3i Infotech Limited – Investor Call to discuss the Q3 and 9M-FY 22 quarterly performance

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Thompson

Quick refresh for all our investors and shareholders in terms of the services we offer, right from application, application development, testing, infrastructure services, cloud first, and also a lot of next generation services we are building these capabilities. We'll talk more about them in the coming slides. For all our benefit, because now we are slowly moving the system to the third quarter of this new organization of the new management team. Most of these strategies are now starting to get implemented. I wanted to dwell upon Q3, especially since it has been a critical quarter for us because as we are running our businesses, we are also investing in our grow and build strategies, which is extremely critical for our organization.

I'll spend a minute on this slide for the benefit of everybody. The Run organization, the Run strategy is something which 3i Infotech wants to Carve out effective first April is what we call as Run organization. It is the services business, which we inherited in the organization post the carve-out of the product division and the service lines we are servicing and the customers that's a run organization.

And our focus on the Run organization is to fortify the run. drive improvements in terms of margin enhancements, try and see how we can enhance our profitability because today the Run P&L funds the remaining part of the organization in terms of grow and build. I touch upon it also, as we dive deeper into the Q3 results as well

The Grow organization is the engine of Growth for this company and where we are building the new service lines, building our next generation, consultative to transformation led sales organizations, which is predominantly consulting led transformation led, where we kind of want to work with our customers in solving the problems and being an end-to-end integrator and an orchestrator.

That is where we are now investing and this is going to help us drive the growth, in our coming years. The second thing is also in terms of the ability to change the revenue mix from the Run to Grow. If you look at it,we will talk about it in numbers, but the Run cross margins are less for us.

As an organization it's very important. We change the mix of revenue and growth is going to drive that build focus fundamentally because if you look at it, we came out of a CDR on March 31st. We sold our product division.

The good thing is we have a better balance sheet. We are debt-free, but now we need to rebuild some of these value enabling assets for the organization, which will differentiate us in the future. That's the part of it where we want to build new products, technologies, incubate startups, and all that good stuff.

This Run, Grow and Build, key theme I want to leave with all of you is that we should keep in mind that our company, as we build and, move forward, we are using our Run P&L right now to fund our grow and build. That's the way we read our results because it is very important the way we want to take it forward. And then these lines will merge. And ultimately we want to look at all run plus grow will be profitable, at least in the coming quarters.

In terms of the strategy if I may, look at it, one key accomplishment in Q3 has been that our ability to sign a definite agreement with M deck Malaysia at this is a very important, critical way forward strategically, because if the last quarter we spoke about our Alliance with Oracle, because, the Oracle Alliance was very critical for us, in terms of the entire, strategy in terms of ASEAN and Asia, if you look at it from that perspective, Oracle was a very key strategy.

We wanted to stay invested as Oracle as an Arrowhead. We launched a Nure 3i plus, Oracle powered services, in ASEAN And we are building, sovereign cloud in Malaysia. And now the third part of it is going to be tied up with, M deck Malaysia. This is a three-way partnership, which gives a huge advantage for 3i in the ASEAN territory.

And, this is going to set a new line of business, focused on mid-market and SMB in ASEAN territory. This is a key progress which I want to report back to all of you. The second is, we've been talking about the resident engineer program. It's very important that we have to quickly onboard these entrepreneurs.

This resident entrepreneur program I'm happy to share that we have onboarded two resident entrepreneurs in this program, we give a unique opportunity to bring in entrepreneurs and within the frame of a large enterprise, corporate environment, we want to build next generation technology.

So we have cognitive computing services, which has kicked off, and we are now starting to build these teams. And the teams are now starting to build the next generation products and platforms and the leadership of resident entrepreneurs. Similarly also in education, every tech as well will have onboarded a resident entrepreneur who's building this entire end to end a next generation cloud first digital first platform, which could be a pathbreaking technology for mid-market universities' and group of schools and educational institutions across the world.

So, these are the two updates that I want to talk about with the resident entrepreneurship program. The third thing which we have also been talking about, in line with our new 3i, which is incubate innovate and invent, we spoke about accelerating the entire pace of next generation technologies and to build generations.

We are happy to announce that we have brought in two startups, from which we are now building our unique propositions. One is in the sd-wan and sase technologies and the second is also in terms of blockchain powered video content, lifecycle management in terms of privacy, authenticity, and all the capabilities of blockchain.

