happiest minds
The Mindful IT Company
Born Digital . Born Agile

Happiest Minds Technologies Limited
Regd. Office: #53/1-4, Hosur Main Road, Madivala,
Bengaluru-560068, Karnataka, India
CIN of the Co. L72900KA2011PLC057931
P: +91 80 6196 0300, **F:** +91 80 6196 0700
Website: www.happiestminds.com
Email: investors@happiestminds.com

October 26, 2022

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

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 October 21, 2022

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) (Second amendment) Regulations, 2021, please find enclosed the transcript of the Earnings Call held on October 21, 2022 post announcement of financial results of the Company for the quarter and half year ended September 30, 2022. 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**

DARSHANKAR PRAVEEN KUMAR
Digitally signed by DARSHANKAR PRAVEEN KUMAR
Date: 2022.10.26 10:23:29 +05'30'

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

Happiest Minds Technologies Limited

"Happiest Minds Technologies Limited Q2 FY 23 Earnings Conference Call"

October 21, 2022

MANAGEMENT:	MR. ASHOK SOOTA - EXECUTIVE CHAIRMAN MR. JOSEPH ANANTHARAJU - EXECUTIVE VICE CHAIRMAN AND CEO OF PRODUCTION ENGINEERING SERVICES MR. VENKATRAMAN NARAYANAN - MD AND CFO MR. RAJIV SHAH - PRESIDENT AND CEO OF DIGITAL BUSINESS SERVICES MR. RAM MOHAN - PRESIDENT AND CEO, INFRASTRUCTURE MANAGEMENT AND SECURITY SERVICES MR. AUROBINDO NANDA - PRESIDENT, OPERATIONS AND DEPUTY CEO, PRODUCT ENGINEERING SERVICES MR. SRIDHAR MANTHA - CHIEF TECHNOLOGY OFFICER MR. SUNIL GUJJAR - HEAD OF INVESTOR RELATIONS MR. PRAVEEN DARSHANKAR - COMPANY SECRETARY AND HEAD OF LEGAL
MODERATOR:	MANIK TANEJA - JM FINANCIAL

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY'23 Earnings Conference Call of Happiest Minds Technologies Limited, hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manik Taneja. Thank you. Over to you, sir.

Manik Taneja: Thank you, Jaishree. Good morning, everyone. Thank you for joining us today on the Q2 FY'23 earnings call of Happiest Minds Technologies Limited. On behalf of JM Financial Institutional 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, Executive Chairman; Mr. Joseph Anantharaju, Executive Vice Chairman and CEO of Production Engineering Services; Mr. Venkatraman Narayanan, MD and CFO; Mr. Rajiv Shah, President and CEO of Digital Business Services; Mr. Ram Mohan, President and CEO, Infrastructure Management and Security Services; Mr. Aurobindo Nanda, President, Operations and Deputy CEO, Product Engineering Services; Mr. Sridhar Mantha, Chief Technology Officer; Mr. Sunil Gujjar, Head of Investor Relations; Mr. Praveen Darshankar, Company Secretary and head of Legal.

I will hand over the call to Sunil for safe harbor statement and to take the proceedings forward. Thank you. Over to Mr. Sunil.

Sunil Gujjar: Thank you, Manik. A very good morning to all. Welcome to this conference call to discuss the financial results for the second quarter ended September 30, 2022. We trust all of you are keeping well and staying safe. I'm Sunil, Head of Investor Relations. The financial statements, quarterly fact sheet and press release are available on our website for your review. The agenda for this call is as follows, Ashok will begin the call by sharing his perspectives on the business environment and our results; Venkat and Joseph will then speak about our financial performance and operational highlights. After which, we will have the floor open for Q&A.

Before I hand over, let me begin with the safe harbor 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.

Now let me pass it on to Ashok.

Ashok Soota: Thank you, Manik and Sunil. Good morning to all of you. I am proud and happy to share that in all parameters of revenue growth, EBITDA and others, Happiest Minds continues to be number one or number two amongst all listed companies who have so far declared results. Our EBITDA margin is only behind one company in the top ten IT services companies. Moreover, for ten quarters in a row we have delivered more than 25% EBITDA, indicating the consistency of our earnings and the strength of our value proposition.

During this quarter, we completed two years of being a listed company. I would like to express my gratitude to all the stakeholders for their continued trust and confidence placed in us. We won the prestigious Golden Peacock Award for Excellence in Corporate Governance for the year 2022 within two years of our IPO. This is a validation from the institution of directors of our efforts over the years to build an institution for our stakeholders with a very strong foundation.

