

May 17, 2021

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

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

Dear Sir/Madam,

**Sub: Transcript of Earnings Call held on May 13, 2021**

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 May 13, 2021 post announcement of financial results of the Company for the quarter and financial year ended March 31, 2021. The audio recording of the Earnings call along with the Transcript has been uploaded on the Company's website <https://www.happiestminds.com/investors>

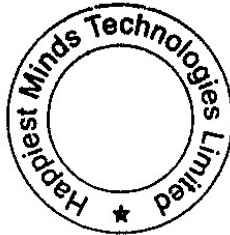
This is for your information and records.

Thanking you,

Yours faithfully,  
For **Happiest Minds Technologies Limited**



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





“Happiest Minds Technologies Limited  
Q4 FY2021 Earnings Conference Call”

May 13, 2021



**ANALYST:**

**MR. HARDIK SANGANI – ICICI SECURITIES LIMITED**

**MANAGEMENT:**

**MR. ASHOK SOOTA – EXECUTIVE CHAIRMAN**

**MR. JOSEPH ANANTHARAJU – EXECUTIVE VICE CHAIRMAN**

**MR. RAJIV SHAH – PRESIDENT & CHIEF EXECUTIVE OFFICER - DBS**

**MR. RAMAMOHAN C – PRESIDENT & CHIEF EXECUTIVE OFFICER OF IMSS**

**MR. VENKATRAMAN NARAYANAN – MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER**

**MR. AUROBINDA NANDA – PRESIDENT OF OPERATIONS & DEPUTY CHIEF EXECUTIVE OFFICER – PES**

**MR. SUNIL GUJJAR – HEAD OF INVESTOR RELATIONS**

**MR. PRAVEEN DARSHANKAR - COMPANY SECRETARY AND HEAD OF LEGAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Happiest Minds Technologies Limited Q4 FY2021 Earnings Conference Call. 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 “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Sangani from ICICI Securities Limited. Thank you and over to you, Sir!

**Hardik Sangani:** Thank you Faizon. Good morning ladies and gentlemen. This is Hardik here. Hope you are keeping safe and doing well. Thanks for joining us today on Q4 FY2021 earnings call of Happiest Minds Technologies Limited. On behalf of ICICI Securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this earnings call. Today, we have with us Mr. Ashok Soota - Executive Chairman, Mr. Joseph Anantharaju – Executive Vice Chairman- President and CEO - PES; Mr. Rajiv Shah – President & CEO – DBS; Mr. Ramamohan – President & CEO - IMSS; Mr. Venkataraman – Managing Director & Chief Financial Officer; Mr. Aurobinda Nanda – President of Operations & Deputy CEO - PES; Mr. Sunil Gujjar – Head of Investor Relations; Mr. Praveen Darshankar - Company Secretary and Head of Legal. I will hand over it to Sunil of safe harbor statement and to take the proceedings forward. Thanks, and over to you Sunil!

**Sunil Gujjar:** Thank you Hardik. Very good morning to all. Welcome to this conference call to discuss the financial results for Q4 and year ended March 31, 2021. We trust all of you are keeping well and staying safe

I am Sunil from Investor Relations Team. Ashok will begin the call by sharing his views on the business environment in the context of the pandemic and our results. Venkat 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 could make forward-looking statements. These statements are considering the environment we see as of today

and obviously carry a risk in terms of uncertainty because of which the actual results could be different as outlined in the earnings release, which is available on our website.

We do not undertake to update those statements periodically. Now let me pass it on to Ashok. Over to you Ashok!

**Ashok Soota:**

Thank you Sunil and good day to all. The second wave of the pandemic is sweeping through the country and we have as a country found ourselves terribly unprepared. The shortfalls include inadequacy of oxygen, hospital beds, ICU facilities and now even the vaccine. The wave has taken a large human toll. We at Happiest Minds have had our own share of heart wrenching losses of colleagues and family members. We pray that the second wave will start subsiding soon and the country continues to build its health infrastructure to be better prepared for future calamities. We wish that all of you will stay safe and stay healthy.

I would like to share my deep appreciation to our Happiest Minds, who did everything possible to support each other as a family, to our clients for trusting us with their most critical issues and also to our stakeholders and extended communities around the world for their support. While India is suffering, the technology and IT services businesses are fortunate that we continue to work efficiently in a virtual environment and business is growing. The highlight for the year FY2021, for Happiest Minds was our successful IPO. We have been able to fulfil all our promises and are grateful to our customers, our team and all stakeholders who helped make this possible.

As we begin FY2022, we will look to achieving 20% organic growth as indicated at the time of the IPO. Our Q4 results are also outstanding, but I would be remiss if I do not mention that the quarter serial growth of 15.4% in dollar terms includes our PGS acquisition. The organic serial growth quarter-to-quarter of 8.9% itself is very creditable. FY2021 was a year where every business unit, every geography, every center of excellence delivered excellent results. This is reflected in the average annual revenue per customer increasing from \$615,000 in Q1 to \$737,000 in Q4. The business we derived from our billion-dollar corporations (from \$1 billion corporation) customers has gone up from 31% to 37% in the same period.

None of this would have been possible, but for the robust delivery structure, we have created and the excellent organization built. Our customer satisfaction service gave us an NPA score of 57. The great places to work survey at 92% of our person saying that Happiest Minds is the great place to work.

Both these numbers are record breaking for us and in the top rungs in our industry. Before I pass on to Venkat, I want to close by sharing our conviction that technology adoption and advancement are imperative for a better world. We at Happiest Minds will leverage it to bring a meaningful difference to all our stakeholders. Thank you and Venkat, over to you!

