Management Discussion

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Good morning, everyone. Am I audible?

Operator
Yes, sir, you're audible.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Great,

Operator
Please go ahead. Yeah,

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Good morning everyone and thank you for joining us, uh, for Virtual Galaxy Infotech Limited Q2 and H1 FY27 earning conference call. Joining me with today, Mr. Avinash Shende, Chairman, Executive Director, and Chief Financial Officer of the company, and Mr. Praneel Pandya from Atlas Capital, our investor relationship advisor. I hope you have had an opportunity to review our financial results and investor presentation. Let me begin with our performance for the first half of FY27. Revenue from operations grew by 21% year on year to, uh, Rs 104.6 crores compared with Rs 86.2 crores in H1 FY26.

The moderate- the moderation in reported revenue reflects lower hardware and related sales, which are non-core in nature, and Rs 1 crore in H1 FY27 compared to compared with, uh, Rs 7.9 crores in the corresponding period last year. Excluding these sales, our core revenue comprising annual SaaS revenue and software sales grew by 32% to Rs 103.6 crores. A key highlight of the first half was improvement in operating leverage. While revenue grew by 21%, the combined expenditure on material consumption and software development increased by just 4%.

This translated into a 41% increase in EBITDA to Rs 54 crores compared with Rs 38.4 crores in H1 FY26. Consequently, EBITDA margin is expanded by 704 basis points to 51.7%. Profit after tax increased by 12% to Rs 24.6 crores, while operating profitability is improved substantially. Higher depreciation, higher depreciation and finance cost moderated the conversion of EBITDA growth into the profit, into the net profit. Let me know, let me now take you through the key business developments during the first half.

An important development during First up, FY27 was the strengthening of company's leadership and execution capabilities through key additions across the governance, product development, and development of business. These appointments bring together seasoned industry experience, specialized technology expertise, and growing involvement of the next generation of promoters group across the key operating functions. Mr. Sunil Kulkarni, appointed as Professional Non-Executive Director, brings over 35 years of experience across the technology, banking, and digital and financial services.

He currently advises, advises the Business Correspondents Federation of India and has contributed to policy and industry initiative involving IIMAI, BCFI, RBI, RBIH, and Department of Financial

Services. His expertise spans merchant payments, remittances, Aadhaar-enabled payments, and branchless banking, alongside advisory and board positions across the fintech and financial service ecosystems. He has also completed engineering in electronics and telecommunication from Jodhpur and completed the management education program at Indian Institute of Management, Ahmedabad.

His extensive industry experience and understanding of BFSI ecosystem will strengthen the company's engagement with banks, financial institutions, and other industry stakeholders. Mr. Abhay Chaudhary, who joined as a Chief Product Officer, brings, uh, 28 years of experience in product engineering and technology leadership across the SaaS, telecom, and banking. Most recently at Coursera, he led an AI-first engineering transformation and enterprise integration platforms. He will lead the company product strategy development and execution, further strengthening its technology and product capabilities.

He is also pursuing a PhD in computer science specializing in artificial intelligence at IIT, uh, at Indian Institute of Information Technology, Nagpur, with his academic work in AI adding further depth in his experience in product engineering, technology architecture, infrastructure and enterprise platform development. The company has also seen a greater involvement of the second generation of the promoter group in key operating functions. Miss Samrudhi Pandey, representing a second generation of promoter group, leads a, a 9-member team working across the 2 key product, product lines: Virtual Vani, a company's AI-powered voice platform, and Phoenix, its AI-enabled digital lending solution.

She is also involved in the various development of, uh, for Paynext and Virtual Galaxy Infotech Limited, the company's corporate rebranding initiatives and strategic planning including organizational structure and role design. She holds B.Tech in Computer Science and Engineering from Vellore Institute of Technology. VIT, and it's currently- and is currently pursuing the postgraduate program in management for family business, PGP MFAB, at Indian School of Business, ISB. Her academic background combines technology and business management, complementing her involvement in the company's operational and strategic initiatives.

Mr. Tanmay Shinde, also representing the second generation of the promoter group, Leads international business development initiative focusing on strategic partnership, market entry, and institutional opportunities across Africa, Southeast Asia, Europe, and Latin America. His responsibilities span international enterprise business development, international bids and promotion, uh, and proposal management, partner ecosystem development, and engagement with banks, financial institutions, and government organizations.

He holds an integrated B.Tech and MBA, MBA Tech, from NMIMS Mumbai, along with an MBA in Finance and MSc in Data Analytics, uh, for Business from KEDGE Business School, France. He also completed additional B.Tech Honors in Artificial Intelligence and Machine Learning from IBM. This multidisciplinary academic background across technology, business management, analytics complements his role in developing international markets and positioning the company's enterprise technology solutions. Collectively, these developments strengthen the company's capabilities across BFSI product engineering, software development, and international business development.

