BBOX/SD/SE/2023/14

February 23, 2023

Corporate Relationship Department **Bombay Stock Exchange Limited** P.J. Towers, Dalal Street, Fort, Mumbai 400001	**Corporate Relationship Department** **National Stock Exchange Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai 400051

Sub: Transcript of Earnings Call hosted on February 17, 2023 on Unaudited Financial Results (Consolidated and Standalone) for the period ended December 31, 2022**.**

Ref.: Scrip code: BSE: 500463/NSE: BBOX

Dear Sir/Madam,

This is further to our letter dated February 14, 2023 with reference number BBOX/SD/SE/2023/09 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Earnings Call hosted on February 17, 2023 on Unaudited Financial Results (Consolidated and Standalone) for the period ended December 31, 2022, is attached hereunder.

This is for your information, record and necessary dissemination to all the stakeholders.

For **Black Box Limited**
(Formerly Known as AGC Networks Limited)

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Aditya Goswami
Company Secretary & Compliance Officer

“Black Box Limited

Q3 FY23 Earnings Conference Call”

February 17, 2023

MANAGEMENT: **MR. SANJEEV VERMA – WHOLE TIME DIRECTOR AND PRESIDENT**
MR. DEEPAK BANSAL – EXECUTIVE DIRECTOR AND GLOBAL CHIEF FINANCIAL OFFICER

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 17th February 2023 will prevail.

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY23 Earnings Conference Call of Black Box Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjeev Verma, Whole Time Director and President of Black Box Limited. Thank you, and over to you, sir.

Sanjeev Verma: Thank you. Hello, and good morning, everyone. First and foremost, I hope all are keeping safe and healthy. On the call, I'm joined by Deepak Bansal, Executive Director and Global CFO; and SGA, Investor Relations Advisors. We have uploaded our results, presentation on the exchanges, and I hope everybody had an opportunity to go through the same. We're happy to meet again.

I'll start with a very brief overview of our company, followed by business and financial performance for Q3 and 9MFY23. Black Box is the leading global ICT solutions provider, with strong presence in 35 countries across North America, Europe, the Middle East and Asia Pacific markets served by 4,000+ highly skilled resources. Black Box has expertise in consulting, designing, deploying, managing and securing customer IT and communications infrastructure. With the aid of this expertise, businesses can build and provide pertinent technological solutions and services that support their core business objectives.

Key business segments:

Black Box product solutions portfolio is divided into 2 major segments: Global Solutions Integration and Technology Products Solutions businesses. Our GSI business contributes 80% to the consolidated revenues, whereas the TPS business contributes to balance 20%.

In our GSI business, our growth strategy revolves around providing solutions in the areas of connected and smart campuses, including IoT, digital workplace, customer experience, data center, network, wireless and mobility including 5G & LTE and cyber security.

In our Technology Products Solutions business, we sell Black Box's own IT products and Black Box branded white label digital technology infrastructure products. For these products, we additionally provide guarantee and technical assistance to enhance the customer experience. Our go-to-market for our technology product solutions business is through integration partners and value-added resellers. Our product portfolio in the TPS include signal switching, KVM visualization, IoT, networking, infrastructure and connectivity.

We've established a strong and lasting partnership with our customers. And today, our top 10 customers contribute approximately 40% of our revenues. Geographically, North America contribute 74%, Europe, 10%; India, 8%; APAC 4%; and the balance, 5% by other regions. For business, our strategy revolves around being Glocal, "Think Global and Act Local'. And we believe in keeping our relationships glocal and at the same time, be relevant with providing the flexibility to our customers to cost effectively deliver in 35 countries, including from our center of excellence in India.

Our global strategy is aligned with delivering better outcomes and accelerating our customers' business. Today, we serve 250 of the Fortune 500 companies, 8,000 global customers, 5,000 active client locations, service on-site, 30s global technology partnerships with the help of 4,000-plus global team members. Despite the challenging economic environment, our healthy order book and strong execution of projects has helped us witness strong revenue growth for the 9 months of fiscal '23.

