improve our margins.

It's also giving much higher value to the customer because after all, they are bringing down the cost of their project. It's also an indication that in contrast with other people who've got a 60-40 ratio, we are delivering lots more volume because we are charging at a lower rate for the offshore.

Therefore, the reasons why we want to increase on-site is to get more consulting-led business out there and use it as a front end for generating more business, which we finally drive offshore. We are not upset about the fact that some be 60 or 40.

We are 15.5 down to 11.4 this half year simply because even our new acquisitions have got a very large proportion of offshore.

Venkatraman Narayanan: Typically, you have a pay increase cycle and then you have dollar-to-rupee changes, which can go either way. And that's how the industry has been buffeted by ups and downs on the margins, other than certain other aspects like sales and delivery. Margin prediction is the most difficult part. So, to that extent, we are expecting to continue this margin range of 20% to 22% in the medium term.

We will not hesitate because of margin constraints or margin that we must show in investing into new business, which we are now seeing that we have taken. Restructuring into verticals, getting a new-new sales engine and investing into GenAI, doing the acquisition for both capability, reach, competency, all these need investments, and it has a certain margin impact on the financials.

But even with all of that, the focus will be to make sure that we are in the 20% to 22%. We pull all stops to make sure that the efficiency of pyramid is there, integration brings you certain size and scale, so the base increases, but at the same time, there is a possibility to bring down certain costs, common overlap costs, cross-sell, upsell, so that we get more bang for the buck.

These are the areas that we are focusing and if you look into our financials right now, half year over half year, you will see elements of all of that coming out, some of this really gets muted or gets covered by lots happening, but you adjusted for all of the points that I mentioned, you will see certain benefits. If you look into the future maybe a platform like Arttha banking will require more investment.

It's just not that it's completely ready. It's a plug-and-play situation and you have to continue to make investments to make sure that it becomes $40 million, $50 million, $60 million.One should not hesitate to do that if there is a market for potential and there is a reason to make that investment from a long-term financial standpoint.

But yes, in the short term, medium term, quarter-over-quarter, there could be those ups and downs. But we'll rather explain it to the investor rather than not make the investment.

Joseph Anantharaju: If you look the ed tech vertical, so on a quarter-on-quarter basis, it has shown growth, and so what we see is that which track the rest of the company performance, but if you look at the sector as such, you'll have to break it up into 3 segments. The first is higher ed, then K-12, and then professional education.

And what we are seeing is that out of these 3, the higher ed segment has got impacted by some structural challenges that you're having, especially in the U.S. market, with the number of enrolments coming down and universities being under cost pressure. That is getting reflected in some of the business and traction that ed tech, higher ed companies are getting.

K-12 has performed well, but it's a slight statistical business because there's an upgrade, and then for the next few years, they tend to leverage some of the investments they made. Area that we are seeing a lot of improvement and investment happening is in the professional education space.

There's faster evolution in how people need to constantly keep upgrading themselves and this is leading to multiple opportunities in the market that customers are stepping in. Our existing customers are extending their products, and we are focusing more on this segment to get more traction and grow this segment.

Moderator: The next question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: This is on the GBS unit. How are the conversions that you're seeing from pilots to production? What's the size of the GBS in terms of resources that are currently there? What's the expansion plan here or perhaps in terms of customer coverage? What's the scale that is being targeted here over the medium term in respect with the investments that you are making?

Sridhar Mantha: I'll break it into two, three parts. The first one is the POCs to orders, of course, being constantly working with the digital technologies, we always understand it will take a few quarters for the customers to do the prototypes and then move them into production.

The kind of work we are doing is working with the digital products and platforms to add generative AI oriented features, those are moving to the production much faster because they want to sell as part of either their SaaS solution or as part of the product generative AI features. However, the place where things are taking a little bit more time is on the IT organization where selective use cases are moving from the POCs to production.

Whereas the other low priority use cases are staying in the POCs probably being deferred by a quarter or two, and then they would like to take it forward into the production. That's how the market is moving. Certain platform companies and like the organization with critical use cases and slow movers, who are waiting for the ROI to be.

The second part of the question is in terms of the team size and the competency that we have, so when we form the GBS as a separate business unit, a few strong leaders from the organization we pulled out and put as part of the core team and we went to the market and also had additional people.

We have, now, 120 people who purely work on generative AI-based projects, which are supported by 315+ AI and analytics Center of Excellence so that the others that have the dependency on generative AI, we can bring them together. Now in terms of the last point on how we are seeing as the work and the investments and the business growing.

We continue to proactively develop our own use cases and repeat the solutions, because it is getting a new kind of opportunity where semifinished GenAI solutions can be taken to the market. Now the other area we are looking at is our internal strong solutions like Arttha, which are addressing various banking-related functions, of course, can benefit significantly from generative AI.

We'll add the way we are adding generative AI features to the customers' products, similarly, we'll add to the Arttha platform and other IPs and solutions we have also.

Ashok Soota: . I had mentioned, for example, when a new application comes up, the moment you do one customer, you can begin to say, can I take the same application to multiple ones. I identified four areas in my opening talk, which are research, customer service, learning and contract management. I believe in almost all of those, we've already got our first customer. Now we begin to look for multiple ones.

I'll give you an example in research. If we are doing a research application for an R&D organization. There must be at least 30 research organizations in India. Supposing you don't do 30, maybe we'll do 8 or 10, now that repeat customer makes a lot of difference, a much quicker sell because we've been able to demonstrate that it has worked for somebody.

