

August 04, 2025

Listing Compliance & Legal Regulatory
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Stock Code: 543227, 974820 & 975101

Listing & Compliance
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Stock Code: HAPPSTMNDS

Dear Sir/Madam,

Sub: Transcript of Earnings Call held on July 30, 2025

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Para A of Part A of Schedule III, please find enclosed the transcript of the Earnings Call held on July 30, 2025, post announcement of financial results of the Company for the quarter ended as on June 30, 2025. The transcript is also uploaded on the Company's website (<https://www.happiestminds.com/investors>).

This is for your information and records.

Thanking you,
Yours faithfully,
For **Happiest Minds Technologies Limited**

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





“Happiest Minds Technologies Limited Q1 FY '26 Earnings Conference Call”

July 30, 2025



Management:

- Mr. Ashok Soota** – Chairman & Chief Mentor
- Mr. Joseph Anantharaju** – Co-Chairman & CEO
- Mr. Venkatraman Narayanan** – Managing Director
- Mr. Rajiv Shah** – Executive Director
- Mr. Ram Mohan** – Chief Executive Officer – Infrastructure Management and Security Services (IMSS)
- Mr. Sridhar Mantha** – Chief Executive Officer, Generative AI Business Services (GBS)
- Mr. Anand Balakrishnan** – Chief Financial Officer
- Ms. Priyanka Sharma** – Head of Investor Relations

Moderator:

- Ms. Aditi Patil** – ICICI Securities

Moderator: Ladies and gentlemen, good day, and welcome to Happiest Minds Limited Q1 FY '26 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

With this, I now hand the conference over to Ms. Aditi Patil from ICICI Securities. Thank you, and over to you, ma'am.

Aditi Patil: Thank you, Samiya. Good morning, ladies and gentlemen. Thank you for joining us today on Q1 FY '26 Earnings Call of Happiest Minds Technologies Limited. On behalf of ICICI Securities, I would like to thank the management of Happiest Minds for giving us the opportunity to host this earnings call.

Today, we have with us Mr. Ashok Soota, Chairman and Chief Mentor, Mr. Joseph Anantharaju, Co-Chairman and CEO; Mr. Venkatraman Narayanan, Managing Director; Mr. Rajiv Shah, Executive Director; Mr. Ram Mohan, CEO, Infrastructure Management and Security Services; Mr. Sridhar Mantha; CEO, Generative AI Business Services; Mr. Anand Balakrishnan, CFO, and Ms. Priyanka Sharma, Head, Investor Relations.

I will hand it over to Priyanka for safe harbor statement and to take the proceedings forward. Thank you, and over to you, Priyanka.

Priyanka Sharma: Good morning to all participants in the call. Welcome to this conference call to discuss the financial results for the first quarter ended June 30, 2025. I'm Priyanka, Head of Investor Relations. We hope you have had an opportunity to review the earnings release we issued yesterday.

Let me quickly outline the agenda for today's call. Ashok will begin the call by sharing his perspectives on the business environment and our results. Joseph and Venkat will then speak about our financial performance and operational highlights, after which we'll have the floor open for Q&A.

Before I hand over, let me begin with the safe harbour statement. During the call, we could make forward-looking statements. These statements consider the environment we see as of today and carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically.

Let me now pass it on to Ashok. Ashok, over to you.

Ashok Soota: Thank you, Priyanka. Good morning, everyone. It is truly a pleasure to have you with us today as we step confidently into a new fiscal year. In Q1 FY '26, Happiest Minds has powered ahead, delivering 17.5% year-on-year growth in constant currency and maintaining a robust margin of 21.4%, firmly within our guided range.

Our EBITDA this quarter stood at ₹ 124 crores, achieving a standout 12.9% sequential growth, well ahead of most peers and industry trends. In a quarter where most reported muted or single-digit growth, our strong profitability and disciplined execution clearly sets us apart.

What makes this milestone even more significant is that we achieved it while continuing to invest deeply in our future, strengthening our delivery ecosystem, scaling our platforms, driving innovation across our focused verticals and making sustained investments in the GenAI business unit and in the Net New sales unit.

Friends, as shared in our last call, over the past two years, we have launched ten transformational initiatives, and it is gratifying to see them now taking root and delivering tangible results. These initiatives are helping us not only to grow but also broaden our horizons, unlock new opportunities and shape the digital landscape ahead.

