"3i Infotech Limited
Q1 FY24 Earnings Conference Call"

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MODERATOR: **MS. ASHA GUPTA – E&Y LLP – INVESTOR RELATIONS**

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY24 Earnings Conference Call of 3i Infotech Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from E&Y, Investor Relations. Thank you and over to you.

Asha Gupta: Thank you Yashashri. Good afternoon to all of you. Welcome to this Q1 FY24 earnings call of 3i Infotech. The results and investor presentation have already been mailed to you and you can also view it on our website at www.3iinfotech.com.

To take us through the results and to answer your questions today we have top management of 3i Infotech Limited represented by Thompson Gnanam – Managing Director and Global CEO; Sushant Purushan – Chief Operating Officer, Enterprise Services and CRO (India); Sax Krishna - Chief Operating Officer - Digital and NextGen business; Harish Shenoy – Chief Operating Officer - Professional Services and Chief Risk Officer; Sanjay Rawa – Chief Financial Officer; T. S. Mohan – Chief Human Resources Officer; Varika Rastogi – Company Secretary and Legal Head.

Thompson will start the call with a business update which will be then followed by Sushant who will provide an India and Enterprise Services business update, Sax will provide the update on the value business and NuRe Bharat RailTel project and then we will open the floor for Q&A session.

As usual, I would like to remind you that anything that is said on this call that reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risk and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus file with SEBI and the subsequent annual reports that you can find it on our website.

With this, I will now hand over the floor to Thompson. Over to you Thompson.

Thompson Gnanam: Thank you Asha. Hello everybody. Good day to everybody. I will begin the summary of this quarterly results and brief you about the business events that have occurred during the quarter and outlook on the microeconomic situation as well.

For the first quarter of financial year '24, we've registered revenue of Rs.194.4 crores representing a growth of 8.5% year-on-year and 2.1% quarter-on-quarter. Our gross margin from the business was 16.5% during the quarter. The growth was driven by continuous effort and consistent efforts to establish new services under the NuRe brand which drives our digital and NextGen business and to expand in other new sectors and new industries.

The goal since we executed the carve-out was to build our services business which is sustainable and profitable in the long run and drive to positive EBITDA. I'm happy to inform that this quarter we achieved our milestone with a positive EBITDA of Rs.1.3 crores minus the RailTel large project. So, for us though the results in EBITDA are negative but from a business model perspective in our effort to build sustainable profitability this is a very important milestone for us where we have even to hit our first Rs.1.3 crores profitability with all our lines of business of Run, Grow and NextGen businesses. So, this is an important point for us and an inflection point for the organization. We hope to build on this momentum and to build on a sustainable, profitable model for this year and for us, we are building a year of execution excellence which is our focus area for this year.

During the quarter we've been adding 32 new contracts or lines of businesses with existing and new customers. It's a very important part for us as we build this business. These new contracts will be very important for us to grow these revenues positively and also to bridge the erosions we have in some of our geographies, especially in some of the western geographies where there are severe headwinds which is the industry is facing overall. The revenue shift is also happening very clearly. If you look at it from our volume and a value mix or a run and grow mix which you have been consistently using for the last 2 years, a very clear shift is happening where our value businesses and our premium volume businesses are all starting to drive growth very steadily.

Also want to quickly talk about a few highlights and business events and probably allow my other colleagues to expand on it in the paucity of time. NuRe Bharat Network is commercially ready which is our RailTel project, and we are launching our mobile app in August 2023 which will be a very important milestone in our journey to build a super app and build sustainable revenues. On this point probably I will just touch upon some of the last 6 months we've been busy trying to ramp up this project and the pre-operating cost and the minimum guarantee for Q1 had been taken up in Quarter 1 as part of the overall project plan as well. I'll allow Sax to expand on this particular project when he talks about it. NuRe Future Tech is one of our flagships, IIT Tech parks we've been constantly investing in cognitive computing and AI- related products and platforms which also enable and drives next generation services in terms of prescriptive and next-best action. I'm happy to announce our first paying customer for our CXO DSS (Digital Support System) Product platform has been acquired which will offer prescriptive and next-best action effectively and this is for our credit union customer in US and now we are expanding into healthcare in UK as well. So, this is a very extremely important milestone. We've got our first 400K order which is a very important milestone. This also will change dramatically the entire profitability mix as well. We've also got our first customer for our predictive and prescriptive analytics and our demand forecasting product as well which is also a very important milestone and Sax will expand on this.

With regard to our Digital Infrastructure Management services; it's been a main period of growth in Q1. There are multiple large deals we have acquired and now we need to see how we can leverage this growth momentum not just in India but also see how can we leverage this globally as well as some of the other lines of businesses across the world are slowing down. I will request Sushant to expand on it once he comes to talk about this. Also, we had some good wins in the US in our existing customer space where we have been able to add new lines of businesses to the tune of almost $ 2.4 million TCV where we have been able to add a cognitive computing and also the first time, we have done a customer experience transformation for our existing customer and Sax can expand on it more in detail.

