"Coforge Limited
Q3 FY2025 Earnings Conference Call"

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Management: Mr. Sudhir Singh – Chief Executive Officer
Mr. John Speight – Chief Customer Success Officer
Mr. Saurabh Goel – Chief Financial Officer

Moderator: Ladies and gentlemen, good day and welcome to Coforge Limited Q3 FY2025 Earnings Conference Call. Please note all participant lines will be in listen-only mode and this conference is being recorded. We have today with us from the management team Mr. Sudhir Singh, CEO, Mr. John Speight, Chief Customer Success Officer and Mr. Saurabh Goel, CFO. We will begin the call with opening remarks from the management team and post that we will open the floor for questions. Before we begin please note that some of the statements made in today's discussion relating to the future should be construed as forward looking statement and may involve risks and uncertainties. Please refer to the disclaimer to this effect in the company's Q3 FY2025 earning press release. With that I now hand the call over to Mr. Sudhir Singh. Over to you Sir.

Sudhir Singh: Thank you. A very good morning and a very good evening to you across the world, ladies and gentlemen. Thank you for joining us today as we share our quarter three performance and the business outlook.

Today, given the performance of team Coforge in Q3, it is my privilege to start the commentary with almost the same sentence that I had used at the beginning of the last quarter's call. Here goes that simple yet powerful sentence once again for the second quarter running.

This quarter has been an exceptionally strong quarter for the firm.

In Q3, a quarter normally regarded as a seasonally weak quarter for the industry, the firm has registered a sequential CC growth of 8.4% and a Y-O-Y CC growth of 40.3%.

The Cigniti business has grown 3.5% CC sequentially and the non-Cigniti business has grown 9.4% CC sequentially. I wish to point out that the Cigniti business had already been fully consolidated in Q2 after we had assumed operational control of that business in the beginning of July itself. What makes this quarter's growth performance even more remarkable is the concurrent expansion in EBITDA. The adjusted EBITDA increased by 122 bps sequentially, even as our revenue rose 8.4% sequentially again.

In addition to both strong in quarter revenue growth and margin expansion, the firm has also closed four large deals during the quarter, including one in the Cigniti client portfolio. With that, our 12-month signed order book now stands at $1.37 billion dollars which is up 40.1% from the same period last year. With this quarter's performance ladies and gentlemen, you will note that in less than two years and I repeat less than two years, the revenue run rate of Coforge has grown almost 60% from $1 billion to approximately $1.6 billion. Our inexorable and very rapid march to the next $2 billion milestone is not just unhindered, but it is actually picking up even more pace. The quarter also marked the complete operational integration of the Cigniti business, which has not just seen robust growth, but has also seen its EBITDA margins jump more than 600 bps to 17.3% from around 11% just three quarters back.

With that preamble, I shall now walk you through the details of the quarterly performance.

<u>QUARTERLY PERFORMANCE – REVENUE ANALYSIS</u>

Starting off with the revenue analysis, I am pleased to report that during Q3, the firm registered revenue of $397.1 million. This represents a year-on-year revenue growth of 40.3% in CC terms, 40.8% in US dollar terms and 42.8% in Indian rupee terms, respectively.

We believe that more than the robustness of our growth, what is really truly remarkable is the balanced nature of the growth across all cuts. That is, across all geo units, all industry verticals and every service line of ours. Our confidence in sustained growth in the future rides off the fact that there is no over reliance on any one growth vector, all vectors and I mean all vectors, including geo-based units, industry-based units, service lines, client-size cohorts are all firing. And they are all not just growing, but they are all growing very robustly. It shall reflect quickly on the geo vertical and horizontal number cuts data of our growth.

Despite furloughs in the current quarter, BFS grew 20.4% Y-O-Y. The insurance vertical grew 20.3% Y-O-Y. The travel vertical grew 43.4% Y-O-Y, the government vertical outside India grew 48% Y-O-Y and other emerging verticals grew 88.2% Y-O-Y that was the industry cut. From a geo perspective, the Americas grew 9.2% quarter-on-quarter, EMEA grew 8.9% quarter-on-quarter while as you know the firm grew 8.4% quarter-on-quarter overall. From a service line cut perspective, the engineering service line grew 6.3% Q-O-Q and 69.2% Y-O-Y. The intelligent automation service line grew 5.1% Q-O-Q and 11.2% Y-O-Y. The data and integration service line grew 4.1% Q-O-Q and 22.9% Y-O-Y. The BPS service line grew 1% Q-O-Q and 17% Y-O-Y and finally, the cloud and infrastructure service line grew 19.4% Q-O-Q and 42.1% Y-O-Y. Finally, the client-sized cut growth rates information is as follows. The top five accounts grew 13.5% quarter on quarter and 22.5% year on year. Top 10 accounts grew 14.4% quarter-on-quarter and 23.1% year-on-year. That was the revenue cut.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS

Ladies and gentlemen, I shall move on to the margins and the operating profits performance data now. During the quarter we delivered an adjusted EBITDA of $70.5 million registering a sequential growth of 15.4% and a year-on-year growth of 39.3%. The consolidated adjusted EBITDA margin for the quarter is 17.8% and that is up 122 bps sequentially and that too you will recall in a seasonally shorter quarter. There is another aspect of our margin performance that we would like to draw your attention to. The Cigniti business reported 17.3% margin in the current quarter, which as I said earlier 600 bps higher than what was reported just three quarters back by that business. You will recall that last year Cigniti had reported an EBITDA margin of 12% and Coforge reported adjusted EBITDA margin was 17.6%, reflecting a pro forma adjusted margin of 16.7%. From that level of 16.7% today we are already operating at an YTD adjusted EBITDA margin of 17.4%, which is an upside of 70 bps on last year's pro forma financials.