We are proud to have delivered another quarter of double-digit growth, backed by a superior margin profile, which has been sustained for 20 consecutive quarters, earning our customers' trust as their advisors and co-creators in shaping their digital journeys.

Last quarter, we announced that Joseph has become the Co-Chairman and CEO as a part of our planned succession. Joseph brings his steady vision and deep commitment to drive profitable growth and strategic strength. Let me touch upon the four most prominent strategic transformations that have touched and shaped this quarter's performance and will continue to drive value in the years ahead.

Through our acquisitions in the previous financial year, we have significantly deepened our capabilities in BFSI and accelerated our leadership in AI-driven digital transformation. These entities are now fully integrated into the Happiest Minds fabric, delivering innovation across 13 countries and powering performance that is well above industry benchmarks.

Three other significant transformational changes were introduced in the second half of FY '25, and we had shared that the impact would become visible in FY '26. We are seeing exactly that unfold this quarter and will continue hereafter.

Reorganizing Happiest Minds on six industry verticals basis was one of these changes. We are noticing that this verticalization strategy is already fuelling accelerated growth in Travel, Media & Entertainment and Manufacturing. BFSI has become our largest vertical, and Healthcare, our third largest, is also gaining strong momentum.

At the same time, our focused investments in the GenAI business unit under Sridhar Mantha's leadership, and the Net New sales engine under Maninder Singh are not only advancing this quarter's growth but have also built a strong foundation for sustained high-quality growth in the quarters ahead.

Friends, as you are aware, the global IT industry continues to face its own set of challenges with many peers reporting flat or subdued performance. Our 10 strategic transformation and focused investments have enabled us to navigate this environment with clarity and conviction, driving growth ahead of industry levels.

We believe the impact of these transformational changes will continue to drive strong momentum through the coming quarters this year and even more so in FY '27. We are confident that this momentum will help us deliver double-digit growth over a three-year cycle that began last year and will carry through FY '27.

On that note of confidence and progress, I will now hand it over to our Co-Chairman and CEO, Joseph, who will bring these strategies to life with stories from the ground, recent wins across our business and updates on the other key initiatives.

Joseph Anantharaju:

Thank you, Ashok, and good morning to everyone on the call. I'm delighted to share that this quarter has been another period of solid growth and outstanding performance for Happiest Minds across all fronts.

Leveraging the strong foundation we have built and the 10 transformational initiatives underway, we are seeing momentum accelerate across our key business units and geographies, translating into strong double-digit YoY growth of 17.5% in Constant Currency and healthy profitability.

Active customers have grown from 281 to 285 and million \$ customers have increased from 57 to 59, showing how we are deepening relationships and converting early engagements into multimillion-dollar partnerships. Repeat business remains strong at 94%, a consistent metric that reflects both customer loyalty and the stable growth engine.

Let me briefly touch upon the demand environment. The global IT industry continues to face a mixed environment marked by macroeconomic and geopolitical uncertainty. At the same time, customers need to execute on their digital and AI strategies to remain competitive and deliver growth.

Demand remains resilient in key verticals such as BFSI and Healthcare, while Technology, Media and Entertainment and Manufacturing are beginning to show early signs of renewed investment. Against this backdrop, Happiest Minds has delivered a standout quarter.

In an environment where customers are seeking partners to help them achieve more with less, modernize data and adopt AI, GenAI for greater efficiency and resilience, our continued investments in these areas are clearly paying off. These focused investments have translated into strong results across our portfolio.

Our GenAI business unit led the way this quarter with 14.5% sequential and 89.8% year-on-year growth while showing significant traction with multiple pilots scaling into long-term engagements and utilization improving sharply from 34.3% to 40.8%.

IMSS is driving growth with stronger realizations and three new global clients added this quarter, and both IMSS and PDES delivered healthy year-on-year gains, underscoring the broad-based momentum we are building.

I'm also delighted to share that our annual flagship tech event Blitz 2025 concluded successfully on 24th July. Under the theme Generate and Innovate, our teams showcased how we drive

disruption, innovation and acceleration, highlighting our commitment to building future-ready solutions and platforms. Many of the solutions and concepts showcased in Blitz hold huge potential and should contribute to our growth in the coming years.

