happiest minds
The Mindful IT Company
Born **Digital** . Born **Agile**

Happiest Minds Technologies Limited
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May 10, 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: HAPPSTMNDS

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on May 07, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Para A of Part A of Schedule III, please find enclosed the transcript of the Earnings Call held on May 07, 2024, post announcement of financial results of the Company for the quarter and financial year ended as on March 31, 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
Digitally signed by Praveen Kumar Darshankar
Date: 2024.05.10 19:12:03 +05'30'

Happiest Minds Technologies Limited

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

"Happiest Minds Technologies Limited
Q4 FY '24 Earnings Conference Call"
May 07, 2024

MANAGEMENT:	Mr. Ashok Soota – Executive Chairman
	Mr. Joseph Anantharaju – Executive Vice Chairman and Chief Executive Officer – Product and Digital Engineering Services
	Mr. Venkatraman Narayanan – Managing Director and Chief Financial Officer
	Mr. Rajiv Shah – President and Executive Board Member
	Mr. Ram Mohan – President and Chief Executive Officer – Infrastructure Management and Security Services
	Mr. Aurobinda Nanda – President & Chief Operating Officer, Product & Digital Engineering Services
	Mr. Sridhar Mantha – President and Chief Executive Officer, Generative AI Business Services
	Mr. Sunil Gujjar – Head of Investor Relations
MODERATOR:	Mr. Apurva Prasad – HDFC Securities

Moderator: Ladies and gentlemen, good day, and welcome to the Happiest Minds Q4 FY '24 Earnings Conference Call hosted by HDFC Securities. 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. Apurva Prasad from HDFC Securities. Thank you, and over to you, sir.

Apurva Prasad: Thank you, Riya. Good morning, ladies and gentlemen. Thank you for joining us today on the Q4 FY '24 Earnings Call of Happiest Minds Technologies. On behalf of HDFC Securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this call.

With that introduction, I'll hand it over to Sunil for the safe harbor statements and to take the proceedings call. Thank you and over to you, Sunil.

Sunil Gujjar: Thank you, Apurva. Good morning to all participants in the call. Welcome to this conference call to discuss financial results for the fourth quarter and year ended March 31, 2024. I'm Sunil, Head of Investor Relations. We hope you had an opportunity to review the earnings release 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 our financial performance and operational highlights. After which, we will have the floor open for Q&A.

Before I hand over, let me make 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 segments periodically.

Now let me pass it on to Ashok.

Ashok Soota: Thank you. In FY '24, company achieved industry-leading revenue growth of 11% in constant currency. We beat our EBITDA guidance for 16 quarters in a row, with an EBITDA margin of 24.6%. Not only has the year been excellent in terms of performance, but we, at Happiest Minds, are excited about the future due to the transformational changes we introduced in FY '24 and the acquisitions we have closed in the early days of FY '25.

FY '25 is going to be our best ever year since our IPO. These changes have enabled us to project with confidence that in this year, we will be back on track to achieve our vision of US $1 billion revenue by 2031. We required 25.3% CAGR that is compounded average growth rate when we announced as goal on September 2021. We envision that we now need only 22% CAGR by the end of FY 2025 to achieve US $1 billion in revenue by 2031.

The transformational changes I referred to above include several which will accelerate the future growth or Happiest Minds.

We established a business unit focused on Generative AI which was called GBS, an abbreviation. And I must mention that we are the only company which has created a dedicated business unit for this and the reason is it's the most transformational change we've seen in the last 40 years in the IT industry, and we want to capitalize on that opportunity.

- We created a new vertical organization structure comprising of six new industry groups.
- We then took the rest of our business, which was functioning as two separate business units, PES and DBS and integrated them into a single business unit, Product and Digital Engineering Services.
- We have also acquired two strategic assets, PureSoftware and Macmillan Learning.

The Gen AI business unit, GBS, under the leadership of Sridhar Mantha, President and CEO of the unit, is generating many new business opportunities. We already have 14 active customers across various industries covering 20 projects.

The opportunities include contextual chatbots, learning simulators, contract management sentiment analysis and content generation. Building on the learnings from such engagements, we are creating replicable solutions across industrial technology streams. So therefore, in all of these areas I just mentioned, we can replicate the same solution for multiple customers.

