Coforge

August 03, 2021

The Manager,
Department of Corporate Services
BSE Limited
Floor 25, P.J. Towers,
Dalal Street, Mumbai – 400 001
BSE Scrip code – [532541]
Non-Convertible Bond ISIN INE591G08012

The General Manager,
Department of Corporate Services
The National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block, Bandra Kurla Complex,
Bandra, Mumbai – 400 051
NSE Scrip code – [COFORGE]

Dear Sir/Madam,

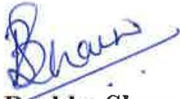
Sub: Submission of transcript of conference call

In continuation to our earlier communication to the stock exchanges on July 21, 2021 regarding the intimation of Board Meeting and in accordance with the guidance note issued by the Stock Exchanges, enclosed is the transcript of conference call with Equity Analysts & Institutional Investors that the Company conducted after its Board Meeting held on July 28, 2021.

The attached transcript is also available on the website of the Company, www.coforgetech.com.

This is for your information and records.

For Coforge Limited
(Erstwhile NIIT Technologies Limited)



Barkha Sharma
Company Secretary

Encl: as above

TRANSCRIPT: Coforge Limited Q1 FY2022 Results Conference Call

05:30pm IST, 28 July 2021

FROM COFORGE:

Mr. Sudhir Singh, Chief Executive Officer (CEO) & EXECUTIVE DIRECTOR
Mr. Ajay Kalra, CFO
Mr. Abhinandan Singh, Head – Investor Relations and M&A

Note:

1. This is a transcription and may contain transcription errors. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.

2. Any of the statements made herein may be construed as opinions only and as of the date. We expressly disclaim any obligation or undertaking to release any update or revision to any of the views contained herein to reflect any changes in our expectations with regard to any change in events, conditions or circumstances on which any of these opinions might have been based upon.

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'22 Earnings Conference Call of Coforge Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinandan Singh, Head, Investor Relations and M&A at Coforge Limited. Thank you and over to you Mr. Singh.

Abhinandan Singh: A very warm welcome to all of you to the Q1 FY'22 earnings conference call of Coforge.

You would have received our results by now. Those are also available on our website, www.coforgetech.com.

Present along with me on this call are our CEO Mr. Sudhir Singh and our CFO Mr. Ajay Kalra.

We will start this forum with opening remarks from our CEO, and post that we will be happy to open the floor for your questions.

With that I would now like to hand over the floor to Mr. Sudhir Singh, CEO, Coforge Limited. Over to you, Sudhir.

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

These are remarkable times that we are living through and I hope that your family, your loved ones, your team members, and you yourselves are safe and healthy. We meet today, yet again, in the continued shadow of a pandemic that is still raging in parts of the world. The quarter under discussion coincided with a second wave in India. Team Coforge responded to the situation by establishing three ICU's within its premises across cities, structuring 24X7 ambulance-on-call services and conducting 32 vaccination camps. As a nod to the times let me kick off the discussion today by sharing a rather unusual metric - one centered around vaccination rates. At Coforge, I take great satisfaction in reporting to you that 72.3% of our employees globally have now been vaccinated and we are on target to complete vaccination of all our employees, who wish to be vaccinated, by the end of the current quarter.

With that, I would like to share some perspectives on our quarterly performance and the outlook going forward.

Quarterly performance – Revenue analysis

Before I discuss our Q1 results, I would like to point out that this has been the first quarter where our reported performance also includes two months' contribution from SLK Global, an acquisition that we closed in the last week of April.

In order for you to better appreciate our operating performance, I shall call out organic performance excluding SLK Global metrics and the firm's overall performance including SLK Global metrics separately, where relevant.

We are pleased to report that our organic growth as a firm accelerated further during the quarter. In Q1 FY22, our sequential organic QoQ growth was 7.6% in US $ terms, 7.0 % in cc terms and 7.4% in INR terms. This organic sequential 7.6% growth in Q1 follows a growth of 7.1% in US $ terms that we had recorded in the previous quarter. As a consequence of the sustained growth our YoY organic growth in Q1, FY22 is 32.3% in US $ terms. In Q1 our organic revenue stood at 185.1 Mn in $ reported terms and the reported revenue in INR terms was 13,546 Mn.

The firm's overall performance including contribution from the acquired SLK Global business saw reported consolidated revenue grow by 16.0% QoQ and 42.8% YoY in $ terms. In INR terms the growth for the firm in Q1 was 15.9% QoQ and 38.3% YoY. Overall, consolidated revenue for the firm for Q1 stood at US $ 199.7 Mn and INR 14,616 Mn in reported terms.

I shall now detail the vertical wise growth for the quarter under review. These numbers are excluding the impact of the SLK Global addition. In Q1 our Insurance vertical grew 10.1% sequentially and contributes 32% to the revenue mix, the BFS vertical grew 3.2% sequentially and now contributes 16% to total revenues, the Travel vertical grew 15.8% sequentially and contributes 20% to the revenue mix, the others vertical grew 2.1% sequentially contributing 31% to the total revenue mix.

Our top five clients, excluding clients from the SLK Global portfolio, grew 3.9%% quarter-on-quarter and our top ten clients grew 5.6% quarter-on-quarter. Our Top 5 clients contributed 24.6% to our total revenue and our top 10 clients contributed 35.9% of the total revenue.

Onsite revenues represented 60% of total revenues in Q1FY22. This indicates and follows the continuing trend of a gradual rise in offshore revenues over the past four quarters, with onsite revenue at 60% now being lower than 64% recorded around a year back.

Quarterly performance – Margins & Operating Profits

I shall now move onto the margins and operating profits for Quarter 1.

During Q1, we delivered an EBITDA of INR 2,359 mn, before accounting for ESOP costs and the part of the SLK Global acquisition related expenses that got booked during the quarter under review. EBITDA margin for the quarter stands at 16.1%.

The margin performance for Q1FY22 reflects the full impact of global annual wage hikes rolled out across the organization with effect from April 1. They also reflect the impact of transition expenses in four of the five material deals signed over the last six months and also the movement of some AdvantageGo license sales into the next quarter. We do expect margins to expand substantially over the next three quarters, with Q2 expected to be around 200 bps higher than Q1 margins.

