"Coforge Limited Q1FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1FY2023 Earnings Conference Call of Coforge Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Agrawal – Head Investor Relations and M&A at Coforge Limited. Thank you and over to you, Mr. Agrawal.

Ankur Agrawal: Thanks Rutuja. And a very warm welcome to all of you and thank you for joining us today for Coforge Q1FY'23 Earnings Conference Call.

As you know, we announced our Q1 Results today, which we have filed with the stock exchanges, and the same is also available on the 'Investors' section of our website, www.coforge.com.

I have with me today our CEO Mr. Sudhir Singh and our CFO – Mr. Ajay Kalra for the call. As always, we will start with the opening remarks from our CEO, and post that we will open the floor for your comments and questions.

With that I would now like to hand it over to our CEO, Mr. Sudhir Singh. Sudhir, all yours.

Sudhir Singh: Thank you, Ankur. And a very good morning, good afternoon and good evening to all of you across the world folks. Thank you for taking the time to join us today for the conversation, as we share our Q1 Fiscal Year '23 Results.

Before I delve into the Quarter 1 Financial Results and the operational updates, I want to take a moment to recall that we began our journey this year on the back of our performance in Fiscal Year '22, which was a landmark year for the firm. In FY'22, we had not only grown our revenues by 38%, but we had also significantly expanded our EBITDA margins, despite the significant cost escalatory environment last year. Equally importantly, when we met around mid-May for our Q4 Results, last, most of the current macroeconomic concerns including rising inflation, slowing growth and a potential U.S. recession as predicted by some commentators were already being talked about. Hence the likely overhang created by these concerns were factored into our annual revenue and our annual margin growth guidance. As we progressed through Quarter 1, through grounds up conversations that we are having with our existing and target clients, we continue to gain further clarity and visibility on our outlook for Fiscal Year '23 and beyond. That outlook continues to remain strong. And I look forward to sharing that during my prepared comments and the Q&A today.

With that preface let me start with the Quarter 1 performance, first, Quarterly Performance around Revenue Analysis.

Quarterly Performance – Revenue Analysis

We are pleased to report that in Quarter 1, the firm registered a sequential growth of 4.7% in CC terms. The sequential growth in USD and INR terms was 2.7% and 5%, respectively. During Quarter 1 Fiscal Year '23 we recorded revenues of $238.7 million USD and Rs. 18,294 million. This gap between the constant currency and the reported growth is driven by the depreciation of the GBP and the Euro, relative to the U.S. Dollar.

I shall now detail vertical-wise growth for the quarter under review.

During the quarter our BFS vertical grew 11.1% quarter-on-quarter in CC terms, and it contributed 29.5% to the revenue mix. The Travel vertical which had grown 15.4% sequentially last quarter was up 1% QoQ in CC terms and contributed 19.4% to the total revenue. The Insurance vertical contracted 6.3% QoQ in CC terms and contributed 23.1% to the revenue mix. Other emerging verticals grew 11.4% quarter-on-quarter and contributed 28% to the total revenue mix.

Within the Financial Services portfolio of the firm, BFS continues to deliver outstanding growth on the back of multiple large deal wins reported in the earlier quarters and the Insurance business after the contraction in Q1 is poised for a very smart rebound in Q2. Our Travel business which had grown strong sequentially, very strongly sequentially by 15.4% last quarter to surpass the pre-COVID level revenues, continues to see strong demand ahead. The emerging verticals are also poised for strong growth in the quarters ahead.

Within regions North America, which contributed 51.3% to the total revenues in Quarter 1, grew by 5.5% quarter-on-quarter in CC terms. EMEA, which contributed 36.9% to the total revenue, and had grown sequentially by 24.2% in the previous quarter, was flat in the current quarter. The Rest of the World which contributed 11.9% of the total revenues grew 20.3% sequentially.