So, broadly from an overall environment perspective if you look at it, North America and US are going to be a challenge for the entire industry, and we are no exception to that. And very importantly we need to quickly change the revenue mix because some of the traditional lines like Functional Services or Human Capital Management are under stress across the industry and we are no exception. And there is definitely degrowth which is happening there, and we need to figure out how to bridge those gaps. And even our results, we look at it very positively because relatively it might look only a 2% growth, but the net growth is there still in spite of erosions which are happening in some of these territories. So that's the way I would request the shareholders to look at the overall performance. Then probably if you look at it and some of the other key points would be, there are certain other issues in terms of the P&L and balance sheet items which I don't want to expand on right now.

Maybe we have some questions which are there and effective questions. So probably what I would do is I would pause here and maybe I'll allow my other colleagues to expand on some of the points I've spoken and then we'll probably get into a more detailed questions where we could probably answer some of the results and some of the other very specifical financial aspects as well where Sanjay can come in and expand on that. I'll pause here Diwakar and Asha.

Sushant Purushan: Thanks Thompson. Good afternoon, everyone. My name is Sushant here. Let me just give you an update on the Enterprise business which I drive has three important business lines. One is Digital Infrastructure Services, then Digital BPS and e-governance business.

So, coming back to the Q1 point of view I would like to highlight what have been done in Q1. It's a good Q1 for us. We have overall closed around Rs. 40 crores of order book ACV and Rs.100 crores of contracts. Out of that three important contracts, I would like to highlight these three things. First, we won a very significant deal from Indian Oil Corporation that is predominantly for a data centre contract. This is a new contract addition to what we are supporting all their branches and outlets. This contract gives value to us because we are managing the core applications that Indian Oil Corporation runs which is predominantly an Oracle, their refining application, and their billing application altogether. So, the KRA for us to maintain their data centre 24/7 and provide value to them. This contract is typically an Rs.14 crores contract for 3 years and which is moving us from our edge support to a core support to the line.

Next, we picked up one of the significant contracts from one of the private banks in India, the fifth largest in private bank. This is one of the significant contracts because we will go to manage their core banking data centre operations. One of the significantly important sections within the banking network. We're going to maintain their data centre operation which runs their TCS core banking and applications and all the applications which is residing in Mumbai and Hyderabad as well. So, this contract is somewhere between Rs. 45 crores for 2 years and good thing to know is that we have gone live in 45 days and the incumbent was Wipro. So, we have gone live in 45 days which is one of the significant milestones and now we are moving into a transformation phase of this contract as well.

The third important contract we won in the Quarter 1 is from an enterprise vertical where we have not been present there.. We have won the contract with Bajaj Electrical to manage their digital infrastructure services, Cloud, security and network, and various other operation as well. This is a significant contract because this enables us to get into their enterprise segment. We are managing their dealer and distribution network as well. This is a Rs. 19 crores contract for 5 years but it's a great breakthrough for us.

What we'd like to bring here is all of these contracts we fought with the MNC players like in IDFC we have NTT, Kyndryl, and Wipro, and Bajaj Electric we will have an Accenture, Kyndryl. So basically, we have been elevating ourselves into a Tier-1 player in this space and we look forward to percolating the growth in the coming quarter as well. We have some more successes also in the second contract, we are in the advanced stage of closing a few and I hope in the coming days we're going to announce that as well.

Thompson Gnanam: Thanks Sushant and maybe Sax you could probably get in and talk about the progress in digital and NextGen business and especially on expanding on the NBN as well.

Sax Krishna: Absolutely. Thank you so much, Thompson. I'm so delighted to be addressing this audience today. Thank you very much everybody for the time. I'll have two kind of narratives here as Thompson mentioned. First, let me take up the NuRe Bharat Network, the RailTel collaborated Wi-Fi monetization project. It's a very interesting project. Accordingly, there's a lot of interest from the market and shareholders. Let me address that first.

There are two sections of updates I'd like to give on this business. One is the tech update because it's a technologically led proposition which is how we got into this partnership with RailTel and the second aspect is how is the business getting acquired, how are we truly monetizing and going way beyond the minimum guarantee that we've committed to RailTel. So, on the tech update, our initial approach going in was to leverage the existing assets of RailTel which obviously was not tuned for this level of monetization. So, we had to go ahead and develop tech stacks ourselves. The three tech stacks we're developing, and I'll come to each of the statuses. One is the ability for people to land on the mobile to a page which can then be the driver for monetization through ads. So, for serving advertisers and putting those advertisements on that platform that's called a captive portal. The second is what we call an AAA server which is another tech stack that is required to authenticate and drive the user to a particular page whether they are an authenticated user or a very new user. The third is the ad server which actually serves the ad, the actual ad by size whether it's video or still ad. So, these are mainly three tech platforms that we had to put in. Obviously, like any other tech platform where there is no precedence, this is a platform that doesn't exist at this scale, 6,100 stations, 23 million travelers, 1.2 to 1.6 million logins, unique logins every day is not a scale that has been addressed in the industry, forget India even in the world. So obviously it took us some time to understand the complexities and the vagaries. We have gone past all of that and now the status is all these three platforms, actually, the capital portal is already on like Thompson mentioned it’s already gone live. We are fully operating for business. If any of you gentlemen go to any station and click on the SSID called RailWire, you will actually see our platform working with our logo also on top of it. So, you can actually, experience what I'm saying in words. That's the captive portal. The second platform is the ad server which is also fully integrated. So, it's on. It's able to serve as the third platform which is stipulates in the final stages of testing and that should go into production in the next 7 to 8 days. So, we are fully equipped if you may from a tech platform, tech stack perspective because it collects data and the data will then be used for analysing what kinds of users, what kinds of eyeballs are we targeting and therefore bring that back to that. So that completes the ability to deliver the value proposition that we originated and assumed going into this partnership. So, what are we doing with these tech platforms being ready. So that's our go-to-market strategy.