Our consolidated reported after-tax profit for the quarter stood at INR 1,236 million, a decrease of 7% QoQ and an increase of 54.7% YoY.

The depreciation & amortization during the quarter also reflects amortization of intangibles created as part of Purchase Price Allocation done for acquisition of SLK Global that was concluded during the quarter. The impact of the same is $0.7 Mn in the current quarter, reflecting impact of around 2 months.

Order Intake

The quarter under discussion, Q1 FY'22, stood out as a record quarter for the firm in terms of composite order intake, order executable booked and importantly the size and significance of the large deals signed.

Our organic order intake, not including SLK Global contribution, for the quarter was $318 Mn. You will recall that in the previous four quarters our order intake has been between $ 180- $ 220 Mn. Last quarter order intake was $201 Mn. So, this was an appreciable jump.

Equally importantly, booked orders for the next twelve months excluding the SLK Global business, now stands at $560 Mn. This metric is up 20.4% YoY. Including SLK Global the order executable for the firm stands at $ 645 Mn.

11 new logos were signed during the quarter

The spike in order intake has come on the back of three large and very special deals signed during the quarter. Two of these were signed across the BFS and Insurance verticals. The third was a large deal led by the horizontal Cloud and Infra services business. In the Insurance domain the firm signed a $ 20+ Mn contract which is the largest ever license contract for the AdvantageGo business. Revenues for this of course will be recognized over the three years around the license. In the BFS domain the firm signed a $105 Mn contract to be delivered over 4 years preceded by a staggered 8-month long transition. This BFS deal will bring into play all our core transformation capabilities across Enterprise Architecture, Industry consulting, Data architecture, Cloud engineering, Digital integration and Intelligent automation.

Out of this organic US$ 318 million order intake, excluding the SLK Global business, the U.S. contributed $46million, EMEA was at $ 227 million and $ 46 million was secured from the rest of the world.

Finally to round of this section, in addition to the three large deals referenced, we wish to share that with one of the largest banking and financial services institutions in the world we have signed a global MSA to provide technology services from and to their centers across US, Europe and India.

Delivery Operations & Capability Build

Today, more than 51% of our global tech revenues comes from our Digital service lines. Another 20% comes from our Cloud and Infrastructure services business. The firm's service stack is a

composite of a $ 100 Mn product engineering service line, a $ 100 Mn Cloud and Infra service line, a $ 100 Mn Intelligent Automation service line, a $ 100 Mln Business Process Management service line and a $ 50 Mn Digital Integration service line.

The Cloud services business continues to drive both growth and differentiation. It also powers fully or partly almost every large deal pursuit that we are undertaking. Our "Engineering convergence agenda for the Cloud" that we've crafted, our Cloud Innovation Factory, our Infrastructure-as-a-code transformation program approach for the cloud and our advanced AI Ops Platform which is an integrable programmable platform continue to deliver distinct and tangible value and differentiation.

Our product engineering service line with its "Agile Next" framework continues to power true product creation and upgrades. The AdvantageGo specialty Insurance suite is a prime example of this. This quarter, one the world's largest publicly traded property and casualty insurance companies signed AdvantageGo for the implementation of our Underwriting product. Another US based Fortune 500 Insurance company has successfully implemented our insurance risk management software.

Within our Digital practice, for a global provider of risk management products and services, Coforge implemented a Domain Driven Design Framework to modernize the API Architecture of two crucial Lines of Business of the client which helps faster onboarding of partners. Our Digital Consulting Services team also leads our enterprise transformation offering for the largest independent, global, workforce-deployment platform, which is a multi-national conglomerate of over 7 companies. With them we are engaged at the senior executive steering committee level.

Finally, to round up this section, on the recognition front, for the 3rd successive year, we have been awarded Platinum Partner status by Pega. Our Digital Integration business was awarded our seventh MuleSoft Partner Award to-date. We were also placed as a leader in the Everest Group Peak Matrix Insurance Business Model Innovation Enablement Services.

People

The quarter under review broke the record established in the previous quarter of the highest net headcount addition in a quarter in the history of our firm. On an organic basis, again, not including SLK Global metrics, our headcount recorded a net increase of 1,138 people during Q1FY22, implying a 9.2% sequential increase. This comes on the back of an 8.5% sequential increase in headcount during Q4FY21. Effectively, total headcount for the firm, excluding SLK Global headcount, has increased by 18% over the last two quarters.

On a reported basis, after adding in the 6,962 employees of SLK Global who now form part of the Coforge family, our total headcount stands at 20,491.

This strong headcount growth allied with the significant number of employees engaged in transition activities related to the large deals signed has led to lower utilization during the quarter at 77%. We expect utilization to normalize as newly secured deals start to ramp up.

I am happy to note that attrition continues to be at a healthy level despite tough market conditions at 12.6%.

Balance sheet

Cash bank balances at the end of Q1FY22 stood at INR 3,017 million, after material payouts towards the interim dividend recommended in May and the SLK Global acquisition. Capex spend during the quarter was INR 520 million. The debtors at the end of the quarter stand at 71 days of sales outstanding. OCF for Q1FY'22 stands at USD 5 million.

We are pleased to share that in line with our intent to return excess cash generated to shareholders the Board has recommended an interim dividend of Rs 13 per share.

Outlook

Before I share the updated outlook for FY' 22, I would like to quickly summarize and reflect on the headwinds and tailwinds that drive our revenue and margin assessment for the year. On the revenue front, the tailwinds include:

1. A Twelve month organic committed order book which is 20.4% higher than where it was a year back; overall order book is 38.7% higher than where it was last year
2. Revenue momentum has accelerated. The $ 20 Mn+ Insuretech win and the $ 105 Mn BFS win represents a material milestone for the firm.
3. Our client concentration, and its associated risk, continues to be low and contained.
4. Upfront resource hiring over the last two quarters has increased global headcount by 18%. This SME pool is available to staff the demand that we see ahead of us
5. The increased recognition of our Product Engineering expertise, and our ability to stand up, manage and grow industry platforms continues to have a very positive rub-off on the services revenue stream of the firm
6. Our forays into newer verticals over the last eighteen months have now started paying dividends.We have stood up three material verticals in addition to our three core verticals over the past two years. Hitech & Manufacturing accounts for 8.9% of our global revenues, Retail and Healthcare accounts for 8.1% and Govt outside India accounts for 7.4%
7. The continuing rebound of our Travel business gives us confidence. We believe this business shall see another fillip when air travel in Europe rebounds
8. Finally, the portfolio of Fortune 1000 clients where we are enrolled as preferred partners has doubled over the last 18 months. Growing these relationships along reflects a material revenue expansion opportunity

While this is a favorable backdrop, supply challenges are a clear headwind around revenue growth. We recognize and are attempting to resolve supply challenges, particularly around niche skills.

