



MPS Limited

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National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot no. C/1, G Block, Bandra - Kurla Complex, Bandra (East), Mumbai - 400 051, India Symbol: MPSLTD ISIN: INE943D01017	✓	BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers Dalal Street, Mumbai- 400001, India Scrip Code: 532440 ISIN: INE943D01017
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Dear Sirs,

Sub: Transcript of the Earnings Conference Call inter-alia on the Un-Audited Financial Results of the Company for the Second Quarter (Q2) and Half Year (H1) ended 30 September 2023.

Pursuant to the provisions of Regulation 30 read with Para A of Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of the Earnings Conference Call, held on Friday, 27 October 2023, at 05:00 P.M. (IST), inter-alia on the Un-Audited Financial Results of the Company for the Second Quarter (Q2) and Half Year (H1) ended 30 September 2023.

This is for your information and record.

Yours Faithfully,
For **MPS Limited**

Raman Sapra
Company Secretary and Compliance Officer

Encl: as above

www.mpslimited.com



“MPS Limited
Q2 & H1 FY24 Earnings Conference Call Transcript”
October 27, 2023



MANAGEMENT: **MR. RAHUL ARORA – CHAIRMAN AND CEO**
MR. SUNIT MALHOTRA – CHIEF FINANCIAL OFFICER
MR. SUKHWANT SINGH – CHIEF OPERATING OFFICER
MR. ANTHONY ALVES - SENIOR VICE PRESIDENT &
HEAD OF PRODUCT MANAGEMENT
MR. RAJESH JUMANI – CHIEF REVENUE OFFICER

Moderator:

Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Call of MPS Limited. As a reminder, all participant's 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 a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Arora, Chairman and CEO. Thank you, and over to you, sir.

Rahul Arora:

Thank you. Good morning from New York, and welcome to our H1 and Q2 FY '24 Earnings Call. Today on the call, I have with me from MPS:

- Sunit Malhotra, CFO of MPS Limited, who joins from Noida, India.
- Sukhwant Singh, Chief Operating Officer (India) at MPS Limited, joins us from Noida, India.
- Tony Alves, SVP and Head of Product Management at HW powered by MPS, joins us from the Great Boston Area.
- Rajesh Jumani, Chief Revenue Officer of our eLearning Practice, joins us from the DevLearn Conference in Las Vegas.

Today Sunit will kick things off in our opening segment by discussing our financial performance. Then Sukhwant will update us on the developments in our Content Solutions business. Rajesh will then discuss how we are expecting our eLearning business to deliver a strong H2. Then, Tony will discuss the exciting progress in our Platform business. Finally, I will provide an update on the progress on AI/ML, acquisitions, share PAT guidance for FY24 as promised on the last call, and finally conclude with an announcement regarding Dividend Distribution. We will then open the call to questions.

Let's get going. Over to you, Sunit.

Sunit Malhotra:

Thanks, Rahul. MPS recorded 9.51% Revenue growth over the PY in the first half of FY24 on an FX-adjusted basis. PAT grew by as much as 27% and was at INR 60.33 crores in the first half of FY '24. H1 has now laid a solid foundation for us to unlock a steeper growth trajectory in H2 FY '24. And while Q2 was seasonally modest, we continue to remain bullish about the growth prospects in FY '24 with a robust H2 and a meaningfully and positively different Q4.

Reflecting on H1 and Q2 FY '24, here are my Top Three favorite themes:

1. Revenue growth continues to lead to margin expansion.
2. Our Platform business is building momentum every quarter, and our outlook is more optimistic rather than cautious on this business segment after a long period.
3. Diversity continues to be a recurring theme for us across all key business metrics, which includes, reduced customer concentration, favorable business mix, and unparalleled customer spread across markets.

I want to hand it over now to Sukhwant to discuss our development in our CS business.

Sukhwant Singh:

Thank you, Sunit. The scholarly lines of the Content Solutions business continued to lead the charge towards revenue growth and margin expansion. In the scholarly marketplace, we have launched new capabilities linked to the Journal Editorial Office, or JEO, that are placed in a more strategic position in the value chain, which has not only resulted in new business from net new customers, but also improved the stickiness and quality of our revenue with existing customers. Together with the HighWire suite of products, this new JEO service compounds our capabilities and positions us as probably the only vendor partner with technical and domain expertise at the front end of the scholarly publishing value chain.

