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January 23, 2023

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: HAPPSTMNDS

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on January 19, 2023

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 January 19, 2023 post announcement of financial results of the Company for the quarter and nine months ended December 31, 2022. The transcript is also uploaded on the Company's website (https://www.happiestminds.com/investors).

This is for your information and records.

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

DARSHANKAR PRAVEEN KUMAR
Digitally signed by DARSHANKAR PRAVEEN KUMAR
Date: 2023.01.23 15:20:24 +05'30'

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

Happiest Minds Technologies Limited

Happiest Minds Technologies Limited

Q3 FY '23 Earnings Conference Call

January 19, 2023

MANAGEMENT:	**MR. ASHOK SOOTA – EXECUTIVE CHAIRMAN** **MR. JOSEPH ANANTHARAJU – EXECUTIVE VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER – PRODUCT ENGINEERING SERVICES** **MR. VENKATRAMAN NARAYANAN – MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER** **MR. RAJIV SHAH – PRESIDENT AND CHIEF EXECUTIVE OFFICER – DIGITAL BUSINESS SERVICES** **MR. RAM MOHAN – PRESIDENT AND CHIEF EXECUTIVE OFFICER – INFRASTRUCTURE MANAGEMENT AND SECURITY SERVICES** **MR. AUROBINDA NANDA – PRESIDENT, OPERATIONS AND DEPUTY CHIEF EXECUTIVE OFFICER – PRODUCT ENGINEERING SERVICES** **MR. SRIDHAR MANTHA – CHIEF TECHNOLOGY OFFICER** **MR. SUNIL GUJJAR – HEAD OF INVESTOR RELATIONS** **MR. PRAVEEN DARSHANKAR – COMPANY SECRETARY AND HEAD OF LEGAL**
MODERATOR:	**MR. MANIK TANEJA – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Happiest Minds Technologies Q3 FY '23 Results Conference Call, hosted by Axis Capital Limited. 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. Manik Taneja from Axis Capital. Thank you, and over to you, sir.

Manik Taneja: Thank you, operator. Good evening, everyone. Thank you for joining us today on the Q3 FY '23 Earnings Call of Happiest Minds Technologies Limited. On behalf of Axis Capital, 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 and CEO of Product Engineering Services; Mr. Venkatraman Narayanan, MD and CFO; Mr. Rajiv Shah, President and CEO of Digital Business Services; Mr. Ram Mohan, President and CEO, Infrastructure Management and Security Services; Mr. Aurobinda Nanda, President, Operations and Deputy CEO, Product Engineering Services. Mr. Sridhar Mantha, Chief Technology Officer; Mr. Sunil Gujjar, Head of Investor Relations; and Mr. Praveen Darshankar, Company Secretary and Head of Legal. I'll hand over the call to Sunil for the safe harbor statement and to take the proceedings forward. Over to you, Sunil.

Sunil Gujjar: Thank you, Manik. Good evening to all participants in the call, wishing everyone a very happy New Year. Welcome to this conference call to discuss the financial results for the third quarter ended December 31, 2022. We trust all of you are keeping well. I am Sunil, Head of Investor Relations. The financial results, statements, quarterly factsheet, investor presentation and press release have already been uploaded on our website.

Please do go through when you get a chance. The agenda for this call is as follows: Ashok will begin the call by sharing his perspectives on the business environment and our results; Venkat and Joseph will then speak about our financial performance and operational highlights; after which, we will have the floor open for Q&A. Before I hand over, let me begin with the safe harbor statement.

During the call, we 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, and good evening, friends. Thank you, Manik, for hosting the call. Let me convey my best wishes for the New Year to all the participants in the call. I am happy to share with you that Happiest Minds has delivered yet another quarter of excellent performance on all fronts. Our year-over-year growth of 26% in constant currency continues to be industry-leading. The solid growth in revenues is accompanied by our superior margin profile, which continues to be strong at 26.3%. On revenue growth plus EBITDA, a metric which we closely track, is at 55.2%, which reflects our ability to drive consistent profitable growth.

We remain on track to achieve 25% year-over-year growth for FY '23 in terms of our guidance. During the quarter, we have had many significant milestones. We inaugurated our new development center in Bhubaneswar, Orissa, with a seating capacity of 150. This center will strengthen our delivery capabilities across our business units with a new pool of talent from the region. We are simultaneously procuring land in Bhubaneswar to expand our capacity for our own campus in due course. Secondly, Happiest Minds was selected the winner of the Best Governed Company in the Medium category for 2022 by the Institute of Company Secretaries.

We also won the Golden Peacock Award for Corporate Governance last quarter. This dual sweep shows how deeply corporate governance is ingrained in the DNA of Happiest Minds. We were yet again recognized amongst India's top 25 workplaces in IT and IT-BPM 2022 by the Great Places to Work Institute. This is the fifth year running that we have been in the list of best places to work. We continue to get recognized for our disclosure and annual reporting practices with Happiest Minds winning gold for its 2022 Integrated Annual Report at the League of American Communication Professionals, Spotlight Awards for 2022. Venkat and Joseph will share with you both the financial highlights and our business positions.

