“Coforge Limited Q1 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
Mr. Vikas Jadhav – VP, Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Coforge Limited Q1 FY2025 earnings conference call. Please note, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Please note, this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav, Vice President, Investor Relations at Coforge Limited. Thank you and over to you, sir.

Vikas Jadhav: Thanks, Inba. Good morning to everyone, you would have received our Q1 FY2025 result. There also available on the investor section of our website, so we have with us today our CEO – Mr. Sudhir Singh; our Chief Customer Success Officer – Mr. John Speight, and our CFO – Mr. Saurabh Goel. 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 discussions relating to the future should be construed as forward-looking statements and may involve risk and uncertainties. Please refer to the disclaimer to this effect in our Q1 FY2025 earnings press release. With that, I would like to hand over the call to our CEO – Mr. Sudhir Singh. Over to you, Sudhir.

Sudhir Singh: Thank you Vikas and a very good morning and good evening to all of you across the world, ladies, gentlemen. Thank you for joining us Thank you for joining us today as we share our Q1 fiscal year 2025 performance and the business outlook.

Q1 has been a very eventful quarter for the firm. I am pleased to report that we have begun the fiscal year on a positive note, setting in place a very firm foundation for robust growth in the remaining quarters of the year. A 3.7% sequential CC growth excluding India with a concurrent expansion in EBITDA by 210 bps Y-o-Y in the same quarter, a record headcount quarterly increases of 1,886, a very significantly improved operating cash flow of $23.2 million for Q1 and an ever strengthening order executable, next 12 month booked orders, which now is 19.3% higher Y-o-Y gives us confidence that the quarters to come shall see robust and profitable growth.

Regarding the acquisition of Cigniti Technologies, I am very pleased to report that we have already secured a 28% stake and we shall secure 51 to 54%

ownership of Cigniti during Q2 itself. On the 5th of July, we have assumed Board and thereby operational control of Cigniti Technologies. Q2 results of Cigniti shall be delivered under the watch of the reconstituted team that is now running that business as we speak. Cigniti incidentally announced their Q1 results yesterday where they declared a 2.4% sequential US dollar growth, a 16.7% sequential increase in their EBITDA and a 10% sequential increase in their PAT. We expect that the Cigniti business shall show even greater momentum going forward and we believe that a reflection of that performance will be their likely performance in Q2 where not only revenue, but also margin expansion is expected to be very significant. With a cash of $50 million in their balance sheet, the Cigniti business is healthy and poised for significant growth in the quarters and years to come.

On a different note, we are now increasingly partnering with our clients to implement real-life AI programs, going beyond just proofs-of-concept. For example, for an investment management firm, we are leveraging GenAI to automate generation of hedge fund reporting, reducing the time required from weeks to hours. During the quarter we also made available on the Microsoft Marketplace our Copilot Offering to optimize the insurance underwriting processes.

Finally, before I get into granular details, I would like to call out that starting this quarter we have started reporting Government (ex. India) as a new vertical and have also started including OCF in the fact sheet.

With that preamble, I shall now talk you through the quarterly performance and our assessment of the outlook.

QUARTERLY PERFORMANCE – REVENUE ANALYSIS

Starting off with the revenue analysis, I am pleased to report that during Q1 fiscal year 2025, the firm registered a sequential revenue growth of 1.6% in CC terms, 1.6% in US dollar terms, and 1.8% in Indian rupee terms respectively.

It is important to note that Coforge's global revenues from all markets outside India grew 3.7% in CC terms during the quarter. India, in Q1 declined 30% Q-o-Q and contributed only 3.8% to our overall global revenue.

During the quarter in reported terms, our banking financial services vertical grew 10.4% Y-o-Y and contributed 31.8% to the revenue mix. The insurance vertical registered a 2.5% Y-o-Y growth, contributed 21.4% to the revenue mix. The travel vertical grew 5.4% Y-o-Y and contributed 18.1% to the total revenue. The fourth vertical, the new vertical, government excluding India, grew 10.5% Y-o-Y and contributed 7.8% to the revenue mix. Other emerging verticals portfolios saw a growth of 12.4% Y-o-Y in Q1, and they contributed 21% to the total revenue mix.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS

With that, I shall now move on to the margins and operating profits discussion. During the quarter, we delivered an EBITDA of 49.6 million USD, registering a year-on-year growth of 22.2%. This reflects an EBITDA margin of 17% for this quarter versus 14.9% in the same quarter last year. This is a sizable increase; you will note of 210 bps Y-o-Y at the reported EBITDA level. Our PAT, adjusted for Cigniti related transaction expenses, has increased by 26.9% Cigniti in US dollar terms and that reflects a 148-bps improvement in PAT on a Y-o-Y basis.

ORDER INTAKE

Moving on to the order intake for the quarter. I am very pleased to report an order intake of $314 million during this quarter under review. This is the tenth consecutive quarter where the firm has reported an order intake of more than $300 million. We have signed two large deals in this quarter.