Additionally, our star account strategy in the scholarly market is yielding excellent results, and we are hoping to scale the strategy to other business segments, too. The education side of our Content Solutions business had a seasonally modest Q2, which is expected to correct itself in the second half of the year and particularly in Q4. As a result, the revenue growth in Content Solutions in the first half of FY '24 was contained at ~7.7%. I continue to remain bullish about content solutions in FY '24 with a robust second half ahead of us.

I want to hand it over now to Rajesh to discuss how we are expecting our eLearning business to deliver a strong H2. Over to you, Rajesh.

Rajesh Jumani:

Thank you, Sukhwant. eLearning continued as the second-largest business segment. FX-adjusted revenues were ~INR65 crores in the first half of FY '24, amounting to ~25% of our total revenue. While the India entity, which is the largest in our portfolio, had a seasonally modest Q2, our outlook on the business for the rest of FY '24 continues to be bullish. All critical lead indicators for revenue, including order book and high probability deal pipeline, are appearing positive. We are hoping to announce a large experience center project in the coming months.

The eLearning operations in Europe are doing much better than expected, particularly in the challenging macroeconomic environment. TOPSIM revenue grew by 15.6% in Q2 of FY'24 compared to the same period last year, and though margins were suppressed in the same comparison, the team did better given the current situation in Europe. On a half-yearly basis, TOPSIM revenue grew by 21% compared to the same period last year.

MPS Europa is performing exceptionally well. Revenue grew by 50.5% in Q2 of FY '24 compared to the same period last year, at a PBT margin of 22.7% in Q2 of FY '24. We also have a more diversified customer base and a healthier pipeline, thus indicating that the current performance is sustainable.

The acquisition of Liberate Learning has been successful. After the flurry of integration activity in the first four weeks, Rod and his team are steering the business independently. The marketplace has reacted favorably to the development and we are gaining momentum in the APAC region. In H1 and Q2 of FY '24, a consolidation of Liberate Learning's Revenue and Earnings was restricted to one month.

I will now hand it over to Tony who will discuss the exciting new phase of growth and expansion our platform business has entered. Over to you, Tony.

Anthony Alves:

Thank you very much, Raj. MPS' platform business, marketed as HighWire, has entered an exciting new phase. On the back of double-digit Revenue Growth for the first time since the acquisition of HighWire in the first quarter of 2020, the platform business did well in Q2 FY '24. Revenue grew 7% on an FX-adjusted basis in Q2 FY '24 over the previous year. Since the operating leverage in the platform business is the highest across all of our Segments, PBT grew even faster at ~55% in Q2 FY '24 compared to last year. Overall, on a half-year basis, revenue in the platform business grew by 10% in the first half over the previous year and PBT grew by 54% in the first half over the previous year.

Execution of our product roadmaps was on schedule for the entire platform suite in Q2 FY '24. The marketplace has well-received new features and functionalities, and there are several monetization opportunities as we implement new clients and migrate some existing clients to newer products. We have two product launches planned in the business segment and are confident that these will create new revenue streams in the longer term for MPS.

Earlier this month, we launched DigiCore Pro. This is an end-to-end publishing workflow solution based on the principles of single-source publishing, a methodology that reduces inefficiencies and increases the speed of delivery for our clients. This new publishing system supports content authoring, online submission, editorial and peer-review tracking, interactive peer review, post-acceptance production tracking, and delivery to hosting platforms.

This new workflow product will open up opportunities to engage and bring on new customers who are looking to move to a more modern workflow system. It provides opportunities to bundle products and services serving as an onramp to sell content services and other technology solutions to those clients; and it allows us to sunset older workflow solutions, creating efficiencies internally.

Next month, we're launching THINK365, the cloud-based version of our Think e-commerce and subscription management system. THINK365 is a software-as-a-service model and a modernization of the current desktop version. This means that clients will benefit from the convenience and the efficiencies that a SaaS system offers, such as less IT and system administration, automatic upgrades, and an improved user experience. We believe that this compelling option will be well-received and that THINK clients will be eager to upgrade to this improved service.

To conclude, my remarks on the Platform business, I would like to highlight:

1. Our mission has now transitioned from Support and Delivery to Product Development. This includes new Product Launches, Active Product Roadmaps, and Upgrades.
2. Our new customer acquisition strategy that involves Product and Service bundling (for example with DigiCorePro) and Price Warriorship is gaining traction and helping us develop a new customer base.
3. The feedback from the industry and the scholarly community is highly encouraging. HighWire and MPS now stands as the only "serious" independent choice, since two of our larger competitors have been acquired by publishers.