When I look at this quarter, I see our three pillars of unifying strengths, igniting innovation and cultivating enduring partnerships coming alive in tangible ways. When I stepped into this role, I carried a clear vision to build Happiest Minds into an organization that integrates seamlessly, innovates relentlessly and forges partnerships that stand the test of time. This quarter, that vision is translating into action and measurable results.

We are unifying strength by integrating our acquired entities, harmonizing processes, platforms and talent to build a stronger, better and bigger organization. We're igniting innovation by investing in next-generation solutions advancing cloud, AI and GenAI offerings and leveraging domain expertise to power client transformations.

Third, we are cultivating enduring partnerships with some of the leading technology companies, deepening engagements, co-creating on priorities and earning long-term trust. Let me share a few stories from the ground.

A leading U.S. airport chose us to reimagine their customer interaction platform, not as a proof of concept, but as a full production-grade GenAI deployment, transforming passenger experiences in the airport. In BFSI, an insurance major entrusted us to automate critical workflows using Microsoft's Power platform.

In Australia, a mining services company engaged us to overhaul IT infrastructure and cybersecurity at a time when operational resilience is a Boardroom priority. We're also working with a global home improvement retail chain on custom finance and IT solutions and with a multinational logistics company to embed GenAI into the operations. These are some of the many wins powered by our investments in Net New sales, combined with a proven land-and-expand approach.

Our industry group verticalization strategy is also showing results. We are seeing strong momentum in Technology, Media and Entertainment and in Industrial & Manufacturing with the resurgence in discretionary spending. BFSI, our largest vertical, contributing 26% to revenues, and Healthcare, our third largest vertical, continue to build on their momentum.

We're also witnessing strong traction in global capability centers or GCCs and within the private equity ecosystems. We continue to support the PE portfolio companies in their post-acquisition journeys, unlocking synergies while enabling GCCs to modernize operations and deliver greater value. These initiatives are gaining momentum, and we expect them to drive meaningful results and growth in the coming quarters.

Our product-led SaaS strategy is another important driver. Arthra, our flagship unified banking platform, is showing encouraging signs of expansion. In BFSI, our Insurance-in-a-Box is replacing fragmented systems with a unified low-code solution that streamlines insurance operations, accelerates product launches, lowers costs and ensures compliance. Together, these efforts are enabling insurers and UMAs to operate smarter, faster and at scale.

Our revolutionary Healthcare product built on unmatched bioinformatics capabilities and collaboration with leading research institutions is progressing well too, with development on track for a potential launch by Q1 of FY '27.

In Q1 FY '26, we delivered EBITDA with a 21.4% margin, achieving 12.9% sequential growth. Sustaining this level of profitability while integrating acquisitions, investing in GenAI and strengthening our sales engine is a testament to the resilience and scalability of our business. When you connect the dots, our strategic transformations and focused investments are clearly driving strong financial outcomes, telling a compelling story of purposeful change, seamless integration and long-term value creation.

Friends, as I reflect on this quarter, it is clear, in a challenging industry demand environment, our transformation initiatives are working. Our growth is broad-based and our outlook remains strong.

With that note of confidence and excitement about the road ahead, let me now hand it over to Venkat, our Managing Director, to walk you through the numbers and share how we are thinking about the future. Venkat, over to you.

Venkatraman Narayanan: Thank you, Joseph, and good morning, everyone. The next few minutes, I'll cover the financial and operational highlights of the quarter, first quarter of FY '26. To start with, we have posted a very encouraging set of numbers. Seeing numbers and results ticking in from others in the industry, I do feel even more so.

At \$64.4 million, we have shown a sequential growth of 2.3% in dollar terms. Coincidentally, growth in constant currency has been also at 2.3%. Our year-over-year growth on discount was 16%. This is the 20th quarter after our IPO where we have shown sequential and year-over-year growth in our revenues. Our revenue CAGR in constant currency, if counted from IPO, is about 25%.

Coming back to the quarter, in rupees, we reported a total income of ₹ 580 crores, a growth of 18.5% year-over-year. I would like to mention that our results reflect our unwavering focus on growth alongside with profitability.

Operating margins at 17.6%, showing a sequential growth of 19.7%, reflects a swing back over the temporary dip we saw in the previous quarter. Year-over-year, growth of 5.8% in our operating margins despite continued investments in our Generative AI business, new sales engine and other transformational agenda items reflect our commitment to our vision of profitable growth.

