"Coforge Limited
Q2 FY2025 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Coforge Limited Q2 FY2025 Earnings Conference Call. Please note all participant lines will be in the listen-only mode and this conference is being recorded. We have today with us from the management team Mr. Sudhir Singh, CEO, Mr. John Speight – Chief Customer Success Officer and Mr. Saurabh Goel – CFO. We will begin the call with opening remarks from the management team and post that we will open the floor for questions. Before we begin please note that some of the statements made in today's discussion relating to the future should be construed as forward looking statement and may involve risks and uncertainties. Please refer to the disclaimer to this effect in the company Q2 FY2025 earning press release. With that I now hand the call over to Mr. Sudhir Singh. Over to you Sir.

Sudhir Singh: Ladies and gentlemen, thank you very much for joining us today as we share our Q2 fiscal year 2025 performance and the business outlook going forward.

Q2 has been an exceptionally good quarter for the firm. And not only has the quarter been an exceptionally good quarter, it has also been a quarter that has validated the three key assertions that we made at the beginning of this fiscal year. You will recall that at that time, our three assertions were seen as unconventional and met with some degree of concern. You will also recall that those three assertions, which now stand vindicated, were

Number one - we had shared then that given the incredibly detailed due diligence we had done, we believed that the Cigniti business was foundationally a healthy one. And that growth of both businesses would accelerate remarkably and immediately on account of synergies once we brought them together. That was assertion one.

Assertion two that we had made was that we had shared that even though we were stopping the practice of annual revenue guidance, the health and outlook of our organic Coforge business, and by organic I mean all Coforge businesses excluding Cigniti, was very robust. We were not, repeat not, undertaking an acquisition because our organic business was stressed. We had emphasized then that we were undertaking a material acquisition because our organic business was in the pink of health.

And assertion three that we made at the beginning of this fiscal year was, we were at that time, you will recall, the first management team in the industry to state that we saw a definite and a positive turnaround in the demand environment based not on analysis from any analyst, but based on the buildup of our indents.

Ladies and gentlemen, as you reflect on those three assertions made at the beginning of the fiscal year by us, please contrast them with our Q2 performance that I shall now read out.

In Q2, the Coforge organic business has grown 6.3% sequentially in US dollar terms. While the standalone Cigniti business has grown equally strongly by 6.1% sequentially in US dollar terms with both businesses registering exceptional growth. The firm grew sequentially in Q2 by 26.8% that is sequentially in US dollar terms. We crossed the $1 billion run rate only seven quarters back and today seven quarters later, we are now operating at a run rate of almost one-and-a-half billion

US dollars. What makes this synergy driven performance even more remarkable is the concurrent expansion in EBITDA. The Coforge organic business has increased its reported EBITDA by 125 bps in H1 over H1 of last year. At the same time, please note the Cigniti business has seen its EBITDA jump by 360 bps sequentially to 16.2% in one quarter alone. We expected Cigniti to hit a 16.5% EBITDA target by Q4, but we now believe that we will hit more than an 18% EBITDA target for the standalone Cigniti business by Q4 this year.

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

QUARTERLY PERFORMANCE – REVENUE ANALYSIS

Beginning with the revenue analysis, I am pleased to report that during the quarter, the firm registered revenue of 369.4 million USD. This represents a sequential revenue growth of 26.3% in CC terms, 26.8% in US dollar terms, and 27.5% in Indian rupee terms respectively. Equally importantly, the growth has been evenly spread across verticals, indicating that the growth trajectory of Coforge is likely to serve steam. It is not a lopsided growth that Coforge is experiencing focused on either a particular vertical or a particular geography. All verticals, all geographies are growing robustly.

During the quarter our banking and financial services vertical grow 5.2% sequentially and contributed 31.3% to our revenue mix. The insurance vertical grew 8.9% that is 8.9% sequentially, and contributed 21.8% to the revenue mix. The travel vertical grew 6.2% sequentially and contributed 18% to the total revenue. The government vertical outside India grew 6.7% sequentially and contributed 7.8% to the revenue mix.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS.

With that, I shall now move on to the margins and the operating profit discussion. During the quarter, we delivered an EBITDA of 58.4 million USD, registering a sequential growth of 17.6% and an year-on-year growth of 37.6%. This reflects an EBITDA margin of 15.8% for this quarter, which is higher by 55 bps over the same quarter last year. You will recall that wage hikes at Coforge were undertaken in Q2 beginning. For the half year ending September 2024, EBITDA margin stands at 16.4%, higher by 125 bps over H1 last year.

ORDER INTAKE

Moving on to order intake, over the last 10 quarters, we have been clocking an order intake of more than $300 million per quarter. In the current quarter, the firm saw an order intake of 516 million USD, which includes 67 million from Cigniti. The next 12 months signed order book has moved from 1.07 billion in the previous quarter, it has jumped to 1.3 billion in the current quarter. This represents a 40% increase in the next 12 months signed order book over the last year's same quarter. The large deal velocity and signing continues unabated and the velocity seems to be picking up. During the quarter, we signed three large deals one in continental Europe, one in North America, and one in UK.