There are really four channels of go-to-market that we're focusing on. Each of them will have various degrees of maturity as we speak. The first channel is what we call programmatic ads. This is what comes from Google pages ads. As you all know if you're a Gmail user you will have those pop-up ads coming in based on the emails you're browsing or the sites that you're browsing. It's the same concept that Google will serve ads on our platform too for which there was an integration required with Google which we have done. It is getting now into the flow of bringing in those ads. Just to let you know Google ads platform comprises approximately 80% of all ads that are ever placed in the world. So, basically with that, we're also integrating with other SFPs inside partners as the industry calls them besides Google to get the programmatic ads in place. What the beauty about this is it's nonlinear, it's not human-centric. We don't have a sales heat on the street to be able to get these ads so they can scale very quickly. The second channel is going after going and attracting large enterprises/PSUs because they do have a lot of budget, they do have a lot of messaging that they need to take to Bharat which is a unique proposition of this platform. So, we have close to Rs. 50 crores of pipeline at various stages of closure with the PSUs and large enterprises. These are direct sales; these are based on relationships, and they are pretty advanced stages of closure from a pipeline perspective.

The third channel is what we call direct ads from medium to semi-large enterprises. This is a very large market which is made up of local retailers and small enterprises, pan India. In order to cover this market, we need an innovative sales approach, not the conventional feet on the street because the model won't sustain the sales cost. So, what we've done is we have put a virtual sales organization which is far less expensive which will sell without actually meeting the customer, add certain type of customers which is one channel. The second channel is a direct sales organization very minimal but again going after some key accounts that we can convert into ad revenue.

The fourth channel which is also very compelling is the OTT content monetization. So, what we've done is we have started partnering, onboarding, and orchestrating content from various OTT players. But what is most important is we have developed a blockchain-based OTT orchestration platform. Going back to our tech bias towards the business we're deploying a blockchain based OTT orchestration platform. One of its kind doesn't exist in India. In fact, once it becomes successful, we're going to take this to all media houses across the globe. It's that powerful platform but we're using that to monetize OTT content. So, your typical sachet if you pay Rs. 25 for 30 minutes of OTT content kind of an example of how we can place ads and how we can gain money from the OTT platform.

Those are the four channels of business or revenue that you're going to generate. So, the minimum guarantee of Rs. 14 crores that we have to pay to RailTel can be legally serviced just by the one channel of revenue which is the PSUs and large enterprises. I mentioned the pipeline of Rs.50 crores. That alone can service the minimum guarantee. But all the other lines of business scale way beyond which is the original proposition of this enterprise. So that's on the NuRe Bharat Network, RailTel kind of an update.

Let me move on to the other aspects of our business which is what we're calling as a value business or we're calling digital business and NextGen services which is made up of multiple business lines that we start with Cloud-first. So, Cloud-first is a big arrowhead for us. Right from the time the carve out happened, we had designed that and Cloud-first for us being transformation in cloud infrastructurally and transformation in cloud from a business impact perspective. So, both those large narratives if we may have been broken down into specific products and services that are going into the marketplace and we've already got enough customers that are gaining now both from a security, cybersecurity product all the way up to cloud adoption in the box. I'll talk about the numbers that it is contributing at least from a percentage perspective, so you can get a fair sense of where this is going from overall business.

The second business that Thompson mentioned, is our NuRe Future Tech, which is into cognitive computing. There are many use cases for cognitive computing obviously. But what we are taking is offerings that can be replicable, which can be scalable, which can go across the globe not just in one region. So, we are developing a demand forecasting system for a utilities company which is a very unique problem, so dynamic demand forecasting which we can then replicate across gas and utility companies across the globe. We're taking what we call the Actionable Decision Support System. Otherwise, we're calling as the CXO corporate which like Thompson mentioned, we've won our order first order. There are a few more that are already in the advanced stage of the pipeline. So that business is kind of as they develop IP, it is also becoming accretive in terms of getting paying customers. That's the second line of business.

The third line that I like to highlight is our digitally intervened business process as a service, where we are utilizing again insights based on analytics in an interaction centre, in a call centre, a tech support centre, in an outbound sales centre or we are taking a claims automation platform and merging that with the actual claims adjudicators so we can get better value to our customers. So that's the second line of business where we are gaining traction. We already have one of the largest PPAs in India as a customer for the claims management process that I just talked about. We also have banks that are coming up with us for doing their collections and outbound sales for CASA as well as taking up their inbound customer support for offerings like FASTag. So that's a growing business for us and that's going to grow as we go through this year.

Last but not least is our consulting business which we termed as NuRe maps up, which is becoming naturally in digital transformation most engaging talk with consulting so this unit is helping us as a spearhead as the first landing port if we may for our prospects and customer engagements where they define the plan of digital transformation, where they define the plan of what they need to achieve as a business outcome which then drives vertical projects across the business line whether it's applications, Cloud, Digi BPS, or Future Tech. So that's kind of the update if you may and I'll wait for questions.