In May, we had shared that we are planning for an organic constant currency growth of at least 17% in FY22. You will have noted that our organic Q1 revenue multiplied times four will by

itself represent an organic cc annual growth of 18+%. Given this momentum, and the backdrop I just shared, we are now planning to deliver at least 19% cc organic growth for the year.

Moving on to the margins outlook for the year the tailwinds include:

1. Continued growth of and discounts reversal in our Travel vertical
2. A gradual increase in offshoring percentage as larger size deals have been closed
3. Operating leverage from accelerated growth

The headwinds on this front include

1. Wage increase effective day 1 of the current Fiscal. Last year there was no wage increase
2. Retention cost and hiring costs increase
3. A decrease in utilization as larger NN deals warrant upfront transitions and transition cost

You will recall that in May we had shared that are targeting an EBITDA, pre RSU cost of 19% for the year. We continue to plan to target an 19% EBITDA. In Q2 itself we expect EBITDA margin to jump around 200 bps over Q1. This immediate jump will be facilitated by

1. A forecasted increase in utilization. Our global headcount has grown 18% in the last six months in an effort to staff our new large deals. Four of the material deals signed in the last six months have an upfront transition period. In Q2, two of the four material deal transitions will complete.
2. the annual visa costs that we book in Q1 for the full year will not recur in Q2
3. AdvantageGo license sales that were held up towards the end of Q1 have now been realized in July and will provide a fillip to Q2 margins.

Coforge, the name that we adopted around a year back, stands for working together to create lasting value. We believe that at the core of our operating culture is an intense focus on execution and surprise-free operations. We believe that over the last four years we have put in place the leadership, the strategy, the culture and the tech capabilities stack to grow and differentiate. Moving ahead, we remain committed to building on that foundation.

With that I come to the end of my opening remarks, and I look forward to hearing your comments and addressing your questions.

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: So, it's really just a couple of questions from my side. In terms of growth momentum that we see, I believe it's been a strong growth in this quarter, we are very well poised to actually cross the kind of guidance that we have given of 19+%-plus growth. In fact, if I do the math, I think the required rate for the next three quarters you will need for that 19% growth is a very low single digit of around 2% to 3%, in fact, even less than that. So, just wanted to pick your brains on basically is it that we're just kind of guiding it conservatively at this point of time, or are you seeing any headwinds, or are we being cautious about let's say potential third wave or the fallouts

of any such events like in the second half of the year? My second question was actually on the margins front. You weighed on and articulated the breakup of how the margins in this quarter were impacted. So, just wanted to check if you could just quantify the margin bridge for us in this quarter. So, what was the basis point impact of the transition cost, visa cost and the salary hike for us to be able to maybe build a sort of for the future forecast.

Sudhir Singh: Thank you for the question, Vibhor.Let me take both of them in order. You're right about the mathematical calculations required to hit the 19% threshold.It is a very low number. The intent, Vibhor, has always been to be conservative around revenue guidance. And that's how we've always offered guidance, and which also is why we've always met guidance and in most cases exceeded guidance. That is the intent currently as well. We do not see any material headwinds to revenue growth. And the intent will be to hopefully exceed the 19% threshold which is why the guidance has been called out very clearly as at least 19% CC organic. Moving on to your other question about margins, Vibhor, the wage impact during the quarter had an impact of between 200 to 250 bps. Utilization, you'll notice, has fallen 400 bps. Every 100 bps decrease in utilization has material downdraft on margins again. Specific to AdvantageGo, and we always share AdvantageGo numbers during question-and-answer sessions like these, the negative impact on the firm because of the license revenue recognition getting shifted to Q2 was about 100 bps. Overall, wage had a 200-250 bps negative impact. AdvantageGo business license revenue recognition was roughly 100 bps negative downdraft, and utilization doing down by about 400 bps that again has had a significant impact. Finally, of course, there is a fourth parameter that I talked about which was the visa cost that's all being booked upfront in Q1. That too had an impact but not as strong as the wage or the utilization factor.

Vibhor Singhal: Just the last question on the recovery in the Travel segment. We saw very strong growth in the Travel segment in this quarter. And if I look at the revenue for the Travel segment for us in this quarter, we fell sharply in 1Q FY'21 and then of course we have had a proper v-shaped recovery. If I look at the revenue right now, it's around $38 million which is just 10% less than what we were pre-COVID. So, just wanted to pick your brains on the composition of this revenue? Is it that we have actually recovered most of the revenue that we lost and we are back to 90% of the pre-COVID level in the same accounts or is it that those accounts in which we had lost revenue that recovery is yet to come but in the meantime we have added more accounts and that is what the recovery can be attributable?

Sudhir Singh: When we look at the Travel sector from a geo perspective, across Asia Pacific and the Middle East, the travel recovery is near complete in terms of spend. In Europe, which is a very significant geography for us on the Travel vertical front, the recovery is still in its early phases, largely because UK where we have a material presence, airline recovery has not been on expected patterns and hopefully that will start roughly about two quarters from now. US again has now started limping back to the levels that it was at pre-pandemic. So, that's how I would represent the outlook for Travel. Pre-pandemic, as you are aware Vibhor, Travel was about 29% of our global revenues. At the current point in time, it is 20%. I guess one thing that helped us recover as a firm has been the fact that now we have three other verticals which are between about 7-9% contributors for us in addition to the first three that we talked about. That's how we see Travel

in the current point in time. Over the last four quarters, as you rightly said, the Travel vertical after the drop in Q1 of last year has broadly been growing almost 7% sequentially.