PEOPLE

Moving on to people metrics. On the people front Cigniti has added 4430 people to our headcount. Excluding Cigniti, the organic Coforge business added 1441 people, which represents a 5.4% increase sequentially in the net headcount. This increase of 5.4% in net headcount of the organic Coforge business follows the increase of net headcount by 7.5% in the last quarter. Our total headcount for the quarter stands at 32,483 reflecting a net addition of 5,871 employees during the quarter. Attrition continued to be stable and the last 12 month attrition during the quarter stood at 11.4% including the Cigniti attrition, which is at 11.7%.

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

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 Sector, we continued to grow our strategic partnership with a leading UK bank signing a new three-year deal for legacy modernization to optimize costs and improve their customer satisfaction. We also successfully completed a comprehensive assessment for the wholesale division of a tier one global bank, evaluating their maturity around resiliency, engineering, and agile organization structures. Planning is now on the work on the next phase.

In the Insurance Sector, we signed a three-year deal for a global insurer to implement an end-to-end GenAI solution to transform automation across their enterprise. For a leading US product provider, we successfully completed the setup of a 500 strong GCC. This is expected to grow to more than 1,000 in the next three years. We also secured a major three-year deal with a tier one insurance major to be their growth and run partner.

In the Travel Sector, a three-year renewal at a major Australian airline will see us continue to provide end-to-end managed services, delivering enhancements across business intelligence, infrastructure, and applications.

In the Retail Sector, we secured a major three-year managed service deal with a top Australian supermarket chain to automate quality engineering services across their e-commerce and mobile channels.

The Government Sector continues to see strong growth. In the UK, we have entered a five-year strategic partnership with a key regulator to deliver CRM solutions that manage partnerships and citizen records. We also closed a multi-year deal for a leading health service provider to provide an integrated contact centre and CRM solution that supports the delivery of urgent patient care to citizens. While in Australia, we are implementing a new loco platform to streamline their processes for a large state government department.

Moving on to partnerships, we are partnering with ERM and Salesforce on an innovative sustainability solution called the Environmental Net Zero Offering or ENSO, launched officially in August, it is a full BPAS offering that helps organizations meet their scope one, scope two, and scope three accounting and reporting obligations under the Paris Climate Agreement. Our strong alliances have continued to develop, starting with a renewed designation as a Microsoft Azure Expert Managed Service Partner, giving us top tier Microsoft partner status, one of only 127 worldwide.

Meanwhile, we are really pleased to announce that Pega has promoted us to their top tier partnership within their Global Elite programme. We have developed new migration accelerators to support legacy transformation across key platforms. Our accelerators have the capability to automate over 60% of the migration, delivering savings in both cost and time to value.

We continue to achieve notable industry recognitions during the quarter. Designated by Everest as leader in low-code application development services, Peak matrix, leader in the digital transformation services for mid-market enterprises and major contender in five other categories.

With that, I would like to 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. The organic EBITDA margin for the quarter stood at 16.6%, reflecting decline of 126 bps over previous quarter. All wage hikes were rolled out effectively July 1st in the current quarter.

Please note that in the prior years, the impact of wage hike has been 252 to 270 bps. You would also recall that in the beginning of the year, we had not given revenue guidance, but we had guided for gross margin improvement of 50 bps and reported EBITDA being flat for FY2025.

We are pleased to report that at end of H1 FY2025 our organic gross margin is 32.2% up 64 bps. EBITDA is 16.4% up 125 bps; organic EBIT is at 12.9% up 114 bps.

In H1 FY2025, we had acquisition and integration related expenses which had an impact of 2.3% on our profitability. This will get normalized in coming quarters. The depreciation of the consolidated financial statements reflects impact of amortization of intangibles such as customer relationships and non-compete that got created on account of purchase price allocation because of Cigniti acquisition. The amortization impact for next three years will be $10.7 million per year. The current quarter had an impact of 22 Crores on account of this amortization.

We also guided for 16 % EBITDA margin for Cigniti for the current financial year post we acquiring the firm. Current quarter witnessed increase in EBITDA margin to 16.2% which was 360 bps over previous quarter and we are now targeting to improve this to 18% by end of the financial year.

We have received SEBI approval on the open offer and the open offer is expected to get concluded by mid September. The open offer for the tendering of shares will start in next two, three days from now. At the end of Q2, we have cash balance of $217 million, which includes $137 million in the monitoring account from QIP proceeds. Net of that we have $80 million of cash in the balance sheet and we have a debt on account of working capital of $86 million.

OCF excluding payment on account of transaction related expenses for H1 stands at $39.3 million as against the cash burn of 500K, a $0.5 million in the same period over last year. In Q4 FY2024, we had mentioned that we are working towards normalizing the operating cash flow through the year and in this improvement in OCF in Q1 and now in Q2 is a result of the same.

