"Coforge Limited

Q1 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 Earnings Conference Call of Coforge Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav, VP Investor Relations. Thank you, and over to you, sir.

Vikas Jadhav: Thank you, Yashashri. Good evening to all. You would have received our Q1 FY '24 results by now. They have been already filed in the exchanges and also on the Investors section of our website.

I have with me today, our CEO, Mr. Sudhir Singh, our Chief Customer Success Officer, Mr. John Speight; and our Deputy CFO, Mr. Saurabh Goel. Mr. Ajay Kalra, our CFO, was unable to join us today because he's indisposed. He's thankfully well on the road to full recovery and we expect him to rejoin work by next week. He should join us, for the next quarterly call.

We'll begin the call with opening remarks from the management team. And post that, we'll open the floor for the questions. With that, now I would like to hand over the call to our CEO, Mr. Sudhir Singh. Over to you, Sudhir.

Sudhir Singh: Thank you, Vikas, and a very good afternoon. Very good morning, very good evening to all of you across the world folks. Thank you very much for making time to attend our quarter 1 investor call.

I shall start off by reading from my prepared remarks and shall lead with a quick summary of our performance in quarter 1 before we get into section-wise details. And then, as always, we'll take questions. On with the prepared remarks that I shall make now.

Exceptional execution by Team Coforge in a testing environment allowed us to deliver another quarter of sustained, robust and profitable growth. We have registered a CC growth of 2.7% quarter-on-quarter and 18.4% year-on-year in quarter 1, the quarter under review.

This continued growth follows our performance in the last two quarters where we had recorded sequential CC growth of 3.7% and 4.7%, respectively. Growth in Q1 also came on the back of a 5-year USD300 million TCV deal and yet another 5-year USD65 million TCV deal in the BFS vertical.

During the quarter, we increased our net headcount by 1,000 employees exactly to support future growth. We fully rolled out the annual salary increments for all our employees on the first of April. We honoured all commitments to onboard all campus and lateral hires.

We met our commitment to distribute around 21,500 iPads to employees to mark our USD1 billion milestone. We paid out in full the annual bonuses of fiscal year '23, and we saw our attrition dropped down further to 13.3%.

The quarter saw a record quarterly order intake of USD531 million and has set us up very well for meeting our annual revenue guidance of 13% to 16% CC growth and the annual adjusted EBITDA guidance of around 18.3% adjusted EBITDA.

With those opening comments, from my prepared remarks, I shall now take you through the quarterly performance and our assessment of the business outlook.

QUARTERLY PERFORMANCE – REVENUE ANALYSIS

Start with revenue analysis. I'm pleased to report during the first quarter, Q1 FY '24, the firm registered a sequential revenue growth of 2.7% in constant currency terms, 2.8% in U.S. dollar terms and 2.4% in Indian rupee terms, respectively. You will recall the last 2 quarters: we've grown sequentially CC by 3.7% and 4.7% respectively. On a year-on-year basis, our revenues grew by 18.4% in CC terms, 13.9% in USD terms and 21.4% in INR terms.

During the quarter, our BFS vertical grew 3.1% quarter-on-quarter in CC terms, and it contributed 31.1% to the revenue mix. The insurance vertical registered a second consecutive quarter of strong growth, and it grew 4.3% Q-on-Q in CC terms. It contributed 22.6% to the revenue mix.

The Travel portfolio grew 1.3% Q-o-Q in CC terms and contributed 18.5% to the total revenue. The others vertical portfolio saw a growth of 1.8% in CC terms in Q1 and contributed 27.8% of the total revenue mix.

Within the regions, Americas grew by 5.6% sequentially in CC terms, the EMEA region remained flat, and the Rest of the World grew by 1% sequentially in CC terms.

We saw strong growth across our top customers during the quarter. During the quarter under review, our top 5 and top 10 customers grew 12.2% and 9% sequentially, respectively. The top 5 clients contributed 25.1% to revenues, while the top 10 contributed 37.7% to the revenues. Our resilient performance under an uncertain macro has been underwritten by our continued ability to expand our footprint within our key accounts.

During Q1 FY '24, the offshore revenues saw a further pickup and stood at 51% of the total revenues. Once again, as noted earlier, the shift towards higher offshore revenues over the last 2 years has been an important structural margin support for the firm.

With that, I shall now move on to the margins and operating profits discussion.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS

During the quarter, we delivered an adjusted EBITDA of USD43.4 million and INR3,544 million in INR terms. This reflects an adjusted EBITDA margin of 16% for the quarter. Our gross margin in the quarter has gone up by 30 bps year-on-year, and our SG&A has increased by 80 bps year-on-year reflecting in a 50 bps decrease in adjusted EBITDA Y-o-Y.

The margin decline quarter-on-quarter in Q1 is in line with our usual quarterly margin progression through the year where we see a decline every year in Q1 over Q4 (of the previous year), and we see a strong subsequent ramp up thereafter. Based on our performance in Q1 on adjusted EBITDA margins, we remain confident of delivering on our annual margin guidance of around 18.3% adjusted EBITDA for fiscal year '24.