To address the growing needs of our customers and in line with our strategic expansion plans, we have increased our capacity across our delivery centers. This includes purchase of an additional facility in Bangalore, expanding our center at Noida and our Bhubaneswar center is expected to be operational by end of November. In the US, we have two new offices in New Jersey and Seattle. This unprecedented expansion of our delivery capacity is an indication of our confidence in sustaining future growth, in-line with our articulated vision statement. The demand environment continues to be strong, and we will continue to focus on initiatives that further give impetus to our already strong organic muscle.

I'd like to give all of you best wishes for Deepavali. and I will now hand over to Venkat, who will give you all the numbers to support my above statement. Thank you.

Venkatraman Narayanan: Thanks Ashok. Good morning to you all on the call. Happy to be presenting a good set of numbers for our second quarter of FY '23. It's been a good quarter and a good half year from all fronts. In dollar terms, our revenues were at about $44.3 million, showing a sequential growth of 5% and a year-over-year growth of 23.8%. Our growth in constant currency was 5.7% on a sequential basis and 26.5% on Y-o-Y . With this quarter, we've had 9 successive quarters of 5% plus growth in dollar terms. In rupees, our total revenues for the quarter were about ₹359 crores, showing a sequential growth of 8.9% and year-over-year growth of 31.1%.

Our EBITDA for the quarter was ₹ 94 crores, which is 26.3% of total revenues. And as Ashok referred, we are one of the top listed IT services companies with respect to this number and the growth parameters that I talked about. Volume growth, operating leverage in terms of better utilization, rate increase, increase in other income and a favorable exchange rate helped us set off a large part of the pay increase that came in this quarter, while helping to maintain our profitability levels, hence deliver the above margins.

With this quarter, we have had ten successive quarters of which EBIDTA is 25% plus. So that's an interesting metric that we'll be putting forward. We ended the quarter with profit before tax of about ₹ 80 crores, which is about 22.3% of revenues compared to ₹ 76 crores and 22.9% of revenues in the previous quarter. Profit after tax was 16.5% and about ₹ 59 crores compared to the 17.1% and ₹ 56 crore in the previous quarter. EPS was at ₹ 4.09, showing a sequential growth of 5.4% and a Y-o-Y growth of 33.7%. Our effective tax rate has remained steady at 25.5% over the quarters.

A few highlights of our performance for the first half of the year are, dollar revenues stand at about $86.6 million, showing a growth of 25.5% on a year-over-year basis. Operating income in rupees was about ₹ 684 crore versus ₹ 509 crore for the previous half year, showing a growth of 34.4%. EBITDA was ₹ 182 crore versus ₹ 16 crore, showing a growth of 33.6%. So, you can see good growth in revenues, total income and consequently EBITDA.

Our performance in the first half of FY'23 has shown significant growth in revenues and profits and is in line with the annual guidance of 25% plus that we had stated earlier. Some of the operational highlights on our performance for the quarter while supply side constraints remain, our attrition numbers have started slowly trending down. And on an LTM basis, it stands at about 23.5% compared to the 24.4% in the previous quarter.

Our attempt to keep these numbers in check and trending downwards is what we will be continuously focused on as we move forward. Utilization levels continue to be high and was at 80.6% compared to 79.1% in the prior quarter. Like we have mentioned earlier, we would like to ideally keep this in the range of 78% plus, but however, as you know, supply and demand situation has warranted us to have this utilization run at the high levels of 80% plus.

We have added 393 Happiest Minds during the quarter on a net basis. This number had a decent number of campus hires, which is about 247, who joined us this quarter. Our diversity metric was at 27.6% of women Happiest Minds compared to the 26% in the previous quarter. As you know, this is a number that we focus on, and it finds its way in our vision statement as well.

Revenue share of verticals has shown increase in almost all the verticals, except for a slight drop in retail and industrial. The primary reason for this has been completion of projects with a couple of large customers that we have been dealing with. Repeat business continues to be 91% of our revenues, and this stands testimony for the land and expand strategy that we have been following with our customers. We ended the quarter with about 40 million-dollarcustomers and count amongst them about 54 billion corporations who have revenues of more than $1 billion. That means we have got 40 million customers and a total of 220-plus customers and out of which about 54 corporations have revenues of more than $1 billion and essentially large corporations. We continue to generate healthy cash flows. And for the quarter, free cash flow was about ₹ 86 crores, which is about 90% of our reported EBITDA.

As mentioned on the call last quarter, we have deployed about ₹ 128 crores in the purchase of office space in Bangalore, funded primarily through long-term fixed rate debt of ₹120 crores. Looking at the interest rates today, the fixed rate of 4.2% on the loan makes the deal very sweet. We have significant other operating leverages coming out of the transaction, and I had covered this in detail on the last call. And it also lends itself as a natural hedge to us. The impact of this loan and this purchase is positive from a P&L standpoint, on a cash flow impact standpoint versus a rental arrangement that we would have ideally had for this building.