ESOPs have been granted to the leadership team towards the end of September and hence from next quarter onwards the ESOP cost is expected to go up in a range of 180 to 200 bps per quarter for next two quarters. This includes ESOP issued to Cigniti leadership as well and we have used our existing pool for the same.

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.

And just a quick correction, as Saurabh said, we have received the SEBI approval on the open offer and it is expected to be closed by mid-November, not mid-September as we called out. So that is only two or three weeks from now.

Summing up in outlook let me start off the Outlook commentary with a broader statement of intent. The growth story of Coforge is now 29 quarters old. This is a time-tested team that is more hungry today than it was more than seven years back when we first came together. Our sustained and very robust growth at Coforge over the last seven years has been driven by an intense execution oriented culture that is uniquely our own. It is underpinned by a deep rooted personal pride and an ambition to create a platform that will be the collective legacy of each one of us at Coforge. The last seven years have seen spectacular growth. The next seven years will be better.

With that moving on to the outlook, a 27% sequential dollar growth with the organic business having grown 6.3% sequentially, a concurrent and material expansion of 145 bps in H1 in EBITDA, the second consecutive quarter of significant net headcount addition, a large deals pipeline that is looking very robust, and finally, an ever strengthening next 12 months signed order book, which now is 40% higher Y-O-Y gives us confidence that the coming quarter and quarters to come shall see robust and sustained growth. The growth and the margin expansion at Cigniti are a preview, as Saurabh said, of sustained growth and further increases in margin to follow. We have operationally fully integrated the Cigniti team and the synergies have exceeded even our expectations. As noted, we expect Cigniti's standalone EBITDA to go up to 18% plus over the next two quarters alone.

Overall, our confidence in the commitment that we offered at the beginning of the year to deliver robust and sustained growth is ironclad. Our medium-term guidance of not just hitting the 2 billion mark, but also delivering a concurrent material expansion in EBITDA is intact. Team Coforge has turned an execution of the highest order over the last seven plus years. We look forward with confidence and eagerness at the next seven years.

With that, Ladies and Gentlemen, I conclude my prepared remarks and I look forward to hearing your comments and we all look forward to addressing your questions. Thank you.

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

Sulabh Govila: Hi thanks for taking my question and congrats on a good quarter. So Sudhir you mentioned on the outlook near term as well as going forward. So just wanted to double click on that. In the next quarter particularly, what are you hearing on furloughs from the quarter and the expectation for the same versus let us say last year? And then with respect to verticals, last quarter we had specifically called out BFS to grow, let us say in double digit for the year. Is there any incremental positive change in other verticals also that you have heard during the quarter? That is my question.

Sudhir Singh: Thanks Sulabh. As far as furloughs are concerned, we expect furloughs to be in line with the normal trend in Q3. So we do expect furloughs to happen. We do not expect them to be on the higher or the lower side than they are in normal year. And we bake that into our projections. As far as verticals are concerned, as you have noted, BFS has grown 5.2% sequentially. Insurance, you would have noted as grown almost 9% sequentially, and Travel has grown more than 6%. Government also has grown more than 6%. Specific to our BFS business, we had said that we will deliver double-digit growth. I suspect that is now assured given this quarter's performance. We had also said that we expect growth to happen in a tough macroeconomic environment because all verticals are firing and all verticals will deliver growth that will largely be in the same ballpark. We maintain that assertion going forward as well, Sulabh.

Sulabh Govila: Understood Sudhir. The second question I had, was on Cigniti, is the go-to-market and cross-sell plan already in motion there, and if you could highlight any updates on the same?

Sudhir Singh: Go-to-market plan is firmly in place. At the end of the last quarter, we had talked about the fact that the go-to-market engine was already being headed at that point in time by a Coforge leader who had moved in and had been working with the Cigniti team since two-and-a-half quarters. She is now in-charge. She is the one who has been driving it and the results of her and her team's efforts, not just in terms of driving growth, but in terms of working together as a composite team, part of the broader Coforge fabric, I suspect, are evident for everyone to look at. Cross-sell is moving exceptionally well. So when I talked about the margins having exceeded our expectations, the only thing that has exceeded even margins on the expectation side has been the eagerness with which a team that was largely selling only one service line has embraced the other 10 that they can now sell.

Sulabh Govila: Understood. If a third question I may ask, related to the bookkeeping question, Saurabh below EBITDA this one-off one transaction related expenses as well as past liabilities from Cigniti just wanted to understand whether they will recur from 3Q or they are done?

Saurabh Goel: So see, we do not expect any past liability to now come in because we have done our purchase price allocation and we have otherwise almost taken care of any expected exposures that were there. So we do not expect anything around past liabilities to come in, number one. Number two, on the integration-related expenses or the merger-related expenses now, so you look at last quarter was a significant number it has come down to 2 odd million dollars. I think it will be sub-million dollars in one or two quarters.

Sulabh Govila: I understood. Thanks for taking the question.

Moderator: Thank you. We will take our next question from Abhishek Pathak of Motilal Oswal.