Our executable order book, which reflects the total value of locked orders over the next 12 months, stands at US$ 1,070 and is up 19.3% YoY.

We also signed 10 new logos during the quarter.

PEOPLE

On the people front and I believe this is important, at the end of the quarter, our head count stood at 26,612 and we saw a net headcount addition of 1,886 people in this quarter itself. Utilization including trainees during the quarter stood at 81.6% compared to 81.7% in Q4. As I have noted earlier, the net headcount addition in Q1 for Coforge is more than the net headcount addition over the previous four quarters in fiscal year 2024.

Last Last Twelve-Month (LTM) attrition during the quarter stood at 11.4%. I shall now request John Speight, Customer Success Officer Coforge, to walk us through capability and Delivery highlights

DELIVERY OPERATIONS & CAPABILITY BUILD

John Speight: Thank you, Sudhir.

I shall now touch upon the highlights of the quarter related to our delivery operations.

In the Banking & Financial Services sector, we have emerged as a strategic partner for a leading investment solutions provider with a five-year vendor consolidation deal. We also signed an enterprise network deal with a global wholesale banking firm, and closed a three-year operations deal for a US regional bank to provide voice & back-office support out of Augusta & India.

The Insurance Sector has seen increased activity this quarter, securing a $20 plus million project to transform the core platform of a major insurance company. We also signed a multi-year managed service agreement with a leading mutual insurance company, along with a further deal with a prominent specialty insurance provider; strengthening our expertise in supporting insurance growth.

In the Travel sector, we secured a key deal with a major US based freight transportation company, implementing our PRISM engine to automate their freight rating processes.

Meanwhile, in the Retail sector, we have been awarded a strategic 3-year managed deal to drive operational efficiency and customer experience for a retail giant. We also finalized a major, multi-year deal to streamline the supply chain systems for a major food distribution organization.

Our Government Business excluding India continues to grow; one of the recent wins was a 3 year managed program to design, implement and support a mission critical system for a UK regulator.

Our AI capabilities continue to grow at speed, with new solutions being released to the market on a regular basis. The latest example, available on the Microsoft Marketplace was our Copilot Offering to optimize the insurance underwriting processes.

We created and deployed RASA (Rapid Audio Speech Analysis), a system that uses Gen AI to analyse agent interactions, with both voice and chat for feedback, that identifies areas needing improvement, providing insights on possible issues based on customer sentiment.

We have continued to develop QE 360, our platform that enables test Lifecyle automation through AI to disrupt the testing landscape. Features include AI-based test-case generation, LCNC automation creation, AI-based test data management generation, automation self-healing and AI-based visual testing.

We have developed and deployed AI Ticket Manager, our service deck solution that uses GenAI to eliminate L1 activities & significantly reduces L2 tasks by analysing and categorising and creates self-help to end-users.

To support our AI agenda, we have added 50 AI specialists to our team this quarter, we have also accelerated the upskilling of our 25,000+ employees through our "AI Spark" training program.

We have also cemented a partnership with Kofax to train a large team, creating an Enterprise Content Management Center of Excellence for a large US based technology services customer, setting the stage for future collaborations and a joint Go-To-Market strategy.
We received notable industry recognitions this quarter, including the Intelligent Automation Award by Pega, the Worldwide Emerging Industry Partner of the

Year award by ServiceNow, and European Partner of The Year Award by MuleSoft; the latter, for the tenth consecutive time.

We have been recognized in the 2024 UK IT Sourcing Study by Whitelane Research as an Exceptional Performer in Application Services, Digital Transformation, and Cloud & Infrastructure Services

And finally, for the fourth consecutive year, Coforge was certified as a Great Place to Work.

With that, I will pass over to our CFO, Saurabh Goel.

FINANCIAL OVERVIEW

Saurabh Goel: Thank you John.

Let me take you through some of the financial highlights for the quarter. As you are aware, in the past our cash flow generation has been skewed towards H2 with the majority of cash being generated in H2.

We guided towards normalizing the OCF through the year with multiple steps taken towards strengthening the balance sheet. Our Q1 FY2025 saw a good cash flow generation of $23.2 million versus negative $20.5 million in Q1 FY2024 accordingly the OCF to EBITDA ratio stood at ~47% in Q1 FY2025.

In Q1, we also repaid the non-convertible bonds of $41 million, which were bearing a high interest cost. This will help in reducing the interest burden from Q2 onwards. We also believe that by end of this fiscal we should be in a position of being a net cash company.

We had also guided for improvement in adjusted EBITDA margins for FY2205 by 50 bps and flat reported EBITDA margins in the beginning of the financial year. At the end of Q1, we are up 189 bps from adjusted EBITDA margin standpoint and 210 bps up in reported EBITDA margin standpoint.

We have also started reporting the OCF in fact sheet from this quarter results apart from the government vertical excluding India as mentioned by Sudhir.

