All E Technologies Limited

Q1 FY27

POST EARNINGS CONFERENCE CALL

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Management Team

Dr. Ajay Mian - Managing Director

Mr. Rajiv Tyagi - Executive Director

Ms. Ritu Sood - Executive Director

Mr. Sandeep Jain - Chief Financial Officer

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KAPTIFY®

Strategy & Investor Relations Consulting

Presentation

Moderator: Ladies and gentlemen, on behalf of Kaptify Consulting Investor Relations Team, I welcome you all to the Q1 FY27 Post Earnings Conference Call of All E Technologies Limited. Today on the call, from the management, we have with us Dr. Ajay Mian, Managing Director, Mr. Rajiv Tyagi, Executive Director, Ms. Ritu Sood, Executive Director, Mr. Sandeep Jain, Chief Financial Officer, and Mr. Sandeep Salman, Head of Cloud and Managed Services.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements which may involve risks and uncertainties. Also, this is a reminder that this call is being recorded.

I would now request the management to brief us about the business and performance highlights for the period ended June 2026, the growth perspective and the vision for the coming years, post which we will open the floor for Q&A. Over to you, sir.

Dr. Ajay Mian: Thank you very much, and good afternoon, everyone who has joined the call. We will take the initial few minutes to go over an overview of what has been happening, what the numbers are. You might have already looked at this presentation last night or this morning, let's quickly run through this.

Broadly speaking, we can say that this quarter is signalling a return of growth. If you look at that from a numbers point of view, we saw a YoY total revenue growth of 9.1%. This (revenue) was INR 37.2 cr. in the Q1, which is the first clean YoY acceleration since the slowdown began.

Our product side of the business has grown faster in this quarter. We had 14.7% license revenue growth. The services YoY has grown 4.8%. And on the international services side the growth has been 3.7%. However, if you look at the QoQ of the international services, that growth has been 9.1%. These parameters signal very clearly that some of the things which have been bothering us for over the last year seem to be tapering down. We are not completely out of the woods in certain regions, and we will talk a little bit about that, but broadly speaking, the parameters look healthier.

What has been happening over this period of time, and last quarter in particular, if we look at the overall customer engagement that we have had, the number of sizable customer engagements that we have - I mean, large customers where we have multiple offerings made to them, the number of engagements has grown. When we spoke last quarter, we spoke of some significant opportunities that we had been working on for a very long time, which we had hoped to close in the last quarter. Well, some did, and some again shifted, but at least some important ones have closed in the current quarter that we are talking of.

We have also seen demand build-up for the data and AI solutions. We continue to invest in this - both in IP and skill-building. Our international business has accelerated where we had seen some decline last time, and the product business has grown. Ironically, there is a set of products in which Microsoft does not have the same level of margins as in the business application space, we had a healthy share from that side. So, overall product margins have declined in this quarter, but the overall numbers have still grown.

And all this is based on the 10-plus industries where we maintain significant domain depth. We have five industry solutions, five additional accelerators, and of the six Microsoft designations, we have all the six. All these things help us in customer engagements.

If you look at it from a customer acquisition point of view, you will see that we have had an increase in the percentage of revenue that we get from our top five and then top 10 customers. So, this is a signal that we have been getting more from the larger customers, which is, up to a certain point, a healthy sign because we still do not face the risk of customer concentration. But then the engagement with these customers is becoming deeper. The chart on the right also shows what kind of revenue we did in this quarter from our top five customers. So, which basically enables you to see that these engagements are of non-trivial size.

From an accomplishment and recognition point of view, just last week, Microsoft announced us as the winner again of the Inner Circle for AI Business Solutions from India. Barring the global SIs in the partner ecosystem, Microsoft typically picks only one from India, and we are the winner once again this year. We (also now) have all the six (Solution Partner) recognitions, (along with) the Inner Circle this year again. All these things make our base solid for growing the business.

The one thing which many of the investors have been asking about is - why are you not moving to the main board. So glad to inform you that we did, at the board, take a decision to go ahead with it. So, Board approval was obtained on Friday, and we will have the follow-up actions being initiated now. So, we see this taking shape in the next couple of months.

I'm excited to share with you what we are building …. So, we have captured a little video of what we are building … I'll just present it to you. This is done specifically for the retail industry. Just let me know in case you don't hear the sound. Can you hear the sound?

