



TRANSCRIPT: Coforge Limited Q2 FY2022 Results Conference Call  
**12pm IST, 25 October 2021**

FROM COFORGE:

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY'22 Earnings Conference Call of Coforge Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhinandan Singh -- Head, Investor Relations and M&A at Coforge Limited. Thank you and over to you, Mr. Singh.

**Abhinandan Singh:** Welcome everyone to our Q2 FY'22 Earnings Call. I have along with me, our CEO Mr. Sudhir Singh and our CFO Mr. Ajay Kalra.

As usual, we'll begin with some opening remarks from our CEO, and post that we will open up the floor for your questions. You would already have received the results that we announced earlier today. For those who haven't for any reason, you can always go to our website, [www.coforge.com/investors](http://www.coforge.com/investors) and you can get all the documents from there. And with that, I would now like to hand over the floor to Sudhir, our CEO.

**Sudhir Singh:** Thanks very much, Abhi, and a very good morning and a very good evening to you across the world, folks. Thank you very much for taking the time and for joining us for this conversation today.

As we emerge from the shadows of the pandemic, I hope your family, your loved ones, your team members, and you yourselves are safe and healthy. One of the focus areas and the non-financial highlights of the last three months at Coforge has been the multiple vaccination campaigns we ran across our centres to ensure that all our employees and their families had an opportunity to get vaccinated. More broadly, and in that same context, it has been very reassuring to see the accelerated pace at which vaccination campaigns have progressed in parts of the world where our employee teams reside.

With that, let me share some perspectives on our quarterly performance and the outlook going forward. Before delving into the details of our results I would like to note that the firm has reported sustained momentum in its financial and operating performance during Q2FY'22, with robust revenue growth, strong EBITDA margin expansion, continued hiring, and yet another quarter of multiple, and indeed \$ 50 Mn+ TCV, large deal wins.

### **Quarterly performance – Revenue**

We are pleased to report robust growth during the quarter, with revenue growing by 7.5% QoQ in constant currency terms, 6.5% QoQ in dollar terms, and 7.4% QoQ in INR-terms.

Revenue, excluding SLK Global, grew 3.9% sequentially in cc terms. This came on the back of strong growth registered in the two preceding quarters where the corresponding numbers were 7.6% and 7.1%.

At the end of the first half of the current financial year (H1FY22), revenues have grown by 39.9% in H1 FY'22 over H1FY21 in dollar terms.

Excluding SLK, at the end of the first half of the current financial year (H1FY22), revenues have grown by 27.4% in H1 'FY 22 over H1FY21 in dollar terms.

Overall, revenue for the firm for Q2 stood at US \$ 212.8 Mn. and INR 15,695 Mn.

I shall now detail the vertical wise growth for the quarter under review. Excl SLK, In Q2 our BFS vertical sequentially grew 10.8%, the Travel vertical grew 5.9%, the Insurance vertical remained flat during the quarter and the Others segment grew 3.0%. The contribution of verticals to the total revenue mix is as follows: BFS – 24.1%, Insurance – 29.2%, TTH – 18.6%, Others – 28.1%. The Others segment includes the three new verticals which were carved out 18 months back.

Our Top 5 clients, grew 5.1% QoQ and contributed 22.5% to our total revenue. Our top 10 clients grew 2.4% QoQ and contributed 33% of the total revenue.

Onshore revenues excluding SLK , represented 56% of total revenues in Q2FY22, compared to 60% in the preceding quarter. You will recall four quarters back in Q2FY21, our onshore revenue was 64%. It is now 56% which is the lowest ever in the history of the firm. The continued expansion of our offshore revenue contribution is a derivative of the large managed services contracts that the firm has signed over the last four quarters where the staffing has a strong offshore bias. The continuing trend of a rise in offshore revenues over the past four quarters has also been one of the key levers for our margin expansion story that I shall come to now..

## **Quarterly Performance – Margins and Operating Profits**

Moving on to the margins and operating profits for Quarter 2.

Despite operating in an industry context where salary and retention costs have risen significantly, margins saw a very robust expansion during the quarter. Adjusted EBITDA margin for the quarter was 18.7% in cc terms. This is a sequential increase of 260 bps from the EBITDA margin recorded in Q1. Adjusted EBITDA excludes ESOP costs and SLK Global acquisition related expenses.

In absolute terms, adjusted EBITDA reported for the quarter is INR 2,922 Mn in rupee terms and \$39.6 Mn in dollar terms. In absolute \$ terms EBITDA has increased by 22.9% over the previous quarter.

You may recall that at the last quarterly call, we had shared plans that we would expand EBITDA by around 200 bps in Q2. We have exceeded those plans. The EBITDA expansion has been driven by multiple initiatives that have been executed well in a supply constrained and cost escalatory environment.