Abhishek Pathak: Hi Sudhir, hi Saurabh. Thanks for the opportunity and for us and a great quarter. So I think as Sudhir mentioned, I guess the Cigniti revenue growth was probably a bigger surprise than the margin beat. The first question is considering the demand is now certainly recovering across the board, does it now become easier to sort of cross-sell service lines and services to Cigniti clients in this environment? And if yes, does it significantly sort of change or rather upgrade our expectations from Cigniti versus what we acquired maybe six, seven months back that is one. And secondly, on the headcount bit, I guess, you have been hiring quite strongly over the past couple of quarters and the utilization levels are now at 82%. I guess a lot of your peers are operating at 85%. So is it tempting to just sort of sweat the asset a bit more and go to 85% and manage margins or even exceed over there or do you think the demand is recovering sort of so much that you still want to hire and still sort of build up that muscle on that concept. Thank you.

Sudhir Singh: Abhishek, thanks for both the questions. As far as Cigniti is concerned, the cross-sell of services was something that we were absolutely assured about because we had spent a lot of time with the sales team of Cigniti, every level of the sales team. And it's not the demand environment recovery that is largely driving the cross-sell effectiveness. It is the fact that that team was primed and it was hungry, and our horizontal business units were primed to sell as well. As I said in my commentary, our organic business was in the pink of health when we did this material acquisition. There's a great synergy in terms of our horizontal business units, working hand-in-glove with the Cigniti integrated market-facing unit and that is what is driving the very strong cross-sell, which always gave us a lot of confidence, but hopefully gives everybody on the call also the same confidence, that we have always carried around Cigniti. That is answer one.

Answer two, as far as headcount is concerned, our utilization numbers, 82% that you called out, include trainees. At this point in time, we think our demand environment outlook, our pipeline is very strong. We do not want to sweat the asset anymore. We want to keep utilization at where it is to make sure that the demand gets addressed and the growth that we see in front of us is not missed.

Abhishek Pathak: Very, very clear, Sudhir. And if I could just squeeze in one more on the Cigniti's margins. So, the three-tiered expansion is incredibly heartening.

Now going forward is there any more low-hanging fruit that you will quite easily pluck and the margins may expand to your guided range or do you think it requires further, it requires more discipline going forward on Cigniti? Thanks.

Sudhir Singh: It is only one quarter. There are still low hanging fruits. We have shared an estimate of 18% over the next two quarters. Most of that should come through addressing the low hanging fruit. Structural improvements beyond that again are possible, but we will talk about those next year.

Abhishek Pathak: Great, thank you, all the best.

Moderator: Thank you. Our next question is from Debashish Mazumdar from Svan Investments. Please go ahead.

Debashish Mazumdar: Good morning to the management team. Sudhir, John, Saurabh excellent set of numbers. So I have three set of questions. First on macro, second on organic Coforge and third on Cigniti. So the first one is for Sudhir obviously. Sudhir if I remember correctly one year back you were the first person to call out that the macro recovery what others are building and it is not going to come so easily. So do you think we have crossed that level and where recovery is kind of started coming back, especially in your set of clients and sectors.

Sudhir Singh: Debashish thanks for the question. You are absolutely right. Last June, when the general impression was that the second half of the calendar year, last year would be great. You are right. We as a management team had said that there was going to be no demand recovery and I think we did turn out to be right. In March, April this year, we had made another assertion and again that was contrary to the prevailing commentary from our peers that the demand environment has seen a definite and positive turn. We believe that is in play and that demand environment will continue to underpin our growth going forward.

Debashish Mazumdar: Okay, understood. The second question is related to the Coforge organic business and congrats again for a good comeback quarter with a blown up kind of CC growth. The question that I have is if I see the vertical wise growth and geography wise growth, it seems to be extremely broad based. So is it like that this 5% kind of number is sustainable for next two to three quarters because it has not come from any single customer or single vertical and you see that this recovery path is going to continue for at least for next three to four quarters.

Sudhir Singh: Debashish thanks for the question. As you are aware, we have stopped giving a formal guidance on numbers, but what we can assure you is that the broad-based growth is going to continue. One of the reasons why we did the Cigniti acquisition when we did it was because at that point in time, looking ahead, we were incredibly confident about the broad-based nature and the robust nature of growth ahead of us. That is why we did it. Growth going forward, as you have noted, business-wise, geography-wise, service line-wise, will continue to be broad-based. It will also, I want to emphasize be robust. At the beginning of the year, we said our growth will be sustained, robust, and profitable. I can assure you, at the midpoint of the year, going forward, the growth will be robust, it will be sustained, and it will be profitable.

Debashish Mazumdar: Sure, sure. Good to hear that. Just a related question to that, if I see our hiring data, so in most of our peers either revenue growth has come in that case hiring does not come or vice versa. In our case we are seeing that both revenue growth and hiring going hand in hand with a very tight utilization level of 80 to 82% and a tight attrition of 10-11%. So what I am trying to understand is have we cracked a very good model, kind of hiring and growth goes hand in hand, and it does not create any impact on our utilization in a single quarter. We do not go into a lopsided hiring. We have moved into a just-in-time hiring. So just wanted to get some thought on the strategy there?

