

August 19, 2024

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

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

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on August 13, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed the transcript of the Earnings Call held on August 13, 2024, post announcement of financial results of the Company for the quarter ended as on June 30, 2024. The transcript is also uploaded on the Company's website (<https://www.happiestminds.com/investors>).

This is for your information and records.

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

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





“Happiest Minds Technologies Limited Q1 FY25 Earnings Conference Call”

August 13, 2024



- MANAGEMENT:** Mr. Ashok Soota – Executive Chairman
- Mr. Joseph Anantharaju – Executive Vice Chairman and Chief Executive Officer – Product & Digital Engineering Services
- Mr. Venkatraman Narayanan – Managing Director and Chief Financial Officer
- Mr. Rajiv Shah – Executive Director & Member of Executive Board
- Mr. Ram Mohan – President and Chief Executive Officer – Infrastructure Management and Security Services
- Mr. Sunil Gujjar – Head of Investor Relations
- MODERATOR:** Mr. Smit Shah – Adfactors PR

Moderator: Ladies and gentlemen, good day and welcome to Happiest Minds Technologies Limited 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Smit Shah from Adfactors PR, Investor Relations. Thank you. And over to you, sir.

Smit Shah Thank you, Steve. Good morning, ladies and gentlemen. Thank you for joining us today on the Q1 FY 2025 earning con call of Happiest Minds Technologies Limited. Today, we have with us Mr. Ashok Soota, Executive chairman; Mr. Joseph Anantharaju, Executive Vice Chairman & CEO – Product & Digital Engineering Services; Mr. Venkatraman Narayanan, Managing Director and Chief Financial Officer; Mr. Rajiv Shah, Executive Director and member of Executive Board; Mr. Ram Mohan, President and CEO – Infrastructure Management and Security Services; Mr. Aurobinda Nanda, President & COO – Product & Digital Engineering Services; Mr. Sridhar Mantha, President & CEO – Generative AI Business Services; Mr. Sunil Gujjar, Head of Investor Relations.

With this, I would now hand over to Mr. Sunil for Safe Harbor statement and to take the proceedings forward. Thank you. And over to you, sir.

Sunil Gujjar Thank you, Smit. Good morning to all participants in the call. Welcome to this conference call to discuss the financial results for the first quarter ended June 30, 2024. I'm Sunil, Head of Investor Relations. We hope you have had an opportunity to review the earnings release which we issued yesterday evening.

Let me quickly outline the agenda for today's call. Ashok will begin the call by sharing his perspectives on the business environment and our results. Venkat, Joseph will then speak about financial 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 consider the environment we see as of today and carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically.

Now, let me pass it on to Ashok.

Ashok Soota Thank you, Sunil. A very good morning to all participants in this call. I'm pleased to share with you that the current quarter has been a transformational quarter for Happiest Minds. Not only that, it has laid the foundation for making FY 2025 our best ever year since the IPO in absolute terms. We have begun the year with yet again industry-leading performance on both top line growth and sustaining our margins above the guidance for seventeen quarters in a row. I will leave Venkat to provide you the specific numbers.

The reason I call the reported quarter and the year as transformational is because of three significant milestones for Happiest Minds.

- Our Generative AI business unit has had a great start. With universal recognition now of the importance of Gen AI, we are eyeing towards long-term leadership in this critical technology. I will let Joseph give some more color on how we intend to achieve this.
- Second, the reorganization of the Company with the industry groups as profit centers has taken off and has enabled us to be thought leaders in providing domain-specific solutions and services to our customers. Each of these industry groups will be an engine of growth for long-term success of Happiest Minds.
- Third, and the most important is that we closed two significant acquisitions. PureSoftware of significant size and Aureus, a company which has got deep capabilities in reinsurance space. These developments will propel the growth of this fiscal to our best years since IPO in absolute terms.