Our engagement with our core customers has significantly improved in the platform business with discussions underway on cross-selling. We also have a robust pipeline of RFPs with new customers. Overall, the platform business has progressed from consolidation to a growth phase. Back to you, Rahul.

Rahul Arora:

Thanks, Tony, and thank you, team, for that comprehensive update. I will start now with an update on our progress as MPS Labs in AI/ML, since that continues to be top of mind in the industry and in the marketplace at large.

The advances in AI/ML have a proportionate impact on the entire ecosystem, affecting our customers, competitors, industry, and the macroeconomic environment alike. Instead of perceiving AI/ML as a threat, we're viewing it as an opportunity to differentiate ourselves once again in a market that's highly fragmented and ripe for consolidation. To spearhead this transformation, we earlier had launched a new initiative called MPS Labs, which is pioneering our AI/ML initiative. It's headquartered in Bengaluru and has a team of over 100 professionals with relevant expertise.

We have made substantive progress this past quarter. Our teams have played a pivotal role in scaling up AI/ML applications in content profiling, workflow routing, typesetting and composition of standard layout products. Our pilots in collaboration with our customers, leveraging AI/ML in the creation of Alt-Text to make content accessible, have now transitioned into real projects and real workflows. With MPS Labs as our innovation hub, we are driven to continually push the boundaries of unlocking AI/ML within our capability set, ultimately enhancing our offering and cementing a leadership position in the market.

Now moving on to acquisitions, dividend distribution, and PAT guidance.

As I've shared earlier this year, we expect to close one more acquisition in FY '24, potentially related to our platform business.

I would like to confirm that we are now pursuing acquisitions of healthy, at least 15% EBITDA businesses that are also growing, at least a 10% revenue scale over a three-year period.

On capital allocation, as I've shared previously as well, our priority is always to redistribute surplus funds to shareholders of MPS, provided there is no imminent use for those funds over the next 6 to 12 months. This approach allows us to be focused, disciplined, and responsible. At this point, we believe that even after concluding the upcoming transaction, MPS will be sitting on surplus funds, and therefore the Board of Directors has recommended an interim dividend of INR30 per equity share of INR10, each of the Company.

For future acquisitions in FY '25, as I had mentioned previously, we are comfortable raising debt to the level of our PAT, which, as you know, is also growing. Based on the strong foundation laid in H1, our management team feels comfortable sharing that we are moving towards achieving above INR130 crores in PATs in FY '24.

Let us now open the call to questions.

Moderator:

Thank you, sir. We will now begin the question-and-answer session. The first question is from the line of Mr. Keshav Garg from Counter-Cyclical PMS. Please go ahead, sir.

Keshav Garg:

Sir, I am trying to understand that for the second quarter, except for our platform division, our other divisions have shown a degrowth in absolute profit number year-on-year. So, what is the reason for the same and is this trend expected to continue or expected to reverse going forward?

Rahul Arora:

So, like in the opening remarks, Sukhwant, and Rajesh both shared that in certain lines of our business, we have had a soft Q2. Having said that, we are expecting a pretty significant ramp-up in Q3 and Q4. Some of the margin erosion is a result of costs that we are investing in to deliver on the Q3 and Q4 numbers.

So, sometimes when you are expecting large projects, you have to onboard headcount and invest in those projects before the project begins. So, some of the margin erosion is because of that upfront investment for future growth. In terms of revenue, like I said, Q2 was seasonally modest.

Last year, Q1 was seasonally modest. So, every year, we seem to have one quarter where we don't form a uniform pattern. But we judge the business on a yearly basis rather than looking at minor movements on a quarterly basis.

So, like I shared at the top of the call, we are very comfortable reporting and confirming that, that we will cross INR 130 crores in PAT in FY '24. You may note that as a management team, we have always been extremely conservative with forward-looking guidance. The last time I offered this type of guidance was last year when I shared that we would achieve a PAT of INR 100 crores and we went ahead and achieved a PAT of INR 109 crores. So, we typically are very conservative with our guidance and on a conservative basis, we are sharing that we will cross INR 130 crores in PAT in FY '24.

Keshav Garg:

That's really great. Sir, just one more thing about the acquisition of this Liberate Group. Sir, prima facie, it looks very attractively priced. Thank you very much for that. But we still have to buy the 35% minority interest. So what exactly is the pricing arrangement for acquiring the remaining stake? Is it that we will have to cope up a significant amount or is it in line with the acquisition of 65% only?