During the quarter went by, the company has performed well across its business areas, of which the data center connected building, 5G solutions performed very well. We are happy to report that we won new deals with upward value of $80 million during the quarter.

Further, we expect that on a mediate term basis, our aim is to increase market penetration in existing geographies and add new clients. By fiscal '24, the company expects the revenue to cross INR 7,000 crores mark and achieve EBITDA margins in the range of 9% to 10%. Further, despite the overall macro environment, we remain cautiously optimistic to deliver a strong performance in the coming quarters on the back of healthy flow of deals.

That's it from my side. I now hand over the call to Deepak to run through the financial highlights during the quarter.

Deepak Bansal: Thank you, Sanjeev, for the detailed overview. Good morning, everybody. I will now discuss our financial performance for quarter 3 and 9 months for FY23. The revenue for the quarter increased to INR 1,672 crores, which is up 20% year-on-year and 7% on a quarter-on-quarter basis. Similarly, for 9 months, the revenue increased to INR 4,606 crores. That is a growth of 17% year-on-year. The growth in revenue is primarily attributable to healthy order book, strong backlog of orders and most importantly, efficient execution of projects.

We continue to see momentum going ahead. We have reported gross profit margin of 25.5% for Q3 FY23. I would like to reiterate that we have started seeing the positive impact in our gross margins of our initiatives related to revising our span of control, rookie mix and right shore some of the work to reduce and optimize the costs. EBITDA for Q3 FY23 stood at INR 72 crores versus INR 68 crores in Q3 of FY22 and INR 50 crores in Q2 of FY23, whereas for 9M FY23, EBITDA stood at INR 175 crores. The EBITDA margins for Q3 FY23 was at 4.3% and 3.8% for 9M FY23.

There was a sequential increase in EBITDA margins, primarily due to improvement in gross margins, coupled with cost rationalization measures. Profit after tax for the quarter increased to INR 8 crores versus loss of INR 23 crores in the previous quarter, primarily due to impact of higher operating profits despite of increased interest costs. Just to summarize, we continue to see healthy order book, which will drive revenue and profitability growth. That's all from my side. I now leave the floor open for Q&A.

Moderator: We have the first question from the line of Ashay Jain from Jain Capital. Please go ahead.

Ashay Jain: So I have a couple of questions. Firstly, so we've seen these layoffs happening across the IT sector, which includes like big names, Twitter, Amazon, etc. So how is the demand environment on the ground? And have we witnessed any slowdown? So further because the layoffs and the inflation is there, which can persist over the next few quarters? And I believe we had an order win from Facebook for data centers and they are cutting down on capex. So is there any significant impact on us due to those factors?

Sanjeev Verma: Okay. So Thanks for the question. Yes, so as a matter of fact that there have been some headwinds here, and we've seen that in some layoffs with the large IT providers and cloud companies. I think specific to our company, we haven't seen the impact of being slow or reduction in any of our deal pipeline as of yet, at least in the short to medium term. In fact, our order book for this quarter has been fairly strong over the previous quarter.

So from our deal pipeline perspective, I think a large section of our business falls in the non-discretionary spend. So with respect to Meta any of our large customers, I think our current pipeline still remains strong. So we don't expect from that perspective to have any short-term effect. How would it pan out over the long term? I mean you would not be able to predict that. But I think we feel reasonably confident that our deal pipeline remains strong, and our customer demand continues to grow.

Ashay Jain: Understood. So secondly, like 2023 as the year has been started with all these factors. So acquiring any company at a cheaper valuation makes sense. So what are your thoughts on the same? And do we have any near plans to get into new business area, be it organically or any M&A transaction if anything in the existing business areas or perhaps in the new business area that we are targeting? If yes, and what is the estimated capex that we can do to fund that?

Management: So we remain, I think, open to continue to look for new areas to invest the fact on a technology business, and there is a technology shift that continues to happen. So we, of course, in Black Box as well have taken some investments largely organically over the last 12 months, most importantly, in cyber security. We also invested in talent in data center. The fruits of that is coming through the deal pipeline. So we'll continue to evaluate opportunities, both organically in the technology sector, in a geography that we believe makes sense for us.