The decrease quarter-on-quarter in adjusted EBITDA in this quarter, Q1 was on account of 4 key factors. They are, and I'll walk you through those. Global salary hikes, which were effective from day one of quarter one. It has to be noted that we have taken a conscious call not to defer annual salary hikes. It is pertinent also to note that Coforge has dispersed the annual variable pay for all its eligible employees in quarter 1 with absolutely no cuts.

Second, the firm's net headcount has increased by 4.3% during the quarter and it went up by exactly 1,000 employees. This has been done to support our efforts to deliver an annual CC growth of 13% to 16% for the year, which is our current revenue guidance and which we feel confident about.

Third factor with a year-on-year reduction in the margins -- for the margins was on account of hedge gain and losses, which we take in revenue. Adjusting for hedge gains in quarter 1 fiscal year '23 versus the losses in quarter 1 fiscal year '24, the impact of hedge loss in the quarter would be around 60 bps.

And finally, fourth, we book all our annual visa costs in Q1, and we have done so in this year as well. Lastly, our Q1 consolidated PAT adjusted for the USD1 billion milestone celebration costs stood at INR1,818 million, which reflected a year-on-year increase of 21.4% in INR terms.

I shall now move on to the order intake commentary.

ORDER INTAKE

I'm very pleased to report an all-time high order intake of USD531 million during the quarter under review. This was a tough quarter. And yet, this was a record order intake. This is the sixth consecutive quarter where the firm has reported an order intake of more than USD300 million. An unimpaired large deal signing velocity based on an exceptional focus on execution, has allowed Coforge to deliver continued growth even in a tough demand constrained quarter like Q1.

In terms of geographic regions, Americas contributed USD155 million, EMEA USD346 million and the Rest of the World, USD30 million to the order intake. As mentioned earlier in my commentary, we signed a large deal of USD300 million TCV with an existing BFS customer. With this signing, we have locked the business over the next 5 years period with a minimum commitment of USD60 million per annum.

Furthermore, another USD65 million TCV deal with more than 50% of it representing new business was signed with an existing customer, again in the BFS space. The first win that I talked about was a consolidation opportunity that we led discussions around and the second was a proactive cost takeout deal where we have taken over the wallet from an existing vendor. We believe that signing these 2 large BFS deals in a challenging environment like Q1 reflects the strength of our capability stack and the execution intensity that marks our concern.

Our executable order book, which reflects the total value of locked orders over the next 12 months stands at USD897 million, almost USD900 million, and it is up 20.4% year-on-year.

PEOPLE

On the people front, at the end of the first quarter, our headcount stands at 24,224 and we've seen a net addition of 1,000 people, as I said earlier. Utilization, including trainees, during the quarter stood at 81% compared to 81.5% in quarter four fiscal year '23. Last 12-month attrition during the quarter stood at 13.3%.

Employee attrition at Coforge and I've said this many times, continues to remain amongst the lowest across the Indian IT services industry. I should now request John Speight, Customer Success Officer at Coforge to walk us through capability and delivery insights. Over to you, John.

DELIVERY OPERATIONS & CAPABILITY BUILD

John Speight: Thank you, Sudhir. Today, I'll be focusing just on our AI capabilities. Over the last 4 years, we've invested significantly in building out our capabilities in areas such as natural language processing, NLP, machine learning and deep learning. During this time, we've developed and deployed in excess of 100 solutions to more than 45 solutions in areas such as investment recommendations, fictitious travel bookings, and underwriting decisioning.

To make this real, I will talk you through one of our AI implementations.

For a leading airline, we implemented graph AI and machine learning to enable a leading airline to capture analytics, highlights inefficiencies and proposed changes that could reduce the gate turnaround times for their airplanes.

We believe the effective application today of generative AI using large language models known as LLMs, such as ChatGPT, can drive exponential value for our customers. As such, we are accelerating our AI strategy to position Coforge as an AI-first organization. We are embedding AI into all of our service offerings, including EPO, software engineering, product engineering and quality engineering.

Our AI strategy consists of 6 levers.

One, we are leveraging our partnerships with leading U.S. universities working together on AI research and training.

Two, we are co-innovating, developing and monetizing solutions with our customers.

A good example was Quasar e-BOL, where we've actually used AI to automate the end-to-end processes for tracking data latency, and we're going to market this.

Three, we are creating accelerators that allow us to build, train and implement AI solutions at speed.

Four, we are focusing on relationships with the hyperscalers and the low code no code devices such as Salesforce, Pega, ServiceNow, we've identified as infusing AI into their platforms. For example, today, we are the first partner to have solutions available on the Azure marketplace.

Five, we are ramping up our training and certification programs. We have a core team today of around 1,000 trained AI specialists across the hyperscalers in the part of that business. We plan to train in excess of 1,000 more over the next few quarters.

Sixth, we are investing in our AI innovation labs to build out more industry-specific use cases.

I'll quickly highlight our recent implementation using generative AI.

For U.S. health care provider, we have actually integrated GPT large language model for triaging incoming patient requests then summarize and storing the findings within their electronic health records or EHRs, as I know.

Lastly, we've recently developed a solution using smart glass for insurance clients. It helps property inspectors in the field capture videos and convert to documents, then provide risk scoring related to policy issuance and claims adjudication.

I would now like to hand over to Saurabh for further details on the financials.

