Saksoft Limited
Q4 FY23 Earnings Conference Call
May 26, 2023

Moderator: Ladies and Gentlemen, Good day and welcome to the Saksoft Limited Q4 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to.

Anuj Sonpal: Good afternoon, everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor relations of Saksoft Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the fourth quarter and financial year ending 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's concall maybe forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

To take us through the results today and to answer your questions we have with us the top management of the company represented by Aditya Krishna – Chairman and Managing Director and Mr. Niraj Ganeriwal – Chief Operating Officer and Group Chief Finance Officer. Mr. Aditya will start the call with a brief overview of the quarter and financial year ending 2023 which will be then followed by financials given by Mr. Niraj, I now hand over the call to Mr. Krishna. Thank you and over to you, Sir.

Aditya Krishna: Thank you, Anuj. Hello and good afternoon, everyone. Welcome and thank you for joining our Q4 FY23 earnings call today. I know most of you are regular listeners of our earnings call. But I would like to take this opportunity to introduce Saksoft to some of our new investors and analysts who may have logged on to this call for the first time. Saksoft is a digital transformation partner that assists its customers to automate, modernize and manage IT systems through a combination of domain specific technology solutions and solution accelerators from consulting to support. We have been in business for almost 2 decades with offices across 16 locations covering USA, Asia Pacific, UK and Europe. We have an associate strength of 2000 Plus associates. The key verticals that we operate in are FinTech, telecom and utilities, transportation and logistics, public sector, retail and health tech. The interconnected nature of the verticals mentioned suggests a huge market which also facilitates us to cross sell and up sell service offerings to our clients. These verticals are supported by horizontal service offerings spanning analytics, cloud solutions, legacy modernizations, intelligent automation, application development and testing. As a company, we offer a bouquet of digital transformation services.

During the year we have successfully acquired a Chennai based entity Terafast with expertise in cloud engineering, networking solutions and DevOps automation. The services rendered by Terafast strengthen Saksoft's focus on digital transformation.

In terms of performance and delighted to share with you that we have clocked an annual revenue of INR 666 crores representing a growth of 39% on a year-on-year basis.

During the quarter, our revenues grew by 31% on a year-on-year basis and operating EBITDA grew by 46% year-on-year. The growth in FY23 is a testament to our inch-wide mile deep strategy. The growth in revenue from offshore business has helped in improving our margins. The contribution from top 20 accounts and USD 0.5 million plus accounts is growing. During the full year, the company was able to migrate 3 customers into the (+1) million revenue category and also added four new customers in the (+0.5) million revenue category. We did a significant increase in headcount of about (+350) resources with no decrease in utilization levels signifying greater demand for our services and hence the increase in revenue by 39%. We will continue to reward our stakeholders with healthy dividends. Our dividend track record over the last five years is a testament to our policy of rewarding the shareholders. The Board of Directors declared a final dividend of INR 0.35 for equity share, which is 35% of face value of rupees to be passed each for FY2023. While we are optimistically cautious about the global macroeconomic environment, we will continue to focus on creating market missions for ourselves in an increasingly competitive industry. Our commitment to our customers business will drive our future and keep us aligned and respected in our chosen industry verticals. We are looking forward to journey ahead towards the goal of $500 million in revenues by 2030.

I will now request Niraj to take you through the financial highlights of the quarter and the full year ending 31st March 2023.

Niraj Ganeriwal: Thank you Aditya and thank you everyone for taking the time and joining our Q4 FY2023 Earnings Call today. I will now go over the financial performance for the Quarter 4 and the full financial year FY23.

For the fourth quarter of FY23, revenues were at INR 182 crores as compared to INR 139 crores in Q4 FY22 and INR 172 crores in the previous quarter of FY 23, which registered a growth of 31% year-on-year and 6% quarter-on-quarter. Now looking at the operating EBITDA, the