Sudhir Singh: Debashish it is more to do with the execution than with the strategy. When we say that Coforge has an intense execution orientation, what we mean by that is that I mean, every team member is into the details. We believe the fact that we have been able to forecast and recognize that there was a reversal in the demand cycle basis our own indents that were flowing in. The fact that we were confident in our assumption to be able to hire a quarter in advance is a reflection of the execution intensity and the ability of our people supply chain leaders to be able to fulfill what our sales leaders were able to sense looking at raw indent data that was coming in.

Saurabh Goel: And I think just to add to that, see when we do a pipeline review because when you start hiring in advance, the indents get raised almost 120 to 130 days in advance of the hiring, because it is a one to two months of interview and 90 days of joining period. When we look at a pipeline and our ability to ascertain the deal closure timing and triangulate that with the hiring index is something which is leading to this tight operation that we are managing. So it is a function of estimating when you will close the deal. And that can only happen if you are in the woods, you understand the stage of the deal at which it is in, along with then make sure that you start ramping up, keeping that in mind. So it is a function of both supply chain and the front end, working very, very closely together along with the delivery organization.

John Speight: And one extra point here is the fact that it is all underpinned by the incredible client centricity. We are very, very, very close to our customers. So we understand exactly their businesses and what their expectations are in advance.

Debashish Mazumdar: Sure, sure. Very clear. One last question on Cigniti. In case when we were acquiring Cigniti, we were very clear that there are two, three large clients, which we were targeting to do cross-sell, and there are a few micro-markets which we were targeting to do cross-sell. So do you think that we are getting success? Obviously, numbers showing some amount of improvement for sure. Do you see that we are getting success in those strategies of cross-selling to existing larger clients or Cigniti's and getting into those micro-markets?

Sudhir Singh: We clearly are Debashish. Last week, we finished a four-day workshop and we looked at every aspect of sales execution. We are getting success slightly ahead of what our expectations which were already higher when it comes to cross-sell and we feel very assured about the prospects going forward as well.

Debashish Mazumdar: So just to harp on this point, so in this quarter, growth in Cigniti numbers, we are getting growth from selling higher Cigniti business to the existing clients in a more efficient way or it is like selling more cohorts capabilities to the existing clients of Cigniti?

Sudhir Singh: In this quarter, the growth has largely come from selling Cigniti only revenues. The pipeline on cross-sell, it has built up, is building up, and I suspect we will start seeing the first effects of that from quarter three onwards.

Debashish Mazumdar: Sure, sure. Thank you very much for answering my question. Wish you all the best.

Moderator: Thank you. Our next question is from Vibhor Singhal from Nuvama. Please go ahead.

Vibhor Singhal: Thanks for taking my question and congrats Sudhir and team yet again for a very strong performance. Sudhir my first question was on the travel vertical. This vertical had a pretty weak FY2024 and not just for us entire in fact for the entire industry. What is the outlook on this vertical? How are we seeing this? The growth has been quite strong this quarter for sure. So are things turning around? Are airlines, hospitality and other parts of it looking to increase their expense? And any other large deal pipeline or deal that you might have signed or you might be looking to sign in coming quarters would be helpful.

Sudhir Singh: Vibhor thanks for the question. The large deal pipeline for the travel vertical is looking extremely promising. We are seeing deals spanning spend areas of IT modernization and mainframe offload, that is one area. We are seeing significant India GCC ramp up led deals in travel, that is the second area. We are seeing e-commerce and NDC for airlines led deals, which is a third area. And then we are seeing guest experience and personalization for hospitality as the fourth area. So travel, the pipeline is robust. The large deal pipeline is very promising at this point in time.

Vibhor Singhal: And what marks this change in the outlook for the vertical from the commentary that we are hearing from peers, I believe in the airlines companies are still relying under the pressure of delayed delivery from Boeing and that is why many of their programmes have been pushed out and hence the expense have been kind of muted. Any colour on that? What has changed and what is the view on the airline specifically?

Sudhir Singh: So our travel exposure Vibhor is centered around airlines, airports, and travel tech. Travel tech is doing exceptionally well from a spend perspective. Travel tech firms are truly in a massive spend phase right now. Airlines saw a significant positive correction about four to six quarters back. Spends there have now stabilized, but our farming efforts and very active displacement of competition efforts are working well for us.

Vibhor Singhal: Got it. That was really helpful. My second question, Sudhir, is on the overall banking segment. So of course excluding insurance, insurance of course a rock solid quarter this year. On the banking vertical, what are we looking at in terms of let us say, new growth areas over and above our existing capabilities? How does Cigniti add? I am sure Cigniti has more presence in the other verticals that we are looking to form, but any contribution from Cigniti in that, but if not, how is the overall outlook on banking, specifically on any other sub-verticals that we might be looking to spawn?