Our business profile continues to be de-risked and marked by low client concentration. A lack of excessive dependence on a single client or a client cohort has allowed us to deliver robust growth on a sustained basis over the years. During the quarter under review, our Top 5 clients contributed 22.9%, and our Top 10 clients contributed 35.5% of the total revenue. The Top 5 clients grew 4.1% quarter-on-quarter, and the Top 10 clients grew 6.5% quarter-on-quarter respectively.

Very quickly, I want to reflect on the fact that one of the biggest structural changes in the operating profile of Coforge Limited, which in turn has driven our margin improvement in the tough supply constrained environment of last year, has been the sustained and significant increase of our offshore revenues over the past few quarters. We are pleased to report that trend continued in the quarter under review as well. During Q1 FY'23, offshore revenues represented now 48% of the total revenues. You will recognize that this is a very significant jump of almost 8% compared to just a year ago.

Quarterly Performance – Margins and Operating Profits

Moving on to the Quarterly Performance around Margins and Operating Profits. For the quarter, we delivered an adjusted EBITDA of $39.3 million in USD and Rs. 3,012 million in INR terms. This reflects an adjusted EBITDA margin of 16.5%. In CC terms, adjusted EBITDA margin was 16.7%.

Our adjusted EBITDA in Quarter 1 this year is higher than in Quarter 1, last year. As is the case every year, it is lower than that recorded in the last quarter of the previous year. This drop happens largely on account of global salary hikes that are triggered at the beginning of every Quarter 1. In addition to the 250 bps drop in Q1 EBITDA over Q4 EBITDA on account of the salary hikes, our SG&A expenses in Quarter 1 were also higher by around 100 bps over the previous quarter. This is in line with our commitment to drive aggressive growth, while still delivering on our adjusted EBITDA annual margin guidance of 18.5% to 19% for the current year. A small yet definite downward impact of 20 bps was on account of cross currency headwinds due to our relatively larger EMEA exposure, and the lower head gains captured in the revenue.

The fifth large deal in the last five quarters with a TCV greater than $50 million was signed during this quarter. I do want to point out that the size and velocity of large deals further enhances our offshore operations and our offshore revenues, and helps us build strong moats around margin defense.

Overall, around margins, we believe that the fact that Q1 EBITDA this year is higher than Q1 EBITDA last year, despite higher salary increases and larger investments in SG&A, sets us up very well to deliver on our annual adjusted margin guidance of being broadly in line with last year adjusted EBITDA margin levels.

I shall share our estimates for Quarter 2 adjusted EBITDA later in my commentary, and we expect Quarter 2 adjusted EBITDA margins to be again materially higher than that recorded in the same quarter last year.

Our consolidated PAT for the quarter stood at Rs. 1,497 million, which reflected in year-on-year increase of 21.1% in INR terms.

Order Intake

Moving on to the order intake for the quarter. As you will recall Quarter 1 last year was a record quarter for the firm with $318 million of order intake. That number four quarters back had also included $105 million TCV contract. Now, I am very pleased to report that we almost equaled that record with $315 million of new orders during this quarter under review. Out of this $315 million order intake, North America contributed $123 million, EMEA was at $151 million and $41 million was secured from the rest of the world.

Continuing with our focused approach towards pursuing and winning large deals, we won two large deals during the quarter. One of these was a USD $50 million plus TCV five year deal. Incidentally, this is the fifth $50 million plus TCV deal signed by the firm over the last five quarters. The first of these two large deals during the quarter, the $50 million TCV deal that I talked about, represents all incremental revenues for Coforge, and it came from the BFS vertical with a leading bank.

The other large deal was in the Travel vertical with a leading U.S. based airline where the digital integration mandate for the airline was awarded to us. Both deals we believe are reflective of Coforge's increasing recognition as a preferred technology partner, which brings deep domain expertise for its client's business and digital transformation journeys.

Our executable order book, which reflects the total value of locked orders over the next 12 months, has increased from $720 million in the previous quarter, to now $745 million. Finally, to round out, 12 new logos were also signed during the quarter.