Rahul Arora:

Overall, this quarter and the first half, the consolidation of Liberate Learning has only been one month. Even within that one month, though, they have delivered over 35% EBITDA margin and grew over the previous year as well, although we didn't own the company the previous year. And in terms of the step-up, we have acquired 65%. We plan to acquire the balance 35% over a two-year to five-year period.

Now, all future payments are linked to how the business grows and at what level the business grows. But from a range perspective, we expect the payout of the 35% to be in the 4x to 7x range of EBITDA earnings for that particular year. So, as you know, MPS is operating at a higher multiple. So, we believe that it will be accretive to the current setup, whether it's 4x or 7x, which will be determined by how much the business is growing. And we've given significant growth milestones for the management team there.

Keshav Garg:

Great, sir. Thank you very much and best of luck.

Moderator:

Thank you. The next question is from the line of Mr. Madhur Rathi from Counter Investments. Please go ahead, sir.

Madhur Rathi: Thank you for the opportunity. Sir, when I look at the number of employees that have increased in our content solution and platform business, the number of employees have increased at a much higher rate than our first-half revenue. So, if you could just help me explain, because last quarter we had guidance that we'll be using tools of automation or Chat GPT that will help us increase our revenue at a faster rate. So, if you could just help me understand this?

Rahul Arora: Yeah. Quick answer to your query is that hiring, and addition of costs is leading and Revenue is lagging. So, essentially, we're expecting a very strong H2 and to make sure that it's a sustainable level of growth and we over deliver on customer expectations. We've invested to make sure that new revenue transition, onboarding of new customers, and onboarding of the new processes goes without any disruption and customers are happy and confident about working with MPS.

So, we continue to automate. MPS is the leading vendor partner in the marketplace when it comes to automation and leveraging on system-based delivery to unlock efficiencies. So, what you're seeing here is hiring is leading, revenue is lagging, and Q3, Q4, those numbers will start to make sense again.

Madhur Rathi: Thank you, sir.

Moderator: Thank you. The next question is from the line of Mr. Rushikesh Kale, who's an individual investor. Please go ahead, sir.

Rushikesh Kale: Sir, the question was answered when you gave guidance. So, reasonably, we would expect that since you are always very conservative, can we expect around INR140 crores to INR150 crores PAT this year?

Rahul Arora: Thanks, Rushikesh. I know you always push me in this direction. Like I said, we are a conservative management team when it comes to projections. Though, we are not conservative in our approach or in our process. We're extremely aggressive when it comes to our work and our pursuit of excellence. But we are conservative in how we communicate our success and vision. So, we'd like to stick with the conservative communication that we will cross INR 130 crores.

But, of course, the team is aggressive, a competitive team, and we will be pursuing to maximize. We will not limit ourselves to any ceiling. So, INR130 crores is not a ceiling. It is simply a number that we're sharing that we feel that we will comfortably achieve without sweat. And, of course, you are more than welcome to do your independent analysis based on our past track record and how we shared guidance previously and extrapolate what that could potentially look like. But at this point, we would like to stick with the guidance of INR 130 crores.

Rushikesh Kale: Sure. Thank you. And one more follow-up question. You said about an upcoming acquisition. We have almost INR 160 crores cash, and you said that it is more than enough to basically carry us through and fund our future acquisitions as well. So, with this dividend, we would probably go below our benchmark of INR150 crores holding of cash for a short period?

Rahul Arora:

I think it will be for a short period because, so we anticipate, the new acquisition to be somewhere in the INR 50 crores to INR70 crores range. That's still ongoing. But we also don't see the point in just sitting on cash and not doing anything with it. Because it's a distraction, managing cash, treasury and non-operating investments is not our core competency.

Further, the business is also generating significant cash every month. So, if we can complete the upcoming acquisition this year, there will probably be at least a six-month gap for the next one. And in that six-month gap, we will be generating more cash. So, we feel very comfortable that for a very short period, we may go below INR100 crores possibly on our cash in the business. And I think that's good as well because I am slightly dissatisfied with the pace of cash generation today in the business. We historically used to generate cash much faster.

And I think it will be good pressure on the team to get back to those old levels. We've implemented several initiatives, including, process changes, system changes, communication changes, and delegation of authority. We've rolled several new initiatives in the last six months so that we can step up the pace when it comes to cash generation in the second half of the year and for the foreseeable future. So, I feel quite comfortable even if the cash levels go below INR100 crores for a couple of months.

Rushikesh Kale:

Thanks for the great transparency and great corporate governance. Thank you so much.

