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

Happiest Minds Technologies Limited
Regd. Office: #53/1-4, Hosur Main Road, Madivala,
Bengaluru-560068, Karnataka, India
CIN of the Co. L72900KA2011PLC057931
P: +91 80 6196 0300, **F:** +91 80 6196 0700
Website: www.happiestminds.com
Email: investors@happiestminds.com

May 17, 2025

Listing Compliance & Legal Regulatory
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Stock Code: 543227, 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 13, 2025

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 13, 2025, post announcement of financial results of the Company for the quarter and financial year ended as on March 31, 2025. 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: 2025.05.17 21:56:18 +05'30'

Happiest Minds Technologies Limited

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

"Happiest Minds Technologies Limited

Q4 FY '25 Earnings Conference Call"

May 13, 2025

MANAGEMENT: **Mr. Ashok Soota** – Chairman & Chief Mentor

Mr. Joseph Anantharaju – Co-Chairman & CEO

Mr. Venkatraman Narayanan – Managing Director and Chief Financial Officer

Mr. Rajiv Shah – Executive Director

Mr. Ram Mohan – Chief Executive Officer – Infrastructure Management and Security Services (IMSS)

Mr. Sridhar Mantha – Chief Executive Officer, Generative AI Business Services (GBS)

Mr. Sunil Gujjar – Head of Investor Relations

MODERATOR: **Mr. Vinesh Vala** – HDFC Securities

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY 2025 Earnings Call of Happiest Minds Technologies 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. Vinesh Vala from HDFC Securities. Thank you, and over to you, Mr. Vala.

Vinesh Vala: Good morning, ladies and gentlemen. Thanks for joining us today on Q4 FY '25 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 earnings call.

Today, we have with us Mr. Ashok Soota, Chairman and Chief Mentor; Mr. Joseph Anantharaju, Co-Chairman and CEO; Mr. Venkatraman Narayanan, MD and CFO; Rajiv Shah, Executive Director; Ram Mohan, CEO, Infrastructure Management & Security Services (IMSS); Sridhar Mantha, CEO, Generative AI Business Services (GBS); Sunil Gujjar, Head of Investor Relations.

I will hand it over to Sunil for safe harbour statement and to take the proceedings forward. Thanks, and over to you, Sunil.

Sunil Gujjar: Thank you, Vinesh. Good morning to all participants in the call. Welcome to this conference call to discuss the financial results for the fourth quarter and year ended March 31st, 2025. I'm Sunil, Head of Investor Relations. We hope you have had an opportunity to review the earnings release we issued yesterday evening.

Let me now 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 and Joseph will then speak about our financial performance and operational highlights, after which we'll have the floor open for Q&A.

Before I hand over, let me begin with the safe harbour 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. Good morning to all the participants in the call. Happiest Minds has delivered an exceptional performance for the year with constant currency growth of 25.6%, which makes the reported fiscal performance the best year since our IPO in absolute terms. The growth was backed by a superior margin profile, which we have maintained in our guided range for 19 quarters in a row.

Let me touch upon 10 strategic transformational changes launched by Happiest Minds since FY '24 and going ahead through FY '26. The latest change is the one we announced on 19th March 2025, regarding our Apex organizational structure. As you all already know, Joseph is now our Co-Chairman and CEO. Joseph has been a part of Happiest Minds since its inception, and I am sure Joseph will drive Happiest Minds towards accelerating profitable growth and strategic strength.

Let me start from where these 10 transformational changes began. After a few years of delay, we finally completed 2 acquisitions, PureSoftware and Aureus, whose results were integrated in Q1 of FY '25. The wait was well worth it because both the organizations have a culture, which is like ours. They were both cash accretive and have contributed to our growth, and they have helped us deliver well above industry average performance for the fiscal.

Three more transformational changes followed in the second half of FY '25. We did say these changes would begin to make an impact in FY '26, which you will see starting from this fiscal. Reorganizing Happiest Minds on an IG-wise basis and creating 5 new industry groups was the first of those changes that we launched in FY '25.

We were also the very first company to recognize the potential of Gen AI by creating an independent business unit headed by Sridhar Mantha, a Happiest Minds veteran and our erstwhile Chief Technology Officer for 12 years. We appointed Chief Growth Officer, Maninder Singh, and gave him the responsibility for net new sales. Maninder's team is already making visible impact by bringing in new logos. These transformational changes will show great growth in FY '26 and even more so in FY '27, assuring us of healthy organic growth in FY '26 and then FY '27.

In effect, if you see that we have delivered obviously, very good growth in FY '25, we are saying we are well positioned for double-digit growth right through on a 3-year cycle beginning from FY '25. The 4 transformational changes of FY '24 were followed in FY '25 by the organization changes mentioned earlier, and Joseph will talk about the 6th to the 10th transformational initiatives.

I now hand this over to our Co-Chairman and CEO, Joseph, for his address.