Looking to the year ahead, we continue to see strong demand. We have positioned ourselves better to fulfill this demand by enhancing our delivery capacity in every location. Our traditional areas of strength, such as edutech, hi-tech and retail continue to show sustained growth. We are increasing our presence in health care and BFSI with a view to sustain our industry-leading growth rate. With this, I conclude my observations, and I will now pass this over to Venkat. Thank you very much.

Venkatraman Narayanan: Thank you, Ashok. A very good evening to all on the call and best wishes for the New Year. In the next few minutes, I'll share with you financial and operational highlights for the quarter and the nine months ended December 31, 2022. Starting with the quarter. Our revenue for the quarter were about $45.3 million, which showed a growth of about 2.1% on a sequential basis and about 20% on a year-over-year basis. In constant currency of US dollar, the growth was 2.8% and 22.6%, respectively.

As you all know, Q3 is generally a seasonally weak quarter, mainly due to leave and furloughs. And on top of this, we also had an unusual increase in vacations and leave taken by Happiest Minds. I would call this unusual increase as work-from-home effect as many of our Happiest Minds have come back to office and now are working from office at their base location. Having worked from home for more than a year, at every instance they get, they are more likely to return home to spend time with family.

So that's what I refer to as a work-from-home effect. Then we also had one lesser working day in the current quarter compared to the previous quarter and the previous year. Loss of revenues due to the above unusual circumstances, which is that one less working day and the leave was about $1.5 million. If you adjust for that, our growth would have been well above 5.5%. Total income in rupees for the quarter was INR 375 crores, which showed a sequential growth of 4.3% and a year-over-year growth of 28.2%. EBITDA at INR 97 crores remained strong and steady at 26% of our total revenues. Growth in EBITDA was sequentially 3.1% and 26.5% on a year-over-year basis. We managed to address certain increase in costs, mainly people-related, through increased volumes, billing rates and, of course, a favorable exchange rate. Between EBITDA and PBT for this quarter, we had an exceptional expense for the quarter, and this was on account of the fair valuation of warrant liability in our balance sheet.

As you will recollect, we had issued warrants based on performance-based earn-outs for the PGS acquisition that we did in January of 2021. We had recorded original liability of these warrants at about $7.25 million, payable over three years on achieving certain revenue and profit targets and then valued it on a fair valuation of $5.1 million as per Indian Accounting Standards and recorded the same in our balance sheet. The same Ind-AS requires us to evaluate the performance of the acquired assets and revalue the warrant liability based on the probability of payment. The original liability of $5.1 million was recorded in the balance sheet.

While any subsequent changes to the same, based on actual payout or improved probability of payment, needing to be routed through the P&L. Based on the performance of FY 2021, that's for the last year, we had paid out earnouts identified for that year in full. And we had taken that impact in Q2 of last year as an exceptional item. Now we are happy to state that based on the performance on the earnouts for FY 2022, we have also become payable in full. While we are very happy that earnouts are payable in full as it reflects the good performance of the acquired asset from an accounting standpoint, the difference between the actual payout and the fair value of original liability must be taken as a charge to P&L.

This is what we have done now and have taken an exceptional charge of INR 6.34 crores. The exceptional item has had an impact of approximately 1.5% on our PBT. The above adjustment for the last year was in Q2, which I referred to earlier. So, our PAT numbers on a quarter-on-quarter basis, such as Q3-over-Q3 is not fully comparable. We continue to generate healthy cash flows with almost 95% of our EBITDA finding its way into our financials as free cash. Free cash flow for the quarter was about INR 93 crores and our cash and cash equivalents were at about INR 690 crores at the end of the quarter.

Our financial return ratios continue to be very healthy. ROCE and ROE are at 34.9% and 29.4%, respectively. Coming to our performance for the nine months period ended December 31, 2022, our revenues in constant currency of US dollar grew by 26%, while our EBITDA was at 26.3%. As you can see, both these are in line and ahead of our guidance on revenue growth of 25% and EBITDA range of 22% to 24%, respectively. Our revenue growth and profitability continue to be industry-leading, and we continue to beat our own expectations on margins. Some of the operational highlights for the quarter and the nine months are;

We ended the quarter with 4,611 Happiest Minds, that's our people, a net addition of 30 for the quarter and 443 for the 9-month period. Our utilization levels continue to be steady at 80.1%.

Attrition levels are trending down and is now at about 20.9% compared to the 23.5% in the prior quarter, considered on a trailing 12- month basis. Diversity and inclusion ratios at the end of the quarter stood at 27.7%. And on the business front, all our verticals and geographies continue to do well. We had a slight reduction in the share of BFSI, primarily on account of the loss of billing days that I referred to earlier.

We ended the quarter with 230 active clients, 40 of them were million dollars plus clients, 92% repeat business and average customer revenues of about $792,000. In this quarter's presentation, we have included a data point, which correlates revenues versus length of client relationship. Interestingly, 50% of our revenues come from customers with whom we have had a relationship of more than five years. So it proves that we have been able to hold on to our customers, and we have been able to go deeper into them.