Cash and cash equivalents at the end of the quarter stood at ₹ 670 crores and our capital return ratios continues to be very healthy. Return on capital employed at the half year stands at 35.2% and return on equity stands at about 31.3% . Happy to say that keeping in line with our progressive dividend policy and capital allocation discussions, the Board of Directors of the company have declared an interim dividend of ₹ 2 per equity share with a record date of November 3, 2022. Cash outflow on this count will be about ₹ 29 crores.

Finally, as you may have read in the press, the Board of Directors of the company at its meeting held on October 5, 2022, has approved and enabling resolution to raise capital of amount not exceeding ₹ 1,400 crores. We have now reached out to our shareholders for their consent and the postal ballot process is in progress. Post shareholders' approval, the Board and our designated committee of the Board will decide the next course. The main use of funds will be to fund our inorganic growth aspirations of the company. Ashok did briefly touch upon the Golden Peacock Award that we were awarded this quarter. Extremely proud to say that we have been able to win this at such a young stage of growth of our company.

With this, I conclude my commentary, wishing all of the participants on the call a very Happy Diwali and Dhanteras. I'll now turn it over to Joseph for his comments.

Joseph Anantharaju: Thank you, Venkat. A very good morning to all. We continue our march with a strong set of numbers, which reflect our ability to grow profitably and at scale. Growth cut across business units, centers of excellence, geos and verticals, reflecting the relevance of our services to our customers. We are executing bold programs for our customers in their journey to drive growth, cost optimization or both and to build a resilient enterprise. Our proven land and expand strategy is helping us make deep inroads into our customers' digital journey by increasing our wallet share, which is validated by our average revenue per customer, consistently trending up. In the reported quarter, it is at $812,000 compared to $783,000 a year ago.

Our three business units, Product Engineering Services, Digital Business Services and Infrastructure and Security Services between them serve 226 customers, out of which 55 are billion dollar enterprises, with 40 customers contributing more than $1 million in revenue. Through an efficient sales organization and sound account management practices, we're able to seamlessly take our offerings across these three business units, resulting in 42% of revenues being cross Business Unit. Enterprises are running compressed transformational initiatives leveraging the power of digital. For a U.S.-based food retailer, we have been chosen as a strategic partner in their journey to drive e-commerce initiatives.

Our customers are deploying outstanding customer experiences across various touch points to increase customer confidence, happiness, brand loyalty and advocacy. For example, an Europe-based mature startup in the real estate tech has chosen us to enhance their digital platform to map their entire customer journey from sales to aftermarket. Cybersecurity continues to be more important than ever. Through our integrated security capabilities from identity to threat intelligence to manage security services, we're helping our customers intelligently assess, manage, detect and respond to cyber risk. For example, a leading fashion clothing and accessories brand in the ANZ region chose us to assess their cybersecurity risk, identify threats and gaps and implement remedial measures.

Our breadth and depth of capabilities help us to drive value across customers' business lines. For example, using intelligent automation and superior data visualization techniques, we're able to help a US based global energy company drive efficiency and take timely decisions across their strategic lines of business. Digital most often than not is a force multiplier for enterprises. An impactful proof of concept(PoC) engagement done for a business unit, can soon open doors for much larger engagement within the customer's ecosystem.

For example, this FMCG major chose us to implement Microsoft Power Automate platform in its Southeast Asian territory to automate the order entry and purchase acquisition processes based on our success in other regions with the same customer. Our compelling people engagement program and the vibrant carrier paths that we provide offers a value proposition that is unmatched. During the quarter, we welcomed 393 new Happiest Minds which includes 247 campus graduates. Great Place to Work institute has yet again recognized us in the top 50 best workplace for women, and we are ranked 68th among best workplaces in Asia.

We have grown to 4,500plus smart and innovative Happiest Minds, who are adding tremendous value to our clients for their strategic initiatives. We're also continuously evaluating acquisition opportunities to fill gaps in our offerings, strengthen our focus in the markets we operate and position us on the leading edge of technology.

Coming to the macro, technology permeates every part of our customers' business. They are accelerating growth and transformation agendas while continuing to build a strong digital core to drive agility, efficiency and resilience. So, in spite of a longer than usual inflationary period and extended geopolitical conflicts causing a little bit of anxiety, demand remains strong and as of today, has not resulted in any major curtailment of spend, nor any postponement of projects. Our strategy will be to keep a close watch on the market to anticipate our customers' needs in advance, enhance any needed technical and domain capabilities and be our customers' partner from strategy to execution, to solve their business problems and seize market opportunities while remaining laser focused on quality delivery.