The sharp rise in EBITDA came on the back of higher offshore revenues as large deals signed in earlier quarters have started ramping up. It has also come on the back of improved utilization. Another important lever has been the flattening of the delivery pyramid with higher number of new college graduates joining the operating factory. Illustratively, this year we expect to add six times the number of fresh college graduates that we did only two years back.

The mix of increased offshoring levels, sharp acceleration in delivery pyramid flattening, operating leverage from growth and continued growth of and discount reversals in our travel business have set the ramp for a sustained improvement in EBITDA margins sequentially for the remaining quarters of FY'22.

Our adjusted PAT for the quarter stood at INR 1,751 million, an increase of 12.4% QoQ and an increase of 31.7% in H1 FY'22 over H1'FY21. Adjusted PAT excludes ESOP costs, SLK Global acquisition related expenses and amortization of intangibles created on account of acquisitions.

### **Order intake**

The quarter proved to be a very productive one for large deals. Last quarter we had shared details of the \$ 105 Mn TCV win with a large bank where we have been assigned the mandate to drive their digital transformation over 4 years and 8 months. Following that milestone win, this quarter we have closed two \$ 50 Mn+ TCV contracts. Overall, three large deals were signed during Q2'FY 22 with two of them being greater than \$ 50 Mn.

Our order intake continued to be exceptionally strong. In FY'21 our order intake across the four quarters had varied between the \$ 180-220 Mn band. Last quarter, excluding SLK Global, it had hit \$ 318 Mn on the back of the \$ 100 Mn+ win. In Q2 our order intake, excluding SLK Global contribution, has come in at \$285 Mn. Out of this US\$ 285 million order intake, the U.S. contributed \$123 million, EMEA was at \$ 114 million and \$ 48 million was secured from the rest of the world.

As a result, booked orders for the next twelve months, excluding the SLK Global business, now stands at \$603 Mn. Including SLK Global, the order executable for the firm stands at \$ 688 Mn. This metric is up 40.6% YoY.

11 new logos were signed during the quarter.

The two \$50 Mn+ large deals signed, were both significant. In the first case the deal was centered around our Digital process Automation capabilities and is the largest Digital Process automation win in the history of the firm. The other win warranted taking over majority IT spend of one of our Top 10 corporate clients.

### **Delivery Operations and Capability Build**

I would like to now cover some of our delivery and capability achievements over the past quarter.

Our strategy of “Transform at the Intersect” of differentiated domain and deep emerging technologies expertise to create real world impact continues to drive our differentiation. That differentiation in turn has led to the robust and sustained growth that the firm has seen. Excluding SLK revenues, our digital and Cloud-infra services revenue are now touching 72% of our aggregate revenues. We continue to focus our investments on our product engineering, cloud, data, intelligent automation and digital integration service lines.

Our Technology Consulting team has seen a meaningful addition through the year and our large wins are increasingly getting powered by the beachheads which are established by our industry consulting and our technology consulting practices.

The quarter saw us make material progress on the build of an AI and ML powered Compliance Automation Solution for a leading Investment Management firm in the US. For the same bank we are also building an integration framework to support their Mergers and Acquisitions processes.

The quarter also saw us win and start execution of two separate data transformation contracts with a mandate to modernize data structures and to implement advanced analytics and AI capability at scale. Within this field we also engaged with a \$ 4 Bln enterprise client to build an AI-based solution for large scale document processing.

The Exact Max module of our Insuretech AdvantageGo platform, which offers a best-in-class solution for Insurance risk management, was well received in its maiden foray into the Africa region which falls within our EMEA unit. The quarter also saw us upgrade our Insurance Underwriting Product within the AdvantageGo suite, with the Integration of AI and ML based data insights in Underwriting.

For an Australian public sector organization our Pega Factory has generated 65 innovation ideas during the course of a program that concluded in Q2, leading to a revenue jump of 400% and an NPS Jump of 2 levels.

On the delivery maturity recognition front , Coforge was assessed as being a “Leader” in UK and US in ISG’s Next-Gen Application Development & Maintenance Services and also in Continuous Testing. Coforge was also placed in the “Leadership Zone” by Zinnov Zones for Hyper Intelligent Automation. HIA measures capabilities and offerings along with ecosystem leverage, depth of talent, market visibility and breadth of services across verticals. Finally,

NelsonHall Low Code Application Services Report, confirmed Coforge as a Leader in the Low Code Application Services space.