ORDER INTAKE

Moving on quickly to the order intake, this is the second consecutive quarter in which the firm has clocked an order intake of more than half a billion US dollars. The number for this quarter, quarter three is $501 million. The executable order book of the firm has moved from $1.3 billion in the previous quarter to $1.37 billion in the current quarter. That represents a 40.1% increase in the next

12-month signed order book over the last year's same quarter. As I have noted earlier, we signed four large deals in the quarter three of them were in North America and one was in ASEAN.

PEOPLE

Finally, people, the total headcount for the quarter stands at 33,094 reflecting a net addition of 611 employees during the quarter. Attrition continues to be stable and the last 12-month attrition during the quarter stood at 11.9%.

With that, I shall now request John Speight, Customer Success Officer, Coforge to walk us through capability and delivery highlights. John, all yours.

DELIVERY OPERATIONS & CAPABILITY BUILD

John Speight: Thank you Sudhir. I shall now touch upon the quarter's highlights related to our delivery operations.

Starting as a progress we continue to make towards becoming a true AI first organization. We continue to expand our portfolio of service offerings using AI and GenAI and now have a portfolio of more than 30 capabilities. For example, the implementation of our GenAI powered submission centre solution for a global insurance client has cut e-mail processing time from hours to minutes.

Meanwhile, at a leading retail client, we have used a number of our GenAI accelerators to significantly improve application development productivity and quality. We also created an offering to reverse engineer legacy mainframe applications using GenAI. This solution offers 25 to 30% time and cost savings for large modernization programmes.

We are continuing to enhance our Quasar AI platform to help clients deploy agentive AI applications. For example, one of our asset and wealth management customers is using the Quasar agentic framework to automate and improve the quality of their recruitment processes.

We are actively working with strategic partners, Microsoft and ServiceNow to embed AI and GenAI in solutions. This was recently showcased to one of our travel customers, where we leveraged copilot with ServiceNow to improve the productivity of their service desk representatives. Internally, we continue to invest in upskilling our workforce on AI based technologies.

Under our AI Spark initiative, 95% of our workforce has been certified in AI tools and foundational AI concepts. In our AI innovation lab, we are working with the AI hardware providers to create innovations around edge AI computing, as well as solutions that can process large datasets for pharma and healthcare organizations.

On other updates, one area which I want to talk briefly about are global capability centres or GCCs as they are commonly known. We have formed a GCC centre of excellence to help clients establish and or scale GCCs as an integral part of their businesses. Our recent example here was the GCC set up with a leading US-based wealth management firm managing $1.5 trillion in assets. You will see significant updates in this area in subsequent quarters.

Our sector-specific accomplishments include significant public sector wins such as a large contract to enhance record management and operational efficiency and another large healthcare project to modernize the British healthcare system over the next 60 years with their banking and financial services we expanded our solutions to include Core Banking Testing, DORA compliance, and strengthen the agile frameworks for global banks wholesale banking division. We are also partnering with Fortune 100 bank on a financial crime prevention programme deploying an AI powered platform to combat human trafficking. Finally, in the travel sector, we have started a large programme to develop a scalable, low-code, no-code, SaaS platform, focused on improving customer care processes for a major transport company.

With this, I will hand over to our CFO, Saurabh Goel.

FINANCIAL OVERVIEW

Saurabh Goel: Thank you, John.

Let me take you through some of the financial highlights of the quarter. As mentioned by Sudhir, consolidated adjusted EBITDA margin for the quarter stood at 17.8%. Cigniti reported 17.3% adjusted EBITDA margin and excluding Cigniti adjusted EBITDA margin stood at 17.9%. This is despite headwinds in the current quarter on account of furloughs to the extent of approximately 50 bps.

During the quarter, ESOP cost at 2.1% of revenue up 130 basis point over previous quarter and in line with our guidance. This was on account of new ESOP grants that were made towards the end of Q2 FY2025. We expect this cost to marginally go down over next two quarters and then come down to a level of 100 bps of revenue from Q3 of next year onwards reflecting a tailwind on EBITDA margins in Q3 FY2026.

Despite amortization of intangibles on account of Cigniti acquisition, the EBIT margin stood at 11.8% for the quarter and at 12.3% on year-to-date basis. This reflects growth of 25.8% in EBIT margins on a year-to-date basis.

The integration and merger expenses in the current quarter were down to $1.9 million as against $3.5 million in the previous quarter.