Joseph Anantharaju: Thanks, Ashok. Good morning to all of you. Let me start by thanking Ashok and the Board for the trust they have placed in me. I'm very confident of continuing to deliver industry-leading growth based on the quality of our leadership and talent, the transformational initiatives we have initiated and the strong customer relationships we have developed over the last 14 years.

Happiest Minds has delivered yet another year of solid performance across all fronts. The growth was broad-based and across industries and geographies. Product Digital Engineering Services (PDES) led the growth with 27.9% with all our core markets of U.S., India and Europe showing good growth. In the recently concluded customer satisfaction survey, we have received an industry-leading Net Promoter Score of 63, and our customer happiness score has increased to 93%, which reflects the commitment to delivery excellence.

During the year, we have added 4 customers in the US $5 million to US $10 million cohort, taking the total to 10, and 5 customers into the US $3 million to US $5 million cohort, taking the total to 7, validating our sustained efforts to widen our presence among our existing customers with a land and expand strategy. We have 6,632 Happiest Minds. And during the fiscal year, we added 1,464 new Happiest Minds.

As Ashok mentioned, I would like to elaborate on how we are driving transformation through innovation, integration and industry expertise. The recent changes to our apex organizational structure marked the first step in building a stronger future-ready company. The current Executive Board will maintain continuity this year, while we transition to a next-generation leadership team focused on long-term profitable growth.

In the last few weeks, I have been talking to leaders from Happiest Minds, PureSoftware and Aureus to understand their aspirations and forge an integrated organization structure that I target to announce in the next 4 to 6 weeks.

Private equity firms have become increasingly influential with Happiest Minds seeing a significant rise in PE-owned customers. We are shifting from tactical to strategic engagement with PE firms, entrusting this responsibility to a senior leader to lead this effort. Our offerings will support both PE firms and their portfolio companies, including due diligence, post-acquisition road maps, security risk management, modernization, innovation consulting, cost optimization, Gen AI adoption and integration of acquired entities. We will leverage existing customer relationships to build these connections and deliver tailored solutions.

Over the past decade, our “land and expand” strategy has grown many accounts to US $2-$3 million with some even reaching US $5-$10 million. With the Hipo Strategy, we aim to scale key large accounts to $20 million and create more US $5-$10 million by investing in dedicated client partners, aligning incentives and prioritizing these accounts. The formation of a dedicated Net New (NN) sales team has freed up bandwidth to enable this focus.

The move to verticalize has allowed us to bring different functions together and bring a sense of shared ownership and collaboration to enable this Hipo strategy. We also see a strong potential in the expanding Global Capability Centre (GCC) segment. We will tailor our offerings based on GCC maturity from strategy and compliance support for new GCCs to innovation, modernization and data-driven value creation for established centres.

As the IT industry has come under pressure in recent years, we have been feeling that it needs to be strengthened by a Products and SaaS Solutions approach. We were fortunate in gaining one such product, Arttha in the BFSI space through our acquisition of PureSoftware. Our product team has been enhancing the capability of this product and moving to a SaaS platform.

Both the product and the SaaS solution will co-exist. We plan to create a separate P&L and invest in market-specific features and go-to-market strategies for India, while expanding internationally into Europe and North America through partnerships and enhanced digital banking capabilities.

The last transformational change I would like to share is our revolutionary health care product, which is expected to be available for launch by Q1 FY '27. Currently, we have the Board of Directors' permission to make a directional statement. The final decision to include this in our offerings will be taken by our Board only when the business plan is ready towards the end of FY '26.

Lest there is a fear that development of the product will require large capital expenditure and strain our resources, let me assure you that even in the first full year, the business will run on a cash positive basis. It's also important to mention that our product is being developed through the unique bioinformatics capability of Happiest Minds, of which we have been speaking during the last year.

Let me share my view on the demand environment. We have put up a great show in an environment of elevated uncertainty amidst higher tariffs, reciprocal measures and continued geopolitical risk. Businesses are recalibrating their approach to work in such an environment by being efficient through streamlining operations and derisking their supply channels. Technology is at the core of such an exercise, and we at Happiest Minds with our AI-led approach are transforming the way our customers operate with our innovative solutions and services.

Demand remains resilient in certain industries like BFSI and Healthcare. We are the trusted partners for our customers in their Digital Transformation with cloud, data & AI, Automation and Security being top priorities. In the reported quarter, an American Insurance broker chose Happiest Minds to build their client data portal, leveraging our strong capabilities in Microsoft's Power platform.

Sectors like Manufacturing, Industrial and Retail are seeing softness due to delayed decision-making and a wait-and-watch approach by our clients. We are helping our customers navigate this elevated uncertainty by accelerating their digital transformation initiatives, which reap immediate dividends. For example, in the reported quarter, a U.S. manufacturer of intelligent fluid-flow equipment chose Happiest Minds to build their next-generation connected products to enable Automated Fault Detection and Diagnostics and realize energy savings.