This is a very important progress in the strategic direction, but these are laying the seeds and foundation for the coming quarters where we'll able to build our uniqueness around this, strategic interventions are coming to the business updates. I, which I think all of you will be, eager to listen to in terms of, one is definitely, we've been talking about the large deal, we did a press release and very happy to announce our first large deal in US with Bamboo rose. And this is a large deal for 3i, it's a Five-year contract $20 billion potentially to grow up to 30 million. It's very unique because it's a convergence of cloud in a box, a solution of ours in terms of transforming a customer's entire cloud environment.

Second is also in terms of, ability to bring this convergence in terms of these service lines and which will also be able to give us a huge change in revenue mix. So that's very important for us, in terms of this particular deal in the US. The second also is a very large deal, we will announce shortly, we have shortlisted a very large deal in Indian BSU in terms of $60 million revenue figure contract.

And, then if you look at the other key highlights, if you look at it, I don't want to call out right now but that we are already in February. We have just six more weeks to go, for the year end. t looks good the first time in, 3i history in the last five years, I would say probably we will be growing at a minimum of 10 to 11% over our last year’s services revenue exit

Of course, we have to work on our other aspects in terms of your costs and margins. But I think that the good part is the revenue trajectory is now taken off. And with the growth engines, I think this is going to take off in a very aggressive way.

For example, our focus is though, we have a very clear billion dollar goal by 2030, our focus would be on margin and EBITDA because the entire game is changing from a top-line growth towards modern advancement, any digital company automation company, which is driving transformation has to only measure the bottom line.

Bottom line will be the way forward because technology is going to cannibalize top line. So let's be clear on that. Maybe I'll take those questions. I think somebody was just chatting. So I discussed that. I'll just talk about that. maybe what I'll do is I'll pause here and let delivery excellence Harish talk about it because he's passionately driving some of these improvements projects which are extremely critical for us as we are building for the future for accelerating growth, we also have to keep a clear eye on our costs and I'll leave it to Harish to kind of expand on that.

HARISH

Yes, there have been some messages that has been going there about the top lines, the bottom lines for the organization, giving guidances and all we are cognizant of the fact that we have to improve our top line and also optimize our bottom line. So as Thompson has been giving various inputs about what are the measures we are taking to improve our top line internally, we are taking very serious efforts to ensure that there is cost and waste reduction in the organization. So we are tracking utilization of both billable, as well as unbuilt resources to the last resource in each and every lob, each and every geography. It's both, it's three quarters as an organization, new 3i-Infotech, we are getting all our acts together and we are having various initiatives being driven across verticals and horizontals.

So few things to be listed here quickly is we are trying to ensure that a lot of manual activity which gets done in the organization, especially in the GA that's the general administration costs gets done by tools and automated, so that like there's lesser manpower required. We have substantial head count in the GA part of the BNF.

So we want to ensure that like we have the right number of people doing the right job, rather than doing it manually the way it has been traditionally done here. So that's one key area that we're doing. We are implementing a fresh new ERP Oracle net suite. We are getting Salesforce implemented.

We are also implementing over three/four operational support Tools for OTC B2B Source to hire, so on and so forth. All these things are being implemented as we speak today and we'll go live in Q4 definitely. So that's what we are doing. We're moving most of our servers to clouds so that we can ensure that those costs get reduced and this cloud set up, that we are doing for the business.

It gets utilized for internal consumption and we have support costs reduced for that substantially. Margin enhancements programs, we are going project by project account by account, for each and every geography for each and every lob. Questioning the viability of this project. So by end of Q4, we will be either having Getwell plans for projects, which are not doing so great in terms of the expected benchmark profitability that we are doing or like we'll be exiting out of those projects.

So that's a very conscious call that we are taking as an organization. In fact, we've already started practicing that in a few geographies, details which I don't want to get in right now. So in addition to that, as we grow, we will be needing substantial trained resources, which is like becoming a little bit of a challenge in this resignation era that we are going through.

So proactively we are building competency centers in tier three, tier two cities, and across like restarted with picking up a competency center down south in India. And, that's the first one as a proof of concept, we are doing it and it should be live maybe in a month or two's time wherein we will bank to have at least a hundred people team, which will be trained on the upcoming technologies that are hot in the market today in demand.