The depreciation and consolidated financial statement reflects impact of amortization of intangibles such as customer relationships and non-compete created on account of purchase price allocation.

As mentioned earlier, the amortization impact on a per year basis will be $10.7 million. The cash and bank balances stood at $110 million and there was a working capital loan of $80 million reflecting a net cash position of $30 million.

Operating cash flow for Q3 FY2025 stood at $47 million against $33.5 million in the same period last year. Q3 YTD basis OCF stood at $86.5 million as compared to $33 million last year.

The Board of Directors based on the recommendation of the audit committee and the Independent Directors at its meeting held on December 27, 2024 considered and approved the scheme of amalgamation of Cigniti with and into the company and their respective shareholders and creditors.

Pursuant to the proposed scheme, one equity share of Coforge of Rs.10 each fully paid up for every five equity shares of Cigniti of Rs.10 each fully paid up. The scheme is subject to receipt of necessary regulatory approvals. The effective date of merger is going to be April 1st 2025. The merger process from now on will take around 12 months. Once merger is approved, the minority interest which is reflected in the financial statements will be taken off effective 1st of April 2025. The adjusted PAT in the PAT sheet reflects net profit excluding that minority interest.

With that I will hand over the call back to Sudhir for his comments on outlook.

SUMMING UP AND OUTLOOK

Sudhir Singh: Thank you, Saurabh.

Moving on to the outlook, a 8.4% sequential CC growth in a seasonally weak quarter, four large deals signed in that very same quarter, all geos, verticals, horizontals, client-size cohorts piling together. A concurrent and material sequential expansion of 122 bps in margins.

A large deals pipeline that is looking very robust going forward. And finally an ever-strengthening next 12-month signed order book, which now is more than 40% higher Y-O-Y, gives us great confidence that the coming years shall once again see robust and sustained growth delivered by Coforge.

I would also like to note that the growth and the margin expansion at Cigniti are a preview and I use the word consciously, a preview of sustained growth and further increases in margin to follow. Within two quarters post-acquisition, the business profile of Cigniti has changed materially on both the revenue and the margin front. A firm that was operating at an EBITDA margin around 12% has seen its margin reach 17.3% in this quarter, while its revenue growth and pipeline are also shaping up strongly. We have operationally fully integrated the Cigniti team and as we shared last quarter, the synergies have exceeded even our expectations.

Finally, before I conclude, a quick final reflection. The Coforge growth story is now into its eighth year. This is possibly one of the most sustained and I double underline the word sustained high growth business trajectories that any team in our industry has carved out. The key to that sustained and accelerating growth trajectory over the last eight years has been an execution DNA that is uniquely our own and an operating culture where the emphasis is on meeting plans and not just sharing plans.

Team Coforge has turned an execution of the highest order over the last 8 years. We look forward with confidence and with eagerness at the next eight years.

With that I conclude my prepared remarks ladies, gentlemen and I look forward to hearing your comments and along with my team addressing your questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We take the first question from Sulabh Govila of Morgan Stanley. Please go ahead.

Sulabh Govila: Thanks for taking my question and congrats on a very strong quarter.

My first question is with respect to the overall demand environment that we see in the world today, especially with respect to the fact that this is the time when the clients are deciding on their budgets and there is a sort of growth divergence that we have seen with respect to the industry in the last two quarters especially. So just wanted to understand from an industry perspective, what are we hearing from the demand side, especially given that this is a budget time going on?

Sudhir Singh: As we read the demand environment, and as we do bottom-up aggregation of the indents that we are looking at, we have said over the last two quarters and we maintain that there is a definite yet gradual improvement in demand across all sectors that is playing out. From a more immediate perspective, as we look at the three core verticals of the organization- on Travel, the sector continues to show impressive resilience and growth despite the ongoing inflationary pressures. The forecast for next year is a robust 7% growth in revenue passenger kilometers. In BFS, which is the other primary vertical for us, we continue to see demand across multiple micro areas, particularly operational resilience and regulatory compliance. And the same story plays out across insurance and government as well.

Sulabh Govila: And my second question is with respect to Cigniti, the cross-sell that we have seen this quarter, if you could highlight what all services we were able to cross-sell in that particular deal, whether there are more such deals in the pipeline and the current deal, did it involve replacing of existing vendors or it was a new project altogether so just colours around that would be very helpful.

Sudhir Singh: The large deal that we signed, which was one of the four that was signed overall by the firm, the specific large deal at Cigniti was signed with one of the top five customers of the firm. It involved limited amount of cross-sell of existing Coforge services. This question, you will recall, had come up in the last quarter call as well and we had said that the cross-sell pipeline takes practically and empirically around three quarters to settle down. We expect cross-sell synergies to start reflecting in quarter four or quarter one revenue data of Cigniti going forward. The large deal did involve displacement of the incumbent from whom a significant portion of that 20 plus million dollar TCB contract was signed.

Sulabh Govila: Understood. Thanks for taking my question. I will get back into the queue.

Moderator: Thank you. Our next question is from the line of Abhishek Pathak of Motilal Oswal. Please go ahead.