They also add depth in leadership team while bringing the next generation of promoters group into increasingly important operating and growth-oriented responsibilities. Moving to our business operations, BFSI continues to be the largest contributor to the company's business. We continue to see opportunities across cooperative banks, district central cooperative banks, uh, state cooperative banks, and NBFC ecosystem. Our focus remains in deepening relationship with existing customers

while expanding our institutional customer base.

Within our existing customer base, the opportunity lies in increasing the range of solutions deployed across institutions, particularly through our core banking, digital payments, and loan originating system platform. The NP- in the NBFC segment also represents an important opportunity as financial institutions increasingly require specialized technology infrastructure to support their operations and regulatory requirements. At the end of H1 FY27, our unexecuted order book stood at Rs 148.9 crores compared with Rs 102 crores in the corresponding period of last year, representing a growth of 46%.

Additionally, the company has an active bid pipeline approximately Rs 1,000 crores, providing further opportunities for order book growth and improved revenue visibility over the coming quarters. Our business development pipeline also includes multiple institutional opportunities across banking, government, and export market. These opportunities typically progress through tendering, order awards, mobilization, and phased implementation. Accordingly, the timing of order conversion and revenue recognition can vary across quarters.

Alongside our established banking business, we are developing opportunities across government digitalization, cybersecurity, and healthcare technology. Our cybersecurity platform Cyber Sentinel, across security monitoring and threat management requirements, uh, and it is across financial institutions, government organizations, and other enterprises. The opportunities extend beyond banking, particularly as cybersecurity requirements become increasingly relevant across all the sectors. During H1 FY27, we also developed a portfolio of specialized software solutions for the healthcare sector, further expanding the presence beyond our established BFSI operations.

Our healthcare technology portfolio includes radiology information system and PACS, uh, which is RIS PACS, asset management monitoring and tracking, and, uh, the existing product which is virtual autopsy. An important development in this segment has been the implementation of our asset management solution as a pilot project at Grant Government Medical College and Sir JJ Group of Hospitals in Mumbai. The platform is operational in the hospital radiology department, providing a centralized view of medical equipment and enabling monitoring of utilization, maintenance schedules, and services contracts.

Our IRIS PACS platform integrates the radiology department's workflow covering patients' registration, appointments scheduling, medical imaging, image archiving, archiving, and reporting through a common system. This enables hospital to streamline radiology operations and improve the flow of diagnostic information between departments and healthcare professionals. Virtual Autopsy is another specialized software solution designed for hospital setting with an emphasis on digital and supporting autopsy-related documentation.

We are talking this- we are taking this solution forward through technical presentation and discussions, uh, around hospital implementation, with individual hospital deployments forming the basis of commercial adoption. Together, these offerings broaden our healthcare technology portfolio and create opportunities to engage with government medical colleges, hospitals, and other institutional healthcare customers. In the international market, particularly Africa and other developing economies, it remains an important avenue for the growth.

Our experience in banking technology deployment, including World Bank-supported projects, provides an established platform from which, uh, we pursue additional institutional opportunities. We are engaging our overseas market primarily through banking and financial technology requirements where our existing solutions can address the need for scalable and cost-effective digital

infrastructure. Coming up to the outlook of FY27, Our revenue growth guidance of 40% remains unchanged. Our business typically has a stronger second half, with around 60% of full-year revenue generated during second half, H2.

This seasonality supports a higher revenue contribution in the second half of FY27. In addition, several institutional opportunities are progressing through tendering order mobilization and phased implementation, which will influence the time of revenue conversion. The remainder of the financial year- the remainder of the financial year will therefore be important from an execution standpoint. Our focus remains on progressing these opportunities while expanding engagement across newer product verticals.

Over the medium term, we see an opportunity to build on our established BFSI business while increasing the contribution from cybersecurity, government technology, healthcare, and other international operations. With this, I would now request Mr. Avinash Shende to take you through the company's financial performance in greater details. Thank you a lot. Thanks.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited

Thank you, Sachin, and good afternoon everyone. Now I'll take you through the company's financial performance for the 2nd quarter and 1st half 2027. Starting with the quarterly performance, revenue from operations for Q2 FY27 stood at Rs 64.2 crores. Compared with the Rs 40.4 crores in Q1 of FY27, registering a sequential growth of 59%. Our EBITDA increased by 39% to Rs 31.5 crores from Rs 22.6 crores in the preceding quarter. EBITDA margin stood at 49.0% compared with the 55.0% 9% in Q1 FY27. Profit after tax increased to Rs 15.4 crores from Rs 9.2 crores, representing a sequential growth of 68%.

We have witnessed a clear sequential improvement in our business performance, with Q2 delivering stronger growth across the revenue and profitability compared to Q1. Given the seasonability of our business, with 60% annual revenue typically generated in H2, we expect this momentum to continue through the second half of the year. Moving to the first half performance, revenue from operations increased by 21% year on year to Rs 104.6 crores compared with Rs 86.1 crores in H1 of '26. Growth was broad-based across the product sales and SaaS services.