Moderator: Yes, sir.

[Audio-Visual Presentation]

Dr. Ajay Mian: This is just to give you a view of what is being built. So not everything that you have seen is ready right now, but the initial parts of the Retail OS are. We already have a couple of customers who are signing up. So, we should see this being rolled out during this year.

Looking at the key numbers, the total revenue in this quarter was INR 37.18 crores. Total income was INR 39.5 crores. The EBITDA stood at INR 6.98 crores, which is 17.7% of EBITDA Margin. Repeat and recurring was 90.3%. We added eight customers. The team size continues to be approximately 350. The industries and the percentage revenue breakup that we have from these industries … you have seen this chart before … the numbers are from this quarter. These things you have known, though some of our offerings have slightly changed. There is more focus on -- the data and AI were one box earlier. Now they are two separate boxes ….

Other things that have stayed consistent …

- working with the full Microsoft stack across all their cloud offerings, the business applications, data and AI offerings
- the board of directors
- the key managers
- the annexures …you probably know them or can look them up
- There is nothing specific (new) that I have on the CSR side. So, all standard stuff.

So, I'll just stop presenting here and open for any conversation.

Moderator: Thank you, sir, for the presentation. All those who wish to ask a question may use the option of raise hand, in case you are unable to raise hand just drop your question in Q&A box and we'll ask on your behalf. So, we'll get the first question from Rishabh Tripathi. Rishabh, you can go ahead.

Rishabh Tripathi: Hey, hi. Am I audible?

Dr. Ajay Mian: Yes, Rishabh. Very well.

Rishabh Tripathi: Yeah. Thanks. Thanks, sir for taking my question. So, my first question is the demo, the prototype which you just showed. I just wanted to understand in terms of client conversation where it is. Is it like we are in the stage where we have byte coding and showing what can be done or we have a clear visibility and go-ahead from a client to develop this thing so that it can move to prod? So, what is the visibility of this thing being a byte coded prototype?

Dr. Ajay Mian: Let me first explain what this is. So, this is not a solution that we are developing on the order of a customer. This is a product, and we have obviously taken this to a few customers who have all shown tremendous interest in this. So, we should be starting some of these implementations of the solution in the next couple of weeks. And I'm talking of situations where we either already have the order or will be signing up for this the next few days. Rajiv, you want to add something?

Rajiv Tyagi: I'd just like to say that Rishabh - the intelligence layer we are going to provide as a SaaS product to our customers who will subscribe to this intelligence layer. And this is kind of a pre-baked solution for them where we just connect with their data sources. We have identified 20 Lighthouse customers, and with three of them, we have reached where they are in the stage of issuing the PO, after which we will roll it out to them. So, in the first quarter, we expect to roll it out to at least 10 customers, mature it more, and then scale it to the remaining customer base.

Rishabh Tripathi: So, when we say roll it out, we mean put it in production. Correct.

Rajiv Tyagi: Absolutely.

Rishabh Tripathi: Okay. Thanks. That's given me some clarity. My second question is along the lines of this: there is a lot of conversation happening when we talk to clients. Sometimes it looks like a delayed decision making, but actually what is happening, clients are moving towards whether like doing things in-house. They are considering the coding. You understand a lot of tools are available. We can do it in-house. At the same time, they are just taking proof of concept from the vendors. But then developing it in-house. Okay, so what type of evidence when we -- is giving us a confidence during our interaction with client that what seems to be a delayed deal conversion is actually just a delayed deal conversion, not something which is getting lost and client is doing it on -- or getting it done from somewhere else?

Okay, so this is a trend which I am seeing a lot while my interaction as well, where we are getting POCs, which McKinsey or someone else developed and then they are getting it developed by some -- whether like internally or some cheap vendors. So, I just wanted to understand when you interact, what sort of evidence are you getting that gives you confidence that all these things will get converted rather than this just getting delayed and we might be losing time here as well. Yeah.

Dr. Ajay Mian: So, Rishabh, before Rajiv comments on that, I also want to share something. Look, we are not talking of like, million-dollar solutions. Every investment has to have an ROI. So, we are talking of bringing a solution that brings together the experiences that have been gained from multiple customers. That's not something that a company can do on its own. The other important thing is this is a platform which just keeps maturing and then - you will have all types of customers. There are customers who find this valuable and there are customers who find it valuable to use something that is already available and focus on their own business. Rajiv?