Quarter 4 FY23 operating EBITDA was at INR 33 crores as compared to INR 22 crores in Quarter 4 FY22, registering a growth of 46% year-on-year and a 19% quarter-on-quarter growth. The operating EBITDA margin for the quarter stood at 18% as compared to 16% in Quarter 4 FY22. For the annual financial year ending 31st March 2023, revenues were at INR 666 crores as compared to INR 480 crores. In the full year 2122. Which represents a growth of 39% year-on-year. The operating EBITDA was at INR 108 crores as compared to INR 79 crores in the full year of 21-22, registering a growth of 37% year-on-year. The operating EBITDA margin stood at 16% for the year. The impact of currency movement on revenue is only 2% for the current year based on the same, the pure volume driven growth and revenue is about 37% as compared to the previous year. Now coming to the revenue split by geography for the current financial year, FY23, the Americas contributed 47% of our revenues, the UK and Europe contributed 25%, while the remaining 28% came from Asia Pacific and other regions. The onsite and offshore mix revenues was on site at 45% and offshore at 55%. As mentioned in our previous calls also we do expect the mix to be inclined towards the offshore on an ongoing basis. The revenue split across verticals for the current financial year, FY23 is as follows.

FinTech, and telecom and utility contributed to about 35% and 22% of our total revenues respectively. While transportation and logistics, retail and health tech and public sector contributed 11%, 5% and 4% respectively.

Coming to some of our customer metrics Saksoft has 14 customers of U.S. dollar million plus revenue and eight customers whose revenue is about USD 0.5 million plus. We have moved three customers in the current year from USD 0.5 million category to a million-dollar category and four customers have been added in the USD 0.5 million category. The total employee count stands at 1967 at the end of financial year 2023, out of which 1788 are technical and the remaining 179 are the support staff. The utilization level of the employees, excluding trainees staff at 85% for FY23. Revenue from the top 20 customers increased by 41% in comparison to the revenue from the same set of 20 customers of the previous year.

Moving to the balance sheet as of 31st March 2023 we are a net debt-free company with zero debt on the books. For the full year FY23, the return on equity stood at 26.6% and the return on capital employed stood at 20.3%. I would also like to add that we have healthy cash and cash equivalents of INR 166 crores at the end of the financial year.

That now concludes the update on the financials and we will now open the discussions for any Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Thank you for the opportunity and congratulation on the good set of numbers. Sir my query on the revenue growth side and the margin like what are our expectations and going forward and how we are seeing overall as an IT industry, your view?

Aditya Krishna: You know, it's difficult to fight the market or forecast the future given that there is some headwinds in the biggest market which is the US. Now one of our focuses or strategy has always been to create niches for ourselves and try and widen the modes around these niches so that as the industry gets more and more competitive, we are protected to some extent and that is why our focus has always been inch wide mile deep. You know, we do a few things, but we do them really well and we focus only on those areas and those missions - now given that approach, we are confident and hopeful that the slowdown which is coming and has already come into the US will impact us to a lesser extent than other companies in this industry. I think that is the best I can do to answer your question.

Jyoti Singh: Okay and sir the going forward which segment we are expecting will perform better?

Aditya Krishna: You know we have had a good year, 2022-2023 has been a good year if we can repeat this performance, it will be superb, but it is difficult to repeat this performance because the numbers get bigger, so the percentages get more harder to achieve at the same level. Our focus is definitely growth. The market rewards growth. Our last twenty quarters we have been growing quarter-on-quarter. So, our focus will continue to be grow. Asyou know, as in a manner that we can succeed. We do not want to take shortcuts because that is not the right way to build a long term business and we have been in business 20 years. So, we know what works, what does not work.

Jyoti Singh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Simar from Neagen Capital Services. Please go ahead.

Simar: Hi, Mr. Krishna, Sir, congratulations for exceeding the guidance for 25% year-on-year growth. So, there are a couple of questions which I wanted to ask you. One are you thinking of implementing price hike and how do you introspect its impact on your clients?

Aditya Krishna: If I understood your question you are saying are you thinking of implementing a price hike, yes it is a constant in this industry statement of works or contracts are normally annual, and when the contracts come up for renewal or discussion, there is always talk around price increase. So, wherever possible we look at price increase but it is more relationship-driven unlike FMCG business, where you can announce a price increase, you really cannot do that in the IT industry. So, it is a little bit interactive wherever possible, we get price increases and some customers struggle to give price increases, especially if they are having a tough time, so if you notice we have built our business around focusing on our customers business. So, sometimes we accept these price increases, sometimes you there is a pushback we will also accept older prices. So, I cannot really answer your question and say that across the board we are implementing price increases- I would say wherever relationships allow us to navigate to a higher price, we do that.

Simar: All right. So, in your previous concall, you had mentioned you had had a loss of 6 customers that would be around 5% on the active customers. So, could you provide any update on the companies retention efforts and any subsequent customer losses that you guys have that has occurred since then?

