



## “3i Infotech Limited Q2 FY'23 Earnings Conference Call”

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**MODERATOR:** **MS. ASHA GUPTA – EY LLP, INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'23 Earnings Conference Call of 3i Infotech Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. And I now hand the conference over to Ms. Asha Gupta from EY Investor Relations. Thank you and over to you, ma'am.

**Asha Gupta:** Thank you, Steven. Good afternoon to all of you. Welcome to this Q2 FY'23 Earnings Call of 3i Infotech. The Results and Investor Presentation have been already mailed to you and you can also view it on our website at [www.3i-infotech.com](http://www.3i-infotech.com).

To take us through the results today and to answer your questions, we have the top management of 3i Infotech represented by Mr. Thompson Gnanam -- Managing Director and Global CEO; Mr. Harish Shenoy -- Chief Performance and Risk Officer; Mr. Sanjay Rawa -- Chief Financial Officer; Mr. TS Mohan -- Chief Human Resource Officer and Ms. Varika Rastogi -- Company Secretary and Head, Legal.

Thompson will start the call with the Business Update, which will be then followed by Sanjay who will Update the Financial Performance and Harish will provide the Update on Business Excellence and Delivery Excellence; Mohan will Update on People Strategy and then we will open the floor for Q&A Session.

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

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With this, I will now hand over the call to Mr. Thompson. Over to you, sir.

**Thompson P. Gnanam:**

Thank you, Asha. Good afternoon, good evening to everyone. Hope you and your families are safe. Seasons greeting to each one of you.

I'm happy to share with all of you that a new 3i, which is six quarters old post the carve out of the product division is making strong positive strides in spite of strong headwinds with global changing macroeconomic situation, geopolitical environment. This new 3i with rich 27-years legacy of being part of the bank reinvented and rebooted as a new organization with entrepreneurship in our heart. As we set out to build the new 3i with a new identity to innovate, incubate and invent and become a strong challenger in IT service business as a one stop orchestrator, business problem solver company, aligned to the outcomes of our clients.

We are focused in becoming a leader in edge computing by a cloud-first digital insight cognitive powered, edge ready strategy. It's a unique challenge and opportunity for the management team of your company to run efficiently the enterprise business and in parallel grow rapidly in digital and the next-generation business and build new products and platforms for the IT which will create huge value for your organization.

We set an ambitious goal to achieve Rs.760 crores top line and a growth year-on-year from our last year's revenue of Rs.675 crores, with a PBT of Rs.15 crores and we also set ourselves a goal to change the revenue mix from our classic enterprise business, more profitable digital and next-generation business.

I'm happy to report the following results of your company for the quarter, the first half of the financial year: In H1 FY'23 revenues, we clocked Rs.358 crores; Q2 revenues were Rs.178.3 crores, the gross margin of 10.5%, leading to Rs.37.4 crores and PBT of Rs.15.75 crores and PAT of Rs.17.11 crores. Our CFO, Sanjay Rawa will expand the other currency related gains which enabled our cost to PBT. H1 operating EBITDA were negative Rs. (-23.24) crores. This is the task at hand for your team to ensure that we break even and create a sustainable, predictable, scalable business. Revenue mix change which is our grow and build initiatives are starting to bear fruit.

Classic enterprise business generated Rs.281.3 crores with GM of 7.4% for an organization. We focus on running this more efficiently and gets across margin up to 10%. In the same period H1, new digital and next generation business is growing steadily. And we're happy to report we delivered Rs.75 crores in H1 with the gross margin of 22.1%. This is set of focus area for us and it's very important for us to change the revenue mix from a classic business to the next gen business. Digital and next gen business has a good funnel of Rs.180 crores with a potential order book of almost Rs.55 to Rs.60 crores in H2.

We have onboarded almost 29 new logos, new clients in H1 and have a huge potential for us to build an order book of Rs.100 crores based on our land and expand strategy with these new logos.

The enterprise business is on a roll with the recent win of infrastructure management services division, the large three TCS of Rs.50 crores in H-2 at the start of the October. We're happy to report that as part of this earnings call which is a large PS in India and the details of this we will probably come with a press release shortly.

The India standalone business is also on a course to deliver the Rs.260 crores target, which is also a steep target if we look on a year-on-year growth of 20% over last year's performance and is a very strong funnel and our order book.

I will now quickly update you on the progress of the various build initiatives your company is investing. And this is very critical for us to build the new products and platforms, which will make up the real edge ready company. NuRe 3i+ which is a Sovereign Cloud has been launched in Malaysia. NuRe velocity of services will be commercial grade by November end in cloud and this is going to be the first business process as a service offered in our own NuRe cloud, which is again, an Oracle-powered initiative, one of the clients partnering with Oracle and Government of Malaysia and 3i in creating this very, very unique go-to-market where we want to help digitize SMBs in the Malaysian territory.