So we have in-house development capabilities and benches available when we are getting into big projects as we move on. So finally, the big ticket items in terms of the build that we are planning, the next gen technologies, the cognitives, the AI teams also have been recruited/hired in Q4 or Q1,

We should see revenues also coming in from this technology. so not only in investment we are doing that, we are also seeing some revenue trickling in from these technologies, these units also. So that's The approach we are taking towards delivery excellence. There's a lot more to be covered, but I think for this forum, like for this session, we limited to this and I'll handover to Mr. Thompson

Thompson

I think the key message for all of us is also, within delivery and operations is that we want to practice what we preach outside. So most of the technologies which we are incubating, we are now trying it on ourselves and we are our first customer. And how Harish and team are driving it very aggressively across the organization

We've brought in customers and we've gotten new logos. There are some questions on reduction on revenue that has been happened. And I know the reason is we have taken a very careful call after two quarters, because some of the legacy accounts we want to exit, we have exited. If you look at the customer slide later on, you'll see that as a proper number of customers.

So customers who are not profitable, we are ruthlessly exiting very, very clearly. And that's a clear refocus on our customer strategy in terms of, named accounts. We want to business very clear existing strategic accounts, which we want to grow. And all the standard in our customer engagement practice have been put in place.

So in terms of the revenue drop as well because very clearly we want to exit non-profits, that's very, very clear, and I said, the focus will be on margins, margins and Margins.

Okay so these are the asset financial numbers. And if you look at it, our revenue is 1 65 crores for this quarter and key headlines, which I want to probably highlight here for benefit of everybody is that we had a one-time charge of almost 9.6 crores.

Sanjay

This 9.6 crores is an exceptional item for this quarter. Due to fccb's early redemption. that's where the charge has come into the p&l but yes. Due to this charge we have our PBT is kind of lower,

the last quarter and probably due to this and due to the tax expense, which we anyway expect tax to be on the EDR to be on one side in Q4.

Thompson

We are kind of down 22.6 this quarter. So as sanjay explained about this a one time charge, which is part of the our legacy in terms of our fccb redemptions, the second thing is also very clearly if you look at it, we have been funding our grow build businesses from the current P&L, because we need to kind of reorganize ourselves in terms of the organization structure, because we still have our old subsidiaries, which are mapped to run organization. And in fact, I saw some questions in terms of subsidiaries, which we have across the world.

The good news is that we've got some big folks advising us right now with this new structure. And hopefully this new structure will be in place for us effectively in the new financial year. So we'll have a very clear run structure and a grow structure and a build structure. What is happening, all the investments which we are also making for the grow and build are on the same P&L. And see, for example, all the build investments we have made now, which is very critical, critical for the long-term survival and existence of this company, but all part of this P&L

And in fact, we need to kind of capitalize that end of the year because we are building products and value, which will probably capitalize. If you look at it almost to the tune of 5.1 crores, we have invested so far in all the next gen technologies that we've been talking about right now.

So secondly, also the grow investments, if you look at the grow investments also, there is very clearly around nine crores or so we have invested in that grow infrastructure because grow is not just the sales organization or the pre-sales, if you look at it how you spoke about COE, we are building today.

So we need to kind of build proactive competency centers, train them on Oracle competencies or train them on Microsoft competencies or whatever. So that we have billable resources available to be deployed and managed services projects. It could be on transmission projects. So these are all investments we have to invest up front.

So if you look at it broadly, the 22 crores, the way I've explained it, Minus the one time of 12 crores investments clearly across grow and build. If I look at a run, it is a profitable business. it's a profitable business and it runs profitably. But the question now is starting for the type of walk we need to make in terms of running a profitable business and also investing in grow and build for the future.

And the note of the organization is to ensure that, at least by Q4 Q1, we'll be able to at least be run in plus grow positive. So that's what we're working hard. We have to get our costs down. We have to eliminate the waste from the systems we apply, eliminate any other costs so that we can fund them, fund the grow and build in parallel without leveraging our balance sheet.

I think that's a very important point. somebody has also, I saw another question on the balance sheet. That's a positive. If you look at the balance sheet, it's very positive today, if you look at it, we are debt free. We have not leveraged it. We still have receivables which we need to get from our deal as well

So from our Q4 at least we'd have a better view in terms of ROI of cash results. So that's the positive, from our organization perspective.

Sanjay

I want to add one more element that we have seen working upon, implementing the DSO which has been in reducing trend and which has improved by 10 days that that's been a positive sign. And I mean, earlier days we could see because of the COVID impact we had, we had an impact in the earlier quarters, but now things are improving because of our focus in that area.

And a lot of improvements in the way we are planning for our recovery, especially in India and the whole system.