Moderator:

Thank you. The next question is from the line of Mr. Darshil from Crown Capital. Please go ahead, sir.

Darshil:

Hi. Good evening. I'm congratulating you on a great set of results. Sir, most of my questions have been answered. So, just two questions, do you see any risk in meeting our guidance, like some macro factor or some economic factor that can be a hindrance to us? That's number one.

And what kind of growth with the new acquisition that we've done, can we see for FY '25, any guidance in terms of revenue or PAT growth that you would like to give? Those are the two questions. Thank you.

Rahul Arora:

So, overall, I think the guidance is conservative. At the end of the day, we've had an opportunity to look at the first two quarters and basically to think about giving guidance for the next six months. Not even six months, because October is gone. So, it's essentially five. We're giving you a five-month guidance.

So, I do not anticipate any macroeconomic or any industry or headwind or anything like that playing out in the next five months. And that's one of the reasons why we typically give this guidance at the end of the second quarter because we've had six months of historical published financials, but we also have another month, some more visibility in into the two months of Q3 as well. So, we're able to give a very conservative, tight guidance.

So, I do not expect any hindrance to the guidance. and if we do perform the way I'm describing, there may probably be another round of distribution that will take place to the shareholders in May when we announce our final FY '24 result. That's the part that I did not unlock in the previous question. So, what we're distributing today is an interim dividend. There may be a final distribution as well.

On FY '25 guidance, we'd like to abstain. Like I said, we are extremely aggressive in our approach and how we pursue our goals. We're a competitive team. But we are highly conservative when it comes to communicating our success and our goals. We're a humble team and we want to keep it that way.

From a guidance perspective, I have shared Vision 2027, which means that we want to get to a certain level of revenue and profit by FY '28. We expect, the CAGR to be around 25%, between now and FY '28. So, in that CAGR, 60% of the growth is going to come from acquisitions, and 40% of it is going to come from organic growth. So, 500 crores to 900 crores organically and 900 crores to 1,500 crores inorganically. So, that's the kind of outlook for FY '28. Now, there will be some years where we will be way above the 25% CAGR and some years where we will be at that number. So, time will tell whether we'll be below or above that number. But on a CAGR basis, between FY '23 and FY '28, we're expecting a 25% CAGR.

Darshil:

Okay, so that helps. And just one more question. So, all the acquisitions we do, wouldn't be fitting our profile margin in terms of macro? Would that be like maybe a year or so of, maybe getting the efficiencies? So, for it to become a margin that's accretive, how would that play out? Because we have increased our margin substantially over the last few quarters. So, we just wanted to get a color on that, like how our target acquisition is being done?

Rahul Arora:

Excellent question. So, again, it must be specific to that particular acquisition. So, what we expect is, for example, with Liberate Learning, we're acquiring a company that's already operating at 35%, 38% EBITDA margin and they are in the e-learning vertical. Liberate margins are better than our standalone e-learning business. So, yes, we expect to improve margins in our incumbent e-learning business, but potentially not in Liberate, but more in the standalone business.

In fact, learning a lot of things from how Liberate does business and that will unlock future margins. For example, they have more people outside the company than inside the company. So, they have more contractors than they have internal personnel. So, there are things like that on the operating model that we are learning from them. So, on a standalone basis, the e-learning margin will improve.

Now, coming to future acquisitions, it will be dependent on the acquisition itself. We will not acquire anything that's below 15% EBITDA margin on a standalone basis. That's for sure. And we want to make sure that on the content side, we are north of 40%. On the platform side, we're north of 45%. And on the e-learning side, we're north of 30% at some point. So, if we do acquire something less than those numbers, then our goal will be to get them to that level in 6 months to 18 months. As of now, we're not expecting any margin erosion as we scale either organically or inorganically.