On the non-operating side of cash, you would have noticed a significant increase in cash and cash equivalents by $266 million quarter on quarter. This is primarily on account of the QIP proceeds.

We have been broadly as per plan towards the closure of Cigniti's acquisition. With 28% stake and the Board control of Cigniti on July 5, 2024, we now await SEBIs approval for the open offer. We expect to close the open offer in Q2, post which we would initiate the merger process, post approval from the board of both the companies, and this would take about 9 to 12 months from the initiation of merger. The effective date of merger is being contemplated as April 1st 2025.

Coming to Cigniti's numbers, Cigniti reported Q1FY25 revenues of $56.2 million, which was up 2.4% sequentially in dollar terms. Q1 adjusted margin was at 12.6% versus 11% reported in Q4 FY2024, an expansion of 160 bps quarter on quarter. Adjusted EBITDA had one-time expense which included provision on account of receivable towards government incentive of Rs. 3,00.4 million. TDS on ESOPs for prior years amounting to Rs. 55 million and long-term service bonus to few employees of Rs. 35 million. PAT adjusted for one-time transactional expenses stood at $4.9 million versus $4.4 million in Q4. Cash and cash equivalents for the quarter stood at $51.7 million dollars. Coforge will consolidate financials of Cigniti from Q2 onwards.

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.

A 3.7% sequential cc growth ex. India with a concurrent expansion in EBITDA by 210 bps YoY in the same quarter, a record headcount quarterly headcount of 1886, a very significantly improved operating cashflow of $23.2 Mn and an even strengthening order executable which now is 19.3% higher YoY gives us confidence that the quarters to come shall see robust and profitable growth.

On the margin front we believe that by the end of the first half of the year we shall be operating at a 50 bps higher margin than the First half of last year and that shall set up firmly on the path to meeting our guidance of a 50 bps adjusted EBITDA expansion in this fiscal over last year. With the Cigniti business leadership now operating under our operational control and with all due diligence behind us we remain committed to delivering robust growth across both organizations both in the short and long term.

With that, I conclude my prepared remarks, and I look forward to hearing your comments and addressing your questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session.
The first question is from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: Thanks a lot, and congrats to the team for a good quarter. A couple of questions. One is that was there a wage revision in the current quarter and if not then what would the profitability performance have been on a Y-o-Y comparison if the wage was effective from 1st of April?

Sudhir Singh: Thank you for the question, Kawaljeet. Wage increase in our case has happened effective the 1st of July. If it had happened effective 1st of April, we believe margins would have been depressed by 130 to 150 bps. Broad assumption would be 140 bps.

Kawaljeet Saluja: Okay got that. The second thing Sudhir is that while of course, the overall confidence on growth is encouraging, right. I was surprised to see a weakness in the financial services verticals and a segment of the market which has shown some level of buoyancy, what would you attribute that to? Let me just complete the final question. The final question that you have spoken a lot about growth excluding the India government business is not that annual seasonal factor wherein the fourth quarter, the government business picks up and there is a decline in 1Q. So, should you basically really look at performance excluding the India government business from a 1Q standpoint? Yes, those are my questions. Thanks.

Sudhir Singh: Sure. Let me take both the questions in order Kawaljeet. BFS, we believe it is a temporary blip, and it is a normalization that has happened because last quarter, our BFS business had grown sequentially 6.4%. It is still Y-o-Y 10.4 % higher. We continue to believe that the BFS business for us is going to continue to drive robust growth, and as we have indicated in the past, we would be disappointed if it does not register at least double-digit growth in this fiscal as well. So that is how I would characterize it. A temporary normalization for a business that has really been on steroids for the last two years from our point of view. Second, as far as growth is concerned, for us, Kawaljeet, we do not really see India seeing a spike. India has always been at only about 4% of our revenues globally. The last two quarters were an aberration where it went all the way up to 5.3%. This quarter, it has come down to 3.8%. So, we do not see the seasonality in India on an ongoing basis. Last year was a bit of an aberration. Where we are right now, 3.8, we would expect India to continue to operate at 4 to 4.5% only going forward as well.

Kawaljeet Saluja: Okay just final question, Sudhir thanks a lot for that. When you think about where you were three months back versus where you are sitting today, do you see a marked difference in your growth outlook? And if yes, can you just walk us through what has changed in the last three months for that higher confidence in growth?

Sudhir Singh: Sure. The first thing Kawaljeet is that on the margins, we see the demand outlook across financial services even though it does not reflect in this quarter performance as having materially improved. We see the outlook for the travel aviation sector as continuing to be extremely strong right now. And we are seeing a rebound in our insurance business. When you look at our numbers, you will find that all the four verticals seem to be delivering good broad-based growth on a go-forward basis. The second thing that gives us confidence is the fact that our next 12-month order book is increasing. It is now $1,070 million as I called out.