For example, we did invest in Europe over previous 12 months' time that we expect to become more accretive going forward. From an organic standpoint, we continue to see if something is accretive for us that makes sense. As I have told before, we are not emotional about economics. If it makes sense, we will approach if we are able to see it being accretive, funded, we're not going to get over bought. We do not have anything to talk on this call at this time from inorganic perspective, we'll continue to invest in talent, look at markets. We're looking at 5G LTE as a strong sector for us. We have presence in that sector. We expect some of those investments that we are making and we make in talent will help us to improve our pipeline and revenues going forward data center, cyber security, 5G LTE are the focus areas, so we'll continue evaluate those.

Ashay Jain: Understood. That's helpful. Thank you. That's all from me.

Moderator: Thank you. We have the next question from the line of Nidhi Agarwal from Bright Securities. Please go ahead.

Nidhi Agarwal: My question is that earlier the inflationary pressure and higher supply chain costs had a negative impact on our performance. But now our gross margins have begun to improve sequentially. So is it fair to assume that the inflationary pressure and supply challenges are now getting back to normal. How is the overall economic environment according to you?

Sanjeev Verma: Yes. So, I don't think it is coming, it isn't completely gone away. So it will continue to have those kind of pressures. But having said that, I think we did take measures, as Deepak called out in his earlier communication of taking strategic measures of improving efficiency, reducing some costs and some of them were accretive for us in Q3. We expect the full impact of that will come through Q4 and beyond.

So we expect to see our margins to better improve. We have also had a chance over the last couple of quarters to go back to our customers and reprice with better yields. So those impacts will also come. So although the pressure continues to remain, I think the employment market overall is still remains fairly high. But we have also, over the last couple of quarters, learned to rebalance ourselves, both from a cost perspective, right soring perspective, making use of our capability center in Bangalore. And also going back to clients when you bid for new RFPs for repricing and baking in the interest cost. So although we expect this thing to continue, the supply is slightly eased, but it still continues to be a challenge. We are cautious, but we are optimistic about our growth for the future at the back of the strategic business that we have taken at the back of going back to our customers and repricing our bids when we bid for new prices. And those are starting to show up in Q3, and we expect it to be accretive going forward in Q4 and beyond.

Moderator: The next question is from the line of Amit Shah from AMT Securities.

Amit Shah: Sir, firstly, currently, we have present in 6 geographies. Any plans to enter into newer ones?

Management: No, I think just to correct, we're present in about 6 continents about 35-odd markets. And we've already kind of driving a strategy to increase scale in some of the markets. Therefore, we are focused in Europe to increase scale, Asia pacific to increase scale. We are not looking at opening in a new country at this time. We are present in all the markets we operate. So, we are now going deeper than wider at least for the short term. If we look at an opportunity that might come up in a certain country or at the back of some customer contracts, we'll be able to do that. But current strategy to go deeper in the markets that we are present.

Amit Shah: Okay. Sir, and what would be our gross margin currently? And if we calculate the gross margin with the SEBI prescribed format, the numbers would differ. So can you help me with the current margins? And what would be the steady state margins for our business going ahead?

Deepak Bansal: So our gross margin for the quarter is 25.5%, and you can see it from our investor presentation, it is there on the slide 8 of our investor presentation because the SEBI format is in a different way where the gross profit calculation is a little bit complicated because we have to report the people expenses in total, the employee cost and all which includes our SG&A and everything.

So, you can't directly calculate our gross margin from there because we have a lot of people sitting in the cogs and that's why we publish the gross margin data in our investor presentation on Slide 8. So it is 25.5%. Previous quarter, it was 23.4%. So our gross margin is increased in this quarter by 210 basis points this quarter. And going forward, with all our initiatives, what we are taking right now to improve the gross margin primarily by optimizing our costs and doing all the rookie mix and also the right shoring of the activities and all those things, we continue to see increase in the gross margin going forward in the coming quarters also.

Amit Shah: I understood, sir. And sir, lastly, on our presentation, we have mentioned that we have won deals worth more than $80 million of which majority contribution is from data center and in building 5G solutions. So can we assume that this data center segment will be our focus area going ahead? And apart from this, which other areas are we seeing reporting good deals wins in coming quarters?

