Saksoft Limited
Q1 FY24 Earnings Conference Call
August 14, 2023

Moderator: Ladies and gentlemen, good day and welcome to Saksoft Limited Q1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in a 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 "*" then "0" on your touchtone phone.

I now had the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. Good evening everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor relations for Saksoft Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the first quarter of financial year ending 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We firstly have with us Mr. Aditya Krishna – Chairman and Managing Director and Mr. Niraj Ganeriwal – Chief Operating Officer and Group Chief Finance Officer. Now, I request Mr. Aditya Krishna to start with his opening remarks. Thank you and over to you sir.

Aditya Krishna: Thank you Anuj. Hello, and good evening everyone. Welcome and thank you for joining our Q1 FY24 earnings call today. Let me firstly give a brief introduction to Saksoft for the sake of some of the participants who may be new to the company. Saksoft is a digital transformation partner that assists our customers to automate, modernize and manage IT systems through a combination of domain specific technology solutions, and solution accelerators from consulting to support. We have been in business for almost two decades now with offices across 16 locations covering USA, UK, Asia Pacific and Europe. We have an associate strength of +2000 employees. Some key verticals that we operate in are FinTech, telecom and utilities, transportation & logistics, retail and healthtech. The interconnected nature of the verticals mentioned addresses a huge market, which also facilitates us to cross sell and upsell service offerings to our clients. These verticals are supported by horizontal service offerings spanning analytics, cloud solutions, legacy modernization, intelligent automation, application development and testing. As a company we offer a bouquet of digital transformation services.

Now moving on to the quarter under review. I'm delighted to share with you that we continued our growth performance with 24% year-on-year growth in revenue and 54% growth in EBITDA despite a visible slowdown in the IT sector. We believe that the improved revenues in this current quarter is a reflection of the differentiation that Saksoft has created over the years. As we move forward in our journey to reach $500 million in revenues by 2030. We have recently acquired another software design and development company with niche expertise in cutting edge e-commerce applications headquartered at New York, with offices in London, Gurgaon and Noida, namely Solveda**.** Solveda will add another market niche for us with its capabilities and strength in the e-commerce vertical, especially for the B2B segment. The e-commerce space is witnessing significant global technology spend, as physical stores add digital to the distribution channels. This acquisition is to reinforce our focus on the select industry verticals, and is a testament to our inch wide mile deep strategy.

As an additional step to reach the $500 million revenue, we are also investing in front end sales force to have more feet on the ground to acquire new logos and scale the existing ones. We are also investing in more capabilities to plan next phase of growth. As we grow our business, we realize the importance of contributing to a greener, cleaner world. And towards this objective we are adding sustainability is also one of our major goals. Now, I would request my colleague and our CFO to give you the financial highlights for the quarter under review.

Niraj Ganeriwal: Thank you Aditya. And thank you everyone for taking the time and joining our earnings call today to discuss the results of the first quarter of financial year 2024 under review. For the first quarter of FY23-24, revenues were reported at INR 183.47 crores, representing a group growth of 0.78% increase over the previous quarter and 23.95% growth over first quarter of the previous year. EBITDA for the current quarter was INR 34.53 crores which grew by 6.23% over the previous quarter, and 53.67% over the first quarter of the previous year. The EBITDA margins reported at 18.8% representing a growth of 96 basis points over the previous quarter. Net profit for the quarter was INR 25.15 crores which grew by around 0.68% increase over the previous quarter and 41.29% growth over the first quarter of the previous financial year. The PAT margins for the quarter FY23-24 was at 13.7%.

Now coming to the revenue split by geography for the quarter- the Americas contributed to 44% of our revenues, Europe contributed to 21% while the remaining 35% came from Asia Pacific and other regions. The onsite revenue mix was 45% and offshore at 55% in the current quarter. The revenue split across verticals for the financial year 23-24 is as follows. FinTech contributed to about 37%, Telecom and utilities around 19%, Transportation and Logistics contributed to 12%, Public sector and Healthcare and retail at 5% and 4% respectively.

Coming to some of our customer metrics. Saksoft had around 14 customers of +$1 million revenue and we added another customer this quarter $0.5 to $1 million client profile. The total employee count at the end of the quarter stood at 1993, of which 1813 were technical. With the utilization level of the employees excluding trainees standing at 85% for the quarter. Revenue contribution from the top 20 customers continues to remain about 70%. In terms of balance sheet and the cash flow position the cash on hand as of 30th June 2023 is around 192 crores while debtors days for the quarter is 57 days. That concludes the updates on the quarter and now we can open the floor for the Q&A session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Vikas Srivastav from RBC. Please go ahead, sir.