The SLK Global Integration that was announced in April, 2022 has proceeded extremely well. Over the last six months almost all integration activities have been created and looking at the performance metrics of the now fully integrated firm we believe that SLK Global will not just meet the business plan we had created for the entity pre-acquisition but shall actually exceed those metrics. In the Board meeting earlier today the Board has approved the renaming of SLK Global to Coforge Business Process Solutions. This shall be a new service line arm of the organization and shall cross leverage the significant strengths of Intelligent Automation service line.

### **People**

During the quarter under review, our global billable headcount excluding SLK Global, went up by 6.5% and we added a net number of 863 people. This increase comes on top of an increase of 1,138 people during Q1FY22 and an increase of 967 people during Q4FY21). In H1, excluding SLK, our direct billable headcount has already grown 17.4%. In the last three quarters the firm has increased its production headcount by 26%.

On a reported basis, after adding in the employees of SLK Global who now form part of the Coforge family, our total headcount stands at 20,786.

Utilization improved to 78.5% during Q2 from 77% during Q1, as the number of employees involved in transition efforts for the large deals signed over the past three quarters moved over to active production tasks. Our utilization number is derived by also baking in the number of trainees within the organization and our efforts to hire six times the number of fresh graduates compared to just two years continued through the quarter.

I am happy to note that attrition continues to be at a healthy level and despite tough market conditions at 15.3%.

### **Balance Sheet**

Cash bank balances at the end of Q2FY22 stood at US\$ 40.3 million, after payouts towards an interim dividend declared in July. Capex spend during the quarter was \$ 5.6 million. The debtors at the end of the quarter have improved to 66 days of sales outstanding in the quarter under review from 71 days in the sequentially preceding quarter. OCF for Q2FY'22 stands at \$ 22.8 million.

### **Summing Up and Outlook**

Four years back we called out our intent as a firm to pursue robust, sustained and profitable growth.

Our operating and financial performance during recent years and quarters has been characterized by our ability to pursue and sign large deals, retain and grow existing accounts, gain wallet share in even otherwise relatively challenged industry verticals, and develop highly differentiated emerging technology capabilities. We have also been able to attract talent at scale, integrate acquired businesses effectively, and keep attrition noticeably lower than industry average.

This year not only are we pursuing very aggressive growth, with revenues at the end of H1 growing by almost 40% over the same period last year, but we have also challenged ourselves to improve our EBITDA margin at the same time.

As you would recall, at the start of this financial year we had indicated that we were planning for at least 17% organic growth in constant currency terms during FY22. We then revised it upwards after our Q1 results to at least 19% organic constant currency growth based on the business momentum we were witnessing. In view of sustained deal wins and the steep demand gradient we see ahead of us we are now planning to deliver at least 22% organic cc growth for the year.

As a consequence we will as a firm grow at least 35% in constant currency terms in FY22.

In the last financial year (FY21) we delivered Adj. EBITDA of 18%. This year we continue to target an adj. EBITDA of 19%.adjusted

Aggressive growth plans allied with our intent to improve EBITDA margins simultaneously will ensure that our adjusted EBITDA \$ growth will exceed our revenue growth. Our EBITDA \$ growth shall consequently be more than 40% in FY'22 over FY'21.

To sum up, FY 22 promises to be a landmark year in the forty-year history of our firm. With a cc growth of at least 35% over the previous year and a targeted adjusted EBITDA growth of at least 40% we now feel confident that we shall be a Billion \$+ firm next year with a best-in-class EBITDA profile for a firm that size. With that I come to the end of my opening remarks, and I look forward to hearing your comments and addressing your questions.

**Moderator:**

Ladies and gentlemen, we will now begin the question-answer session. First question is from the line of Vimal Gohil from Union AMC. Please go ahead.

**Vimal Gohil:**

Sir, the first question is, if I could have your outlook on the insurance vertical, and the EMEA geography. Insurance vertical was flat this quarter, I understand, last quarter was slightly strong, but this is a vertical which has sort of remained quite volatile if you see across FY'21 on a quarterly basis. So how should we look at the progress over here? And this particular quarter, EMEA has declined by about 3%. Is there anything that we should be careful about because normalizing growth over here, your organic revenue growth could have been much higher because if you look at your similar size peers, they have grown to the tune of almost double digit on a quarterly basis, so just wanted your perspective on that? And the second question is,

basically, it's a bookkeeping question. If you can just highlight the quantum of expenses that were related to the SLK acquisition in Q2, and the previous quarter Q1?

