



**“3i Infotech Limited
Q2 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 3i Infotech Q2 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be no opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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 ma'am.

Asha Gupta:

Thank you, Lizann. Good evening to all of you. Welcome to Q2 FY'24 Earnings Call of 3i Infotech Limited. 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 today and to answer your questions, we have top management of 3i Infotech Limited represented by Thompson Gnanam - Managing Director and Global CEO; Sax Krishna - Chief Operating Officer of Value Business; Sushant Purushan - Chief Revenue Officer of India Business Region; Harish Shenoy - Chief Operating Officer, Professional Services and Chief Risk Officer; Sanjay Rawa - Chief Financial Officer; Mohan TS - Chief Human Resources Officer and Varika Rastogi - Company Secretary and Head Legal.

Thompson will start the call with the business update which will be then followed by Sushant who will provide an update on India business. After that, 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 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 filed with SEBI and 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. Good morning and good evening to everybody and my greetings to all of you. We are happy to report that your company has reported revenue of INR 210 crores which is growth of 8.2% quarter-on-quarter, maybe 0.7% year-on-year. This is a gradual progress which we have made and also a positive PBT of INR 26.4 crores before the exceptional item which I will touch upon it actually. The H1 revenue stood at INR 404 crores and we are in course for our annual projections we have made and this is also a year-on-year growth of 13.6%.

With a backdrop of the headwinds, your company is making steady headway though there are many challenging economic scenarios especially in our major markets like US. We are still holding ground and we have been steadily and slowly growing our businesses and our challenger and our disruptor model is starting to pay for it because as customers are looking to optimize their cost, they are seriously looking at challengers like us and see if we can take up more business from our larger peers.

If you look at some of the other quick updates, we have logged in almost 35 new logos in the quarter which has gone by which is a good progress where we have initiated new logos with

multiple new customers have been brought on board. This also helps us open multiple opportunities. I will not get into the details of the value business and enterprise business and India region as Sushant and Sax can expand on it.

The key other important aspects which I want to touch upon also is that we have made some really strategic partnerships with InsureMO for insurance and Databricks. These are very important partnerships for us which will help us complement the capabilities with these partners and also make us ready for the newer markets which we want to expand. We also received the Gartner coverage and the market guide for Oracle Cloud Infrastructure Managed Services Specialist and Cloud Services in insurance and the big matrix assessment as well. These two are remarkable achievements for our teams, it is the hard work of the last few years that we have been able to get into the Gartner reports because they are very important for us and this is a great enabler for us to try business. We are also recognized as a prior to application to assist testing services vendor worldwide in the market guide for testing services as well.

These are some of the key headlines and also our future tech business is progressing and they are released their new products and platforms which is also creating a lot of interest especially in the CEO Cockpit and the CXO DSS where we have also been able to get new customers and revenue and this also is being evaluated by Gartner as a potential. It is not just descriptive and expression could be even possibly a digital twin simulation is where it is being explored.

Coming back finally into the before I hand it over to my colleagues if you look at the just to expand on the as part of an ongoing effort to build good governance, impairment has been carried out which is a activity which we do quarter on quarter for our US subsidiary, 3i Infotech Inc. and we have this goodwill which has been in our books for quite some time now, it's a part of our legacy beyond our pre-cardinal times and after the impairment testing a non-cash impairment charge of total INR 179.6 scores has been recorded for this quarter. This is a very positive way forward as we are building good governance for the organization and we are also resetting our baselines and benchmarks in critical geographies like US where we want to build on this one-time cleanup we have taken and so this is a very positive step which we have taken up a very careful assessment of the evaluation of this facility.

So coming back to this probably what I will do is I will pause here and let's have more time for questions so I'll probably hand over the mic to Sushant.

Sushant Purushan:

Good evening, good morning everyone, myself Sushant here. First of all thanks Thompson for providing the update and the Q2 overview of us. I just run with you what we have done this quarter for enterprise business.