Abhishek Pathak: Hi, team. Congrats on a great quarter. So just had a couple of questions. So firstly, Sudhir, as Coforge, let us say goes from 2 billion to let us say 3 billion in revenues, how does one expect to sustain the advantages that Coforge currently has in terms of let us say, winning deals, challenging incumbents. Does a bigger size put more pressure or change some of the fundamental modes that you have created? That is one. The second question is deal wins have been quite strong again this quarter. The last 12 month average is close to 490 I believe. And considering there is a certain amount of acceleration in discretionary, can we expect this sum rate to accelerate in the next year? And lastly, just wanted your thoughts on the insurance vertical. There has been a significant amount of disruption with regards to the California fires and just your perspective on how it affects us, if at all, and how does that change, let us say, the outlook on the vertical that we had maybe last quarter and now. Thank you.

Sudhir Singh: I am going to take your three questions in order. The first question was around the disadvantages of increasing scale. The first thing that I will offer you is just data as proof of how increasing size is impacting our growth numbers. After we crested the billion dollar revenue mark, in less than two years, we have started hitting 1.6 billion run rate. You will notice that our growth rates have actually been increasing over the earlier years. The growth rate increase that has happened of late and that we expect to sustain for a very long time is being driven through three primary factors. The first is a maturing of partnerships as we scale up our ability to become a preferred partner for ServiceNow and for Microsoft, which are core enterprise partners that we are focused on for the next five years. The strengthening of the very strong partnerships that we already have with Salesforce, Pega and Duck Creek becomes that much more easier. The second reason is the investments that we have made. These investments take some time to bear fruit including the Quasar AI platform framework that we have created. A lot of the brand rub-offs and the revenue rub-offs are happening and accelerating. Third, the deep functional expertise which is now more relevant in an AI infused environment is what we think will hopefully not just sustain but will accelerate growth going forward. So that is answer one to question one.

Your second question was around deal wins and whether we expect them to be strong going forward. The answer is a clear emphatic yes. I say this after looking at the aggregate deal pipeline and looking at the different cuts of that pipeline which we look at on an internal basis, every Monday, 9 o'clock on our weekly senior leadership call.

Your third question was around the outlook for the insurance vertical. The California fires are a point in time event. If we look at the next 12 to 15 months and the structural secular change that is happening is that in the insurance space, the SMB market is going through transformation. I am talking SMB specifically. And they are looking for right sizes partners with domain industry platform experience across the Duck Creeks, Guidewire, Majesco, Sapien platforms augmented increasingly by low code, no code platform experience. That is a sweet spot for us, has been for seven years, is getting built up, and demand is getting there. The second thing that we are seeing, and this is something that we are dipping into and I have discussed extensively is underwriting effectiveness, claims processing, customer experience, fraud detection, some of the core processes on insurance that one looks at. We have been able to with advanced analytics create 30 GenAI Insurance use cases in development out of which 10 are already live. That is the other demand stream that is coming up, which again is getting addressed. Therefore, we feel reassured about the fact that next year, insurance in the aggregate will continue to do well for us.

Abhishek Pathak: Thank you Sudhir that is very clear and all the best. Thank you.

Moderator: Thank you. We take our next question from Vibhor Singhal of Nuvama Equities. Please go ahead.

Vibhor Singhal: Thanks for taking my questions and congrats on a solid performance yet again. Sudhir a couple of questions for you and then I have one for Saurabh. I mean the growth of course is super strong but just two aspects of this. What are the conversations around the GenAI adoption at this point of time? It was widely believed that the GenAI adoption in the initial stages could actually be deflationary in nature. There could be some cannibalization of revenue. What is your view on this? Are we already into that phase or do you think that we might hit that phase maybe some quarters down the line and how do you see that playing out? And secondly, on the travel vertical, just wanted to pick your brain. I think the travel vertical has rebounded quite sharply for us. Last year was not that great of a year. I mean, it was still a good year, but I think still growth was softer than the other verticals. So is this turnaround because of our recovery in our core travel clients like airlines and hospitality or is it because of the travel ancillary companies like logistics or some other domains that we had divested into?

Sudhir Singh: Let me take the first question, which was around GenAI, the impact on growth. GenAI, what we have seen is over the last 18 to 20 months, the demand from a revenue addressing perspective is increasingly pivoting towards engagements that are more focused only on data to begin with. There is a significant amount of work and ask that is coming in terms of setting up scalable data pipelines, in terms of doing an assessment of the data landscape, including assessing data maturity, helping get a grip on the number of data sources and data cleansing. And there is increasing demand and engagements that are being considered in the data vectorization in the infrastructure space, which is largely so that enterprises can move towards supporting AI model training and deployment. AI conversations in some ways, when it comes to actual revenue getting generated, are seeing data based engagements, data vectorization, infrastructure creation to support AI model training, etc become surrogates for getting that upside and that flip upwards. At this point in time, that is the change we have seen. Therefore, we certainly do not, and I suspect you would have picked this up from our commentary as well, do not see GenAI and this very powerful AI based technology as something that is going to be deflationary from our vantage.