I am happy to share that we have expanded our Board of Directors to include Mittu Sridhara and Rajiv Shah. Mittu is one of the most strategic minds I've known for many years, and he is a seasoned executive, renowned for his strategic acumen in the technology sector and brings in extensive experience in steering market-leading technology companies. Rajiv Shah, who has been a key leader at Happiest Minds as a member of the Executive Board is now inducted to the Board of Directors. Rajiv has played an important role in driving the expansion of the Company's digital business unit over the past four years. The induction of Mittu and Rajiv will add considerable depth to the Board's expertise. With these additions, Happiest Minds Board of Directors now comprises eight members.

Moving on to other updates. I am happy to also share with you that during the reported quarter, Happiest Minds won the CNBC TV18's India Risk Management Award for 2024. Being honoured at such a prestigious platform is a validation of our commitment over the years to plan and execute on best practices and risk management.

Our Happiest Minds are an integral part of our business. And our systems, policies and practices are crafted to foster an open culture, enabling our people to discover their potential and participate in shaping their own work-life experience. Over the years, we have been recognized on people-first initiatives on many forums. During the reported quarter, we were recognized as only one amongst top 30 Future Ready Workplaces of India by Fortune® India.

A few of you have written to me inquiring why you have sold some of my Happiest Minds shares, particularly since the Company has been delivering industry-leading results and we have projected FY 2025 to be our best year since the IPO in absolute terms. This was done primarily to fund my other two institutions: SKAN, a not-for-profit medical research trust and Happiest Health. Both required investments to fund their growth as they are on their way to become greater institutions.

In the past I have also mentioned that I will not permit my shareholding in Happiest Minds to go below 40%. The current sale has brought my shareholding down to about 45%. And I do not expect to make any further sale in the next two to four years. I have also exchanged a mail with the shareholders explaining this reasoning. I'm happy to tell you that I've received over 500 replies and I'm delighted at this engagement with our shareholders.

In closing, let me assure you that my commitment to you, the shareholders and investors and Happiest Minds is unwavering and I remain confident of achieving our vision of achieving our billion-dollar revenue goal by 2031.

With this, I conclude my commentary. And over to you, Venkat.

Venkatraman Narayanan I am happy to share that we have delivered exceptional performance with revenues of US \$ 55.5 Million for the quarter which is a growth of 10.9% Q-o-Q and 16.8% Y-o-Y. Now that number in constant currency is even better at 11.4% Q-o-Q growth and 17.8% Y-o-Y.

The growth is a combination of our organic growth engine with a strong impetus from our recently concluded acquisitions. We reported a total income of ₹ 489 crores, which is a growth of 20.6% from the previous year.

As a result of the reorganization, our investor presentation and fact sheet have undergone a few changes.

- We are now calling out our Generative AI business services or GBS revenues separately. The GBS BU revenues include AI services, which is embedded in our revenues from the analytics and terms of excellence.
- We now have Product and Digital Engineering Services (PDES) as a new BU formed by the merger of the erstwhile Product Engineering Services (PES) and Digital Business Services (DBS) into Product & Digital Engineering Services (PDES).

Revenues of PureSoftware and Aureus have been consolidated into the PDES business, and they have been consolidated with effective May 22 and May 24, 2024, respectively. Our results include 40 days of PureSoftware and 38 days of Aureus. PureSoftware has taken us into new markets of APAC and Africa, while Aureus takes us into Hyderabad. These new markets that have come through acquired businesses have also been shown in our fact sheet.

Coming to the other financial metrics. We reported an EBITDA of ₹ 117 crores, which is 23.9% of total income and has shown a growth of 13.3% Y-o-Y and 7.8% Q-o-Q. We continue to maintain our good margin profile, which includes the acquisitions and by influencing the levers available to us like utilization and other operational efficiencies.

We also continue to make investments in new technology areas and the new BU of GBS. We reported an operating profit, which we define as EBITDA, excluding other income at 19.8% of revenue. This is similar to the previous quarters, at ₹92 crores, this metric showed a Q-o-Q growth of 9.6% and Y-o-Y growth of 2.4%.

A question that comes up from our results is the drop in our PBT and PAT. During the quarter coming out of the two acquisitions from an accounting standpoint, we have taken significant increases on account of two non-cash charges and one cash charge. The non-cash charges are amortization of intangibles and unwinding interest cost on deferred payments. The one-time cash charge is acquisition-related costs.