If you look at our segmental results, Generative AI Business Services has broken even at an operating margin level this quarter. This is a swing from a loss of about ₹ 2.53 crores in the previous quarter to a marginal profit of ₹ 24 lakhs this quarter. This business ran at an average utilization of about 55%.

Our opportunity cost, or rather, I would like to call investment in the segment, for the quarter continues to be about ₹ 3 crores. That's computed on the basis that Generative AI services if it

was to deliver the similar levels of profitability as our PDES business or slightly higher, we should have seen a margin increase by about ₹ 3 crores.

Now if you adjust our operating margin for the above number and similar investments in our new sales engine, the number on profitability or operating margin we would guess is about 18.4% to 18.5%. I referred to these adjustments to highlight the path we are taking to improving operating margins as we will see some cost pressures going forward into Q2 due to our planned pay increases.

In sum, efficiency in our established businesses payback start from our new business segments of Generative AI and our new sales engine and some bit of luck or benefit from foreign currency movements will be definitely required to mitigate people cost increases that we'll see in the coming quarters.

Now coming to EBITDA, we are back to 21.4% for the quarter, which is about ₹ 124 crores. Our profit margin percentage is within our estimated range of 20% to 22% on total income. Sequential & year-over-year growth in EBITDA was 12.9% and 6.3%. I will not delve too much into these as I've covered the rationale for growth and improvement while talking about operating margins.

Our PAT for the quarter at 9.9% and ₹ 57 crores showed a sequential and year-over-year growth of 68% and 12%, respectively. Adjusted EPS, as I mentioned in my earlier call, a better indicator of stable shareholder return, was ₹ 4.55 for the quarter.

Coming to certain operational metrics, utilization for the quarter stood at 78.9%. This has been the best in the last 9 quarters and reflects some of the steps taken towards improving efficiency in delivery and demand-aligned resourcing that we are resorting to. As we had shared in our previous call, enhancing utilization remains a key priority, and we are pleased to see our efforts yielding tangible results.

We ended the quarter with 6,523 Happiest Minds, showing a reduction of 109, while gross additions were close to 150. Our attrition has trended upwards to 18.2% and efforts are on to manage this and bring this in line with previous quarters.

Our DSO has slightly increased to 91 days, and we are trying to reign that in and bring it closer to a long-term average of between 85 to 88. Capital return ratios of ROCE and ROE have shown substantial improvement to 23% and 14%, respectively.

On customer metrics, we increased our \$1 million clients to 59 from 57 in the previous quarter. Total customer increased on a net number basis by 4 to 285. Billion-dollar customers have stayed constant at 85 and so has the average revenue customer remaining range-bound at about \$900,000 per customer.

Looking ahead, we'll continue to drive growth in areas like Cloud Data, Cybersecurity and AI-led transformation in our verticals of focus while maintaining financial discipline. For the year, our effort is to deliver double-digit growth in constant currency while maintaining our EBITDA margins in the range of 20% to 22%. Thank you for your time and continued trust.

Moderator: We'll now open the call for questions.

Moderator: The first question comes from the line of Ruchi Mukhija from ICICI Securities. Please go ahead.

Ruchi Mukhija: Firstly, the question on your geographic growth mix. This quarter, we saw a sequential revenue decline in our largest market, the US this quarter. Concurrently, revenue from our top client also declined. So could you help us understand how the U.S. market performed for us outside the top accounts?

Joseph Anantharaju: If you see, one of the criteria for the acquisitions we made last year was the diversification of our geographic revenues. If you recall, a year or maybe 1.5 years back, our share of revenues from U.S. was around 75%, which was uncomfortably high, and through organic means and inorganic means, we've been able to diversify. So, it's a deliberate strategy to get the share of U.S. revenues to around 60%.

Now there has been a small sequential decline in the revenues from India, and there are a couple of reasons to this. The first reason is that one of our customers had a 1.5-year program that just got completed. We finished it in Q4, and we've not redone the engagement, and that had some impact.

Secondly, we had a customer that is relooking at their overall strategy, and they had paused a couple of their programs. But as I mentioned earlier, I think while there are some challenges in the macroeconomic and geopolitical environment, I see resilience in the demand environment and customers wanting to undertake and execute on their strategic initiatives, especially in the second half of Q1 and I think this momentum will carry over into Q2.

Ruchi Mukhija: My second question was for your geographies, which saw a very strong growth this quarter, India and APAC. So, do we expect this kind of momentum from India and APAC to continue in the near future?