The second question that you had was around Travel and the fact that we performed well. And you are right. We feel very, very bullish about travel. And I said this earlier in response to a question; the travel sector has already shown exceptional resilience and growth despite the inflationary situation and the pressures that have been around. I talked about this, the forecast next year from IATA is that there is going to be a robust 7% growth in RPK, which is revenue passenger kilometers driven by low cost carriers. So that sector seems to be doing well. We are seeing a lot of demand around GenAI and AI platforms, primarily to improve personalization in products and offerings and to automate processes. The immediate demand that we are looking at is coming in the Travel sector from Travel tech players, the Travel platform players that are focused on loyalty, that are focused on legacy modernization, and some of which are focused on network and capacity expansion by airlines.

Summarizing, the demand is coming from travel platform players, what we internally call travel tech. It continues to be very strong from airlines and it continues to be very strong from airports who are trying to recreate themselves in some ways effectively as digital malls or real-life malls.

Vibhor Singhal: Got it, got it. Thank you so much for that detailed explanation. I have just a question for Saurabh. So Saurabh, if you could just briefly outline the impact of the two ESOP schemes that we had. One was in 2019 ESOP scheme, if I am correct. How will that wane out over the next couple of quarters? And of course, you mentioned the current ESOP scheme, when is the timeline for that expected to be a positive impact on the margins? And just a related question our utilization is at 81% at this point of time. I mean, most of our peers are operating at almost 85%. One of your closest peers took that level to around 87% in this quarter. So any specific reason that we are keeping it at these levels? Is it a merger related anomaly? And do you think this could be a good margin lever going forward?

Saurabh Goel: Vibhor I will take the first question first. So ESOP cost in the current quarter, we had mentioned in the previous call also that as soon as we launch the ESOP scheme, the cost will be close to 200 bps of the revenue. And the current quarter reflects that the last ESOP scheme that was launched in 2019 a part of that has already got vested on 1st of January so while we move into Q4 you will see roughly 20-25 bps reduction because of that and then a part of that is getting vested on 1st of April which means you move to Q1 there will be another 20-25 bps reduction and then between Q1 and Q2 it will sustain at a 1.5 odd percent and then effective Q3 onwards it will go to 100 bps or so. So currently we are at 210 bps it will come down to 150 by Q1, 20, 20 bps in sequentially next two quarters and then 150 bps from quarter one and then to 100 bps in quarter three. So if the EBIT margin or the EBITDA margin in the current quarter was 15.8% or the EBIT margin was 11.8%, you will see a tailwind of at least 100 bps coming in just because of accounting and with further expansion on the EBITDA margin or the gross margin there will be another tailwind of 40-50 bps that would be coming in. So one can expect that the EBIT margin should be expanding close to from 11.8% currently should be hitting roughly 13.5% by Q3 next year.

Vibhor Singhal: Got it. Got it. My question on utilization, if you could just answer that as well, please.

Saurabh Goel: The utilization number one includes 2.5-3% on account of trainees. Freshers included in the utilization that we report which means that for laterals it is 84 and the kind of growth and the pipeline that we see, we believe that 83-84 for laterals is a good utilization number. Beyond that is not sustainable. That is our belief and we would want to focus on growth and have a bench which is ready to be deployed. So we do not want to take this utilization beyond 83-84%.

Vibhor Singhal: Got it, got it. Thank you so much for taking my questions and wish you all the best.

Moderator: Thank you, we take the next question from Aniket Pande of DSP Mutual Fund. Please go ahead.

Aniket Pande: Thank you for the opportunity. Congratulations to Sudhir and team for excellent performance and execution in a low growth environment into this quarter. I have just two quick questions for you. My first question is on the large deal wins. The deal wins which you have won into this quarter are specifically into which vertical and what is the nature of those deals? I mean are they more into cost oriented, efficiency driven or they are more into discretionary related work?

Sudhir Singh: Let me give you a quick cut in terms of it and I will give you a very quick rundown in terms of all four and where they come from. The first one comes from an asset and wealth management client. This is a deal that warrants setting up a specialized GCC for that AWM. This is a new GCC that they are setting up. The second deal comes from the ASEAN region. This is working with a close partner of NVIDIA to scale up data centre operations, AI led data centre operations. The third one is one of the leading airlines of the world, which was led by our testing practice, the Cigniti team. And that focuses largely on AI driven testing and testing in an AI context. The fourth one is a renewal. It is with an insurance client of ours in North America. Aniket, did you get the answer?

Aniket Pande: My second question is the furlough related impact. Is it more in BFSI in this quarter and can we expect revival in that for the next quarter?

Saurabh Goel: So yeah Aniket, so if you look at current quarter there was 50 bps impact both in banking and insurance and because there are mandatory furloughs that get triggered towards the end of the quarter, December quarter and we see that every year and next quarter on we will have that getting reversed and that is why we will see a tailwind on margins as well and both on revenues and margins in the next quarter both in banking and insurance.

Aniket Pande: Thank you so much and best of luck for CY2025.