Before I conclude, I would also like to address the question many of you may have on the enabling resolutions we had taken from our shareholders on raising funds through a QIP process. Work is still in process on this front, and we'll keep you updated in case of any progress. In conclusion, we had a good quarter despite certain unexpected fluctuations as explained earlier, attrition trending down reflects easing in supply side constraints. We continue to attract and add talent both on offshore and onsite. We have also strengthened our delivery capabilities like Ashok mentioned, both within Bangalore and at Bhubaneswar. I now request Joseph to share his thoughts on customers and the demand environment.

Joseph Anantharaju: Thank you, Venkat. A very good evening to all. Best New Year wishes to everyone on the call. I'm pleased to share with you all the results of another quarter of good performance for Happiest Minds. Our business units, centers of excellence and operating peers continue to grow even in a seasonally weak quarter caused by furloughs and leaves. Without these furloughs and leaves, as Venkat mentioned, our growth would have been much higher.

We continue to show progress on our customer metrics with billion-dollar customers increasing by 1 making a total of 55 billion-dollar customers. We added nine new logos during the quarter, ending the quarter with 230 active clients, of which 40 were more than a million dollars in revenue. At a broad level, from a demand perspective, clients continue to invest in their digital initiatives while ensuring priority to projects with strategic and immediate returns. Across verticals as well as within verticals, we see companies showing different strength proclivities based on the success of their strategy and performance.

For example, a retailer may have greater propensity to spend on quicker ROI areas like driving efficiency in the supply chain or a better user experience. On the other hand, a manufacturing customer would prioritize how to recalibrate the broken supply chain or plant automation. The sensibility and scalability play a very important role when it comes to identifying and winning digital engagements. About six months back, we created a value proposition and solution to increase the efficiency of the order management system for a large bottling plant in North America.

The impact of this engagement was so deep and strategic that we have been called by players and multiple other geos to help solve their order management problems. We were also chosen by another leading bottling company in North America to set up the center of excellence leveraging the Microsoft Power platform. Our depth in edu tech is helping us solve some of the most challenging problems our customers are facing. The sector experienced significant disruption due to pandemic and we have been developing various digital solutions using technologies like analytics, AI, Computer Vision, NLP and ML to increase the adoption and efficiency of online student engagement and learning.

Customers are also exploring newer technologies like Metaverse, Web 3.0 auto to give better student experiences and provide hybrid and immersive learning. Last quarter, we won a deal to help a workforce development company to build a platform for exclusively connecting with mentors for personalized career guidance. Our CTO organization started building expertise in the low-code/no-code space a couple of years ago. We now have built strong capabilities both in Microsoft's Power Platform and OutSystems, which are in the leadership zones of leading industry analysts.

Last quarter, we signed a deal with a leading labor and employment law firm in North America to automate and drive efficiency in their workforce deployment processes using a low-code/no-code platform. In another instance, Happiest Minds is digitally transforming the trading platform, again, using low-code/no-code platform for a Danish bank. Looking forward, our pipeline is very strong with several large deals in discussion.

We continue to get called for engagements such as, helping formulate digital strategies, platform engineering, transformation, modernization and enabling connectivity needs through IoT and 5G, customer experience and analytics AI. As Ashok alluded, we are confident of meeting our revenue guidance on growth, based on a strong pipeline and deals signed in Q3. With this, I conclude my commentary, and we can now open the floor for Q&A. Over to you, operator.

Moderator: The first question is from the line of Manik Taneja from Axis Capital.

Manik Taneja: Just wanted to get more clarification regarding the annual growth outlook that Ashok reiterated, given the moderation in terms of growth that we see in the third quarter and Venkat called out that there were certain one-offs around higher holidays as well as lower number of working days. But even if I were to take that into account, for us to get to a 25% growth for the full year in constant currency terms would mean that the fourth quarter has to be much stronger on a sequential basis. So just wanted to understand the visibility that we have on that front and then I'll come back on the queue for further question.

Ashok Soota: Venkat, go ahead.

Venkatraman Narayanan: Manik, we have considered the leaves that are lost, as they don't come back. So that impact has also been considered. We have looked at our pipeline and it's on that basis that we are still holding because right now, we have 26% and our guidance is 25% with respect to the top line number. So, we are reasonably confident of meeting that number.

Manik Taneja: Sure. Just one clarification on that. The front 25% is in CC terms and in the first nine months, what was the Y-o-Y CC growth that we've achieved?

Venkatraman Narayanan: 26%.

Ashok Soota: So, we do have a little cushion in effect still, but we don't think we'll even need the cushion to tell you the truth.

Moderator: The next question is from the line of Abhishek Bhandari from Nomura. Please go ahead.

Abhishek Bhandari: Happy New Year to the management team. Sir, I just have one question. Our margins are tracking much ahead of what we thought, 22% to 24% band. And with supply side easing, likely there'll be more positive flip on it. Have you considered dropping the margins and investing in sales to possibly accelerate growth over the medium term? Why or why not would you take that approach?