- Darshil:** Sure, thank you so much. I wish you all the best. Thank you.
- Moderator:** The next question is from the line of Mr. Mahesh, who is an individual investor. Please go ahead, sir.
- Mahesh B P:** Hi, Rahul. My question is on e-learning. E-learning is roughly 25% of total revenue currently. What is the target number by FY '27 or FY '28?
- Rahul Arora:** The target number for us is the total number, which is INR 1,500 crores. We're not targeting any specific segment-wide split, because it's difficult to project that out over a three-year period. Second, majority of our growth is via acquisition, and a lot of that is dependent on externality. So, for example, the next one that we're envisioning is more in the platform space.
- So, there may be a point in time when the platform business suddenly becomes the second-largest segment. So, it's difficult to predict what the composition of the business mix will look like, so time will tell. But yes, definitely running towards the INR1,500 crores number.
- Mahesh B P:** Okay. how would you break your e-learning revenue by practice in all verticals?
- Rahul Arora:** We can think of our e-learning business in two ways, by geography, as well as the type of work that we do. So, geography-wise, we have the MPS Interactive, which is now marketed as EI Design. That entity is focused more on the global marketplace but delivered from India. Our Liberate entity is more focused on the APAC market, delivered from Australia and New Zealand.
- Our Swiss entity called MPS Europa is focused entirely on Europe and our TOPSIM entity is focused more on German-speaking Europe. So, there's a geographic split to it. In terms of the type of work that we do, we are comprehensive. We start from the very top, what we called learning advisory and consulting, that's the part of our business, when the entire engagement launched.
- Then we have a section on immersive learning, where, e-learning is more experiential in nature. So, gamification, scenario-based learning, video-based learning, story-based, simulations, etc. As well as, continuous learning, so, things like performance support tools, social learning, self-directed learning, Content Curation, as well as, learning platforms and technology.
- We also have a series of products like Learning Planet, QuizBiz, Cyber Test, XR Optimus, and Learn Now. And then we are also involved with the delivery of training. Here, our role is slightly limited because we're more of a digital company, but we do support on the training delivery side where we focus more on, how training is delivered. So, it could be mobile learning, micro learning, blended learning, virtual training, and so on.
- Mahesh B P:** Okay, thank you. So, last quarter you mentioned, you would look to acquire companies in the MTS space, right? Rather than growing it organically. Could you elaborate on what does MTS industry looks like, the size of companies, margins, etc?

Rahul Arora:

Yes, so just for everyone's knowledge, MTS stands for Managed Training Solutions or Managed Training Services, which entails the outsourcing of a large part of the entire learning and development function. So, if you're a corporate, rather than managing all your L&D, you outsource a significant chunk of L&D, possibly all of it.

And what MPS has been doing, has been, we've slowly been activating what we call onshore/local presence in many markets. So, our acquisition of Liberate Learning was to that end. Our presence in Switzerland and Germany is to that end. And the goal, of course, is that, for example, if you're working with a Fortune 1000 global corporate, and they're looking to onboard us as a globally managed training services provider, we're able to manage the global L&D budget and the global L&D rollout.

So, we've been slowly and gradually working towards that. We've got the APAC market covered. We've got the European market covered. Of course, we need expansion to the US and other markets when it comes to MTS. In terms of where we are with that, we are in mature conversations with some of our strategic star accounts about unlocking MTS.

In terms of margins, yes, the MTS business tends to operate at a lower margin. So, for example, on average, in a standalone e-learning business, the industry margins of a reasonably good company are about 25%. In MTS, it's about 15%. We are not there yet in terms of becoming an MTS company. That's more of a longer-term plan. So, we don't see any short-term erosion of margins because of MTS. Currently, we're in the phase where we are building the ingredients for an MTS business.

Mahesh B P:

Okay. My last question is, how does the merger and acquisition environment look like, especially given the high-interest rate environment?

Rahul Arora:

We've gone through a period where the market was a bit dry in terms of transactions available. Despite that, MPS has not seen any slowdown. So, our framework is slightly different. We depend less on intermediaries. Since we're so active in the space, we're positioned as thought leaders.

We tend to go directly to the owners of companies because we know them. And some very often, approach us as well. In fact, even Liberate Learning, though it came through an investment banker, Rod and his team had given the investment banker directions to come to us. Historically, yes, the market was seeing a slowdown. We didn't see any slowdown. But going forward, we are seeing a pick-up in terms of transaction activity. I'm seeing a lot more investment decks on my desk than I have in the last 12 months. We've seen two of our competitor's complete acquisitions in totally different spaces in the last couple of months.

So, we are seeing more activity in the M&A market on average. But we never did see a slowdown either. So, yes, there is some more opportunity available in the marketplace now than 12 months ago. Interest rates have not affected the volume. And in terms of valuation, we've been very disciplined historically, and will stay disciplined.

Even now, since we are looking at things like 5x and 6x, even that small step-up makes us uncomfortable at first. But we are operating in this new expanded world because we're acquiring growing businesses. So, there could always be a valuation expectation from the seller. But we are highly disciplined. We have an excellent track record. And we will stay disciplined.

Mahesh B P: Okay. Thank you, Rahul.