More importantly, it is 19.3% higher than where that number was at the same time last year. And, Y-o-Y numbers have for the last two quarters been increasing in line with the slightly improved macros that at least we see around the edges. The third thing, and I think this is the best reflection of where our confidence stems from, is the headcount addition. Out of the 1,886 net headcount increases only 250 are graduate engineer trainees from colleges. The rest are folks who have been brought on board. We will see upsides on the revenue front in the quarters to come because of the very strong headcount addition that I talked about.

Kawaljeet Saluja: Fantastic, all the best.

Moderator: Thank you. We will take our next question from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Thank you for the opportunity and congratulations for the strong performance. Just wanted to get your sense with regards to the headcount addition that we have seen in the current quarter, while the headcount addition is very impressive, the increase in manpower cost is much lower. So, was this headcount addition skewed towards the later part of the quarter that is question number one? And if you could also talk about the significant step up in on-site hiring and the increase in on-site mix that we have seen in the current quarter. And the third question, once again, related to the wage hikes, if you could help us understand what drove our decision to essentially defer wage hikes by a quarter and how we are thinking about our plans to essentially manage our average resource cost which was suggested to be a significant margin lever over the foreseeable future.

Sudhir Singh: Thank you for the questions Manik. Headcount addition was 1886, 250 of those are graduate engineer trainees who will take between 4 to 8 months to become available. 45% of the 1,886 were BPO resources where the revenue productivity ends up being lower than where it is. And yes, the last piece around that is, most of the headcount addition was towards the second half of the quarter. Even in cases where they have been assigned to projects, where as all of us know, a normal on-boarding and a transition lag to billing that is in place.

So that is how the 1886 headcount addition played out. Re the other question on wage hikes, we have been extremely fair with our employees over the years. Last year we were possibly the only firm that did do a wage hike on the 1st of April and did a very material wage hike, which was reflected in the margin impact in Q1 last year. This year, the call that we have taken around wage hike was in line with what we have seen across the industry and in line with the fact that our ARC (Average Resource Cost) over the last two and a half years has gone up almost 40% and needed a correction. That was the business call that led to that decision. Did I answer both your questions Manik, or did I miss any one of them?

Manik Taneja: So, these are just to essentially get sense on how should we be thinking about this ARC cost on a go-forward basis given the onsite step-up in terms of hiring and the relatively subdued pressure on intake in the quarter?

Sudhir Singh: Yes, the onsite increase has been a marginal increase, Manik. So, I do not expect that to adversely affect ARC in any manner. The program that we have in place to put a strong check on ARC is firmly in place and will continue to deliver. We will also announce in the rest of this week, the name of the leader who has come in and is running global delivery for us. And the principal mandate, not the principal, but the most immediate mandate I have handed over to him as a global delivery head is to make sure that he works with Saurabh and his team to continue to keep a very sharp eye out on ARC. To make sure that at a minimum we deliver on our margin commitment and hopefully do slightly better than that by the time this fiscal year ends.

Manik Taneja: And the last one before I get back into the queue, if you could talk about the weakness that we have seen in terms of revenue growth within our top customers this quarter because it appears that the growth is supported outside of top 10 customers this quarter.

Sudhir Singh: Yes actually, Manik the weakness was only in the top five. Top six to 10 have done very well. Our top five have a preponderant number of banking clients. As I said earlier in response to Kawaljeet's question, banking has seen normalization after I believe about 12 or 13 quarters of extremely significant growth. Q2, we would expect banking and these accounts from the banking sector to bounce back.

Manik Taneja: Thank you and wish you all the best.

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

Vibhor Singhal: Thanks for taking my question and congrats Sudhir and Saurabh for a solid quarter. So, Sudhir two questions from my side. I mean, last year we did phenomenally well in terms of the overall revenue growth rate. Despite the fact, I think we face challenges in the top clients in almost all our verticals, be it travel, banking, insurance. What is the outlook on the top clients in those specific verticals for this year? You did mention that of course, this quarter the banking sector saw some bit of a normalization, but how is the pickup in those specific lines in the insurance, the top two travel accounts and of course banking as well, do we expect them to have bottomed out and pick up the growth momentum and hence the growth to be driven in the next few quarters by the top five and the top ten accounts or do you think it is going to take some time to basically pick up momentum given where they are at this point of time? And then I have a second question.

Sudhir Singh: Vibhor we expect the momentum to be back starting Q2 itself. It might pick up further in the subsequent quarters, but Q2 should see this metric getting corrected. The intent always is to make sure that growth comes from the top five, top 10, and the subsequent accounts. So, we would expect with the normalization in this quarter around large banking clients getting corrected, these numbers to start falling back in the normal pattern from Q2 itself.

Vibhor Singhal: Got it, got it. Secondly if I can just pick up your brain on the travel vertical. Banking of course you have mentioned and I think a lot of the other players in the industry are also commenting on pick up in used BFS. But how is the travel segment looking like because I think after the initial, let us say, pick up in spending post-COVID, most of the travel clients had kind of held back their tech spends because they were getting organic growth any which ways because of the surge in travel across the world. Has that spend revived? Are we looking at some peak closures in near future? And how do you see it this vertical panning over out given it did not do exceptionally well last year? How do you see it doing this year.