The non-cash charges of amortization and intangible show an increase of ₹ 6.8 crores and ₹ 1.5 crores, respectively.

We also had a one-time acquisition related cost of ₹ 6.4 crores. This is a real one-time cost and a cash charge which will not repeat. On top of this, we also had an exceptional write-back of ₹ 13 crores in the previous quarter. So, if you consider the ₹13 crores of exceptional write-back in the previous quarter, take it along with the cash charge of the ₹ 6.5 crores of acquisition cost, we are talking about a swing of ₹20 crores on account of one-time exceptional costs. If one were to adjust for these costs, our PBT would have been similar to that of the previous quarters in absolute terms.

Coming to certain other metrics. We have improved our DSO from 87 to 84 days. Cash on our books is about ₹1,560 crores. This is after considering upfront payments of PureSoftware and Aureus, which have been funded through a combination of internal accruals and overdraft facilities that we have availed on our fixed deposits. Cash expended on payment of upfront consideration for the two acquisitions was about ₹ 712 crores. We continue to report solid cash conversion ratios and our free cash conversion was at about ₹ 116 crores and almost equal to 100% of our EBITDA.

Return on capital metrics of ROCE and ROE are at 22.4% and 13.9%, respectively. These ratios are expected to gradually move up as the benefits of consolidation of the acquired entities start to trickle in. Including PureSoftware and Aureus, Happiest Minds is now 6,600 strong with a strong net addition of 1,431. These numbers also include 112 campus hires that we made during the quarter. Our gender diversity ratio stands at 27.7%. Attrition on a trailing 12-month basis has dropped to 13.5% from the 16.6% in the previous year. We expect these numbers to trend at these levels.

Our utilization for the quarter has edged up to 78.2% compared to 75.1% in Q1. Here I would like to say there was a significant influence of both PureSoftware and Aureus which have a reasonably good utilization numbers when compared to Happiest Minds. Utilization in the next quarter is expected to trend a little lower, considering the campus joiners and also we have got lesser number of billing days.

There is a Non Convertible Debenture (NCD) press release that you would have seen that we are planning to raise non-convertible debentures. We have taken an in-principle approval from the Board to raise up to ₹ 250 crores through a combination of NCD and term loans. These NCDs will be short-term debt instruments, and we have been tapping this route to raise funds for general corporate purposes and as these come at an attractive effective yield.

On the M&A part, we had a great start to the year with the two acquisitions that we talked about. Both the acquired companies are excellent businesses which have complemented our capabilities and strengthened our presence in the BFSI and Healthcare vertical. They've also taken us to the new markets. An integration team is in place which is working with an immediate imperative of realizing operational synergies with the acquired entities. We are very optimistic that these efforts will start yielding positive results in the coming quarters.

Guidance or forecast for the rest of the year or quarter. My perspective is our growth for this quarter has shown significant acceleration from the previous year. This momentum should continue as we progress through the fiscal and we believe we are headed for a strong growth in absolute terms. Effective 1st July, in line with our regular appraisal cycle, we have rolled out our yearly pay increases, which will have an impact of about 250 to 280 basis points on our margins.

Q2 will also be slightly impacted due to the lesser number of working days. Interestingly, we are one of the very few companies who have gone ahead with the pay increases, while we have seen the others making announcements or delaying those cycles. We continue to maintain our forecast on EBITDA of between 20% to 22% in the medium term.

With this, I conclude my commentary. Over to you, Joseph.

Joseph Anantharaju

Thank you, Venkat. Good morning to all participants in the call. I'm very excited to present to you the results for the first quarter of the new fiscal. Our growth this quarter has accelerated. And as Ashok alluded, we are on course to achieve our best performance this fiscal since our IPO.

The reorganization of our industry groups as profit centers which is effective the 1st of April has started giving us positive outcomes and to begin with, cohesive teams of sales, delivery, and domain members within each industry group have increased customer focus and are building on approval, land and expand strategy by focusing on account development plans to expand our footprint in each of these accounts.