Sanjeev Verma: Yes. So I think data center is, of course, one of our hyper growth sectors, as you can see throughout the world, including in India, there's a massive, massive deals we talked about. We're talking about putting 1,350 megawatts of power behind data center build-outs in India itself. I think the numbers in America and Europe is very, very high. We are a very strong player in that space, largely hyperscalers, which is large, very large projects.

So yes, we expect that to at least in the foreseeable future over the next 3 to 5 years time continue to grow. Having said that, there are different sectors for networking, including wireless, Wi-Fi, 5G LTE for enterprise, not for telecom operators, cyber security, as I talked earlier, we've invested heavily. We are seeing good deal pipeline. These are hyper growth areas for us. So therefore, we expect data center connected smart buildings, including IoT, networking, specifically wireless networking and 5G LTE and cyber security, this will remain hyper growth for us.

Moderator: The next question is from the line of Nilesh Doshi an individual investor.

Nilesh Doshi: My question is, every quarter, we are finding these figures of employee severance payment that the company has to make, which is hitting directly our bottom line. Can you explain is this the last or is this going to continue for a few quarters more?

Deepak Bansal: I will take that. So like as we mentioned that we have this cost optimization and rationalization right now going on. So that's why the severance expenses are coming because in this part, in Western part of the world, which is primarily in Europe and US, we need to pay severances. So we are seeing primarily this quarter, which is the quarter 4 also, we will have some severance expenses because all these activities are going on. But yes, going forward, probably from the, next year, which is in FY24, we will not see those severance expense.

Moderator: Thank you. The next follow-up question is from the line of Ashay Jain from Jain Capital.

Ashay Jain: A couple of questions. So, I believe we have a revenue target of around INR 7,000 crores to be achieved by FY24, which I believe we can do it on the back of a healthy order book, which we have with us. So can you highlight the plan, like how we can improve our margins and reach in the range of 9% to 10%. And like what are the steps we are going to take to achieve that number?

Sanjeev Verma: I'll take that. So I think from a revenue perspective, we continue to believe that we should be able to get to an average of 15-odd percent revenue growth. So that should take us closer to INR 7,000 crores. So I think if we -- if you look at the bridge to go to 9% to 10%, I think a couple of things. One, of course, we expect our margin at this time going forward between now and over the next 12 months' time to be accretive by 200 to 300 basis points. So that's our goal.

And we expect that SG&A to that extent to possibly help us by another 100 basis points. So we have a bit of going to be 3 or 4 basis points to hit that goal. So a 3-pronged strategy: one, of course, our improvement in deliveries using our center of excellence in Bangalore. Efficiency and costs. You heard Deepak talked about certain cost adjustment share in high-cost markets.

And then, of course, to be able to get better yield, as I said earlier, that we are repricing some of our contracts, long-term contracts as well when we get a chance when we are able to renew a mixture of better sales yield, cost efficiencies out here in the US, better procurement strategies and making our center of excellence in Bangalore, more productive.

We have close to 500 people at this time. We expect it to ramp up to close to 1,000 over the next 12 to 18 months' time. This will be accretive. And then, of course, as a percentage of our revenues, the SG&A would shrink. We don't expect SG&A to grow in a proportionate manner. And some other efficiencies in SG&A should allow us about 100 basis points. So, we see a clear bridge to be able to get to 9% to 10%.

Ashay Jain: Understood. Sir, continuing on the revenue guidance of around INR 7,000 crores. So what would be the estimated capex that we would incur, any ballpark figure?

Deepak Bansal: We are a capex-light company, and we don't have the capex in the form of a real capex. The capex is only for the growth purposes into the servers or server capacities or the laptops or let's say, if we do some warehouse or office, then there is a furniture and all those things. So we don't expect much capex to happen. Maybe capex will continue in the range of maybe between INR 8 crores to INR 10 crores type of capex every year. So otherwise, we are not expecting much capex on that.

Moderator: The next question is from the line of Nishant Shah from Emkay Global.