With Gen AI built on top of digital twins in reported quarter, we empowered traditional energy and utility technology enablers with data-driven real-time virtual model that simulate, analyse and predict the operational behaviour and performance of its physical counterpart, eliminating manual bottlenecks in data collection and entry.

Then, as I come to the end of my talk, I want to step back and look at the IT industry. The year FY '25 is witnessing flat growth for some of the majors and negative growth for a few others. We have delivered a healthy double-digit growth, albeit some of it is inorganic. Recent global developments have clouded the prospects for the Indian IT industry.

We want to state empathically that at Happiest Minds, we see no recession-driven slowdown. Thanks to our 10 transformational changes and to our dedicated teams, including those from PureSoftware and Aureus, we see a good view ahead for next 2 years, and we expect to deliver healthy double-digit organic growth, not just in FY '26, but also FY '27 due to the momentum we are building up through our 10 strategic transformational changes.

With this note of excitement and the potential of these transformational initiatives, I would like to invite Venkat, our MD and CFO, to share with us our operational and financial performance. Venkat, over to you.

Venkatraman Narayanan: Thank you, Joseph. Good morning to you all. I will start with an overview of our financials, both for the quarter followed by the year and then give some specifics. Our extremely healthy revenue and profitability performance underscores our vision of accelerating profitable growth. We remain committed to balancing growth and margins, ensuring continued value creation for our shareholders.

Coming to revenues, we have done well both for the quarter and the year. Our Q4 revenues in constant currency have grown both sequentially and annually by about 1.1% and 27.9%, respectively. Our annualized quarterly exit run rate in dollars takes us over a quarter billion mark, while delivering compounded quarterly growth rate, CQGR of about 6.3% since our IPO, which is 18 quarters. This is for sure an industry-leading performance.

Operating margins for the quarter is at ₹79 crores and 14.6% of revenues. Operating margins have dropped sequentially and year-over-year. This will need a little bit of an explainer. First, during the quarter, we had a sudden reneging on payment obligations by one of our customers, having business with government agencies in the U.S., requiring us to make a provision for bad and doubtful debts of about ₹12.4 crores.

Since we ceased work with the customer at the start of Q4, revenue from them also saw a sharp decline during the quarter. We started business beginning of Q3 had a nice ramp-up, and then, we also worked during the month of January. But what we did is we had to make provision for the Q3 revenues and also not recognize revenues in Q4 for any of the revenues from this customer. Adjusted for this bad debt because I see this as a one-off despite all planning and thoughts, our operating margin stands at about 17% and very much like the last quarter.

As I've covered in my earlier interactions, we continue to make investments in our new and incubated Generative AI Business Services, the GBS BU, while adding significantly to our new sales team across the world. Our quarterly investment on the above is about ₹10 crores with annual numbers being approximately ₹40 crores. Adjusted for the said investment, our quarterly operating margins stand close to the previous year.

Coming to EBITDA, adjusting only for the bad debt that I talked about, we are at 21.4% and very much like in the previous quarter and in line with our guidance of 20% to 22%. After accounting for investments that I just mentioned on GBS and New-New sales, our EBITDA was largely in line with levels seen in the previous year.

At this point, it's natural to ask about the status and progress of our GBS and sales investments. The dedicated GBS unit currently has about 120 dedicated people. They are currently on a utilization of about 34.3%. Meanwhile, our new sales team under Maninder is now 7 members strong, and they are also adding a couple of more people in the team.

Suffice to say, these investments are critical for our future and integral part of the transformation agenda covered by Ashok and Joseph. Our investments are beginning to show immense progress and performance and outcomes of these are wired into our growth plans for FY '26 and forward.

Now profits before acquisition-related costs is at 13% versus 14.6% in the previous quarter. The drop is primarily on account of the bad debt. Our acquired companies are doing better than what was estimated at the beginning of the year. Earn-outs paid over and above the original provision that we create on account of better-than-estimated performance gets routed through a charge to the P&L. These charges or adjustments are shown as part of our exceptional item. Ideally, such excess provisions or payout should be a capital cost. Our accounting standards have a different treatment for the same.

To give you a context, we have approximately paid US $90 million for our acquisitions made last year. This is cash and upfront payment that I'm talking about. On top of this, we have performance-based earn-outs for the acquisitions that we have made totalling about $45 million. The $90 million upfront plus earn-out for performance on a best estimate basis.

I'm talking about the best estimate basis based on what we estimate, their performance gets accounted as assets and intangibles. Initial accounting for these are all held in the balance sheet with amortization of intangibles and imputed interest cost are charged to the P&L over many years after acquisition.