**Sudhir Singh:**

I'm going to answer the first question. Our CFO, Mr. Kalra is going to address the second question. Starting off with the outlook, the sequential growth that you've seen comes on the back of 7.6% and 7.1% sequential growth excluding SLK in the previous two quarters. That is why, excluding SLK, we are at about 27.5% cc growth at the end of first half. Insurance and EMEA, we expect them to rebound and rebound very smartly and positively, in the second half. The numbers have been depressed largely on account of licenses from AdvantageGo that were not realized in Q2. That revenue should come in in Q3 and that revenue is normally assigned to both insurance and to EMEA, License revenue comeback will not only reflect a revenue bounce back for us, but will also reflect a smart margin bounce back for us. We continue to see Insurance and EMEA as growth accelerators and drivers for the firm.

**Ajay Kalra:**

In Q1, the transaction related expenses included the bankers, the lawyers' fees as well as management incentive plan given to the SLK leadership before the transaction was concluded. 50% was paid prior to the conclusion of the deal which was not impacting the P&L. However, 50% will be paid at the end of year one, and that's impacting our P&L. This whole MIP plan was adjusted against the selling price and the cash was taken from the promoters. In Q2, the amortized amount of that MIP plan is coming at Rs.51 million.

**Vimal Gohil:**

Last quarter, you had indicated that there were some licenses that you could not recognize. Are we talking about the same licenses from AdvantageGo or can you sort of help us reconcile that?

**Sudhir Singh:**

Those license revenues did come in, Vimal, but the licenses which would have come in ordinary course in Q2 have got deferred to Q3, which is where we expect that revenue now to get clubbed into the anticipated Q3 revenue,. And that revenue and the margin component to flow through in Q3 now.

**Vimal Gohil:**

So basically, in Q3 your license revenues, if there are no further difference, your license revenue in Q3 should be expected to restore, will that be correct?

**Sudhir Singh:**

That is absolutely correct. And that is why we very confidently called out that not only have we improved our margins by 260 bps in Q2 sequentially, again, we expect to see a significant increase in Q3 over Q2.

**Moderator:**

The next question is from the line of Ashwin Mehta from Ambit Capital, please go ahead.

**Ashwin Mehta:**

On SLK Global, when we'd done that acquisition, what we indicated was that it will be growth-accretive. But if I look at your guidance that seems to suggest only 12% growth in SLK Global in FY'22, and also the billable headcount seems to have fallen by around 8%. So if you can just give us some color in terms of how's the demand shaping up there? And secondly, if you can disclose what is the NITL and WHISHWORKS revenue and margins in this quarter?



**Sudhir Singh:** SLK acquisition is not just meeting the expectations we had from it, Ashwin. It's actually significantly exceeding it. We expect SLK to grow at least 22% in organic CC terms in FY'22 over FY'21. The guidance that we've given, which is the overall guidance for the firm, at about 35% growth is the minimum guidance. From SLK we expect growth of at least 22% in organic CC terms. Excluding SLK also we expect the firm to grow at least 22% in organic CC terms.

**Ashwin Mehta:** Just one clarification. So we talked about \$73 million of revenues in SLK in FY'21. So is that the fair number because if I do the calculation it works out to more like \$82 million in SLK in FY'22 which is a 12%-odd growth?

**Sudhir Singh:** We are only going to recognize 11 months of revenue from SLK this year, right, because our acquisition closed at the end of April. I think that accounts for the discrepancy you're talking about. But as I said we expect SLK to grow at least 22% organic CC. We expect the business excluding SLK also to grow at least 22% organic CC and next quarter when we come back to you we will once again reassess the business environment and revise the guidance as appropriate. On the WHISHWORKS piece, since we've completely rolled that within the organization, we are not going to be calling out the numbers separately. On the AdvantageGo business the revenue for the quarter was INR646 million and the EBITDA was 15%.

**Ashwin Mehta:** So we will see an increase in next quarter as the license revenues also come through and that helps the margins as well?

**Sudhir Singh:** The increased offshoring helps the margin, the fact that deals are larger and we are setting up factories at scale and the pyramid is getting corrected, that also helps the margin. So license revenue you're absolutely right is a potential positive margin lever. It is one of the three big levers for continued margin expansion in the coming quarters.

**Moderator:** The next question is from the line of the Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta:** Couple of questions. Continuing with the last question, so for the residual 18.6% is visa, can you help us how much we have made the payment? Second question is if I look India business remain drag on margin. If one exclude India business our margin would have expanded by 120 bps. If you can provide how you look this India business and your guidance whether you expect an improvement in the India business in H2? Another question is about minority interest. This quarter it has increased sharply. Even if one adjust for incremental contribution for about a month from SLK, it seems to be on higher side, so if you can provide some detail on it. And last question is slightly medium term. If I look our top client revenue contribution, it hovers between 55 to 60 million annually for last four years. Once let's say we are aiming 1 billion revenue next year, do you think top clients 60 million suffice for our growth inspiration from medium term perspective because 60 million seems to be lower, if I look any other similar sized companies garnering revenue from their top clients. So if you can provide some perspective, whether it is the client part of our top buckets having limited spending ability, or is it more with our overall service offering?