Rajiv Tyagi: What I'll add to this is that this is our interaction in all the sales and pre-sales engagement that we have been having. As of now, customers are not looking to build their own ERP at least. In some cases, point solutions, they will obviously be open to use AI and build them on their own. But at least the core business apps, they are very much focused. They are not building on their own. And as far as this intelligence layer and AI, obviously it contains a lot of business metrics and other stuff, which for them to get to that level, to define all that scope, will take a lot of time for them to mature. That is why they seem to be very keen to start because they can get going with their existing data, whether it is in ERP, Excel, or wherever it is distributed. So that is the experience thus far. Point solutions, yes, people are doing a lot of trials with whatever they can do.

Rishabh Tripathi: Okay, thanks. One last question. So, can either, sir, you or Rajiv sir you, can you help us understand that what will give us confidence going ahead, let's say over the next four quarters, what are the three things internally that you will be tracking that give you confidence that we are going in the right direction? So, it can be anything like number of productions deployments, number of plan conversions.

Dr. Ajay Mian: Absolutely. So, the one thing that we are tracking is, of course, the number of customers who adopt our AI offerings - both data and AI offerings. In some cases, they just require a solution like this. In some other cases, we also have to prepare a modern data platform for them. So, it's a combination of these two things. So, this is one thing. The second thing that we are tracking is - the number of customer engagements where the customers are large-sized. When I say large size, these are customers who have the ability to consume not one, but multiple services from us. Okay, so this is the other part of it.

And then the third part, of course, is we always track how much of business we are doing from different geographies. There are geographies which are at the moment showing significant momentum. I would name Africa particularly as one where we have a lot of engagements and a lot of interest from the community. In fact, within the Microsoft internal reckoning, we are already one of the top three for them in the business application space in Africa. So, we track business from these regions. And we also then make sure that none of this is done at the cost of what is our bread-and-butter business, which will keep maturing because the products keep maturing. So, I would say these are the top three things that stay in our mind that we monitor.

Rishabh Tripathi: Thank you, sir. Thank you. I will join back the queue.

Dr. Ajay Mian: Sure.

Moderator: Thank you, Rishabh. Sir, we'll take the next question from Kumar Saurabh. Saurabh, you can go ahead.

Dr. Ajay Mian: We don't hear you, Saurabh.

Moderator: Sir, we'll move on to Sid. Sid, you can go ahead, please.

Sid: Hello.

Dr. Ajay Mian: Yes. Hi, Sid.

Sid: Okay. So, my question was, you mentioned that we've increased our product licenses revenue by 14%. So, does that mean that license revenue is a precursor to implementing services? So how is the billing done? So first we get the license revenue and then we do the AI services? Can you explain how we will bill our customers? And if that means that we first bill the licenses, then we are implementing their services for them, then the margins can also increase because services have higher margin.

Dr. Ajay Mian: Sure. So, there are different types of solutions that we bring to our customers. In some cases, we always have a product going together with a significant size of services. The typical ERP, CRM, data and AI offerings, they fall in that category. But you also have then the other very important side of our offerings, which include, let's say, the Azure infrastructure, security solutions and everything that goes around with that. They may not necessarily have that big a piece of services, though invariably they will have at least a managed services piece, which is recurring and goes along with the overall product license. But the value of the license there is significantly higher than the value of the services.

Moderator: Sid, do you have any other question?

Sid: Yeah. My second question was, how are you seeing the landscape now? Is it better than the last quarter in terms of the US deal closures and all?

Dr. Ajay Mian: Yeah, absolutely. So, the US has been better for sure. Just to give you an idea from our services revenue point of view, in this quarter, we had nearly 60% of the services revenue coming from the US. Everything taken together. And when I tell US, I'm talking of America, the US and Canada.

Sid: Got it. Thank you. One more thing. What about cybersecurity? Can we have some KPIs on how our cybersecurity solutions are doing?

Dr. Ajay Mian: Yeah, absolutely. So, we have security solutions now already provided to some key customers. But I would ask Sandeep to comment on that.

Sandeep Salman: Am I audible?

Dr. Ajay Mian: Yeah.