Now any subsequent measurement of the earn-out, here, I'm referring to the US $45 million on account of subsequent better-than-estimated performance hits the P&L. In our case, in the current quarter, we have taken an additional such exceptional hit of $1.5 million. The fact is that better payouts mean better performance. Such variances when compared to the number of earn-outs or intangibles that we have on account of these acquisitions are very small, and in my view bound to happen.

Maybe a little complicated, but what I'm trying to say is the exceptional item that you must have seen in our financials over the last 3 or 4 years, and they are all related to acquisitions, and because of a work or a standard of accounting, we have to take it as a P&L hit even though it's not.

From a business standpoint, what we have done from this quarter is adjust these accounting charges to show an adjusted PAT and adjusted EPS. From a business perspective, in my opinion, these are a better financial measure. Now adjusted PAT for the quarter is 10.1% versus 11.2% in the previous quarter and 14.8% in the previous year. The drop Q-o-Q is on account of the bad debt.

I keep coming back to that and slightly higher tax provisions, while that of the Y-o-Y is on account of the above bad debt and the tax provision and, the investments that we have made into GBS and the new sales team. While on earn-outs, I'm happy to share that the earn-out period for SMI is complete, and the company is now fully integrated into Happiest Minds. We are only now left with earn-outs of PureSoftware and Aureus and that too for 1 more year.

Now coming to the full year, we have reported revenues of about ₹244 million for the year, which is a growth of 25.6% in constant currency. In the early days, we had given a forecast of about 28% to 30%. So compared to that, we are slightly short, and I have covered this in all our earlier interactions. Total income grew 26.4% to ₹2,162 crores. Happy to say that we are a ₹2,000 crore company right now, and that's a threshold that we covered this year.

Operating margins has grown by ₹17 crores, and as a percentage of operating revenue, it is 17.3% compared to 21% in the previous year. Adjusted for the bad debts, our operating margin nicely corrects upwards to 18% and when corrected for the GBS and new sales investments of approximately ₹40 crores, this becomes 20%.

EBITDA at ₹462 crores, showing an absolute growth of ₹41 crores and at 21.4% of total income is within our guidance range of 20% to 22%. I'm not getting into the details of adjustments for acquisition-related costs and exceptional items, as they have been called out clearly in our presentation and have covered this above in the quarterly level.

Adjusted PAT, which is PAT adjusted for acquisition-related charges and exceptional items give you a better view than accounting noise. Adjusted PAT for the year stood at ₹255 crores, which is about 11.8% versus ₹257 crores in the previous year. Adjusted EPS was almost constant and compared to the previous year at about ₹16.92 per share.

Coming to some of the operational ratios, our cash conversion ratio versus EBITDA continues to be good. Cash on the books at year-end is about ₹1,472 crores. DSO remains stable at about 88 days. We could obviously improve that to 84-82 days that we have seen in the previous quarters.

Our capital return ratios of RoCE stand healthy at 18.3% and RoE at about 11.9%. A slight reduction versus the last quarter because of a reclassification of some of the acquisition carrying costs. We should see this improving in the coming quarters, and our target is to get RoCE back to 20% plus.

Our utilization for the quarter remains stable at about 77.4%. Utilization is something that we could flex to a range of about 78% to 80%, and which is one of the levers available to us going forward. Attrition on a 12-month period has inched up to 16.6%, and we are continuously working on the same and should hopefully see it drop in the next couple of quarters.

Happy to state that keeping in line with our progressive dividend policy and capital allocation discussions, our Board of Directors have subject to approval by the shareholders, recommended a final dividend of ₹3.50 per share. Including the already paid interim dividend of ₹2.50, the total dividend for the year will be ₹6 per share.

My areas of focus for the future will include amongst others, maintaining industry-leading margins. We have sustained 19 quarters of top EBITDA despite heavy investments in transformation, and we aim to preserve and enhance these margins through value creation and effective profit lever management. Mergers and Acquisitions, we will pursue new M&A opportunities and ensure a smooth integration of recent acquisitions. Managing people, culture and outcomes is critical to driving growth and profitability. We start the year with a reasonably strong pipeline of deals.

While organic growth continues to be our foundation, M&A will serve as an additional growth driver. Adapting to industry changes, this will be the final one. The Indian IT sector is undergoing rapid transformation, and we must remain flexible to seize new opportunities.

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

Moderator: The first question comes from the line of Chirag Kachhadiya with Ashika Institutional Equities.

Chirag Kachhadiya: I have a question on the quarter-on-quarter growth. When you look at the performance, it is on the lower side as compared to our peers in mid-cap and small-cap category have reported. Can you throw some light on why we think there would be headwinds in terms of growth? Secondly, what would be the trajectory for our EduTech vertical?

Venkatraman Narayanan: We have ramped up to about US $1.5 million with that customer that I had mentioned, with whom we terminated the agreement effective January 1st. Still, we had covered up for that and came out with a Q-o-Q growth of 1.1% and a Y-o-Y growth of 26% in constant currency. If you adjust for that, we have done well. I'll turn this over to Joseph for the second part.