Our IIT Tech Park edge computing CoE is live and we are working hard to launch the 5G lab as a service. It's again one of a very unique proposition if you want to take it to market. We are also working on our own private network solutions, and SD WAN solutions as well, which is also going to be a very important value proposition in our arsenal. NuRe Edge which is our passive

product, which is already commercial grade, and it's starting to generate revenues. Our Oracle CoE which we launched internally, is graduating, of course, part of engineers being certified by Oracle University across cloud, applications, analytics, modernization.

All these investments we have made in the past quarters are starting to bear fruit and we hope to see a better result in the coming quarters and systematically change the revenue mix and build a more sustainable, profitable and scalable business model.

Thank you. I will now hand it over to Sanjay Rawa, our CFO, to Expand on the Financial Update.

**Sanjay Rawa:**

Thanks, Thompson. Good afternoon, everyone. I'd like to provide the key highlights of the financials for the quarter ended 31<sup>st</sup> September 2022. Our revenue remains near the flat for the quarter at Rs.177.1 crores in comparison to the last sequential quarter's revenue of Rs.179.2 crores.

We had a closure in Middle East on account of a low margin and a loss-making engagement, has resulted in drop of revenue of Rs.2.5 crores, which we have closed that engagement down .

Coming to the employee expenses, have gone up by Rs.6 crores for the quarter in comparison to Q1. This was primarily due to the increments that we had given in the second quarter, and the variable one-time pay of Rs.5.4 crores.

Cost of third-party products has increased by Rs.6 crores into billable subcon cost increase in the US. This was primarily I would say replacing our existing employee costs which had a drop in the last quarter.

Our other expenses for the quarter stands at Rs.22.7 crores, which is lower in comparison to the sequential quarter by Rs.1.5 crores. As a result of an ongoing cost rationalization exercise which we had on June. For the quarter, the reduction has been in legal and professional fee by Rs.1.4 crores and repairs and maintenance by Rs.0.7 crores, which is offset to a certain extent by increase in our travel expenses, primarily sales led by about Rs.0.6 crores.

Coming to the other income part, in the FOREX gain for the quarter, continuing with our Q1 exercise wherein our US operations have become non-integral. During the quarter, our other territories, Middle East and APAC have also become non-integral operations with India. You would read the currency impact is now better than the other comprehensive income resulting in an overall net gain of Rs.48.7 crores for the quarter.

Tax expense, we had one-time tax refund in our BPO subsidiary amounting to Rs.60 lakhs and reversal of tax provisions in the US resulting in a credit for the quarter and for the H1 period ended 30<sup>th</sup> September 2022.

Let me give you some key highlights of the balance sheet. Our fixed assets for the half year ended 30<sup>th</sup> September '22 has moved up by about Rs.8 crores. This is an addition of the existing build rated projects capital work-in progress, amounting to Rs.14.5 crores. And we have also had some tangible assets for procurement of laptops for ongoing new additions to the headcount. So overall, that come to a net increase of Rs.7.7 crores.

Trade receivables has moved up by Rs.6.5 crores. Our bill DSO stands at 52-days, which is more in line with our March '22 period. Receivables from certain government customers were delayed due to sign offs which were accepted, but those got delayed, but we expect DSO to move below the 50-days level by Q3 end.

Cash balances is at Rs.55 crores overall. The net decrease of Rs.81 crores. We have already given the cash flow statement as part of our semi-results data. But I just want to give some key highlights of the cash flow. Our cash from operations has come down by Rs.18 crores. Taxes paid which were primarily TDS additions was about Rs.6 crores.

Capital work-in Progress, which is part of the build project that we had has an addition of Rs.14 crores and we had certain short term borrowings in terms of working capital and liability going down to Rs.43 crores. That's been the movement in the cash balance from the March period to September end period. This is the overall I would like to give a synopsis of the financial and we are happy to take questions as we move along.

I give the mic to my colleague Harish Shenoy for his updates.

**Harish Shenoy:**

Thank you, Sanjay. Good afternoon, everyone. season greeting to all on the call. To give a quick overview of our operations, we started building capabilities over the last 12 months, which will reach a certain level of maturity, and we can comfortably say that they are market grade today. To name a few, in H1, infrastructure management support has reached banking grade and started operations for Dhanlaxmi Bank and also acquired new logos in other industries, like retail, namely, Vishal Mega Mart.

Our cognitive computing services are working on creating opportunities in the US. On KPAAS, BPAAS, we have been pursuing global opportunities in UK and Africa. We have acquired new business with IDFC, Piramal group to name a few in H1.

Continuing with our operations in the enterprise business unit, we are working on improving the efficiency and have identified specific levers to improve GM by 2% in the named few PUs and this will help us to get a minimum gain of 10% across the enterprises, that's what we are targeting at least in the end of this financial year.

We're systematically and strategically getting out of negative margin contracts as Sanjay mentioned in his talk globally, which has impacted our revenues in Q2. But that's going to finally

improve the health of our organization as a result of all these actions. So, in spite of the annual increments to our employees, we have been able to maintain a flat cost touch base on this.

So the whole intent is to make the organization more leaner and we will be focusing also on our sales and general, admin costs that we are incurring for the entire organization, so the enterprise business operations.