So enterprise business predominantly, we have two business lines one is the our digital infrastructure business and our business process outsourcing business today. Compared to Q1 to Q2 we have grown approximately 16% quarter to quarter that's a substantial growth because we acquired some good customers in Q1 now that has given over a good revenue. The customers like IDFC First Bank, we got a data center order from Indian Oil Corporation and couple of mid-size customers as well so that helps us to grow the business by 16% quarter on quarter and this will improve further as well because these are the long-term entity contracts.

Just let me share with you other updates on enterprise services point of view. In last quarter we have added some seven new customers in Q2 itself that those are all the long-term entity contracts. We have gone live seven customers in Q2 including IDFC First Bank, Bajaj Electrical, we have gone live with from the mid-size of the Ujjivan financial which is going to be one of the significant client and also we have gone for a two cloud deal like Bata India and CavinKare.

So those going to help us. We have added 500 people net in Q2 which is a quite significant but the important point here is the purpose and realization revenue realization is significantly higher than the last year. Our purpose and realizations was improved by 45% because we have focused in Q2 the high-value services in enterprise services business that's something that great for us.

We also focused on improving the DSO because that's very important. So more and more private customers so that we look forward the improvement of the DSO that's something we worked on that. That's the overall picture on that.

So going forward this really helps us for Q3 because since these contracts are now become stable and we have got some good visibility as well. We expect Q3 is also going to do well, at least a double-digit growth in the Q3 and we look forward to see that improvement from all the customer side as well. So that's a brief update from my side with respect to enterprise services business.

Moderator: Should we open up for questions?

Thompson Gnanam: I think we'll have Sax update us about value business and NuRe Bharat Network.

Sax Krishna: Hello Thompson. Thanks for a good update. Let me give a brief update on our value business unit which is the unit we've been investing in terms of building capabilities and getting new solutions to the market which are digitally ready, cognitive enabled and cloud aligned.

As Thompson mentioned, we are finding the creative opportunities in our market despite the headwinds. Pipeline is growing which is indicated by a new logo acquisition that we mentioned. Our investments in build are equally being accepted by industry analysts as Thompson mentioned as well as by customers especially in the areas of testing, cloud and cognitive such edge solutions.

We also started our industry focus besides BFS which we have bought off a bank. We started our industry focus in insurance which is also gaining quick traction with close to probably ten million in revenue from insurance clients across the globe across our different solutions. Our application analytics in business is also growing and continues to be a largest contributor for a value business followed by cloud and followed by other business units especially future tech.

Moving on quickly to our other venture with RailTel called NuRe Bharat Network. We are now in a position where we have completely implemented the tech stack which is required for us to be able to monetize the Wi-Fi platform and we are open for business and the traction is quickly building both in terms of three segments - large public sector undertakings which have large marketing budgets and we are able to attract them to come on the platform. We are in close advanced conversations with a few hopefully to be able to announce it in the in the next meeting

hopefully. The second area is our enterprise customers, our existing 3i customers which is which is a quite a rich custom client base that we have are also accepting this proposition and coming on the platform to place advertisements. The third segment is retail which is a which is a quite a large segment to reach but we have found a model to reach and cover the retail segment that is also gaining traction quickly. So we hope to have this venture produce quite significant results in the coming months. I'll end my brief update here and wait for questions later.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Divya Daga from Vijit Global Securities Private. Limited. Please go ahead.

Divya Daga: Hello sir. I have a few couple of questions. My first question is regarding the clarity of our retail. So the amount given of INR 4.5 crores below the operating EBITDA, is it the amount we are paying to RailTel as a share or is it a product development cost?

Thompson Gnanam: Just to clarify , this is part of the contractual commitments because the contract says that we have a minimum guarantee of INR 14 crores per annum or 40% of the revenue which we generate which is higher. So this is a provision which we make every quarter towards that effect. Because right now our revenues have just started coming in because it's a project where obviously the first six months we take time in building the platforms and product and now it is ready and now the revenues are starting to come in. So we make these provisions in alignment with that.