BALANCE SHEET

Saurabh Goel: Thank you, John. Let me now talk about the balance sheet. So, cash in bank balances at the end of quarter 1 stood at USD45 million as compared to USD73 million previous quarter. And this reduction in cash actually was on account of additional stake that we took over in Coforge BPS, which was 20% and for which USD41 million was paid out. The borrowings in the quarter stood at USD110 million as compared to USD41 million in the previous quarter.

Capex during the quarter stood at USD8 million, bill debtors at 61 days as compared to 72 days same quarter last year. Unbilled was same at 14 days as in Q1 of last year and in the last quarter, it was 12 days. OCF stood at negative at USD20 million, which actually reflects the total bonus payout that we have done in Q1, and the payout related to the USD1 billion celebration. And this is pretty much in line with what we see every year in Q1. For the full year perspective, we expect the OCF to be 70% of EBITDA.

With this, I would now like to hand it over to Sudhir for the comments on outlook.

Sudhir Singh: Thanks a lot, Saurabh. Summing up an outlook. We came into Q1, ladies and gentlemen, you know this, on the back of two very strong quarter growth with the previous two quarters having seen the firm registered a CC growth of 3.7% and quarter four was actually 4.7%. Q1, the quarter under review, was a challenging quarter for the industry but record intake, strong deal conversion, continued strong growth in key accounts, an exceptionally committed global team that we continue to invest in, and you've heard about what we've done. And upfront investments that we made with the addition of 1,000 more employees to service future growth, has set us up well for the remainder of the current year.

To conclude, we reiterate our annual revenue growth guidance of 13% to 16% in constant currency terms fiscal year '24. We reiterate our conviction that our gross margin will improve by 50 bps over FY '23 in FY '24, and we do reiterate that we remain committed to delivering an adjusted EBITDA of around 18.3% in FY '24 basis the performance that we've already clocked as a firm in FY '23.

With that, I conclude my prepared remarks that I just read out, and I look forward to hearing your comments and to addressing your questions. Thank you very much for listening in.

Moderator: We have a first question from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: So just want to get a sense about the USD300 million deal, which you suggested. If you can provide some more detail about the kind of work and whether any new component into it because you indicated about consolidation deal.

A related question is if I look next 12 months order intake, it is showing relatively moderate growth despite USD60 million ACV kind of addition. So, if you can provide some detail on that.

Second question is about the overall demand environment. compared to last quarter when we entered into Q1 and now compared with it when we are entering into Q2. Any change in demand environment, either positive or negative or whichever, if you can provide some colour?

And last question is about the vertical wise, if you can provide some strength about underlying demand momentum. I understand because of very strong deal intake in BFS. Obviously, near-term growth may be strong, but if you can provide some sense about underlying demand drivers.

Sudhir Singh: Thanks, Dipesh. Just noted down the questions you came out with. I understand you have four questions. The first one, specifically, the question that you had was around the USD300 million deal. Obviously, a very welcome deal from our perspective, as you can imagine, this came from a client relationship, which started less than three years back, hence, the importance of this deal.

The other aspects of the deal that I do want to share with you is, that it is in the banking space. It ensures that USD60 million minimum from the specific client is locked in. A lot of what we've started with is consolidation of revenues that were already aligned with us or were about to be aligned to us. But we plan to use this as a bedrock around which to grow further revenues on a go-forward basis.

It clearly establishes us within this client in that specific country as the preeminent partner for them. And hence, this is of our value to us. So USD60 million per year, over the next 5 years as we see it, is assured from a client relationship that started less than 3 years back. And deal also interestingly and finally is not one that is margin dilutive. It's been done at running margins, which again ties back to my assertion around a lot of confidence around delivering on the adjusted EBITDA guidance for the year.

Second question that you had was around order executable. Order executable actually is very strong. Dipesh, if you look at our numbers at about USD897 odd million, that's almost USD900 million, our order executable year-on-year is 20.4% higher than the same number in the same quarter last year. So, we feel very good and solid about the order executable.

Third question that you had was around the demand environment. I said this in the last quarterly call, and I maintained that in an investor conference that we did in Mumbai in the middle of the quarter. The demand environment continues to be stressed. That's one factor cannot be denied.

The second thing that we think is, again, as immutable as the fact that we remain confident that we will continue to find avenues for growth to deliver on the annual revenue guidance that we've given. Those are the two assertions that I will make around the question around demand environment, continues to be tough and yet, we will deliver on 13% to 16% CC revenue growth for the year.

Fourth question that you had, I believe, was the BFS vertical-specific commentary. BFS vertical, we continue to see banks struggling with coming up with decisions in the short to medium term, given these somewhat uncertain macros and maybe macros that are resolving somewhat, but macros that they continue to observe very clearly and closely for the time being.

Certain segments, Retail and Commercial outside mortgages do seem to be seeing a slight uptick. Asset Wealth Management continues to be resilient. But overall, the sector is still in our wait-and-watch mode. I trust I answered all 4 of your questions. Those are the 4 that I have noted down.

Dipesh Mehta: Sir, just one follow-up about the next 12-month order book, I was referring to more from a quarter-on-quarter perspective because USD60 million yet if added. So, is there any material incremental component part of the ACV?