Ashok Soota: Sure. I'll just take this first. I don't think these are neither of our issues. We are generating as much as we can and we're investing as much as we need to. So, if you see our strategic discussions, all the time we are looking for new areas in where we can make strategic investments. And if you look at it over the years, look at the things we've added.

We create and incubate new technologies. We don't get a return immediately on those. Even in this last year, as Joseph pointed out, we've invested in LCAP, MCAP, no-code, we invested in Metaverse and so on and so forth. So, we are always doing new things. We were amongst the earliest to get into IoT and then we did blockchain. So we keep developing new capabilities.

When we build them up to a certain level, we move them from an incubation mode into a center of excellence, and we create new centers of excellence and that process has not stopped. So, we are not saying we are looking at margins. And if we reduce something for gaining something else that may be a wrong thing to do.

If you think you can get more business just by reducing your price, I think you will hurt yourself terribly. But if you can use your margins to keep on investing, which is what we do, then you're in a good place, you're in happy place, and that's exactly where we are.

Joseph Anantharaju: And just to add on to what Ashok said, there are a couple of other areas where we've continued investing. In the last couple of years, we've been building up our domain capability, and we've brought onboard seasoned domain heads and they've been building their business analyst team because we've seen that in the next phase of digitization it is going to be extremely important to understand and speak in customers' language and have these business analysts who can be interpreters for our technical team.

So, we are not hesitant to make that investment. And again, from a sales annual, we've been bringing on board client partners and account managers to help grow our accounts. So Abhishek we'll continue making investments.

Moderator: The next question is from the line of Vimal Gohil from Alchemy Capital Management Private Limited.

Vimal Gohil: Sir I just wanted to understand a bit on our costs this quarter. Now if I were to look at our employee cost and we deployed or rather we hired quite a few freshers over the last few quarters. And we do see that as a percentage of sales or the quarter-on-quarter growth in employees has been slightly faster as compared to revenues despite the fresher addition. I do agree that our margins are trending well ahead of our own expectations or guidance. But do we see this as an additional margin lever going forward, given the fact that the more freshers will get deployed and that could see some benefit on the margins?

Venkatraman Narayanan: Vimal, we've added about 215 to 220 freshers in the last quarter. And typically, they go through a standard training cycle and it takes anywhere between 9 to 12 months before they can touch billability. So that cost gets absorbed for the next, say, two more quarters. They would be going through the training sessions. So that's not going to impact profitability in the next two quarters, whereas there will be a cost to both training and their salary cost.

But yes, you're right, post that, slowly, they will get into the billable workforce, and we'll soon be able to find jobs and positions for them and bill them. So, in the long run, that's a way to manage our pyramid. This is after about a gap of three or four years, we are going and getting so many numbers of freshers and trying to build a pyramid based on the competition chart.

Ashok Soota: And also, Vimal, don't forget that the last two quarters, on one side, we have hired freshers so the cost of our pyramid has improved, but it's also the two quarters where we gave very generous increments, and we've absorbed that and still kept our margins in the same level. So, one thing is balanced with the other.

Vimal Gohil: Sir, I just wanted to check on product engineering services. It's one of the largest portions of our business. If you could comment on how client product roadmaps are panning out. I have been asking this question to other peer product engineering companies as well. They have given quite a positive review. Just wanted to get your sense as to how our clients are looking at product development projects given the current macro environment, if you could just highlight that? Thanks.

Joseph Anantharaju: So, I think I addressed this question last time as well, Vimal. We have seen, maybe in the second quarter, one of our companies that was more in the early stage, they took a little bit of a precautionary measure and ramp down. But outside of that, we've not really seen any of our customers affecting major ramp downs.

We've seen some seasonal trends in November-December, in terms of activity easing up because of holiday season. But we're again seeing an uptick, and as I mentioned in my earlier commentary, the pipeline continues to be strong, cutting across all three BUs. But what customers are doing is that they're keeping a very close watch on what we're investing in and how it would be used by the end customers? How quickly they'll be able to monetize it and therefore, prioritizing features, functionalities, and modules, which will help them get quicker revenues or make a bigger impact from a customer acquisition standpoint.

Vimal Gohil: And sir, last question, if I may, from my side. If you can just quantify how much we will be spending on our acquisition of land and delivery center from – how much of a balance sheet cash outflow could we see over there? Any idea there?

Venkatraman Narayanan: Yes. That's a state sponsored scheme, so where they are given the land under SEZ in Bhubaneswar, so we have been allotted. That's an in-principal allotment. We are going through the terms and conditions. But it's at a favorable price. It will not be a significant cost in terms of land, and it will be a 99-year lease kind of an arrangement. To give you a number, they have said about INR 40 lakhs for an acre. But there are other costs that you have to add on with it.

Vimal Gohil: We won't be able to give a number sir at this point, a total number?

Ashok Soota: It is not appropriate. We haven't even signed the deal. We've seen plots. In fact, I have seen a plot or two when I went to Bhubaneswar for the lovely inauguration we had with the Chief Minister. The very pleasant people out there very eager to get us in. And it will take us a few weeks.