Divya Daga: So we are expecting how much of revenue from this?

Thompson Gnanam: Yes, maybe I will probably summarize but Sax do you want to probably give us a standard data on the revenue funnel because this could be a common question anyway.

Sax Krishna: Absolutely. As I mentioned before, I think we have just finished the tech stack which was by design that it takes some time before you are open for business. We are, like I mentioned before, public sector undertakings, enterprises and retail.

We have a healthy pipeline. We have a great season coming up, both Diwali as well as Christmas and New Year where advertisements will increase. So we are hoping to see an uptick in the demand beyond the normal sustained business development that we would do.

Divya Daga: Okay, okay sir. My next question is, can you provide me the timeline for the settlement of INR 35,992 lakh receivables and INR 1,06,639 of payables? So when we will be able to settle this down?

Sanjay Rawa: So Sanjay here, so this is part of our existing, you know, what we have applied to for a set off with RBI. These are old matters. These are old payables from India and receivables to India and we have approached RBI for a set off of outstanding. So we should be able to hear from them, you know, by early next quarter.

- Divya Daga:** Okay. And I have one more question. In consolidated results, we have a forex gain of INR 45 crores in this quarter and INR 6.1 crores and also a little amount in last quarter. So can you provide me the clarity of, is it a regular gain or is it a accounting adjustment we are doing?
- Sanjay Rawa:** So it's not an adjustment, ma'am. See, what happens is, we have two elements of foreign currency translation. This is a foreign currency translation that happens due to our overseas receivables in India. Now we have two components in this, this quarter. One is due to, we had a share application money from one – which is from India to set down subsidiary which was subscribed and due to that we had a currency gain. That is the one-time part of it.
- And the second one is on the rupee, if the rupee depreciates in India, we get that element of exchange gain in rupees for overseas outstanding. So that is the second element that we have. So these two put together is INR 45 crores. But to answer your point, this is not regular. But going forward we don't expect a big amount coming into our books in the coming up quarters.
- Divya Daga:** Okay. Okay. Just last question. What is our ideal EBITDA margin for next two to three years? And what would be the revenue target for this year?
- Thompson Gnanam:** Yes, I'll take that question. So one is we are definitely on a conservative outlook. We will hit our numbers, which we told earlier, which is around INR 820 crores, without upsurge from RailTel, because that will be an additional top line for us. And also it will contribute to the bottom line for us, because we are anyway providing for the cost in our current P&L. Okay. That is one.
- The second to your question is, ideally, as we are trying to change the mix, because 80% of the business, which is still in our old legacy or run models, and FY2025 to the value business is changing, it will gradually change. But I think what we are targeting is mid-single-digit PBT and higher single-digit EBITDA is where we are targeting in the short term, to your question.
- Moderator:** Thank you. We'll move on to the next question. That is from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.
- Pratap Maliwal:** Thank you. And thanks for taking my question. So I just wanted to ask this quarter, we've had a strong increase in the indirect cost, and that seems to have gone mainly in the VBU segment. So what is the indirect cost component? And from Q1 to Q2, it's almost doubled. So what is the reason for that?
- Sanjay Rawa:** This is primarily due to the increments that got affected in Q2. That is one element. And secondly, we have some projects wherein we have started the new projects, and those projects, we have sign-offs coming in the coming quarters. So those costs have come, but we don't see that kind of indirect cost go up going forward.
- Thompson Gnanam:** Yes, because we also, some of these projects, to your question, we overinvest, because some of the new deals we invest upfront, some of these costs. The second also, if you look at it, the entire cost of new projects such as RailTail operation, operating costs, all this are pre-booked here right now.