Quickly moving on to standards and certifications for the organization. We've got recertified on various ISO certifications applicable to all lines of business. On CMMI certification, we are at level-III currently and working on achieving level-V in the next financial year. We are ensuring that any new projects that we are starting should be with the benchmarks that we would want to achieve. So, we don't need to do and catch up at least for the new projects. It's only the old projects which we need to grade them up to level-V.

We have initiated actions on making our offerings of GDPR-compliant as we increase our global reach, and we're starting off with specific geographies now and not all over. So that's a focused approach under the GDPR compliance. We're also looking to be ESG-compliant and have started defining the roadmap for the same.

Quickly to move on to GRC for the organization like we are six quarters in this new 3i. We are still dealing with legacy issues that needs to be resolved. Learning from our experience to ensure we do not repeat history, we have embarked on an organization-wide risk assessment methodology for any new transaction that gets done. We are also assessing the historical transactions which are currently live so that we try to document and have mitigation plans for that.

Just to give a sense of importance that we as an organization are giving to this activity. It has been driven and monitored by our board with appropriate guidance from our directors. This will finally enable us to score various risks and various categories so that we are better prepared with proactive actions to mitigate the same. This is like the various initiatives across the organizations that we have started and will be working on in H2. So the intent is to move towards more efficient, more leaner organization by end of this financial year.

With this, I would like to hand over to Mr. TS Mohan, our new CHRO to Share our People Strategy. Over to you, Mohan.

**TS Mohan:**

Thanks, Harish. Hi, everyone. Good evening and season greetings to all of you. Very glad to be part of this 3i family. Thank you so much, everyone and the leadership team.

Quickly to summarize, people strategy is very clearly culled out and putting practice towards performance-driven culture, it is a culture embedded strategy where each of the leader lead to the last mile of an employee is aligned to player performance targets, thereby a balanced scorecard approach has been adopted and institutionalized in the organization so that last mile

employee can also see what's outcome in a company with his/her higher contribution. That culture, we're driving very rigorously, due to which we also revised our approach towards reward and performance actions very stringent integrated to the achievement, thereby all of us as one family continue to align to our outcome.

That being the strategy, we have seen 8% growth in our headcount in H1, part of it is also related to the Q3 business growth, which we expected to bring on board like Thompson shared earlier. And further, in H1, we saw a 19% voluntary attrition annualized, which is two percentage points lower than the H1 of the last year. This also reaffirms our belief that when we have a positive performance culture driven in the organization, employee continues to show their confidence and trust in the organization significantly and continue to contribute. So this is the environment we're building in the organization across the layers across geographies.

Due to the performance-driven culture, we also see some of the actions being taken for non-performance, but also supporting environment to allow employees to perform better. All those instruments are being built and are being institutionalized. Thank you so much.

**Moderator:**

We will now begin the question-and-answer session. First question is from the line of Siddharth Gupta from Voyager Capital. Please go ahead.

**Siddharth Gupta:**

I have a few questions to start off with. First of all, this is a narrative which we've been pursuing for a few quarters now that we've been moving from low margin businesses to high margin businesses. And I can see why that would keep the revenue intact and grow at a lesser rate as compared to our peers. But, operationally also, our margins haven't been rising and in fact, we've been consistently reporting negative operating EBITDA. So, could you elaborate as to why this phenomenon is happening and why isn't any change coming in on this bit? The second bit I wanted to ask was about how much exactly hard cash do we have on our hand, because from what I understand, in the next couple of quarters, we would be running out of cash again, so is there a fundraising plan in place, is there some not cash equivalent, but hard cash that we have on hand? The third bit is with regard to some net payables mentioned in note 7 of the standalone results pertaining to our foreign subsidiaries and some FEMA regulations. If the management could elaborate on that, that'd be great?

**Thompson P. Gnanam:**

Thanks, Siddharth. Great question. There are three questions. The first question is, you are talking about the revenue mix change. We are now trying to strive and change. And second, you spoke about the pace at which the margins will go up. So, I'll just expand on what I spoke earlier as well as there are two parts to it. One is, I think we need to recognize the fact that the current business which we inherited is something where we need to kind of try and see how we want to drive more efficiency, and in fact Harish spoke about it, which we are having very clear cut plan to optimize costs in the classic enterprise businesses, which we see at least an upside of around 2% to 3% the GM for sure in our plan for H2, that's point number one. The second question which you spoke about is the revenue mix change of the new lines of businesses. If I look at it, most of them from idea to a concept to reality, if you ask me, most of them are two quarters old