Sudhir Singh: I see travel doing better than last year for us. We look at travel as a composite of three different sub-segments. The first one for us of course is airlines and for airlines when we look at IATA data also, they are still looking at a 10.7% year-on-year increase in passenger demand for the whole aviation industry. And in this segment, we are clearly seeing a technology re-haul across airlines that is going on especially after the Southwest fiasco that had happened on December 2022. And we continue to see both big data and biometrics again, being areas where there is significant demand coming in. Interestingly, I do want to point out Vibhor that now we work with five out of the top 10 airlines in the world. So, this sector, to that extent that it has seen a 10.7% Y-o-Y increase in passenger demand as per IATA, the outlook is good and we feel good about it. The second sector that we operate in is hospitality and that is continuing to thrive with the increase in demand that we have seen leading to implementation of solutions that are supporting frictionless stays and there is a lot of AI driven personalization also we have seen. The third sub-segment is logistics and in that sub-segment we anticipate no growth in 2024.The focus there remains on supply chain resilience more than anything else, and on cost containment through AI and automation. John, would you like to add something else to this?

John Speight: Not too much Sudhir. I think you covered most things well there. I think in the hospitality side and airlines I think we will continue to see significant growth. And obviously, there is quite a lot of work we are seeing coming up on the legacy modernization and transformation. Obviously, a lot of it being driven by AI and the way it is being now used to fast track the migrations. But I do see that growth continuing, certainly in the markets I am working in.

Vibhor Singhal: Sure, that was helpful. Sudhir if I could just dwell a bit further on this, sorry to pull it back it is a very interesting conversation that I think we are having on that front. I think a couple of industry experts have kind of hinted that in the specifically in the airline industry, the kind of passenger traffic growth that we are seeing, of course, that is leading to very good cash flows for the airlines, which should eventually turn out into high expense. But given the already level of automation, I mean, the contactless baggage check-in and all those things that the airlines have done, the scope, let us say or the intent of further let us say improvement in tech spends had basically temporarily if I may say come down for the airlines. Would you agree with that? Did we also see that to some extent last year and do you see that changing a lot or do you think it is not the case and the tech spend and the intent of higher tech spends continues in the airlines.

John Speight: I was just going to say based on our findings so far, the spend is continuing. A lot of effort is going into lot of the operational back-end processes as well, as the front-end customer experience. Also, there is increasing amount of work going on the e-commerce, the loyalty schemes as well, surrounding the core airline businesses.

Sudhir Singh: You are right, John. And if I can also give you some anecdotal references there, we work with the two largest GDS's in the world. We also work with possibly one of the oldest PSS and border management services organizations in the world. I know John would have gone and met them, but I met the CTO of one of the GDS's and the CEO of the other firm that I talked about. And in both instances, this could be specific to these organizations, the outlook as they see it around their tech spend remains resilient.

Vibhor Singhal: Got it, got it. Thank you so much for taking my questions. If I can just squeeze one question for Saurabh. Saurabh could you just help us elaborate what were the exceptional items for Cigniti in this quarter and what is the core margins for the business that we are looking going ahead on a quarterly basis.

Saurabh Goel: So Vibhor, in the current quarter, so there were three-line items wherein the exceptional expenses came in and one of that was already part of the contingent liability that they reported. So, it was a government incentive around SCIS and it was Rs. 300.4 million so that was one and then the other one was TDS on ESOP expenses pertaining to prior period of 2017-2018 wherein there was some demand that came in the current quarter. Again, it was a known issue, but long pertaining issue and it has been settled which is Rs. 55 million and then in previous quarter in Q4 there was long service bonus that was given to employees. A couple of employees were left out, few of them and they have also been given that long service bonus in the current quarter and hence it is close to Rs. 35 million. Now, putting all of this together right now the adjusted EBITDA margin for the quarter was 12.6%, the wage hikes for larger part of the delivery organization up to band 4 has already been given and we are looking at substantial margin expansion in quarters to come. I think between Q2 to Q4, we are looking at 16% plus EBITDA margin going forward.

Vibhor Singhal: And you are not expecting any more exceptional items, I would say.

Saurabh Goel: We are not expecting any more exceptional items which will impact consolidation because there are certain settlements that must happen but that will be taken care as part of PPA already, so it will not impact. So, what I got has already been baked in PPA. Even this SCIS was part of my PPA, but because this came in and got settled in Q1 itself and hence we took a hit and it will get adjusted in PPA now.

Vibhor Singhal: Got it, got it. Thank you so much for taking my questions. I know I was short my time, but thank you so much for answering my questions and wish you all the best.