With this, I conclude my commentary, best wishes to all for Deepavali. Operator, we can open the floor for Q&A.

Moderator: We have a first question from the line of Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi: Could you explain what proportion of projects are related to cost takeout or optimization? Because that seems to be where incremental projects are coming from based on what your peers are saying. I just want to understand what that proportion is? The second question would be if you think about your customer base and the exposures you have and how you're growing, certainly, there's some customers, i.e., start-ups, which see some headwinds, some enterprises in Europe as well, maybe. And then there are other customers where digital spending will be the last thing they cut. So, if you could just frame a little bit of, puts and takes across your customer base, that would be helpful.

Joseph Anantharaju: So we’ve not been tracking our revenues across cost takeout andgrowth and other areas, because for several of our customers, some of these initiatives are actually contiguous especially if you look at the midsized customers. We're not being differentiating or tracking this. But in terms of start-ups and Europe enterprise, our exposure to start-ups is on the lower side, probably would be in the single-digit as a percentage. So, the impact has not been much.

In the Product Engineering Service space, most of the customers that we work with are either midsized product and platform companies or most of them are larger product companies, which has been a strategic choice that we've made because the spends with these customers is much larger. We do have a few start-ups that we work with and the impact out there has been minimal. In terms of Europe, we get around 10%. This quarter, it was 9.5% or so of revenues from Europe. We've seen a little bit of a lengthened sales cycle out there. But given that our exposure to Europe is in the single digits, again, we've not really had much of an impact. Rajiv, do you want to add anything, Rajiv?

Rajiv Shah: Yes, a couple of things. Karan, if you look at what we serve our customers is driving the digital transformation in their entire ecosystem, which into product build, to integrate, to run digital-ready applications. So, it's really thinking about utilization of new technologies, adoption of new technologies or disruptive technologies which really help them drive the change in their business model as well as their approach to the customer. So that I think that's first part of the question. But when you look at some of the newer investments we have made in the areas of low-code environment, which looks at how do we help you reduce your not only get your platform out in the market faster but in the long run, it reduces your support and maintenance cost as well.

So it's not really a cost takeout, but it's a cost optimization activities that we get involved in by implementing new sets of technologies and new sets of disruptive digital-ready platforms in their environment. Specific to Europe, I think that our large accounts which continue to grow, and we continue to see the momentum. But at the same time, the sales cycle are a little bit longer and continues to be a cautiously optimistic market for the entire IT services industry.

Karan Danthi: That's very helpful. Maybe just a quick sub follow-up on the low-code, no-code. Are you building proprietary platform?

Rajiv Shah: We have set a setup a center of expertise for a low-code environment as part of our digital process automation initiative. And within that, we tend to use a set of technologies, whether it's Microsoft platforms, Outsystems, etc., but the approach we have taken is, how can we look at the current environment that they have or current initiatives that they have, re-look in helping them build those platforms out in the market earlier than what they had planned for, help them reduce their support and maintenance cost. So yes, we do have set of technologies that we work with, at the same time, it is a change management and consultative engagement that we go through to truly identify the opportunities. Because some of the applications will not be ready for low code kind of an environment.

Moderator: We have our next question from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted to pick up Ashok's thoughts on the fact that right now, everybody is worried about the macro volatility. And given the experience of what we've seen in 2008-09, do you think a company of our size and the fact that we have spread ourselves across multiple verticals as well as multiple segments players like us may be at a disadvantage if customers look at vendor consolidation exercises? The second question was with regards to our long-term aspiration of getting to $1 billion in revenues how much of that essentially bakes inorganic component given the recent development on raising outside capital?

Joseph Anantharaju: So I'll take the first part, and I'll ask Venkat to chime in on the second part of your question, Manik. The fact that we are operating in multiple verticals in a way acts as a risk mitigation and diversification. If you notice, we've not gotten to every vertical. We prioritize some verticals within the ones that we are currently focusing on and reporting where we built much deeper capability and expertise.

Now going to the risk from consolidation, if not for all of our customers, we are an integral part of their digital transformation journey. With many of them we start off working in a very early phase of their digital journey, helping them with some of their proof of concepts, validations, figuring out the right kind of technology stack. Therefore, we are an integral part to understand what they're trying to achieve. Therefore, the risk from a consolidation exercise carried out is much lower, given that we are critical to their journey. Venkat, do you want to take the second part of the question?