because from an intent to where we are right now, and slowly we are seeing that, as I said, some of the numbers I shared, as we are starting to track this digital and next-generation business, the details are available in our presentation as well, we have clocked almost close to Rs.75 crores in this H1 which we classify in this higher margin business, and relatively we are now making almost close to 22% in GM. And this is after the lot of set up costs and also startup costs which are there with us. On a normal BU if you see some of these businesses as they ramp up, will start hitting upwards of 25% to 26% gross margin. The third thing is also from lot of the old classic business, which we inherited also. We are now very, very critically looking at businesses which are bleeding us, and we are also proactively eliminating them. But as also, for example, as part of the cleanup, we eliminated some businesses, which also hit our top line in this quarter, but we took that call because there's a permanent fix on the continuous bleed with these businesses that have on our P&L. So, these are some actions we are taking in terms of margin maximization and also on the revenue mix change. I think you asked the second question in terms of the cash in hand, right. If you look at it from a cash perspective, of course, like what Sanjay spoke about, right now the cash is around Rs.55 crores, and yes, definitely because we are funding multiple projects, as you know, we have built projects, these are very complex operations, because in parallel we are building products which need to be funded, we need to build competence and capability to stay relevant and also keep running our current operations. So, as I said, it is a very unique challenge which we all love to take and kind of turn around the organization. And to your specific point at this point of time, if you ask me, the key point will be that we will take a call to raise more capital maybe in one or two quarters from now, because we are also seeing closure of our carve out deal and we are also expecting to finalize those accounts and then we will take a call in terms of in addition to raise capital.

**Sanjay Rawa:**

On the third question, coming back to the disclosure and the point #7 note in the standalone results, so, as a new management, these are some old balances that our receivable and payable in the standalone entity and as part of our always reporting to RBI, we have initiated set off of these balances with RBI, that has already been kind of given to authorized dealers of the bank. There are certain other documentations that the banks are required to provide which we are in the process of providing to them. That's kind of an update.

**Siddharth Gupta:**

Just with regard to the last question, and if I'm correct, so, this is a technical accounting entry left and not actual payment payable balance that is coming onto our books, right?

**Sanjay Rawa:**

No, these are actually old balances appearing more than 10-years old I would say. In fact, the statutory auditors in their March results, they have indicated this as part of a disclosure. But these are more than 10 years old and the company is in the process and the company has already initiated the dialogue through the organized dealers way back in the year, I will say in September 2020. We had forwarded a communication through the authorized dealers, ICICI Bank to RBI with a request to set off these balances against the payable to the receivable. And thereafter we have understood now that the authorized dealer has been asked to get from us some data additional information which we are in the process of providing it to them to the RBI to get this resolved.

- Siddharth Gupta:** With regard to the first couple of questions, do we have a guidance from the management in terms of when we can expect at least operational breakeven or some profits on the consolidated basis?
- Thompson P. Gnanam:** As I said, if you look at it even this quarter also when we deep drill , we have taken a view to ensure and invest in our human capital. If you look at it major costs, almost close to Rs.10 crores, for ensuring it goes back to the investment like human capital, because it's very, very important for us if you look at it. Once you remove that, it's not very far away from where we are from our breakeven perspective. So, if you ask me very clearly Siddharth, we are on course to break even and that's our first milestone as I've been telling consistently without any surprises also, which keeps hitting us. But we will break even operationally by this Q4, which is what as a management team, we want to kind of commit irrespective of the PBT numbers which are there because of these exceptional gains. So what our endeavor is that at least what we promised with Rs.760 crores and Rs. 15 crores PBT, which we gave it a start of the year with at least operating margin positive and will be a great way to start the next year. That's the way we want to look at it, Siddharth.
- Moderator:** The next question is from line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.
- Vaibhav Badjatya:** Thanks for providing opportunity, So just a small clarification. So in terms of foreign exchange gains or loss, that is there being now reported every quarter, so basically the corresponding contra entry of loss related to this gain is sitting in foreign exchange translation results in the balance sheet, right. Is my understanding right on the consolidated basis?
- Sanjay Rawa:** Yes, you're right. I mean, if you see other comprehensive income, it's sitting there.
- Vaibhav Badjatya:** Going forward on every quarter based on the INR fluctuation vis-à-vis reported currency fluctuation, these gains or losses will continue to get reported every quarter, right?
- Sanjay Rawa:** Yes, but it won't be to this extent, because the one-time adoption happened now, the way the operations are now conducted. Going forward, as the rupee depreciates, we would still see some gain coming but it won't be to this extent.
- Vaibhav Badjatya:** And if rupee appreciates, then definitely there will be negative impact?
- Sanjay Rawa: :** Yes, you're right.
- Moderator:** The next question is from the line of Purushottam Savlani, an individual investor. Please go ahead.
- Purushottam Savlani:** I wanted to draw your attention, Thompson, to last year's Q2 performance, where we had an adverse hit of close to say around Rs.25 crores on account of proactive provisioning, which was

done for PDDs and also performance bonus which is twice. So, that was roughly around Rs.25 crores of excess provisioning which was done and what we were told is at least those PDDs, which have been accounted for, 50% of that will come back if not all. Now, having said that, this year, since we are done with all those provisions, what I was expecting that not only the performance will get added by the flowback of provisions, but at the same time, new hits will not come? If I add that to the foreign exchange gains which have come, profits should have been much more, so that doesn't reflect out here. At the same time, employee cost continues to be very high, which is in this quarter say around 85%. What we were told in past is that we have hired manpower to ensure that we have right kind of representation, etc., So one is it is not reflecting in terms of the performance of sales growth, at the same time cost continues to be high and whatever has been provisioned in past doesn't reflect that advantage in this quarter. So somewhere the math is not adding up. Sort of asking clarity on that?