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

Dipesh Mehta: Thanks for the opportunity. I have two questions. First about the margin. Can you help us understand margin decline quarter on quarter, what factors led to margin decline because wage hike was not there and rest of the metrics seems to be stable. So, if you can help us understand what factor led to Q-o-Q weakness in margin. Second question is about insurance. I think you indicated about recovery in insurance and we are I think hearing for some time but if I look underlying growth momentum perspective it is not showing any material change. So, if you can give some comment even deal intake wise, we have seen some momentum in the prior quarters. So, if you can give what is working in insurance and what is yet not played out or so that gives some sense about how to expect trajectory of growth. Thank you.

Saurabh Goel: So Dipesh couple of things one we book the visa cost in Q1 of every financial year. So, every financial year you will see that we would have a margin dip of roughly 350 bps between Q4 and Q1. 220 to 250 would be on account of wage hikes and 100 bps would be on account of visa cost plus some renewals that will happen on Microsoft licenses, true ups and all of those. So, in the current quarter, we did not have wage hikes. In Q2, we expect wage hikes to be much lower than what they have been in the past, point number one. Number two, there was visa cost that came in the current quarter, plus there was increase in on-site headcount, increase in on-site ramp-up that had happened because of which the margins were lower. So, these were primarily two reasons. And we are at 17.9% adjusted EBITDA in the current quarter. By end of H1 as Sudhir also mentioned in his remarks, we will be 50 bps higher versus the H1 previous year which would mean that the drop in margins in Q2 because of wage hikes will not be as significant as it has been in the past.

Sudhir Singh: Coming on to the Insurance question that you talked about Dipesh, we had talked about a very significant deal in the last quarter. The ramp up of the deal has proceeded. It has been one of the largest ramp ups that we have seen in Insurance for a while. At the current point in time insurance Y-o-Y growth for the firm is 2.5%. We believe if current projections hold at the end of Q2, that number should be up materially.

Dipesh Mehta: Okay, thank you.

Moderator: Thank you. We take our next question from the line of Ashwin Mehta of Ambit Capital. Please go ahead.

Ashwin Mehta: Thanks for the opportunity. Just one question to Saurabh. Saurabh in terms of the transaction charges taken this quarter does it cover both the QIP as well as the acquisition? And do we envisage any further transaction charges going forward?

Saurabh Goel: Current quarter almost covers pretty much anything and everything that was done on the transaction. So a very minimal expenses on the merger would come in I think, but we are pretty much done.

Ashwin Mehta: Okay, fair enough. And in terms of margin impacts for the next quarter is it more like 130 to 150 bps in the next quarter?

Saurabh Goel: Yes, on account of wage hike, but then there will be some efficiencies and hence I think the guidance is that we will be from H1 to HI perspective we will be 50 bps higher.

Ashwin Mehta: Okay, thanks Saurabh thanks and all the best.

Moderator: Thank you. Our next question is from the line of Ravi Menon from Macquarie please go ahead.

Ravi Menon: Thank you for the opportunity and congrats on really strong growth in Americas. I want to understand why are we seeing that and also in Europe, why is there a decline now? You had several quarters I think about eight, nine quarters of good growth there. And finally, that is down a bit. And on BFSI too actually you spoke about how some of this decline is just blip and we will return to growth, but could you give us some more detail about what sort of programs have come to an end? And are we seeing a spend start in a different spot or with a different set of plans?

Sudhir Singh: US and Europe, Ravi is again tied to Banking. The key Banking clients where we have seen the temporary blip in Q1 are largely Europe-based and that would explain the Europe performance. As far as BFS is concerned, we expect growth to come back from the same clients. There has just been in some ways a normalization, a bit of a pause that comes in, in between program transitions but we are not seeing any change in spending and we are not looking at newer clients to drive growth from because the relationships are unstable or the spends have dragged up that is not the case. A lot of the 1,886 people that we brought on board, a significant number of them have either already been aligned to some of these Banking clients or will be aligned almost in the coming weeks that is how we are seeing Banking and Insurance and Europe I beg your pardon.

Ravi Menon: Thanks Sudhir and strong ramp-up in BPO is this travel or is this related to the mortgage business picking up? Could you talk a bit about that?

Sudhir Singh: It is right across, Ravi. The SLK acquisition that we had done three years back in order to set up a BPO business, it is now three years and the cross-sell has proven to be very effective.

Growth interestingly in this quarter came from a retail client, which is one of the emerging verticals that we talk about in the BPO space. When we acquired that asset, it was an asset focused on doing process services for Banking, but we have been able to radiate very successfully into Insurance, into Travel, and now into Retail.

Ravi Menon: Great. Thank you. And on this airline customer that you acquired, is this something that is a major customer of Cigniti that you were hoping to get in or that is outside the sense, it is still to be tapped?

Sudhir Singh: None of what I called about as a customer was to anything to do with Cigniti because we will only talk about Cigniti clients starting Q2. The Airline customer that was a long-term Asia-Pacific based airline client of Coforge and the large deal was signed with them.