Revenue from the sale, sale of products increased by 33% to Rs 55.6 crores, while SaaS services revenue grew by 32% to Rs 47.9 crores against the Rs 36.4 crores in corresponding previous period. Both segments outplace overall revenue growth to 21.4%, with SaaS services providing a growing contribution from recurring revenue. EBITDA increased by 41% to Rs 54 crores compared with the Rs 38.4 crores in corresponding previous last year. EBITDA margin improved to 51.7% from 44.6%. Representing an expansion of 704 basis points.

A key factor behind this improvement was a moderation in operating cost growth relative to the revenue. Combined expenditure of material consumption and software development increased by only 4% to Rs 35.2 crores against the revenue growth of 21%. Employee benefit expenses increased by 14%, while other expenses grew by 9%, both below the rate of revenue growth. This operating leverage, combined with the growing contribution from the recurring revenue streams, supports the sustainability of EBITDA margins at around 50%.

Moving below the operating level, profit after tax stood at Rs 24.6 crores compared with the Rs 22 crores registering the growth of 12%. While operating profitability improved sustainably, higher depreciation and finance cost moderated the conversion of EBITDA growth into the net profit.

Consequently, PAT margin stood at 23.6% overall. The first half performance reflects stronger operating leverage, with the impact on higher depreciation and finance cost moderating the improvement in the bottom line.

Moving to the balance sheet, total borrowing stood at Rs 47.9 crores as of September 30, 2026, compared with the Rs 48.4 crores at the end of FY26, indicating a broadly stable borrowing position. Cash and cash equivalents stood at Rs 11.4 crores at the end of H1 FY27, compared with the Rs 31.2 crores as of March 31st, 2026. The reduction in cash balance was primarily attributable to investment outflows during the period. The company generated- company generated Rs 38.7 crores of cash from operating activities, while net cash utilized in investing activities stood at Rs 56.9 crores.

Net cash utilized in the financing activities was Rs 1.58 crores. I would now like to explain the nature of these investments, particularly in the increase in the tangible assets under the development and intangible asset under the development. Tangible assets under the development increased from Rs 9.8 crores at the end of FY26 to Rs 57.9 crores as of September 30, 2026. This increase primarily relates to build, operate, and transfer projects undertaken by company for the banks. These include turnkey infrastructure projects as well as the renewals of existing banking infrastructure arrangements.

Under these projects, the company undertakes the supply and deployment of servers, data center infrastructure, and IT hardware requirement of banking institutions. This involves significant upfront expenditure towards the procuring and establishing the infrastructure before the projects become operational. Currently, these investments are reflected under the capital work in progress. From March 2027 onwards, as the respective projects reach commissioning, the expenditure will progressively be transferred from work in progress to the fixed asset.

Once operational, these deployments will generate revenue through monthly rental arrangements or a project tenure. Accordingly, current investment outflow is linked to the creation of infrastructure that will subsequently contribute to the recurring monthly revenues of a company. The other significant investment relates to the intangible assets under development, which increases from Rs 12.4 crores at the end of FY26 to Rs 22.4 crores as of September 30, 2026, This increase primarily represents research and development expenditure towards the software development.

These investments are associated with developing and enhancing the company's proprietary software platforms and strengthening its technology capabilities. The software development investments are expected to support incremental SaaS revenue from H2 FY2027, following the necessary approvals and certifications and implementation requirements. As outlined earlier, the company generated a positive operating cash flow of Rs 38.7 crores during the first half, while investment expenditure was higher at Rs 56.9 crores.

As the BOT projects are progressively commissioned from March 2027 onwards, the corresponding work in progress will be converted into operational assets and begin generating monthly revenues. This will mark an important stage in converting the capital deployed during the current period into a revenue-generating infrastructure. To conclude, H1 FY27 has delivered healthy revenue growth alongside a significant improvement in operating profitability. The investments made during the period reflect the development of banking infrastructure projects and continued investment in software capabilities As these projects move towards commissioning, they will add to the company's operating asset base and provide an additional source of monthly rental revenue.

The coming quarters will be important for converting institutional opportunities into executable

business and translating these investments into operating revenues. We remain committed to our 27% growth guidance while maintaining a disciplined approach towards profitability and capital allocation. Thank you for your time and participation. Now we will be open for a question and answer session.

Questions & Answers

Operator
Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may click on the raise hand icon from the participant tab on your screen. We will wait for a moment until the queue assembles. We will take our first question from Vishal Shah, an independent analyst.

Vishal Shah - Analyst, Independent
Hi, good morning, sir. Can you hear me?

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yes, good morning.

Vishal Shah - Analyst, Independent
Yeah, good morning, sir. Uh, congratulations on great set of numbers, uh, for the first half and sequentially. Uh, my question was basically, uh, keeping in mind that the operating profit increased sequentially, uh, from Rs 23 crores in June to Rs 31 crores That's the operating profit, EBIT. So still the margins declined from, uh, 56% to 49% in terms of percentage value. So what would be the reason?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, uh, thanks for the question. So primarily, uh, this has been, uh, because of, uh, the Increase in depreciation, okay, to 17.6162 crores compared with the 6.6 crores in H1 2026.