I would imagine maybe a month or two, to finalize the specific plot and with that, we'll get the idea of what the exact cost is. So, it's not going to be a cost which is material in context of any of our future plans. The sort of money we may have to spend on future acquisitions will obviously far outweigh anything we spent on this. There is no comparison at all.

Moderator: The next question is from the line of Faisal Hawa from HG Hawa.

Faisal Hawa: So, sir, this question is for Mr. Ashok Soota. Which are the two or three adjacencies that you would like to fill up through an acquisition or whatever it takes where you feel that the company is clearly lacking?

Ashok Soota: See, I'll tell you that is a beautiful part of where we are. We could fill up and strengthen a vertical. We could fill up and strengthen a horizontal which we believe is growing. We could go and fill up a geo where we don't have adequate presence. So, the requirements or the potential is more a question of getting the right target.

Actually, in any of these things, be it a vertical, be it a horizontal, be it a geo, if we got the right target and we're able to close at an appropriate price and we feel there's a good culture match, we would just go ahead. So, we have plenty of potential choices, but to get the right choice in an acquisition is always the challenge.

And as I mentioned before, you start with 15, you bring it down to a short list of 5, and then you will be able to manage one, or maybe two. And that's the process we're on. I must say, we have taken a little time. We are able to achieve this year's growth rate so far. Really, it's organic growth but I'm sure we are approaching close enough to say, hopefully, we'll conclude some deals as we go ahead.

Faisal Hawa: And sir, you are almost of the elder statesmen of the industry, and I always see so much youthfulness and so much enthusiasm in you. So where do you feel your experience is really proving to be invaluable in this industry which is so rapidly changing?

Ashok Soota: Yes. Well, I'll tell you one thing. Our whole approach is to track change. And if you notice when we defined our vision, we said that this industry will go through more change in the next 10 years than it has done in the previous 10, which is making a very sweeping statement.

Because when you look at the degree of change in these last 10 years, look at the things we've had. And I've already enumerated the new technologies which came in, the new solutions, which came in and so on and so forth. The new business models they must create. So, we are saying we will plan and prepare for that change. And that is why we've created that 10-year vision we're looking ahead.

I can't give you the specifics of it. Firstly, because they're not going to get articulated in a few months. Also, we'll consider multiple scenarios where the change will take place. Then within that, we'll select a few potential opportunities, then we'll go ahead and zero-in on what we think will be the business plan to meet that change. I think when we do it, we are doing this as a methodical process.

I believe we'll be ahead of the industry in examining that because we are anticipating. We're saying, where is the change? Where will it be proactive about it? Just as we have been as when we started Happiest Minds. We then became the first company which could say we are born digital. And in the same way, we want to be on the forefront of what we think is going to be the next future change.

Faisal Hawa: So, in your opinion, is it possible to create another behemoth in the IT industry in the next 10 years itself provided you track the things constantly and execute it very methodically?

Ashok Soota: What do we mean by behemoth?

Faisal Hawa: Something like a Wipro or TCS.

Ashok Soota: Frankly, we are not going to be a TCS. It takes time. And I'm not sure that we're even saying here that's what we are targeting. Today, with many of them, I don't have to name the companies, there's only one out of all those companies whose profitability is a little higher than us.

And when you consider all the factors, their size and ours that means operationally, we are making as much as them. So, in a sense, that is what we really need to do, continue to sustain as a high-value company, commensurate with our size and not yearn after growth for the sake of saying, "hey, we want to make billions of dollars".

Yes, we have set a target of saying by the end of this 10-year vision, we would like to be at a billion dollars. That doesn't sound very ambitious also. But then at the same time, if we can do better than that, that's even better. But if we go and set a number and then start trying to achieve that number, and for that, if we do things which are not functional, then it may turn out to be a disadvantage. So, we've set a vision and like in the past, we'll try and improve on that.

Moderator: The next question is from the line of Manik Taneja from Axis Capital.

Manik Taneja: So just wanted to pick your brains around our operating metrics performance and the performance that we see in certain verticals. So, given what one is hearing around hi-tech vertical and the reattendance going in that vertical, how do you see this vertical performing for both us and the industry in the next 12 to 14 months?

There is an expectation that we might probably see significant amount of large cost optimization in this segment, so if you could help us understand what your thoughts are on this front? And the second question was, at a broader level, the industry faced significant labor cost pressures and was able to pass on the labor cost pressures in terms of higher pricing given the customers were also seeing higher inflation in their own markets? How do you see that situation evolve when you think about calendar year '23 and calendar '24?

Ashok Soota: On the first question on hi-tech, I think the best person to really answer that is Joseph, but I'll give you one or two perspectives. On how those various macro factors may affect margins, I think Venkat is the better person to respond. I may add to it after his reply. But here, let me lead with this.

See, I'll tell you a lot is made of the play of what's happened to the large hi-tech companies. They grew enormously during the pandemic, maybe disproportionately. Everybody suddenly seems to be in need to get on to Teams calls and Zoom calls and travel were stopped. Now travel, by the way, is booming. So, it's a vertical that we should all be looking at.