The margins will keep improving on those sales because now your own incremental cost, you still charge the customer the same amount. These won't be giant-type orders. But if you then take 8 such orders, then it becomes a very healthy order, and executable with a really high level of efficiency as we go ahead.

Apurva Prasad: The on-site resource reduction was steep this quarter and you also saw T&M go up substantially. Any explanation for this?

Joseph Anantharaju: If you look at it overall, both, aureus and PureSoftware, are mostly offshore centric and that has led to a drop in the offshore/on-site issue. And the other thing that we are also seeing is that given some of the budget constraints, customers have been trying to get better bang for the buck and leveraging offshore more.

COVID-induced remote working is also giving customers more comfort and got them used to having larger teams offshore and doing some of the work that they wouldn't have done earlier offshore, which gives them the benefit of managing the budget better.

Venkatraman Narayanan: I think there is a typo in the numbers, because it is 211, it's showing 412. I think it's a typo on the page on the financial metrics. If that's what you're referring to, we'll have that checked and corrected. But just to continue, it has remained same quarter-over-quarter in terms of revenues and in terms of headcount because we look at the daily MIS as sent out.

FY '24, 211, it has gone up to 412 as per our PPT in FY '25 Q1, and then come down in FY '25 Q2 to 274. So that is something which is not right. We'll check it and get back to you and update the presentation.

Apurva Prasad: On margins, puts and takes for the next 2 quarters, part of wage increases for senior leadership that should happen in Q3. But generally, from here on as a base level, how should we look at margins for the next 2 quarters?

Venkatraman Narayanan: When I say margins, I'll now restrict it to EBITDA and operating margin first. EBITDA and operating margin should be stable except for the wage increases and we should see upsides. The dollar-rupee is a little bit of a joker in the pack. Hopefully, we have covered that for the next 12 months or 9 months on a weighted average with proper hedges. Arttha banking, while it has got that lumpiness in terms of sales, it also contributes to margin. I'm giving you all the pluses.

On the minuses, it's a senior management wage increase that we are talking about and some more investments in the newer technologies that may be required, including investment into Arttha. For example, if Arttha must be sold in India, it requires a little element of investments, we'll go ahead and make it

But it's a very tricky situation on margins because of all the things that happen simultaneously and now that we are a much larger company running at about a $280 million exit run rate for the year. It's becoming that much more final to maintain and predict margins with a greater level of accuracy than the 20%-22% that we have shared right now.

Moderator: The next question is from the line of Vidyadhar Ginde from Sohum Asset Managers.

Vidyadhar Ginde: In this first quarter, the hits from the amortization increase and intangibles was ₹6.8 crores and ₹1.3 crores for part of the quarter, for the full quarter, it's going to be ₹19 crores. In Q2, the PPA has gone up by just ₹1 crores. What has changed?

Venkatraman Narayanan: If you notice, we had about 15 days to close the books after integrating PureSoftware and Aureus last quarter. It was a little hurry to get the valuation. We closed it and we set provisional valuations and went ahead and closed the books.

After that,we did an extremely intensive exercise of about 1 month, got multiple experts looking into the valuation, the allocation of PPA and looked at what the industry practice is.That's what we have done in terms of the allocation of PPA, the Monte Carlo simulations, assigning probabilities for earnouts, and we relooked at that provisional valuation.

After getting 1 report, we talked to about 2-3 valuation experts, and revalue the whole thing, and have now plugged in the final valuation number. It has an impact on 2 aspects. One is there is this amortization unwinding interest, and one sets out the other. So last quarter, it was for 48 days.

This quarter is for 90 days. The number remains the same, given how the real-time value is treated.

Vidyadhar Ginde: What was previously projected to be ₹19.1 crores for the entire quarter? What is the updated figure now?

Venkatraman Narayanan: It will be ₹14 crores. What you're seeing in Q2 reflects the total for the full quarter.

Vidyadhar Ginde: At least the amortization which is a major part is up by just ₹1 crores. It looks like ₹8.3 crores going to ₹9.3 crores.

Venkatraman Narayanan: In the half year of last year, we had ₹11 crores. We have the amortization and unwinding cost coming from 2 acquisitions, which is PGS and SMI. Some of them will trail off. In the current quarter, in Q1 for about 50 days or 48 days, we had ₹14 crores with amortization and unwinding of all the 4 companies of PureSoftware, Aureus and the 2 other companies of SMI and PGS.

In Q2, the situation remains consistent. The only difference is that in Q1, there were 48 days accounted for the last two acquisitions, while Q2 reflects their full impact. However, Q2 did not show a sequential increase as anticipated, we expected it to rise to around ₹19 crores. This did not occur because we reassessed the provisional valuation from Q1.

Vidyadhar Ginde: So the DVA which you had in this quarter is a sustainable one?

Venkatraman Narayanan: But the impactful one, we don't know if we need further acquisitions. In fact, it will go down because I am expecting 1 or 2 to trail off. The Pimcore intangible write-off was done over 4 years, so that's almost done, 5 years because the effective useful life is also something that we have to evaluate. PGS, Pimcore was over 5 years. SMI was over 7 years. PureSoftware, the assessment that has been done is 8 years, PureSoftware and Aureus. So Pimcore will slide off. So it will only improve in maybe in beginning of next year the 14.06 will actually reduce by a couple of crores

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Vidyadhar Ginde: Will Q3 and Q4 be similar to Q2? Then, what will be the trend for next year

Venkatraman Narayanan: That's the reason why we have started calling out cash EPS because we are a smaller company. Relative to our size, these charges can have an unnerving impact on your PBT and financials. So one needs to be aware of that, and that's why the cash EPS.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

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

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

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