Moderator: I now hand over the floor to Mr. Diwakar Pingle. Please go ahead.

Diwakar Pingle: Hi. This is Diwakar. I think before we get on with Q&A, I just want to kind of bring to your note that post the results declaration, I think a bunch of you investors who have been closely following the company and some of you have been long-term shareholders, have sent us a lot of questions, so in the interest of transparency and to ensure that the other participants on the call also understand what those questions are, what we thought was we're going to kind of read out those questions that have come by email to us including naming the person that has sent us the email. Thompson and his team will actually go over, trying to explain to the best extent possible as to how are we addressing that or what the issues are and post that once those questions have been answered maybe some of you will get a fair sense of what the background is and how is the company kind of taking action. Post that we'll kind of throw it open to the general audience here for the Q&A again. So, with that said I'll hand over the floor to Asha. Asha if you can possibly first state the name of the investor and then state the questions one at a time which Thompson and his team can answer and then we'll move to the next question. Thank you.

Asha Gupta: Sure Diwakar. Thank you. So, we'll start the questions received from Purshottam, an individual investor. The first question from him is in FY22, 3i team made huge provisions to cover PDD, approx. Rs. 160 million in Q2 FY22. While during the quarterly earning call last time I raised an issue, and I was told that while 3i will collect this money from the market, we are not just providing it from a compliance perspective. It was also told that at least 50% of this provided amount will surely be collected. Till date there is no trace of what happened to that access provision and reversal. Similarly, there was double provision for employee bonus made in Q2 FY22, with the justification that we are changing the provision norm for this year onwards and henceforth we will provide the bonuses for the current financial year in advance. As a result of that Q2 FY22 earnings took a double hit of bonus provisions. If this was correct, then the base effect of this double provisioning should have given a positive impact on profitability in the corresponding quarter in the next financial year. But the same never happened? Over to you Sanjay.

Sanjay Rawa: Thanks Asha. I'll take the first part on the provisioning to just get this adjust, out of the amount that was stated in the PDD of Rs. 16 crores, we have collected the stated amount of more than 50% already as we speak in Q2. The further plan I would like Sushant to get us through with what's the plan. I'd also like to go through in the meantime the second part of the question when we have said we have taken a double hit on account of bonus provisions. We have actually provided the amount that was approved by the board as part of the provision in the relevant year. So, it's not that we have taken a double hit in our books. So that's a question that and it's an incorrect way to kind of reflect. I would anyway like to answer Purshottam on a specific point that he may have on a one-on-one call to get this addressed. So, Sushant can you take on the doubtful debt provision?

Sushant Purushan: Yes, I understand we are focusing this as a key area. One of the largest transactions in this provision PDD was Bihar Planning and Development where there was in 2019 the amount has been hurled by the department. We have moved however to seek the legal option here because there was a discussion that happened and it's going in the right track right now. The first time the first hearing has come up and we're hopeful that will be going to clear us because the majority 25% of the balances comes from this particular department as well. There's one more significant help we also have improvement happened. There was a Ranchi Smart City Project we executed through a consultant called STUP Consultant and there is a good discussion happened and they have agreed to forward to pay us on that basis or pro rata basis. So having said that yes, we'll be closely working on this to ensure whatever is receivable from us will be received in coming quarter.

Asha Gupta: Thank you. The second question from Purshottam is, the billing rate of 3i in on-site geographies is even lesser than the minimum wage norms. How is that possible? Special mention of USA billing rates here. There seems to be something terribly wrong happening in the US billing. The billing rates and the cost of resources always move in sync. But this equation in case of 3i is completely out of sync. I have highlighted this issue of per person realization, an issue many times in earnings call but I have never got any satisfactory answer till date? Over to you Thompson.

Thompson Gnanam: Yes, sure I'll take this question. I think we have discussed about this as well multiple times. Maybe like what Sanjay said we need to have maybe a slightly deeper industry-level conversation. Maybe we cannot solve it in this particular call for sure because we need to get on the same page on where 3i was 2 years ago when the carve out happened and when slump sale happened and what was the residual business. It's very important for us to understand that. I've told this multiple times as well this cannot be compared with any other industry peers because 3i I was never a services company. What we are building today in the last 1-2 years is a services company. So, there cannot be any parallels on this in terms of any Tier-1 or Tier 2 established players in terms of billing rates or whatever because a lot of the businesses in US as I've been telling consistently these are onshore businesses. Nothing to do with offshore. Even in onshore, we have lower billing rates because relatively because you might be doing a subcontractor work for another player. Obviously, there are thinner margins and there are even more headwinds right now in terms of the pricing pressures there. So that is the impact. I think we need to have a more detailed conversation. Asha and Diwakar, I would probably say that we should have probably another meeting where interested people in the industry in the next level of conversation are more than happy to discuss it in depth and I think to get on the same page.

Asha Gupta: Thompson thanks. Third question from Purshottam's line is, exchange fluctuation benefits or loss in case of 3i in three quarters has been abnormally high, approx. 20% of revenue whereas this figure for all other companies is always less than 1% of revenue. Even if we look at the 3i past record, the exchange fluctuation impact has never been so high. We never got any satisfactory answer for this issue. Suddenly in Q1 FY23 result this component has come down drastically to saner levels. So how is that possible? Over to you Sanjay.