Nishant Shah: Sir, what is the role of a family promoter in our day-to-day business? And what is the role in the decision making and how they are helping it?

Management: I think there is no role for a promoter from a day-to-day business. The company is run by the executives with the support of the Board. One of the family members, promoter is also on the board and it brings in the expertise across various sectors and segments at the promoter family runs. So it's helpful for us to get an insight from that perspective, sometimes an outside view or a different industry view is very, very helpful from that perspective.

So [inaudible] the Board from the family side, the operations of the company are run by the key management, me, Deepak and the team of people. And from a support perspective, the family or the promoter supported, including when we were looking at acquisition when we needed capital. So should we require some of those kind of insights or discussions on investments, that might be helpful. But from an operations perspective for our organic growth or a kind of a managed inorganic growth as well that can come from the cash flows of the company. I don't see anything that we need from the promoter.

Nishant Shah: Okay. And any second generation or any kind of new leg of people are entering into the segment?

Sanjeev Verma: Not yet. Okay.

Nishant Shah: And sir, another question is, have you seen the impact of the severance cost? Or is there any more impact that we are going to see or going ahead?

Sanjeev Verma: We are starting to taper down our cost for severance, you might just see as my global CFO just said, for one more quarter, and then it will taper down. But it not be anything significant going forward in the next fiscal year.

Nishant Shah: Okay. So we might see a margin expansion going ahead.

Sanjeev Verma: Yes.

Nishant Shah: Sir, you have said the capex will be around 8 to 10 Cr. So whether it will be debt funded or was it from the internal accrual?

Management: It will be from internal accruals.

Moderator: The next question is from the line of Jigar Shah from AK Securities.

Jigar Shah: Yes. Good morning. So I have 2 questions. Your business model is spread across various spectrum. So going forward, how do you look at the defence sector, given that India over the next few years, we'll be spending large money over there. So please throw some colour on the KVM solutions.

Management: Okay. So I think from a sector, if you're looking at the geographical sector that told earlier, we have nearly 74% or 75% of our business coming from the US. So when we see growth, I don't see a major change in the US uses a main dominant sector going forward. India currently contributes 8%. So as we start to grow, if they keep pace, they possibly can gain a percent or so address. We're very cautious pertaining to participating in something very, very large in India. I mean we are prudent in terms of our cash flow management.

Step 2 you getting cycles, more specifically from a public sector of federal/state businesses. So we are cautious. We are largely focused enterprise. So we don't expect a major change in our revenue mix from geographies, there could be a small shift here and there compared to going deeper in Europe or getting a percentage point in each of the markets. But largely consent spend continues to remain the same. The second question was pertaining to our KVM product portfolio, which is a black box owned IP under the brand, Emerald with R&D centers in Ireland and Bangalore.

The KVM is largely used in aggregating collaboration videos, most importantly, used in sectors like broadcasting, utility command centers, air traffic controls and so on and so forth. It's a very interesting sector. It's a niche sector. We are one of the dominant players. So we expect with respect to expansion of public utilities, airport and transport and command centers, we have an advantage of our own IP. We just launched a new product as well called Deskview. So we see growth in that sector as well to be a dominant player going forward. We are also looking at investing in our R&D to change the model going forward into cloud-based subscriptions. So those things are work in progress. So we'll continue to invest in our R&D in the KVM sector to be a dominant player.

Jigar Shah: Okay. So that helps. So my second question is that in our business, can we pass on the labour cost increase? And at what point in time does the pricing resets?

Sanjeev Verma: Okay. So I think from a project perspective, the labour cost increase is priced in when we bid, right? So because when you're bidding on your projects, you take the current market. And of course, you take a view of the tenure of the project, some of our long-term projects are 12 to 18 months. In fact, it could go more. So clearly, it's our solution engineering team and the price team take care of inflation and cost it is baked in is passed on.