Aditya Krishna: This quarter because of the slowdown and it is not so much the slowdown, what is also happening in the US market and trade deal of consolidation is happening. So, when customers get acquired or they merge with other entities sometimes we are the extent of our business comes down or we lose a customer that has happened for one customer in the first quarter of this year but that is about it so far that is the only you know adverse impact which we have seen on the number of customers.

Simar: If I can squeeze in one more question. Yeah, thank you. So, what are the segmental margins, could you shed some light on the segment segmental margins on the top three on the top three clients, just like FinTech, telecom, transport and logistics?

Aditya Krishna: Can you repeat that question please?

Simar: So, could you share some segmental margin profile on your client base wherein you can talk about your FinTech, what is the margin on your FinTech and your telecom and transportation?

Aditya Krishna: When you say margin, what are you referring to gross margin, EBITDA margin, what margin?

Simar: EBITDA margin sir.

Aditya Krishna: Unfortunately, I do not have that, but we will try and get that for you and send it to you.

Simar: Alright, that is all for right now, all the best going forward.

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

Udaya Srivastava: Yeah. Hi. Congratulations on a good set of numbers. I had two questions. One was that your onsite-offshore was at 55-45 and you expect offshore to increase? Can you give a little bit of detail about the strategy of how you are offshore percentage of revenue will increase and what is the plan for that and the second question I had was that you said you are not so directed by the IT slowdown in the US could you elaborate on that as to why your company is not as affected as compared to other IT majors by the slowdown in the US.

Aditya Krishna: You know, just your first question the onsite is 45% , and the offshore is 55%. I think you might have mentioned the reverse.

Udaya Srivastava: Right, but you also mentioned that you are trying to increase the offshore.

Aditya Krishna: Yeah. So, constant endeavor is offshore, that is more sticky in terms of revenue and also it gives us you better margins so as engagements get bigger for customers, I think the offshore percentage will get bigger or get larger. So, that will happen automatically. I do not think we have to make a conscious attempt. Wherever possible we try and push offshore rather than on site because we have more control over the resources we have more control over what we are delivering and the true value proposition in IT services is offshore driven business so there is really no strategy around it is just that is the value proposition. You know which we push now coming to us so why we will not be impacted? Of course we will be impacted. If I said that we will not be impacted then I will stand corrected. What we are trying to do is to minimize the impact vis-a-vis the larger players. Now whenever there is a slowdown the big guys feel the slowdown much more than the small because they are working with larger organizations, you know, which obviously have a tougher time in a slowdown than smaller organization. Now our target market and our customers are in the small to medium enterprises, the SME space. They do not feel the slowdown as much as the fortune hundreds, so the nature of our customers will mitigate the impact of a slowdown number one. Number two our focus has always been on trading niches and working in niches and creating modes around these niches. Now that also prevents us or insulates us or mitigates the slowdown impact because we do niche critical work for this. For them to keep their business running, they need us. So, we are hopeful that both these will mitigate the slowdown to a greater extent and to the larger company. So, once again we are not going to be 100% insulated but mitigate.

Udaya Srivastava: Thank you so much. Thank you for your answers.

Moderator: Thank you. We have the next question from the line of Drashti Shah, an individual investor.

Drashti Shah: Congratulations on a great set of numbers. I have a couple of questions to begin with. I would like to know what the management outlook is for the growth going forward and like you said, it is a little difficult to sustain the growth that we have had this year. So, what are we looking at when we talk about growth in FY24?

Aditya Krishna: We have set a target of $100 million of revenue by 2024-2025. We are at this point confident that we will deliver that one year ahead. That means by 2023-2024. Also, we have set ourselves a target of $500 million of revenue by 2030, which is 7 years from now. So, I will give you an idea of what we are aiming for. How confident are we to get that - keep attending these earnings calls and you will get a good idea of how we are doing.

Drashti Shah: Understood And what sectors or industries are driving our growth?

Aditya Krishna: The ones that we are in, predominantly FinTech, transportation, logistics, health, tech and utilities, those are our focus areas. That is where our growth is coming. That is where our pushes. That is where our capabilities are. That is where our wishes are. So, we are all aligned in those four verticals. We are not a generalist who does everything. We cannot afford to. So, we are focused. you know, company trying to create niches for ourselves in a crowded marketplace, and that is what we are doing and our success so far has been driven by that approach.