**Sudhir Singh:** Dipesh, there were four questions that you asked. Let me take two of them and then I'll request Ajay to take the other two. Let me take the question around top clients and India and then Ajay will take the other two out of those four. One of the biggest turnarounds in the profile of the firm over the last four years, Dipesh, has been the change in the client portfolio of the organization. Four years back, we would have struggled to name more than single digit Forbes Global 1000 clients. Today, as I speak to you, we have 61. The fact that we are now addressing wallet sizes that are very, very materially different from what we were addressing four years back, gives us great confidence, that our top five client relationships can all over time, and should over time scale up to being \$50 million plus from the configuration where we are. When I look at some of the names that we are working with, where we are not just working with them, but we are on the preferred service list of those banks, of those insurance carriers, each one of them, and there are multiple, offers us an opportunity if we execute well to make that a \$50 million, \$100 million and over time, hopefully a \$200 million relationship. So that's how we see our top clients. One of the biggest, and maybe we haven't talked about it, but one of the biggest changes that has happened in the client portfolio mix of Coforge over the last four years, is the number of Forbes Global 1000 clients, where we are preferred partner. As we look at the future to the quarters to come and the years to come, and we look at our confidence around making sure that we sustain and accelerate the growth ramp, a lot of it stems from that factor. The second question around the India business. You're absolutely right, it is not a focus business for us, we continue to focus on North America and Europe. The India business is a legacy business from our point of view. We are working very hard to make sure that the margin in that business improves. If it does, and we hope it will, that will be an additional lever in addition to the three levers that I called out as margin expansion levers for the organization. Mr. Kalra will now take the other two questions.

**Ajay Kalra:** On the WHISHWORKS acquisition, we paid Rs.66 crores in first week of October to acquire the balance 18.6%, that's the first answer. The second answer on your minority interest, yes, you're right it is higher even if we adjust the one month additional for SLK Global is because of higher profitability in SLK Global as well. The margin expansion not just happened in our Coforge, it happened in SLK Global as well and that is also flowing down into the SLK Global profits and hence minority interest.

**Dipesh Mehta:** The current run rate is more sustainable and reflective of SLK profitability?

**Ajay Kalra:** That is correct.

**Moderator:** The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

**Mayur Patel:** You mentioned some license related revenues we didn't get booked in this quarter, can slip over to the December quarter, Is it possible to quantify how much was that?

**Sudhir Singh:** We don't call out specific revenue streams that slip over. The only data that we can provide is had AdvantageGo been even at the same levels at which it was the previous quarter, the firm's EBITDA would have gone up another 50 bps. We've already gone up 260 bps in Q2 over Q1,

that number would have been 310 bps had AdvantageGo come in at the same level as the previous quarter, We expect AdvantageGo to bounce back given how differentiated that platform is in some of the newer deals that are getting signed as we speak.

**Mayur Patel:**

Sure, because like the performance has been exceptionally well in terms of order booking, margins, everything was outstanding, except for the organic growth, which could have been slightly more better when we compare it with peers of your size in that high growth Indian IT services segment. So that was the only thing I was trying to understand if there is anything which has been slipped to the December quarter from the revenue booking?

**Sudhir Singh:**

This quarter has come after two sequential quarters of 7.6% and 7.1% growth. At the end of the first half, excluding SLK Global, the firm is growing about 27.5% over the first half of last year. It has always been our absolute intent to be one of the fastest growing players. Given the velocity of large deals, given the size of large deals, we think we should be able to deliver on both very aggressive growth and margin expansion at the same time, which as you can relate to is a difficult task. But we feel confident we will deliver upon it.

**Moderator:**

Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

**Manik Taneja:**

We understand that the license revenues were little muted this quarter, similar to what one saw in 1Q, but we still improve our margins by about 250 bps sequentially. If you could talk about the puts and takes on the margins this quarter, help us understand the walk there as well as from a AdvantageGo standpoint, if I think about it, now you're talking about, you continue to retain that 19% adjusted margin outlook for the full year, which would essentially mean that for the second half year, essentially suggesting between 20.5% and 21% adjusted EBITDA margin, once again, if you could help us understand the different levers apart from the increase in license revenues that we'll see coming through in the second a half?