Sudhir Singh: I mean if you look at last quarter, Dipesh, our order executable was 20% higher than the same quarter -- the same corresponding quarter. This year, it's 20.4% higher than the same quarter last year. Our guidance is only 13% to 16%. Our track record over the last 6 years has been that our order executable growth, very closely mirrors the actual revenue growth that we deliver in the subsequent 12 months. So, 20.4% is the number that we feel good about.

Moderator: We have a next question from the line of Abhishek Pathak from HSBC. Please go ahead.

Abhishek Pathak: So, my question was BFS for Coforge has grown by almost 5% last quarter and again, 3% sequentially despite an industry-wide slowdown and you also have a pretty healthy deal activity here as well. So are the offerings for Coforge meaningfully different as compared to peers, that's number one. And the other bit to look at it is what's the split for discretionary versus nondiscretionary in our portfolio, if we may look at it that way?

And the second question is most IT companies have talked about deferrals or discretionary cuts in BFS clients. But the technology spends expensed in the P&L for most large banks reporting have not seen any such dip. So, I mean, could you help us reconcile these two things? And what's missing?

Sudhir Singh: Sure, Abhishek, thanks for the questions. I noted down what I believe are three questions. One is BFS, the continued strong growth in the driver thereof. If you look at us, Abhishek, for seven quarters running before for us, 5% and 3% sequential growth is actually slow growth. Because if you go back seven quarters before that, we were growing double digits sequentially for seven straight quarters.

So, the 5% and 3% in relative terms, I suspect, is very solid performance. I would submit it's not great performance by the yardstick that we hold ourselves to. So, we have, like the rest of the industry slowed down, of course, we slowed down from a higher base, hence, 5% and 3% right now.

The second question that you; had was, is there something about our client offerings in the BFS space that sets us apart? I suspect it's less about client offering. It's more around the strategy that we've built over 6 years. This isn't something that's happened over the last 2, 4 or 6 quarters.

This firm, Coforge, materially with roughly about 24,000, 25,000 consultants across the world largely focuses on BFS, essentially Financial Services and Travel only. Everyone across the organization or at least 2/3 of our organization, 3/5 of the organization, whatever cut you take. The graduate engineer trainee all the way to the front-end consultant, they keep moving around the financial services space itself.

The client experience, the relationship depth that we have, is what allows us not just to sustain volumes but to actually go and start eating up wallet share at a time like this, when consolidation deals are in play. We are stepping out there.

We've carved out some of them and we keep winning them. The USD65 million second deal that I talked about. More than half of that was new revenue for us. It was revenue that we've rested away from another partner that the bank has, and it's largely come because of the acute focus that we have on BFS across segments. It's across the full 9 yards, asset wealth management, payments, commercial, retail, mortgage.

So that's number two. Number three, the question was around deferrals. And do we seek deferrals? The answer is yes. And as I said, that's why our growth has slowed down to 3.3%. And number four, I think your question, if I remember that right, was around expense cuts are not very visible in the financial statements of large banks and why is growth slowing down. I won't know the answer to that. We aren't really slowing down too much, and I would need to hypothesize about it.

We feel good about BFS. I said this at the beginning of the year. We said we'll grow 13% to 16% CC as a firm and we said that all our three core verticals, BFS, despite the slowdown, Travel with the tailwinds, Insurance with the resilience that it has and the differentiated offerings we have, all of them will broadly be also again, evenly balanced in terms of growth and deliver the same. We continue to maintain that.

Moderator: We have our next question from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Sudhir, can you give some colour in terms of the 2 large deals that you have separately talked about USD300 million and USD65 million, I guess, since it's 5 years, effectively, the ACV is almost USD73 million. So, in terms of ramp-up and contribution, say, to the next 12 months, is the entire USD73 million flows through? Or these are deals where there is a step-up every year in terms of revenue accrual?

Sudhir Singh: All USD73 million is going to be more or less evenly spaced out, Rishi. I mean there's going to be a little bit of an up and down, but this isn't the kind of construct where we'll start off very slow and then ramp up over time. Out of the USD73 million, USD60 million, as I said again at the outset, has been a consolidation deal where a big element of what we've talked about was already with us.

So, it's not going to be a step jump. The step jump will be from the remaining portion that comes in, but the revenue stream is going to be uniform almost right through over the next 5 years. We do expect on top of that USD60 million revenue stream every year over 5 years to build a lot more because now we end up being the primary partners.

Rishi Jhunjhunwala: Understood. So sorry, if I missed out, but have you called out how much of that USD60 million was already there versus new scope?

Sudhir Singh: No, we haven't, and we don't do that for large deals. But what we did call out was the USD65 million, more than half of it was taking over the wallet share of another partner we were competing with at that specific bank and a significant chunk of this USD300-odd million was revenue that was with us already or was about to be aligned with us already.

Rishi Jhunjhunwala: Understood. The other thing is on the margin trajectory through the course of the year, effectively to maintain guidance, you need probably a 400-basis points margin expansion through the next 3 quarters. So just trying to understand, given that some of the large deal ramp-ups that you have and the hiring that you have done in that backdrop, what will be the key levers which will drive such a meaningful expansion? I know that you typically have this kind of a trajectory on an annual basis, but are there any specific tailwinds that you can call out beyond the normal expansion that you, see?