Moderator: The next question is from the line of Mr. Arjun Balkrishnan, an individual investor. Please go ahead, sir.

Arjun Balkrishnan: Thanks, Rahul. So, I have a couple of questions. So, one is, as you grow inorganically doing these acquisitions, I'm a bit concerned about how you're managing them once the acquisition happens. I guess you have several companies to eventually manage. So, are you making some org changes or structural changes to ensure there is no leakage of people or revenue or profitability as you become a larger company, but a bunch of smaller companies put together?

Rahul Arora: Excellent question. I think that going forward, that is the biggest focus. Historically, if you look at prior to Liberate, it was all about acquiring, operating, and turnaround. In E.I. Design, of course, there was no turnaround, but it was acquired and operated with Asha, who was the promoter of the business, stepping down.

So, it's always been promoters exit and we enter the management team phase, but the promoter exits. And now what we're seeing is promoters want to stick around. In the Liberate case for quite a reasonable, sizable period. With future acquisitions as well, for example, the platform one that I'm describing, the promoters want to become senior executives in the senior management team of MPS.

So, what we are making sure is that while we, of course, in the Diligence process, covered things like Financial DD, Tax DD, Legal DD; we also focus on cultural fit and alignment of values. So, first, you spend time, even before you pick up the DD process, to see if we can work together as people. We have had opportunities that we've walked away from. Even though we'd like the numbers, we'd like the business, but we just couldn't see ourselves working with that promoter group. So, there's a first initial analysis at a very high level, as people can we work together. And secondly, in the diligence phase, for the first time, we are looking at things like culture, values, and mission alignment.

And then post-transaction, the setup is very different. I think rather than acquiring and operating, the focus now is, how I can personally, be an advisor, a sounding board to the promoter, help them think through difficult decisions, rather than telling them what to do.

So, Liberate, is an excellent example of achieving that. So, Rod and I speak once a week, and I'm helping him think through difficult things. And quite often, I open it up as well to him, where I am thinking about certain things, and he helps me think through complexities. Because owners think differently, always. So, I am thinking of this as a tremendous opportunity to upgrade the quality of management in the company. Because the ownership mindset is very different. And I expect

that we will see a significant upgrade in the quality of management at MPS, the quality of leadership at MPS, through this expansion drive.

We are also making sure that the goals and the expectations with the founders are set up in front of what life would look like and what would roles look like before the acquisition is completed. So, we have very tight employment agreements. We, in fact, also put down on paper a delegation of authority matrix, which tells them upfront, that this is the level of authority you will have post-acquisition. So, there's a lot of detailing that is going on. And the goal is to upgrade the quality of management and leadership in the company.

Having said that, we of course know of various examples where companies have gone through such expansion. There's an excellent company called PDS, which went through this kind of expansion in the garment space. There's a Harvard Business School case study on the PDS situation. And what they did was basically, that they identified that they had a bunch of cowboys in their entrepreneurs, who were extremely successful in their individual businesses but were struggling to collaborate.

So, what they ended up doing was, firstly, they did not consolidate. So, they continued to own 70% - 80% of the business, but they left 20% -, 30% behind. And they created incentives for them to collaborate. On the latter, this is also what we're looking to do through the ESOP plan as well. The ESOP plan is focused on making sure that everyone is invested in moving the ship and not their component. So, there are lots of things happening, but this is something that is extremely top of mind and we're paying a lot of attention to.

Arjun. Balkrishnan:

Thanks Rahul, And I mean, on the other end of the spectrum, there's a huge opportunity to cross-sell and improve opportunity size for each of your operating segments. How are we planning to achieve that part of the opportunity?

Rahul Arora:

Yes, what we've identified is we are now servicing over 600 customers. And I think someone on the previous earnings call said that you guys should just switch off from new customer acquisitions and just service the current customer base. I won't say I'm going to switch off on adding new customers. I thought the gentleman was exaggerating to make a point, which was there's so much opportunity within this captive customer base that we need to work hard towards converting the opportunity into reality.

So, what we've done. We've rolled out what we call a Star Account strategy. We have figured out that there's no way that we can have strategic partnerships with each of the 600 customers. So, we've identified last year specific customers as Star Accounts. And the goal was, today, you have, on average, two or three lines of business servicing an average STAR customer, double it in the next two or three years.

The STAR initiative was highly successful as a part of our Going Gestalt strategy. And now we've scaled that to a total of 100 customers and we call that the Supercharging Gestalt. So as of today, we are focusing on about 100 customers. But in some of them only identification has happened right now, for some of them, they are more mature, and in those mature customers they have been informed about their status.