**Sudhir Singh:**

There are three key levers specific to our business that I want to call out. The first two stem from the large deal flow. You're aware of the fact that our firm used to close \$20 million plus TCV large deal traditionally. Last quarter we closed a \$100 million plus, this quarter we closed two \$50 million plus, three quarters back we almost closed a \$50 million deal, right. Normally one would associate those deals with a revenue increase story alone. In our case, they have also become strong structural levers for margin expansion. One because offshoring percentage structurally has gone up very significantly. It has gone up by 8% in the last four quarters alone and that is likely to sustain at current levels because offshore teams are ramping up as we speak. The second big lever outside the offshoring revenue percentage going up is the pyramid flattening on the operations side. As I said, the number of college freshers that we are hiring this year is six times the number we took on even as recently as just two years back. We are able to take them on, we are able to deploy them, we are able to get that margin advantage only because the size of the offshore factories that we are setting up to service these large deals have become materially bigger. And the third, of course, is the point that you talked, Manik, which is the point

around license revenues that are anticipated, that have been delayed and have been depressed in H1. They should come back in Q3 itself. Those are three big levers. The fourth lever of course, as you can imagine, is the operating leverage that is coming in from broad based growth including from the Travel vertical right now.

**Manik Taneja:** Just like last quarter you had spoken about at least 250 bps margin improvement sequentially should we essentially expect something similar or a much higher number from a margin expansion in Q3?

**Sudhir Singh:** I think we are looking at about 100 odd bps over where we have already landed around 100. Of course, our intent will be to try to exceed that number as much as we can. This is Quarter 3 and you know it is a shorter quarter which involves furloughs. Despite that we still think around or at least 100 bps sequential is what we continue to target in the shortest quarter of the year.

**Manik Taneja:** And then further margin expansion in Q4 over Q3?

**Sudhir Singh:** That is the intent.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah:** So, we are just curious to know that we have a great orderbook in Q1 again the order book has been strong in Q2 and that too excluding SLK, so is it fair to say the ramp-up in the Q2 may be coming largely in Q3 and Q4 where your expectation of growth could be better in Q3 and Q4, so directionally am I right to assume that?

**Sudhir Singh:** See Sandeep we are already growing at the end of H1 roughly 27.5% over H1 of last year. It is pretty robust growth that we are already sitting at. We believe H2 will be a robust growth half for us and we do of course as you can imagine anticipate material sequential growth in the quarters to come.. That is how I would characterize it. At the end of the first half, we have already locked in 27.5% organic CC growth. We expect robust growth in H2 as well and that is our intent going forward.

**Sandeep Shah:** So, directionally Q-on-Q growth could be better than the organic growth which we locked in this quarter looking at the rampup of the deals which may come and second from SLK if I annualize the quarterly run rate of Q1 versus Q2 it is almost similar at \$21, \$22 million on a Q-on-Q, so just wanted to understand is it the right number and why there is a flattish trend in SLK in this quarter?

**Sudhir Singh:** We have only offered minimum threshold growth rates Sandeep. We have not offered a growth range. Our intent is to meet and then try to exceed those growth thresholds for now. As I said at the onset SLK is going to grow extremely handsomely at more than 22% organic CC for the year. So, we feel very good about where they are, we feel very good about the gradient and the demand that we see ahead of us. As far as sequential growth is concerned we do not really call

out sequential growth and it is very difficult to start contrasting that vis-à-vis what we have done in H1. H1 has been a very strong quarter. The intent is to maintain and hopefully and go beyond if we can.

**Sandeep Shah:** And just last question about industry rather than Coforge, do you believe FY22 had a benefit of pent-up demand, while entering into CY22 there could be some cool off on the pent up demand despite the demand continue to remain robust and it could be better than pre COVID levels?

**Sudhir Singh:** So, the demand that we see right now Sandeep is both broad based and buoyant. We have not seen early signs of the demand tapering off. .But more than broad based demand for a firm our size what is more important. and what has driven our growth. has been the differentiation that has come on the back of our product engineering, our cloud, our data, our integration and automation capabilities. We continue to invest and you would have seen those investments both at the front end and in the backend on those capabilities. So, we are not counting on industry demand as a lever. We think our differentiation has always been the lever and the intent at least our intent is to make sure that our growth sustains at the highest possible level on a go forward basis as well.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal:** We just wanted to pick your brains on the travel verticals which has been our main stream for a long period of time, so just wanted to check how is the demand environment looking in that vertical? We have seen in the world opening up with airlines and a leisure travel companies are reporting very good set of numbers and outlook as well for them. So, how do we see that vertical panning out and when do we see let us say some of the clients which we had pre pandemic I am sure we still have them the spent of those lines is coming back to those pre pandemic level and a related question is that is there some sort of benefit from the channel vertical that we are expecting in terms of margins in the next couple of quarter especially in terms of reversal of some prices that we might have given to the last year and reversal of that is also kind of a boosted the margins in the coming two quarters of this financial year?