Vishal Shah - Analyst, Independent
Okay,

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Also

Vishal Shah - Analyst, Independent
The

Unidentified Speaker - Unidentified Speaker
Finance

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Cost is also increased to 171 crores corresponding period. That's the major, the reason. Yes, sir.

Operator
Mr. Shah. Okay, we will move to our next question. Mr. Raghav Agarwal from Agarwal Family Office.

Raghav Agarwal - Analyst, Agarwal Family Office
Hello.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes.

Raghav Agarwal - Analyst, Agarwal Family Office
Yeah, hi, good morning, sir. Uh, I had a couple of questions. Firstly, just a follow-up to the previous participant. I think the question was why did the operating margins decline sequentially, but operating margin would not have depreciation and finance, they would be below the operating margin. So could you please clarify why did the operating margin dip sequentially?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
What is your exact question? I think

Raghav Agarwal - Analyst, Agarwal Family Office
The operating margin, the EBITDA margin, it's declined sequentially from around 56% to around 49%, right, from Q1 to Q2.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yeah, yeah.

Raghav Agarwal - Analyst, Agarwal Family Office
So why did the EBITDA margin decline sequentially?

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
The- so the most important aspect here, I'm searching here,

Raghav Agarwal - Analyst, Agarwal Family Office
Is the

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Cost of material consumed. If you compare the quarter on- I mean, this particular, uh, there is an increase in cost consumed, but the cost of material consumed from, uh,

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
24.95

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
To 35.21 crore. I mean in crores. So the consumption in this is a bit higher, uh, because of which

there is a lag, particularly lag of hardly 2% in this case.

Raghav Agarwal - Analyst, Agarwal Family Office
And sir, in our business, what would be- what all would come under cost of material consumed? Like, if you could just give some subjective color on what all constitutes this.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yeah. Cost of material is basically, uh, server storage, uh, and related hardware, data center, etc. These are the cost, uh, these are the cost which are understood.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, sir. So, uh, again, I might be wrong here, but I- what I understood is that like we build this hardware solution for the banks who we provide integrated solutions to, but then we don't sell these hardware solutions, we earn a monthly rental on them. Yes,

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, that is what the BOT projects basically We invest into BOT projects initially, we invest into it, and then, uh, once the project is operational, we will get the monthly recurring revenue from that project for a 5-year or 7-year as per the contract of the period, uh, contract. So sir, if

Raghav Agarwal - Analyst, Agarwal Family Office
You are getting a monthly recurring revenue, suppose the cost, the investment we did was say 100 and

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
The

Raghav Agarwal - Analyst, Agarwal Family Office
Monthly recurring revenue is say 10, so how do we like expense that 100? Do we expense it in the quarter in which the a project is delivered and the revenue, recurring revenue starts, or do we like spread it over?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Spread it over basically because that initial investment has been done through us and then we'll be taking in a monthly recurring revenue basis. So all calculations has been there basically to make the profitability and all these things.

Raghav Agarwal - Analyst, Agarwal Family Office
So sir, will this not come under depreciation because this is essentially an asset which we have created on which we are getting a monthly revenue?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, yes, it is, it is initially invested. Once the project is operational, that has been transferred to the asset of the company, and then, uh, depreciation definitely has been charged on that. And so

Raghav Agarwal - Analyst, Agarwal Family Office
Then what does cost of material cover? Because this is a P&L, this is not a depreciation item.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
These are basically until and unless project is not completed, it is under the work in progress. Once the project is completed and operational, it has been transferred to the asset of the company. Understood, sir. My

Raghav Agarwal - Analyst, Agarwal Family Office
Is on the P&L. We have cost of materials sold, which we said increased, which led to a slight dip in the EBITDA percentage. I

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Want

Raghav Agarwal - Analyst, Agarwal Family Office
To understand what does this cost of material constitute, because the servers and the hardware asset which we are deploying at the banks, they are not in cost of materials, they are in fixed assets or CWIP. There

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Are not only the BOT project, there are other projects as well where we are utilizing these things. The BOT projects are a part of the things, other projects are also where these things are required. So that material is there.

Raghav Agarwal - Analyst, Agarwal Family Office
In these projects, is it safe to assume that we are selling these projects at a one-time fixed revenue and we are incurring a cost for the hardware?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, sir. And my second question is, like, if I look at the balance sheet, uh, between 31st March and 30th September, I can see that there is a significant decline in the, uh, tangible and intangible assets Like tangible assets have gone down from 141.85 to 127.9, intangible have gone down from 38.3 to 34.7.