Sudhir Singh: Rishi, we are not expecting to do anything spectacular this year compared to what we've already done in the last 2 years. If you look at the last 2 years, quarter 1 has always been between 16% to 16.5%. Quarter 4 has been around 19.5% to 20.5%. That's the natural ramp. It's also a function of how we are set up. We ensure that the full annual increment happens on the first of April.

We ensure that the full annual visa cost is taken up in quarter 1 itself. We ensure that all our investments in terms of setting up a bench for future growth is taken at the beginning of the year, which is again something that we've done by doing a net headcount addition of 1,000 people in this quarter itself.

So, hereafter, it's not going to be something that we haven't done operationally, repeatedly over the last 2 years. The ramp will be more or less in line with what we've talked about. 2 years back in quarter 1, if I remember right, our margin was 16.1%. That year, we closed the full year with an adjusted EBITDA of 18.7%.

This year, in quarter 1, our adjusted EBITDA is 16%, we plan to follow the same ramp. Guidance we've given is only 18.3%, around 18.3%. So, the trajectory is going to be the same. The levers will again continue to be the same. The fact that offshore revenue is going up as strongly as it is. This is, I guess, the ninth or the 10th quarter of offshore revenue expansion.

It is again going to be the fact that our pyramid will continue to get flattened. Out of the 1,000 people that we added this quarter, 200 are graduate engineer trainees, fresh campus hires. And I said this earlier, we honoured every offer that was there in the market, for campus, for lateral, because we feel confident about the growth.

The same ramp, as always, nothing new. Quarter 1 margin also has been more or less in line with what we've done in the last 2 years. Overall margin for the year will also stay in line, Rishi.

Rishi Jhunjhunwala: Understood. And just last question on Travel and Transportation. So basically, we have seen some bit of moderation in growth over the past couple of quarters. More I'm talking about from a Y-o-Y and even Q-on-Q this quarter was slightly soft. And we have some of the industry research firms have talked about contracting activity in Travel and Transportation slowing down. Given the kind of exposure that you have, which is more around, say, airlines, airports and all that, can you give some colour in terms of how the underlying demand environment in that segment is?

Sudhir Singh: Sure, Rishi. When we look at Travel, airlines and airports, the demand environment continues to be strong. Those sectors continue to be more supply constrained. When we look at surface logistics and hospitality, we are seeing initial signs of softening. Clubbing all of this together, we still maintain, and we still believe that our Travel and Transportation, Hospitality growth will be more or less in line with the company's growth. This year, all 3 core verticals should be fairly evenly balanced.

Moderator: We have a next question from the line of Saurabh Sadhwani from Sahasrar Capital.

Saurabh Sadhwani: I just wanted to understand what are your hiring plans going forward for this fiscal? And has the cost reduced for the talent. So basically, we have seen attrition go down, but also has the cost reduced for skilled talent?

Sudhir Singh: Sure. Saurabh, our hiring plans for the year continue to be in line with the growth that we anticipate. You can work out the growth numbers to land between 13% to 16%. What we need to do is lock a growth number of sequentially, somewhere between 2.5% to 3.5% for the remaining 3 quarters. Going forward, we continue to hire. We've already built up a solid bench to provision for the growth that we see, especially to service some of the large deals that I was talking about.

Our hiring will continue in [inaudible] because we feel confident about the fact that the growth will continue as per the plan that we've shared with you. As far as cost is concerned, yes, you're right. Attrition has fallen, gives us more leeway in terms of how we operate. Though how we operate doesn't change and never will. We continue to be employee centric. We continue to make increments on time, pay bonuses on time, honour every commitment that we make to the market on time.

We have initiated cost containment exercises. We finished the first tranche. We feel good about the plans that we made to take cost out for the rest of the year. And that's also another place where a lot of the confidence around replicating what we've done in terms of margin ramp through the year, last year and the year before last, comes from.

Moderator: We have our next question from the line of Vibhor Singhal from Nuvama Equities.

Vibhor Singhal: Congrats on a very solid performance once again. So, sir, a couple of questions that I have. One is, of course, if you look at the executive order book that we have, it is around USD897 million at this point of time. I know you've mentioned it before that this is basically -- I mean, we have rarely seen any slippages in this.

So given the kind of uncertainty that we are facing at a macro level at this point of time, could this very well be assumed as the minimum amount of, let's say, the executable that we will have in the next coming 12 months. And there's a fair degree of certainty about none of the deals in this part being put on hold or being pushed out in future.

Sudhir Singh: Yes, Vibhor, if you look at our record, not just over the past few quarters, but over the last 6 years, the reason why our declared order executable number growth, has a very strong correlation with actual revenue that we delivered in the subsequent 12 months is largely because of, A, how we calculate that order executable. We don't take framework contracts, generic contracts and put that into order executable. We only look at signed contracts when we aggregate this.

We believe that, despite what is happening in the macro, almost all of the signed contracts that we have, their integrity will hold. It's obviously clearly getting augmented over time. So, we feel confident that we will not see slippages, and we have not seen material slippages over the last 6 months even.

Vibhor Singhal: Got it. That's definitely a lot reassuring. My second question today was just on the Banking segment. I know I think maybe we start before -- I'm sorry -- I maybe I probably want to spend a little bit more on this. How do you -- I mean, for us, the banking continues to do well in this quarter also and has been quite stable. Just wanted to check what is your outlook on the overall banking industry per se, not just specific to our clients.