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

Abhishek Shindadkar: Two questions: First is sir, just wanted to understand how durable is this demand, any comments could be interesting? The second question is in the employee metric given in the presentation, the others which is likely the support staff has seen a substantial jump. Now, is this primarily related to SLK because it appears high for a captive business and does it also create a lever for margins and growth?

Sudhir Singh: Let me take them in order again. At this point in time, when it comes to demand, there has been a lot of commentary around which talks about the fact there is a material buoyancy in the demand environment and that is accurate. When try to project three to five years out and look at a scenario when demand will, I suspect normalize, we believe that the capability metrics that we've created over the last four years including capability metrics around product engineering are likely to see sustained long-term demand. Cloud is likely to follow the same pattern, digital integration is going to follow the same pattern as we believe is intelligent automation. While currently the market-based demand quite clearly is buoyant and at near peak levels, longer-term for our tech services stackwe are seeing a long-term secular high growth ramp on the demand side that we are seeing from the trenches right now.

The same thing would apply if I were to flip this and talk about the vertical demand story: BFS innovation dollars continue to come in, compliance dollars have been stable and at a high level Insurance still seems to be in the early stages of pivoting towards longer-term investments in the tech stack.Travel, of course, should emerge from the abyss that it's been in,and for a few years be looking at significant demand because of cloudification picking up, because of touchless travel picking up, because of automated self-service picking up, because of security-related aspects picking up. So, that's how we see the demand. We see it at least from our vantage as a firm as durable, to use your words. As far as employees are concerned, your observation is right, there's been a step jump in support staff. That step jump has come almost entirely because of the SLK addition. We believe SLK in the short-to-medium-term should be growing even higher than Coforge minus SLK. The intent is to keep these support numbers static. We are not in the business of extracting people and taking them out unnecessarily, but we will, as we have done with Coforge, try to keep G&A static and drive accelerated growth so that as a percentage that support cost keeps decreasing. Summing up, your observation is correct. The increase in others has come from SLK, we plan to cap it at more or less the same levels where SLK is and we plan to drive accelerated growth, even higher than the Coforge mother ship, and try to offset G&A percentage cost as a consequence.

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

Sandeep Shah: Just the first question, Sudhir, is in terms of the EBITDA margin guidance of 19%, so you have committed that there would be an increase QoQ in the next three quarters. But it looks

like that there will be a heavy lifting still required in Q3 and Q4 and the Q4 exit rate on the EBITDA front would be close to 21% as a whole. So, any risk to this? And is it also fair to say that we may enter FY'23 with 21% kind of an EBITDA margin as a whole which will also set up a good margin headwind defence in FY'23 as well?

Sudhir Singh: Sandeep, little difficult for us at this stage to comment on FY'23 but FY'22 that we are in right now, our short-term focus is to make sure that we first get to around the 200 bps jump that we commented upon over the last quarter and then try, if possible, to extend it so that the ramp expected in H2 around percentage margins is not very severe. It takes some time for the initial wage increase impact which tends to be a significant 200 bps to get offset and that happens progressively over the remaining three quarters.We have seen that play out over the last many years. We expect discount reversals from the Travel vertical to continue and all of them to go away almost completely by Q4. On retention and hiring cost, the fact that we have done so much of it upfront to service demand that we have been talking about from almost the last three quarters, should allow us to have some slack around being a little selective, around how many folks we onboard and at what salary points they onboard. I gave very detailed commentary around the headwinds and the tailwinds on margin, I talked in response to an earlier question around the margin walk, what the impact of utilization, what the impact of AdvantageGo, license revenues not being recognized, what the impact of the wage appreciation has been. As a consequence, when we look at the composite picture , we think in the short-term as the Q2 plans play out around margin, and for the full year, 19% EBITDA pre-RSU cost, which is what we talked about. is achievable.

Sandeep Shah: Just a follow-up, after closure of such great deals on organic basis, how is the deal pipeline looking at and still you are having deals above $50 million in your pipeline? And last question is in terms of if you look at the full year, generally your 2Q and 4Q are seasonally great. So, do you expect the same trend may continue even in FY'22?

Sudhir Singh: Sandeep, the deal pipeline continues to be robust. Our intent not just for this year but in the years to come. continues to be as it has been in the past is to drive growth that is robust, to drive growth that is sustainable and is not just a flash in the pan, and to drive growth profitably and over time increase in margins. Deal pipeline is robust. We closed a $100 million plus deal and it's taken us about four years to reach this milestone. So we don't expect that to recur almost immediately. But as an aggregate, when we look at the deal pipeline, size of deals, number of deals, and the spread of deals by tech horizontals and geos, we feel good about where we are. Q2 and Q3, and I noted this earlier as well, we do not see any headwinds which would result in any kind of a negative surprise against the plans that we have drawn for ourselves for growth for the current year.

Moderator: The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Sudhir, mostly you have answered most of my questions. I just had one clarification on utilization. If you could just highlight given the kind of revenue growth that we have seen even

organically, the reasons behind the fall in utilization? And you sort of highlighted that utilization could go down further as a headwind, that seems to be a big counterintuitive because as and when your employees are off the bench and on projects, the utilization effectively should improve, if you could just probably help me clarify this mathematic? Thanks a lot. That's all.

Sudhir Singh: Thanks for the two questions, Vimal; let me take them in reverse order. I just want to clarify; we believe utilization will go up. I have not indicated utilization will go down.What I did say was that utilization has gone down from 81% in Q4 to 77% in Q1. But we believe utilization will go up and that is going to be a very critical and very important margin lever for us going forward, so that's one.

Coming to your first question around why has utilization fallen? Four of the material deals that we have signed within the last six months are still under a transition phase, and that has warranted upfront transition investments in cost and employees and people and SMEs. That's why utilization number has fallen.

Participant: Fair enough. Just one follow-up on the margin only, sorry. So, basically, your margin guidance of 19% post RSU, this is after the integration of SLK which you had highlighted at the time of acquisition that this was an asset which had higher margins as compared to Coforge. So, your margin guidance includes your SLK assumptions as well, I would believe?