We have 279 active customers and the average revenue per customer has increased to US \$840,000 which is a testament to this strategy of land and expand that we've adopted. The number of customers which give us more than \$ 1 million in revenues has increased to a total of 58 and we work with 65 billion-dollar corporations, a good increase over the previous quarter.

Let me share some noteworthy wins during the quarter, which are both with existing accounts and in new logos. At Happiest Minds, we use our engineering pedigree and vibrant product innovation culture to help build platforms that are primed to meet the needs of the business today and tomorrow. During the quarter for a U.S. based provider of sustainable solutions, Happiest Minds was chosen to enhance their data platform and visualization by providing data driven, actionable, and compelling information for decision makers.

We help our Healthcare customers build an integrated ecosystem to support the entire continuum of care from pre-hospitalization to post discharge. Happiest Minds has been supporting Healthcare providers in personalizing interactions, generating insights to facilitate care, enabling semantic data exchange and reducing administrative workloads. During the reported quarter for a USA-based professional board in the Healthcare sector, Happiest Minds was chosen as a strategic partner to migrate to a cloud-based CRM solution.

Our IMSS business unit has delivered a great performance in the quarter. Our customers trust us to support, maintain and protect their mission-critical systems. Our strong capabilities across cloud, data center, digital workspace, and enterprise networking, coupled with strong

partnerships across leading platform providers has helped us position as a preferred partner for our customers in digital assets.

For a USA-based professional organization of emergency Healthcare providers, the strategic multi-year cybersecurity engagement entails Happiest Minds, providing managed security services to prevent, detect, and respond to cybersecurity incidents. Our solutions in cybersecurity's Zero Trust access offers a paradigm shift in how organizations approach security in hybrid work culture.

I'm happy to report that in the reported quarter for a largest professional clearing member in India, Happiest Minds has been chosen to provide managed security services and Security Operations Center (SoC) services.

In the reported quarter, we launched a complete 360 degree IT managed service offering, Happiest Minds' WATCH360 designed specifically to help organizations manage their IT environment effortlessly powered by ELLIPSE, our AI-influenced platform. We believe the solution has immense potential to positively impact our customers' infrastructure and help them build a robust and secure environment.

Our new Gen AI business unit has got off to a flying start, with reported revenues of \$855,000 during the quarter. Our customers are leveraging the promise of Gen AI to drive productivity enhancements, realize new revenue streams and drive automation efficiencies. Knowledge-based processes, customer success, intelligent conversations through content, making sense of document repositories and software engineering are some of the key use cases which we're seeing for application of Gen AI. We are currently having about 50-plus conversations with customers and prospects, and we have completed 15 proof of concepts (PoC) during the quarter.

Rapid acceleration and adoption of Gen AI across our customer base has resulted in a pipeline of opportunities doubling in just six months. We have also been leveraging a strong partnership with Microsoft to make roads into some of these conversations and engagements.

Some of the customers we are working with in this space are leaders in the adoption of Gen AI. Take for example for the world's leading beverage maker, Happiest Minds is enhancing their sales process through a Generative AI-enabled chat bot for actionable intelligence and decision making. The work on Gen AI for this customer comes with a backdrop of another engagement where we have delivered impactful outcomes using an intelligent automation solutions across 20 different processes.

I'm happy to share that over 75% of our workforce is already trained in Gen AI tools and we hope to cover the entire workforce in couple of quarters. As a digital company, we leveraged Gen AI in our own functions like HR, Legal and Talent Acquisitions, building further depth in this technology. Our model is now able to match resumes with job description and enable to sharpen the recruitment lifecycle by 30% to 40%.

Coming to acquisitions, we began the year with two back-to-back acquisitions, which has put us back to the growth trajectory of achieving \$1 billion revenues by FY 2031. PureSoftware and Aureus have given us deep expertise and strong impetus to our growth story in Financial

Services, Healthcare and the reinsurance segments. The BFSI and Healthcare and life science verticals because of these acquisitions are now in the top three industry groups for us with revenue contribution of 17% and 16%, respectively. PureSoftware has also got us into new markets of Southeast Asia and Africa, while adding a nearshore center in Mexico.