So, the goal, of course, is to see how we convert these current customers identified, and scale up further. But I think for the next couple of years, we are going to be focusing on these 100 customers. And when we identified these customers, these are just our largest customers. We, in fact, focus more on where the potential is. So, it's not about size, it's about potential when we identify these customers.

Arjun. Balkrishnan:

And last, I mean, very generic question, out of curiosity. Though I'm just a recent investor from the last two years. I'm looking at historical concalls and your commentary. I just noticed in the last one year or so, you've become a bit more aggressive in terms of commentary. And I know you're still conservative that you move forward-looking and then you set yourself for the five-year target.

What has changed in the market Rahul, since, you were in business in 2010 to say, 2017, 2018. And I see a big shift in the way you're trying to sell yourself to the market as well as, I mean, the general bullishness. What has changed over the last decade or so, if you can answer that?

Rahul Arora:

So two things, right? So one is personal, and one is professional. So personally speaking, I was 31 years old, when I became CEO back in 2015. So youngish CEO, obviously been a tremendous personal leadership journey that's taken place. I have evolved as a leader, personally speaking, both in terms of expertise, but also in terms of experience. I've gone through two highly transformational experiences, one at the Wharton School of Business, where I attended the advanced management program back in 2018. And right now, I am in the final leg of the Owner/President program at Harvard Business School. I graduate from that program next month. So, there's been a huge personal leadership journey that I have gone through as a leader, but also there's a significant leadership journey that our management team has gone through. We've seen three evolutions of the current management team. We are in the third evolution. As owners get added as management gets increased, there's also an evolution.

So, I think what's happening is, yes, there's a market element to this, but there's also a maturity at a company level, at a management level. My personal leadership but also my team's evolution. And I think that we are communicating what the business is. We're not doing anything extravagant. So, all we do is earnings calls, we do maybe one investor roadshow in the year. So, we are very conservative in how we communicate to the marketplace.

But I think we are getting more organized in our approach and getting ourselves organized is possibly showing in our communication. So, I always believe anyone who can think in a structured way is an effective communicator. I think we're getting more effective in our communication because we are moving forward in a structured manner.

Arjun. Balkrishnan:

Okay, thank you, Rahul. Thank you for answering all the questions and all the best.

Moderator:

The next question is from the line of Mr. Arjun Goel, who is an individual investor. Please go ahead, sir.

Arjun Goel:

Hi, Sir. I had a question on the capital allocation and dividend point. So, if you complete the INR 50 to INR 70 crores platform acquisition perspective, do you think there is a scope for another final dividend or a buyback at the end of the year, given the INR30 coming in now?

Rahul Arora: Yes. So, we must complete the acquisition first. And will then assess the level of cash. We then need to go to the Board; the board has to approve and further recommend. So there's a whole process and journey through this. I can just state what my preference would be, that in May, sitting in a position where we may re-distribute capital, higher than what we are doing right now. But again, that's my preference. I don't know what will end up happening. And of course, the only rider on that is suddenly, if you have an acquisition that's significant at that point in time. We do not see that right now because this was the first time, we are looking for two acquisitions in the same year. So, we probably want the system to digest this expansion. And the management team to digest these two acquisitions before we start pursuing more. So, my preference would be, like I said, redistributing capital again higher than what we've done right now.

Arjun Goel: And if I'm not mistaken, I think in FY'23, the overall payout was slightly lower than historical, if I'm not mistaken because in preparation for acquisitions, if I'm not mistaken, right? Correct.

Rahul Arora: Correct. So, we thought we would need more than what was deployed. And the moment we understood that we would not need that much, we decided to distribute to the shareholders. So we had some pent up cash and that's why we decided to declare an interim dividend rather than waiting till the end of the year.

Arjun Goel: Okay, fair enough. And best of luck for the rest of the year and the future. Thank you.

Moderator: As there are no further questions, I would now like to hand over the conference to Mr. Rahul Arora for closing comments.

Rahul Arora: Thank you for your active participation in our earnings call. We appreciate all your thoughtful questions and your intellect. As I always say, your unique outside-in perspective keeps us active and helps us to learn and improve. I also want to take this opportunity to express my gratitude to each of you for your continued support and respect. Our journey together has been quite remarkable and we're seeing a tremendous opportunity here to supercharge what we've done over the last couple of years. Finally, I look forward to your continued support, feedback, and partnership mindset. Thank you so much.

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

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