Sudhir Singh: Cigniti, Vibhor, the largest vertical that they have is banking, and therefore to that extent, the ability to cross-sell horizontal businesses in that functional space has gone up. Specifically, to banking, the segment overall, as all of us know, continues to have macroeconomic uncertainties and those are stemming largely from geopolitical events, high inflation, compliance-related complexities and so on and so forth. Now, looking ahead, while the uncertainty in the sector is expected to continue, we do find in our case with our clients that they are boosting investment in IT, in cloud and data areas in particular. There is also significant interest in this space in GenAI. And at least anecdotally, we are exploring ways to reduce cost or to improve customer experience by incorporating GenAI. One other area I do want to call out before we close this is one other priority area for investment that we are seeing is in financial crime prevention. That is one space. We are seeing compliance to digital operational resilience act in the European Union. And John can talk more to that. And we are seeing investment in systems to support open banking initiatives, which is a third space that is coming up. So financial crime, digital operation resilience act in Europe, and investment in systems to support open banking initiatives. John, would you like to add to that?

John Speight: Thank you, Sudhir. I will say not too much because you have covered significantly most of the points that I was actually was going to raise. The only thing I would add is to stress the open banking space obviously in the US now that is ramping up. That is, I think, a key area. Compliance you have mentioned ongoing. I think legacy modernization you will see increasingly becoming more and more key. And the role of GenAI is actually having in driving that legacy modernization agenda. I think that is about it Sudhir.

Sudhir Singh: And Vibhor and one thing that we have never talked about is the fact that we had a very significant exposure to the mortgage industry, but we never use that significant exposure to the mortgage industry as a reason for slowing down on the banking side. With a decrease in interest rates that is now happening, the mortgage sector also we believe is going to have a gradual resurgence. And hopefully that will boost loan origination and processing volumes and it should have a positive uptake on our technology spend there.

Vibhor Singhal: Got it and since you have touched upon the cord, any colours to how much mortgage could be in terms of revenue size or percentage of revenue?

Sudhir Singh: I do not think we call out at a sub-segment level Vibhor. We just call out at a segment level. So sub-segment revenue mix is not something that we have.

Vibhor Singhal: Sure, not a problem. Thanks so much for the detailed explanation from yourself and John. I have just have some bookkeeping questions for Saurabh trivial, but necessary nonetheless. Saurabh, you mentioned the new ESOP scheme has been approved and the cost for that will come in from Q3 and that would be how much basis point as you mentioned. I am sorry, I missed that part.

Saurabh Goel: So roughly 180 to 200 bps. So we had called out in the beginning of the year that ESOP cost will be roughly 180 bps for the year and that was the basis, the assumption that the ESOP grant would have been given in the Q1 itself. But now, because the grants have been given in Q3, almost beginning of Q3, we expect that cost to be in a range of 180 to 200 bps, more towards 200 bps. And it is for first two quarters, which is Q3 and Q4. Then we get into Q1 of next year, 60, 70 bps of the old plan cost will go away. So that is how it will look like.

Vibhor Singhal: So next quarter we are looking at 180 to 200 basis point headwind on a Q-on-Q basis.

Saurabh Goel: On a Q-on-Q basis. Incremental impact will be 120 bps not 200 bps. 70-80 bps is already sitting in the P&L. What I am talking about is the incremental. Incremental impact will be 120 bps. The total cost of ESOPs.

Vibhor Singhal: Okay got it. So 70-80 bps is already there in the P&L. Incremental impact will be 120 basis points next quarter and in Q1 another 60 basis points will go away which is of the current ESOP scheme.

Saurabh Goel: Which is the current cost Vibhor you are right.

Vibhor Singhal: So minus 120 in this Q3 same in Q4 and then plus 60 in Q1, just to spread out the maths, got it. And also there was 14.4 Crores consulting expenses in Cigniti this quarter. Last quarter of course we had some expenses. So, I am assuming these are related to the merger and integration. Are these expenses now done or do you expect some more of them to come in Q3 and Q4?

Saurabh Goel: So the expenses in Cigniti not an account of merger. The expenses on Cigniti you will see that there was a 14 Crores hit in Cigniti, wherein consolidation, it flew down only to 9 Crores, because some expenses were already part of purchase price allocation and hence it did not impact my consolidation. And then 8 Crores of past liability was identified on account of historical taxes and all. So all of those are now behind us. We do not expect at least any past liability, in Cigniti to come and hit the consolidated financial statements going forward. The integration expenses, the merger expenses would be sub-million or so for next couple of quarters and then it will go away.

Vibhor Singhal: Got it, got it. And just last question on the open offer, as per if I read the timeline of the open offer, we are looking to close in terms of post tendering and everything by mid-November and the entire process is expected to close by December 7th if I read the schedule correctly?

Saurabh Goel: December 7th is the last date, which is the most stressed date which can happen. But we expect the whole thing to get closed at least by mid-November. The tendering and everything will get closed. The payment to the shareholders would have happened by mid-November.

Vibhor Singhal: Got it, got it. Great, thank you so much, Sudhir, Saurabh and John for taking my questions and wish you all the best.

Moderator: Thank you, we take our next question from Manik Taneja of Axis Capital. Please go ahead.