Thompson

That's really helped the cash flow going for us, the collection rigor, is helping the organization even without incurring new liabilities and limits. So that's a positive for the organization and helps us. Also if you remember the last quarter also have the benefit of our investors. So we took a proactive hit on slow-moving debts. As an organization that you want to kind of ensure that on a good GRC our policies, we can have this proactive hit of almost 14 crores last quarter as well.

And we are tracking very closely on that and hopefully we'll be able to kind of reduce that as we exit this year.

So again, it's a slightly different cut, very similar but more from an internal view perspective just gives a little more detail into the sales cost, the interim, the BDD. So with just the provisions we have made for in terms of slow moving debts

We have the build cost. So this articulates on what I've been talking about so far in terms of the other costs, which we have to incur and balance out. And broadly, if you look at it also in terms of the normalized EBITDA positive because the exceptional items at one time item, which we had to take a hit because of the deal and a lot of followers from our last year's post deal scenarios.

So most of this, if you look at it normalized, we look at it, we are still positive. That's the way we look at this. So that's a good deal. So quick geo mix, in terms of geography mix headlines for everybody, because the next question would be from a geography mix, so we kind of regress in some of our Regions.

The India business region, we call it the IBR, I used to call it sag before. The global business region is our north America, UK Europe, and Middle east, Africa and emerging business region ASEAN. And these three are as an organization structure, we have Sushant who leads India business region, and we have Sax Krishna who leads our global business region. We have sudeep and colin song leading emerging business region. Sudeep also drives our large deal strategy deal acquisition organization, horizontally globally.

One of the initiatives we're running in Q4? to see how we could probably optimize spans and layers and try and make a more lighter swifter organization. Even AAA, which is an application automation analytics organization. We are also looking at how to increase the revenue per employee, which is at the very, very bottom of the metrics, and see how we can probably look at reskilling and right skilling our people and see how we can probably increase their billing rates, it is a very important aspect.And also continue with the existing non-profitable accounts clearly, because we do not want to do any accounts, which are lower than our margin targets based on whether it's a country-to-country model or offshore delivery model or a digital lead delivery model.

So we have now set our new guidelines, but typically the grow businesses, we want to set a very clear guideline for ourselves, the country-to-country model across the world, which is the typical domestic business, which is whether you do it within the US UK or India or any of the geographies. We want to ensure that we don't have to do any business less than 18% GM, but very clearly we have a more digital mix, offshore mix we do not want to do any business less than 35, 30 to 35% gross margin. So this would be a huge change from where we are. If you look it up on Run businesses where we are now on 14-15% GM, and we want to ensure that we do not want to do any of these businesses less than even 18% GM, so very clear direction.

And we will exit any of these businesses, which are not profitable. So that's a really, really clear strategy as a company and broadly, I think, I kind

of covered everything. If you look at the emerging business, I touched upon, well, the entire Nure 3i plus services which we launched in KL would be an important boost to our SMB strategy also because as in parallel to our enterprise, and mid-market, we also want to launch our SMB strategy.

We'll talk about more of it in Q4 once we launch it, but SMB will be a key strategy for us where we want to offer pre-configured business processes as a service, software as a service, any of those things, it's a service powered by a Nure platform.

So quickly also on the industry cannot predominantly our businesses have been with BFSI, BFSI like segment, I'll probably find a credible put together as predominantly a huge amount of our business comes from B2B sites. And more or less our revenue mix has been concentrated across because not predominantly in one business and the growth is now just stepping up and we are not stopping to get on new businesses, in the global market.

So if you look at it from a growth perspective, another focus area, very clearly we won't be super specialized human VFS because we have existing customers in US and in the credit union market and capital markets. So that's an area where we want to stay focused.

We want to kind of get deep into insurance, build some COE plan. See if we can be an end-to-end orchestrator for the insurance industry, because it's a huge opportunity because some of the industries have a lot of legacy systems, the opportunity to offer, ecosystem around the legacy, core technology.

So we want to kind of build some COEs around them. definitely manufacturing, retails and e-commerce. Becomes very critical in terms of SMEs and startups and well-funded startups. It's an area that we want to focus on. So can we offer these services for them. Agritech is a great opportunity for next generation businesses.

Even if you look at India, also, we are looking at, agritech business, Indian gvt has announced that it has grown as a service. There's a lot of policies which we can leverage. We want to try and see if we can offer end to end offering, from a farm to a plate, and not just one portion of a process.