Venkatraman Narayanan: Yes. So Manik, if you recollect, we have talked about the 20% organic growth for the medium term and then maybe 15% after that in the previous quarters. And then the last quarter, we then decided to merge both organic and inorganic and said that we want to grow 25% for the next “x” number of years so that we can touch that $1 billion number. So the difference between the 20%, 15% organic growth and the 25% consolidated growth over the next “x” number of years by 2031 to reach the $1 billion number has to come in through acquisitions.

And if my numbers are right, if we had done about 20%, followed by 15% for the next 3 or 4 years, we would have touched a number of something like $750 million, $780 million by 2031. So effectively, if we had to make that aspirational number of $1 billion, we would have had to add about $250 million in the last year of the 10-year horizon or the 10-year period that we are talking about through inorganic means, which means, we have to acquire one or two companies or maybe even more or it could be good bolt-ons, which will add to that number over this period from today to 2031. Does that answer your question, Manik?

Ashok Soota: Can I just add a little bit also, Venkat, has given quite a lot of information. I think, Manik, as you know, an acquisition is a lumpy process in the sense it will add a solid amount of revenue. It may happen in one year. It may not happen in the next. Though we've increased our guidance to 25%,fact is that all of the current year's growth is really organic. So, I don't think that we can make that artificial distinction. There will be a fair share of acquisition, and there will be continued strong organic muscle growth. So basically, that's the way we are working. And in that way, we will certainly keep in mind our vision, which we expect to achieve.

Manik Taneja: Sure. And if I can prod you a little bit on that acquisition pursuit, if you could help us understand what are the kind of targets that you're looking at? What are the typical revenue or margin trajectory for the targets that you're looking at? And then subsequently, I have a couple of follow-up questions related to the operating performance of the quarter.

Ashok Soota: Venkat, I guess, on this question, we really can't make any forward-looking statements, but you can address it please?

Venkatraman Narayanan: Right. The first question, we are looking at pure digital assets, like in, Salesforce, areas of security, certain key verticals into which we would like to grow further and maybe there are horizontal technologies, which will serve to certain key verticals, like Pimcore was for us when we did that acquisition a couple of years back.

So that's the area that we are looking at, and it will be pure play digital capabilities, digital assets because we don't want to dilute our positioning, which is about 97%, 98% digital business that we are doing today. That's on the identification of the target. There is one more angle to it, Geography. We are looking at companies, U.S., Europe, India. If there is capabilities on the deliveries front, U.S. companies with India or, let's say, offshore delivery capabilities, it could be in India, it could be in Philippines or it could be in another area from the offshore delivery capabilities are typically built. Same thing goes for the U.K. We are not looking at pure play 100% in on-site companies as of now, but I think that is something (like Ashok mentioned) as we progress, we could look at it in course. So that's on the landscape of targets that we are looking at. We are working very closely with sell-side bankers, buy-side bankers on this internally, and we've also appointed bankers for that purpose. So that's something on the acquisition front.

With regard to profitability, we have been delivering 26% EBITDA numbers. So, when we look at acquisitions, we'll be mindful of the fact that we do not want to dilute that too much. Obviously, there are puts and takes on that. If it adds capabilities, you are willing to and there is a huge growth possibility, you have to factor that. So, it's not that we are stuck to the 26% number, but we also do not want to take a loss-making company where we need to turn around the operations and the like from there. Thus, we're looking for capabilities of strategic imperatives when we make an acquisition, and that's what will drive us forward when we look at companies.

Moderator: We have a question from Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi: I'd love to understand why you win business. It'd be helpful to understand what is the reason you win digital business vis-a-vis your peers? Is it specific competencies, which are hard to recreate elsewhere? I just want to understand what are these dynamics that justify you as a pure play versus being as part of a large organization?

Joseph Anantharaju: Karan, in different scenarios, there are different reasons, but some of the reasons why we went digital business from our customer is that the strategieshas really worked well for us is the The land and expand strategy and as I alluded in my previous response, with many of our customers, we get involved in the early stages of your digital journey, and its here that some of our strengths really play out well.

The focus that we have on the digital space and the depth that we have in digital technologies allows us to help our customers to bridge the gap between their business, objectives, and the technology landscape. And being a relatively smaller company and being a born digital born agile company, we're able to be very nimble in how we work with them and adapt to their compulsion.

And once we've established ourselves as a partner of choice and they take these initiatives into implementation phase, we become the partner that they go along with. So, depth in digital technologies, the agility, the quality of our people both in terms of the technical capabilities and their attitude as borne out by in the "Happiest People Happiest customers" mission, and off late the domain capabilities that we've been building up and the consulting approach that we take to our customers is what has allowed us to compete in the marketplace and win business.