Vikas Srivastav: Few questions interrelated. Solveda, do you expect this to be EBITDA accretive, seecondly with this acquisition would you throw some light on the consolidated EBITDA margins for the year. And the third question was that, will you give a range of your original target or any upward risk of your original target of $100 million for the year both including the existing turnover of Solveda and the growth and the organic growth given the year, balance nine months of the year?

Aditya Krishna: As far as EBITDA being accretive, Solveda has a EBITDA margin of above 20%. And Saksoft currently is operating at between 17% to 18% EBITDA, so it will help our combined EBITDA for sure, that's number one. Number two, what Solveda does is, it opens up another market niche for us with a competitive advantage. So as an organization we are trying very hard to compete in niches rather than be a pure commodity technology company. And the only way we can do that is to have competitive moats around the areas we operate. And we do this through building of accelerators, artefacts, etc. Now, what Solveda has is, it has a very strong artefact for organizations that are looking to add digital to their existing distribution channels. And that's what excited us about this company and that's why we decided to acquire them, because we are confident that with technology spend more and more towards digitalization of physical stores by organizations there will be opportunity to grow. As far as the combined entity is concerned, at this point, I would say that we are sticking to our guidance of achieving 100 million in this financial year which is 23-24.

Vikas Srivastav: Okay, got it. That confuses me a little bit, because our guidance was 100 million without Solveda or when you gave a guidance of 100 million in the previous quarter did it account for

M&As, how does that work? And my second question really was, if in terms of or if you are in a position to share acquisition costs and turnover, etc of Solveda as it stands today?

Aditya Krishna: Okay. So whenever we have given guidance, it has been for both organic and inorganic. So, let's be very clear about it. Our 100 million was organically and inorganically so Solveda will contribute to it now. Obviously, we hope to beat 100 million. But as of now, we're sticking 100 million given the headwinds that are happening in the tech industry. As far as revenue of Solveda is concerned, they are targeting $8 million in this financial year. And the price we will pay is about $18 million.

Moderator: Thank you. So, the next question is from the line of Hiloni from Pi Square Investments. Please go ahead.

Hiloni: I wanted to know our PAT margins, what we were targeting for the year was around 14% to 15% does that stay intact?

Niraj Ganeriwal: We are definitely looking at moving towards 14% as we move forward, this is the first quarter and we should see some improvements coming in as we move forward.

Moderator: Thank you. We take the next question from the line of Dhrishti Shah an Individual Investor. Please go ahead.

Dhrishti Shah: I had a couple of questions, first one being-Could you please talk about your order book and visibility of revenues for this financial year?

Niraj Ganeriwal: In terms of order book, see generally as we have mentioned, we generally start the year in terms of we have given a guidance of almost 100 million for the current financial year. Our order book is typically 78% to 80% of the targets which we have and the guidance which we have given and it is continuing to be in that direction. With Solveda coming in from an acquisition perspective, to that extent it adds because of the order book which we are having. And as we speak, we are still looking as Aditya had mentioned to the previous question of Vikas, our focus is to reach 100 million by the end of this year.

Dhrishti Shah: Understood. So you've also spoken about your $500 million target by FY30, just wanted to know the roadmap that would lead us to this target?

Aditya Krishna: We need to grow by 25% to 30% year-on-year to get to 500 million by 2030. So it's an uphill task, but our team is up to it. Definitely the market opportunity is there, the business opportunity is there. And what we have done over the last, three, four, five years has been to build or to put the building blocks in place, which is why last year was our best year ever in terms of growth and in terms of revenue. If you have noticed, we have been growing quarter-on-quarter although this quarter was muted, but we have been growing quarter-on-quarter for the last almost 20 quarters plus. So the key is to grow, that's where the focus is. And I'm confident with what we have, the building blocks, the strategy, the offerings, the target market, the focus that we have, we should get there.

Dhrishti Shah: Sure. Just a couple more questions, guarding EBITDA we see a good improvement in the margins. So what exactly helped us with this improvement?

Niraj Ganeriwal: EBITDA improvement is primarily on account of operational efficiencies and effectiveness. As you have seen that the quarter was quite slow and muted, when there are such time we are able to focus internally better in terms of operations. And we ensure that the overheads and others are controlled well and monitored well. So it's predominantly a factor of operational efficiencies and effectiveness.