Sandeep Salman: So, this particular vertical has grown significantly in the last quarter. We have closed some of the large deals for email security. And we have also started VAPT. And then we acquired a couple of customers in that area. And the traction has started. So probably we are expecting a few more large deals to close in this particular sector of security. So, email, web security and VAPT are the three things that we are focusing on. And that's where we are getting customers and gaining experience.

Sid: So, is the nature of the cybersecurity revenue recurring because email security has to be done every year?

Sandeep Salman: Some of the areas, for example, in terms of the email security, for example, there are certain solutions that you provide to the customer - that's recurring. For VAPT, you will have to get (first activate) the customer - there is always a VAPT every quarter. Both are sort of recurring revenues.

Sid: Thank you. That's all from my side.

Moderator: Sir, we will take the next question from Kumar Saurabh. Saurabh, you can go ahead please.

Dr. Ajay Mian: Saurabh, you are on mute.

Moderator: Anybody wishes to ask a question, please use the option of raise hand. Sir, we'll move on to Sparsh Bedmutha. Sparsh, you can go ahead.

Sparsh Bedmutha: Hi, am I audible?

Dr. Ajay Mian: Yes, please.

Sparsh Bedmutha: Sir thank you for this opportunity. I wanted to ask; this year's revenue and last year's revenue have been quite flattish. Even though we have added quite a few new customers and having 90% repeat revenue, like what is actually constraining the growth right now? Is it demand, sales cycle, deal size, delivery capacity or pricing? And when should we realistically expect this to translate into meaningful revenue growth?

Dr. Ajay Mian: Well, if you look at a YoY quarter 1, the revenue has grown 9%. So that's not exactly flat. It's obviously not possible for anyone to say how will the next quarter be or the next three quarters be? But overall, we see good business momentum. We are currently quite busy. We as I mentioned earlier, continue to work with more large-sized customers. We are seeing a good momentum in the overall engagement. How much of this converts into actual revenue and profits is to be seen. But the momentum at the moment is certainly more than we had last year. And the revenue in this quarter is about 9% higher than we had in the same quarter last year.

Moderator: Sparsh, do you have any other question?

Sparsh Bedmutha: Any revenue guidance you could give for this year?

Dr. Ajay Mian: I don't think it's meaningful at the moment. I think we are coming out of a period which was flattish, of course, but it was also turbulent, not only from a geopolitical point of view, but also because of the impact of AI and everything. Things are stabilizing. But giving guidance at this time will just be a theoretical exercise.

Sparsh Bedmutha: Okay, got it. Thank you so much.

Dr. Ajay Mian: Thank you.

Moderator: Anybody who wishes to ask a question please use the option of raise hand or you can put your question in the Q&A box. We'll take the next question from Praneet Jakhadi. Praneet, you can go ahead, please.

Praneet Jakhadi: Sir, you have highlighted strong demand build-up in data and AI and AI agent transformation. How much AI and data revenue is already signed today and how much is currently in the pipeline or opportunity stage?

Dr. Ajay Mian: So, data and AI - it influences almost everything that we are doing today. All our ERPs, for example, these engagements are AI-led. Our CRM engagements are AI-led. There are some engagements which are pure data and AI. But I don't think there is anything at all that we are currently doing, which (doesn’t) have an embedded AI offering. It is therefore a little bit of … I mean, we can, of course, talk about how much revenue we are likely to make from our IPs and so on. And Rajiv already kind of said that we are looking to engage at least a certain number of customers. These revenues will build up. But trying to identify just how much data and AI will give - will probably not be an accurate assessment of that, because there is nothing at all that we do today, which is not influenced by, or supported by, or enhanced by, AI.

Moderator: Sir, we'll take the next question from Surbhi Mishra. Surbhi, you can go ahead.

Surbhi Mishra: Hello. Hi, sir. Thank you for the opportunity. I wanted to understand why your margins have declined compared to last year and what led to this? And when can we expect the margins to get normal?

Dr. Ajay Mian: Sure. So, the margins have declined because, as I mentioned, we have had significant growth on the product side of the revenue. And some of those products are lower margin products. So that has been one reason. The other reason is that there is obviously a continued investment that we keep doing in terms of the product development work that we are doing. So that takes some cash out. If you still see from a percentage point of view, yes, they have declined. If you look at an absolute point of view, our earnings before tax, they are a little bit higher than what they were in the last quarter. But we have had this impact of this deferment, which reduced our tax burden in the last quarter, because of which, from a percentage point of view, the PAT appears lower this time.