**Sudhir Singh:** As far as travel is concerned Vibhor this year itself by the time the year ends we should be back to the revenues that we got from the travel vertical in FY20. To a large extent the loss will more or less have been recouped. That is point one. Point two, which is important, is that we do not believe that the travel client portfolio that we have in Europe would have recovered fully by the end of this year. We expect their recovery to be complete next year. A lot of the tailwind, despite the rapid rise you have seen in the travel vertical, is also going to come in next year revenue results that we see on a go forward basis. We have grown rapidly . 5.8% sequentially this quarter and we grew 15.8% sequentially last quarter which is what has brought ups back to where we were pre pandemic, but we think there is pent up demand especially around a Europe travel clients which will possibly start playing out from Quarter 4 onwards and most of it will play out next year. As far as margins are concerned most of the discount reversals are complete. The

expansion in margins because of travel will largely come from the operating leverage from growth.

**Vibhor Singhal:** Just one last book keeping question to avoid any confusion I think we had around the growth rate in SLK what was the final revenue number for SLK in FY21?

**Sudhir Singh:** In FY21 it was 73 million \$US this year we will only recognize revenue against 11 months of SLK operations because we acquired the entity at the end of April.

**Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

**Abhishek Shindadkar:** First is the clarification about the growth in top 5 and top 10 is this because of the travel vertical and I am asking in the context because we already have added a large banking relation and despite the fact that during the quarterly growth rates seem soft, so I just wanted to have a clarification on that?

**Sudhir Singh:** Top 5, top 10 as I reflect upon your question is not necessarily only because of travel vertical. It is broad based growth Abhishek. It is not being driven by any one vertical of the client mix right now. It is almost evenly spread across BSF, Insurance and Travel and it is coming from all the three verticals.

**Abhishek Shindadkar:** Sir my question was the top 5, top 6, top 10 growth appears soft related to company average, so just wanted to understand what is happening there?

**Sudhir Singh:** The top 5 have grown about (+5%) excluding SLK, the firm in CC terms has grown 3.9%. So, the top 5 have actually grown faster.

**Abhishek Shindadkar:** I am asking the context that we may have added a banking relationship here?

**Sudhir Singh:** That banking relationship Abhishek is still ramping up and is not included in the numbers I referenced. Give us a quarter or two and it will be one of the largest that we have, but that relationship has still not got into the top 5. The growth that you are seeing is minus that banking relationship.

**Abhishek Shindadkar:** The second thing I wanted to understand is in the balance sheet under current assets we have an item called as contract assets which has doubled from March, can you help us understand what exactly is this and the third question is regarding the freshers addition now it seems that and this is more industry question that midcaps have been calling out they have been able to attract talent or hiring couple of multiple times what we have been doing in the past, so just wanted to understand that in this current cycle have mid-sized firms been able to attract talent because that was probably a challenge few years back, so if you can help us understand what in terms of positioning and what is attracting the pressure to this midsize firms this time could help us understand better the dynamics?

**Sudhir Singh:**

Let me take the fresher question first and our CFO will take the contract asset questions subsequently. For us Abhishek the brand has always been salient in the Indian market and we never had an issue when it comes to attracting employees to our brand. If you look at us in the last three quarters itself the global production headcount has gone up by about 27%. Clearly retention has never been a problem. Our attrition rates has always been one of the lowest and attracting talent has never been a problem for us. Fresh addition as I said this year is likely to be 6 times the number that we onboarded only two years back. The revenue assurance function that we created about 18 months back, the academy model construct that we created prior to that function creation, the fact that we started off as an IT training organization and our IT infrastructure we believe both in terms of scale and detail is one of the finest across the industry has helped us achieve what we have and we think we can continue to achieve that going forward. In any event issue was never about how many freshers can be hired and how many we can train. That was never a constraint. What was a constraint was how do you get large enough deals with very large off shore components where you could create large factories and staff them with fresh college graduates. That was the constraint. The constraint was how do you sign \$100 million plus TCV deals, how do you sign \$50 million plus TCV deals and staffing those deals is very different from staffing a 20 million or a \$10 million deal. That constraint has gone away because of the sales engine that has been put in place, because of the differentiated capabilities that have been put in place and hence we are able to take 6X the number of fresh college graduates than we could just two years back. That is an answer to the fresh college graduate addition, I am going to request Mr. Kalra to talk about the contract asset's question.

**Ajay Kalra:**

This increase is because of certain billings that got delayed due to the delay in the customer sign off and had these billings happened during the September month our DSOs would have been around 70 days instead of the 66 days. As of today the 100% of these billings has happened and today there is no unbilled around that. So, that is what drove the increase in these contract assets increase.