Joseph Anantharaju: So, as I've mentioned in the past, the EdTech segment is going through challenges. Edu Tech segment can be broken up into 4 broad sub-segments. The first segment is higher education, which includes organizations such as Pearson and others. Following that, there are universities which form a key part of the higher education ecosystem. Additionally, there is the K-12 sector, as well as the workforce development segment, which focuses on professional training and related areas. Currently, one of the segments facing significant challenges is the higher education sector. They're going through quite a bit of churn for various reasons such as, higher cost of education, drop in enrolments, a decline in enrollments, attributed to a reduction in the teenage population within the catchment area due to lower fertility rates, along with several other contributing factors. Our strategy focuses on expanding our higher education presence by connecting providers with universities. We are currently making progress in this area, with two to three active discussions underway.

The main pivot and strategy that we're doing is to focus more on the workforce development space. As you know, with all the rapid changes like Gen AI and other technological changes and business model changes, upskilling and multiskilling of the workforce is becoming very important. There is a fair bit of investment going in this space. During our strategy session, we identified this as a key focus area. We have developed strong offerings that are now being introduced to the market. I anticipate that we will continue to make significant progress in this area throughout the year.

Moderator: Next question comes from the line of Aditi Patil with ICICI Securities.

Aditi Patil: My first question is on BFSI and Healthcare vertical. Firstly, during the quarter, we observed a decline in the Healthcare vertical. Could you please provide insights into the factors that contributed to this decrease? Similarly, the BFSI vertical experienced a significant increase in revenue. Could you clarify the extent to which the Arttha Banking platform contributed to this growth? Looking ahead, our strategic focus remains on the BFSI and Healthcare verticals for long-term growth. So, what is our growth strategy here in terms of what kind of subsegments or clients are we targeting in these 2 verticals?

Joseph Anantharaju: Let me begin with the BFSI sector, followed by healthcare. The BFSI segment, which has now become our largest by a significant margin, saw contributions this year from PureSoftware and Aureus. As you know, one of the reasons for making these 2 acquisitions was the concentration of revenues in the Banking segment in PureSoftware and Insurance in Aureus and during the quarter, there was a fair bit of contribution from the Arttha Banking platform. Typically, we observe an increase in Arttha revenues during Q4 due to seasonal factors, which has positively contributed to the growth in the BFSI sector.

We did acquire a couple of customers in the Middle East, ADCB and Bank of Muscat. That has also contributed to the growth in BFSI. BFSI is one of the segments that, as highlighted during the last earnings call is beginning to show some green shoots and increased spend. The expectation is that during FY '26, this will be a sector or a segment that will contribute handsomely to our growth.

The other segment that we are quite very bullish about is Healthcare and Life Sciences. During the quarter, we did see a dip because one of our large customers had a cyclical seasonal ramp down during Q3 and the ramp-up was delayed. But towards the end of the quarter, we did see a ramp-up, and that should normalize revenues. In addition, our press release highlighted that we have signed two Statements of Work (SOWs) totaling $20 million, which are expected to extend into the next year. This development is anticipated to support and drive growth within the Healthcare and Life Sciences vertical.

Regarding our focus areas within the Healthcare sector, as previously mentioned, bioinformatics represents a promising field in which we have been actively investing. We intend to continue these investments and further develop this offering for the market. We're also looking at the medical devices segment that we've been building capabilities in. We have a few customers in this space.

We believe that with more data-driven approach being taken by medical device providers and leveraging data, it will be a good confluence of our GBS Business Unit, Analytics and AI Center of Excellence and our Healthcare capabilities. Pharma continues to be an area of focus because there is some medical device that they also manufacture. Additionally, significant emphasis is placed on leveraging data for molecule discovery and during the clinical trial phases. These are the strategic areas where we will continue to concentrate on our efforts.

The other area that I'd like to talk about is the commercialization phase. Once a molecule has been tested and approved, there is significant opportunity to leverage Modernization, Advanced Analytics, and Data Engineering. Pharmaceutical companies are increasingly focused on developing comprehensive insights into patients and enhancing their consumer data platforms. By applying sophisticated models to better understand this data, we can provide valuable support to these organizations in optimizing their data-driven strategies.

Aditi Patil: You have announced the Healthcare product in bioinformatics. So what would be the amount of capex, which you would be investing for the same in FY '26?

Joseph Anantharaju: We are still in the exploratory phase and putting a business plan together. We are making some investments that are already included in the plan and the capex requirements will be finalized upon presentation of the plan to the Board. Once we launch this in FY '27, we expect it to be cash positive, right in the first year. So, I don't see much of an impact from a capex standpoint out here.

Aditi Patil: Okay. But so, the capex investments or the investments in the product would start from FY26 itself, right?