And telecom media entertainment. We have said, this is a very important industry vertical, which we are building and senior leaders like Amrita helping us in this endeavor as well as we build this kind of industry practice. But this again replaces our application automation and analytics vertical, which is our core which is an ISR infrastructure management service, which is a classic infrastructure management service.

And then we have our BPS and Cloud First. And the new lines of businesses, we will start publishing it as an then. The good news is that some of the new lines of businesses like Nure edge for example, we got our first customer.

Because most of these technologies which we are proactively building, it is very important that these strategies can work. Boom revenues. The good news is some of the new lines of businesses we’re starting to get billable customers. I'll probably share different lines of businesses across some of these new lines where we are now starting to book revenue.

So again, this client makes a top five 14%. The good news for us is that, we don't have huge Omni concentration on few customers. It's a big opportunity for us because since we came out of a product division, the even spread, the positive is that we can work on most of the existing accounts and we can find them and are clear cut opportunities to ensure how we could probably build on the existing accounts. And we have now brought in go-to-market teams, which are focused on strategic accounts, know those accounts from everyone, figure out how we wanted to expand on it.

We have brought in client partner management concepts to form some of these accounts.

From moving to a mix where at least one year from now, we want to look at at least TCV, once you start recognizing these avenues all around, we want to have at least one or two accounts which will go across 3 million or 5 million this year.

And the 1 million plus accomplished also stops growing because we just added a few more and this is going to be on roll. So we kind of have this five millon in a bucket, 3 million and 1 million will be the mix kind of focusing on and the bottom of it, we want to stay focused with the mid-market and SMB.

In terms of services and product strategy, just to ensure that all of us are on the same page in terms of what we are talking was very bottom for all of you all, to also understand and support the organization because as we grow together and so that we'll be able to create a wealth for all of us together.

And so the Run business, we spoke about it. The grow business, it's called first Nure brand, it's led by New 3I brand, which is our Oracle powered cloud. And because this is kind of a beachhead for all of us and also going how the cloud is a beachhead.

And then we add on everything else, application automation and analytics. We have Maggie, which is now rebranding of Maggie as automation as a service, momenta as an analytics service. Flexib is a digital quality assurance as a service or the old school testing. Now we are getting the flexib version two, which will be now, we are working on our cognitive teams, working with the fix-up teams to come up with more cognitive subscripting a digital testing as well.

So this is a shift we're making. And we are talking about building an Oracle COE and are very super focused on. And it's not just on OCI cloud or all, but across even an autonomous database in terms of, our cloud migration transformation, because we see a huge opportunity in the Oracle space as well, because a lot of legacy customers where it could be migrated and we are planning to build this entire COE and including them APICS, which is the Oracle logo platform.

Of course, that's a huge focus on digital BPS because the convergence of technology and business process services, and then also one of the major offerings.

We'll have some good early success in digital CLM. We never used to be in CLM. I'm used to being at the back of this. We have got our first customers in CLM and customer life cycle management. And the uniqueness is we want to be a digital first company. We do not want to do anything in classic BPS. Going forward,it will be cloud first digital first automation led human and humanoid together. The build, we are really super focused at least for the next year, leadership Amrita, and some of our other leaders are, we got this Cognitive computing services. We want to stay focused on markets, capital markets, telecom, media entertainment. This is going to be cutting edge analytics in terms of prescriptive and next best action. And very shortly, we'll see new products coming out of us and other teams are now hired and we will do that.

We have stayed focused on SD-van and private networks. And in fact, hopefully in Q4, we will be able to get around some of our wins as well, where we are getting in terms of Nure edge services and 5g lab as a service and 5G enabler is something that's starting to work. And, this is very important for us because this will be a huge opportunity where we could work with telcos and we can sell through and sell to telcos as well. So we want to work with as an ecosystem partner, and this is going to be a great opportunity.

Blockchain convergence is something if you want to look at it, and we will talk more about this as we progress and we want to stay focused on insurance and securities

And just to bring the numbers back into focus, because business is also aligned and hopefully the next financial year onwards will be able to report fashion - run, grow and build.

So all our shareholders will be able to see how their company is focusing these three buckets, because very important in run, we fortify, we retain. In grow, we will focus in driving new revenues, new services, IR margin and the grow will ultimately replace the run over a period of time.

So fundamentally grow is the new services lines, which we want to push. Build, as I explained, we want to build a center of excellence, which is short runway centers where we will have a product or a platform or a solution, which we can take it to market really quickly. So the build will build the COEs and will give it to grow for them to monetize.