Look, our clients are doing good for us. But overall, do you think there is still a lot of uncertainty or hesitancy and volatility in the banking segment, which could impede the overall banking sector spend. Our business clients might continue to do well for us, which is a great thing as we are seeing that in the results as well. But for the overall industry, do you see that continuing? Or how have you seen that change over the past 3 months, if I could maybe ask that.

Sudhir Singh: Well, if I look at what we saw a quarter back, versus what we see today, I would say things haven't changed materially, though anecdotally basis client conversations that I've had as recent as Thursday last week, the CIO of a large bank, there do seem to be silver linings that seem to be appearing. I talked about it earlier in the call, retail and commercial outside mortgage, spend confidence, seems to be increasing, especially for next year.

So, the CIO, who I had a conversation with last Thursday, seemed far more confident. I'd say far, far more confident than the same gentleman was 3 months back. I know it's anecdotal. I'm sorry, I can't give you something that's more targeted, but that's how I would characterize the demand and the macros as we see it.

Vibhor Singhal: Got it. Just one last bit on that. Mortgage, you mentioned that outside of mortgage, things are looking still maybe at least some bit of silver lining, mortgage rates, I think last month reported, 6.97%, do you see more pain in the mortgage business for maybe some more time?

Sudhir Singh: Well, our mortgage business is, A, extremely small. B, in many ways, we think it's bottomed out. The volumes there crashed and burned last year. So, we really can't see a worst-case scenario than what exists right now. Anything that happens, we suspect can only be for the good, given what's already happened to mortgage volumes.

Moderator: We'll take our next question from the line of Shradha Agrawal from Asian Market Securities.

Shradha Agrawal: So, I have two questions. One is on your insurance verticals. So, it's been two good quarters, two good consecutive quarters in insurance. What really is driving growth for us in this space? And are there any material differences between demand trends in U.S. and Europe? So, these are my 2 questions.

Sudhir Singh: Sure, Shradha. We are seeing strong growth, particularly in the P&C, SMB sector of our Insurance Services business. A lot of it is getting driven by the alliances that we have in this space, the older ones that we have like the one with Duck Creek, also the newer ones that we formed, which are doing well for us, like the alliance that we have with Bond-Pro in the Surety space.

So, P&C, SMB clearly doing well. Some of our partners are foraying aggressively outside North America, and we're traveling along with them in those journeys and picking up new clients and new revenue streams that, again, is doing well for us. Our AdvantageGo business revenues again have rebounded and that, again, is adding to the momentum that we see in Insurance.

Insurance, I've said this three quarters back, and there were a lot of questions around what is the outlook. We had maintained that the insurance business will grow in tandem with the firm's growth in FY '24. And we'd also said that because of the uncertain macros, it was very important not to bank on any one core vertical to make sure all 3 were growing to offset any unexpected issues, which are likely to crop up anytime, anyhow, anywhere in 12 months. That's how I would characterize insurance.

U.S. and Europe at the current point in time, for us, both seem to be doing well. I've seen a lot of commentary around the fact that demand in the U.S. is subdued. But if you look at this quarter numbers, our U.S. geo grew 5-plus percent. While Europe was flat, but Europe was flat after some very strong quarters, and Europe is likely to rebound again. So, for us, both continue to be happy hunting grounds.

Shradha Agrawal: Right. And just one last question. I don't know if I missed it. But your balance sheet showed your other borrowings, the number has moved up quite a bit. So, what is it related to?

Sudhir Singh: Saurabh, can I request you to take that?

Saurabh Goel: Yes. So Shradha. This is related to the additional stake that we have bought in Coforge BPS. So, this was an acquisition which was done in 2021. We had only bought 60% stake then. So USD41 million has actually been paid out to buy additional stake in Coforge BPS. So largely that amount.

And then in quarter 1, typically, our bonus payout happens. And then there are other capital commitments that get paid out. So, I think more around that, but a large portion gets allocated to Coforge BPS.

Moderator: We have our next question from the line of Abhishek Bhandari from Nomura.

Abhishek Bhandari: Sudhir, I just had one question. You shared a lot of details around your initiatives on AI. Thanks for that. But in terms of revenues, when do you see a material contribution coming from this particular line of business? And also in the Analyst Day, you had hinted at initially an inflationary kind of scenario possibly in voice based BPO, BPO in general and also sometimes somewhere in testing?

Do you still think the opportunity is going to be on a net basis positive from a revenue perspective? I mean happy to hear your thoughts on when do you think we could see a real contribution from this AI-related business for us?

Sudhir Singh: So, Abhishek, there's a lot of commentary around AI investments. Let me just put it this way, the line that I see between AI, automation, analytics is very diffused. So, specifically to call out something and call it out as pure play AI is a little difficult. I think, it's still early stages for doing it. If I were to go back to my leaders and ask them what is the revenue that they're deriving from AI?

You would be surprised that how high the number would be because everybody in the automation service line, everybody in the AI service line, everybody in the analytics service line would raise their hands and talk about, even the cloud service line, and the product engineering service line would talk about how they're going with an AI-first approach.