Aureus has a strong brand recall in the reinsurance space with access to the largest reinsurance company in the world as a key customer along with customers in the elective Healthcare segment. The teams on both sides are very excited to partner and have made much progress in establishing process around sales, GTM and driving delivery excellence across the larger Happiest Minds group. As Venkat alluded, integration is underway and making good progress and we are spending time with the leadership of these companies, which include delivery heads, sales leaders and support functions to harmonize our shared vision and get more business leverage in terms of cross-selling our domain and our industry groups and Centre of Excellence (CoE) and our practices are very actively engaged with the sales team of both PureSoftware and Aureus, while the sales team of Happiest Minds are leveraging the domain capabilities of the PureSoftware and Aureus team in various conversations.

We already have multiple conversations with customers and prospects with a few joint ones. I'm happy to report that in the quarter PureSoftware has been selected by leading American multinational investment bank to drive their digital transformation program. Recently, PureSoftware's Arttha banking platform was awarded Best Banking-as-a-Service Platform of the Year at the 14th Africa Bank 4.0 Summit. We are very excited by the potential of this platform holds to take our IP business to the next level.

Let me now share my views on the current demand environment. Our sustained growth is on the premise of resilience and agility of our business model and we will continue to be laser-focused on our clients' needs and quickly adapt to market conditions. We continue to further our presence across our customer base with a land and expand strategy. With customers being careful about their spend and seeking very targeted interventions for better ROI and investment, our ability to identify these priorities and quickly pivot is very critical. In response to the demand environment and market challenges, customers too are calibrating their approach, and we are seeing more restructuring and reorganizing the customer organization. With our agility and agile approach, as well as the recently announced Industry Group structure, we are taking consultative approach adopting a high touch approach to account management, being attentive to customers' needs and making investments to strengthen relationships which are allowing us to expand our footprint.

With this, I conclude my prepared commentary, and we can now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Just for the benefit of the audience, while you did allude to the number of days of consolidation of PureSoftware and the other acquisition that you made. It would be great to get absolute numbers in terms of contribution from these entities.

The second question was with regards to the comment that you made around certain one-off write-backs that you had in Q4. Just try to confirm if that was called out as a gain in Q4 and what does it pertain to?

Venkatraman Narayanan: Yes. We had called this out as a separate line item. That was about ₹13 crores of write-back on account of unwinding of an acquisition payout. You make a provision for that and you don't make a payout, the credit if any comes through the P&L. So that was about ₹13 crores which came through Q4 financial and in the Q1 financials, ₹6.5 crores of acquisition-related cost, which in the early days, we could capitalize, no longer under IndAS has hit our P&L as a non-recurring expense. So, between the credit of ₹13 crores and debit of ₹6 crores in the current quarter, we are at about ₹20 crores expense, and we had called this out as an exceptional item in our financials.

Manik Taneja: Venkat, also just some sense on the contribution of acquisitions in the current quarter? You called out the number of days but, would be great to get the absolute contribution.

Venkatraman Narayanan: So, we discuss about EBITDA and operating margin. EBITDA is at about 23.9% compared to 24.5% last quarter and 25.5% same quarter last year. If you take out the other income that number is at about 19.8% compared to about 20% in Q4 and it was slightly higher, 20.6% if I'm right in Q1 of last year. So that's the operating income, EBITDA without other income.

Manik Taneja: I was looking for the revenue contribution of the two acquisitions that were made because when I'm looking at your standalone numbers, those numbers still appear to be soft and that's why I was just looking to get absolute contribution of the two acquisitions for the quarter.

Venkatraman Narayanan: We have only talked about consolidated growth. Now, the standalone numbers, for example, don't reflect SMI numbers, which is growing significantly, which is an acquisition that we did last year. And the growth is coming out of the work that we are doing with the client. The integrated approach to their customer, Happiest Minds customer. Macmillan, for example is an organic growth. It got structured as an acquisition. So unfortunately, that also does not come into the standalone numbers.

PureSoftware, we have only 40 days of revenues, but we were working very closely with the management, both PureSoftware and Aureus at the beginning of the quarter even before the deal was inked in terms of cross sell opportunities. It's becoming quite a complex scenario to pull out organic, inorganic, but both put together we are doing 17.8% Y-o-Y growth and Q-o-Q of 11.4%.