Moderator: Thank you. Our next question is from Sandeep Shah of Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity and congrats on a great execution. Sudhir just wanted to understand the profile of the deals on GCC in terms of margin profile will it be slightly linear or non-linear and will this impact our free cash flow and what is the pipeline around GCC deals we are tracking?

Sudhir Singh: Sure, I will kick this off and then I will request Saurabh also to pipe in on the margin piece. Let me give you a quick sense in terms of the nature of the deals. The deals that we had, the GCCs that we are helping set up are coming in three different flavours. They are coming in under a BOT construct, they are coming in, in terms of just setting up a greenfield GCC and they are coming in also in the form of a virtual GCC concept. At this point in time, the GCC offering that Coforge has straddles all three. We call them offerings for brownfield and for greenfield GCCs. That is what we are working across. Saurabh, would you like to address the margin question?

Saurabh Goel: From margin perspective, the margins are normalized margins as we see in any other deal. They do not come at discounted margins because these employees are on our payroll.

They are not on the payrolls of the client. And a lot of these deals that we are really working on. The client does not even have a legal entity in India. So when we are setting up GCC for them, we are setting up offices and making sure that the office has look and feel, the infrastructure, the way they want and the margin profile continues to be as robust as any other deal.

Sudhir Singh: And this entire offering for Coforge has been created by John who is on the call. John would you like to add something to this?

John Speight: As ever Sudhir fantastic answer from yourself and Saurabh. I think one of the key things that we are trying to do is bring in a whole concept and differentiation about the journey that we take our customers on. And you will see the terminology control your destiny coming through from Coforge. This, along with the type of customers that we are approaching, we see as a key part of our success in this area, currently and in the future. Back to you Sudhir.

Sandeep Shah: Yeah and Saurabh, just the follow up question, any impact on pre-cash where we may have to invest upfront in the asset?

Saurabh Goel: No, not in these. These are normal deals like any other normal ramp up. It does not have any hardware, software or any significant upfront investments would be like any other outsourcing deal. The only good thing is that it is an exclusive deal wherein when we are signing up for GCC deals, we are exclusive partners wherein we are the ones who are setting it up for them and not letting anyone else to come in.

Sandeep Shah: Okay and just last two questions in the earlier calls, we were guiding for a 50 bps increase in the adjusted EBITDA margin and flatish reported EBITDA margin. So do we still stand by because that also requires a big jump in the fourth quarter implied adjusted EBITDA margin. And the second question on the debtors if I look at on Q3 basis it has gone up 30% any reason for that and do you believe that those collection has delayed that means fourth quarter free cash flow could be higher than third quarter.

Saurabh Goel: So number one the DSO has come down. The DSO is more or less flat at 60 odd days including Cigniti. Okay so there is no increase in DSO from that standpoint. I think the increase in debtors is only on account of revenue growth and so that is point number one. The DSO is flat at 60 days including Cigniti. Without Cigniti, the DSO has actually come down from 60 to 57 days. So that is point number one. And if I look at debtors that has been reported, it is 19,985 million in the current quarter versus 19,095 million in the previous quarter, which is Q2. And if we compare like to like where in Cigniti was there in both the quarters so it is more or less the same in line with the revenue growth so that is answer to the DSO. What was the second question Sandeep?

Sandeep Shah: In terms of the adjusted EBITDA margin and the total EBITDA margin.

Saurabh Goel: As we mentioned that, pro forma margins for the business, if we take Cigniti into consideration, last year adjusted EBITDA margins would have been 16.7%. 17.6% was Coforge, 16.12% was Cigniti, consolidated margin proforma basis was 16.7%.

Sitting today we are looking at 17.4% on a consolidated basis which is roughly 70 bps already higher than what the pro forma financials were point number one. Number two if I exclude Cigniti the YTD margins are already 30-40 bps higher and we had a guidance of 50 bps and a flat reported EBITDA margin. We believe that the tailwind that we expect in the next quarter on account of furloughs getting reversed plus the actions that are already under play margins will go up. In the current quarter when it was a shorter quarter we have expanded margins by 130 bps we expect to repeat the same thing in the next quarter.

Sandeep Shah: So my question on debtors was more on Cigniti but I agree on the consol basis it has gone down.

Saurabh Goel: See Cigniti, the other piece was, earlier when they were closing books the last month of the quarter was more taken as unbilled so we started making sure that the billing happens in time, and that is why you are seeing a jump in Cigniti otherwise, nothing else.

Sandeep Shah: Thanks and all the best.

Moderator: Thank you. We will take the next question from Shradha Agrawal of MSEC. Please go ahead.

Shradha Agrawal: Congratulations on a great quarter Sir. Couple of questions first is if I look at the top clients performance that number has been very strong and top five, top 10 clients growing at almost upwards of 12-13% on a sequential basis. So anything to highlight there in terms of top client performance?