**Venkataraman N:** Thanks, Ashok. Good morning and I trust all of you are safe and well. I will begin by giving an overview of our consolidated performance for the year ended March 31, 2021, followed by that for the Q4, will be slightly longer than usual. Our operating revenues in US dollar for the year were \$104.6 million showing a growth of about 6.3% over the previous year. Now, that is the only dollar number that I would be talking about as per as this annual results go and all numbers unless as stated otherwise would be in rupees.

Our total income for the year was ₹798 Crores showing a growth of 11.7%, which is a solid number. This growth that we have shown is much better than what we had suggested or guided at the time of our IPO. We had said that we would be relatively flat given the pandemic situation. We are very happy to state that we had done much better. Like Ashok mentioned, I too would be remiss if I do not highlight our revenues for the year include the revenue from the acquisition of PGS, the company we had acquired during January 2021. So annual results has the effect of 3 months of net revenue from PGS, because as you will recall PGS was the large customer of ours as well. Our revenue growth for the year was broad-based in all our BUs had shown growth driven by the demand environment across our chosen verticals.

Coming to margins, EBITDA margin for the year expanded significantly to 27% compared to the 15.8% in the previous year. As I have been continuously saying in earlier quarters we have this improvement, thanks to one growth in revenues, improved utilization and realization, lower attrition, and reduced SG&A cost on an account of the scale that we are building up and also the

savings on an account of reduced rentals due to the continued work-from-home scenario, reduced travel and visa cost and many other administrative cost on an account of the pandemic.

Our profits before tax for the year were ₹186 Crores at 23.3% of revenues. This has again shown a growth of 153% over the year. On PAT, we closed the year with ₹162.4 Crores, a growth of 127% over the previous year.

Our average tax for the year was about 12.7% compared to that of 2.7% in the previous year. With this year's profits we have wiped out all our brought forward tax losses and our average tax rate is likely to only go up from the next year.

Some highlights for the year would be ROCE of 31% and ROE of 30% industry leading numbers. Revenue CAGR of 18% over the FY2018 period, healthy free cash flows of 99% so you can almost say almost all our EBITDA fall into our cash balance for the year we generated ₹215 Crores of free cash flow, healthy cash balance at year end of about ₹550 Crores. We closed the year with 3,228 Happiest Minds, which is the net addition of 562 plus and diversity in our workforce is about 24.5% a number which we want to take up and we are consistently working on.

Now coming to the quarters performance, operating revenues in US dollars was \$30.2 million showing a sequential growth of 15.4% year-over-year growth of 18%. Again, I would like to bring your attention that we had three months of Pimcore Global Services(PGS) in these numbers. In rupee terms, our total income for the quarter was ₹224 Crores versus ₹201 Crores in the previous quarter showing a sequential growth of 11.2% and year-over-year growth of 17.6%.

Now, even if I were to remove the PGS numbers, our quarter-on-quarter and year-over-year growth for the quarter has been significant. Our EBITDA margin for the quarter stands at 26.3% at ₹ 59 Crores compared to 29.7% and ₹ 59 Crores in the previous quarter, so in absolute terms we have remained flat on EBITDA and the decrease in percentage terms is primarily on an account of drop in other income of ₹ 5.6 Crores and also increased in salary payout provisions, so what is happening is we have started giving pay increases effective April 1, 2021, but effect of the increase or the quantum of increase takes into account our first quarter as well, so as per accounting we have provided the portion of pay increase relating to that quarter and the quarter so that

essentially is about ₹ 9 Crores. As you will notice, if you remove the other income drop, our operational performance has been very good because it also takes into account the pay increase that I just talked about.

On PBT, we were at about ₹ 49.3 Crores at 22% compared to ₹ 53.2 Crores at ₹ 26.5% over the previous quarter. In addition to decrease in other income and the pay increase that I just talked about, we also had an amortization of intangibles because we had acquired PGS, it came along with it as an intangibles from an accounting standpoint. We have to amortize that intangible, which is about ₹ 2.2 Crores and that has hit the PBT number.

Coming to PAT, we closed the quarter with ₹ 36 Crores versus ₹ 42.15 Crores in the previous, which the drop is essentially on an account of the pay increase or I talked about, the other income drop and the amortization cost of intangibles that we had in the quarter.

To summarize, we have put a good and better operational performance for the quarter so that is what I would like to highlight. Other highlights for the quarter is we ended with 173 customers, a net addition of 23 from the previous, addition of 9 new billion dollar corporations to our client list, improvement in the profile of large clients and also average revenues per client, which Ashok referred to, utilization of about 83% compared to 81.6% in the previous quarter, voluntary attrition continuing to drop and it is at about 12.4% compared to 13.1% of the previous quarter. Now, finally basis our solid cash generation and after review of our capital allocation strategies, the Board has recommended a maiden dividend of ₹3 per share. This will be a cash outflow of approximately ₹ 44 Crores and this recommendation is subject to shareholders' approval at the ensuing AGM on July 7, 2021.

Coming to the outlook, we exited the fiscal with a strong demand environment reflecting in a strong order book and deal pipeline. A major part of our revenues are coming from economies, which are slowly coming back to normalcy from the pandemic, with our strong positioning, which covers a large part of the digital spectrum, we believe we are well poised to grab opportunities in the space, while our own country and home base as Ashok mentioned is reeling from record levels

of infection since March. This is worrying and we are keeping a close watch under situation including the phase of vaccination and hope it picks up quickly.