Hardeep Gandhi - Analyst, HPMG
Uh,

Raghav Agarwal - Analyst, Agarwal Family Office
This seems a bit aggressive to me if I just take look at the depreciation because the fall is more than 10%. So can you please elaborate on why is this- there such a steep fall in one half?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
25%

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Depression we have, like the rate of 25%?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
The depreciation rate is 25% that we have applied.

Raghav Agarwal - Analyst, Agarwal Family Office
That's

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Why, uh, you're getting that.

Raghav Agarwal - Analyst, Agarwal Family Office
And sir, what is the rationale behind 25% depreciation rate? Like, is revenue only recognized for a 4-year period for these assets?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
No, basically IT, uh, as per income tax law and all these things the- you can take the maximum depreciation possible, but we are taking it only 25% because assets are, uh, we depreciate in around 5 years. So if we take the 25%, then asset will be- because project is typically of 5 years. If it is 7 years, then the things will be different, but most of the projects are for 5 years. So We are depreciating within the 5 years.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, sir. And sir, in this 5, suppose we do a BOT project in which we deploy hardware and we then get the revenues for 5 years. So after 5 years, what happens to that hardware? Do we realize some money on it, or like, is it- No, it

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Will be transferred to the client, respective client. But mostly that contract gets renewed after 5 years or so. We have a lot of customers, those who have renewed again with the renewed infrastructure and all the related components. Understood. And sir, just one last

Raghav Agarwal - Analyst, Agarwal Family Office
Thing, between our revenues, we classify them into products and like the software revenue. So where does the BOT revenue sit? Does it sit in products or does it sit in SaaS?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Uh, it is in SaaS.

Raghav Agarwal - Analyst, Agarwal Family Office
So understood. And what would sit in products, sir?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
It is one-time sale of a product and related components.

Raghav Agarwal - Analyst, Agarwal Family Office
And sir, what is the differential margin between these 2 segments, between products and SaaS?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
It is approximately same, which is around- we are operating around 25% of margin.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, understood, sir. Thank you. That's all.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Thanks, thanks for a good set of questions.

Operator
Thank you. We take our next question from Hardeep Gandhi of HPMG.

Hardeep Gandhi - Analyst, HPMG
Hello, sir. Congratulations on a good set of numbers. Am I audible?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, yes, yeah, please go ahead.

Hardeep Gandhi - Analyst, HPMG
Yeah, so I just wanted to know, uh, that, uh, for the tangible assets under development, you mentioned that, uh, we are developing these assets and we will recognize rental income on these assets. So wanted to know what is the approximate monthly revenue which we can generate from the rentals, uh, from the new assets?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
From that monthly figure is not available with now me. I will come back to you, but the intangible assets on an annual

Hardeep Gandhi - Analyst, HPMG
Basis also, if that's available.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Ah, it's available. Intangible asset under development has been increased from. No, no,

Hardeep Gandhi - Analyst, HPMG
I'm saying [Foreign Speech] what is the annual revenue we can expect from the new assets under development?

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
I mean, it depends on the project. It will get reflected subsequently because this set-off number is right now not available to tag along with this investment, how much corresponding revenue. That usually gets reflected once the project which is under work in progress will be converted to asset and the revenue starts. Accordingly, the numbers will be reflected. At present, this has not been mentioned. However, those which are actually in progress and in, you know, under the execution, such a figure is available which we are actually working on roughly around- yes, just a minute.

In terms of average, uh, revenue which is generated, uh, if you find the average is somewhere around 53%. 53%? Yeah.

Hardeep Gandhi - Analyst, HPMG
Understood, sir. And on the cash flow side, uh, I can understand that we have the first half is a little slower, uh, but there is a significant drop in the cash flow from operations. Where instead of 50 crores last year, we generated 38 crores, given there is a top line increase also. So just wanted to know, you know, if we have healthy margins in terms of cash flows, and at the end of the year, will we end up on cash positive?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
We are a cash- cash flow is positive there. It's not, uh,

Hardeep Gandhi - Analyst, HPMG
I'm not saying it's negative. I'm just saying that there is, there is a good 20-25% drop in the cash flow from operation.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
So that was data recovery is not there, no? Data recovery is in progress. Is in progress. So it will be definitely reflect in the next quarter.

Hardeep Gandhi - Analyst, HPMG
Okay. And, uh, one last question is, uh, on the, on the newer, uh, Programs we are working on. Are all the programs related related to cooperative banks and government bodies, or are there any private players as well where we bid for the projects there?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Primarily our products, mainly our products are in BFSI industry, but we are also expanding to the healthcare sector and government sector as well. So at present, private customers are not there. But in future, definitely we'll like to add private players as well.