Drashti Shah: Got it, Sir. All the best.

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

Manav Kapasi: Thank you for the opportunity and congratulations on a good set of numbers. My first question is that considering that we have large exposure to the US and the Europe.

Moderator: Sorry to interrupt, but the line for you is not very clear. It's sounding a little muffled along with the little disturbance.

Manav Kapasi: So, I was asking that considering that we have a large exposure to the US and Europe and also to the FinTech sector, do you expect any kind of slowdown or impact to our revenues next year?

Aditya Krishna: Our exposure is to FinTech and to the US, so for sure, almost 50% of our revenues come from the US market and 24-25% from FinTech. Now it is FinTech, it is not banks so it is not BFSI, it is FinTech, it's lending companies, it's credit management companies, it's payment companies, it is compliance companies. So, they are fairly spread out now. I know this is a general theme across investors because. everybody is concerned about the slowdown in the US and rightly so there will be an impact, how much impact we are trying our best to mitigate. It like I answered in the previous two questions. Trying to mitigate that impact by our strategy by our approach and also by the target market that we are focused on. Will we be fully insulated? No, definitely not. We will be impacted. We hope that the impact will not be as severe as some of the other companies because of our strategy. So, next year I have already mentioned our guidance or what we are attempting to deliver is $100 million of revenue by the end of this financial year which is one year ahead of our initial target.

Manav Kapasi: Okay, that was quite helpful and a couple more questions. What is the average? What would be your average ticket size in terms of our contract?

Aditya Krishna: Very difficult question to answer because it is really not the averages here really do not matter because we are not a tier one company where you are looking at very large contracts. The better way to look at our revenue mix is to look at customers who one million plus and 0.5

million to 1 million and we have given you enough guidance on that as well as numbers on that, I think that is a better way to look at us than average contract value because assets contract value has really no meaning because contracts or work that we do for our customers is statement of work driven. It could be a small statement of works big statement of works, three-year contracts, 2-year contracts very difficult to for an average and it will be meaningless.

Manav Kapasi: Sure, no worries and one final question. You did mention that you are looking at, you know, growing your service offerings in India. So, what kind of growth prospects you are looking in India and where do you see your revenues from India's clients coming in from the next year?

Aditya Krishna: The main reason for our focus in the Indian market is to really follow our customers. A lot of our customers in the US are opening or in the process of opening global capability centers and they expect us to support them like we have done their business in the US they expect us to support them in that GCCs in India, so our goals will be driven by that. How much will it grow I am not exactly sure, but it will grow significantly.

Manav Kapsi: Okay. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Amit Jain from Monarch Networth Capital, please go ahead.

Amit Jain: Hello and congratulations on a very good set of numbers. Aditya, I think there is one concern actually and although you have answered that partially about the US slowdown, but my question is since we are having client concentration risk, so maybe I am referring to the FinTech space and as far as these are FinTech not BFSI, but maybe when you have a such kind of turbulence, so there could be a possibility of collateral damage. So, even those FinTech companies may get affected if any of the banks collapses if they are taking funds from those banks. So, somehow the linkage is there, so they are not completely insulated from what is happening. So, that is just part of your portfolio review the client portfolio. So, do you see any risk or maybe you are saying yes, this can be some area of concern for you?

Aditya Krishna: Amit, the only thing to mitigate that is to bring in new customers and that is what our focus is. It is difficult to predict, you know which company will slow down, which company will go fast, which company will get acquired, and honestly, you cannot manage what you cannot control and if you start thinking of that, I do not think any of us can sleep at night. So, the only way to mitigate that is, like that I answered in the previous questions create niches, take modes around those niches that mitigates you to some extent, focus on an SME segment, which is mitigated to where the risk is a little less and thirdly keep bringing in new customers. So, if you lose a customer or a customer goes bankrupt, you can offset that by the revenue from new customer. I think that is the only answer.

Amit Jain: And I think it is more about industry, the emerging technology. So, maybe it is premature on my part to ask this, but it is still being an expert I need your view that we are talking about the generative AI impacting the IT industry maybe the Indian there has been few. For the brokerage is also coming out with the report, how they may impact so what is your sense, how will it do you see that it is impacting Saksoft in coming years.

Aditya Krishna: You're talking about Chat GPT.