**Thompson P. Gnanam:**

Thanks. Great question. I will try and answer that and also probably Sanjay to step in. Two questions. If you spoke about last quarter, if you look at the provisioning, which we have done also, post the carve out, we had done a full clean up as you rightly said, because we wanted to start with a clean slate, we wanted to kind of proactively write-off some of these long outstanding we had and it is a proactive PDD cleanup, you're absolutely right, I mean, but it's spot on. And today, I think we are more healthier, if we look at it, we are very cleaner, because our peers are better, our ability to manage these better because of those actions. Now, secondly also, if you ask me, we plow back of this productive, also, the teams have been working very hard, so we are proactive to even get back some of the stuff and I'm on top of the mind, I can say at least 25%, 30% of that we have collected, and we continue to even stay some of them, even pursue them legally as well. So that is one just to reassure where we are up to. The second point you spoke about the performance bonus also, which was provisioned last year. Just to clarify, we are also trying to fix them once for all, is that we were always, historically also what we inherited, to an under provision, and then we are trying to pay them by cash in the current year. So fundamentally what happened? You pay the previous year performance bonus last year, and it takes a hit in that particular financial year. Now, what we are doing beyond this as a clear, like what Mohan spoke or our new CHRO spoke about, we are going to be clearly performance-driven organization and at least from a mid to senior level, all of us we will pay by performance by cash, is very, very clear. So no longer any provisioning will be happening. Every variable pay performance will be where we will decide on 30th of March, very, very clear. I'm very open about this. I'm just going to the culture which we want to build up a organization. So even right now because we are still in that old, what do I say, the catch up code where we had a provision for the last year and we end up and we are now cleaning it. If you look at this aspect, clearly even now we have done it, we invested in our employees again. To your point also, employee cost has gone up in Q2, yes, because we had pay hikes, we had investments, we have done bill. We decided saying that oh, if company is not making gains, we will not pay anybody the variable pay out performance bonus. But in a human capital people-centric business is an investment we have to make. It's very, very clear and I'm very blunt about that as well as you rightly said blunt question. Without this human capital investment, I don't think this company can have the scale

or the ability to turn around. That's very clear about it. I don't want to miss words at all. Second, important point is now how do you drive efficiencies on this investment. That is what we are now trying to say. Now, we are saying fair enough, we have invested, now we have to right size the organization, right cost organization, and right size the organization, if I can use the three Rs if I look at it. That is very, very clear, we want to be ruthlessly focused in H2 now. Now that we have invested in our talent, our critical resources, we have done that. Now, we are expecting every rank and fight to rally with us to make it happen. And we're very, very clear and clinical about it. So back in my day gone, some of the questions which you asked, is a very, very good question. And second thing also, to your point, some of the investments we are making also is little ahead of the curve, for example, you will start seeing the results of that in Q3, Q4, because for a company like us, we have taken some proactive calls, let's say, for example, we had invested in 100 engineers in Oracle certification, that's a cost to sitting up in Q2, but monetizing it will happen in Q3 and Q4. So right now, as you read, it might be there, but now this time, these 100 engineers who graduate are going to be billable, and they are going to increase our gross margins because there's a tier-3 city. The difference of salaries between these kids in Tirunelveli is almost 100% costlier in Mumbai. So all the results will be coming to effect. Sanjay and Harish, if you can add if I missed.

**Harish Shenoy:**

Just to add, I think in terms of capabilities building that layer then I think I mentioned one example, but that's what we have done across the organization. Though we had infrastructure management services as a unit, today, we are banking grid infrastructure management services, earlier it was not. Now, when we want to get this capability in our organization, the lower level resources can be recruited on a project base, but the mid and the senior management to drive the initiatives and the capabilities will have to be invested on. And when we invest on these resources, the breakeven comes when we reach a critical mass and for that the sales engine has to run in. So it has started now, but when we can say that we can break even is when we have more business in that particular line of business or a capability that we have built. So these are the costs we are at. I think we have done a thorough analysis as to why it is hurting us on the margins. I think Siddharth mentioned that in his question there. I wanted to clarify. Now, since you also raised it around that, we wanted to be specific about it. So, I think we are looking at H2 that the capabilities that we'll have built in, it will be fully utilized, today they are underutilized. That's the reason like the margins are little tighter sector and when it gets fully utilized, I think we'll see better margins in H2. That's the plan that we are working towards. And as mentioned, wherever we feel that it might not as much work out for us, we are trying to match through wherever applicable.

**Purushottam Savlani:**

Now, I have a related question. See, we have time and again heard from you saying that the FY'30 will become a \$1 billion organization. Now, we are left with seven years from now. So, since no growth has come from last year to this year, our previous year also growth didn't come, so what we are doing is we are leaving too much of growth expectation for the far end of the over, so, are we saying that within seven years, we will grow 10 times from now, are we confident, because that's a huge ask, 10 times?