So, it's a combination of things, but there is absolutely nothing alarming. It's all what's been there. And if our product business continues to grow and if the component of the relatively lower margin product that is larger, the margin will be a little bit lower.

Surbhi Mishra: One more question, sir. Can you tell me about the split for product revenue and service revenue for the last quarter?

Dr. Ajay Mian: Yeah, absolutely. So, we had 46% coming from the product and 54% coming from services. So, this proportion was more tilted towards the product in the last quarter. In the past, over the last so many quarters, you will see that our product revenues have been in the range of 42%, 43%, 44%, so a little bit higher this quarter.

Surbhi Mishra: Okay, thank you so much, sir.

Moderator: Saurabh has put his question on the Q&A chat box. I'll ask on his behalf. At current margin, we are back to pre-2024 operating profit, which means zero profit growth on a three-year basis. Do you think next one to two years can be different and we can go back to profitable growth and not just sales growth?

Dr. Ajay Mian: Well, we are growing profitably. I mean, the engagements that we are in are all profitable engagements. And as we get into larger engagements, we certainly have a larger profit. Now, from an overall -- percentage point of view, whether we will have PAT in the range of 20 plus or not, I think there are too many parameters and factors that play a role there. And for some of you, as we are looking to grow aggressively … we are also adding more people, and some of those people come at a (high) cost. And when we are bringing in a few people who are at a significant cost, the PAT may get significantly impacted for some period of time. But if you shy away from doing that, we will have an impact on the long-term growth. But we may see fascinating short-term numbers. So that's not a trap that we want to get into.

As long as we ensure that our project engagements are healthy, and as long as we are growing in the direction that we want to grow, in the direction in which the world is moving, I think a little bit of fluctuation here or there will happen. And we don't want to be in that trap of trying to forecast one or two percentage points here or there.

Moderator: Sir, we will take the next question from Siddharta Mathew. Siddharta, you can go ahead, please.

Siddharta Mathew: Hi, am I audible?

Dr. Ajay Mian: Yes Siddharta.

Siddharta Mathew: Thank you for taking my question. I think in your opening remarks, you had mentioned that some of the engagements you had completed in this current month or current quarter. Can you talk a little bit more about that? I think with potential, maybe with a potential acquisition or a partnership or something like that.

Dr. Ajay Mian: I am not sure if I get you correctly. I certainly did not give any indications of any potential acquisitions. I don't think I spoke of any specific partnerships. Maybe I wasn't clear enough for you, but if you could just leave (that) aside (what you think I said) … if your question is whether we are working on an acquisition, well, that's something that we always look for. We did evaluate two very closely in the last quarter. Unfortunately, it didn't work out. And it's not because we didn't want to spend money. But we have to be sure of the quality of acquisition that we do. So, that is the answer to that part of the question, which I understood. But if there is something that I have missed out, please repeat for me.

Siddharta Mathew: Apologies, I think maybe I misunderstood. So, that that would have been my next question, considering the cash on our balance sheet. So, no, I wanted to get some clarity on that. Thank you.

Moderator: Thank you Siddharta. Sir, we will take the next question from Sid. Sid, you can go ahead.

Sid: So first, I would like to mention that the demo you showed for the intelligence platform, that looks really good. And I can see how helpful it will be for other enterprises as well. My question is, last time on the concall, you mentioned that you created this new GTM to target the upper client segments. And for that, you had consultants separately in the team. How is that going on? How is the new GTM going?

And when you mentioned in the slide that we are moving up market, is it just existing customers? We are taking higher revenue, or we are targeting new customers and clients with potential for bigger revenue.

Dr. Ajay Mian: Yeah, so I think that the right way for me to explain this would be that our percentage of time invested in sales and marketing is going more in the direction of larger engagements and larger customers. We are not doing this at the cost of our bread-and-butter business, but from the senior leadership team and from an investment point of view, our more mindshare and time and effort is going in the direction of spending that with larger customers, which naturally means that we also have a higher ticket size there. And we have more than one offering that they end up consuming.

We also see this, by the way, from a data point of view, you will see, if you look at our business application point of view, we work only with Microsoft. So, our engagements there in the last quarter with the larger of the two ERPs that Microsoft has, have grown, and that's an indication of how things are moving.