Hardeep Gandhi - Analyst, HPMG
Okay, okay. And sorry, just a small follow-up on the previous participant where he mentioned that-

when you guys mentioned that, you know, after 5 years of the contract, the assets which you've- assuming you made a data center for the client and you are using it for the client, right? And after 5 years, the whole depreciation has been charged on it and we've received the revenue for the- from the client, and from there on, the, the client then renews the contract for another, assuming let's say 3 years or 5

Unidentified Speaker - Unidentified Speaker
Years,

Hardeep Gandhi - Analyst, HPMG
Right? So then, uh, is it true that then we don't charge any depreciation? Like, because since we've already claimed the whole depreciation, it will be a straight flow-through to our PAT?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, that project ends with entirely including all depreciation and all these things. The asset has been transferred to the respective client and depending upon the, again, contract, the customer may increase the infrastructure-related infrastructure, refresh the infrastructure, and renew the contract for the next 5 years.

Hardeep Gandhi - Analyst, HPMG
Right. So in that case, we have to make a new infrastructure for them.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Infrastructure procurement for them. Yes.

Hardeep Gandhi - Analyst, HPMG
Okay.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
So it is just to add that if the same infrastructure is utilized by the bank, in few cases it happens. In that case, we get that complete SaaS revenue.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Without investment, without

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Investment of the hardware, depending upon the, you know, type of the bank and the requirement of infrastructure. And this, the- right,

Hardeep Gandhi - Analyst, HPMG
Since you've already transferred the infrastructure to the client, you only will incur the- you will only, uh, record the SaaS revenue.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yes.

Hardeep Gandhi - Analyst, HPMG
Okay, okay, that's it from my end. Thank you.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Thank

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
You.

Operator
Thank you. We will take our next question from Mr. Anand Rathi. Mr. Rathi, please go ahead with your question. Mr. Rathi, we have sent you a prompt to unmute your connection. There seemed to be no response from Mr. Rathi. We'll move to our next question. We'll take our next question as a follow-up question from Mr. Raghav Agarwal from Agarwal Family Office.

Raghav Agarwal - Analyst, Agarwal Family Office
Hello. Hi sir, I just wanted to squeeze a follow-up question. So Uh, while currently we are aggressively investing in, uh, building out for these projects, our free cash flows have been negative for like FY24, FY25, FY26, and first half of FY27. So just wanted some, uh, guidance from your side on what will be the reinvestment rate and when do we expect to turn free cash flow positive. Hello, am I audible?

Operator
One minute, one minute.

Anand Rathi - Analyst
Okay. Yes, just a minute.

Unidentified Speaker - Unidentified Speaker
Yeah,

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
So, uh, at present what we previously explained, we are undertaking some, uh, good amount of BOT projects and where the around Rs 57 crores of rupees investment has been already done. So that is why, uh, you are seeing a negative cash flow, but definitely this will going to give us some more cash flow in future. So it's a provision for to get the future secure of a company. So we don't find any challenge in that because investment is always required in the business, and coming year definitely, uh, the cash flow will looking going to have positive impact on that.

Raghav Agarwal - Analyst, Agarwal Family Office
And sir, with this, suppose Rs 60 crore investment in the projects, we can assume to get Rs 30 crores in annual revenue. Is that understanding correct?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
20 to 25 to 30 crores.

Raghav Agarwal - Analyst, Agarwal Family Office
25 to 30 crores for a period of 4 years? 5 years. 5 years. So on investment of Rs 60 crores, we will get a total revenue of say around Rs 120-odd crores?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, sir. But, um, the reason I'm asking this question is because in order to further grow our revenues, uh, are we looking to get more BOT projects where we'll be investing in a similar way, or is the next leg of growth going to come from some other business model?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
See, BFSI is operating- some DCC banks are operating on that model where we are taking, undertaking those kind of projects, but we are definitely expanding our business beyond that and The both the mix will be there, uh, product sales, SaaS sales, and a BOT project. Definitely the company will always look for a greater business. If the opportunities are there, then we are definitely going to continue the

Raghav Agarwal - Analyst, Agarwal Family Office
Hello I am I audible

Operator
Yes management team management team call you please respond We are not getting any response from your end. Participants, please remain connected. The management team will be joining back. Thank you. Ladies and gentlemen, please remain connected. The management team is connecting. Thank you for your patience. We are waiting for the management to rejoin. Ladies and gentlemen, thank you for your patience. Management team is connecting. The call will start shortly. Thank you. Thank you for the patience.

The management team is back.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Hello.

Raghav Agarwal - Analyst, Agarwal Family Office
Yeah, hi sir. I'll just quickly repeat my Question which I was asking earlier. So as we discussed, on 60 crore of BOT investment, we yield around 25-30 crores of annual revenue. So yes, if you take a depreciation of say 4 to 5 years, around 12 to 15 crore will go as depreciation from that. So what is the operating profit margin we expect on this 25-30 crores of annual revenue?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
So we basically Our target is to get a 25% margin at least, so we are not operating below that margin

Raghav Agarwal - Analyst, Agarwal Family Office
On a net level after depreciation.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, yes, yes, yes, yes, yes, yes.

Raghav Agarwal - Analyst, Agarwal Family Office
Understood, understood, sir. Thank you. That's all from my side. Thank you and all the best.