We are indeed facing our own set of problems with our own employees, Happiest Minds as we refer to them as getting affected either directly or indirectly. We also had two of our bright young minds being taken away from us by this cruel disease during the past few weeks and our hearts and prayers go out to them. The company is extending support to our people in the best manner we can, including coming out with the plan, which is in the works to help beneficiaries of the unfortunate Happiest Minds.

From a business front, this pandemic had let to increase in absence due to people taking time to recover. This could have a slight adverse effect on our delivery timelines and billing. Considering the different moving pieces mentioned above our aspiration is to continue growing organically the medium and long-term at about 20% as Ashok had called out in the press release.

As per margins, I have been consistently saying we aspire to have our EBITDA to be in the range of 22% to 24% as a continued number, as some pandemic induced benefits may normalize in the near or medium term.

Coming to our profits after tax, our effective tax rate has moved up from 2.6% in FY2019 to 12.7% in FY2021 and should be in the range of anywhere between 20% and 24% starting FY2022 because we have wiped out all our past losses.

I hope I have been able to give you a good overview of our financials. All these numbers and data points are available on our website. Investor presentation has been uploaded there. Please, do take time to go through that. Stay safe and well. With this, I open the floor for Q&A.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Hardik Sangani from ICICI Securities. Please go ahead.



**Hardik Sangani:** Sir, I had a couple of questions. Firstly in terms of our guidance, is it even if I consider our monthly exit rate, 20% is the number on a very conservative side, so am I correct in accessing that and in terms of margins just wanted to understand what will be the impact of wage hike Q1 onwards and the third question is our increase in our dollar million account, how quickly can we scale up to our \$1 million accounts in this year and as we return to our growth trajectory so any additional investments in sales and marketing needed to drive that growth? Thank you. I have follow up question, but I will come back in the queue.

**Venkatraman N:** On the revenue growth, we have been talking about 20% in the medium and long-term, so you are right we had acquisitions, which have been integrated in the first quarter that is going to lead to a higher growth year-over-year when you look at FY2022. So that is obviously there, but what I gave you as a 20% was a guidance for the longer and medium term and the word that I have used was organically trying to grow you understand so, we will not be able to split inorganic growth and organic growth forward, this is the first quarter so we have the numbers, but as we integrate the business becomes a whole, the split becomes a lot more difficult to determine. For FY2022, we hope to show a higher growth and as you know we have not been giving you guidance. On the margin front, like I said, the aspiration or guidance that we have been giving is 20% to 24% and we had hit 27% for the year and the impact of pay increase, I gave you the number it is about ₹ 9 Crores for a quarter, so that is the number that has hit us in Q4 and that would be the number that would impact us going forward as well. If you take out the impact of drop in other income, then the normalized operational performance is better than the last quarter and with revenue growth happening that is only likely to improve as we go forward. While I say this I have to also caveat that there is a huge supply issue out there in the market, so while demand is strong and showing a huge amount, I cannot use the word recovery, but it is coming back quite strongly, we will have supply issues, which will have an impact on the pay numbers that you pay for additions or for replacement. What was the third question, Hardik?

**Ashok Soota:** The question was on the million dollar accounts, which Joseph can take it?

**Joseph Anantharaju:** In terms of million dollar account, Hardik, as we have shared earlier as well, there is a structured process, we do use land and e strategy and there is a structured process that we use for account mining and expansion in accounts and we will continue doing that with the account development plan and cross BU selling being the fulcrums for this growth and even though you see in the investor presentation that the number of million dollar accounts has shown an increase from Q3 to Q4 of FY21, but if you take it on a quarterly annualized basis that number is higher by another two customers, so this is something that will be our focus area for us and we will look at how do we convert more of our customers into million dollar customers.

**Ashok Soota:** Just to add to this, if you all will apart from the fact that there has been this improvement in total number of million dollar accounts, I think if you see our fact sheet and I believe we have given the data in the fact sheet also, the \$5 million to \$10 million accounts, which were actually nil in FY2020, has gone up to 3 in FY2021, so you can see there is a upward movement even within the split of accounts, which is really also what is contributed to be average dollar revenue per customer having gone up number, which would Venkat and I gave to you. Go ahead Joseph, sorry.

**Joseph Anantharaju:** That is right. The fourth question you had, Hardik was on investment in sales and account management and that is an ongoing investment. We are looking at for some of our larger customers the ones that are \$5 million plus or have the potential to get there, we are looking it at having dedicated account managers maybe dedicated to an account or to two accounts and so that is an ongoing exercise to identify the accounts, even internally or from the market bring in people who have the ability to grow these accounts and take ownership for the client relationship so that will be an ongoing investment, along with that we are also looking at strengthening our domain and verticals so that we can play more strategic role and be an advisor to our customers so that will be another area where we will be focusing and investing during the year.

**Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

**Vimal Gohil:** Thank you for the opportunity, Sir. Firstly, just a clarification, you said that quarter-on-quarter growth organically was about 8.9%, is that right?

**Venkatraman N:** That is right, Vimal. As I said it is an approximate 9% in dollar terms that is the operational dollar growth.

**Vimal Gohil:** Right, so I want to just derive the absolute contribution from PGS approximate number comes to about 1.7%, so the acquisition has been integrated for the full three months, so if I want to annualize that number that the revenue comes to about \$7 million, and I were to remember the press release that you had given while when you acquire PGS that number was about \$10 million, so if you could just explain has the revenue decreased or are we setting off that existing amount?