Manik Taneja: Sudhir extremely strong performance once again. Just wanted to pick your thoughts on a very interesting statement that you made the outside saying that the next seven years look much more exciting for the leadership team. While you have talked about the $2 billion revenue growth target, but if you would help us understand if you are looking at further explanation in terms of growth given the platform that we you have created now, that is question number one. The second question was with regards to basically more of a bookkeeping question in terms of what is yielding the cash generation for us through recent years, despite the fact that we continue to do extremely well from a growth standpoint. Those are my two questions.

Saurabh Goel: So historically, we have been around 67% of EBITDA of OCF being generated for a financial year. And the challenge that we had was that always Q1, Q2 we used to burn cash because of bonuses getting paid for the whole financial year in Q1or Q2, increments happening and some vendor payments coming in. So, current year at least the normalization of cash has happened and sitting today H1 we are looking at almost $40 million of cash being generated. If you are looking at the cash flow of the statutory statement, a lot of that is also to do with acquisition related expenses that have got paid out. But otherwise from an operating cash flow perspective, H1 we have generated $39 million in the current financial year as compared to a cash burn of $0.5 million in same period last year. We expect that for now, around 67% to 70% of EBITDA is the OCF we would like to operate on. And Manik, a lot of large deals today that also come in, they come in with upfront investments in the account either on account of transition or transformation, wherein the recovery starts happening over a period of time. So using our cash to make sure that when we sign large deals, we are making those upfront investments in the account. And that is why we are making sure that we at least operate at 65 to 70% OCF. We look at our DSO, which is debtors-to-sales outstanding. They continue to be healthy at 60. You look at our unbilled, they continue to be healthy at 14 odd days and hence DSO for billed and unbilled both is 74 days. So it is not that I have a receivable problem.

Sudhir Singh: Moving on to the other question that you had Manik about the confidence in the next seven years that confidence is near absolute as far as the collective leadership of the firm are concerned. Confidence comes from two or three different things. Coforge today is a far more diversified organization than it was seven years back. Seven years back when we got together, almost 40% of our revenue used to come from airlines and airports only. And five years back, we were possibly more impacted than any other firm, because when COVID came, 30% of our revenue used to come from airlines and airports. So the firm is one, not just bigger, but it has diversified significantly. Second, as we look at the future, our growth vectors over the last seven years have primarily been industry led. Where we stand with the leaders we have, the untold story of Coforge over the last two, two-and-a-half years has been behind the curtains work that has been done in terms of leadership, capability, partnership, and alliance build in product engineering, in cloud services, in data services, and experience based technologies. They are now fast becoming additional vectors for growth. The third thing that gives us a lot of comfort is the fact that what we internally call big bets geo-based big bets, the newer geos that we have gone in quietly, but with tremendous intent are playing for us. So it is a mix of one, a diversified industry mix, two a very strengthened horizontal capability mix, and three an expanded geo mix that gives us confidence. And as I have said in the closing comments as well, we believe if we can accelerate growth further over the next

7 to 10 years, wherever we land up and hopefully it will be in an incredible place, we would all as a collective leadership have created something that we can regard as our collective personal legacy and that is what drives us going forward.

Manik Taneja: Thank you for the detailed thoughts. Sudhir also wanted to get your thoughts around the recent deals. We have seen an increasing share of GCC rollout led deals in the industry including for you. If you could help us understand what is driving that and do you see that as a risk from a medium term standpoint, given the call option that customers would have?

Sudhir Singh: You are right Manik and we concur with you. We also see very strong activity in the GCC space. We believe that unlike the earlier cycles where GCCs used to get set up and there used a boom and bust cycle over three to five years. This seems to be a more concerted push and a more personal agenda driven push. In most cases, GCCs are being helmed or are being driven by Indian origin leaders who have gone up the racks and that number has swelled. So we see this as something that is likely to sustain and we have built up the process of supporting GCC build, the process of creating virtual GCCs within our premises, and the process of supporting both micro and mega GCCs as part of our sales plan going forward.

Manik Taneja: Thank you and all the best for the future.

Moderator: Thank you. Before we take our next question, we'd like to request participants to please limit your questions to two per party. Time permitting you may come back in the queue for a follow up question. We take our next question from the line of Abhishek Bhandari of Nomura. Please go ahead.

Abhishek Bhandari: Thank you for the chance and my questions have been answered. Thank you and all the best.

Moderator: Thank you. We take our next question from the line of Kawaljeet Saluja of Kotak Securities. Please go ahead.

Kawaljeet Saluja: Hi Sudhir exceptional quarter congratulations. Couple of questions Sudhir first is that your deal pipeline and deal wins have been exceptionally strong, which I do not think mirrors across the industry, but nonetheless would love to get your views on whether it is the environment or something has changed in Coforge's portfolio that is the first question. The second question relates to the question asked by Manik on GCCs. I mean, how would you characterize the durability of revenues of GCCs and how are the nature and shape of engagements different? And the third question I have is for Saurabh, Saurabh the gap in the IndAS margins and the fact sheet margins have expanded quite a bit in the current quarter. What would you have to say to?