You can see this from the way the planes are running jampacked, at full capacity. So markets change. We were never in the market that these guys were. We were using some of those platforms to deliver our solutions, but that wasn't our business anyway. So, we are not impacted, like, the top five hi-tech companies, and they have a disproportionate impact on what you may call as the technology index.

The way I see it, our technology businesses are driven by start-ups. All of them in one form or the other are creative platform. And that platform then becomes the means to deliver the solution and that's all hi-tech. So that has not slowed down. If anything, it's accelerating every day. So, we are not seeing any of the slowdown in that sector at all. But let me turn this over to Joseph, who will give you perhaps a more lucid answer also.

Joseph Anantharaju: I think you've covered a fair bit. Just providing a little bit more clarity to the first point that Ashok made. If you see some of the large hi-tech companies, they have made disproportionately large investment in terms of headcount or some new initiatives, which really haven't taken off in the market. And I think that's one of the areas that they're rationalizing.

And the second is all these companies, they have an annual process of moving out or weeding out a percentage of their workforce, and that's also getting reported out here. But if you look at the company specific sub-segments of hi-tech, whether it's networking companies or security companies, there are several sub-segments where they continue to invest and continue building their products because there's still demand out there.

And as I mentioned earlier, we've not really seen a flag-off in demand. It's just that companies are being very strategic and careful about where and how they invest. In terms of cost optimization, the cost optimization that we are seeing is that when companies are reducing their workforce, they are looking at their partners or their offshore centers to actually continue because the work is still there and needs to get done.

They're looking at their partners or offshore centers to continue delivering and there's been a lower impact in some cases, they've increased their team sizes. So, we've not really seen a huge cost optimization exercise. We've seen more of moving to lower cost centers, and that, in a way, is helping some of our customers helping Happiest Minds out.

Venkatraman Narayanan: On the margins front, Manik, you talked about how the price, and its connection to inflation. We have largely moved away from a cost-plus pricing, or a people cost plus pricing model. It has been demand-based pricing right from the start based on the technology and the demand for that technology. And sufficed to say, we have always been at the premium compared to a cost-plus pricing model may be followed by our bigger brothers around. So that's on the pricing model.

So, it's never been negotiated saying, this is the cost of the person, and we charge a margin on that front, unless there is some small sort of infra deal or something like that. But for a large part of our business, it's been demand-based pricing. With respect to inflation and how it affects us, until now, we have seen it being positive because we are largely offshore, 95% of our people continue to be offshore.

So, to that extent, when there is a huge cost increase in the US, the largest geography where there is an inflation of 8% to 10% in wages, and there is a huge number increase on the wage cost. Obviously, the offshore center in an ODC model or work with an offshore service provider looks that much more attractive. So that's continuing. And even if it eases, I think all the other positives of working with offshore partners will continue.

Margins on top of these two levers, there are so many other aspects like the competency, the pyramid, the onsite-offshore mix, geography mix, all of them, we're building on what we have until now. And so, we don't expect any margin shock from that side, except for maybe the exchange rate, the way the rupee has moved has been favorable for the export industry from India and it continues to help all of us. Manik, does that answer your question?

Manik Taneja: Yes, thank you for that detailed response. So, I also wanted to understand, given the underlying macro volatility, how should we be thinking about these impacting players of our size given the fact that we're spread across multiple verticals and multiple segments? That was question number one. And the second question was, do you think while you've talked about a 25% CAGR in line with our $1 billion revenue target over multiple years, do you think there is a possibility that our growth rate in the near term essentially end up being lower to that frontline growth?

Ashok Soota: Okay. Shall I just take that at on an overall level first, then Venkat can come in. Let me take your second question. See, I'll tell you when we guide towards, billion dollars by 2031, and we also say we'll grow compounded 25%, there's one factor, which we never state. You might say it's like the elephant in the room, but it's there, and that is what is the impact of acquisitions in that. So far, we've been able to do this with marginal contribution from acquisitions.

Going ahead, there will always be a lumpy impact. So, when you say, will we go lower, but if we do a good acquisition, we may go higher. I don't think we can predict like that saying year-to-year. We are not seeing a slowdown in demand. Therefore, we are not saying that we see a slowdown taking place even in organic growth, but there may be adjustments. But at the same time, those adjustments we will more than make up by the acquisitions we will do. And, fortunately, we've been able to sustain it on a virtually organic basis.

Then there was a question on volatility, which maybe Venkat, you can respond to.

Venkatraman Narayanan: Yes. On volatility, we have to look at the repeat business, Manik. 92% of our business is repeat business. The second thing is the metric that I talked about, 50% of our business coming from customers who have been with us for greater than five years. So, when we look at our customer base, we have to look at the number of global corporations,55 of them; million-dollar customers, 40 of them; customer with a relationship of more than five years giving you 50% of our business; average repeat business is 92% and our average revenue per customer is about $790,000 to $800,000.