Joseph Anantharaju: The approach we are taking is to prioritize market and opportunities and business and we are encouraging the sales team to leverage capabilities we have on both sides. So, right before the announcement of the acquisition we had enabled knowledge sharing sessions where we had teams, especially the Happiest Minds practices, COEs and domains present are offering them capabilities and start working on Request for Proposals (RFP), on proposals, on customer discussions.

We also started leveraging talent pool. We've enabled mechanisms for PureSoftware and Aureus to reach out and get people who are available or even who can be made available to kickstart engagements. So, we want to look at this as one revenue stream.

Manik Taneja: Sure. And just clarification with regards to full year outlook that we shared after Q4. I hope that stays intact, both on growth and margins.

Venkatraman Narayanan: Okay, there is a slight correction. I had used the word forecast because we weren't sure about the closing date and I was estimating that we will close sometime in the first week of April, but unfortunately discussions and documentation went on and slipped. And it went on till end of May. Basis, my estimate of the first week of April, we had said 35% to 40% in terms of forecast for the revenue growth, but now it is 30% to 35%.

As far as EBITDA is concerned, I had talked about 20% to 22%. Now that we have closed the transaction and we are seeing through the flow through costs and the benefits that we can get from the transaction, we have done 23.9% for this quarter. And so 20% to 22% on EBITDA number continues. As far as the top line is concerned, I'm still holding it, calling it as a forecast. It is 30% to 35%, and primarily because of the loss of number of days of consolidation that we had.

Ashok Soota: You may also want to mention the absolute revenue growth we are expecting whereby we are saying that this will be our best ever quarter.

Venkatraman Narayanan: At 30%, it would be upwards of \$53 million. We closed last year at about \$196 million. So at 30%, at the lower end of the range that I'm giving, we should grow in the range \$50 million - \$52 million.

Manik Taneja: If you can elaborate on the near-term outlook, you alluded to the lower number of working days coming into July, August, September.

Venkatraman Narayanan: That is more from the standpoint of quarter-on-quarter variation, rather than anything. So, that's got nothing to do with what we are holding out as a guidance or a forecast for the year. That's more from a quarter-on-quarter basis. As far as the pay increase is concerned, that's something we knew, but the industry is behaving differently or the other participants are displaying multiple different approaches to that pay increase.

Many of them have deferred it. Many of them are not even talking about it. But we have gone ahead and what we committed we have continued to pay, keeping in line with our own culture and the way we are doing business.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: The change from 35% to 40% for FY 2025 coming down to 30% to 35%, is this only during the timing of PureSoftware and Aureus or is this organic growth which you see to be lower basis the near term outlook?

Venkatraman Narayanan: Largely, it is only that. But as you come closer, you will see 1% - 2% here and there adjustments.

Apurva Prasad: On the service lines, could you explain why there is some weakness in the analytics in AI and security solutions, especially when the GBS unit seems to be tracking well?

Joseph Anantharaju: If you look at PureSoftware and Aureus, more of the revenues come from digital infrastructure and applications. They have less of analytics AI and security. And that's the reason you see these going down as a percentage of revenues. But at an absolute level, all of these service lines have grown. And if you look at conversely, this is a selling opportunity, the IMSS business unit is very closely engaged with both Aureus and Puresoftware on some of their existing customers to cross-sell infrastructure and security solutions.

Another two areas that they're tapping very aggressively around the automation, both business plus Robotic Process Automation (RPA), as well as on test automation and on the analytics and AI side where we have strong Centers of Excellence (CoE). Absolute numbers have grown for these service lines. As a percentage, it's come down because PureSoftware and Aureus have lesser revenues from these streams. It also affords us a cross-selling opportunity that we are actively working on.

Apurva Prasad: Would the addition in the F 2000 customers, would that all be inorganic coming in PureSoftware and Aureus?

Joseph Anantharaju: It's a mix, actually. As you would have seen from the press release, we've reported quite a few logo wins as case studies. So, it's a mixture of inorganic and organic.