Sudhir Singh: Thank you Shradha. Our top 10 clients Shradha, all of them come from what is the non-Cigniti portfolio of Coforge. The efforts that we have highlighted over a period of many quarters around key account programme management, around making sure that the farming engine is world-class when it comes to stitching together solutions and capabilities and is effective at competitive displacement. It is essentially a function of all of those things coming together. John, as the Customer Success Officer of the firm, you are the person who has driven this. I think you are far more qualified than I am to add more colour here.

John Speight: Thank you. I mean one of the key things we have driven over the last four or five quarters is to pivot towards a very, very much a value-orientated approach. There is no secret sauce. It is understanding your customer, having the right people aligned to the customer, dedicated to those customers, and then understanding at the end of the day what outcomes they are looking for, working out against those outcomes, what are the quantifiable ways in which you can measure those outcomes, and then ensure that you deliver against those outcomes. And that is aligned to the old adage we use often execution, execution, execution means that our customers are happy and see us as a trusted partner. That is it.

Shradha Agrawal: Right and two questions for Saurabh. Saurabh till when do we expect this integration and merger related expenses to continue in our books? And what is the difference between reported and adjusted margins in Cigniti?

Saurabh Goel: So reported and adjusted is basically ESOP cost which is the Coforge ESOPs that have been allocated to Cigniti team that is number one and the difference is not very significant. I think it is 17.3 versus 17.1. Number two, the integration expenses, I guess largely we should be over by end of this year. And previous quarter, as I said that it was roughly $3.5 million. And I had mentioned last time that in Q3, it will come down, which has come down to now 1.9. We would expect it to further come down and then there will be some minute merger related expenses but large part of the merger related expenses have also now behind us because we have already launched the scheme. So anything to do with audit, anything to do with merchant banker, anything to do with lawyers, a large part has already been booked. So after Q4 you would not see such costs.

Shradha Agrawal: Got it. Just that my numbers show that Cigniti reported EBITDA margin is 16.5% and adjusted EBITDA margin is 17.3%. So wanted to cross check if it is 17.1 and 17.3% that you are talking of or it is 16.5 and 17.3.

Saurabh Goel: I will then come back on that. I think 17.3 minus the ESOP cost was the reported EBITDA margin for Cigniti but I will come back on that later.

Shradha Agrawal: Thank you Sir. That is it from your side.

Moderator: Thank you. We will take the next question from Ashish Dash from Mirae Asset Capital. Please go ahead.

Ashish Dash: Hi thank you for the opportunity. Just want to understand your BPS segment. So I can see the additions of employees continues. Share your outlook on the BPS.

Sudhir Singh: Our approach to BPS, and I will request John also to layer on to my question, our approach to BPS, given the size of our business, is AI-led. The work that we are doing, the way in which we establish a beachhead is by leading with what we call AI led ops. That has allowed us incidentally to make a significant beachhead with one of the world's largest retailers in terms of setting up a captive for them in India for AI led ops itself. So AI led ops, automation, and given our size advantage, the ability to drive extreme automation and if required, cannibalize our operations revenues is what has marked us out. Our BPS business is doing well. It is, as I noted earlier, growing 17% year-on-year and we are seeing reasonably strong tailwinds for that business currently. John, would you like to add more colour to this?

John Speight: Yes Sudhir. Again the one thing there I would just add is I think Sudhir mentioned size and the fact that we are not shy of cannibalizing. Our whole BPS business is not defined or run on the basis of volume of people on seats. It is very much driven around outcomes and we are automation AI in every stage of what we do in our BPS business to deliver those outcomes, not people.

Ashish Dash: Okay, got it. My second question is, Sudhir when you discussed about your revenue aspirations and the third point you mentioned that you need deep functional expertise for the hyperscalers. So one question I would like to understand, particularly BFS division has been basically driven under your leadership. So it is kind of you guys might not have all the expertise in all the subsegments.

So just want to understand if you are seeing that the revenue aspiration would be driven by this deep functional expertise, what are the investments you would like to do particularly in the BFS vertical or overall, I just want to understand your thoughts. Like what kind of more investments you require for that deep functional expertise or for other subsegments also.

Sudhir Singh: The four players with whom we spend most of our energy, while of course we have like any other SI a significant ecosystem of partners but the four largest ones are ServiceNow, Microsoft, Salesforce, and Pega Systems. Particularly for Microsoft and for ServiceNow the attraction for working with an SI of our size and scale is the functional expertise that we bring to bear to create solutions for them. A live example of that is the underwriting co pilot that we created in conjunction with Microsoft. Another live example of that is the very interesting solution that we have created in the healthcare space working with ServiceNow, which of course is operating as an AI integrator for the broader ecosystem. That Ashish is how we have been approaching partnerships and that continues to be the way in which we will continue to drive things going forward as well.

John Speight: One of the key things we are also doing is embedding partners' platforms or integrating partner platforms as value adds within COTS products, Duck Creek, Guidewire and so on to actually supplement and augment those solutions for customers and the only way you can do that is by merging technology engineering capability, the knowledge capability around our partner platforms and ecosystems, and also the domain in which you are operating to understand the outcomes that need to be delivered.

Ashish Dash: Okay, got it.