Saurabh Goel: So two things Kawaljeet on that, so if we look at our segment report, okay, which is again the audited statement, you look at the EBITDA margin reported there which is 14.9 % and that does not include that EBITDA margin of 14.9 % does not include in the one-time transaction related expenses of 20 odd Crores plus the hit that we have taken on account of Cigniti prior year expenses that had come and hit us in the current quarter to the extent of 8 odd Crores. If we just add that back 14.9 % EBITDA margin in the result sheet which is a signed audited result sheet as part of the segmental information will go up to 15.8 odd percent which is also reported in the management fact sheet of 15.8%. So that is the gap between the 14.9% which is there in the signed segmental results and the fact sheet because there are two items which are not included in the concurrent going forward EBITDA margins or the recurring EBITDA margins.

Sudhir Singh: Coming back to question number one and two, Kawaljeet, the first question that you had shared was around the deal pipeline and what is driving it. We think it is more a function of the mix having evolved. To give you an example of the three large deals that we have signed in the current quarter, one of them is in the healthcare space at the intersection of the healthcare and the government space. Now, healthcare as a vertical was never really material for us. We started talking about building it up about two-and-a-half years back. And the fact that we have signed this deal last quarter, one of the large deals we talked about was from the retail vertical. So part of it is coming in one from an expansion in the credibility that we built across newer verticals that we did not have credibility or capability at scale earlier. The second set of deals and why they are expanding and hopefully we will have a lot more to report are coming in largely from product engineering. Product engineering for us and we call it engineering internally is for us is one of the largest or I suspect the largest HPU at the current point in time. And engineering, a lot of the credibility that is coming from the advantage go platform that exists, the Mona Lisa platform that exists, the SACS platform that we created on a turnkey basis, the work that we have done with platform players in asset wealth management and travel tech is allowing us to create large deals at scale. That is the second thing that's helping us pick up. And the third thing that is allowing us to widen the funnel and increase the velocity is the geographical expansion Kawaljeet. This quarter, one of the three deals, I talked about one earlier is from continental Europe. Now, Continental Europe, again, you know this very well was not a very happy hunting ground for us in the past. But what we have done over the last three years, quietly but in a very sustained manner, building up a sales presence there under the leadership of John, who is on the call, is what has led to that deal closure as well. So that is our assessment of why the deal pipeline is not just sustained but is expanding. Number two, Kawaljeet, as far as GCCs are concerned, the core mandates when we do get them, the initial mandate on GCC is always a time-bound mandate. For example, we secured a mandate to set up a GCC where the initial mandate was 500 people. That was supposed to be a BOT operation and it was expected to be click revenue that it would fall over a cliff after three years after we handed over operations. But nine months into that transaction with that client that 500 people business is running it has another two years to run. The number that we have been able to inject into the rest of the client is another 700. So we are operating at 1200. I cannot give you a very clear answer there. A core element of the revenue stream that is coming in will have a cliff, I do not know what to call it, a cliff vesting or a cliff fall at some stage. But if we continue to deliver, we are finding that we are able to expand into ancillary spaces. That is how I would characterize the answers Kawaljeet.

Kawaljeet Saluja: Fantastic. Thank you so much for the answers Sudhir.

Moderator: Thank you. We take our next question from Ravi Menon of Macquarie. Please go ahead.

Ravi Menon: Hi, thank you for the opportunity. Congrats on really good revenue numbers, just a few questions. One, it looks like you integrated Cigniti even though you still have only 27.98% stake. I guess this is because you now have control of the company. Is that right?

Sudhir Singh: That is right. We have board control. That is why we have integrated the firm and we have consolidated results.

Ravi Menon: Second is the deal wins of 560 million. It is the third best in any quarter so far. Could you talk a bit about, how much of a proportion of this are renewable and what is the net new.

Sudhir Singh: Let me just reflect very quickly. The healthcare/public sector intersection was net new, the one I talked about. The Continental Europe deal was net new, which I talked about and the US deal was EN but most of it was new revenue. So largely new revenue, two of them are actually NN and one of them is EN with the accent being on the N and not the E.

Ravi Menon: Great thanks so much. And any of the GCC deals, do they have any build-operate-transfer sort of structure?

Sudhir Singh: Yes some of them as I said in response to Kawaljeet's questions do.

Ravi Menon: All right thanks so much and best of luck.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand over the call to Mr. Sudhir Singh for closing comments. Over to you, Sir.

Sudhir Singh: Thank you moderator. Ladies and gentlemen, thank you very much for your time. We have always said this and we have always meant it. The questions you ask us, the insights that you provide or the questions provide are a very valuable guide and a milepost for us. We look forward to further interactions both in investor calls and investor meetings. Thank you very, very much for your time and your attention. Thank you.

Moderator: Thank you. On behalf of Coforge Limited that concludes today's conference. Thank you for joining us. You may now click on the leave icon to exit the meeting. Thank you all for your participation.