Ravi Menon: Thank you, Sudhir, and best of luck.

Moderator: Thank you. Our next question is from the line of Abhishek Kumar of JM Financials, please go ahead.

Abhishek Kumar: Hi good morning. My first question is on order book growth. Sudhir, we have seen last few quarters the gap between executable order book growth and the revenue growth has kind of widened. Is it because, the smaller deals which are won and consumed during the years have kind of dried up? And if that is the case, what gives us the confidence that the growth in executable order book would kind of necessarily translate into better revenue growth for us.

Saurabh Goel: So, Abhishek points number one, the growth in executable order book is in line with the kind of deals that we are seeing and at least when we look at this number and we compare it to the billing or the revenue recognition that happens from this order book over next few quarters it has been in line and we have not seen any leakage of shrinkage on this number. I think the only difference has been between the growth that we have reported versus this number because this is from the executable order book to the reported revenue number. As we have always mentioned there are waterfalls of three parts. One is the renewal that would come in through the year. Second part is the existing accounts wherein we will sell new opportunities and new business. And the third bit is the new customers starting to ramp up so it is either the new business in the existing accounts or the new business with new customers wherein the slowness comes in. That is what is impacting the difference between the growth in executable order book and the revenue number that we report. So, it is not that the shrinkage is happening in the executable that we have right now.

Abhishek Kumar: Sure, that is helpful. My second question is on testing. I think in our prepared remarks also, we mentioned a lot of GenAI led automation. And we also hear from some of your peers that testing is one area which is ripe for disruption because of GenAI related efficiency gains. Now, in that context, how do we look at Cigniti's portfolio? Do you think there is a risk because of AI in terms of volume deflation?

Sudhir Singh: I think we have answered this question repeatedly over the last three months since we announced the acquisition. We clearly do not see a risk, and the proof lies in the pudding and in the numbers. We have shared Q1 numbers. I think we have been very, very clear that the fact that this asset under our watch has been acquired not for testing revenues or testing expertise, where we already had a $100 million service line, but for helping set up a Healthcare, a Retail and a Hi-Tech vertical. That plan is absolutely on track. We believe, and we say this emphatically, that Coforge will be one of the fastest growing firms, but Cigniti will grow faster in the quarters and possibly the next few years than even Coforge. Yes, if it is functional testing, clearly GenAI is going to come, disrupt and take away revenues but there are also opportunities around testing in an AI infused environment that we see. In any event, we have not done the acquisition because we wanted testing expertise. We have done it to stand three new verticals. And given everything that we have seen with the team, given that now we have operational control over that entity, given that the sales head is now a Coforge leader and she has moved from Coforge to Cigniti, given that I have best estimates for the next three quarters from her, given that Saurabh has margin estimates and he talked about a very big jump in margins. We feel rock solid about the acquisition that we have done and we believe not just Q2, but Q3, Q4 and next year will prove that this is going to be a high growth, high margin asset under our watch.

Saurabh Goel: No, Sudhir, I think you have covered it all, but yes I would want to reiterate margin piece Sudhir at least for the business because as we stand today and the progression that we are seeing in Q2, Q3, Q4 margins for the acquired business, 16% is what we have guided, 14% is what we have delivered last year, 12.6% is what they have seen current quarter and I think 16% is bare minimum what we will do, the endeavor will be to exceed that number.

Abhishek Kumar: Great that is very helpful thank you and good luck.

Moderator: We will take our next question from the line of Ashish Das for Mirae Asset Capital. Please go ahead.

Ashish Das: Hi, thanks for the opportunity. Saurabh, I have a question for you. If you look at the segmental margin the EMEA segmental margin has declined and sits lowest in last several quarters. Could you just explain to me what is the reason for that?

Saurabh Goel: Yes, so segmental margins number one also has the cost on account of transaction related expenses which have got allocated to them. So, if your segmental margins versus previous quarters, so all that cost has got allocated when we arrived at segmental margins. So, that is point number one. So, it would not be an apple-to-apple comparison. So, that is point number one. Number two, the softness in the BFS vertical has led to a little softness in margins in that region. But otherwise, it is not that the margins for the segments have substantially gone down.
It is because of the allocation of transaction related expenses.

Ashish Das: Okay. And the next question is on the ESOP expenses, this quarter it is on the lower side and earlier it was mentioned that it would increase so what would be the ESOP expenses going ahead in the remaining quarters?

Saurabh Goel: Ashish see ESOP expenses also function of grants being issued to the leadership team so we expect the grants to be issued in the current quarter and we had guided for 160-170 bps from a full year perspective as ESOP expenses and we stick to that guidance.

Ashish Das: Okay good and one question for Sudhir. Sudhir sees right now you are giving the guidance for Travel, Insurance, and Banking. So, why do not you resume your growth guidance for the year 2025?

Sudhir Singh: No, Ashish, we have taken a very conscious call. We have not given a guidance for this year and we will not be giving a guidance going forward as well. There is no other mid-cap firm in our industry that gives a guidance and we are aligning with that process.