**Venkatraman N:** No, Vimal, if you look at the press release you would have also recollected that the PGS was an existing \$3 million account for us, so your numbers are in the ballpark perfectly right, so you have an inter companies set off, we will bill into PGS and PGS bills to the customer earlier, from this quarter we have to do the intercompany elimination.

**Vimal Gohil:** Perfect, fair enough. Sir, just a couple of data points if you can just give me the subcontracting cost for Q4 FY2021 and the pass-through license cost for Q4 FY2021 and FY2021?

**Venkatraman N:** We do not have any pass-through licensing cost and the subcontractors we will get back to you before the call ends. I will just take the data point. We do not have pass through subcontractors also, if that was the question we do not have pass through subcontractors also because you know the current demand situation and the travel ban from India to US when there are requirements or when there are gaps in what we need to deliver we have local people coming in and joining us for delivery, so that is the subcontractor cost, so we will give you that number before the call ends.

**Vimal Gohil:** Sure, this number in the last quarter was about ₹ 18 Crores, so that is what I referring to that case?

**Venkatraman N:** Sure, I know, we will give you both.

**Vimal Gohil:** Right and the software license cost that I am referring to was about ₹12 Crores last year in FY2020, or may be if you just give me the same number for FY2021 may be we take it offline as well, no problem.

- Venkatraman N:** Yes, we could take it offline because we do not have any software resale at all, if at all it is there it would be part of some integrated delivery that we are doing for the customers, but in accounting wise if we have called it out I will give you that number.
- Ashok Soota:** Sir, would not those numbers include your Microsoft licenses for internal use?
- Venkatraman N:** No, this is for billing to customers, Ashok.
- Ashok Soota:** Okay, I did not know what number he was referring to so that is fine.
- Venkatraman N:** He is referring to buying and selling of licenses.
- Ashok Soota:** Okay.
- Vimal Gohil:** Sir, if I were to just look at your metrics closely this quarter you had about 100 BPS improvement in utilization, you had about 400 BPS increase in offshore, and obviously you would have had this impact of wages, but if you can just take me through this margin bridge what was the other negative impact apart from wages because your offshore increase and utilization increases seem to be very strong and despite that if I were look at your quarter-on-quarter EBITDA margin excluding other income, it is a slight fall, so you just help me explain what led to this fall because these two tailwinds per se were fairly strong in my view sort of negates the wage hike impacts?
- Venkatraman N:** EBITDA margins if you remove, if you put back the ₹ 9 Crores of pay increase that I talked about we are better than where we are last time. That is the first point. So you have obviously some of the other income number, drop of ₹ 5.6 Crores, second is ₹ 9 Crores of pay increase, otherwise, there is no other significant change in the business model, which comes to my mind, which I need to highlight, we have pretty much stayed the same and there is obviously between EBITDA to PBT we had the amortization of goodwill, see we could have add some costs like the acquisition cost under Ind-AS you cannot capitalize so you write it of so that is some of those cost, which have come, which are all one time cost, which we are taking it as running cost rather than calling it out separately, so the real standout numbers are the pay increase that we have factored in and there is a drop in other income, which obviously you called out, the third is the amortization of

intangibles and there are few one-time like there could be some contract delays because of which we would have taken the cost, but not taken the revenues, but those are all they get regularized over a period.

**Vimal Gohil:** You have provided for the wage increases in this quarter, so does that mean that in the next there could be a possibility of margin improvement on a sequential basis?

**Venkatraman N:** No, how this happens is, the wage increase takes effect from April 1, but while communicating and calculating the budget that was allocated for wage increase we said that we are taking effect from January 1, so what happens is then we have to spread it over 5 quarters starting January, so that is what we have done,.

**Vimal Gohil:** Got it, Sir. Sir, lastly you had a pretty good year in terms of cash also you have already made one good acquisition in PGS, if you could just highlight I understand that valuations are very expensive right now, but any other acquisition there in the pipeline what are we looking at in terms of acquisitions?

**Venkatraman N:** Joseph, would you want to add?

**Joseph Anantharaju:** Yes. We continue to engage with our investment bankers and we have shared our criteria for them, once we make progress on this Vimal, we will share that with you all, so that is an ongoing process we are talking to a few possible candidates and we have our criteria laid out that the leadership team, the Executive Board has put together for the candidates that we would like to consider we are following a structured process and we will get back to you when we make progress.

**Ashok Soota:** I might also add this immediate closures during the offering and you really never know how these things go because sometimes it may take you 8 months to negotiate a deal and you look at 20 companies before you close one so it is typical phase of an acquisition where we need to be very careful, you are also absolutely right where the valuation are running high, so clearly nothing that needs to be factored into anything that is likely to happen in the cost of in the future or the next few quarters for that matter.