Amit Jain: Yes, I was referring to this generative AI. There is some buzzwords and could be there is a lot of noise, maybe there is no credence to it, but I am just maybe if you can share your views about this.

Aditya Krishna: Chat GPT and AI and similar tools are definitely going to impact this industry and what is going to happen and this is just my view, Okay, what is going to happen is the lower end development work, the coding work will get more and more driven by tools. The need for lots of programmers doing coding will reduce, but the same people will have to upskill into architecture into things like cloud, things like AI. They' will have to upskill their capabilities to stay relevant. So, I think it is more of a concern for the young people who are joining this industry or entering the work stream, I think they have to be really careful. As far as business is concerned, you know whether a developer does it or ChatGPT does it. We are responsible for the architecture. We are responsible for code. We are responsible for quality. We are responsible for testing, and finally for implementing it at our customer's business, so that will not go away. So, the value proposition will not go away. It is just how we deliver that value proposition might change or get impacted.

Amit Jain: Just last query Aditya any so are you going to maintain the same margin guidance or is there any change you are forcing in the coming year?

Aditya Krishna: We want to maintain the same margin, but in our quest for growth in our drive towards this 500 million by 2030 if we have to compromise on margins, we will do it. So, I do not want to be driven totally by margin. I want to be driven by, ok, the best thing is growth in revenue and margin but failing, which I think top line is very important.

Amit Jain: Ok, so I can understand that when you are targeting growth, but if you can just give some sense maybe that can be minus 100 bps like that can be the compromise that can be, so maybe that will help us in forecasting, we are targeting that kind of growth. So, if you are just taking lets say where we are spending. So, this kind of band can it sounds reasonable. So, from where we are standing right now?

Aditya Krishna: See, right now we are 16.2% EBITDA, so 16% to 18% is what we want to remain at.

Amit Jain: Understood and thank you so much.

Moderator: Thank you. The next question is from the line of Simar from Neagen Capital Services. Please go ahead.

Simar: So, thank you for taking my question once again, Mr. Krishna, so I wanted to ask you when you answer, you want to acquire new customers, would that be, are you looking for organic or inorganic acquisitions.

Aditya Krishna: So, I was referring to organic, so acquiring new customers organically, we are always looking for inorganic growth and there will be opportunities that will come and that has always been part of our strategy to build capability and when we do something inorganic, naturally some customers come along but I was referring to organic.

Simar: Alright, so with your employee count around standing around 2000, how much do you plan on increasing by the next quarter or the next entire year and what would be your attrition rate?

Aditya Krishna: Attrition rate right now is in the range of 22% on an annualized basis and how much would we increased by, so if we are going to increase our revenue by 20%? employee count will also go up 20%.

Simar: Okay. Thanks a lot, sir. All the best.

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

Udaya Srivastav: Yeah, hi. Thanks for giving me line for another question. I just wanted to ask you mentioned that you have 195 crores of cash If I am getting that correct beside the operations and paying out dividends which your company has been doing regularly inorganic acquisitions if you can outlay the plan and what kind of is it? What kind of FinTech startups or businesses you are looking at what is the strategy for your organic acquisitions? Is it something which we are doing actively or is something which we are still waiting and watching. Just some more detail on the inorganic acquisitions part and what we plan to do with our cash about 195 crores. Thank you.

Aditya Krishna: In the last two years, I think we have done 2 acquisitions. So, acquisitions for capability is definitely our focus and our strategy. It will continue and we are hopeful that we will close in on an acquisition or two in the coming months, coming couple of years, now difficult to forecast the timing etc. But the reason we have this cash and why we are protecting this cash is to use it for inorganic opportunities.

Udaya Srivastav: Thank you. I assume that would add to the growth rate which you are predicting around 16 to 18% of revenue will be aided by inorganic acquisitions.

Aditya Krishna: That we always look at, something which is EPS accretive, as well as capability driven.

Udaya Srivastav: Thank you so much for your answer and thanks and wish you all the best.

Moderator: As there are no further questions, I would now like to hand the conference over to the management from Saksoft Limited for closing comments. Over to you, Sir.

Aditya Krishna: We thank each one of you for taking out time to participate in this call and for your continued interest in Saksoft. We believe that with every passing day we are an inch closer to our goal. I hope we have been able to answer your queries. In case of any other queries, please reach out to us or Valorem Advisors, our Investor Relations Advisors. Thank you very much.

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