Sanjay Rawa: So, to answer to this point, our exchange fluctuation for last year has been less than 10%. So, I'm curious to understand how this is at 20% which has been stated in this particular note. Further, as I briefed in our earlier earnings call as well, we had amended our FCTR policy last year which stated that our foreign exchange translation which was earlier happening on the basis of an integral operation has been changed to a non-integral operation. Subsidiaries are given more I would say operating guidelines for them to operate on their own. So, this is how we instituted the non-integral policy which has led to the exchange gain of this amount. I don't see this happening at a large scale now going forward because this was due to a one-time adoption of this policy. For the current year we would find the exchange gain to be in line within the light companies and we are revisiting our hedge policy for the current year which would be in place by Q2 end.

Asha Gupta: Thank you Sanjay. Next question is, despite getting new orders and the inherent escalation clause in manpower contracts why there is no revenue growth happening? The single digit revenue growth reported by 3i in rupee terms gets automatically done even with the devaluation of rupee that has happened in the last 12 months. So where is the growth? What contract they are losing and what is the overall revenue impact on that account is just not shared, so there is no revenue buildup confidence coming up from management. $1 billion carrot has been kept far away in 2030. So, till 2030 arrives no one knows how that revenue will happen when the last 2 years the growth has been 9% to 10%? Over to you Thompson.

Thompson Gnanam: Thanks Asha. Just to kind of expand on this particular question from Purushottam, is very clearly there are 2-3 aspects that occur. We have kind of broken our businesses into professional services which is your traditional HCM business which the entire IT industry does that, the enterprise services which Sushant spoke about, and the value business or the digital business or NextGen business which Sax spoke about. What we inherited as a team last 2 years ago was predominantly the volume business which was predominantly personal services or a volume side of the enterprise businesses. That's where it is. So, if we look at it a revenue mix change has been happening and systematically. The first year was where we are building all these new lines of businesses which never existed. So that I think every shareholder should be first aware of and be very clear because year one was a year of building these new lines of businesses, forget about building new products and platforms. Being in parity to compete in the market even in your enterprise services and digital businesses it takes some time because it was not readily available. So, year one was spent only on retaining your existing businesses, playing it. The second year today if you look at it where we have completed last year is where truly the revenue mix change is happening and you'll see in our segment reporting as well. In fact, we're changing our segment reporting into more details from Q2 onwards. I think Sanjay is working on that where we will have more expanded segment reporting. So, it has very clear clarity in terms of what was the old traditional business we inherited where it is today and what are the new lines of businesses, how are they going what are the next generation businesses where their margins are going.

At least if you look at our segment reporting right now if you look at our Cloud First business which is one of our new lines of businesses, if you see there's a very clear upward movement which is there, and you see the gross margin movement in that as well. And similarly, the next generation business which is now starting which Sax spoke about all this will start showing a huge margin change which will happen. Specifically on the revenue terms yes of course, we are facing pressure in US in terms of the professional services business. There is pressure, we are not running away from it. We spoke about it. We had an impact of Green Cards in the last quarter, two quarters. That is definitely impacting us and there is a huge slowdown in the American market for sure. Every company, I think Q1 you take Tier-1s today I think the first time in the history of this IT industry there is degrowth for even a Tier-1 player like Infosys. TCS has grown in the lowest in the last 25 years, I guess. I think this is very real time and a relatively small player, we are not insulated. We are still fighting back. We are trying to put back these revenues very clearly. And that's where the net growth is there still. Still, we're not degrowing and we are going to stay to our outlook, and we'll make it happen. And we will definitely come with, you don't have to wait till two third, 2030 for sure. We have given our 3 years, 5 years forecast as well. So, one of the things Asha and Diwakar what we'll do is we'll put together a note here for our shareholders and investors maybe in a week's time as well and we'll upload it into our investor portal which will have clarity towards all this as well. So, in terms of detailed what is the revenue exchange, what is our medium-term goal, and how we want to achieve this goal, we will try and put a kind of a PowerPoint which even we probably had shared with our board and other things. We will try and articulate that as well as how we have moved it from the exit of 2021 to where we are today. What is the changes which has happened. There are a lot of these old questions which keep coming back in your questions as well. So, we might as well probably have one FAQ answer put through there which will probably help everybody.

Asha Gupta: Sure. Thanks Thompson. Last question from the Purshottam's mail is if KMPs of 3i have been so bullish about turnaround of 3i why none of them have exercised their ESOP till date? I presume all of them negotiated from ESOP as part of their compensation before accepting the employment offer. Now since we have started building pressure Thompson is assuring that he will excise some part of his ESOPs. I have never heard a case where other shareholders drive KMPs to exercise their ESOPs? Over to you Thompson.

Thompson Gnanam: Fair question. I think we spoke about it in the last meeting as well. I think we have to set the baseline right. 3i is a very unique organization because we don't have a promoter. All of us have worked in multiple industries for a long time, all of us have excised our ESOPs in our respective careers. It's very clear, we have all been part of all this. I think we should all be on the same page. This is the first time we have a small to medium cap company that doesn't have a promoter. So, we have to be sensitive to that actually. So, the responsibility and accountability of the management team is enormous and I think I expect every shareholder to be sensitive towards that. That's very important for that because it's a very unique scenario. But all said and done but definitely me and my management team, we will now execute this the points like what Purushottam spoke about we will do that to show that how we are committed because we all signed up in this organization as entrepreneurs and entrepreneurs trying to turn around the company in the absence of a promoter. So, we are sensitive to that, and we will take accountability for that, and we'll do that, and we also help and hope the same reciprocation from our shareholders.