Our growth in the plan includes training all our engineers in GenAI. The GBS business unit is already 70 people strong and expect it to grow to 250 by the end of this fiscal. I mentioned the six new industry groups. This is really structured under six leaders. These include Industrial, Manufacturing and Energy & Utilities , Healthcare and Life Sciences, Retail, CPG and Logistics, and then we have BFSI, which the industry is aware what it stands for; Hi-Tech and Media and Entertainment under another and then we have EdTech.

So each of these clusters will operate as independent profit centres led by experienced industry managers and have dedicated teams with deep domain expertise, aligned for customized solutions and faster response times. So you can see that this is six new growth engines that we've created.

The Executive Board has facilitated the realization of two significant acquisitions, each strategically aligned to enhance organizational profitability and productivity. It has taken us some time for us to complete these acquisitions as we have been very selective with our choices. The wait has been worthwhile as we have acquired complementary and very valuable assets.

These new acquisitions have cumulatively added 1,250 Happiest Minds to our team and have further strengthened our key IGs of BFSI, Healthcare and EdTech. I'm coming now to the unique capability that we have built in Happiest Minds.

We've built the capability in bioinformatics which no one in the industry has. This comprises experts in molecular biology, data scientists, data engineers and health care domain specialists.

The team is working closely with the medical research community from prestigious medical institutions in India and abroad.

The team is also working on finding solutions using metagenomics on gut microbiome, anomaly detection in MRI and CAT scan images and conducting large cohort research studies to identify early predictions in stroke, cardiovascular diseases, etc.

Joseph Anantharaju, the Executive Vice Chairman, who's been responsible for the consistent success of the PES Business Unit since inception has taken responsibility for the integrated PDES business units which will continue to focus on investing in cutting-edge digital technologies and engineering skills.

And we've made a lot of progress in our ESG efforts, and we have been recognized as the ESG Champions of India 2024 by Dun & Bradstreet. This has been possible due to the leadership of Aurobindo Nanda, our President and COO for PDES and Venkatraman Narayanan, our MD and CFO.

Happiest Minds places sustainability at the forefront of its strategy, striving for accelerated programs in the ESG realms. A significant portion of the CSR budget is dedicated to supporting environmental causes, including tree planting and adopting the goal of becoming carbon neutral by 2030. Rooted in mindfulness, our culture emphasizes being mindful and doing mindful.

Central to our identity are of SMILES values, seamlessly integrated into our day-to-day operations. Embracing the mission “Happiest People, Happiest Customers”. We've prioritized the well-being and professional development of our team members, ensuring they have ample opportunities to enhance their skills and progress within the organization.

I'll touch on an area and that is our recognition under the Great Places to Work Institute, for being a whole range of awards that we've got over the years, they are amazing when you consider both the range and the continuity of these awards, be it the best places to work, overall, the best places for women, the best places for health and wellness. Joseph will give you more details about these and the other awards that we have won.

I extend my sincere appreciation to our customers for their continued trust and confidence in Happiest Minds and to our delivery teams which have consistently delivered customer happiness. I want to thank all the support teams, which will make the results possible. I am thankful to our Board of Directors, shareholders, and all stakeholders for their supportive guidance in creating an organization designed for perpetuity as inclined articulated in our vision 2031. Let me conclude by wishing you all good health success and happiness. Over to you, Venkat.

Venkatraman Narayanan: Good morning to all of you. Let me begin my commentary by giving you an update on the fiscal and then talk about the quarterly numbers. We ended the year with a total income of ₹1,710 crores showing a growth of almost 18%. Operating revenues in U.S. dollars was 196 million showing a growth of 11% in constant currency and very close to our guidance of 12%.

Our EBITDA at ₹421 crores grew by about 11% and stands at 24.6% beating the upper band of our margin guidance range of 22% to 24%. We have now beaten our guidance range on this front for the 16th straight quarter. We were able to sustain our margins despite pressure on account of increases, strong net additions, campus hires and continued payout of our committed variable pay.