**Thompson P. Gnanam:** Great question and thanks for reminding me and the team on the goal we set for ourselves. In 2030 a billion dollar is a clear cut goal we set for ourselves and we're running our organizations in that direction. Just to clarify, I think six quarters ago, I think the first quarter when we spoke as well, is I very clearly our mid-term goal, three years goal we set for ourselves was Rs.1,000 crores. I'm just reminding everybody. That's what we set for ourselves. We started with Rs.608 crores is what we inherited. Last year we reached Rs.674 crores, this year we have targeted Rs.760 crores. The third year, the biggest jump will be Rs.760-1,000 crores is the big jump, which I agree with you because when we took over, obviously, two quarters, we got lost because of a lot of legacy issues settling down stabilizing over now. So if you look at it in my head, and my teamhead, we are looking at three and a half years, we need to hit the run rate of Rs.1,000. Very, very clearly, that's a first milestone as an organization. Second question is a classic question which people ask us basically because on a normal IT services company with year-on-year CAGR of 20% or 25%, you will never hit a billion dollar. Just to clarify also, some of the product strategies we are investing today, and as I said, my NuRe Edge product is now commercial. I give you a small example. These are not standard B2B services. These are envisioned to become a B2B to services, which are absolute post multipliers. As we are talking to you, we have pilots running with telcos where our product will be white label which will be offered to telcos, SMB and enterprise segment processing. So, just look at the scale which this will happen. The second scale is it is B2B2C. So, if you look at it for us, a very simple billion dollar dream would be that 50% to 60% will come with this classic services business model, the balance 20% will come anything could be as-a-service or whatever it will be to B2B and the last is definitely the B2B2C is where we are hoping where we will differentiate ourselves. And this is going to be the scale which we are working. These are all parallel tracks we are working. It takes time. With our balance sheet and our proven results what we have is a very, very tough ask to kind of manage all these tracks. To your point, these are all in track. And once we start scaling, this will start multiplying in a different level, Purushottam.

**Moderator:** The next question is from the line of Sanjay, an individual investor. Please go ahead.

**Sanjay:** Thompson, during your first talk, you mentioned about some new 15 logos in Q2. And even some large deals you've mentioned, I didn't get that exactly. So can you elaborate on how many large deals which is like more than Rs.5 crores value have been won in Q2? And by which areas, I mean, is it more on the application side or cloud side, IMS side? Second question is about are you seeing any traction again, you have made investment into the what is like as in the US-based company as well as Malaysia Sovereign Cloud, that has been launched. So when you will start getting revenue from those initiatives which we invested?

**Thompson P. Gnanam:** Thanks for asking my favorite question. I love to answer this. The first question is, on the logos, as I said, in H1, we are close to almost 29, 30 new logos we have got, because that's an important milestone for us, as we are fighting back into the ranks. And if you ask me, these are all very, very valuable MSA. Though the contracts might be small right now, it might be a crore or Rs. 2 crores or Rs.0.5 crore contracts which we have got in. But it's important that we have these MSA with 30 new customers, that's a positive side of it. And we are now trying to see can we have

Rs.100 crores account plan for these logos which is there. The second question which you asked me is, if you look at large deals, I won't call it very big deal, but significant deal if you look at it, like what Harish spoke about, we are expanding in the GCC space, for example, digital infrastructure management space is something which we see huge traction, and we are winning lot of deals in that space, especially where we are winning against the existing incumbent tier-1. So that's a very clear opportunity for us as a nimble, faster, tier-2 organization and lot of customers are ready to experiment and give opportunity to people like us and we are starting to win that. We see huge traction in the digital infrastructure management in the GCC space. And in fact, our win in Dhanlaxmi Bank is a fantastic win for us because we fought against all the big boys there, and we won it and it's a very memorable win for us. So that has given a real shot. Second, I also see a huge traction even in the cybersecurity operations space as well. You asked me another question on the US investment which we made on the SASE as a core technology because today, we are building lot of our IP around that core technology. Three or four things which we have progressed on that technology; one is our NuRe edge product, this is a facet product is built around it, which is now commercial trade, we are paying customers. Second, as I said the B2B I'm talking about also is on the telco strategy, where we are going to telcos to take our facet product to their customers, which is happening right now. So, that will also you can equate it to monetizing that investment we made last year which you rightly pointed out. Second, what we are also doing is also we are using our 5G lab as a service, our platform and product is being built, we want to offer it as a service on the 5G core of SASE platform. So that's one of the investments. So that's a part of the strategy we are building this 5G lab as a service. And in fact it is right now in work with our IT Tech Park and we will launch it commercially in some of the other western markets to test it. And we are talking to some telcos, we are talking to some even private large manufacturing houses to see how we can use our 5G lab as a service for their own Industry 4.0 and all that good stuff, that is one. The third thing is also private network and SD WAN as a service. These are phenomenal stuff that we're building on this, core investments which we made in US of technology contracts. Also you spoke about the NuRe sovereign over in cloud, correct?