Saurabh Goel: Moderator I would like to address Shradha's question on the Cigniti EBITDA margin. So as I mentioned that 17.3 to 17.1 was the ESOP cost and then there was because both the firms have gone together and went ahead with the merger. So out of $1.9 million, 300k was in Cigniti because they paid auditors fees, they paid the lawyers' fees and the fees for the merchant banker. So that is why you see that the EBITDA margin was at 16.6%. So that is the reason.

Moderator: We will take the next question from Kawaljeet Saluja of Kotak Securities. Please go ahead.

Kawaljeet Saluja: Hey, thanks Sudhir. Congrats, crazy growth here. A quick couple of questions. One is that you mentioned that ServiceNow and Salesforce is a trending practice, where the area of practice is very strong. Now in both these practices, essentially there is a fair bit of licensed procurement and sale that happens in the December quarter, seasonal trend. So does that hold true for Coforge as well and if yes, can you quantify, let us say the contribution that you had from the sale of third party licenses in the December quarter?

Sudhir Singh: Thanks for the question Kawaljeet and thanks for the comment.

ServiceNow and Salesforce you are right. ServiceNow, Salesforce, Microsoft, and Pega are the four core enterprise partnerships. The intent is to get each one of them, some of them are already beyond the $100 million mark,. the intent is to get all four of them in short order beyond the $100 million mark. We do not call out specific license revenues from our enterprise partners, but the intent always is to create managed solutions in which licenses are embedded. It ends up being a two-way street. It ends up strengthening the relationship and you know this better than I do. And therefore, to that extent, we get into these. Whenever we do these managed solutions-based sales, where a software or a license is embedded, the one thing that we do watch out for is the margin. And in the license-embedded managed solution sales that we have done this quarter, our margins have been North of 30%.

Kawaljeet Saluja: That includes the license cost as well.

Sudhir Singh: Includes it, absolutely.

Kawaljeet Saluja: Fantastic. The second question is for Saurabh. Saurabh, you had a net cash and yet a fairly high negative other income of Rs.357 million. What explains the disconnect and when does one start seeing a synchronization of other income in sync with your cash balances or net cash balances?

Saurabh Goel: So Kawaljeet number one, Cigniti's cash was lying idle in the overseas geographies and we were not able to use it because they were not a subsidiary. As we speak, they became a subsidiary on 20th of December. We have already gone ahead and taken board approval and we are working with the transfer pricing partner as well, wherein now on arm's length basis start utilizing that cash across the group. And wherein there is return for Cigniti as a legal entity as well. And we are not paying interest outside to the bankers. So I guess in the current quarter itself you will start seeing the interest expense to that extent coming down.

Kawaljeet Saluja: Okay, fantastic. Thanks a lot.

Moderator: Thank you. We will take our next question from Dipesh Mehta of Emkay Global. Please go ahead.

Dipesh Mehta: Yeah thanks for the opportunity. Couple of questions. First about the quarter three itself whether it played out, let us say in line with your expectation or better kind of thing compared to let us say beginning of quarter and if it is better what worked well in the quarter. Second question is about the pipeline you indicated very robust deal pipeline so if you can help us let us say when we were two years back, how the nature of the pipeline is shaping for us compared to two years back versus now when we acquired a few capabilities through M&A as well as organic development. So if you can give some sense on how it is helping us to maintain momentum. And last question is for tax rate how one should look or combine tax rate for the entity thanks.

Sudhir Singh: I will take the first two questions, Saurabh will take the third one and John feel free to jump in whenever you want to.

The quarter has shaped up, it has been a very strong quarter, it was not a surprise to us. If you go back and look at our headcount edition in quarter one, quarter two, it will give you a clear sense of the fact that we were heading towards this. In both those quarters in the commentary and in the question and answer session, we are clearly called out that we were building up an available resource base, that we were keeping utilization where we were because we saw clear and steep growth ahead of us. This quarter is a realization and a confirmation of that assertion. Question number two is pipeline and how it is shaping up. It is shaping up extremely well and what we find the most exciting, going back to the point that I made earlier around functional expertise and around the spends around legacy modernization which are AI infused is that the median size of the large deals, at least some of the large deals that we are approaching is disproportionately higher than what we have ever attempted in the past to close. That is the flavour I will leave you with. Tax rate is on you Saurabh.

Saurabh Goel: So Dipesh tax rate is inching towards 25 odd percent. And I think that is how you should start modeling it.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question. I would now hand over the call to Mrs. Sudhir Singh for closing comments. Over to you Sir.

Sudhir Singh: Ladies and gentlemen, as I said at the outset, while we are closing in on eight years of very sustained and very robust growth, as a management team in many ways, we believe we are just getting started. We look forward with excitement and eagerness. We look ahead with excitement and eagerness also at the continued interactions that we will have with you every quarter here on. We value your time, we value your interest. And most of all, we benefit significantly from the insights that you offer. Thank you very much for your time and for your interest. We look forward to meeting you again next quarter. Good night and have a great day.

Moderator: Thank you members of the management. Ladies and gentleman on behalf of Coforge Limited that concludes today's conference. Thank you for joining us.