So, all of this shows how we are closely working with our customers, customers who are of a certain consequence for us and how we are growing with them. So, volatility will be there within your customer base of 230, you could have ups and downs, you could have issues with a certain customer. But I think the way the sales teams work, the BUs work, they are quickly able to cover it up with a new customer on the pipeline, not trying to eke-out growth from an existing customer. So, we're not saying that everything is hunky dory and everybody is growing.

There are cases where there can be adjustments in one customer, which is there in the number of customers that drop off on a quarterly basis. So, volatility is there, we manage it with the relationship that we have with existing customers and the new pipeline that we create.

Joseph Anantharaju: And just to add to what Venkat mentioned, Manik. And if you look at many of our customers, we've been working with them for five years. 50% of our revenues come from customers who have been with us for more than five years, and our repeat business is 92%. And what this means is that we've been working on multiple versions of their platform. And so, there's core knowledge and IP that our team has built, which is critical and essential for them to continue adding functionalities and delivering what their customers need. So that, in a way, leads to stickiness in terms of the team and the revenues.

Moderator: The next question is from the line of NGN Puranik from Enam. Please go ahead.

NGN Puranik: I have a question on your size, scale and strategy on building the billion-dollar goal. How do you create annuity towards building billion-dollar goal. So, in terms of services solutions that you have, what more you need to add? Because the old school of scaling was very different. So, you used to have AS/400 mainframe, then you have the ERP systems. So many of those things, help them to get into $100 million quickly. So, what's your strategy? Because Venkat mention that there are relationships which are greater than five years. So, are you happy with the way their growth rates have scaled? Is there anything that you need to do better? Because you have a strong horizontal, you can build good verticals from that foundation.

Ashok Soota: Sure. A lot of fundamental things you've asked in that question. one is, of course, as you yourself are noticing the definition of annuity changed. All those so-called multiyear contracts, barring IMSS, they have virtually disappeared. Annuity may be in the context of a project which may last for long. But more importantly, it is in context of how long you kept your customer. And you know how long that business grows.

Venkat could give you an average for how much percentage of our business comes in five years, but there are many customers we've had for 10 years for that matter. So, it's not that any of these customers come and disappear and some of them are amongst our largest customers. So, we've got tremendous continuity in those customers. And that, to my mind, is the best form of annuity. And our share in IMSS has, of course, been continuing to grow. And there, by definition, it's like the old definition of annuity, which said all that, you can get to a multiyear contract. Venkat or Joseph, do you want to add to that?

Joseph Anantharaju: No, Ashok I think I've also touched on my previous response sort of also gives the basis for annuity, the fact that when you start building platforms, whether it's in the hi-tech space or cutting across, because most of the customers are building platforms now, if you look at it from a digital perspective. Unlike SAP implementation, you don't build a platform and stop.

We've got to keep adding new features, functionalities because the demand from customers and employees and other stakeholders keeps coming in and they keep changing. We have newer technologies that the pace has increased. And you must adopt these technologies. So, there's constant work going on, on successive versions of platform. And once you build a platform, you have the IP and the knowledge and the working relationship, which allows you to keep working on successive versions and the relationship continues, which in effect, becomes annuity.

Ashok Soota: Absolutely. Yes, that's exactly it. The key difference Puranik, from the old days is really the fact that Joseph mentioned, the business has moved into platforms. And once you start, you never stop. There are new features, the new models, the new applications sitting on the platform, and it continues.

NGN Puranik: So, when you say platform, is it the generic platform or is it the monetizable platform you're talking about?

Ashok Soota: No. Joseph, you might want to just clarify with few examples.

NGN Puranik: I just want to understand are there powerful platforms, which can be significant revenue earners over time? Are there any $100 million platforms?

Joseph Anantharaju: Just to answer that question, Mr. Puranik. The customers that we are working with and building platforms for, many of them are platforms that are generating $0.5 billion, $1 billion, $3 billion in revenue and the customers are building it to monetize and to make revenues of them. Most of them are in the SaaS model.

So, you can have a wide range of customers, the implementation cycles and the implementation cost involved is lower. So, you'd be able to onboard customers more quickly and customers would have a higher propensity to adopt these platforms.

And as Ashok pointed the work doesn't stop. You need to keep adding new applications, new customer experience and things like that. So, you are constantly working with the customer on engineering and building additional functionalities into the platform.

NGN Puranik: So, these are the customer-specific platforms, they're not replicable platforms?

Joseph Anantharaju: Yes. I'll give you two, three examples Mr. Puranik that would help. one of our customers in their tech space, providing content and various other educational materials to nurses, including precertification, assessment, etcetera. And they built up an end-to-end platform that will help them to build the content and deliver the content to these nurses and they tied up with the nursing institutes. And they have to capture all of this data that the way the nurses are going through, the test results, etcetera, into a data platform, which would then allow them to give feedback back to the nurses, help them in their learning journey. So that was a platform out here, right? That's one example.

Another example is a customer that we're working with. They built a platform to help measure whether in online advertisement, the efficacy of the advertisement, whether there's fraud happening and they go back to the companies that are posting these advertisements, whether it's CPG, retail or any other company, again, that's a platform which all of these advertisers would be able to use to make sure that their ad strategies are efficient and there's integrity in it. That's how I'll take a couple of examples to give you, what kind of platforms we work with.