**Sanjay:**

That's correct. How is that going, I mean, are you seeing revenue coming up from that Malaysia initiative?

**Thompson P. Gnanam:**

The investment we have made in that, as I said, we had to proactively invest in the Sovereign Cloud because it is a fundamental and around that we have now built our NuRe velocity and other services around it, and also our facet products and various stuff. And now we are getting into the channel route there, because we have to keep our costs low as well. So we are now appointing channel. Now the beta runs are run, it's all commercial grade. Because we want to offer it as a service. we can't offer this like typical enterprise services where you keep running around between multiple customers. So we are in the last leg where we are getting our billing systems all integrated, getting our channels ready and then it'll be like a run rate business, Sanjay. That's the way we look at. Apart from that, we are also looking at some banks and other customers where we are selling our service as a disaster recovery as a service, for example. We

are a very mature organization with some local banks, and everybody in the local Malaysian territory where we can at least sell this as a DR service. That probably maybe I will be happy to report in the Q3 possibly.

**Sanjay:**

Just one more question about the business. Looks like there is some downtick in US, UK and EMEA business compared to last Q2. Is it a situational thing, is it like are you seeing more demand in business will be coming up from these regions or it will be in the same range or going down?

**Thompson P. Gnanam:**

For us, Sanjay, there are two parts. One is what we are also doing is we are also cleaning up our books also. See, what is happening proactively we are knocking off accounts which are non-focus accounts or strain on us like low margin accounts which are red accounts which are cleaning up. Because the impact of them on our bottom line is high. So, we have done proactive cleanups in US, Middle East, everywhere, that is one. Second thing is obviously we had some correction happening in Q1, Q2 in our onshore numbers because of obviously the green card issues. Once we had a lot of green card happening, it impacts us. But we are now back on track. So we had a temporary impact on that, that will get nullified in Q3, Q4. We will be back on the run rate on the traditional attrition which happened because of green card issues. But to your question, we are very bullish about US and UK, in fact, I'm parking myself in US for the next one month because the good thing which is happening for us I'll tell you is, with these heavy headwinds in these economies like US and UK, there's a big opportunity for more faster as well challenger like us. And we are getting a lot of traction there in our existing accounts, in a lot of new accounts as well. We are very positive about the entire region in the US and UK, Sanjay, because there are a lot of opportunities coming up. A lot of companies are into huge cost optimization. And, most of the non-core or enabling businesses technology, they are ready to experiment. And one of the good things we did is we invested in cloud first. If you look at it, we have been very consistent that is starting to pay because cloud is going to be a recession-proof industry. Second, we are also now trying to take the entire edge first, edge ready technologies, we have built this 5G lab, all these good stuff what we have built, and now we want to focus on agri tech actually. Agri tech also will be an agriculture, will be a recession-proof industry, Sanjay. So we want to just stay focused on some of these two, three tracks, build on our BFSI credit union pedigree, which is there like banks, focus on agri tech with edge tech and things like that and just stay focused on some, and also work with the telcos through sell-through them, Sanjay.

**Moderator:**

The next question is from line of Atmaram, an individual investor. Please go ahead.

**Atmaram:**

I am an investor for more than 10 years with 3i with a huge investment. I've been listening to you now for the quarters. Every time I listen to you, things look very, very bright. But when you stuck at Rs.177 crores quarter-after-quarter, out of Rs.177 crores, Rs.146 crores is employee cost. How long will we keep on hearing positive thing without numbers actually reflecting, because you talk of so many Fortune 500 clients, you talk of so many clients, you talk of so many employees, yet, quarter-after-quarter the story numbers doesn't change. This is something

that really perplex me, which quarter will we reach at least Rs.200 crores revenue? And if you're cleaning up things, why is the employees by fixed costs? People not increasing. Are you not removing people then? This is something that I'm not able to understand. Numbers don't really match with what you talk about.

**Thompson P. Gnanam:**

Even some of the other investors did raise the same question. I did try answering part of it. But I will try and keep it very simple, because I'm not going to again talk about what I spoke earlier on the call very similar. I think now the focus will be to right size the organization because there are two three parts. The way I look at it is the services business we inherited post the carve out, is like a company gain in my mind. That company-A has to be made profitable on its own. The company-B is all that other stuff what we are now investing and building, it's like a startup, which has to be on its own. So these are two separate tracks which we want to kind of track and make it happen. As I agree with you, because we have also made some people investments in advance. If you ask me, we have also been very, very in terms of giving a slightly longer runway or for whatever it is. But I think right now if you ask me, we are into that very clear mode of right costing and right sizing and that will be our focus area, because that is going to be very, very important for us. Because I think we are very clear in terms of our growth areas, we are very clear in terms of how we have to build up on funnel or our order book way forward. But I think I agree with you, very, very clearly, we have to take now very clear clinical action on our cost optimization and right size the company, which you will start seeing the results in the coming quarters where we want to immediately start by sizing it, because it's very important for us also to be right sized and maybe at the right health to face this new changing environment across our world actually. And a company like ours also with the product division gone and we are rebuilding everything start from services, and just to remind you, since you've been with us for 10 years, 3i has been a product led company which also had services. So we were never a 1,000 crores company. So now what we are attempting to do is that to build a true blue services company on parity with any of the other peers. So that's the first step I think we need the support of investors such as yourself so been with us so long. It's very, very important to first recognize that because any other services company has a huge offshore presence, because the labor arbitrage has huge margin, you have huge opportunity to play. But whereas we have only onshore numbers. Our offshore mix is very, very less compared to any other services company, and which we are now striving to see how we can work within the constraints and change. But I can assure you that this changes will happen.