Ashok Soota: At the moment the product is being developed, and it's really a billing opportunity for Happiest Minds. So therefore, when we talk about all these SOWs that Joseph had talked about, one of them is this. We may decide to take the product to the market ourselves, in which case, we would still have a positive cash flow.

Aditi Patil: Regarding the IMSS vertical, an analysis of the segmental margins reveals a significant decline both year-over-year and quarter-over-quarter. Could you please clarify the factors that contributed to this decrease?

Ram Mohan C: If you really look at the last quarter, we had acquired the Middle East business of GAVS Technologies. It was predominantly onsite centric, which carried significantly lower margins. This aspect was the main factor contributing to the overall reduced margins, as most of the work done there was onsite.

Moderator: Next question comes from the line of Piyush Pandey with Centrum Broking.

Piyush Pandey: I want to know like what are the key projects which you are doing in the Generative AI space for your clients?

Sridhar Mantha: Regarding the total number of projects over the past 12 months, beginning from zero, we are currently managing 35 distinct projects, Piyush. Additionally, I would like to reiterate one example that Joseph mentioned during his opening remarks. I'll give a couple of examples, and I'll then talk about broadly what they are.

We are collaborating with a global leader in software solutions for electrical power systems. However, the process of creating digital twins of field motors by collecting motor data has become increasingly prone to errors. We have developed a generative AI solution capable of rapidly interpreting multiple motor parameters by analyzing just two or three images captured by field personnel. Leveraging advanced large language models, this system accurately extracts and understands critical information from the images, effectively eliminating errors in data entry. As a result, this innovation significantly enhances the overall efficiency and accuracy of digital twin implementations.

We are doing many repeatable solutions, which in the previous sessions, Ashok addressed this topic, highlighting that one key aspect involves interacting with data. Enterprises largely operate based on data, and despite the advancements in business intelligence and the simplicity of reports, it remains challenging for individuals who are frequently on the move.

We created an interaction to the data kind of solution, so that the people can quickly ask a question against complex databases and warehouses and data lakes. We are collaborating with a participant management firm and a supply chain provider to integrate a Generative AI solution into the platform. This integration enables users to simplify complex business intelligence and data analysis by posing straightforward questions in natural English, receiving accurate and relevant responses.

In conclusion, I would like to highlight that has been instrumental in driving numerous Proof-of-Concept projects, with over 50% of them progressing successfully into production.

Recently, we have begun developing more sophisticated solutions that leverage generative AI as an integrated component rather than as standalone applications. These solutions involve building complex backend architectures in conjunction with front-end interfaces, including kiosk systems, avatar-based interactions, and chat-based platforms. Currently, we are implementing this advanced solution for a major airport in the United States.

Piyush Pandey: How do you plan to reach revenue of $1 billion by FY'31?

Ashok Soota: Given the industry has experienced a slowdown over the past couple of years, our performance has remained strong. However, we were still affected to some extent, which limited our potential for even higher results. Now we are looking at this, and we are very optimistic about the current year and we will maybe do a cost correction by saying we'll need a year or 2, in order to reach the level.

The objective will remain unchanged; however, we will conduct a thorough evaluation of this during the next quarter and if not by October of this fiscal, we will restate where we stand on that goal as it is a matter of good governance. I appreciate you raising this point. Now that it has been addressed, we should either reaffirm our commitment to the original timeline or consider adjusting the date by one or two years.

Moderator: Next question comes from the line of Vinesh Vala with HDFC Securities.

Vinesh Vala: So, given some softness in the EduTech sector, how are we capitalizing on the high-growth verticals like Healthcare and BFSI? What are the specific strategies will be used to drive the growth in these verticals? One more thing in this quarter, our Healthcare vertical had a sequential decline. Is it related to any client-specific issue or some issues overall?

Joseph Anantharaju: Let me begin with the Healthcare vertical, followed by a discussion on BFSI. Regarding the quarter-on-quarter performance in the Healthcare vertical, as I mentioned earlier, the fluctuation is primarily due to one of our major clients in this sector implementing a seasonal ramp-down during their fiscal Q4, which corresponds to the October to December period.

The ramp-up was delayed because of which we've seen an impact for revenues during the quarter. Having said that, we remain extremely bullish on the Healthcare segment. We have signed a couple of SOWs totalling US $20 million, which will start yielding revenues. In a couple of cases, we've already ramped up the teams, and it's positively impacting our Q1 revenues.

The focus or the areas of focus in Healthcare will be bioinformatics. Our focus extends beyond the product we discussed to include the range of services we provide to our customers, particularly in the medical devices sector, where we leverage extensive data and advanced AI technologies. Additionally, we are actively exploring opportunities within the pharmaceutical industry to assist clients in accelerating the development of new molecules and streamlining clinical trial processes, again utilizing data-driven insights and AI capabilities.