Moderator: Sir, we'll move on to the next question from Sehmeet Singh on the Q&A box. Sir, he's asking, we have INR 140 crore in cash earnings, roughly 7% in fixed deposits. Any timeline when we will deploy this cash pile?

Dr. Ajay Mian: Yeah, I think by the end of this year, mid-next year, we look to utilize at least part of this cash. How that will be done … it's not appropriate for me to make any guesses on that. Our first preference always will be to make that investment in acquiring a business. If that doesn't happen, then we'll find alternate ways of appropriately utilizing that cash.

Moderator: There is another question in Q&A box. This question was asked by Uma Sankar. Are you still seeing any pricing pressure from large firms?

Dr. Ajay Mian: Well, pricing pressure is always there because when you are in a competitive scenario you have to work on multiple dimensions. You clearly have to come up and say why you are the best to do something. And then you also have to be attractive enough to the customer from a commercial point of view. So, there is and there will never be a situation where you don't have pricing pressure. Is that pricing pressure pushing us to take up things which are unviable? The answer is no. We are probably still - getting a premium when compared to several other players in the market. But this is how businesses are. We are not in a situation that I would say is unfair or unreasonable.

Moderator: There is one more question in the Q&A box. This question was asked by Rishabh Tripathi. What is our year-on-year constant currency growth for this quarter?

Dr. Ajay Mian: Sure. Sandeep, you want to take that?

Sandeep Jain: The constant-currency growth YoY is about 3% if we normalize all the currencies across the subsidiaries.

Moderator: We'll move to the next question. This question was asked by Chinmay Khadke. Do the margins depend on the product versus service split? Are the products sold mostly to the same customers for which the services are provided along with employees with advanced skills or AI? Are you also hiring on marketing side?

Dr. Ajay Mian: So, we do have a fairly strong marketing team. We definitely make investments in that front. It's a very important part of the organization and we are very focused on doing that. So that's one. Do our margins depend on the combination of products and services? For sure - products have one type of margin; services have another type of margin. This also depends on which geography the customer is in. Our prices do have some variation depending on the geography of the customer and also the location of our people. What other question was there? I answered these two.

Moderator: Along with employees with advanced skills or AI, are you also hiring on marketing side?

Dr. Ajay Mian: I already answered that. The answer is yes. We keep looking at people in the marketing team. Sometimes as replacements, sometimes as new hires. You need to maintain a certain size of the marketing team. This is not something which has to scale linearly with your revenue. But we do have a fairly decent and stable marketing team.

Moderator: His follow-up question is, while considering acquisitions, are you looking for Microsoft only or are you looking beyond Microsoft or is there no such bias

Dr. Ajay Mian: There are some things for which we look for Microsoft. For ERP, CRM and these kinds of solutions, I think Microsoft is pretty much among the leaders. There is no point in venturing into a company who is just doing ERP.. But when it comes to the data and AI side, we are not stuck only on somebody who is doing Microsoft. We look at other options as well.

Moderator: We will take the next question from Sid. Sid, you can go ahead.

Sid: My question was, where do we see the next growth coming? Is it just increasing the wallet share of the existing customers apart from any acquisition? What are the growth drivers you are seeing in the next two to three years?

Dr. Ajay Mian: One of the most important observations - not just we but also the industry analysts and these large companies who have been building these products and leading the AI race are saying - the systems of records (like ERP and CRM) are not going anywhere. It's not as if AI is coming and replacing everything. That's not happening. The momentum on the ERP side has only grown in the last couple of quarters and this momentum continues. Going to larger opportunities with larger ticket size projects is going to increase revenue. This will also require new customer acquisitions.

We are not in the business where we only try to generate more revenue from the same set of customers perpetually. If you do that, you run the risk of a customer going down and you getting significantly impacted. Your revenue drivers are going to be - making sure that you are able to take the new developments, new technologies to our customers, see what is building up and how do our customers gain from that. For example, we have customers who took ERP from us 20 years back or a CRM from us 15 years back and who are engaged with us. It's not that we are engaged only on that one product. There are multiple things that we are doing for them. You have to acquire new customers, take the new solutions to them and do more for the same existing customers. It's not an either/ or; (it's both).