- Pratap Maliwal:** Okay. But the RailTail cost and that increment cost are given a separate line item in the business summary. So how does it reconcile with that?
- Thompson Gnanam:** Yes, you have a point. So what is there in the separate is that we have called out the MG for Minimum Guarantee for RailTail in that line. But other operating costs which are there as part of the operations, which is right now funding it. And then once the revenues are taking in, it will move out of this cost. That is one. Second also, as like what Sanjay said, there are some transitional costs on the new business which is coming in.
- Pratap Maliwal:** Okay. Thank you. And now there's another cost item called PDD in the business summary. So what does that allude to?
- Sanjay Rawa:** So that's the Provision For Doubtful Debts. We go as per the policy of the company, wherein if certain receivables get stretched beyond a certain point in time for collection. These are primarily the government projects collection, which sign-offs get awaited. And we expect most of that to get collected back in future. But as a good prudence and as per the policy guidance of the company, we take that provision in the books.
- Pratap Maliwal:** Okay, understood. And just one more thing regarding our reclassification of revenue. So till now, we've had our business in the form of the run and the grow business. So my understanding was, I'm just trying to reconcile it with our current classification. So the run business now refers to the ES and the PS. Is that the run business that we had and the volume business?
- Thompson Gnanam:** No, absolutely, absolutely. That's what I'm really happy that you've been following us so closely and spot on. So the run business is what we inherited post-carve-out, the lines of business and what we've been doing. So predominantly, if you look at it, the entire professional services business and almost close to 75% of the ES business will be the run. The value business and some portions of next generation digital infrastructure management and other stuff, which Sushant does, comes part of the grow. So you're absolutely right.
- Pratap Maliwal:** Understood. Okay. And just one last thing I wanted to understand regarding our hedging policy. I think we were supposed to put in place a hedging policy. Is there any update on that?
- Sanjay Rawa:** So the hedging policy is getting framed. We should be able to get the policy done by Q3.
- Pratap Maliwal:** Okay. Thank you. Thanks a lot for taking my question.
- Moderator:** Thank you. The next question is from the line of Sanjay, an individual investor. Please go ahead.
- Sanjay:** Yes. So good to see a big jump in revenue for Q2 in this challenging environment compared to other companies which are really struggling. So it's great to see that and congratulations to your team, wonderful work there. We are seeing that we're getting impact on the bottom line. Mostly the gross margins have reduced on IMS and Cloud First. So are we seeing what are the reasons for that? And are we seeing the margins will improve in Q3 and Q4 going forward?
- Thompson Gnanam:** Yes, Sanjay. I think these are all interlinked. If you look at it, a lot of new businesses come in these areas. So we have taken in a lot of setup costs and transition costs and upfront costs which

are there. And so most of the revenue extraction for the cost incurred, you will start seeing that coming in Q3 and Q4.

Sanjay: That's great. On the RailTel side, when are we seeing the RailTel project will have a break-even or start being profitable? Are we seeing in this financial year?

Thompson Gnanam: No, definitely, Sanjay, because what I would probably acknowledge is that because the technology and the dependencies is pretty high. Probably, we were late by three months. But I think now we have a good handle on the entire platform technology and I would call it a hybrid physical strategy. So definitely, we are just waiting for some two, three large breakthroughs. If that happens, break-even will happen very quickly. Otherwise, definitely, I think we want to at least cover our costs. At least the MG costs have to be covered for us, Sanjay. That's our first milestone, because we are anyway booking those costs in our current P&L and it's also stressful for us with our limited capital which we have. So it's very important that we break through with that as a step one.

Sanjay: Okay. Another question is about the big deals. I mean, are we seeing that the big deals are getting closed or it is only the smaller deals are getting closed? I mean, how's the business scenario now? Is it improving compared to Q2 and Q1?

Sax Krishna: So absolutely. So, we're seeing a mixed behaviour in different verticals, actually. The behavior is slightly different. I don't think there's a single pattern. Like I mentioned before, some of you actually appreciate it. Our revenue has taken an uptick even I expect to competition because we're able to find the transformative deals. And those are happening in not large monolithic deals. There are a few and we have our share of those big deals and we hope to announce them. But there are lots of mid-sized deals which are happening because these are digital transformation projects which are being taken up by the order of preference, like customer-facing, supplier-facing, not so much mid-office. So there's a lot of these digital transformation projects that are happening in the marketplace and we seem to have a fair share of attraction towards those.