So the COEs will be having a two, three quarter maximum two quarters of a runway. COIs will have a little longer runway where we might want to work on white spaces, look at some unique ideas and work with, it could be a huge differentiator, a huge value creator.

The key message for us is that the company has to make this balancing act. It's a tough act, because from our run, we have to fund the grow and the build, and I need the support and patience of all our shareholders and ultimately run plus grow will be profitable and build will continue to creep huge value for our shareholders.

And finally to end with the build COE roadmap for the benefit of everyone, in Q4 and the focus is we want to work with various governments. We want to work with governments across not only in India, within, with the state governments, and globally, we've also signed up with Malaysian government.

So we have to stay focused on that because you want to work with respective governments, align our energies with the regards to their priorities. And it's a mutual win-win private public partnerships in terms of skill development, job creation. Ultimately, as a company, we are able to leverage the benefits that government's going to now pass onto us in terms of subsidies, in terms of which is ultimately better for our PNL and in return for the society, we are able to create jobs and skill development as well.

Q4, we we're working on building the COE, Oracle focused on BFSI and insurance and one of the hubs, we will start in south and by Q1, and we will also probably open one in Northeast.

What are the two biggest problems today? A company like us, our ability to attract talent at the right cost. It's a huge struggle in metros. So how do we get quality resources? We invest, train, increase in terms of loyalty second, also at the right cost and our ability to pay off enhanced margin.

So it will be a very important strategy across the world, not just India. Similarly in Malaysia, we have already signed up, we are launching in US, UK we are building this and we are now talking with Finland, also for the build in terms of 5g technologies. And this is the short term roadmap between Q4 to Q2.

And we will update the shareholders in terms of our progress we make on this. This again is a very important strategy for us to maximize our revenues, maximize our margins and have a steady human capital supply chain, which will support us because that's the core for all of us.

Q (Riddhi, IT Analyst from IDBI) - What is our investment going to be in the grow and run business?

We are already investing, even in our current balance sheet and P&L, we are investing from a running operations itself. But I think the next financial year, we will have it very clearly segregated and definitely next financial year, we are looking at least a minimum 2-3 million investment, immediately in the build business, because we have annual operating plan working on the build for at least $3 million dedicated for that so that we get some immediate results in the next two quarters.

And the build teams are working very closely with the grow teams to figure out and saying that, okay, what is that we can take to market? So that's why we decided on mortgage, capital markets and some of these areas. So that would be on a short-term investment of the build team.

If you look at our grow numbers, right now, we're already almost around 26 crores, in terms of the sales investments we are making now, even if you break it down, at least 50% of that is going to our grow business.

So almost 1.2 million investment we're making in grow. So these are like two parallel tracks, the way we look at it. So the grow business is more like an end to end organization. It's not just sales, will have its own COEs, will have its own practice.

To summarize, it is more or less like we are talking about 3 million in grow at 3 million build but grow will be a self-generation organization because of the cash flows and they'll generate cash very quickly and that's their objective and they'll have to break even very quickly and generate profits.

Q - If you look at it in it, we generally see a sequential growth in terms of revenue, quarter on quarter, essentially coming from the new book and bill that you do, and also taking care of some of the, leakage that will happen on account of something bad accounts, which every organization will have.

I understand in case of 3i, you would have some accounts where you have to drop it because the margins are low. And consciously, you have taken a call to move towards a higher margin accounts, higher margin business. But then the new business, what you're getting an IC considerable amount of new wins coming in last couple of years should be able to outdo this leakage of revenue, which is not happening is a concern.

So, uh, rather than seeing a sequential growth, we see a sequential drop second, with regard to the employee cost, I was just going through all your competitors and, Indian IT, 3i Infotech seems to be the highest in terms of employee costs, percentage of revenue. If I look at your FYI 19 December results, you have some around 55 to 58% employee cost percentage of revenue, which was in line with the industry.

But last quarter you have reported close to seven 83% of employee costs to your revenue, which is highest. I mean, I take happiest mind, TCS Infosys, Wipro, Mindtree, whatever they

are all operating below 60% why the employee costs should be so high. And in case this is the kind of employee costs 3i has, how are you going to make profits?

First of all, this company is just nine months old. We were a product led company. All your statistics are fantastic. We didn't grow for the last five years. We were more or less hovering around 1000 crores. And you're spot on, which is 55% because we had a product division which had a high margin and the service division was over there. If you look at the old results; now, post March 31st, this company is like as good as a new company and product division has gone off.