Sudhir Singh: Yes. So, when it comes to revenue guidance, we have always qualified it saying, it will be at least 19%. And as far as the EBITDA guidance is concerned, we are targeting 19% as a composite organization, because SLK is a relatively small part of the overall firm. And even if SLK comes up at higher than the firm's average, it is not going to move the needle too much. So, 19% is the EBITDA target for the composite firm for the current fiscal year. And 19% plus is the revenue target for the composite firm for the current fiscal year.

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

Manik Taneja: Congratulations on a great quarter and starting FY 2022 on a very solid note. I had a couple of questions, number one is on the deal wins in the US Is there some one-off impact there, given the fact that typically we have had about close to about $100 million of deal wins in the US on a quarterly basis, this quarter that number appears to be low? That's question one.

The second question was with regards to how do you see the onsite-offshore mix of your revenues progress, more from a two to three-year timeframe. Given the fact that we have had some offshore shift in the last four quarters, and despite some of the large deals wherein we are transitioning currently. Thank you.

Sudhir Singh: Thank you for both the questions, Manik. Deal wins, out of the $318 million, the fact that the US is $46 million in this quarter is just a passing blip. Demand pipeline in the US is very strong. Our investments around sales and marketing addition have also been very, very focused on the US in the recent years. So, the US should be back to near normal or higher than normal order intake

starting quarter two itself. As far as onsite-offshore is concerned, onsite revenue has now fallen from about roughly what used to be around 64%-65% a year back to 60% this quarter. If the deal velocity, and if the median size of the deals going up, if that trend continues, we think onsite revenues might fall below where they are, or at least stay where they are.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Sudhir, before I state my question, just wanted to share a feedback. Your revenue growth performance has been really exceptional, and while we understand and you have clearly laid out all the pulls and pushes on what is driving growth, it would be a lot more useful if the guidance can be a bit realistic. You guys are doing an amazing performance, and I don't think there is any harm in kind of portraying the growth you're seeing going forward over the next three quarters better than a flat type of performance. So, just wanted to kind of share that feedback.

On the question, I just wanted to prove a bit on the margin guidance which you are giving, is it possible to quantify the support from the shift of licenses to Q2 and reversal of discounts on the overall margin guidance commentary for FY 2022? And excluding these, is improved pricing one of the reasons why your margin will go up over the next three quarters? Or is this more a case of containment on the SG&A side?

Sudhir Singh: Sure, thank you for the feedback, Mukul, and thank you for the question. Let me very quickly respond to the feedback. I think as a firm we will take that as a backhanded compliment, the fact that we are getting 19% plus percent revenue organic CC guidance is conservative. I do agree with the max part of what you are saying, there is scope for us to perform better. And I want to assure you and to everyone else on the call that it is our intent to try to maximize growth. But thank you for that feedback.

Coming back to your question around margin guidance and a more granular breakup of that margin guidance, license deferral from Q1 to Q2 had a negative 100 bps impact on our quarter one margin, Mukul. So, that's something as we think for the walk from Q1 to Q2, that's something that we are factoring in. Discounts, especially in the Travel vertical continue to reverse. But as I noted earlier, we expect for the firm a material blip in margins owing to complete discounts going away, given how the pandemic has progressed off late, to happen around Q4 of the current fiscal.

Third, your point around pricing improvements, being a lever is correct. We have seen that, and this is still early days. Interestingly the ability to ask for and get higher price realization especially for niche skills this time around has been led by the APAC geography. So, the willingness for clients in APAC to align with increased pricing asks is higher. I am not saying it doesn't exist in Europe and North America, but it is higher in APAC. And we continue to have conversations with clients across North America and Europe to also secure pricing increases. In our experience, those pricing increases are not across the board MSA linked price increases. They are more structured around individual engagements or individual niche skill SMEs for whom prices are getting renegotiated. That is how I would characterize the answer to the pricing improvement comment that you had, Mukul.

Mukul Garg: Thanks. The second question was on SG&A, there was a meaningful improvement or increase in the SG&A cost this quarter. Was that primarily because of SLK getting integrated into the organization? And second part is, if I look at SG&A investments, SG&A payouts you guys have been doing, I will take a slightly longer term view over last four years, it has very meaningfully trailed your revenue growth at around 1.5% quarterly increase versus revenue growth kind of almost reaching 4% on a Q-on-Q basis, between Q1 FY 2018 and Q1 FY 2022. So, how should we see this, because SG&A is always supposed to be more variable in line with the revenues, unlike a fixed cost, but the behavior in the performance is more fixed in nature. How should we see this going forward?

Sudhir Singh: Mukul, if you look at our SG&A, our SG&A from around fiscal year 2018 used to be roughly about 19%. In the quarter under review, it's come to 13.6%. So, while there is a trailing impact, the long-term secular impact, as growth has accelerated for us is that our SG&A as a percentage has been coming down. 13.6%, which is where it is, is a number that to us seems to be a number that we would like to hold. We don't want to cut it beyond this because it's not just this year, at some stage, maybe after Q2, we need to start sweating over next year and how to make sure that growth sustains. That's how we are looking at SG&A numbers right now. The 13.6% this quarter is lower by 40 bps from the 14% that we saw last quarter.

The other interesting metric that you would have seen in the fact sheet that we shared with you is that the number of sales and marketing people has actually gone up. And they have gone up, one, not just because SLK got added to us; they have also gone up because as we have been creating newer verticals, and as horizontals like Cloud have started securing larger deals for us, we have started adding some of our existing delivery SMEs to the pre-sales pools of the horizontals, of the newer verticals that we have created, and also the US geo, which we think can be a very material growth ramp for us over the next three to five years. Did I answer your question, Mukul?

Mukul Garg: Clearly that is a very fair assessment. Just wanted to add a sort of, kind of context to this, are you seeing any force multiplier because of your insuretech platform on your SG&A cost? Because, obviously, the margins on product sides are generally higher, so is that also one of the reasons why over a longer period you have been able to hold the cost, while improving your revenues?