Ram Mohan C: Yes. Adding to that, Joseph, I just want to give a couple of other points. Our focus in terms of agile infrastructure are in terms of multi-cloud adaptations or multi-cloud management and migrations and full circle security, right? And these are some of the areas which we specialize in, apart from analytics or digital process automation. And those also puts us a little bit ahead as a specialized service provider capability.

Rajiv Shah: To say a couple of things as well. So I think that one area that makes us unique is our ability to invest ahead of the forecast, as all of us appreciate the technology disruptions are taking place at a much faster pace. So how much ahead of forecast that we have continued to invest to really help our customers take advantage. So like blockchain or drones or even a low-code environment, etc. we continue to invest quite aggressively before the real need is identified. The second one, I think, is really we continue to carry a high Net Promoter Scores customer satisfaction. So, a lot of our business comes from repeat set of customers, more than 92% of our business repeat customer.

And the third aspect is customer referenceability. . We continue to get good references from our existing customers or customers who have moved to a new location or a new company, they continue to attract us as well. So we continue to deliver good stuff, continue to look at the investments ahead of the forecast and maintain the set of customer relationships, which help us well.

Moderator: We have a next question from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: Sir, my first question is to understand on the acquisition piece. I don't need any specific numbers, but typically when we're looking out of the acquisition, what is the size in a broad range, can you explain? On similar lines, margins, I believe we are at a high number today. So, target would be at lower numbers. What would we do after acquisition in a year or two to scale up the margin? What's the thought process on this? Because I would believe we have a decent size by ourselves, considering the number of ₹ 1,100 crore, ₹ 1,200 crore of planning to raise.

Venkatraman Narayanan: Yes. Nilesh, on acquisitions itself, we have been looking at the landscape available with the qualification criteria that I just talked about a couple of questions back. The company size(in revenues) is range from anywhere between $10 million to, let's say, it goes all the way up to $50 million or even $80 million. So that's the range at which we get targets nowadays. And digital assets typically tend to be slightly more expensive than your typical older technologies or traditional technologies. Both go hand in hand when you talk about the amount of money that needs to be deployed. So, one it's a digital asset and the size of the acquisition.

Most of the companies that we are looking at, are in the range of 20% plus in terms of profitability, 20%- 21% profitability either on a standalone or on an adjusted basis. To answer your question, we are not getting any of those loss-making companies or the ones which require us to do a lot of turnaround and all of that. So that's the landscape. And the size is anywhere between $ 10 Mn to $ 50 Mn. And if you look at it, a $50 million company would require a little bit of outlay. And this money that we are seeking to raise is just maybe not for one acquisition. It would be kept aside, and we would do, let's say, one or two for that matter.

The idea is to make sure that we raise capital ahead of time, be ready. It shows seriousness in the process. It also sends a signal out into the market. Second is also the need to ensure that we deploy that capital raise quickly enough to make sure that we don't hurt our return on capital employed or equity and all of that. And at the same time, also add to the business muscle that’s required. But while doing all of this, nobody is taking their eye off the organic growth. And like I’ve said in the past as well, that our organic muscle is distinctively stronger than most companies that are around when we are looking at acquisitions or when we look at other companies around us.

Nilesh Jethani: Got it. And on the target, broadly wanted to understand. Today our offshore, on-site mix is skewed towards 95% and 5% broad range. So, if the target is more of a company into a foreign location, would we look to convert more offshore? Or we would make it run into an on-site location only going ahead also? If you, acquire a company in a foreign location?

Venkatraman Narayanan: That would be a strategy that will be laid out along with the acquired company, the target company. But what I have been saying in the past is this 95%-5% has happened because we are working on digital capabilities in an agile manner, which lends itself for lots of offshoring. That's not something of a number that we are married to. So tomorrow, if we get a great asset, which happens to be, let's say, 50%-50% or 75%-25%, because it’s not 95%-5% or heavily leveraged to offshore, we will not say that is not something that we will not look at acquiring. So, what I'm trying to say is the number of 95%-5% is there, but it does not hold me from looking at a target, which is doing good profitable business, has growth capabilities, and along with us will grow to become a larger enterprise.

But these are the things that we will look at rather than say what we have to look at the company, which has got 95%, and that is the metric that cannot be distorted. This is very similar to average. We were very proud of the fact that our average revenue per customer has been trotting up. We are at about $812,000 today. When you acquire a company with capabilities and with a set of customers, there is a possibility that number can go down. But that is not going to be the determinant for me to say that I can't acquire. The metrics are what we are putting out to show you or to display the capabilities, the land and expand that we are doing, but rather than that becoming a bottleneck for me to do an acquisition. It was a long answer, but I hope I've answered it.