So our baseline should be effect to 1st April. That's the first point. Now what we've inherited today? Unlike any other company right now, our problem is we are predominantly country to country business, it is US to US, UK to UK, ME to ME, India to India.

That is what we started up this business on 1st April. Our export mix, compared to market, which you spoke about, is the straight opposite, but that is the answer. Fundamentally 80% is country to country business, 20% is ODC.

That is the organization we inherited post carve-out. So our reference point is only 1st of April, anything to do with previous years, but no reference or no bearing because the company wasn't CDR, company had its tough times. We had to approve that carve out. We are now settled all our creditors.

So it is this nine months is where we are trying to turn around this company, which is the run business I keep talking about. And you're spot on our current mix of employees will not work. That's why our GMs 15% otherwise market GMs are very high.

So the new business grow, we want to do exactly like our peers. At least we want to be on parity with peers. Even the new accounts we are signed up right now, have all got GMs we've got upward to 30-35% after huge competition with the big boys. So that's what we are doing. And second to your question, you asked, look at us as like a start-up. We took it on 1st April. We are sitting and doing all the clean-ups right now, right from our fundamentals, we are cleaning up our customers. Our new funnel, new engines are now coming. All the order books, revenues will only come in Q1 and Q2. So we don't have any orders from last year which we are wrapping up. So what we have got is what our existing revenue, we are preserving it, fortifying it, trying to see if we can increase our margins, eliminate all the non-profitable customers. The new business, which we are getting will get us business only in Q4, Q1 and Q2. So to your point, which has a five-year so business, which is what I mean. It's no big deal.

Q - What are the various clients we can expect and the margins and investment in the cloud-first business going forward?

The latest one, which we had in US is a template by itself. I'll just spend a few minutes on the type of the deal, which we have now done. It has maybe two, three tracks; one is, we are replacing the cloud service provider, which is typically the 12% margin business, it's a run rate business. We are replacing a managed services provider, which is around 35% to 40% GM business.

And then we are also being a transformation partner. So a blended margin, 35% GM is where it is so this business can be replicated. The second unique thing is what we're doing is we're telling our customers - you don't worry about your customers. So fundamentally it is like a B2B2B. Now, all your existing customers of our customer, we migrate, we manage and it's predictable business, and it is per customer one-stop shop solution for them also it's predictable in terms of their planning, that's the step number one, the second thing is all scale, they don't have to worry about it. When there is a 2x scale, we have got this box, we have got this pre-configured solution by which we can help them scale it. So there's a very unique commercial model as well, which we are trying to innovate. So this particular deal itself will help us replicate this across the world.

In fact, we are now bringing in very focused cloud-first led sales teams across the world who just take the success story across. It's a massive opportunity. Same if you look at even Oracle COE, why we are betting on Oracle, because Oracle has got huge amount of legacy customers. If you look at all of that 25,000 customers, the people who are yet to be migrated as almost close to 18,000 globally, we're exactly betting on that. So for us as a small company, it's a wise bet to just bet on that. Even you get a small percentage of that as a preferred partner, I think it's a huge business for us.

Q – There are changes in senior management by quite often that needs to be looked at. Secondly, this 9 crores of expenses for the redemption of those instruments, I was wondering why it wasn't factored in the last quarter or from the very beginning? Is there an, any more special expenses or something exceptional going to hit us last quarters happened? Is it next quarter going to be profitable?

I'll take your questions. We have been building a strong leadership today in, we've been able to attract some real top talent to join us. And recently also we have been able to attract some top talent in our board as well to give us the guidance and a strategic direction so that I don't think you will have a concern there because we will have a very, stable, committed leadership and all of us are bound by one thing because for us now, the accountable is very high because this is a professional entrepreneurship for all of us personally, because the lack of a clear promoter, the accountability on the management team is very high. So people who come and join us at all bound by the same DNA or the theme and that's really going to make a change.

The second point which you spoke about is when will we start seeing the fruits of this? The carve-out happened, the deal happened. And it was one of the very shortest time in we have probably done a carve out deal, so post-doc, it's like, the new team had to take up the plane where the old team has now bailed out and we have to keep flying the plane across the Atlantic ocean. That's what we are doing right now. So the two quarters, first two quarters were spent on to your point to ensure that we set the right baseline, the right foundation to ensure we don't have any surprises.