**Moderator:**

Thank you. The next question is from the line of Vikas Ahuja from Antique Stockbroking. Please go ahead.

**Vikas Ahuja:**

Just one question Sudhir you talked about pyramid optimization as one of the levers for margins as we are obviously replacing maybe three to six year bracket with hiring fresher, but what is the risk to execution which we are building in maybe in next few quarters and do you also see maybe this attrition going up to maybe people who are into delivery and all maybe to the higher level as well going forward?

**Sudhir Singh:**

Vikas quite clearly we are never going to do anything that is going to compromise delivery quality. We never have, we never will. In the last five years there has not been a single client relationship where a client walked away from us because we could not deliver or did not deliver to their expectations. So, there is going to be zero impact on account of this. We will never prioritize margins or cost over growth or client satisfaction. That is the one principle we live by and we stand by every day. As I said large deals are not only a means of driving accelerated

growth. They can be, if they are done at scale, a fantastic lever for structurally expanding margins. That is what we have used. Those deals have not just set us up for growth in the quarters to come, they have also allowed us to create a fresh college graduate infused factory. To create an offshore factory at a scale that this firm has never seen in its 40 year history. As far as attrition is concerned we pride ourselves in the fact that our employee engagement have been exceptionally high. You would have noted we are a great place to work certified IT services firm. Not only that we are a great place to work certified top 100 firm for women across industries in India. So, our attrition levels being where they are right now at this point in time we are not worried about attrition upward at leadership levels.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain:** Just wanted a feedback on the BFS verticals because our organic growth for last four, five quarters seems to be quite muted in the space, so anything you want to share on the organic part and how you see the integrated part of the business to drive growth from a next one-year, two-year perspective?

**Sudhir Singh:** Organic growth this quarter has been about 14% sequentially Rahul as you would have noted in the BFS vertical. The largest \$100 million plus deal that we announced last quarter came from this particular vertical. When I talk about the fact that we have 61 Forbes global 1000 clients where are now the first partners, the biggest incremental change across our core verticals has been in BFS. We do not believe that (+14%) sequential growth this quarter is a flash in the pan. We expect sustained and very high-quality growth numbers on an ongoing basis from BFS vertical going forward.

**Rahul Jain:** And any specific area you want to highlight where you think lines are spending more?

**Sudhir Singh:** Are you talking about BFS as a vertical or you are talking more generally?

**Rahul Jain:** BFS in particular?

**Sudhir Singh:** In BFS particular, we started off on the buy side capital markets. In the buy side capital market space innovation dollars, compliance dollars continue to get ploughed in especially with the FinTech ecosystem evolving. Of late, beyond the buy side capital market over the last two years we have become preferred service partners across commercial and retail banks. Within commercial and retail banks, the play that we have seen work out very strongly has been the digital transformation being attempted. The \$105 million TCV only 4-year 8 month contract that we announced last quarter was fundamentally centered around digital transformation of one of the largest banks in the world. The digital transformation seems to be the big theme out there allied with data consulting, data management and data transformation driven transformation.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.



**Dipesh Mehta:** Just one question about the pyramid Sudhir can you some numbers because you said some number because 6x compared to 2 year, absolute number make some relevance because 6x does not have relevance if it is on very small scale or hardly make any delta from percentage perspective, s if you can provide some 0 to 3 years' experience bucket let us say two years back versus or any number which can help us understand how pyramid is threatening out?

**Sudhir Singh:** Dipesh we do not call out tenure-based employee numbers at all. Our fresher numbers for the current year, and you know our scale on the technology side, we started this year at about 11,500 people at the beginning of the year. Fresher should be more than 10% of the number that we started off with.

**Dipesh Mehta:** You are indicating roughly 10 percentage of net hiring is fresher this year that is right understanding?

**Sudhir Singh:** Let me make this simpler. We expect to hire about 1,500 odd fresher this year.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today I would now like to hand the conference over to Mr. Sudhir Singh – CEO, Coforge Limited for closing comments. Over to you, sir.

**Sudhir Singh:** Thank you very much for your time and for your interest ladies and gentlemen. I know it is the middle of the day in some geographies and you have all taken time out from your busy schedules to attend this. We were very happy to share the deal velocity, what it is doing to the revenue gradient coming forward, what it has done structurally to the margin expectation on a go forward basis and we look forward to engaging with you, to hearing your comments and to answering your questions three months from now. Please stay safe and we wish you the absolute best. Thank you.

**Moderator:** Thank you. On behalf of Coforge Limited that concludes this conference. Thank you all for joining you may now disconnect your lines.