Sudhir Singh: The biggest lever, as we assess it, Mukul, is the fact that over a period of time, we are almost twice as large as what we were four years back. The biggest lever for holding the line on SG&A for us has been growth. Our SG&A costs have been rising, and they should keep rising. But they have been lagging, as you rightly said, the growth that the firm has experienced. That's been the biggest lever. I would not say that AdvantageGo, which is roughly only 5% of our global revenues, has been a very significant force multiplier on the SG&A side.

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

Dipesh Mehta: Congrats for very strong execution. Two questions from my side. First, can you help us understand whether Q1 played out in line with what you anticipated at the beginning of quarter, or played out

better or worse? And if better, then what surprised us positivity, if you can provide some perspective? Second question is depreciation related. Can you provide purchase price allocation of SLK Global across tangible, intangible, goodwill? How we did that assignment? Thank you.

Sudhir Singh: Thank you for the question, Dipesh. Let me first request our CFO, Mr. Ajay Kalra, to take the depreciation question. And if you like to address question one as well, please go ahead, Ajay.

Ajay Kalra: Sure. Thank you, Sudhir. I will go in the reverse order. On the purchase price allocation, we have done the preliminary assessment of our purchase prices for SLK Global. As you would recall, the total consideration for 60% was INR 920 crores, total identified tangible assets, net of liabilities, were INR 192 crore. Identified intangible assets were valued at INR 315 crore. The goodwill that we recorded was INR 615 crores. Does that does that answer your second question, Dipesh?

Dipesh Mehta: It does answer. The only question is, now Rs. 315 crore intangible we will amortize over what period?

Ajay Kalra: The amortization period would be approximately 10 years. It primarily consists of customer relationships and contracts; it is around 10 years.

Sudhir Singh: There was a question of proceeding the second question as well. Let me take a quick stab at that. The question was, Dipesh, whether quarter one played out in line with what we expected? It was in line; it was broadly in line with what our expectations were. Getting into quarter one, we knew that we were chasing a $100 million deal. And we haven't closed a $100 million deal at least in the last four years as an organization. So, the fact that we were able to close it was not a surprise, but in many ways it was a validation of the efforts that have gone on over the last four years in recreating the technology stack, and the domain stack of the firm. Because, the revenue is seeing such a spike, utilization has gone down because of the investments that had to be made to start staffing these deals. So, there aren't surprises, but those are the two aspects – the very, very sharp and accelerating revenue growth, leading to a lower utilization. Wasn't a surprise, but they was a little away from what we had built in around our utilization plans for Q1.

Moderator: Thank you. The next question is from Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: I congratulate you on three fronts, on excellent quarter, upgrade of guidance, but more importantly, on the bold call of taking margin hit, but you have retained your employees and you have kept your attrition under control. But I also want to ask you a question that probably Mukul also asked, but I will ask it in a little different way if I can get something more out of it. With the order book which is up 38% year-over-year, travel opening up, demand-supply massive mismatch, I don't see that mismatch could be met anytime soon, and your attrition being lower, so you obviously have a good amount of talent with you already. Why are you giving such a weak guidance of 19%?

And I understand that you may have built in something for Wave 3 or even biggies like bank companies are massively under-guiding, so I am not claiming anything on that part. But what I am trying to understand is, is there really some worry which is keeps you holding to give this 19%

guidance? Or you just want to keep surprise for the investor every quarter? Because it will be almost impossible to achieve 19% unless we do some big blunder, or you are aware of some big client loss or something. That is what my worry is. Because I think with this kind of order book and travel opening up, everything going in our favor means 23% to 25% is something which we will not have to make much effort to do, because your people are also with you, if you don't have a high attrition in the key people. Can you please help us a little bit on that?

Sudhir Singh: Thank you for the questions, Sandip, and thank you for your comments as well. I just want to reiterate, and I think I said this earlier, we do not have any worries linked to headwinds around a potential client loss or an existing revenue stream loss at all. I want to be absolutely categorical about that. We have never lost a material client, at least over the last 16-17 quarters that we have all been getting together and talking about performance. And we really see nothing of that sort on the horizon at all. Our guidance, and I want to underline it and double underline it again, is "at least". On revenue, one, we have taken it up by 2% from the last quarter; two, we continue to qualify it as at least 19%. As both of us recognize and I tie this back to Mukul's question as well, it is going to be a dynamic number, we have the next two or three quarters to continue to assess how the market progresses, how our deals progress. And if there are further upsides, we will continue to keep revising our guidance 19%, I would encourage you, given the way we worded it, also to look at it as a threshold. That's what we are calling out, Sandip. But there is no material headwind that is playing into any of the commentary around revenue guidance.

Sandip Agarwal: And second thing, which I wanted to know is, after how long you are seeing a position in the client market where pricing power is coming back, is it a decade or more?

Sudhir Singh: That's an interesting question. There has always been pricing power whenever we have been able to stand up a bunch of SMEs who delivered, clear, quantifiable impact to the client. It's never been a situation where things were so bad that you couldn't go back to a client after doing excellent work, or after providing for an exceptional SME pool and not ask for a revision. COLA has been built in into a lot of our contracts, and there have always been ongoing conversations. That trend has however intensified over the last 12 months. Let me just make sure I get this right, the way I would put it is, in the last seven to eight years this is possibly a point in time where the ability to go back and have that conversation, and have a very high conversion rate around those conversations, is the highest that I have seen. That is how I would call this out.

Sandip Agarwal: Thanks a lot, Sudhir, for taking my question. And best of luck for the future quarters. You have an excellent team in place, and you have retained all your key resources, so congratulations once again. And I am very confident that your "at least 19%" threshold will be beaten very, very significantly. Thanks.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stock Broking. Please go ahead.

Vikas Ahuja: Congrats on a good quarter. My first question is, on client concentration which continues to improve, we have seen top 10 clients contribution coming down from roughly a little over 40% to

close to 36% now in three years. But you think we need to use the same template for vertical wise exposure as well? BFSI is more than 50% of total revenues now, post-acquisition, are we happy with that kind of exposure or you think we need to diversify over time?