- Vimal Gohil:** Understood, Sir. Fair enough, I have a few more questions, but I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Rishit from Nomura. Please go ahead.
- Rishit Parikh:** Thanks for taking my question. Congrats on a good growth this quarter. The first question is to Venkat. Venkat, you just mentioned that you have taken a ₹9 Crores impact on account of wage hikes in the quarter is that correct ?
- Venkatraman N:** That is right.
- Rishit Parikh:** So, if I take that out, our wage hikes has increased by 3% quarter-on-quarter right, but our headcount has increase by about 12% quarter-on-quarter, how should we look at the wages, is the large part of the hiring is happened through the end of the quarter is it?
- Venkatraman N:** We added 528 people across the year, so wage hike is basis where whatever tenure within the company right, so you have the tenure within the company, the various grades so you cannot do a straight allocation of that sort, if you really look at it that is ₹ 9 Crores into 5 the impact for the year would be about ₹ 45 Crores to ₹ 50 Crores would be the wage hike that would have to be factored in, I do not know I did not get how you came to the 3% number?
- Rishit Parikh:** So, our employee benefit expense is ₹ 120 Crores versus ₹ 110 Crores last quarter, right, now if I takeoff ₹ 9 Crores from this number it is an incremental number of ₹ 3.4 Crores right, was a 3% Q-o-Q jump versus headcount has increased by 11% to 12% in fact QoQ from 2885 to 3228?
- Venkatraman N:** Headcount increase also has the PGS numbers, which happened because of the integration right.
- Rishit Parikh:** Which would be at 100 roughly?
- Venkatraman N:** That is more than that almost 86, approximately about 107 people, additional 107 people that is 9 plus 89.
- Rishit Parikh:** That could be in the employee benefit expenses?

**Venkatraman N:** What is your question, are you saying that the pay increase looks lower?

**Rishit Parikh:** No, the question is it appears that possibly the large part of the headcount hiring would have happened through the end of the quarter and that is possibly one of the reason why may be employee benefit expenses growth looks lower and may be some of that impact will come in the next quarter is what I am trying to guess?

**Venkatraman N:** If you look at it, you are right, which is what I said 2658 Happiest Minds at the end of first quarter and it ends with FY2021 Q3 at 2885, so you have got addition of about let us say 200 people, but by end of the fourth quarter we have gone up to 3228.

**Rishit Parikh:** I will take that question offline.

**Joseph Anantharaju:** You had higher number people added during the last in February and in March. If you look at Q4, that will explain. That had increased. So we had more people added towards the second half of February and that cost will come into play in Q1.

**Rishit Parikh:** From a margin perspective while we are at 26.3% on EBITDA and going into the next year when I look it let us say some of the benefits will continue let us say travel may be operating expenses that you had highlighted, you could materially above the guidance of 22% to 24% is that assumption correct or you think that may be attrition could be a factor, may be war for talent could be a factor, which could realize to play to our band of margin levels?

**Venkatraman N:** Rishit, the question that is often come is what do you think is a sustainable margin so when I gave you 22% to 24% that is a sustainable margin number basis of business model. The things that could change in favor or again there are your man power cost, people cost or the billing rates all of that, which is typical of the business model that we have, this what we see in addition to that is the pandemic benefits, the change in business model, working from home right now, how quickly we come back to office, nil travel overseas making through with video conferencing and teams and Zoom and all of those facilities all of that is happening and that is adding to the margin so the question that often comes up is what do you think Venkat is the sustainable margin so that is the

number that I have been saying and one number which I am happy to be proved wrong, but the number on sustainable margin happens to be 22% to 24%.

**Rishit Parikh:** From FY2022 some of these benefits will continue that essentially it could at higher level, but when these costs come back is more a sustainable number?

**Ashok Soota:** I would like to add one thing here, but to offset that there is a likelihood as we have indicated to the market for talent is very high, there is going to be a pressure on attrition and to that extent it can offset that one advantage we have been highlighted.

**Rishit Parikh:** Understood, and if you could provide a little bit of color on the TCV and pipeline and I think really you really kept mentioning a large part of the deals is services are you seeing an increase in RFP in light for us in general which would mean that some of the deals could come on the table little more in an indirect form?

**Joseph Anantharaju:** In terms of RFP, we do have a few RFPs that we are responding to may be a little more than usual, but did not see a huge move or shift towards RFP at least in the segments and type of customers that we are working with and in terms of we do not really track TCV we have mentioned that earlier as well, what I can mention is that the pipeline did see a good growth during the quarter Q4 over Q3 and we saw a 10% increase in pipeline quarter-on-quarter and that is something that we have been tracking year-on-year as well if you compare it to the March 2020, has been a good growth in pipeline, which we now need to work on it and convert into deals during Q1.

**Ashok Soota:** You know, I would like to add that frankly I hate this number of order booking, which people gives and we do not give and also I do not like the pipeline number and the reason is this when people give you the order book, you do not know whether that order is going to be executed in year one, year two, or year three and particularly larger players many of them are very large orders, which get executed over a period of time, we also have annuity business, which comes in, so unless you split that, that numbers gives you no idea on the real growth likewise with pipeline though Joseph has told you that has gone higher, which is a good thing, but the pipeline itself was to be analyzed, how much is the weighted average probability of converting that and these things can be so binary that you really do not know what that number will translate to, so I think far better indicator of



where we are heading is a sort of guideline that we have been giving you, also we give no formal guideline, we have talked about 20% organic growth, you have already worked out amongst yourself the net increase that will take place due to the PGS acquisition and you know pretty much where you are heading in terms of growth, I think that is a more relevant number we are saying where we are in pipeline because all of this turnout to be either bonanza or fiction, you really do not know which way orders and pipeline will go in terms of when it comes closure.

**Rishit Parikh:** I will come back in the queue. Thank you.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta:** Thanks for the opportunity. I just wanted to get one clarification, you said salary hike with effect from April then why it get impacted on JFM quarter, which I am not very clear, if you can help me understand that first?