Profit before tax PBT was ₹335 crores and at 19.6% of revenues and showed a growth of 8%, while profit after tax PAT was ₹248 crores 14.5% of our revenues and showed a growth of 7.5%. While we are all along been reporting and guiding on EBITDA, we would like to start reporting our operating margins as well as we go forward. As I believe that will be relevant in an environment of rapid growth and investment both organically and inorganically.

Our cash conversions remain strong with a pre cash flow of about ₹411 crores for the year which is about 97.5% of our EBITDA. At the year-end we held cash balances of about ₹1,364 crores including the ₹500 crores raise through our QIP and the ₹125 crores that we have raised through an issue of non-convertible debentures. We are now deploying part of these reserves into acquisitions. Two of which have been announced during the past few weeks.

Our return on capital employed, ROCE stands at a healthy 22.3% while return on equity is at about 17%. As I have mentioned during our prior interactions our return on equity has dropped mainly due to the capital raise and we should now start improving on that front as we integrate the acquired entities which are synergistic, profitable and cash generating.

Now coming to the highlights for the quarter. We have reported revenues for the quarter of US $50 million a sequential growth in constant currency of about 1.4% and year-over-year growth of 9.5%. Total income was ₹443 crores a sequential growth of 1.9% and 14.5% over the previous year.

EBITDA quarter was ₹108 crores which stood at 24.5% of revenues and showed a growth of 7.6% over the previous year. PBT was ₹96.2 crores, which is 21.7% of revenues and showed a growth of 21.8% over the previous year. So, as you can see all the metrics whether it be for the year or for the quarter, have been growth focused and growth oriented.

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Let me now switch gears to provide you some operational highlights. We ended the year with 250 customers, a net addition of 13 during the year. We crossed a significant Smilestone of 5,000 Happiest Minds our people.

At the end of the quarter, we stood on an organic basis at 5,168 people and showed net additions of 251 Happiest Minds during the year. Our utilization for the quarter was 75.1% compared to the 76.7% in Q3. The drop was mainly due to investments in hiring for the GBS business unit and recent campus sites who are going through the training program.

Adjusted for these, our utilization should have been closer to 76%. This is a definite lever that we have for improvement as we look into the next year. Attrition on a 12-month basis dropped to 13% from 19.80% in the previous year, and we expect these numbers to continue trending at these levels.

Happy to state that keeping in line with our progressive dividend policy and capital allocation discussions, our Board of Directors of the company at the meeting held on May 6, have recommended a final dividend of ₹3.25 per share, subject to shareholder approval. This would take our total dividend for the year to ₹5.75.

Now looking ahead, we'll continue to fuel and focus our organic growth through investments in people, capabilities and essentially the Generative AI business service. We will put into actions all efforts to pulling business and deliver value to our customers by integrating our business first through vertical approach.

Our COEs of automation, analytics, security today stands on their own merit and are significant in terms of size and capabilities, and we will continue to invest in that. Growth through inorganic means has been our stated objective and forms an integral part of our vision to be in US $1 billion enterprise by 2031.

We are on track to achieving that goal by us starting to grow at a CAGR of approximately 22%. We have recently announced two acquisitions, Macmillan Learning and PureSoftware. We have closed the first one while hoping to close the second during the current month. Plans are already effort to integrate our businesses to harness the value coming from the synergies.

I'm almost at the end of my commentary, and before I hand over to Joseph, I'm sure the one question that is looming large in all your minds will be our thoughts on growth and profitability for the next year of FY '25. While not giving out the guidance, we are estimating a growth of between 35% to 40% in terms of revenues for FY '25 with a margin range of 22% to 24%.

These are estimates that consider significant investments and acquisitions and the resultant drop in cash reserves and other income investments in GBS and time taken to pulling synergies coming out of the acquisition. Before I hand over to Joseph, just restating the obvious, the acquisitions that we have made are of profitable companies and have grown EPS and capability accretive. Thank you. Over to you, Joseph.

Joseph Anantharaju: Thanks Venkat and good morning to all of you. The result for the year reflects the 360-degree value we create for our customers and the ability to do that with rigor and discipline. I'm very happy to share that in the reported quarter, we crossed a significant milestone of US $50 million in quarterly revenues and US $200 million on an annualized basis. This has been possible due to our focused efforts on account planning, ability to win new logos of consequence while investing significantly in our business to realize new channels of growth for Happiest Minds.