Ashok Soota: You should appreciate that this is really the first quarter for GBS. So, many of the things we are doing now are like discovery projects or proofs of concept. These will move in subsequent quarters into the final projects that we're going to execute. And to that extent, you'll begin to see those numbers even on a percentage basis, beginning to change from quarter-to-quarter.

Apurva Prasad: I had another one on the top account, which has come back to growth after three quarters. Any outlook that you can provide there?

Joseph Anantharaju: The Higher-Ed space has been a little challenging and these customers in the Higher-Ed space, though they are a little bit more oriented towards professional development and they have stabilized in the last three quarters and we expect this to continue and as now that they have reset their technology investment as and when they get growth or they make acquisitions, we expect that this will lead to growth in this account.

Apurva Prasad: Right. On margins, you called out the headwinds for next quarter, but with all the pluses and minuses, do you think lower end of the band which you have given out that can be defended?

Venkatraman Narayanan: We should be within the 20% to 22% EBITDA Margin and better than the lower end.

Moderator: Thank you. The next question is from the line of Ankit from Adezi Ventures. Please go ahead.

Ankit: So, on the net profit, you called out aspects for one-time charges for this quarter. But if I look at overall for this complete year, do we think we can deliver growth on the net profit line over the course of say the entire FY 2025?

Venkatraman Narayanan: The point I would like to look at in the year of any acquisition, see we looked at many other companies. It takes about at least two, three quarters for these one-time costs or amortization of

intangibles, unwinding of interest. These kind of accounting costs, as I call it, to get completely recouped from the business growth, it takes about one or two or three quarters.

So, we should be back to that kind of a number back to our typical PBT numbers, hopefully in about two to three quarters. That's assuming that all goes well with the growth of the acquired companies and our own organic growth.

As we grow larger, we should also look at the profit growth in absolute terms, cash EPS growth and return on capital employed as metric, because sometimes getting stuck with this percentage of net profit could mean that we don't make investments at the right time. Our financials also include about a \$1.5 million of investment that we made into GBS BU. So, if one were to not make those investments at the right time, we will not be able to grow in the future.

Allowances for those investments and these accounting costs, long term is to make sure that the acquired companies bring in the efficiencies and start performing at similar levels or better levels than what it was with the acquisition. Which is why I talk about EBITDA as a metric and impact this time onwards, I have also even taken out the other income part, talking about operating margin, because that really shows you the health of the business.

Ankit: Thank you. And secondly, I've just been coming across some advertising by competitors like EPAM, which are hiring very aggressively in the Indian market, have seemed to be hiring in the Indian market. Is an increase in competitive intensity something that you kind of seen on ground and is that something that we should be looking out for?

Joseph Anantharaju: We really have not seen much of competitive intensity from some of our similar size or slightly larger brethren. But what we are seeing is more of the Global Capability Centres or GCCs getting established. And this has been a trend for the last 10-15 years, and it's something that we are working into our strategy.

Ankit: Just following up from the earlier commentary that this time we are not including the other income in the operating margin. So, just for our clarification, what would be the operating margin guidance that we're giving of 20% to 22%? Does this not include the other income altogether?

Venkatraman Narayanan: The guidance or the forecast that I'm talking is about EBITDA of 20% to 22%. Just to give you the health of the business, I removed the other income and gave you this number of operating margin, which is EBITDA minus other income, which is 19.8%. So, we are still holding on to EBITDA of 20% to 22% with other income.

Moderator: Thank you. The next question is from the line of Srinivas Sampath, an individual investor. Please go ahead.

Srinivas Sampath: Venkat, this is regarding your NCD proposal that you have put and you said you're going to raise around ₹250 crores. Is it additional debt that is coming on or is it that the replacement of all the overdraft you said you took on fixed deposits?

And the second thing is in your revenue, since you closed the two acquisitions around the end of May, this month would have probably captured only 34 days of revenue. So, do you expect the revenues to be a lot higher considering that you will have full three months for the newly acquired entities?

And the last point is on the sale, this is for Mr. Ashok Soota. Appreciate that you needed to sell for investing in your new business.