**Venkatraman N:** What happens is we announced the increase to people saying that we will be doing it effective January 1, 2021, but it will be payable from April 1, 2021, so that is what happens so essentially there is a communication with the group saying that we are doing this, but because of the conditions and we could not complete the work what we will do is we will take the budget of January, February, March assume that that number is available to us put it into budget, which is effective April 1, 2021, and give it to you role it out from April 1, 2021.

**Dipesh Mehta:** So, it will get from January only?

**Venkatraman N:** From April only.

**Dipesh Mehta:** I understand, but for employee perspective they get even for January, February, March hike in their salary in April month?

**Venkatraman N:** Yes, you can take it like that, but it does not work in arrears systems as you would do it Government of India, but what happens is that pool is made available see what happens is you have the delivery

teams and the entire operational team, they are given a pool to distribute amongst the teams basis the appraisal rating or whatever, the pool if it is 10 goes up to 12.5 that is what has happened.

**Dipesh Mehta:** So broadly employee will get from January and there would be some kind, so you are saying it is not arrear kind of thing then how it works I am not very clear because JFM we are providing ₹ 9 Crores?

**Venkatraman N:** That is exactly what I said, so supposing in the normal course of events I would have done it from January, I would have given a 10% increase from January correct, the next cycle comes up next January, right. We could not complete the process during the month of January, February, March so what we said is we will do it effective April, but the budget that is given to the teams is effective from January, so we gave it the 2.5% was added to the budget of April and given so effectively 12.5%, I am just giving a number, which is effective April 1, 2021 and we had the accrue that extra 2.5%.

**Joseph Anantharaju:** That extra 2.5% get distributed across the entire year from an employee standpoint, for example 10% increment you will give a 12.5% increment so they will get that money over the entire 12 months

**Dipesh Mehta:** Rather than giving normal we give some extra salary hikes to adjust for JFM delay, understood.

**Venkatraman N:** That is right.

**Dipesh Mehta:** Second question is about the outlook if you can help us provide some perspective about major vertical where we operate take BFS and so if you can just run through how you are seeing demand across vertical and any differences in geographical perspective in terms of strength in demand? Thank you.

**Joseph Anantharaju:** Sure, I will take the geo question and if you look at the revenues and breakup across geos, you will see that Middle East has done quite well for us because we had a large account from PGS that got added and one of our customers has grown quite well, we are beginning to see good traction in Middle East. Europe also has grown well and we continue to see traction I think the period of December-January there was uncertainty there especially in UK where we have stronger presence, but with the vaccination going up over there have beginning to see business slowly come back to normal. US continues to do well. In India we will have to see I think Q1 will be a little muted even all that is happening out here even though we do have a few discussion is going on, so that is from a geo perspective and if you see the verticals Edutech continues to do well for us. Just the fact that there has been a such a huge shift in the way both schools and colleges are educating and they need to support a multiple digital medium and channels for education more hybrid, so EduTech continues to do well for us. We have seen retail as well further especially with the PGS acquisition if you see the percentage of revenue in retail also has gone up and we continue to see opportunities around digital marketing, personalization, and also the fact that many of them are moving away from high cost software to more Open Source, which needs more opportunities for companies like Happiest Minds and in the industry and manufacturing January, I think customers were sort of making sense of what is happening, we have seen them starting manufacturing more around factory automation doing assessments, which should lead to work down the line and we are seeing more activity in the mid-sized customers in the industry and manufacturing. Hitech continues to do well, it is a one vertical, which recovered very quickly in Q1 of last year and it continues to see a fair bit of investment.

**Rajiv Shah:** One more thing, both of our COE - analytics and IOT has also shown significant growth over the last year or so as well, so we continue to see more and more demand for those sets of initiatives that we had invested much earlier both from IOT as well as analytics and so supported by our COEs I think the 10 positive sentiments I think we see the growth in most of the verticals as well as in geography.

**Ramamohan C:** Just to add, automation is going pretty well and we are seeing a significant growth from Q3 to Q4 and we also are seeing a good increase in the security services as well.

**Dipesh Mehta:** Understood, thanks.

**Venkatraman N:** If I can just give data point on subcontractors, so that Vimal is on the call, so we had ₹ 19.21 Crores in Q4 compared to ₹18.03 Crores in Q3.

**Moderator:** Thank you. The next question is from the line of Ramesh Taparia an Individual Investor. Please go ahead.

**Ramesh Taparia:** I like to know whether there is any clear cut demarcation on succession plan and appointing somebody to take care of the business in the next decade or so. Thank you very much.

**Ashok Soota:** You know, no company is spelt out its secession plan as clearly as we have and there is a very nice article in Times of India, which by coincidence is right here in front of me because we said, the article was Soota restructures Happiest Minds to give a long life and the article highlighted and we also went through pains to highlight this in our presentation during the IPO whereby we said we have got the perhaps the strongest top management that you can actually visualize and it was actually put in place earlier, but the restructuring on how that will fit into the succession planing is what going to defined around the time of IPO. So we have an executive board, which individually and collectively function as CEO of the company and you will see the results of the company in the last 3 years, this completely coincides with the period with the executive board that has been in place, so they turned it to around from what certainly ran into loss, there were really 2 years of decline obviously the second year was the loss and then 3 years of absolutely fantastic growth after that under the leadership of the Executive Board. In addition we have also shown out an Executive Vice Chairman and MD and CFO roles, which were created as we were going public so as a succession structure it is really as complete to that anything can be, you talked about is there something plan for a decade. I should also tell you and this is really work in progress. We have always had a 5 year vision in the company and our 10th anniversary is August 29, 2021, this time we decided and we had a discussion on this a first discussion with our board just yesterday for that matter and it takes a lot of doing and we decided at this time it is more important for us to look again than ever before and therefore we are actually going to articulate a vision for the next decade that we will do that before the 10th anniversary, which is August 29, 2021.