Nilesh Jethani: Yes. That was really helpful. Second question was on the high-tech segment. So, post two quarters of some degrowth, we have upside on that. So wanted to understand, a lot of IT companies are talking about some slowdown into the segment after a huge or very strong base of last year. From Happiest Minds perspective, where are we, how do we see this segment going forward? Is it one-off reversal? Or you believe the strong base will keep impacting the growth rates? Any thought process on that?

Joseph Anantharaju: If you see the high-tech vertical actually exhibited a strong growth in Q2, and we expect that this trend will continue. I know we did see Microsoft making an announcement, and there is some caution in this space, but we've not seen any pullback so far, except for some initiatives or programs get over and they reach a logical conclusion. And then the team size, obviously, gets reduced once the initiative is implemented. So far, we've not seen any signs of pullback in this segment because the end customers are still making investments and digitizing and moving their applications to the cloud, they're leveraging SaaS applications more than ever.

They need to use analytics tools and move to adopt various big data platforms. All of those are playing out. You need to automate using some of the tools and frameworks available. All of these things are playing out. Security is a huge area and an opportunity for the high-tech space. In the last 1-1.5 years, we've signed up 3 or 4 pretty large customers in the security space. So, the various parts of high-tech where there’s enough demand, and there continues to be spend.

Nilesh Jethani: Got it. And one last question from my side across segment, be it from EduTech to manufacturing, industrial and the work we do, I believe digital is largely now core to most of the clients, but if I want to just bifurcate at the discretionary and non-discretionary. I’m asking this because there's a thought process of impending recession going forward. Can you bifurcate or help me understand what percentage of overall revenues you can bucket into our discretionary and non-discretionary on a very broad scale?

Joseph Anantharaju: See the very definition of discretionary and non-discretionary, this is a conversation we have internally and sometimes with the customers. That itself I think is undergoing a change. For most customers, their digital application and infrastructure has become core now. And in fact, what we are seeing is that customers are trying to pull money out of their BAU or business as usual technology and infrastructure landscape.in some cases, to fund their digitization journey. And therefore, the previous way of looking at discretionary, non-discretionary, I believe, has undergone a change.

Nilesh Jethani: So, let me ask this question in a different way, over the last six months, have we seen any delays in conversation with clients or approvals for a particular project, because 80%, 85% is repeat business to us. Any deferment what we have observed?

Joseph Anantharaju: Nothing that is out of the usual, right, even in the last few years, at times, you would have seen, based on the company and the business unit that you're working with, your performance. There would be sometimes when a project or initiative could get delayed by a few months or some, and very often, if it's slated to start, let's say, November or December, it could get pushed out into January. So those are the kind of things that we're seeing. As we've mentioned in both Ashok's and my initial comments, we've not seen any major pullback or delays of programs or initiatives. And in Europe, we're seeing a slightly lengthier sales cycle, which is understandable given some of the churn that you're seeing out there in that geo. But again, as Rajiv and I mentioned earlier, it's a smaller part of our business.

Moderator: We have a follow-up question from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted to get your thoughts around the fresher addition that we saw this quarter. It appears that the fresher addition was much lesser than what you had initially envisaged. So, if you could help us understand what drove that and also talk about the fresher hiring plan for second half of the year? And the second question was related to that. Despite such an overall net addition, what drove the higher utilization?

Joseph Anantharaju: Sure. As we mentioned in our press release, we've had 393 net additions out of which 247 are campus graduates. We would have liked this number to be a little higher, but we did have a few dropouts. Our fresher addition is broken up into two categories. One is the campus hires. And we also go to finishing schools, especially on the IMSS, the infrastructure space where the skill set required is a little different and specific. And in this quarter itself, we've had around 40 to 50 such freshers, who come from training schools inducted into the IMSS business unit.

In addition to augment this, on a quarterly basis, depending on the kind of skills that we need, and which are deficit we go to finishing schools, we have a few of them that we work with, and we bring people on board which is what we would be doing over the next three months or so as and when required. The campus graduates that we brought on board are going through their induction and training program and would be available for absorption into projects by end of November. And the focus would be on ensuring that we are able to get them into projects, get them ramped up and billable. And if there's any deficit, we would go to the finishing schools.

Moderator: We have our next question from the line of Chirag Kacharia from Ashika Institutional Equities. Please go ahead.

Chirag Kacharia: Sir, I joined the call a bit late. So just again, if you can share like what are the macro-economic conditions impacting your distribution with client and also the order intake process. Is there any delay or deferment you are facing at this moment?

Rajiv Shah: Yes, Chirag, of course, we are closely watching the macroeconomic environment. But at the same time, I think that we continue to get involved with the customers, with the discussions on their digital transformation journey. There are pockets like Joseph highlighted, in Europe that there are some longer sales cycles compared to what it was earlier and rightfully so with all the changes that are taking place, which are happening on a real-time basis.