Joseph Anantharaju: If you look at the growth from India and APAC, It is much on the higher side in this quarter. So, while I expect the growth to continue, it would not be at the same level. But if you look at APAC through our acquisition of PureSoftware, we did get a couple of large accounts. Out of those accounts in the BFSI space, one of them is a leading Banking and Financial Services company.

We are doing most of our work with the units in APAC, and that's shown very good growth. We have solid relationships, good track record, and we expect this account to continue growing and get into the \$10 million range by end of the year.

In India, we do have a Healthcare company that we're working with, which has done quite well. We have also transitioned several engagements previously managed by the U.S. entities to our India and GCC centers, and we are actively collaborating with the GCC teams. Consequently, the transfer of funds from the U.S. in dollars to India has contributed to the slight decline in North America revenues that you referenced, while simultaneously driving growth in India. Having said that, I think India is a geo that we are quite bullish about. Probably our share of revenues from India is among the highest and just given the continued growth rate in the US GDP this is a geo that we will continue focusing on.

- Ruchi Mukhija:** Last quarter, we had mentioned that we will relook at our \$1 billion revenue target. Could you please share any updates regarding our \$1 billion revenue target that we had earlier set?
- Joseph Anantharaju:** As part of our vision, we had set ourselves a goal of being a \$1 billion company by FY '31, and the market environment in which we had set that goal was a more conducive environment. There were several other goals that we have set as part of that vision on which we're progressing well.
- If you really look at our CAGR from FY '21 to FY '25, we've done a CAGR of 23.5%. And to get to \$1 billion by FY '31, we'll need around 22% to 23%. So it is doable, but the market conditions are a little different as we pointed out last time. We are tracking and reviewing the situation and when we feel that we need to make an announcement or an adjustment, we will come back.
- Moderator:** The next question comes from the line of Ms. Aditi Patil from ICICI Securities.
- Aditi Patil:** So, my question is on order book and pipeline. Could you please provide some insights into the current status of the order book, including year-over-year growth trends? Additionally, how is the sales pipeline developing? Do you anticipate the second half of the year to outperform the first half, or should we expect the usual seasonal patterns in the third quarter?
- Joseph Anantharaju:** We don't share numbers on our order book and pipeline; we've addressed this several times. However, we have observed robust growth across our order book and pipeline, spanning various geographies and industry verticals, which reflects positive momentum.
- It is coming from two angles. One is the NN strategy that Ashok referred to. The team has come together in Q1, and we have several large customers that have already got closed and some that are in later stages, and a few of them have started with discoveries, which should lead into larger implementations in Q2 and Q3 and others are starting off at decent size right off the bat.
- Our land and expand strategy, which is something that has worked out really well for us, continues to do well. If you see the number of \$1 million customers, has gone up. We have one additional \$10 million-plus customer and one additional \$3 million to \$5 million customer. The \$1 million customers have gone up from 57 to 59. So, all of these metrics reflect the increased pipeline and the order book that we have.
- Venkatraman Narayanan:** Started the quarter with about 2.3% growth like we mentioned and talked about on the call earlier. Obviously, H2 is expected to be better, except for the seasonal issues of some holidays in Q3, we should hopefully do better, and that's how we will achieve that double-digit growth for the year.
- Aditi Patil:** We gave the share of revenue from automation, and there has been a significant increase in Q1. So how do you define automation and what has driven this sharp growth?
- Joseph Anantharaju:** If you look at automation, the various components out here is RPA that includes infrastructure automation; BPA, business process automation; and low code, no code related work. If you just see that with GenAI also coming in, there's a huge push towards automation.

We're looking at how you would automate most of L1 activities from an infrastructure monitoring standpoint and automate quite a bit of the L2 activities, and we are building some solution accelerators internally to enable and to accelerate that.

On business process automation, there's been a huge push by customers to bring in more efficiency and accelerate some of the process, whether it's order to cash or managing inventory and other processes, just because of the cost pressures that they are facing. They are investing in a range of automation initiatives, which aligns effectively with the Digital Process Automation CoE we established six to seven years ago.

Low-code no-code is something that customers are looking at to enable citizen developers and to get applications out faster, and so all of these have contributed to the growth that you see of the revenue from automation from 25.3% to 28.2% in Q1.