I wouldn't get into the investment piece of it just yet. Have we delivered, GenAI or cognitive AI-based engagements? The answers are very clear resounding yes. Cognitive AI-based work that we've been doing has been going on for the last four years. GenAI, there are four projects. Small projects, AI-only projects that have been delivered, but everything else that you touch. When you look at cloud, the business that we have around Helios, that whole thing is AI-first. When I look at product engineering, again, there's a very strong injection of AI-based technologies, the Copilot equivalence that is going on.

As far as the deflationary piece is concerned, the second question that you had, we believe overall, from a company perspective, AI should be a growth enabler. We feel very, very solid about growth on a go-forward basis. Certain aspects will obviously get impacted more. We do maintain the BPO industry. Even our own BPO business, we're keeping a very strong eye out for, what impact, AI interventions can have around processes that we handle. Testing again continues to be an area where we believe AI-based interventions have a way and a possible route to disrupting a lot of revenue streams.

So, we're keeping an eye out for it, but if you ask me, overall, how do we feel about AI coming into this space? Do we see more opportunities than deflationary impact? The answer is net, we do expect it to be positive. But what is the investment? I think it's still very premature for us to be calling out numbers.

Abhishek Bhandari: Thank you, Sudhir. Sudhir, my second question in the final question is while you've addressed, you are very confident of this 20% growth in 12-month executable order book translating to 13% to 16% growth. My question is, given all this uncertainty what is prevailing, which is beyond anybody's control, what kind of stress testing have you done amongst your clients?

Do you think this 4% to 5% gap what you've kept between your growth of order book to revenue is enough to manage those exigencies. Things are evolving fast, and we have been seeing certain guidance cut by some of your larger peers. So, just want to ensure that the stress testing is strong enough for you to maintain that 13% to 16%?

Sudhir Singh: Trust me the stress testing is about as strong as it can be. And our view of the world doesn't come top down from order executable. It goes grounds up from projects/accounts and then we start aggregating it. When we look at our numbers, last quarter was a 4.7% sequential growth. This quarter has been a 2.7% sequential growth. When I look at 13% to 16%, we really need to do very badly to come anywhere below 13%.

And I don't think -- and you can see that from the net headcount addition that we've done in the deals that we've signed; we will come there. Even at about 2.5%, Saurabh, please keep me honest on this, even at a 2.5% sequential growth for the next three quarters, only 2.5% we will still come to about 14.5% CC growth. So, we've tested this just about every which way as you can imagine.

And most years, the guidance that we give is more or less in line with the executable growth. This year, we are trying to be extremely conservative given the uncertain macros and giving a lower guidance, that guidance we maintain and that guidance we will deliver on.

Abhishek Bhandari: Thank you and all the best for the whole year.

Sudhir Singh: Thank you.

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

Ravi Menon: Thank you for the opportunity and Sudhir congratulations on good numbers in your top accounts. I want to check, what's giving you confidence on this guidance? Is it that there is less of from I'd say, project-based, application maintenance sort of deals that you have where there is a possibility of some of those being seen as discretionary and the kind of work that you're doing, it's a lot more from some might say quick ROI. Is that what gives you confidence that clients will continue with these programs?

Sudhir Singh: No, I mean, what gives us confidence is our track record over the last 6 years. This is not a new team. We came together 6 years back. Quarter-on-quarter as a firm, even through the pandemic, when 30% of our business was in travel, we gave a guidance and we delivered, actually over-delivered on it. So, our confidence stems not from the nature of the breakup of the project-based business versus any other cut you can apply.

It comes from a grounds-up aggregation of the SOWs that we have signed. It comes from daily conversations that we have with our clients. It comes from the fact that our large deal velocity has continued to be unimpaired. It's actually accelerated even in a quarter like Q1. And it comes from the fact that, I think, more than to anyone else, we've proven to ourselves that every time there's a consolidation, we come out on the right side of that mix USD300 million was a classic example of it.

Our confidence doesn't stem from forward-looking plans. It comes from our past record. It comes from the experiences that we, as a team, have gone through repeatedly over the last 6 years, it comes from the fact that every time we've given a guidance, we have met it and in almost every case, exceeded it. This time, we are being, by our standards, very conservative.

Our executable is 20.4%. We're giving a guidance of only 13% to 16%. This year, Quarter 1, we've done 2.7% after doing 4.7% growth in Quarter 4. All we need to do is 2.5% to come at the midpoint of our guidance. So, I mean, we really can't, having stress tested our numbers, think of any scenario. We will not deliver on our revenue guidance. That's how I would put it.

Ravi Menon: Thank you so much, Sudhir, very happy to hear that. Best of luck. And one more if you can just add that good decision to give the wage hike now. And it looks like the quantum is also normal, right? I mean you've not really cut back on this, saying that overall, the hiring environment is not great?

Sudhir Singh: I'm sorry, Ravi, can you repeat that question once again, please? I'm sorry, I lost...

Ravi Menon: I'm just asking about the – that it looks like the wage quantum, the wage hike seems to be a normal year wage hike rather than you looking at the demand in the hiring market and kind of toning it down a little bit compared to normal years?

Sudhir Singh: We've toned it down, but only a little because the low attrition rate that we have helps us in just about -- in more ways than just financial computation, right? The fact that our employees are staying longer with the clients that we assign them to delivers growth for us. So, we've just dialled it down a little bit, not very materially.