Sanjay: Sure. Yes.

Thompson Gnanam: And also, slightly strategically, Sanjay, I see that sometimes -- that's why we are also trying to figure out even in the Western markets like US and UK, there is definitely a potential for a opportunity for customers where they are looking for serious cost reduction from their current suppliers and some of the contracts are coming up for renewal. So where we are now trying to participate and try and see if we can win some of those deals as well. But to your point, I think the run rate deals are increasing. Smaller deals are coming in very systematically. If you see, there are a lot of new logos we have signed up. It could be small. It could be INR 100K, INR 150K, INR 50K. But it at least gives us a foot in the door.

The second also is that we are also making a huge reconnect program like what Sax told about some of our old existing customers where we are not expanded. We were with only one line of business. All of them have their own perception of our capabilities because they've been with us for some time. But now, over a period of time, they're slowly starting to trust us with new lines

of businesses because that is very important because that will expand with existing customers also. So those are the kind of positive green shoots which are happening.

Sanjay:

That's great. And I have a question about this product and platform like EdgeTech, FutureTech, and CampusLab. So how are we seeing attraction now in the market? Are we seeing that deals are getting closed in this area?

Thompson Gnanam:

Yes, absolutely. Because NuRe FutureTech has been extremely successful because all the products, especially our CXO corporate, CEO DSS, all of them are moved beyond MVP to commercial grade right now. We are having paying customers. And now we are into the stage where we are getting industry orientation of these products which we have developed. So for example, utilities and gas in India, we have got that. We are working on healthcare for UK. We are working for credit unions in US. So that is now becoming even more-better. And individually also, these companies are gaining a lot of attention.

As you remember, we said that each of them will be independent companies which will create independent value. And there's a lot of interest for these products and platforms and where we want to also start filing our patents and IP also towards that and see how we can monetize it. So that is happening for NuRe FutureTech.

And NuRe EdgeTech also has been moving very fine because we developed on our 5G labs, IoT, SD-WAN, SAS A. SAS A, we already have paying customers and that is now expanding. We are now trying to get into contracts with telcos who want to take it to their customer. We are on the initial stage of this. We spoke about it last time also. So that's positive.

And in fact, we are starting to participate in 5G lab setups programs as well, hoping to see some success there because there are a lot of contracts coming both in government as well as in private areas on 5G lab setup. SD-WAN, we have already implemented a few customers as well and we are now trying to ramp-up that in the NuRe EdgeTech.

The third is NuRe CampusLab. Again, NuRe CampusLab, we are creating a SaaS platform. We have already some paying customers. Now we are trying to make it US and UK. I typically focus on mid-segment educational universities and who are looking to reach their old PeopleSoft Oracle and things like that. So that's the update on these three NuRe companies.

Sanjay:

Thank you for that. And last question is about the cash part. It was discussed last time about the Vashi property. Is it something the property is already given on the use for someone or any plans you are having for using the cash?

Thompson Gnanam:

Yes, see cash is a very big important problem for us for the company because we have to monetize these assets. Otherwise, fueling our growth strategies will become a difficulty as we have been talking. Right now, I think we are in advance discussions with some NBFCs and some bankers finally, where we could probably use the Vashi property to support us with the working capital limits and other facilities.

Sanjay:

Yes, that's it. Thank you. Thank you very much and wishing you all the best.

- Thompson Gnanam:** Great. Thanks, Sanjay. Thanks a lot for your support.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for the closing comments.
- Thompson Gnanam:** Thank you. Thank you, Asha. Thanks a lot for the questions and the interest and the support you have shown us all this while. Be rest assured that your management team and the organization, your organization, we are working towards this common goal of creating value for all of us. Thank you.
- Moderator:** Thank you, members of the management team. Ladies and gentlemen, on behalf of 3i Infotech Limited. That concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.