Dhrishti Shah: Understood. And if we see the revenue contribution from our top five clients that has slightly come down this quarter, what exactly led to this?

Aditya Krishna: This is the reason why, I responded to Vikas's question earlier about, headwinds and the fact that organic and inorganic is important to get us to our items of 100 million. There is a slowdown in the US, there is a slowdown in Europe. So a lot of our customers are deferring projects - they are reducing technology spend temporarily. I'm pretty sure this is temporary as is the case with most other technology companies. And that's the main reason why there has been a drop, and it's not a significant drop it's only 1%.

Moderator: Thank you. We take the next question from the line of Vikas Srivastav from RBC. Please go ahead sir.

Vikas Srivastav: Aditya, if we take out 8 million we are left at 92 million, this muted growth this year, this quarter, are we saying it was an aberration, because if I remove the 8 million which you're adding or 6 million because you have three quarters left, post your Solveda purchase, we are then looking at, you're already there on that run rate if I look at the current quarter. Are we looking at muted organic growth other than acquisitions right through the year, then, if you can throw some light on this. If I'm looking at my base figure of 92 from organic, I'm just distinguishing between organic and inorganic. And I remove Solveda from the, assuming there's no growth and we assume it's $6 million for the next three quarters we are at 94. It pretty much gives muted quarter-on-quarter growth on our original organic business. That was one question if you answer that, I have another question after that.

Aditya Krishna: Like I mentioned Vikas there are lots of headwinds right now and while the focus is to grow organically at a faster pace, I can't forge the numbers, with what, six, eight months left in the year, that will give us about, $5, $6 million of Solveda. We will grow organically, for sure we will grow, now will we grow at the same rate as we grew last year? Probably not, for two reasons one the base is bigger. And secondly, US economy or the US technology spend is not at the same level as it was last year. So there is a little bit of conservatism built in. I don't want to be overly conservative, but at the same time, I don't want to be optimistic, by getting to 100 million next year, which is a year ahead of our original target. I would be happy with that, as well as we can set the base for next year and the following year.

Vikas Srivastav: Okay. And just a little more information on the Solveda. Is it a regular kind of, earnout kind of deal or is it 100% stock purchase.

Aditya Krishna: There's no stock purchase, we have never done a stock purchase, we always do cash, we always do a mix of internal accruals and if necessary, a little bit of debt. Here, it's been all internal accruals and there is an earnout. In all our deals we buy 100% on day one, we normally pay anywhere between 50% to 60% upfront and the balance is over a two or three year earn-outt, and this is exactly the same.

Vikas Srivastav: Alright. And what's the stock option, to what level are you giving stock option within the organization now?

Aditya Krishna: We have 6% of our equity allocated for employee stock options.

Vikas Srivastav: And what is the level till which, top down till what level are you offering stock options to employees?

Aditya Krishna: Its leadership that means my one down and one level below that. So the total number of my colleagues who would be eligible would be in the range of 20.

Moderator: Thank you. We take the next follow up question from the line of Hiloni from Pi Square Investments. Please go ahead.

Hiloni: I wanted to know what was our attrition rate.

Niraj Ganeriwal: Our attrition rate for this quarter was much lower as compared to the past it was around 17%.

Hiloni: And last year, what was the number, Q-o-Q or Y-o-Y what would that number be?

Niraj Ganeriwal: That was close to 24% to 25%.

Hiloni: Last year, it was close to 24%, 25%?

Niraj Ganeriwal: Yes.

Moderator: Thank you very much. We take the next question from the line of Mr. Rajan, an Consultant. Please go ahead sir.

Rajan: What percentage of profits is spent on learning and development of employees?

Niraj Ganeriwal: In terms of learning and development, there's a continuous process of learning and development which we have. There is no specific measurement in terms of what is actually spent because learning is a integrated part of our employees, we have our LMS tool. And most of our employees in the technology sector and the delivery team are required to complete certain courses. And, that's something which is done regularly. In terms of numbers, unfortunately we don't have one to give you today.

Aditya Krishna: Because it's also a combination as we take trainees, we train the trainees to join experienced teams now that also learning, that's also training. So, it's a difficult metric to really answer. But it's a good question. We should keep it as a metric to evaluate and monitor going forward. Thank you for that.

Moderator: Thank you sir. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Aditya Krishna: We thank each one of you for taking your time to participate in this call, and your continued interest in Saksoft. We believe that with every passing day, we are closer to our goal. I hope we have been able to answer your queries, in case of any other queries please reach out to us or Valorem Advisers, our Investor Relations Advisor. Thank you.

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