Ashish Das: Thank you so much. All the best.

Moderator: Thank you. Our next question is from the line of Debashish Majumdar from Svan Investments. Please go ahead.

Debashish Majumdar: Hi guys, good morning. Hi Sudhir sort of good set of numbers. So, two questions I have Sudhir. If you remember last year, you very clearly called out that H2 there is not any recovery that you are seeing where others were bullish. So, the macro perspective do you think that we are kind of bottoming out and things have started turning back so that is the first question and the second question is I am not asking for a quantitative revenue numbers but earlier you used to call out a relation between your order book and your revenue growth so currently we are around 19% order book growth so is there any material relation that you can bring it out between the revenue and order book?

Sudhir Singh: So Debashish we believe that the demand is not just bottomed out, but that it is picking up. There was an initial phase when demand was falling, which is where I think we met more than a year back. There was a bottoming out and now we do not see a very rapid increase, but there is clearly a rebound on the demand front. It is tepid, but it is definite. As far as order book is concerned, the order book you will notice on a Y-o-Y basis for the last two quarters has been reversing. Net of India, even this quarter, the revenue growth has been sequentially 3.7%, which is higher than the 2-3% band that we were normally operating in. So at this point in time, while we have some more internal metrics that we are tracking from an external perspective, what we would like to call out is, on a Y-o-Y basis order book is improving. Therefore, logically in a very gradual manner, sequential growth on a Y-o-Y basis should also start seeing an improvement from where it is. And prior to that I think the head count addition is another metric along with the order book increase which gives confidence.

Debashish Majumdar: Yes absolutely, so one last question on this head count itself. This addition of head count especially in S&M is it more to do with cross cell Cigniti capabilities or it is like our organic business has so much of potential that we are hiring this much of number.

Sudhir Singh: This is organic business. It has nothing to do with Cigniti here. This is all Coforge and this is all organic.

Debashish Majumdar: Okay thank you so much for answering my question. Wish you best of luck.

Moderator: We will take the next question from the line of Shradha Agarwal from AMSEC. Please go ahead.

Shradha Agarwal: Congrats Sudhir on a good quarter. Just one question from my end how should we look at the depreciation and amortization cost after we consolidate the meeting to our financials?

Saurabh Goel: Shradha so again the purchase price allocation is yet not complete because we will have to true it up depending upon the June financials. But we are looking at a pickup of $8.5 to $9 million in the amortization on account of purchase price consideration from Q2 onwards on an annualized basis.

Shradha Agarwal: That is it from my side. Thank you.

Moderator: We will take our next question from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: Thanks for the opportunity. I have just one question. Within BFSI amongst top five clients, which areas facing the normalization of growth practice wise if you can share that.

Sudhir Singh: As I said it is just a temporary blip. Overall financial services industry particularly as inflation levels and most developed markets are stabilizing towards the target levels given that interest rates appear to be reaching a plateau, the growth in spending is not as I said on the margins seems to be seeing a rebound. So this is a temporary blip for a business which has possibly been the fastest and I am not 100% sure if it is true, but possibly the fastest growing banking business across the industry globally. It is a one-quarter phenomenon. We should be back on the growth path in Q2. So I would not call out anything that is a big concern, there is obviously right now a notable emphasis on upgrading core platforms to facilitate digital transformation imperatives. There are funds that are flowing in there. Retail corporate banking in trend in the focus on enriching digital channels. So, there is funds coming in there as well, but overall, just a temporary blip as we called out earlier.

Chirag Kachhadiya: Okay, thanks all the very best.

Moderator: Thank you. That was the last question. I now hand over to Mr. Sudhir Singh, CEO of Coforge Limited for closing comments.

Sudhir Singh: Ladies and gentlemen thank you very, very much for your time and for your interest. As always, these were incisive, probing questions that also educate the nuances around our business and we really appreciate your time around us. We look forward to seeing you three months from now in the next quarterly call. Stay safe and thank you once again.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Coforge Limited, that concludes today's conference.

Note: - This transcript has been edited for readability purpose.

constitute "forward-looking statements." You can generally identify forward-looking statements by terminology such as "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "objective", "goal", "plan", "potential", "project", "pursue", "shall", "should", "will", "would", or other words or phrases of similar import. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections. Important factors that could cause actual results, performance or achievements to differ materially include, among others: (a) material changes in the regulations governing the Company's businesses; (b) the Company's ability to comply with the capital adequacy norms prescribed by the RBI; (c) decreases in the value of the Company's collateral or delays in enforcing the Company's collateral upon default by borrowers on their obligations to the Company; (d) the Company's ability to control the level of NPAs in the Company's portfolio effectively; (e) internal or external fraud, operational errors, systems malfunctions, or cyber security incidents; (f) volatility in interest rates and other market conditions; and (g) any adverse changes to the Indian economy.