The sustained growth comes against the backdrop of an uncertain macro due to economic, geopolitical, and industry-specific conditions. At the same time, tailwinds such as universal recognition of the importance of AI and GenAI. Our razor-sharp focus on land and expand coupled with quality execution has led us to penetrate deep into our customer strategic spend as can be seen from the increase in our customer cohorts. The number of US $10 million customers has increased by a total of 2, and the US $1 million to US $3 million cohort has increased by good 5 to a total of 37. And again, the number of US $1 billion customer increased by 9 during the year.

This year's annual customer happiness survey showed an increase over last year's impressive Net Promoter Score of 60 to reach our highest-ever score of 65 and an overall satisfaction level of 7.97 on a scale of 9. Results of this survey reflects our efficient and quality delivery, engineering excellence and product account management practices. As a technology-driven organization, we are constantly learning and growing to stay ahead of the ever-evolving digital world. During the year, our learning platform enabled 4,900 Happiest Minds to complete over 1,44,000 hours of training, averaging around 33 hours per Happiest Minds.

Our concerted and sustained people engagement programs have led us to consistently be recognized by various forums and multiple categories such as:

- Top 50 India as best workplace in IT and IT-BPM in 2023.
- Top 50 India's best workplaces for Building a Culture of Innovation in 2023,
- Top 50, India's best workplace for women 2023 -3 years in a row.
- Top 50 India's best workplaces in health and wellness for 2023 - 2 years in a row.

Some other notable awards that serve as a testament to our inclusive culture and proactive initiatives include

- 100 best companies for women in India by Avtar and Seramount
- Ranked #2 in top 30 future at workplaces 2024 by Fortune India.

Let me now share my perspectives on the demand drivers. All strategies continue to lead to technology and reinvention with customers remaining committed to their digital transformation journey, be it modernizing the core, reimagining user experience, using data and analytics for better decision making or securing technology investment to a robust security layer.

Enterprises are increasingly looking to deploy AI scale and leverage generative AI to solve business problems, automate processes and improve productivity while launching new products and solutions. Customers look up to Happiest Minds to guide them in this journey from ideation to execution.

Let me give a few examples here. For ENERCON which is championing sustainable energy generation from onshore wind since 1984, Happiest Minds was chosen as a strategic partner to build a platform, which optimizes wind energy generation. This also enables us to impact environmental and sustainable causes.

Recently, MindSculpt Analytics a health care solutions company that uses advanced artificial intelligence and machine learning techniques to deliver tailored medical diagnostic solution has chosen us to build their preventive and diagnostics platform with the end goal of providing accurate and early detection and prevention of many ailments.

We strengthened our relationship with a global Hyperscaler by expanding our presence into a second business division to design and configure an end-to-end secure and scalable connected vehicle platform on their cloud platform. We have been rapidly building our GenAI capability and business with much success. The Southeast Asian bottling operations of one of the largest soft drink companies, Happiest Minds is engaged in building Gen AI solutions that allow employees to convert in both local language and English against enterprise knowledge bases.

Happiest Minds is the largest global Pimcore partner with more than 350 dedicated practitioners and brings 10 years of successful implementations to global and mid-sized enterprises. During the reported quarter, a global movie chain chose us to provide digital transformation services relating in the Pimcore platform.

Coming to the other significant development on M&A that Ashok mentioned, we're pleased to announce signing of a definitive agreement to acquire 100% equity interest in PureSoftware Technologies and Macmillan Learning India. PureSoftware acquisition strengthens our capability in BFSI, health care, and life sciences and will allow us to target more new logos in these verticals while expanding with existing customers.

We are excited by the potential to cross-sell analytics, GenAI, automation, infrastructure management and cybersecurity services to PureSoftware their customers and drive accelerated growth for Happiest Minds. In addition to augmenting our presence in U.S.A. and India, Happiest Minds will get an offshore development centre in Mexico and offices in Singapore, Malaysia, and Africa. Macmillan Learning India Private Limited, a wholly owned subsidiary of The Macmillan Group, has been operating as an offshore development centre providing software services to the Macmillan Group.