Aditi Patil: The next question is on the Hitech vertical. So this vertical has been soft for last 2 quarters and is flat on a Y-o-Y basis. What has led to the softness and when should we expect recovery in this vertical?

Venkatraman Narayanan: While Joseph talked about the order picture, from the industry standpoint, there is a minor adjustment to that figure due to a bad debt incurred from a significant customer in the Hi-tech sector.

Joseph Anantharaju: Even after including the changes Venkat mentioned, if you look closely, the numbers move up and down a lot, like duck feet moving under water. During the quarter, a few customers in networking space and one in Tech space grew a lot, which you can see in the top 20 customers.

If you remember last earnings call, we talked about a customer in the Hi-tech sector, we took a hit on our margins as well because of the write-offs that we had to do, they were not able to raise the next round of funding, and we had to stop that project. So there has been a spillover effect of that.

Overall, there is significant investment in the Hi-tech and Media & Entertainment sectors. This includes initiatives in networking, increased utilization of Generative AI in various activities, and our recently launched Hi-tech analytics program. We anticipate that this vertical will exhibit growth in the upcoming quarters.

Aditi Patil: Colour on the momentum in Travel and Manufacturing. So should we expect this momentum to continue going forward?

Joseph Anantharaju: So, if you look at TME, there's very little Travel. It's Media and Entertainment, and we'll probably reclassify it as such. But we had quite a few customers in this space. For one of the largest cinema chain in Mexico and globally, we did a discovery exercise on multiple digital areas and some of the implementation started in Q1. So that momentum should roll over into Q2 and Q3 as well as we ramp up the execution of these projects.

One of our U.S.-based customers who's in the Ad-tech space, had good results in the last quarter, I think the second half of last calendar year was not as good, but they have managed to recover,

and as such, their spending has increased, and we are their largest engineering partner. So that has again contributed and that should sustain itself unless their results improve and they decide to invest more.

There are a couple of other customers that have also contributed. Overall, in this space, the areas to focus on are around data engineering, how to help them with Ad management and generating additional revenue. Those are the areas that our Media and Entertainment domain is focused on.

Aditi Patil: Our unbilled DSO days has increased by 1 to 7 days Q-o-Q. Is this like a quarterly phenomenon or should we see this normalizing going forward?

Venkatraman Narayanan: We should see that normalizing. The DSO has gone up by about 3 days., It is because of the integration with GAVS, we are getting our billing and systems online with them. So that's part of the process and we should be back to normal. It's got nothing to do with the seasonality.

Moderator: The next question comes from the line of Vinesh from HDFC Securities.

Vinesh Vala: In terms of vertical focus, our primary focus will be on the BFSI and Hi-Tech sectors, which are expected to be key drivers of growth. What long-term competitive advantages and market leadership positions should we aim to establish within these verticals, particularly in their respective sub-segments?

Joseph Anantharaju: BFSI is going to be one of our growth verticals driven by the acquisitions that we made, and I'll come back into why we are bullish about that vertical.

But the second vertical is not Hi-tech, but Healthcare. If you just look at the growth that we've demonstrated over the last few quarters and the share of revenues, and the overall / market, health care is the second one.

For BFSI, there are several advantages that we have through the acquisition. If you look at the Arttha banking platform, which is a huge demonstrator of our capabilities. If we have built our own banking platform, it signifies that we understand the space and the needs really well.

So it helps a lot both in direct revenues from the banking platform and the pull-through effect that it creates. For this year, we are expecting the Arttha revenues to go up by 20% to 25%. So that will be one of the growth drivers.

We also have the insurance space, there's quite a bit of capability that we got from Aureus. As we speak, we have a couple of large prospects that are almost at the point of closure in the insurance space. You also have Insurance-in-a-Box, which we've been selling to Managing General Agents and Underwriting Management Agencies and to brokers.

We've started with Africa, but the plan is to extend that to other geos as well. Again, there's direct revenue and the ability to demonstrate our capabilities in this area. This is apart from various other accelerators and capability and competencies that we've built both within the erstwhile Happiest Minds and the erstwhile PureSoftware entities.

On Healthcare, I think we're very uniquely positioned as such, the market is going through a major transformation with data and connectivity being the core elements out here, whether you're talking about Med tech or some of the devices that you see in the hospitals or the overall processes that customers are using, GenAI is becoming a huge part of it.