What was quite disappointing was that the explanation of that did not come immediately after the sale and it took a lot of time by which most of the business channels had characterized it as the promoter reducing the stake and causing phenomenal damage to the stock price and yet your explanation came quite great.

Venkatraman Narayanan: The next quarter will have 90 days for the full quarter impact on account of PureSoftware and Aureus. Second is on the NCD program. So, we already have ₹125 crores of NCD at a certain rate which is treasury linked plus a percentage of increase on top of the treasury linked rate.

We will replace that or we'll replace the working capital lines, because the rate of interest is currently at a much competitive rate, as our credit profile is improving and we are also having other avenues to put this money to use. It'll be used to replace the existing debt and it's also important to keep a supply of debt in the market because that keeps our papers available, tradable in the debt market that gives you an avenue tomorrow to raise capital, if required, for any acquisitions. But right now, we are not doing this for acquisition, but this is just to replace the existing debt. When you talk about any line of credit, a line of credit comes at a cost of about 0.75% of commitment cost. In India, we don't have this concept of line of credit. You only get a letter of intent, but nobody gives you a line of credit like in the U.S. markets. Instead of having a line of credit, what we do is we raise this money and you deploy it into something like a fixed investment, fixed deposit, and there is a gap of some 60-70 basis points which is the effective cost of that credit or line of credit available to you in case you need to do an acquisition or in case you need that to repay a certain line of credit or anything else. So that's the way we visualize NCDs. And you borrow when the rates are good and you take advantage of the market moments and the gyrations. Our interest cover ratio is improving, our debt coverage ratio is improving. Debt to equity formula is including working capital. But if you exclude that we are at a healthy 0.3% - 0.4%. It brings in certain operating leverage into the Company.

The post tax cost of this debt is worthwhile to make sure that that's used for capital formation in the new business like GBS that we are talking about. So, there is enough reason for borrowing decent amount at interest rates, which are compelling to make sure that you are investing that into business, which is giving you a lot higher internal rate of return or IRR. Our return on capital employed is 22% and on equity is 14%. So, return on capital employed is 22% means I'm able to generalize that kind of an IRR in the business from the money that I'm raising.

Srinivas Sampath: Follow up is that now that you said that tempered the growth for the year to 30% to 35%. You would have a fair idea of this particular year is going to be a little difficult for us to just work out what could be the profit of the tax and all that. Would you have a ballpark figure of what would we end as earning per share by the end of the year? what would we end because last year

you ended with an earning per share of around ₹16.7. What would you probably end the year with?

Venkatraman Narayanan: Maybe after the Q2, we'll have a better fit on how this number looks like because typically what people do is analyze one quarter into four and give you a number. But with this quarter having one-offs, we should not make such an attempt.

But if you take that, maybe an earnings per share of very similar to that of last year, maybe EPS is not the right metric during the formative years or the integration years. You should look at cash EPS because if I made ₹116 crores of EBITDA, almost ₹116 crores has dropped into my cash flows as cash balance.

So that shows the health of the Company and the operations. My DSO has improved. My working capital ratios have improved. The business metrics have all improved.

Moderator: Thank you. The next question is from the line of Ankit from Adezi Ventures. Please go ahead.

Ankit: Hi. Considering that the EBITDA margins this quarter are a little lower than the same quarter last year. I do understand PureSoftware is a 40 day integration. But even if I look at it, from a 90-day perspective, do we feel the confidence that PureSoftware is actually EPS accretive and also that it has a similar or a higher margin profile to our organic business or can we expect a compression in margins when that comes?

Venkatraman Narayanan: Smaller companies don't keep the kind of cash that slightly larger companies like us do so. If they were working on a 19%-19.8% margin without the other income, which is very similar in terms of margin profile with us. Other than the slight lumpiness because of the product business, they have got a good margin profile and I don't think there's a huge compression risk on account of PureSoftware and we have to, in fact, improve on their margin profile because though integrations are required of cost integration benefits that have come out.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Sunil Gujjar for his closing comments.

Sunil Gujjar: Thank you for joining us today. We look forward to hearing from you again. You can reach out to us on ir@happiestminds.com. Thank you.

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

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