This acquisition strengthens Happiest Minds at the virtual and deepens the existing relationship with the company, making us a strategic partner for the Macmillan Group, a global leader in learning, education, and publishing. As we cast our gaze forward, while the demand environment continues to be affected by macro and geopolitical situations, our pipeline continues to be strong, though with elongated deal cycles. In growth markets like India, where we have a sizable presence, the pipeline of opportunities is at a record high.

The recent result, as mentioned by Ashok, has helped us to fine-tune our market approach and engage in deeper discussions with customers on their business problems and plans on new technologies like GenAI automation, AI, etc. The newly formed industry groups are working closely with the GBS BU and our COEs to incubate solutions that are targeted for a particular domain or customer problem. To summarize and conclude, we will continue to fuel our long-term growth aspirations through continued investments to enhance our technical capabilities and venture into new markets through acquisitions. With this, I conclude my commentary, and we can now open the floor for Q&A.

Moderator: Thank you very much. The first question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: So, my question is on the demand environment and really the growth visibility on the organic business, especially in the context of high variability last year in the organic growth. So could you expand on that gap between the lower end and the top end that you're looking at for next year when then you said 35% to 40% especially on the organic side?

Ashok Soota: Venkat, go ahead. The estimates that Venkat has given I think the important thing is given the fact that we've done these acquisitions, and you can't be quite sure whether everything will work out as planned. Given in the past, we never really segregated our guidance. We really do want to see the organic momentum, given the fact that many of the leading players have obviously shown much lower growth rates than they have done in the past. So, it's good to know where we see the market heading for our environment and Venkat will add on that.

Venkatraman Narayanan: A quick back-of-the-envelope calculation will suggest that there is a very good element of organic growth taken into those numbers because we know what's the top line of PureSoftware. Macmillan is a roll-up. It's nicely integrated. It's gone into our Edtech business.

I would say that that's an organic growth basically because we were working with them and then we were able to expand our footprint into Macmillan through this acquisition. This only opens new door for us within that account, and we're just keeping in line with our land and expand strategy. There is a good element of organic growth baked into the 35%, 40%.

I mentioned estimate rather than guidance is because closing of a recently large size acquisition like PureSoftware will take some time while we have guided for closing by the month end. We are hoping that we are able to do it earlier. It could also slip by 15 days of 20 days and that will have a reasonably significant impact on the revenues, which is why we have used the word estimates, both for margins and for the bottom line.

Apurva Prasad: Just to understand on the variability at the lower end than the bottom end, and I'm assuming that would be driven by the outlook on the organic business. Is there a certain set of assumptions which keeps the organic business estimates as wide as that?

Venkatraman Narayanan: If you get into saying that the entire variability is attributed to organic, that's when you come to that conclusion that we are hoping that organic growth is being wide. PureSoftware has also taken certain ambitious targets. We have also taken upon both targets and the existing base is baked into this number of the estimate that we are giving for the next year, which is why I'm trying to keep a larger range.

Joseph Anantharaju: Just to add, there's also a bit of cross selling that has been incorporated out here. It will depend on how quickly we close and come together to reach out to each of those customers. So that also adds a little bit of variability out here to the 35% to 40% range. So, it's not all attributable to organic.

Ashok Soota: Actually, our organic outlook has never been stronger. We've created six new growth engines in the industry groups, we've created GBS business unit apart from the acquisitions, which will create this cross-selling opportunities. The bioinformatics capabilities that we're building will reflect in the growth of our healthcare vertical practice.

Most of those orders that we are talking about in that field came in last year, but which will expand in the coming year, and that's all-organic growth. It's a unique growth opportunity. So, I don't see anybody having the sort of momentum on organic growth that we have in the industry today. Even with whatever have happened last year, it was still an industry-leading growth, and I think we'll do significantly better than that in the next year.

Moderator: Next question is from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta: Q4 FY'24 and FY'24 growth played out weaker than what we expected. We guided for 12%but we came at 11% because of softness in Q4 and some softness we witnessed even in last couple of quarters. Are we seeing any factors changing from organic business perspective for us and the industry which gives incrementally more confidence about organic growth trajectory improving apart from some of the factors you had highlighted?