What we have ensured is that we haven't delayed it, which is the point that I made. And what we've also ensured is that we haven't paid only a part of our workforce and not the other part. So, everyone's got it. Not just the increments, but their full annual bonuses with no exceptions.

Moderator: Thank you. We have our next question from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Thanks, and congrats for a good quarter. I just have one question. The new client addition number has moderated substantially. Now I know, we are signing large deals, but is this a function of more about the environment or is it a conscious effort to pursue smaller number of clients, but the large deals within those clients?

Sudhir Singh: I mean, let me make sure I get this right. We've been signing and Saurabh feel free to jump in and come up with numbers. We've been signing -- if you look at our record, we normally sign about 8 to 11 large clients every quarter. Over the last 4 quarters to 6 quarters, ever since John took on his role as the Customer Success Officer, we've talked about very consciously focusing equally on the farming side of the business and making sure that the clients that we sign are only high-quality clients with large wallets where we think we can scale up.

So, a lot of the investments have gone into supporting that strategy. John's team is in play, driving growth on the lines of what I talked about earlier at large accounts and that strategy has worked for us. Saurabh, would you like to add to that?

Saurabh Goel: Yes. And I think a couple of more things what you've strategically changed is that the hunting team has been giving us to actually go after tail accounts, which are long tail, we're sitting with farmers and not growing. So, what you've done is, we've asked them to actually focus on those accounts where you already have MSAs whether you're doing some work, some SOWs are already in place and you're doing some work with them, but those accounts have not grown.

So, the whole hunting orientation has been to grow these tail accounts, flat accounts which have not moved. And that's why you see that, and the focus has been only to open the MHAs, which is must-have accounts and very specific named accounts, which are called out in the beginning of the year.

All the incentives of the hunting team are actually linked to either grow the tail accounts, which are assigned to them in the beginning of the year or focus on the must-have accounts, which are again listed, agreed in the beginning of the year, so that you have focused hunting strategy rather than trying to open a number of accounts.

Abhishek Shindadkar: That's helpful. So, you know, where I was coming from is that for the past 6 years, 7 years, so we've been running almost 14 accounts a year. Last year's Q1 number was roughly 12 accounts, new accounts I'm talking of. And this year, we are starting with 6. So, it is what I want to give perspective, but really helpful?

Sudhir Singh: Thanks, Abhishek.

Moderator: Thank you. We have our next question from the line of Ruchi Burde Mukhija from Elara Capital. Please go ahead.

Ruchi Burde Mukhija: Thank you. My question is building on an earlier question regarding AI, thank you for the details that you have shared. Here, I just wanted to get your understanding in terms of the timelines, how would you think it will evolve? Do you expect enterprise adoption on this, whether need to start earlier and the deflationary pressures will take some time as the maturity of these AI applications need to develop before clients start to ask for some concessions from that?

Sudhir Singh: John, since you talked about AI in your conversation, would you like to take that? And I can layer it.

John Speight: Yes. Could I just have the question repeated. It was a bit garbled for me. Could you repeat, please?

Moderator: Ms. Ruchi can you use your handset, please and repeat your question.

Ruchi Burde Mukhija: Here I'm trying to understand in terms of timelines between the revenue incidents versus the deflationary pressure from the AI, how that will unfold? Will it be something like this, where revenue incidences start earlier with the enterprise adoption and new use cases being experimented, maybe for clients to ask for concessions because of the AI evolution in coding, the deflationary plays out was a little slight lag. Is that something to think on these line or you think both will evolve in tandem?

John Speight: I think it will evolve both in tandem. I mean, the thing what we're seeing now with AI is that it's actually becoming an amazing productivity play and many of our customers and hence, why we're embedding it within all -- not just in the solutions, but in the ways, we work, which will drive that productivity -- will actually -- I mean we can deliver more, with less. And that combined with moving to a much more outcome orientated structure, where revenue is tied more to actually outcomes and deliverables. We see as a positive for us.

Sudhir Singh: And let me add on to what John said, Ruchi. We expect over the next 3 years to 5 years, our analytics service line, our automation service line, our cloud service line to be driving growth for us, and they will be driving this growth because analytics is going with an analytics plus AI approach, automation is going with an automation plus AI approach. Cloud is going with an AI embedded approach.

Net-net, we believe for Coforge this is going to be a clear positive. Now if the question is, will AI only as a new service line be a great revenue booster. I think, still early to say, but will AI plus our existing service lines of analytics, automation and cloud be a great revenue booster and therefore, will revenue for Coforge go up overall? The answer is a very solid, resounding yes. Did we answer your question, Ruchi?

Ruchi Burde Mukhija: Yes, absolutely. Thank you very much.

Sudhir Singh: Thank you.

Moderator: Thank you.

Vikas Jadhav: Yashashree, we can actually close the call, it is already 5 now. Maybe can hand over to Sudhir again. Sudhir, your closing comments, please.

Sudhir Singh: Thanks very much, Vikas. And ladies and gentlemen, thank you very, very much for your time. Late evening in India, I really appreciate your time, your interest, your questions and your comments. They've always helped us in the past to refine our strategy and to re-pivot ourselves as required. Thank you once again. I look forward to speaking with all of you next quarter. Stay safe.

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

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