During the commercialization phase, customers focus on how to ensure seamless access to data and effectively leverage the comprehensive patient data collected to inform and enhance their sales and marketing strategies. These are the key areas of emphasis we will be addressing within the pharmaceutical sector.

Ashok Soota: This is in addition to the seasonal ramp-down noted with one of our customers. A significant factor was that a major customer completed a project and subsequently initiated a new platform. While the new platform took some time to gain momentum, it is now progressing at full speed. As Joseph mentioned, that's getting reflected in the next quarter data or the current quarter data.

Joseph Anantharaju: On BFSI, one of the areas that is showing a lot of promise and good growth is the Arttha Banking platform from 2 angles, one is the direct revenues that it provides as also the pull-through revenues once you implement Arttha. It also helps us differentiate with some of our banking customers.

Again, taking a product or a solution-centric approach in the Insurance space, we have come up with an insurance in a box concept, which leverages a customized low-code, no-code platform on which we've built various components of the typical insurance workflow. We are taking this as an 80%, 90% baked solution to the mid-market segment in the insurance space. Our hope is that we will be able to scale this to the larger insurance providers as well.

The third area that we're looking at in both Insurance and Banking and especially in Insurance is how do we help customers customize their approach to their CRM solution by helping them move away from the standard CRM solutions that are available out there and build customized CRM solutions that are data-driven and then ensure that underlying that would be your customer data platform that will allow for, a lot of Analytics & AI to be superimposed on top of this. It could be platforms like Palantir or Azure on the data lake side.

The other area we're looking at with customers in the banking and insurance space is helping them in modernizing some of their customer experience. Several organizations digitized their offerings approximately a decade ago. Since then, significant advancements have been made, including the integration of generative AI interfaces and the modernization of customer experience on the front end.

Many customers are actively exploring ways to modernize their systems, particularly as legacy platforms have not kept pace with recent technological advancements. This creates opportunities to extract specific functionalities and assist customers in developing customized applications or platforms. Our solution, Arttha is designed to address this need. Additionally, some customers prefer to build their own tailored applications. These are among the key offerings we provide to clients in the BFSI sector.

Moderator: Next question comes from the line of Sumeet Jain with CLSA.

Sumeet Jain: You have started disclosing your revenue proportion from GEN AI business segment and it's just 2% of your overall revenue and when compared to the offerings from Accenture or Capgemini, this represents approximately 5% to 6% of their total business.

Could you clarify whether your position is somewhat behind that of the larger peers in the industry, or if the difference lies in the definition itself? Additionally, could you explain how a company like Happiest Minds, with revenues in the US $200 to US $250 million range, can more rapidly pivot its business towards a fast-growing service line?

Joseph Anantharaju: I think it's how each company defines Generative AI; you can add data element to it. We believe that the revenues that we're getting is industry leading. Could we do more? Absolutely, and that's a goal that we've taken for ourselves.

We categorize the revenue generated from generative AI into three distinct sources. The first is direct revenue, which we have approached with considerable rigor and have consistently reported. The second comprises other AI and data-related components, primarily delivered through our Analytics and AI Center of Excellence capabilities. Lastly, there is pull-through revenue, which represents the third source.

As Sridhar pointed out, customers are taking a Gen AI-first approach. They're building a back end and putting a Gen AI front end to it. And that's the third element. The back end that we build for our Gen AI-first solutions is the other source of revenue.

We are fully confident that the team we have assembled and the capabilities we have developed in this area are on par with, if not superior to, those of other companies out there. This is reflected in the number of conversations that we have been having with our customers.

We have engaged in over 40 to 50 discussions and developed multiple Proof-of-Concepts, including several highly compelling use cases. Moving forward, we remain committed to enhancing and expanding our capabilities. That's the reason why we built this as a separate business unit with its own P&L, CEO, COO and leadership practices, delivery and sales structure. So, we're making all the right investments. We have the capability, and we expect traction to continue increasing during FY '26.

Sumeet Jain: Could you please provide an overview of the common unit metrics and contract characteristics used in the industry? Specifically, I would like to understand how pricing and profitability are typically structured. Additionally, could you clarify whether contracts tend to be more fixed-price or time-and-material based? Any insight you can share on this would be greatly appreciated.

Joseph Anantharaju: I think most of the work that we've been doing so far, has been fixed price because you initially have conversation with the customers, scope it out. In numerous instances, we collaborate closely with customers to refine and iterate the business use case. This involves engaging directly with them to develop a comprehensive list of use cases and prioritizing those with the potential for immediate impact. Additionally, in certain situations, we partner with organizations such as Microsoft and AWS to secure initial funding to support project initiation. Typically, these engagements are structured on a fixed-price basis.

In terms of pricing, this does get us premium pricing because it's a differentiated capability, a cutting-edge capability. At the same time, due to the necessity of building capacity and capabilities in advance, the utilization rate within this business unit is currently lower. However, as we secure increasing volumes of business, we anticipate a corresponding rise in utilization, which will positively influence both the profitability of the business unit and the overall company performance.