And second one is, as Vibhor mentioned earlier, we are 10% behind pre-pandemic run rate on Travel vertical, do we still think from here Travel will continue to lead the overall pack, assuming Europe follows US maybe with a lag of three to six months? And also, last quarter you talked about a couple of large deals we have won in the Travel segment. Have the ramp ups have already come this quarter, or those would be coming next quarter? Thanks a lot.

Vikas Ahuja: Thanks for the question, Vikas. I am going to take a quick stab at them, and if Ajay wants to come in I would request him to also come in on the question. Client concentration, you are right, the top 10 are now 36% and we feel very good about it. We have always believed as an organization that the biggest risk for a firm our size is putting too much of our figurative eggs in a single client or a few client baskets. So, the fact that client concentration is low gives us very significant confidence that growth will be sustainable in the medium to long-term. We always talk about robust, sustainable and profitable growth, and the sustainable growth largely drives off the fact that we do not have high client concentration.

Your comment around the fact that we need to mirror what we have done on the client concentration side, on the vertical side is something that we recognize and something that we have been pursuing. If you look at us as an organization, and I called it out, there are three verticals that have been created over the last 18 months, which are now somewhere between 7% to 9% of our global revenues. And we made very, very concerted efforts at standing them up and a lot of investments, and that process will continue.

BFSI, while one can club it together as one vertical, the way we look at it as BFS and insurance. Both have very different dynamics at work. Insurance is roughly 30%, BFS on the technology side is 16%. Given the large deal that we have signed, $105 million on the Banking side, we expect BFS to pick up pace very significantly, and to be driving growth for the firm, which has not been the case in the last two or three years. So, Banking should be a clear growth lever, Insurance continues to have a very differentiated, and a story that spans product platform and services, that should continue on the growth curve it is. And in Travel, Vikas, our expectation is that the growth that we have seen over the last four quarters, post Q1 last year, is likely to sustain in the medium termAt least that growth pattern, though there may be ups and downs in a few quarters here and there. Largely because we believe the full recovery from our vantage has not played out because Europe travel has still not recovered. Recovery has largely been North America travel and APAC travel centric.

Question number three around Travel, we talked about two material deals, which were won in Travel in Q 4. And I did talk today about the fact that two out of the four material deals are expected to complete transition in the current quarter. They happen to be the two Travel deals that were signed in the previous quarter, where we had placed SMEs and they will now move to steady state operations starting quarter two.

Moderator: Thank you. Next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Can you give a bit of data points on revenue and margins on your NITL, which is now AdvantageGo, and WHISHWORKS that you typically give every quarter, in case I have missed out.

Sudhir Singh: Sure. Ajay, would you like to give it, or would you like me to go ahead on that?

Ajay Kalra: I can give the numbers. The AdvantageGo revenue for the quarter was INR 750 million, EBITDA was 16%. And WHISHWORKS, the revenue for the quarter was $689 million and EBITDA was 15.5%. Another thing which I would like to add is that WISHWORKS equity will be 100% owned by Coforge after the residue equity stake will be acquired in Q2 FY 2022.

Rishi Jhunjhunwala: Understood, thanks. And just secondly, Sudhir, can you give some clarity in terms of comments that we have made around capital, in the sense, our main investor looking for, an ADR you had made some comments in the news in the morning. Just wanted to understand, basically, what kind of plans are looking at on that front? If that is something you can share.

Sudhir Singh: Sure. As we shared earlier, and as we shared earlier this morning as well, the board has a passed an enabling resolution on the 6th of July. And we have shared details of that resolution with everyone. The board's assessment at the current point in time is that we do not have any primary requirements. The board's assessment also at the current point in time under this enabling resolution, which is still awaiting approval by the shareholders and that process will complete on the 30th of July at our AGM, is that if the board were to decide to go for the issuance of depository receipts, we would prefer to do it the ADR route and not the GDR route. So, that's where we stand currently, Rishi, around the enabling resolution passed on the 6th of July.

Rishi Jhunjhunwala: So, that's basically conversion of the locally listed into ADR and no impact on our primary capital, right?

Sudhir Singh: Yes. At this point in time, the board believes that we do not have primary requirements that need to be serviced.

Moderator: Thank you. Next question is from the line of Sudhir Guntupalli from ICICI Securities. Please go ahead.

Sudhir Guntupalli: Congrats on the good quarter. So, if you look at the receivable, there is a Rs. 200 crore increase sequentially, and that is more or less equal to the sequential increase in overall firm revenue. Across industries and across companies we understand that that growth is coming back from a low base, some amount of working capital is getting absorbed back into the business. But in our case, the quantum of this increase seems to be pretty high. So, if you can give some more color on whether we are witnessing any change in the working capital terms for new contracts, or if there is any change in the revenue recognition policy, or if the standard is being driven by any one particular vertical? Because incidentally another competitor of yours with high exposure to travel has also witnessed a similar trend this quarter.

Sudhir Singh: Thank you for the question, Sudhir. Ajay, can I request you to take that, please?

Ajay Kalra: Sure, thank you. With the increasing in the receivables which you are seeing, includes the SLK Global, there is no change in the DSO of the firm, and the overall composition of the payment terms and the overall operating cash flows and capital structure, working capital. So, it's just the addition of the SLK Global's asset driving an absolute increase in the receivables.

Sudhir Guntupalli: But I would suppose, I mean, if your revenue also got added, so if you are looking at the incremental revenue at overall firm level, so are we suggesting that SLK Global has a much different working capital profile than what we have in the core business?

Ajay Kalra: No, we are not suggesting that. There were some payments that got delayed in India Government because of the pandemic second wave pandemic, to the tune of approximately $5 million. That will get recovered in Q2. However, in Q1, there was an impact. And in addition, I just want to also add that if you would look at the Q4 of FY 2021, the OCF was 144% of the EBITDA, which was significantly higher, and we had a significant good collections in Q4. And on backup that, the next quarter obviously has some headwinds, because of the higher collections in the previous quarter. On an overall period basis it evens out, but there are no changes in the payment terms over the last couple of quarters.