Joseph Anantharaju: If you just look at the overall market, there are few bright spots that give us quite a bit of confidence. The opportunities and the pipeline and business from the India market. Our revenue share from India market is among the highest in comparison to the other Indian IT service companies.

Right from inception, we always felt that it's a geo that we should be focusing on, and it has really borne out well, the percentage of revenue has been consistently increasing quarter-on-quarter with good margins and we continue to see opportunities. So that's one area we would be able to get business and growth.

The second one is from a sectoral segment perspective. If you see on a quarter-on-quarter basis and at the absolute level, the share of revenues in healthcare has been growing. There's a lot of demand and work going on, on the digital side of pharma, MedTech industry. You have some new technologies and convergence of hardware and software, which creates a lot of opportunities out there. We think that healthcare will be an area that will continue doing well for us.

In the retail CPG segment, there's a lot of investments going on in automation, in leveraging the AI and reaching out to customers and build networks. That's all part of the digital journey that we are helping customers out with. The third point was on Gen AI. There are multiple conversations going on right now with both existing customers as well as with a lot of new logos that we've reported, we've opened them this quarter with our Gen AI offering. We have a full team that we have in place with some of our best leaders.

We have the whole team in place. And we're seeing a lot of traction out here. And as the year progresses, we expect some of these conversations to move into POCs and then quickly into implementation and large projects. So that gives us the confidence that the year would be good.

And the last point is that our pipeline is almost at a record high, and we expect this to translate as it moves through the funnel into more new orders, whether it's with existing customers or new logos. The industry groups have become the central point of all the interactions and value adds that we're doing to customers both in terms of reach-outs and once we sign logos, to see how we expand our presence and that should continue leading to increased opportunities and business.

Ashok Soota: You did ask in your question on how we serve the industry outlook versus us, we can't really comment on it. You've seen all the guidance which has come from many of the players that have already announced, and you can see a mix. You can see the larger players giving very muted guidance and we don't need to have to talk about them because you go by what you've read.

There is a more positive outlook through the smaller of the larger players. We are really unique out here because of all those changes that we've done in the last year, six new growth engines in terms of industry groups. You can see this in Gen AI. If we're saying we've already got 14 active customers that have just started. So, they are the ones which are going to grow.

The bioinformatics customers are just about started. They are the ones which are going to grow. So, we were in a somewhat unique position in terms of having unique drivers for growth, which is why we are very confident of our organic growth numbers.

Moderator: Next question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: My question is on PureSoftware, from a capability standpoint, which are the areas that are complementary? What are the kind of revenue and cost synergies that are being looked at?

Joseph Anantharaju: The two domains or industry groups in which PureSoftware has deep capabilities are on the BFSI side and on the Healthcare and Life science and on the BFSI side, which is majority of their revenues, they have some large banking and financial services customers and built capabilities in this area that we would be able to take to some of our customers.

But more interestingly, we see a lot of scope to cross-sell some of the COEs and service offerings that we have around AI, around Gen AI, infrastructure, cybersecurity where they have little to no business. We have quite a few capabilities in the platform and digital engineering side. Things like our Pimcore offerings and capabilities is something that we could cross-sell. So we see quite a lot of cross-selling opportunities that should lead to additional business with PureSoftware.

On the margins, we will look at areas and ways of doing cost optimization. the reason why we've given a range in terms of the margin guidance is because we will start the integration of the two companies.

Apurva Prasad: On the Edtech vertical, what is leading to this continuous decline in last two quarters? It seems that the impact is beyond the large clients. So, what is happening there? Any outlook if you could provide on that?

Joseph Anantharaju: If you look at on a year-on-year basis, both at a percentage of revenue and absolute level, there's been pretty good growth. This is a space that's going through a little bit of challenging time. And here, again, I'd like to break it up into three sub-segments. We have the Higher Ed, the K-12 and the Workforce Development and Professional Development.