Asha Gupta: Thank you, Thompson. We will take next questions which we have received from Madhu Kumar, an individual investor. His first question is, the business plan and projected figures are not matching with reality. For example, you have promised a PAT of Rs. 30 crores for FY23 but we ended up with almost nothing. The plan for the business you promised was $1 billion in 2030. But at the rate of 8% to 9% growth YOY it seems to be far away in reality. The PAT for this financial year was projected more than the financial year in FY23 but Q1 started itself with Rs. 16 crores loss. So, my question to you is, are we projecting the business based on some PAT or figures that are plugged from the air? Over to you Thompson .

Thompson Gnanam: I'll try and first answer that I don't think any of us pluck any figures from air. We are all serious businessmen and I expect the same reciprocation from our shareholders. as well, very clearly. To state the facts, I will go one by one.

One is we never told a PAT, even when we did the last year, we gave an outlook and guidance. We never gave a PAT number. We said we will hit Rs. 760 crores and we will do an EBITDA of Rs. 30 crores. That was the stated thing. Recordings can be taken, facts are available. Please look at it. I don't want to discuss the variables which hit us from the past or whatever it is. The reality is reality. We are taking that head-on, and we are trying to turn around the organization. So that's factually incorrect. That is point number one, Mr. Madhu

The second point is, very clearly, we spoke about this $1 billion thing, post the carve out when the company had no vision, mission, product sold which was left here, we had to set a direction. It's a direction for the organization. We can be naysayers to that. That's different. You set a direction where all of us work together and move towards that. The second part is how do we do that? Even that, I have repeatedly talked about it, and we are executing it systematically. I told it and I think we should also probably this is like a repeat every time I keep talking about it. A) Traditional business is never going to get there. No way it is gong to get $1 billion. Traditional B2B business will get you only you're on your goals wherever it is not going to get there. We spoke about B2B2B. We have revenues which are there which we will probably articulate in our segment reporting as well, where we'll see how to go. B2B2C, we have already demonstrated that we have got into this large project of NuRe Bharat network. You wait and watch how this revenue is going to happen. That is the answer for me in terms of all the naysayers, in terms of how this is going to get to 1 billion.

Asha Gupta: Next question from Madhukumar is, I see accounts payable more than Rs.1000 crores and receivables around Rs.369 crores. How did this happen? Whom we have to pay? You always say it's a debt free company and auditors say a different story. Can you give clarification for this? Over to you, Sanjay.

Sanjay Rawa: So, these are old intercompany outstanding balances for which we are in the process of filing our application to RBI for set off of the old balances. I think we did state in our earlier calls as well. So, this would get done. Now we are in the final stages of processing our application with RBI and this should get done by Q2 of this year. Further, I would like to update that we have already formed a subcommittee of the board for reviewing and taking necessary action for legacy related matters which is chaired by our Audit Committee Chairman, Mr. Uttam Agarwal and we are further looking into the matters so that we can get this addressed in toto.

Asha Gupta: We will take next question which has come from Srikanth Kamath, an individual investor. His questions are the company's other expenditure is Rs. 30 crores. Is it an investment for future development?

Sanjay Rawa: We do not have such an amount of Rs.30 crores under other expenses. So would like to get more details in this regard.

Asha Gupta: The next question from Srikanth is whether the company owns the office or it is a leased one?

Sanjay Rawa: So, we have our own offices as well, which is at Vashi wherein we do most of our BPO-related work and we had this earlier given to Azentio, which has got back to us in the last year. But all our other offices for corporate here in Mumbai and other offices, area offices in India and abroad are all leased.

Asha Gupta: Thank you, Sanjay. I will now hand over the floor to moderator for opening the Q&A session. We have finished all the questions taken from the emails which we have received from the investors. Thank you. Over to you, moderator.

Moderator: We have the first question from the line of Atmaram, an individual investor.

Atmaram: I'm an investor since 2010. Very frustrating. I hear tall promises. Previously, I'd asked a question on employee cost. It's almost 70%-80% of your entire revenue is your employee cost. Is it so difficult to rationalize the employee cost, identify where you are in excess, where you are actually spending your manpower? Why is it so difficult for years together, we keep on having these expenses so high. I asked you the same question nine months back. After nine months, I'm still having to ask the same question. I hope I don't get the same answer.

Thompson Gnanam: Atmaram, what I will do I'll allow my HR Head to talk about this because he's driving some of these initiatives. On a broad high level, I will say definitely I agree with you. For our services business where we are today, the huge, biggest component is human resources. We have to continuously keep optimizing it and we are doing that systematically. And now in an age of generative AI and large format, this is going to get disrupted in a big way. And we are also preparing to do that as the way forward is there. Because whether we like it or not, technology is changing. It's going to change the way the mix of the business is going to happen, that's for sure. But, I'll allow Mohan to expand on exactly what steps he's taking to optimize and rationalize.