Sridhar Mantha: In the Q1 and Q2 of the last year, we used to have heavily the fixed bid projects because the clients are trying to address a point problem leveraging generative AI. Over the past few quarters, we have gradually transitioned to alternative engagement models with select customers who have provided clear roadmaps outlining the generative AI features they intend to implement. This has enabled us to adopt an expanded engineering approach.

Additionally, in the large airport example I provided, we have begun to observe increasingly substantial Request-for-Proposals that incorporate generative AI as a central feature. This trend is expected to continue throughout the year, leading to larger engagements, the deployment of multiple use cases into production, and consequently, more extensive Request-for-Proposals.

When it comes to utilization, it was strategically planned compared to other business units. Given technology's novelty and emerging nature, we have a sizable internal team focused on developing prototypes, demonstrations, and building competencies. These team members subsequently transition into client projects, advancing Proof-of-Concepts (POCs) to customers and successfully converting them into ongoing client engagements.

Joseph is highlighting that, compared to the previous financial year, we are gradually progressing towards improved utilization in the current financial year. But still considering the overall technology space, we still will be having a relatively larger pool of the people, who will continue to do Research & Development and keep creating new solutions.

Sumeet Jain: My last question is around your utilization. You guys obviously are operating at 77%, 78% levels. But when I look at the larger peers, they are at mid-80s, Accenture is at 91%. So, is there like a difference in the way these are being calculated across companies, but I fail to understand how utilization for you is far lower than larger peers?

Venkatraman Narayanan: It's got to do with the way things are calculated. We have always said that our maximum possible utilization is between 83% to 85%. The formula is Billed days by Billable days. The definition of capacity also varies between customers. So, the uniform definition is something that we need to clear up.

So, our is the maximum possible is 83%, 84%, and we are at about 77.4%, within which GBS is at about 34.3%. There is quite a bit of room for improvement in GBS to work up on the utilization front. PDES is about 78.4%. PureSoftware is at 88.7%. I would say, if you keep those metrics, we have got a headroom within BUs and at the company level to do better on that front.

Moderator: Next question comes from the line of Sushovon with Anand Rathi.

Sushovon: Just a couple of questions. One is, how would you categorize the organic and the inorganic growth in Q4 and FY '25? The second question was basically on the acquisition-related amortization. It's almost ₹51 crores in this financial year. How should we model that for '26 and '27 along with those exceptional items, which you mentioned?

Venkatraman Narayanan: So, we have not been giving a split between the organic & inorganic because if you look at it, PureSoftware and Aureus has been with us for almost all the year, started in Q1, so 11, 11.5 months. In fact, Aureus is fully integrated, and PureSoftware is working very closely with us. So, it's not easy to give an exact number of who did what and how do you attribute revenues.

As far as amortization is concerned, you're right, ₹51 crores is what we have. This outcome, while not entirely unexpected, reflects the inherent costs associated with acquisitions. Specifically, it involves the amortization of intangible assets over the estimated customer lifecycle. Typically, intangible assets are amortized over a period of 5 to 7 years. However, in cases involving products such as Arttha Banking, a different amortization framework may apply.

Frankly, although there is some scientific basis for it, this represents a cost that, from my perspective, contradicts fundamental business logic since it does not involve replacing anything with this money. But in any case, you should see intangible at about ₹49 crores to ₹50 crores next year as well, in fact, slightly higher maybe because you will have some part of the intangible being again tested for impairment. From an estimation perspective, please consider applying a comparable figure and impact for an additional 30 to 40 days over the course of the next year.

In terms of exceptional item, we estimate a certain payout at the beginning of the year for earn-outs. We did US $90 million worth of acquisition and $45 million is earn-out. So, you see there is a huge amount of earn-out. Accounting necessitates making an initial estimate regarding the portion of the $45 million that is expected to be collected. This estimate is recorded on the balance sheet as an intangible asset and is subsequently amortized over time.

If my assessment is somewhat conservative, it can affect the payout when actual performance exceeds expectations. Therefore, it is important to strike a balance between quantifiable performance metrics and the intangible aspects of performance, and to progressively adjust these evaluations on a quarter-to-quarter basis. I believe these adjustments should be made to the PAT or PBT, as none of the items represent cash charges-except possibly the earn-out. Essentially, we are compensating based on performance, so if an individual exceeds our initial estimates, we are paying them a slightly higher amount.

From my perspective, a debit related to exceptional items or additional payouts is positive news, as it indicates better-than-expected performance. Conversely, a credit is less favorable, as it suggests results below my initial estimates. My hope is always that the actual outcomes exceed our projections, which would be reflected in the purchase consideration. In both cases, accounting standards require these adjustments to be recognized in the profit and loss statement.

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