Unidentified Speaker - Unidentified Speaker
Thank you, thank you very much.

Operator
Thank you. We will take our next question from Anil Nahata of Parimi Financial.

Unidentified Speaker - Unidentified Speaker
[Foreign Speech]

Operator
[Foreign Speech] Mr. Nahata, please go ahead with your question. Mr. Nahata, there is no response from your end. We'll take our next question from- there's no response from Mr. Anil. We'll move to our next question. We'll take our next question from Anand Rathi. Mr. Rathi, we are sending the prompt to unmute your question. Please go ahead.

Anand Rathi - Analyst
Hi, hi to VGINFOTECH team. Yeah, really congratulations for the good set of numbers. So my question is related to related party transactions. I see there are 45 crore transactions done with the related parties. You have few finance companies where you are doing this transaction so what type of this company and who owns and why it's not subsidiary of VG imported and you also seeking for the 90 crore approval from company and related party so it's raising some concern so I just want detail enough

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
It's just an approval I have to take because it should not get, uh, in any case, the higher side approval has been taken for the, uh, safer side of the companies. If the opportunity exists,

Anand Rathi - Analyst
But,

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Uh, margin of, uh, margin.

Anand Rathi - Analyst
Oh, there are 2 finance companies just like, uh, Paynext and these 2 companies. So is VGI Infotech separately dealing with these companies? This is owned by promoter. What are those companies?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
It's owned by a promoter.

Anand Rathi - Analyst
Okay. So, yep. Okay. So is any plan in future to merge these companies with the VGI Infotech or you will act as separately?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
I mean, at present there is no such plan, but future, in future it might be.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
It is, it is not confirmed yet. They are doing separately. I have got some specialized work to execute, which is not entire management

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Team of both the companies are separate. There is no basically interference in the management of the companies.

Anand Rathi - Analyst
And one more question is related to the US and European market. Why means VGI Infotech is not targeting those market? I mean, I am seeing you are actively seeking the Africa and GCC market. Why not US, Europe, or I mean, it's just like an Asian market? Yeah,

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yeah. I mean, we are concentrating now on the developing countries, to be honest, because it's a product company. We do the various application development as a product with our own IPR. So the opportunity lies in the developing countries where we can take head-on with these products which are European in nature or even US in nature and still get the orders compared to the markets like you said, the European market or the US market, which are more or less matured enough having the product line within their own ecosystem.

Mostly these companies who are basically service-oriented, not like us, they do what? They offer the manpower to them and product sales are basically not done by them. Ours is a different DNA and we would like to focus on our product and sales of the solution covering these products. So the chances of getting the orders from the developing countries are more. Because of which we are concentrating. No doubt we are concentrating also now on the Eastern European companies and Asian market countries and Asian market also.

Maybe in coming quarters we will get few orders from those territories as well.

Anand Rathi - Analyst
Okay, in the last phone call you mentioned the RBI mandated NBFCs to come online and use the all rather than using the manual work, I mean, so they should use the online product. So what is any deal we got or any progress on that one from VGINFOTECH?

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
No, it is in pipeline. Their transition is still not, you know, they are hungry immediately on that, but it is in pipeline and we are concentrating for such, you know, orders. Pipeline which we have, and we are hopeful. Few MFIs actually now shifting, but the NBFCs are still yet to come. A very small MFIs we got the orders.

Anand Rathi - Analyst
Okay, thanks for the answer. Thank you.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Thank you. Thank you.

Operator
Thank you. We take our next question from Mr. Anil Nahata. Of Parami Financial.

Anil Nahata - Analyst, Parimi Financial
Hello, can you hear me?

Operator
Yes, yes,

Vishal Shah - Analyst, Independent
Great.

Anil Nahata - Analyst, Parimi Financial
Uh, thank you. Good morning. I wish- I hope you had a very good festive season with all your employees. Uh, Sachin, what I would like to understand from you is that how are we progressing on the other products which are not the financial BFSI ones but on the healthcare side Like you had the e-autopsy product and also on the Monday side where we had developed a software for Monday. And how is the pipeline looking for these products and when we can see meaningful revenues happening here?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Yes, uh, so actually a company- we have as a company around approximately Rs 1,000 crores of pipeline where we are working, which definitely includes the new products and new verticals as well. So

Unidentified Speaker - Unidentified Speaker
The Rs 1,000

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Crore is mixed of BFSI, government, uh, like you are saying, e-mandi and healthcare as well. So definitely coming quarters you will be witnessing the businesses from those verticals.

Anil Nahata - Analyst, Parimi Financial
Okay, so as and when you get orders or pilots, you will keep on announcing to the stock exchange, right? So that we can understand from that.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
We got the pilot implementation at Sir JJ Hospital at Mumbai for our asset management software that we- what we are speaking now in the such industry. Correct.