T. S. Mohan: Sure. Thanks Thompson. Hi everyone. I'm glad connecting. So, very quickly going sharp into that space. It's a good observation. In fact, we've been working on it since beginning of this financial year. We have identified pockets of rationalization without impacting the business and also continue to fund further growth. So, it's a fine balancing act we're trying to do. We have identified wherever the opportunities in terms of pan rationalization, in terms of redundancies existing because of the technology changes. And we have in fact taken actions and we expect to see the financial outcome of those actions trickle down from Q2 onwards. So, we expect employee costs as a percentage of revenue to rationalize at an overall company level to 76% from 78%.

Atmaram: If I can just add, I asked the same question nine months back. I got the same reply. I don't see any change that's happening in the numbers. Because you say employee cost as a part of revenue in these days wherein, first of all, the number of employees in these days of AI and ML, is it really required that you have so many low-end employees in your entire structure? It's something that I've not understood. These are all very general answers that I get. Probably my frustration will go to the extent that I book my losses and get out after 12 or 13 years of being with this company.

T. S. Mohan: Fair question. So, I think I'll take a step back. I think it's important for us to understand the nature of the business wherein, so we are currently for classical as many numbers of years, even before one and a half year back we've been organized as a business of BPO services and classic infrastructure services and front-end application services which are extremely employee intensive operations. We started making the shift in the last one and a half years. I want all of us to come back to that shift which are happening as of now. So, as we see, our revenues from the newest technologies have started trickling in now and then rationalization in terms of the classical business. So, we cannot suddenly shift the entire business cycle for the purpose of its growth and stability. So, we continue to see the growth engine coming up and our investments in people are happening in the growth engines. I'm more than happy to have some short calls to see where we are investing in people in new technologies and new business areas and how we are rationalizing in low margin classical businesses while we continue to sustain them. So, I completely share your angst and my expectation is if you can continue to keep observing down the line next twelve months you will be able to see significant changes.

Moderator: We have a next question from the line of Narendra from Robo Capital.

Narendra: If I see in your presentation, you have guided Rs. 1000 crores for FY24 or you have set the target of that angle. So, given the headwinds in the western markets, is it still on track or are we seeing any shortfalls there?

Thompson Gnanam: Narendra, just to set a context, when we started two years ago, we set a goal saying that at the end of three years, we'll be at Rs.1000 crores is where our short-term goals which we set for ourselves. Last year we exited, we were planning for Rs.760 and we exited at Rs.730. But we had a good order book which we are now trying to execute this year. So, if you ask me, our target will be to cross Rs.850 this year. And I clarified in my planning call also when quarter-end we said that we want to exit this year with a Rs.1000 crore run rate. So that is a clear target we want to do so that when we exit this year, we want to at least have Rs.1000 crore order book, not revenue. Just to clarify.

Narendra: And any comments on the margins that you will be able to do in the say next 2-3 years, if not short term, then?

Thompson Gnanam: So, even just stay focused on this year, if you look at it, even the previous question which Mr. Atmaram asked also, see, one of our biggest pressures is to change the margin mix which we have been struggling and we are slowly seeing that. If you see our quarter-on-quarter and a month on annualized trend, we are already at around 16% in the gross margin levels. We want to take it up to almost 19%-20%, which is very important for us by changing it. Like what Mohan said, we need to change this volume value mix. The volume mix is almost to the lower margin levels and the value is higher. And now as the revenue mix is changing, we'll see the change of that. So definitely we want to target our 18%-19% for this year and a more share of at least the value business which has an average of 25% to 28% GM which is there for us and that's the kind of direction we want to take, Narendra.

Moderator: We have a next question from the line of Sanjyot Khare , an individual investor.

Sanjyot: First of all, we have seen the revenue and there is a growth of 2% and a good increase in grow revenue and considering the situation in market and we have seen a lot of IT companies have shown a degrowth in revenue and still 3iInfotech has managed to get a 2% increase. So, first of all, well done to your team and good work. We are expecting more increase in revenue and definitely margin. My question is about, one is how the cash flow looks like for the end of this quarter. Last quarter I think it was about Rs. 61 crore and the office space which was again I think the last call you mentioned that the office space got from Azentio still needs to be utilized or rented or to be sold. So, what's the status on that? And the second question is about the RailTel project. I think SAXhas given some update but how the situation is now? Are we going to get any revenue in this quarter and any big advertisers have been signed off.How the situation in the next two quarters, how we are looking for the revenue from this RailTel project?

Thompson Gnanam: Thanks for the kind words, Sanjyot. I'll allow Sanjay to speak on the cash flow and the Vashi property and then I'll expand on the other questions for you.

Sanjay Rawa: Let me give you a view of our cash flow as of 30th of June. The total cash flow, the cash in hand is about Rs.45 crores which includes earmarked FDs for our bank guarantees which is Rs.39 crores and our cash balance in our bank is about Rs.6 crores as of 30th of June.

To address our Vashi property, we did get back the three floors that we had given for Azentio. So, our plan is to get this mortgage. So, we are working on a working capital arrangement, the discussions are in the final stages with one of our bankers. So, the plan is to have the working capital get sanction done against mortgage of these three properties that we have got it from Azentio back.