With respect to our existing contracts earlier on, we did have some inflation baked in. But clearly, I think we didn't expect the inflation to be 7%-8% in the US. So clearly, that affected our margin, we couldn't renegotiate with some of our larger clients. Having said that, as and when the contracts come up for renewal, customers are fairly open. They understand that the market is not the same. So we are taking care of that. We've also learned, I think, over the last 12 months' time that things can dramatically change. So all new contracts that we are currently signing. We are keeping that clause pertaining to a significant change in market dynamics allowing us to price change.

So new projects, looking in at the current cost, taking the view of what is the price over the next 12 to 24 months, older contracts as we could come up renewal we're making sure that we have the basic causes apart from price increases. Going forward, from the labour cost perspective or newer projects we are capturing in. As the contracts come up a renewal, we are also capturing in and making it to ensure that we have a clause for any unexpected change in market dynamics.

Moderator: The next question is from the line of Vikas Jain from Financial Quotient.

Vikas Jain: My question is regards to the margin guidance that I've been hearing that we should be able to do around 8% to 9% in coming FY. So since that we now have headwinds in the Western world and our maximum contribution comes from the US, which is in mid-70s, and India happens to be in the single digit at the moment. So how do you see the headwinds in the US affecting our margin guidance in times to come? That's my first question.

And second is, I heard you saying that we are now investing into India for the data centers. So are we finding the government policy is favourable for the data centers as compared to the western world to be increasing our share in India? And my third question is about the tax rate. As I see that the tax rate is somewhere around in mid-40s. So any insights on that would be helpful.

Sanjeev Verma: Thank you. I'll take the first 2, and I think I'll defer the third one to my colleague. So I think with respect to the US, I think from a margin perspective, any cost increase or any labour issues or whatever is being priced in to our customers. And I think so we are getting better price yields to cover for any increased costs from a pass-through perspective. So whatever our plans are from a margin perspective, I think that is neutral to the interest of the pressure or the cost out here because that's baked in our pricing. I said earlier on that I think we expect to cover the bridge going to 9%-10% at the back of improved gross margin from cost efficiency, making the use of our global capability center in Bangalore, getting better price yields from customer so we still have some of the older contracts baked in, and we're waiting as and when we get a chance to renew those, those will come at a better price yields.

At the back of that, an increased revenue will shrink our SG&A largely remaining constant and a better efficiency from a shared services that we we've already put in, managing our supply chain, order management, SG&A, the other back-end activities of given resources, recruiting and legal will also be accretive from an SG&A perspective. So between these 2, we plan to bridge our goals to get to 9%-10%.

From a perspective of India, and as I said, I think I actually said although the markets in India are getting hyper from a data center and some of the other perspective, causes to participate at the back of the cash flow requirements, the working capital and payment terms in India, which is different than the large markets of US and Europe. So although we remain interested to see that, that we wouldn't jump until we see how it pans out for us because we wouldn't want to be funding a large project or taking a position where our working capital dramatically changes.

But having said that, it's a growth market, we will see where we go from there. And the third question of tax, I didn't really get it properly, but I think Deepak got the question right, over to you Deepak.

Deepan Bansal: Yes. So, on the tax side, it is not an issue of a tax rate. It is basically the geographical mix, which is playing a role over there in the tax. So one is the accounting charge in the form of a deferred tax and the second is the current tax, but because we are present in 34 geographies, so the ratio of the profitability in terms of how we true up and how we calculate the tax in the different geographies.

And that's why because of the lower base, the tax rate is looking high, but it's an absolute number, which is working from a geographical mix perspective because the US and the Europe and all those countries, the 16 countries and all we calculate the tax at each and every country level. And that's why the tax is playing that role. So tax rate is not coming out properly because of the low base, but if we look at from a longer period perspective that it will come out properly.

Vikas Jain: Okay. So which means that the financial year calculation would be in line to what the previous year.

Deepak Bansal: That is correct, yes.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Sanjeev Varma for closing comments. Over to you, sir.

Sanjeev Varma: Thank you. With this, I would like to thank everyone for joining on the call. We hope we have been able to address all your queries. For any further information, kindly get in touch with me, Deepak or Strategic Growth Advisors, our Investor Relation Advisors.

Deepak Bansal: Thank you.

Moderator: Thank you, sir. On behalf of Black Box Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.