NGN Puranik: Sir the interesting thing is that what you can pick up from this experience is to design and architect the platform of your own for different industry.

Ashok Soota: That's a different issue. That's a completely different business. Puranik let me just address this. You're asking our numbers, can it generate revenue of $100 million, $500 million, etcetera. Actually, Joseph answered that. Our customer may generate $100 million, $500 million, even become a $1 billion entity. Let's assume, in our case, the platform we develop for the customer leads to revenues which ranges from $1 million to $8 million or $10 million or whatever, but let's assume the average is $5 million, it lasts us for 10 years. Then from that single platform we are generating $50 million of revenue as we keep enhancing it.

The customer may go and generate $100 million, $200 million, $500 million. That's where this is. But can we create a platform which we can sell, you're virtually saying as a platform-as-a-service. That's a different business altogether. And you must appreciate that when you do this, these platforms in today's day and age, is the customers' crown jewel. They are not wanting you to go and sit around. You can make a platform-as-a-service. It could be a new business altogether. But then we would be doing this not with a given customer, but we will be doing it with a view to saying, hey, are we entering that business? And that's a different issue altogether.

NGN Puranik: So, you don't have any plan to develop your own platform…

Ashok Soota: They're all our own platforms. The way I see it, in every business we are doing nowadays is a platform.

NGN Puranik: My question is a little different because you have your own platform with customers where the services can be sold to many customers, it's replicable in terms of application.

Ashok Soota: Yes, then it would be a different business altogether. We really have to examine that…

Rajiv Shah: One more thing Ashok if I can add.

Ashok Soota: Yes, please.

Rajiv Shah: So, we do have what we call the solution accelerators for IP, where there are several platforms we work on the digital content management for various large research company, which is replicable across other research. So, there are sets of solution activities as well as IPs or smaller sets of platforms that we have, which are replicable across customer organization. And as you look at from our numbers itself, about 10% of our revenue comes from those solution accelerators for IT business.

NGN Puranik: Excellent. And do you license it out or how do you use it as a productivity tool or directly you're licensing?

Rajiv Shah: We provide it as a service.

NGN Puranik: Provide it as a service. How do you bill them? What's the way to monetize that?

Rajiv Shah: Yes so, the example I gave you for digital content management entities based on the number of reports we generate.

NGN Puranik: I see. So interesting. So, you're in a platform path already?

Ashok Soota: Yes. That is true.

NGN Puranik: Multiple executive creators can create a platform, large platform.

Ashok Soota: Correct.

NGN Puranik: So, you have a separate platform team or a team for a particular vertical who generates all this?

Ashok Soota: Again, Joseph, Venkat, Rajiv, if you want to speak, either of you.

Joseph Anantharaju: So as part of the overall organizational structure, we do have a small R&D team that will continue to explore what we can develop as our own position accelerators. This team will constantly keep looking at and identify white spaces as Rajiv has explained, and we keep looking each year what more new solution accelerators we can build and how do we enhance just like a product roadmap. Each of them will have their own roadmap.

NGN Puranik: And this can be eventually a be platform as a service as you develop your own?

Joseph Anantharaju: Yes, that's true. Like it is strongly tied with our annual strategies and each year, we'll be looking at them. And sometimes the collaboratively can work together. And as Rajiv shared, we can actually take it as a 60% prefabricated and with the remaining components and features as client requires.

NGN Puranik: One question I've been wanting to ask you Ashok is about why you aren't present in BFSI?

Ashok Soota: If you heard me out here, I have said that we've been able to sustain our growth through very strong presence in a few verticals. And I added that there are a couple which we are now going to focus on a lot more, one of them is BFSI and the other one is Healthcare. And in both, we've added very strong domain presence, and we believe that this will now become the focal point to take us forward it through.

NGN Puranik: Because it's a very large vertical…

Ashok Soota: I know. That is true. Yes, very true. They are both two large verticals. Healthcare is growing at a rapid rate. BFSI has been very, very large and obviously the largest. At the same time, the newer opportunities require a very specific strategy because we are not in the game of we have 500 people working for X bank, and 1,000 people working for another. That's a different business altogether.

NGN Puranik: But why you are late in the BFSI vertical?

Ashok Soota: Firstly, we are not interested in the market. Let's be clear. That is not our digital strategy. There top business is very difficult to penetrate when we came in. Now we've built capabilities where we can take these to the market through the fintech offerings that we are developing.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Manik Taneja for his closing comments.

Manik Taneja: Thank you operator. On behalf of the entire team at Axis Capital Limited, we would like to thank the management of Happiest Minds Technologies for giving us the opportunity to host this call. I'm going to pass over the call to Sunil for any closing comments. Over to you, Sunil.

Sunil Gujjar: Thank you all for joining us today. We thank Axis Capital for hosting the call. We look forward to interacting with you. You can reach out to us on ir@happiestminds.com. Have a good evening. Bye-bye.

Manik Taneja: Thank you everyone.

Ashok Soota: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Axis Capital Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

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