- Moderator:** Thank you. The next question is from the line of Rahul Gupta from Fidelity. Please go ahead.
- Rahul Gupta:** Thanks for taking my question. Just one clarification on this wage increase again, so the way you mentioned what my understanding is that this ₹ 9 Crores quarterly impact for Q4 will be paid out in next 4 quarters in equal installments in a year, so effective two Crores in the next 4 quarters is that the right understanding?
- Venkatraman N:** That is right.
- Rahul Gupta:** Okay for this quarter then the ₹ 9 Crores impact that we have taken in the P&L that the provision has been adjusted from other income so the ₹ 123 Crores employee benefit expense does not include that ₹ 9 Crores right?
- Venkatraman N:** No, not from other income and it goes into operating expenses.
- Rahul Gupta:** Other expenses, which is a ₹ 42 Crores?
- Venkatraman N:** Yes, if you look at the SEBI format it goes into employee benefits.
- Rahul Gupta:** Got it. So the incremental impact from wage hike, would be lesser to ₹ 1.5 Crores next quarter, which is like, got it.
- Venkatraman N:** It will be lesser by ₹ 2.25 Crores or ₹ 2.5 Crores.
- Rahul Gupta:** Thank you. That is it.
- Moderator:** Thank you. The next question is from the line of Karan Uppal from Phillip Capital. Please go ahead.
- Karan Uppal:** Thanks for the opportunity and congratulations on a good set of numbers. Just two questions from my side, firstly what are the hiring plans of the company for FY2022, we are seeing a very strong hiring in FY2021, so given that we are seeing an increase in the risk of attrition given the very high active hiring market, so that is first question, secondly in terms of the travel media and entertainment vertical, how are you seeing the demand shaping up and given that we are going to increase in the domestic travel in US and Europe?

**Aurobinda Nanda:** Coming to the attrition and hiring plans, attrition for FY21 is about, is 12% and given this increment that we have been speaking about so far including that advance that happened through April, March, we do not really expect a significant increase in attrition levels going forward and with respect to hiring we have multiple strategies at this point of time to fulfill the demand that we have seen at this point of time and that includes recruitment on our own as well as increasing our intake of fresh graduates, kind of it and also a bit of an ecosystem partners from whom we are taking in partners, our intake of partners has increased significantly in Q4 and we expect also to continue in the year ahead also besides that we will also be continuing in our cross sell and upskill of people within so that we will be able to fulfill the demand that is coming up.

**Joseph Anantharaju:** The second part of the question asked about TME, yes Ashok, I am taking that. You asked question about TME and let me break it up because we have travel and media entertainment together over there that is how we classified that, but as we had mentioned earlier as well the revenues from travel is minimal to nil actually for us and that really worked out well for us in FY2021 especially the earlier part of the year because that was the vertical and segment that was hit quite badly. On media and entertainment our focus has been more on digital media, the Hotstars and the Netflix and also the media companies that are building such platforms more of OTT and streaming company, which is were a lot of digital technologies that we are experts and around cloud, around big data analytics, AI/ML things like that are very relevant out here and we continue to see quite a lot of demand out there because most of the media companies are trying to reinvent themselves and move more towards streaming and subscription models and this is where our focus is.

**Karan Uppal:** Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Harit Shah from KR Choksey Shares and Securities. Please go ahead.

**Harit Shah:** Thank you very much for the presentation. It was really comprehensive. Thank you very much for that. Just a small data point that we had mentioned about the subcontracting issue do we have that figure now with us, it was about ₹18.6 Crores last, have we been able to let out that figure?

**Venkatraman N:** That number I just mentioned has gone up to about ₹19 Crores this quarter, Harit.

**Harit Shah:** Probably I missed out there. Secondly in August as you mentioned about the issues in terms of increase in supply side and the requirement are obviously for talent given the kind healthy output, what would you say will be a stable utilization for a range that you are in the confident, you are at 82.6%, so do you think this may go back to 77% to 78% kind of range, does that be a sustainable number for working?

**Venkatraman N:** Yes I would request Nanda to talk about utilization, so I think the question was what is the sustainable number on utilization?

**Aurobinda Nanda:** The sustainable numbers of utilization would be around 80% between 77% and 80% that is what we have been targeting, but given the demand and all that the current utilization is at around 83% and it is down up by couple of percentage points depending on the demand on our ability to fulfil that would like to retain between 77% and 80%.

**Harit Shah:** I think that was my last question. Thank you very much, Sir.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain:** Thank you for the opportunity. I just have two questions, firstly any plan to scale up revenue and delivery capability in the onsite location as we scale up our size of the business do we see the need of that?

**Joseph Anantharaju:** That is an area of that we have been focused on and in fact in Q3 we have started the initiative to see how we can strengthen our hiring capability in US to start of with and we have actually brought senior leader on board to lead that effort in US, who is based out of US and we are beginning to see initial traction and this is important for couple of reasons, one is as Venkat was mentioning the ability to have people travel from India is still limited and for the foreseeable future we limited not because of visa, but because more of pandemic reasons and at the same time when many of digital initiatives that will be useful to have people close to the customer to help them with some of the strategizing as well as to help with understanding the customer better and

account expansion so we will be looking at strengthening, beefing up our numbers and capabilities onsite and again from our domain and vertical perspective it would be good to have some of these domain experts who can work closely with customers India time zone and travel when possible.