And you can even probably break it up into pre-kindergarten and other things, but these are three substantial sub-segments in this vertical. A lot of our revenue was coming from higher Ed and that's an area that is going, especially in the U.S. and I would say even in many of the developed countries, is going through, a slightly challenging time because of factors like decrease in fertility rate, the number of high school students graduating, cost of education, etc. So having seen this, we've been impacted by a couple of our customers. who've either done some strategic restructuring, selling of their businesses, which has led to reduction in business or budget cuts.

We're looking at diversifying within the space, and we are looking at K-12, where one of our larger customers now is in this space, and we're looking at additional customers that we could acquire. We're also looking at professional development and workforce development subsegments. We have a few customers out here and developing offerings and market reach outs in these areas. So that's what I think we would be able to diversify our risk.

Couple of the engagements that we had where we're developing platforms for customers more on a programmatic basis and in a fixed-price mode. They sort of started ramping down in Q3 and Q4, and some of that also has reflected in the numbers in Q3 and Q4. But on a year-on-year basis, there was a good growth in this vertical. It is having a little bit of a challenging time, and we are looking at how to mitigate the risk and diversify.

Apurva Prasad: On the recent revamp the org structure, any early success that you could talk about? What are the markers that we can track to assess how that's progressing, beyond revenue per client metric?

Jospeh Anantharaju: One part is the industry groups taking ownership for both new logo acquisition and expansion of customers, and we are seeing that happening. A lot of the business development activities are getting funnelled through the industry groups.

We have built capabilities in the bioinformatics space. In the CPG space, we are seeing good traction. We have closed some of the largest, or the leading CPG players. All of this is happening because of the ability of our industry groups to bring the various capabilities that we have together and present united front to the customer, putting on a layer of domain understanding or consulting.

The second part of it is the movement of large customers because of the ownership on account expansion, account development plans, which the industry group should be taking on. We are seeing, an increase in the cohorts of large customers.

The third is part of the restructuring was the creation of Generative AI business unit. We're seeing a lot of success and early traction out here, both in terms of prospect discussions and customer wins and these customer wins that we have will automatically transition into larger engagements while the prospect discussions, they would close into POCs and act as a pipeline for larger opportunities, which is what gives us the confidence about our organic growth.

Apurva Prasad: Venkat, you gave full year margin outlook but have to look at margins over the next 2 quarters, if you could just help us with the puts and takes and also the impact on the depreciation and amortization line item.

Venkatraman Narayanan: EBITDA has other income, but there will be a reasonable amount of cash that will go out to fund the acquisition, bringing the EBITDA down. But at the same time, if you take operating margins, both our operating margin and the company that we are acquiring are at similar operating margin levels. We'll start calling out operating margin as well as EBITDA, which will continue to be an area of focus for us.

And as we go down to the PPP, that would be based on the allocation that we do to goodwill or the intangibles and the amortization that comes into our financials, it will affect our PPP by that number while also getting certain tax advantages for that, for the borrowing.

Quite a few puts and takes here on the profitability front, which is why I've given wider margin, wider margin is not to accommodate for a company which is lower than us in margins, they are reasonably close to us. There will be cost synergies as we go along. But all that takes 1 or 2 quarters to come through into the financials. So, which is why we're coming out of bidding a larger gain this time. In fact, I would have said margins of 20% to 22% and then go back much better than that.

Moderator: Thank you. Next question is from the line of Sumit Jain from CLSA.

Sumit Jain: Ashok, you mentioned that you have created a separate business unit for GenAI. So will those revenues start reflecting in your analytics AI service line or the digital infrastructure cloud service line the way you report?

Ashok Soota: We've got a new GBS, and this one is actually got end use cases, and we've given examples of these across wherever you see, if you look at, cloud is a pipeline and you put everything today on the cloud because all solutions are being delivered in that fashion. Everything we're doing is digital.

What is important is that all of these are really new and use cases and because it's new, virtually everybody needs them. So if you find 1 use case in 1 company, you could say, I can do this in the next company also, which we've seen in 1 use case, which just came up recently. Overnight, we had 4 prospects because 3 or 4 different other players suddenly said, "why can't we also use that" and that is why it becomes so interesting as a completely new market being opened out, thanks to GBS. I don't know whether that answers your question.