Sudhir Guntupalli: Okay, Ajay. And just if you can repeat the intangible assets. Did you say it is Rs. 315 crore and goodwill is Rs. 615 crore?

Ajay Kalra: That is correct. I will repeat the numbers once again. The overall purchase consideration for 60% was Rs. 920 crores, as you are aware. Total tangible assets were Rs. 192 crores, intangible assets were valued at Rs. 315 crores and the goodwill recorded was Rs. 615 crores.

Sudhir Guntupalli: So, we are also considering the future payouts related to this, right, on top of Rs. 920 crore? Because, obviously, these three will add up to more than Rs. 920 crore.

Ajay Kalra: That is correct. The future acquisition cost has been recorded at Rs. 213 crores and there is the non-controlling interest which was recorded at Rs. 102 crores.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Congrats on strong growth this quarter. Sudhir, just one clarification in terms of the deal flow, we were talking about last quarter that we are chasing three $50 million plus deals, of which one was a $100 million deal. So, that $100 million seems to have been signed. But in terms of the other two, does the deal flow this quarter include that or we are expecting decisioning on that to happen in the subsequent quarters?

Sudhir Singh: One of those two has been converted and they were referenced in the two other large deals that I talked about, Ashwin. There is another one that is still in play.

Ashwin Mehta: Okay, fair enough. And just small follow-up in terms of, we had earlier talked about that ESOP charges this year would be almost 50 bps lower than the last year. So, this quarter there was an increase in terms of ESOP charges. So, do we see going forward a normalization of that and do we stick with that 50-bps reduction in terms of ESOP charges?

Sudhir Singh: Thanks for the question, Ashwin. Ajay, can you take that, please?

Ajay Kalra: Sure. Thank you, Sudhir. The increased cost of MIP basically includes the grants given to the leadership that was hired during the quarter, including the leaders of our recent acquisition SLK Global at the higher market price. We do expect that the overall ESOP cost would be at approximately 85 bps, instead of the 60 bps which we had guided earlier for the financial year 2022.

Ashwin Mehta: Okay. So, it's 85 bps for the financial year that you are now looking at?

Ajay Kalra: That is correct.

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

Sandeep Shah: Just one question, Sudhir, on the demand side. If you look at more than 50% of your portfolio, which you indicated products, engineering, cloud, digital, intelligent automation, are in high demand, and you believe there could be a multi-year demand for the same as a whole. So, I am not asking for a guidance, but do you believe any reason not to believe that the organic growth momentum what we are seeing in FY 2022 can even continue in FY 2023 if there are no major COVID related waves or no other macro related risks as a whole? So, I am not asking for guidance, but directionally you believe these kind of growth momentum can be sustainable beyond FY 2022? Or do you believe FY 2022 is a year of pent-up demand and growth may naturally come down a bit in FY 2023?

Sudhir Singh: Sandeep, even last year during the pandemic, if you take out the Travel vertical, the rest of the business outside Travel for the firm grew at 18.4% in organic CC terms. Pre-pandemic, the previous two years, we were growing at about 16% CC organic, and we were of course putting the building blocks around the tech stack build up in those first two years. Year three, during the pandemic, other than Travel we still delivered 18.4% growth. Travel for us is a very big vertical, but we did it. This year, clearly, we have called out 19% plus and we will see where we finally lined up. Our intent as a team, as an organization has always been to discover a path to sustainable 20% organic CC growth, but that's an ambition, that's not a guidance. We believe there are clear parts to that journey, to that destination that exists. We have seen organizations, which are not necessarily India based in the IT services space, create those, and be on those for the past few years. So, we are attempting, and we are putting in everything that we have to try to get to a model where we can start delivering those growths on a sustained basis. And just to close, are we confident that we found the path already? I think the answer is no. But are we very, very intent on trying to get there at some stage? The answer is a clear yes.

Sandeep Shah: And just second question maybe you can answer overall for the industry as a whole, because looking at the supply side, attrition are real issues. And the mitigating factors would be client's acceptance for pricing as a whole. But for the industry as a whole, if you look at 50% of the portfolio is digital, 50% is legacy. And you also said price increases are coming in pockets for specific engagement rather than across industry as a whole. So, net, net, do you believe Sudhir, the net increase on the realized pricing at consol levels may not be very high? Or you still believe the pricing increase on niche skills could be actually surpassing the pricing pressure which we may see for a legacy portfolio as a whole?

Sudhir Singh: I think the blip that we have seen on pricing is likely to be temporary. I do not in the medium to long term see pricing as something that's going to keep going up. At some point in time, that leverage will start decreasing and we will come back to near normal levels where pricing is something that needs to be negotiated on an ongoing basis. To my mind, the bigger margin lever that we will have available to us as an industry will be – one, making sure that we start eating our own dog food and inject automation in back-office operations with the same intensity with which we have been able to inject it into some of our client organizations. Second, with deal sizes progressively going up, and I am talking in relative terms for mid-tier players like us, offshoring itself is going to be a very significant lever around margin increase, given the historical offshoring percentage level that mid-tier firms have had, and where they can land up if we continue securing the large ticket deals that we have in the recent past.

Sandeep Shah: Okay. And last, just a bookkeeping. CFO has said Rs. 102 crore on purchase price allocation is towards what, because your voice was feeble, so Rs. 213 crore is towards earn out, Rs. 102 crore is towards what?

Ajay Kalra: The Rs. 102 crores is towards the non-controlling interest. If you would recall, for SLK Global, we have acquired 80% where we had acquired 60% upfront and contracted to acquire another 20% after two years. And the balance 20% is considered as non-controlling interest and that's the Rs. 102 crores.

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

Sudhir Singh: I would like to reiterate the gratitude of the team, all 20,000 plus employees of Coforge, to all of you for having made the time for this conversation. We also thank you for your interest and for the comments and the insights that we continue to pick up from our interactions with all of you. I look forward to speaking with you along with Ajay, three months from now. And we hope that you your families, your friends, your teams stay safe over the next three months and beyond. Thank you very, very much for your time and for your interest once again.

Moderator: Thank you very much. On behalf of Coforge Limited that concludes this conference. Thank you for joining us, ladies and gentlemen. You will now disconnect your lines.

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