**Atmaram:**

Just to expand on that question, 5,500 employees, I would request that it's high time we don't talk about legacies, we know the problems of the legacy, we are in the hope, after you came in, quarter-after-quarter talking about the past product company, service company, all that is fine. Do you really need 5,500 employees? When you have 400 clients, 80 Fortune 500 companies as your clients, when are we going to see the number of a top line growing and your number of employees coming down drastically? Because if you're no longer going to do or it's not worth doing all the past low margin business that 3i was doing, why do you still have 5,500 employees?

**Thompson P. Gnanam:**

No-no-no, very, very simple, we are all on the same plane, we are all flying in this. All these 5,500 employees are billable people, not one human being, if you dissect it also. The problem is if you look at it, if you break it out, there are 2,500 BPO employees who are there if you have the breakup of the employees which is available in our chart. Now the problem is, as we optimize on one side, we have to grow the other revenue mix, change in other size, it can't be binary. Now if I say that I'm going to reduce this 5,500 people, it'll have a direct impact on your top line. Because our contract mix has not changed, engagement makes sure the customers are not changed, the revenue mix has to change, new customers we are bringing them with a different contract rate engagement model, we are bringing with truly digital models, new customers, old customers are on a cost plus model or it could be time and material model or it could be any other model. So, it takes time to change the mix of contract. It cannot change overnight. It is not so simple. That's what I'm saying, for example, if you take any peer services company, he will have 80% of his employees working offshore for a US customer and 20% works onshore. You have huge margin on that. But if you look at our model today, people are all domestic predominantly, every guy works in that country, invoiced in that country and that does that. So the offshore mix is very less for us today. So you don't have that advantage. The second thing in the modern world today 2022, offshore is also an old school now. Now, customers are saying, bring me back jobs to America. You did it with 100 people in India. Can you do it with 50 people in America with digital and cognitive and all that what we are preaching and that's what now the game is. The game is now, "Can I get my jobs back from Chennai, Bangalore into New Jersey?" That's what customers are talking about. Those are the new age contracts today. That is the opportunity for 3i now to see that okay. Can I work on that strategy right now? So now that is what we are bringing this geo focus strategy moving away from a very India-centric strategy. That's what even Sanjay expanded about our new organization structure and how we are doing it. Now, there, can we make more profitable businesses onshore is what it is. The new contract we bring will not need so many people as you rightly said. For more a traditional guy with 100 people, we can do with 50 people and still make more margin. But these are new contracts. For existing contracts, with customers are currently we are working with them to try and change it, but it takes time. Now, if you ask me the question, reduce 5,500 people to 3,000 people, it will have a direct impact on top line. We are doing it in our own small way wherever there are non-profitable accounts, We are closing it down. If you look at it also, we closed on an account in Middle East in Q2, which had an impact, but we went there and took it because it's a bleeding account. For top line sake, we didn't want to keep it, we closed it, it will have a positive impact for us. So, we have to be very mindful about this. We need to manage this in parallel and ensure that these two lines will converge.

**Sanjay Rawa:**

Just to add one point there, when we are saying that we cannot reduce temporarily, we have consciously reduced employees. In spite of giving an 8% overall increment across the board or average increment across the board, we are still cost flat on the employee on the direct costs. So that actually converts into 8% of people being reduced, cost being induced. So it would be a little unfair to say that the costs have not been going down, there has been conscious efforts on

that and it's going to continue. So I think by end of H2 as I mentioned in what I spoke, we should be seeing much more leaner organization.

**Thompson P. Gnanam:** And also the contract mix has to change. Because the contract mix we are tied. That is what we are striving today. So, we are working with customers to change the contract mix so that it gives us the flexibility, we can do with the lesser number of people. But the good thing I'm saying is recession is going to help us now. Now, customers who don't listen to us, will listen to us and we'll be able to now negotiate better contract mix with them.

**Moderator:** As there are no further questions, I now hand the conference over to the management for their closing comments. Over to you.

**Thompson P. Gnanam:** We could have taken more questions. It's been always fantastic taking questions and clarifying questions which our shareholders ask us. So, it is always a pleasure to talk to our investors and shareholders because always it gives us good insights. And I also want to really thank all of you for the support you have given us and the patience you have been with us. Your management team is focused on running around this company and we will take all the inputs which we got even now and we will periodically keep updating all of you and we will ensure that we will deliver a better H2. Thank you, everybody.

**Moderator:** Ladies and gentlemen, on behalf of 3i Infotech Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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