**Ramamohan C:** This is Ram here and also as Joseph mentioned that we are growing significantly in Middle East and our endeavor is also to get more and more people onsite there locally so that our turnaround time and providing services quickly will be helpful, so we are looking at more and more local and onsite recruitment as we move forward.

**Rahul Jain:** So, you are trying to say across the delivery level not just at the subject matter expert level or sales level, right?

**Joseph Anantharaju:** That is correct.

**Rahul Jain:** Thank you. Another question was we have a long tail of client, do we plan to clear them overtime or do we see potential as well as bandwidth with the company to scale them overtime?

**Joseph Anantharaju:** Rajiv, you want to take this.

**Rajiv Shah:** Yes, so we go through quite a bit of rigorous process looking at even when we signed the contract we look at the three year and what are potential not projections or potential of those customers from growth perspective so we are quite diligent on that aspect. At the same time if we do not see that growth is coming through or if we are not able to add values from the customers end we do decide to get a partnership or relationship with the customer. There is a well defined process, for a long tail for our customers and in most of our businesses or all of our businesses in the past year, we took a very strong look at all long tail account that we had and we have picked up quite a bit as well.

**Joseph Anantharaju:** If we notice the average revenue per customer at the beginning of the year was \$615,000 and we ended the year at \$737,000, so that is reflecting what Rajiv said our strategy or approach we have taken to our customers.



**Rahul Jain:** Lastly any flavor you would like to give on likely grow driver for you in terms of vertical I think you gave clarity on the media, but more other verticals if you could talk about?

**Rajiv Shah:** Joseph I will start and then you can add. I think there are couple of things, one is with our acquisition of PGS, more than 80% of their client base is on retail CPG world, other 20% or so in the manufacturing side, so managing and in complementing the strengths of each other now is fully integrated, we see a larger growth in some of these areas and at the same time I think that industry itself retail CPG was really revamping their model and the business drivers last year I think that now there is a little bit of clarity as to which direction they are taking so the PGS at the same time maturity of the model itself that the industry has despite we see a growth during the year, manufacturing I think again the same thing from alternative ways of supply chain, logistics, integrated devices, etc., connected devices will drive a larger growth for us as well and of course our core verticals of Edutech and Hitech continue to see alternative business models that we have for the customers larger digital transformation journey and we will see continued growth in those verticals as well.

**Rahul Jain:** Right and just lastly a clarification, Venkat you said the sustainable margin for us are 22% to 23% was that number right?

**Venkatraman N:** 22% to 24% that is what I had been mentioning.

**Rahul Jain:** Okay, this is the 3-year, 5-year kind of an aspirational band we would like to have?

**Venkatraman N:** Correct, yes.

**Rahul Jain:** Much appreciated. Thanks a lot and best of luck for the years.

**Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Shivam Saxena from ICICI Bank. Please go ahead.

**Shivam Saxena:** Thank you for taking my question. So in the presentation you have mentioned that the COVID-19 pandemic would decrease our customers technology spend, so are you seeing early trends on billing rates that customers would renegotiating in any segment wise any colour on the vertical wise decline in spends right now?

**Joseph Anantharaju:** The question was it is there any decline in spend in any of the verticals?

**Shivam Saxena:** Yes, Sir.

**Joseph Anantharaju:** So, in terms of demand all the verticals we are present in, we are seeing demand in all of them. It could vary across verticals, but all of them have increased demand even as compared to Q3 or in Q1 as compared to Q4 and that is because most of the companies have realized that digital is the way for them is not a competitive advantage, it is a necessity now and what they are thinking of doing of over may be two, three, four years they have realized that they need to accelerate because the consumer behavior has changed and it has also been driven by their competition so the demand is good across verticals. In terms of rate increase while there could be some one or two customers who could be asking for rates in some geos, but overall we have not seen any pressure on rate just given the demand and also the space that we are in, in the digital space where the demand has been quite high for the last six months, we do not anticipate rate pressure in FY2022.

**Shivam Saxena:** Do not we see the retail segment asking for low because of malls being shutdown, the retail segment not asking for some decline in spends going forward?

**Joseph Anantharaju:** Rajiv, you want to take this?

**Rajiv Shah:** We have not experienced anything from the rate negotiation or the customer is asking, but during the pandemic situation I think there is an increased need for them to adapt to digital technologies and at the same time looking at the alternative business model. So I think overall run the business support, maintenance areas there is a reduction in overall spend, but from a newer technologies perspective to take advantage of positivity that is coming in the US and European markets I think that we have not seen any renegotiation from rate perspective.

- Ashok Soota:** Also Rajiv, would not our retail include all our e-commerce business, which is of course growing and added and on further, if that is the case then there is a premium and not at any discount.
- Rajiv Shah:** You are right.
- Shivam Saxena:** Got it. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Hardik Sangani for closing comments.
- Hardik Sangani:** Thank you for Faizon. Thank you everyone for joining us on the call. I thank management of Happiest Minds for giving us this opportunity to host the Q4 earnings call. Now, I hand over the call to Sunil for the closing comments.
- Sunil Gujjar:** Thanks Hardik. Thank you for joining us today. We thank ICICI Securities for hosting this call on our behalf. We look forward to interacting with you. You can reach out to us on [ir@happiestminds.com](mailto:ir@happiestminds.com). Stay safe and healthy.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes this conference call. Thank you for joining us. 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**