While working with Happiest Health, we have been able to get deep knowledge and capabilities in multiple areas, whether it's on medical devices, bioinformatics, applying GenAI to various Healthcare use cases, and this has helped us to build a healthy pipeline in this space as well as to get several new customers, and we are bullish about the contributions of Healthcare vertical as we go forward.

Vinesh Vala: Moving on to the margin aspect, you mentioned that the EBITDA margin is being maintained between 20% and 22%. Could you please elaborate on the financial strategies planned to mitigate risks associated with investments in new business ventures and the sales teams?

Venkatraman Narayanan: We are looking at efficiency improvement. We are seriously focused on our utilization. We are at 78.9% utilization which is the highest in the last 9 quarters. Second is, Generative AI and AI services that we have, the new business unit into which we are making investments into, just turned around on an operational basis and just broke even. We are now hoping that it should get to the same profitability levels by end of this year or at least early next year. Similar to that, we see in PDES or the company at large, which then adds to the profit.

Third thing is the new sales engine that we have put in place nicely has made the hires. There is a lead lag effect to all hires on sales, and they start pulling in the revenues, that should start defraying the investments that we made.

So these are the things that we see as an upside lever to our profitability. Obviously, the newer markets, the newer customers, also contributing to the profit lever, whereas you are seeing our attrition at about 18.2%. So, we have to address some of those through compensation adjustments, which is what we'll do.

The pluses and some on the swings in terms of the downward impact of cost increases will have to be defrayed. In all, we are trying to improve the margin levels. We are at 21.4%. So, 20% to 22% is a story of maintain and grow.

Vinesh Vala: Last question from my side. Does the double-digit constant currency growth you mentioned include contributions from mergers and acquisitions, or is it solely based on organic growth?

Venkatraman Narayanan: We don't differentiate between M&A and organic. We say growth, so I'll stick to that line. Our Q1 revenues is purely organic. We want to look at it because the base we have got no acquisition numbers going into the sequential growth number that I talked about. As of now, we don't have any M&A, which is likely to close. So, you can assume that that's the pace of the business that we are looking to grow organically for the year. But if there is some inorganic, it'll be on top of it is what I would estimate.

Moderator: The next question comes from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta: First, about the wage hike, which you indicated in quarter 2. Can you help us understand what would be the likely impact because of wage hike on margin?

Second question is about utilization. What would be our comfort range considering overall skill requirement and utilization, if you can give some comfort range? Then I have a follow-up question related to this utilization.

Venkatraman Narayanan: On the compensation increases, I would not give you any specifics because work is in progress. Our typical cycles are in July every year for the C1 to C6 levels. There is limited discussion within the industry regarding this matter. While there are deferrals and general silence, we are assessing the situation very carefully. We plan to provide you with a more detailed update in our next call. This pertains specifically to the topic of the compensation increase.

The second question you talked was on utilization. We are at 78.9%. I think we have touched numbers of 79% to 80% in the previous quarters. So, we have to look at that sort of a number and we have got that headroom. As mentioned earlier, the cumulative utilization of Generative AI services currently stands at approximately 55 to 56 percent. We need to increase this utilization. Although the current figures are not very high and are not expected to have a significant immediate impact, every incremental percentage point improvement contributes to offsetting costs. Therefore, enhancing this metric will be a key area of focus.

Dipesh Mehta: The reason I ask is that, based on our implied growth guidance, we would need to maintain a growth rate similar to Q1 over the next three quarters. However, your headcount has declined quarter-over-quarter as well as year-over-year, and in recent quarters, it has remained relatively flat. Given this context, I want to understand whether you expect this momentum to continue, and how you envision the correlation between headcount and revenue moving forward. That is what I am trying to clarify.

Second question is about GenAI. If I look at your investment intensity, what I'm doing is your revenue minus profit, which to give absolute cost, what is the investment in GenAI unit. This quarter, it seems to be tapering off. Could you please clarify whether this reflects an optimization strategy or another factor? Typically, one would expect the investment intensity to increase, so the observed decline in absolute terms is somewhat unexpected. Any insights you could provide would be appreciated.

Venkatraman Narayanan: I'll take the last one. The investment intensity is high. That's why I highlighted, even though we are at breakeven, if you look at the opportunity costs, it's about ₹3 crores, ₹3.5 crores.