But overall, we have not seen any significant change in the level of discussions that we are having with the customer or closing of the contracts or collecting money from the customers either. And nowhere in the contracts that we have been asked to even renegotiate the price. Instead, we have been able to go and get the higher rates for some of the specialized skills,. So overall, we continue to be cautious, at the same time, haven't seen real impact on drivers for our growth, which gets reflected in the numbers that we just presented.

Chirag Kacharia: So, will it make any impact in the near-term target of the turnover, which we put like as a part of our strategy?

Joseph Anantharaju: We will continue to hold on to whatever guidance that we have provided earlier.

Moderator: We have a next question from the line of Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi: Yes. I just very curious. There is this kind of top-down view if one thinks to it that software is a deflationary force. If we're going to get out of this inflation spiral, you sort of need investments. we're seeing some deal delays, but the composition of the deals, as you mentioned, you have low-code, no-code should support sustained levels of activity in certain areas.

Where are you seeing acceleration of interest and investment? And let's assume this environment does not change for the next 1.5 years, I hope it does, but let's assume it does not. Which pockets of software you think will attract investment and which pockets of software do you think will detract investment?

Ashok Soota: If I may just say, I'm just saying you need more of an economist to respond to your question. It is very broad. Firstly, I must tell you I don't agree with you that it is a inflationary force. That is the starting point. Having said that, okay, let's go straight away into your second part of your question, which is what are the segments which will grow faster or which are the ones which are going to continue to attract more attention.

In a growing economy, frankly, everybody needs IT and its indispensable. It is wrong to think it's inflationary. It is bringing down costs all the time. Look at the gains that you get out of it versus the investments that you make. So, productivity improvement is far higher than any inflationary thing that you require. I do disagree with you on your observation. My short answer would be the every segment will continue to grow, and it's fairly evident what are the high-growth segments, but Joseph may want to add a little bit more and maybe even Rajiv.

Joseph Anantharaju: Sure. Again, I think there'll be two broad areas which will benefit IT service company, especially focused company like Happiest Minds. One is there continues to be a paucity of technical talent in most of the markets. And so that will continue to drive demand for services from companies like Happiest Minds. And the second is if this inflationary trend continues and customers must optimize their cost, they will look at offshoring as a way of still getting work done while managing their costs, both I think are pro-offshoring and in favor of a company like Happiest Minds. And again, within each industry, you will see specific areas that will draw attention. For instance, in the industrial space, most customers are looking at adding connectivity and looking at how to pull data out, how to have cloud platforms into which they can get this data and then post that, analytics becomes a huge piece.

Some of them are a little more advanced in the journey, others are beginning their journey. At the same time, they're looking at how do they make their devices also more intelligent. So, the two broad trends over it. If you get into manufacturing, they're looking at how to digitize their plants, how to adopt some of the newer technologies, how to adopt things like e-commerce and then remote monitoring, just given the challenges they had in COVID. And I can get into other verticals. I'll take a couple of examples because each vertical has something specific that is being impacted by the digitization trends, which affords opportunities and that need to be done by customers. Rajiv, do you want to add anything,

Rajiv Shah: Yes. So just a couple of things. I think that customers will continue to evolve new business models, and it's our responsible to continue to help them find new ways of doing things, right? While the technology landscape will continue to change, and I think just picking up Joseph's example on manufacturing, ERP was a standard flag bearer for a lot of organizations when they were establishing. But now we look at manufacturing or industrial or retail CPG world, connected devices, how to utilize data, etc.

From that perspective, technology landscape or utilization of technology will continue to evolve. And within that, maybe specific set of technologies might become redundant and come into play. But our ability to continue to look at new ways of doing things and take advantage of the new technologies that's continues to be challenged. So just wanted to differentiate it, yes, the technology will have all shelf-life, but continue to innovate and finding ways for them to become more efficient and effective is not going to change.

Moderator: I would now like to hand the conference over to Mr. Manik Taneja for closing comments. Over to you, sir.

Manik Taneja: Thank you. On behalf of the entire team at JM Financial Institutional Securities, we would like to thank the management of Happiest Minds Technologies for giving us the opportunity to hold this call. I'm going to pass over to Sunil for any closing comments. Over to you, Sunil.

Sunil Gujjar: Thanks, Manik. Thank you all for joining us today. We thank JM Financial Institutional Securities for hosting this call on our behalf. We look forward to interacting with you. You may want to reach out to me at ir@happiestminds.com. Best wishes to all for Dipawali. Good day.

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

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