Sumit Jain: My reason for asking this question was twofold. One is it will help us to understand how the GenAI is scaling up in the market because you are probably the only one who has at unit? And secondly, I mean we can see Hyperscalers growth reviving back in the last 2 quarters where almost all 3 Hyperscalers are seen a revival in growth from a Y-o-Y perspective. But I cannot see that reflecting in your digital infrastructure cloud service line, particularly...

Venkatraman Narayanan: We have been reporting revenues and margins by three business units. That's the aggregation that we've been following, PES, DBS and IMSS. Starting this year, we are consolidating PES, DBS into one. That's called PDES and we'll have IMSS and GBS. It's just not that it will all get buried in the overall numbers. GBS will be called out as a separate revenue line item in our segmental reporting, and it will be shown as a segment.

The second question that you're asking is when it comes to technology, where would that go? it will go into cloud, it could go into platform development or going to other parts of the technology slice. But from our segment of reporting, it's a new segment.

We are sticking our neck out by saying that we are calling it out a segment because it will be sunshine, you will get to see the number in the next quarters as we progress. It's not going to get buried inside the technology and get very unique in the numbers.

Sumit Jain: In terms of the markers for how the GenAI practice is scaling up for you in which digital offering service line or by business unit, we will actually be able to see that ramp-up?

Venkatraman Narayanan: So, it is a segment. When you see the segment reporting, we had 3 business units, we will continue to have 3 business units. GBS would be one of them, and we will report the numbers at that level. So, we are sticking our neck out. We are not burying those numbers into the technology and the overall New Gen landscape and all those things that people talk about. But when it comes into a technology slice of what is GBS and what are the constituents they will go to the technology slices that we have been traditionally talking about

Sridhar Mantha: I think already Venkat has given the clarification, when we reported, of course, as a business unit that be a stand-alone number. The use cases that we are doing for all into multiple verticals that there are industry groups, for example, they're doing generative AI use cases for health care, that revenue will be reported within the verticals of the IGs that we'll be reporting. However, when it comes to the horizontal technology,

Like for example, if you are developing a customer solution for health care using ChatGPT within Microsoft Azure, now this solution is going to live in Microsoft Azure, hence it is a cloud and this solution leverages heavily the multiple AI technology. So, from that point of view, we'll make sure that like it is going to be reported at proper horizontal technologies where the Generative AI itself inherently leverages cloud and inherently leverages AI, and that's how the genesis of the overall states happen.

There will be a clear understanding about where it stands out and how it is contributing towards various industry groups and what horizontal technologies that are going to actually create a leverage to create the solution.

Sumit Jain: So, you are hinting that the GenAI revenues will reflect under multiple horizontal line, not in just one single service line.

Ashok Soota: We don't have to slice and dice that BU in horizontal and vertical. We will give the grand total of horizontal and industry numbers. We're not going to say how much has come through GBS out of those numbers because its excessively dicing for the market.

What you're saying will measure it, in cost of time, we may even find it worthwhile to announce it, but it will be the wrong thing for us to start announcing that in the very beginning because what we have on 1 order and 1 month will get completed and they'll say, this one has gone down. Naturally it will go down because we don't have critical mass at that stage. So, the degree on reporting, I think we will highlight which of the areas in which we may have got some new use cases. But we're not going to slice and dice it to that extent.

We're giving new business credit results, and we're giving you horizontal and vertical results. Within that, of course, there's colour, which you can always ask for and get clarifications, but it's not going to be published.

Sumit Jain: So maybe you can highlight the pipeline or the order book, the way your bigger peers are highlighting off late?

Ashok Soota: We'll look at it and see how we want to change our approach towards some of this reporting in terms of pipeline and, then you see it getting reflected. At this moment it is difficult to commit as there are so many transitions. There are new acquisitions, new business units, new verticals. So, we'll have to get down to it progressively.

Moderator: Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to management for closing comments. Over to you, sir.

Sunil Gujjar: Thank you all for joining us today. We thank HDFC Institutional Securities for hosting this call on our behalf. We look forward to interacting with you. You can reach out to us on IR@happiestminds.com. Thank you.

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

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