Dipesh Mehta: No, but if I look at absolute number, so let's say, from ₹14 crores or ₹14.5 crores last quarter, which was the expense in that unit, now that expense has declined to ₹13.3 crores.

Venkatraman Narayanan: There are two parts to the Generative AI Business Services. One is the direct people, and second is also the people from AI Analytics, Data Science, Data Engineering, who gets pulled into the business unit as and when required. So that's why you will see a little bit of that variability in the people cost.

We have a dedicated team of 120 people. Plus, we are training the entire workforce on AI tools. And then the business unit pulls people from the other units. So to simply put, the bench cost of those people do not come into the AI unit. Only the 120 people of dedicated people's cost come. That's why that you will see that little bit of bench cost differential between quarter-on-quarter.

Joseph Anantharaju:

Just to add to that, Dipesh. The way to look at investments is two. One is some of the numbers that Venkat explained. But as we speak, there are two, three areas in which we are investing from a GenAI angle. The first is we're getting all of our people trained. We've done 90% coverage on 101 courses. We have 201 courses that we're rolling out to a larger set of the people. What percentage we'll cover, we're still to kind of figure that out. So that's one investment.

Second is there are a lot of replicable solutions that are being developed that we expect will contribute to both, slightly nonlinear growth because these are solutions that we've 50%, 60% completed that we can take across to multiple customers and also the replicable sales so that there's ease of selling and we reduce the effort involved and get more output.

Third is there's a whole list of use cases that we've come up with, and we're trying to build POCs and demos that will enable us to get more revenues. So, I would look at our investment from those angles, and as long as we are doing all of these things, it will lead to higher growth.

Venkatraman Narayanan: His question primarily pertains to the segmental results. He is inquiring whether there has been any investment in Generative AI Business Services. My straightforward thesis is that there is a cost currently embedded within IMSS across the verticals, which is not yet being fully accounted for or reflected as part of the generative AI segment.

For example, Maninder is increasing the number of salespeople in the vertical. These vertical team members are currently selling our generative AI solutions; however, the associated costs might not be fully reflected under generative AI expenses at this point, as our accounting practices have not yet reached that level of detail, which is my main point.

So, if you really do that split and push all of that cost into generative AI, maybe, yes, you will see the investment intensity to be higher or the same ratio as the previous quarters.

Dipesh Mehta:

Understood. If you can answer the first part of the question, employee head count addition and the likely revenue implied growth.

Venkatraman Narayanan: We got a gross addition of 150 people. That's what I said. You saw the net head count reduction of 109, improvement in utilization, but that doesn't tell you the full story unless you see the head count addition of 150.

What happened is you are actually getting people. People who are not fully deployed onto projects, getting replaced by people who are completely billable, ready, AI-ready or automation-ready or who are ready to get billed from the word go.

The just-in-time hiring, also repurposing of the people that we today have from project A to project B will be how we'll get into the higher billing or keep the growth of 2.3% or 3%, whatever that we do from here quarter-on-quarter.

Given that we'll add people, there is a little bit of divergence between linearity and revenue growth, people addition and revenue growth from what we have seen in the past years in the IT industry, and that's got to do with AI.

Dipesh Mehta:

Last question is on the attrition, over the last few quarters are on the higher side. Are we comfortable? Or this is one of the things where we have to work more?

Joseph Anantharaju:

I would say it's a little bit on the higher side, but there are reasons for that as well. One is for the digital and AI skills that we have, there is a huge demand in the market. Our percentage of revenue from these areas is relatively much higher, and therefore, that does put us under the scanner.

Additionally, as you may have observed, our utilization has significantly improved over the past few quarters. This progress is the result of a proactive initiative where we assess each individual within the Happiest Minds talent pool, evaluate their skill sets, and identify necessary training requirements. In certain cases, when individuals are unable to meet the required competency levels, this is duly noted and reflected in our outcomes.

But what we are also doing is we have initiated multiple people engagement programs, training and learning and development, all of which increase bonding and motivate people to continue. So, I think we should have this number under control.

Moderator:

Thank you. Ladies and gentlemen, we'll take this as a last question for today. I would now like to hand the conference over to the management from Happiest Minds for closing comments.

Priyanka Sharma:

Thank you for joining us today. We thank ICICI Securities for hosting this call on our behalf. We look forward to interacting with you. You can reach out to us on ir@happiestminds.com. Thank you again. Have a good day.

Moderator:

Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.

Please note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.