Rajiv Tyagi: I would like to add one more thing here. The current ERP acquisitions that we are doing, if previously the deal size was X, now with AI, even in the new deals you get an X plus at least a 15% thing because we position AI solutions there. To all the existing customers, obviously, we are going to position the AI solution, which will be expanding the base there. AI is going to accelerate. Definitely, it will be one of the Trojan horses for the growth.

Moderator: Sir, we will take the next question from Siddharta Matthew. Siddharta, you can go ahead.

Siddharta Mathew: Thank you for the follow up. In the near term, do you expect, with the product build out and hiring picking up as well, do you expect margins to maybe stay at these levels or further dip and then rise later on? Because you also mentioned that you saw momentum picking up. Just some clarity on that. Maybe where we see margins maybe a couple of years from now?

Dr. Ajay Mian: First of all, we don't see ourselves doing recruitments linearly with the revenue growth. That won't happen. We also see us getting more revenue from our IP build up. That side will increase the margins. We do however, see ourselves hiring at least some, if not several, people for some key roles and those are relatively high-cost hires. I think there will be this variation that will keep happening. But overall, if I was to look at several years from now, clearly, our revenue from our IP will be a significantly higher proportion than what it is today, which will make the margins healthier. The cost of people anyway, it actually moves only one way, which is moving up. But we will be able to do the same thing or with the same set of people, we will be able to do more things. So those are the things which kind of help you balance out that cost pressure.

Siddharta Mathew: Okay. Thank you. And that's not something that you'd like to quantify at this moment? Maybe what the IP product margins would look like? Or maybe is that something you're tracking?

Dr. Ajay Mian: For some time, these things require investment. Some of these things are also a factor of how you capitalize an investment or how much you expense out. In some cases, actually, some of the investment that we have done in the past, there is a conversation whether some of that should be expensed out in the next quarter. So, some of these things are more … you have to do with advice from your consultants and your auditors and accounting people. So, we see from a business momentum point of view, we see good momentum in the new areas of technology.

Our solutions are becoming interesting for more customers. We are looking at the geographic growth; we are looking at larger sized customers. But from your point of view, very clearly, you will view things from the way a financial statement is put out. And sometimes those financial statements, for example, may give a view, which is slightly at variance with what's happening on the ground. How this works out, in what timeframe will these things happen, is very difficult to say.

Siddharta Mathew: Okay, okay. Thank you.

Dr. Ajay Mian: Thank you.

Moderator: We will take the next question from Q&A box. This question was asked by Saurabh Gupta. Currently we are seeing a trend in US where cyber theft insurance underwriters are increasingly tightening norms for cyber thefts for SMBs due to certain AI-led activities plus large enterprise are increasingly asking SMB vendors for increased security control as hackers are using SMB as entry point for breaching into large enterprises. So, my question is, are we seeing any signs of increased inquiries from SMBs as many SMBs will have to shift from simple business applications to reliable business software with security compliant implementation partner? How is Alletec planning to tap this opportunity?

Dr. Ajay Mian: Long question. And unfortunately, I missed parts of it. Sandeep, did you hear everything?

Rajiv Tyagi: I can read it.

Dr. Ajay Mian: Okay, Rajiv. Go ahead.

Rajiv Tyagi: I can read it. What he's asking is that in the US, the insurance companies are putting pressure on the SMBs to move to more secured ERPs. Are we observing that trend and what would be our strategy?

I don't think there is a very visible trend around that, at least in our segment, Saurabh. But irrespective of the insurance pressure, at least in India and other geographies, I can say that the customers themselves are becoming more aware and they want to go for more secure options. But at least we have not seen that trend where it is getting triggered through the insurance pressure.

Moderator: The next question in Q&A box was asked by Sehmeet Singh. Microsoft Copilot is now embedded in Dynamics 365 and reduces implementation time. Does AI expand your revenue per customer, or does it shrink your services billing per project?

Rajiv Tyagi: No, there are certain advantages from the time perspective, but then because of the AI, the kind of workflows and the things can be done. So, I think there is no significant trend to see that because with Copilot, there is also an additional revenue stream related to Copilot plus the services around it. So, while we do get some time advantage, not very significant because there are still activities which are related and very, very human dependent from a data migration, training and all those aspects. But the marginal advantage that we are getting gets offset by the new revenue stream through Copilot and expanded scope of work.