Thompson Gnanam: Just to add to that we are also trying multiple ways because for us when we started it, the famous block and I also saw some comments saying that we got a debt-free company, Rs.100 crores in cash and all that. We'll also try and put that FAQ up because this Vashi was also included in that, so if you look at it from a planning perspective, as you rightly said, Rs.50 crores was against that and we never got cash back in our books and we just have the property. So fundamentally, immediately we are looking at multiple offers, we are also looking at sell and lease model. So, the purpose is that we are able to generate liquidity immediately so that will answer some of the questions which have been asked because that's a concern for us and we are working towards that. We have to fix it to keep us moving.

The second also is that since you asked it and maybe others might have similar questions, we are also trying to unlock the value of some of the investments we have made as well. As you know, you've been very closely following us some of the NuRe products and platform, this year we are trying to unlock that as well. So that will also be a way to infuse capital because there is a lot of interest in the market for some of these products.. We are now trying to see how we can unlock the value so you will hear more of that. These are ways by which we want to infuse capital into the company as well.

The third thing is the NuRe Bharat network which is RailTel as well. To your point, Sax did just speak about it. He did touch about it. To your point, Q2 now we are commercially ready and we are now building the funnel and closing it. We have a funnel of around Rs.50- Rs.60 crores right now and we are hopeful that we can close a few deals immediately. When I say Rs.50-Rs.60 crores, these are annual contract valuesBecause the advertisement contracts are for a year or some of them for two years. And immediately we are focusing on the sponsors and the co-sponsor blocks. So, we are selling off first the sponsorship which is like a primary sponsor. If you go to any of our railway stations, you'll see that the banner which is there to say like sponsored when you log in and then the co-sponsors, those slots are being sold off. So that will take care of our breakeven or our cost fundamentally As I explained before, we have the minimum guarantee of Rs.14 crores plus our operating cost. So, if we're able to close these deals, that will be taken care for this year's requirement. And all that other stuff which Sax spoke about will add to that in terms of revenues which come from Google integration. Already the first few dollars have started flowing automatically. Now we'll have to figure out how to get more better-quality content and do that. And third, also monetization of content as well. So, all this will start kicking in. But our primary focus is to get our bread-and-butter sponsor and co-sponsor ads out of the way.

Sanjoth: I just have a last question about how the business looks like now, I mean considering the situation in US and Europe. So how are the pipelines in the UK, Europe, and US? You can just highlight how the big deals are in the pipeline or how the wins or the number of deals you are working on increasing in the US and Europe regions.

Thompson Gnanam: As I said, see, US and any of the western geographies are a challenge. There are a lot of headwinds. There are a lot of relatively challenger deals available. What I'm saying is what the Tier-1s are refusing to reduce or whatever it is, there is an opportunity for us but that will be a problem, relative problem. Say for example a normal deal which might give a 40% GM in US, is available at 25% GM or 22% GM because the customer also wants to optimize. So those type of deals are there, but it's good enough for us right now. So, we are focusing on some of those challenger deals, at least in our existing account. That is one.

I said we won a TCV of almost $ 2.4 million in our existing accounts across various lines of business. So, predominantly these are value businesses that customers are buying from us relatively, which are higher priced by Tier-1 players. But we make good margin in that relatively because they are definitely 35% GM and 40% GM relatively. So that's a trend which is happening. And we want to stay focused on replicating some of those offerings only,. For example, just focus on credit union, focus on few areas and not spread us out thin. That is where in the Western markets. Definitely, there is a big upside which is happening in the Asian markets. If you look at it, Asian markets are reviving big time. We have seen huge traction. In fact, we have a renewed focus in our ASEAN territories as well because there's a good focus happening in some of those territories. Middle East is also pretty good. India of course, we are growing dramatically. The other one, as a strategy is we want to replicate the success of what Sushant and the team have done in India globally. The dim success if you look at additional and there is a huge opportunity for that in US and UK. This is a stable business. The way I look at it, this is a recession free though it will be margin is less, but we will get top line and a decent 20%-22% margin even in US and UK. So that's a strategy we want to replicate. Just replicate your IOCL, HPCL, all the wins, we are happening globally and there are a lot of people who are interested to look at that and optimize their costs in traditional business.

Moderator: Thank you. I now hand over the call to Mr. Thompson for closing comments. Over to you, sir.

Thompson Gnanam: So, thank you everybody and thanks a lot for all the questions. I'm sure there'll be more questions in your mind, but in this format, we try to see proactively how we can answer most of the questions which have been sent to our investment relation team of E&Y. As we are building a more transparent, progressive organization, we are more than happy to keep communicating with our shareholders. We are more than happy to have smaller group conversations. I'm requesting the E&Y team to facilitate some of these conversations where we can have more a deeper conversation, share it for the benefit of the larger group of shareholders as well. So, all these questions can be answered proactively. And I also want to thank you for all the support which all of you have had. I understand the pain for some of our long-term investors who have been with us right from the time of the company went through the CVR, the DRS, the various phases, the slump sale, and now I think we are all in the same, I keep saying that we are all repairing the plane as we are flying. I request your continued support for all of us as we can fix this plane and land it safely. Thanks a lot. Have a great month ahead and I'll talk to you soon. Thank you.

Moderator: Thank you. On behalf of 3iInfotech Limited, that concludes this conference call. Thank you all for joining us and you may not disconnect your lines.

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