Anil Nahata - Analyst, Parimi Financial
Okay, thank you for that. The second question that I wanted to ask was, uh, basically when you are looking at, uh, all these deployments and everything else that is going on, the hardware and all, I mean, the BOT is fine. I understand that you have a component of hardware which you invest in and then you bill it and then you transfer the And this generally has a life period of 5 years after which you may renew the agreement. But

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yes,

Anil Nahata - Analyst, Parimi Financial
On the other side of your SaaS software where you also still use your own hardware, typically what is the contract duration that you have on those, like on the security side and other things? What is the typical duration of the contracts you are having?

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Typically minimum 5 years to 7 years. And sometimes in Africa, we'd sign a 10-year contract as well with the DCP Bank Tanzania. That is contract is still from the June, uh, 2036. We have a contract now. So we are always trying to have long-term contracts with the client. And historically also, you are looking, see that our churn ratio is less than 2%. All the clients from, uh, 2000 till now, they are with us because the generation has been changed, the technology has been changed, but Virtual Galaxy is always there in front, front of technology and always providing a new technology products to the client and get the business from the existing client as well.

Anil Nahata - Analyst, Parimi Financial
Thank you. And my final question is on the AI side. 2 questions I have here. One is basically, how are you using AI in your development work, testing and development, to basically reduce your cost? Because what we are seeing across companies, that companies are able to reduce their cost anywhere between 30, 40, 50, 60%, depending on that work And secondly, you also mentioned that you have a team of 9 people now doing work on voice AI and other AI solutions. So just give some light on that also, please.

Thank you so much.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yeah, sure, sure. So, uh, we actually having the, uh, the products and tools available for developing the software using the AI model. So the, the LLM which are paid also, like Claude, which is usually utilized for developing the prototypes, MVP, and actual products as well, and further testing. And even, uh, you know, uh, the other activities are also, you, you develop with the help of these AI models. We have developed our own, the, you know, agentic AI software, particularly for the voice, which is a virtual Vani.

A specific agent for inbound and outbound calls in various multilingual capabilities. Also, the product in the cybersecurity, you will find that there is a UBA called the, you know, User and Entity Behavior Analysis, in which we use this AI/ML logics to analyze the various logs and real-time and to find out the anomalies which are there. With the intelligence threat analytics, which is with the help of AI only. So we are basically engaged deeply using AI for meaningful and fruitful product, uh, development.

And, uh, you know, to utilize that skill for reduction of the software development lifecycle requirement, as well as, you know, it contributes, uh, to the quality of the product as well, where you will get a good kind of UI and the AI assistant and some tutorials, etc., documentation, everything ready for the customer use with the help of this AI. So it's a real utilization in terms of AI applier as a company we are doing here in company, right? And

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
To add this, we have more than 50 AI engineers in our workforce now. Those are contributing to various AI initiatives of a company, and all products are now AI-enabled products which Virtual Galaxy is offering now. So Virtual Galaxy in that sense is an AI-first company where we are giving a highest priority to implement AI and provide services with the use of AI. To our clients. Thank you. That's

Anil Nahata - Analyst, Parimi Financial
Very, very nice to hear. I think if you can harness AI, companies like you can grow leaps and bounds because you will be able to get to master market faster and also customize to customer requirement also. So all the best to you. Thank you so much.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
Thank you. Thank you.

Operator
Thank you. We take our next question from Akshay Jain. An individual investor. Mr. Jain, please go ahead with your question. There is no response from Mr. Jain.

Akshay Jain - Analyst, Individual Investor
Hello, I am audible?

Operator
Yes sir. [Foreign Speech]

Akshay Jain - Analyst, Individual Investor
[Foreign Speech]

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
[Foreign Speech] they are whatever guidance they have given, so they are saying that will be with that guidance only.

Akshay Jain - Analyst, Individual Investor
Okay. Thank you.

Operator
Thank you, sir. As there are no further questions, I now hand over to the management for closing remarks.

Sachin Purushottam Pande - Managing Director and Chief Technology Officer, Virtual Galaxy Infotech Limited
Yeah, we are really thankful to all of you who attend this, you know, investor participants and all other dignitaries to, uh, you know, attending this particular call and, uh, put some lot of valuable questions. And, uh, we answer all those questions from our side. Anything which is, you know, required to be answered, maybe due, due to the shortage of time, may not be able to answer. You are feel free to get back to us for, for that. And, uh, we thank you all the investors and participants once again, and we are hopeful that your company will grow in leaps and bounds and, uh, will be a, a great future ahead with this company.

Stay invested and we will grow together.

Avinash Narayanrao Shende - Chairman, Executive Director and Chief Financial Officer, Virtual Galaxy Infotech Limited
So I also like to thank all the participants here, uh, and also like to invite to our development facility at Nagpur. If you can visit our facility and have a firsthand look, then we'll be more than happy. So it's an open invitation to all of you. Whenever you feel, please drop us a mail. We'll happy to host you at our facility. Thank you.

Operator
Thank you. On behalf of Atlas Capital, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.