So one is, if you look at all that, what we are done, whether proactively booking, slow-going depths, whatever it is, whichever was not done before. I'm not one to go back to the past. I'm just saying from this, from this team has taken off, we've been kind of clearing it down to ensure that we don't get surprised as to your point, we don't have any more surprises.

So whichever if you look at the surprises, are the costs are either related to the deal related costs, which would be maybe paying this year. Secondly, we should have probably provisioned, maybe we are not provisioned or whatever reason we are doing it. But please understand this company has a 20 – 25 year old history. So I could say that we will not have any more surprises.

From a current business perspective, when are we going to see that the service of this? So if you look at what run business, which we inherited, that was not aligned to 2022 and further. 3i was a product company, it generated profits only using its products. It also did services.

Now, once product is sold off, now we have to figure out how to be profitable as a standalone services organization, and also in parallel, try and see if can invest in products and other stuff. So all the source seeds we're sowing will start giving us results in the coming quarters in Q4, Q1, and Q2, we will have, because we are now slowly building the pipeline and also the new deals, which will start recognizing, even if you look at our deal which closed in US, our main revenues will start coming inQ1 and Q2. So all of these upsides will start coming and which will start changing.

Q - The first question is with regard to the ESOS policy, because we've been seeing a lot of them being vested and, in being traded on the market. And I've seen a dilution of about three to 3-4% in the company's equity. So, can we have some more details as to at what rate are they invested? Is there a vesting period how much more dilution is expected in the near future, or that has been accounted for? The next thing that I wanted to ask you was about the exception, because you didn't mention why it has happened, but it's been happening for the well three quarters where we've been seeing exceptional items popping up. Is there anything at all in the future that you would want us to account for?

What kind of revenue info can we expect from the Malaysia deal in the future and ingeneral, are there any plans for any QIPs or bringing in any strategic investors that the management is aware of? Because right now, what I'm feeling is that, although the management's taking a lot of steps, there isn't accurate shareholder value being created.

So the shares which are getting allocated now are IDD shares, which have been granted to the employees under 2013 and 2018 scheme. So these grants, the process at that ESOS goes through is first, there is a grant of option. Then there is a vesting of option. And then there is an allocation of shares to the grant of these shares have been done way back in 2013, 2018, 19, and each grant will be split into three parts, 33% over three years. So that's how it gets vested to each of the employees. And after one year, when the grant converts into a vest that is when he can exercise it, when he exercise it, it gets allocated. So we are as an organization, not allocating any stock options to employees.

Now, all that you're seeing now being published by the stock exchanges are allocations which have granted historically.

Also, now everybody's worried about wealth creation, so nobody's going to work for a fixed. So we will have to come back with more competitive schemes. And we'll come back to you guys about that because that's very important for us to attract talent.

One is what type of revenue which we could get in some of the large deals, which spoke about at least a shared revenue. We could look at it at use around $2 million. It's up to us to accelerate the conversion of revenues for us, because it's, for us move all the customers to our clouds.

And also that's an upside of at least GM's of 30% is what we look at the revenue of exchange in this new line of business.

I think we did our best in terms of media releases and. And you also asked the question in terms of, strategic investors and stuff, and I'm definitely as a team, we will be working on it.

We'll try and see how we can attract a more strategic investors into the organization, to help us fulfil the dream of this and the vision of this company. Definitely we will be looking at it and we will be without our, about board as well to see how we can do that for sure.

Q - What is the time cycle for this model from built to grow, to run?

Build, as I said, one of the COE and the COI, the COE we are now talking about not more than 2 quarters.

So in two quarters, the build team should be able to create a commercial grade prototype products/ platform which is ready for go to market. So from a build cycle, it will be two quarters for us to start recognizing the revenue by the grow organization. And typically the grow cycle is any line of business, depending on how mature the, as I said, we'll be an independent, being an organization depends on the complexity of the business, will stabilize it. So anything between 12 to 18 months will be the grow to run cycle where it to stabilize. And then it becomes like an ongoing run. And more complex, uh, build project, which we spoke about could take around three to four quarters is what we want to kind of limit, but all projects will be from three to 12 months at the max and it would just be, want to keep it very agile.

Q - Why does it tax if the company is in a loss?

That's because one of our subsidiaries in the US, it's a profitable subsidiary.

And you see the tax over on the ETL to be lower going forward as the profits are getting split across within the subsidiary. So we definitely see that the overall ETR would be lower in Q4.