Moderator: Another question in Q&A box was asked by Satyam Meena. Thank you for holding this call and engaging with shareholders during this time. Considering your size allows us to pivot faster than larger players. What specific steps are we talking to convert current industry challenges into our competitive advantage?

Dr. Ajay Mian: What steps are we taking to convert the current industry challenges into a competitive advantage? Well, I think one of the most important things that is being done is we are doing more with the same headcount. So, we are not a human resource loaded company who has to do something knee-jerk, as a result of which we have not had any big increase in the headcount. But our overall revenues have either been stable or have grown a little bit in this quarter. And we are doing this together with making investments in building products.

So, I think the most important aspect of what we are doing is that we understand the customer's business closely because we have not been a provider of (only) technology. We have never done resource augmentation type of work to provide coding services. We have always been a provider of solutions. We understand the customer's business and AI is available to everybody. So, the winner is not somebody who has AI available because that's available to everybody. The winner is the one who knows what to do with it and how to use that AI to bring impact to the customer, which requires you to understand the business. So, we have good understanding of several industry areas and domains. We have dozens of customers across most industries that we work with. And we are leveraging that to build solutions, which we say will be where the next set of growth is going to be.

Rajiv Tyagi: Again, I'd like to add Satyam here that because of our size and agility, the time to market for our intelligence layer where we can move our customers from system of record to system of intelligence is going to give us that competitive advantage, which for the larger companies, because of their size, takes much longer to conceive and launch. So, we do have advantage in that area.

Moderator: Sir, we'll take the last question from Saurabh Dhole. Saurabh, you can go ahead, please.

Saurabh Dhole: Good evening. Thank you for this call. I had just one question, especially on the product space. Can you tell us a little bit about how this particular vertical has kind of evolved, meaning how much more penetrated are you in terms of products with your existing client today versus, let's say, last one year? And how do the margins actually stack up against the overall company margins?

Dr. Ajay Mian: Is there a specific product that you're talking about?

Saurabh Dhole: No, I'm just talking about the product vertical, not a specific product.

Dr. Ajay Mian: So, there is nothing like a product vertical. So, there are two categories of products that we talk about. There are the products which come from Microsoft. So, the ERP from Microsoft, the CRM from Microsoft, or the Fabric from Microsoft, which we naturally build solutions on top of. So, then there are the solutions that we build. And you just saw a little demo of one solution. But then all of our industry solutions that we have been talking about, be it the solution for EdTech or EPC 365, Travel or BAFINS, are all solutions that are built on top of the Microsoft solutions. And more than one of these is typically used for every customer engagement that we do.

Saurabh Dhole: Yeah. So, for these products only, what kind of margins would you typically have? What is the range exactly? And how does that compare with the overall company margins?

Dr. Ajay Mian: Yeah. See, the product margins are always lower compared to the service margins, particularly if you are talking about providing services to an international customer. When you are talking of providing to a domestic customer, they are still a little bit lower, but then the gap is less in that sense. Now, within the Microsoft products also, there are different types of products. There are products like the M365 range of solutions, which are more like the customer knows what they are, they don't necessarily need big consulting in adopting some of those solutions. But then there are products in the business application space, such as the ERP and CRM, which cannot be used by a customer unless there is enough consulting guidance and implementation is carried out.

So, margins range typically from, the rack rate on the margins is between, let's say, 10% to 30%. In some deals you give and take some and the rest of it is commercial modelling of the business from situation to situation. So, there's a range. And similarly, on the services side, different geographies carry different rates. So, there is a range there also. So, it's a combination. Ultimately, when you go to a customer, you look at the combination of the two to decide whether a project is viable to pick up. And when it is our own product, then clearly all that revenue comes to us. But whether all that revenue is seen as profit, possibly not, because we need to keep making investments in building these products.

Moderator: Sir, since there are no further questions, would you like to give any closing comments?

Dr. Ajay Mian: Well, thank you very much everybody who joined the call. I hope you found it useful. We look forward to talking to you again next quarter. Good luck.

Moderator: Thank you to the management team for your valuable time and thank you to all the participants for joining the call. This brings us to the end of today's conference call. You all may disconnect now. Thank you.

Sandeep Salman: Thank you.

Rajiv Tyagi: Thank you.