Delivery Operations & Capability Build

I shall now reflect on delivery operations and capability build work executed across the organization. Digital transformation, migration to cloud and technology modernization continue to remain key themes with our clients. The quarter saw continued focus on strong execution.

In the BFS vertical we closed a major new program with a leading global fund administration player. Over the next few years, we will be helping them build out a new platform using distributed ledgers for issuing and servicing funds.In Insurance, we recently performed a technology consulting assessment for a leading U.S. Insurance firm to co-create the end-to-end process improvement for rapid cost optimization and business process re-imagining of their global housing business line.We also completed a strategic API modernization program that enabled a UK-based insurance major, to reduce their client onboarding time from four months to less than one month.

The Travel sector, as noted earlier, continues to grow for us strongly, with major product engineering projects initiated for several global airlines. These included this quarter, the major expansion in our engineering services to drive the transformation of an airline's e-Commerce business. As a global digital services solutions provider, we have also partnered with a large freight carrier in North America. With this, Coforge will bring agile next generation solutions to the transportation and logistics industry. In the public sector vertical, we have won several major deals including the multi-year contract as the scaled development partner for Strategic Platform Modernization, SPM is what it is called, program of a European agency.

During this quarter, Coforge received the Azure Expert Managed Service Provider tier with Microsoft. We also concluded our partnership with Sysdig, the unified Cloud and Container Security Leader. This has seen us launch our container security and monitoring

services.Furthermore, as part of our efforts to expand our partnership ecosystem, Coforge entered new partnerships with Databricks, a cloud data and AI company and also with Newgen, a global provider of a low-code digital transformation platform. A partnership with key low-code, no-code platform players like Pega and Appian continues to fuel significant growth for the DPA, Digital Process Automation business. We were recognized for our focus on client success by Pega, with two client innovation awards recently. In addition, we won the award from MuleSoft for the 'Breakthrough Partner of the Year, our 8th consecutive award from MuleSoft in the recent few years.

In earlier quarters, we had shared our plans about transforming the legacy ADM service-line into a product engineering focus capability. This is an ongoing area of focus, and we have initiated large, targeted, learning and development initiatives towards this. In Quarter 1 alone, more than 6,000 of our employees were covered in various technical upskilling and cross-skilling learning programs. The L&D programs have also been expanded to cover project and program management areas. We also continue to invest into domain-specific skills development, using learning academies that deliver domain-specific learning paths. This model has also been extended to key customers, where the learning programs are client specific, and they deliver the benefit of higher productivity as well as better retention of people.

In recognition of Coforge's Learning & Development efforts, we were awarded the Leaders Award for 'Best Learning Outcome 2022' by Skillsoft, a global leader in corporate digital learning.In terms of solutions and capability building, Coforge created a member portal on Salesforce Experience Cloud for handling service requests related to travel insurance, which can be used as an accelerator for other Salesforce implementations.Coforge has also created a framework on Salesforce Financial Services Cloud for building mortgage journeys. This is a reusable framework that can create customer journeys for retail banking, lending, and mortgage processors.

Finally, as proof of Coforge's strong commitment to seamless business continuity, we were certified a new ISO 23001 model for BCMS, Business Continuity Management System. This new standard provides an international best practices framework for security, resilience and business continuity in an organization. With that, I move on to the people section.

People

During the quarter under review, we added a net 676 people to our headcount in the IT business. For the overall firm, including the BPS business, our total headcount at the end of Quarter 1 stands at 22,742. Utilization including trainees during the quarter was 76.2%. LTM attrition during the quarter was relatively stable at 18% and continues to remain one of the lowest across the industry.

I am pleased to inform you that our company was chosen as one of the 'Most Preferred Workplaces of 2022' by Marksmen Daily in association with India Today. Coforge also received

the prestigious 'Great Place to Work' certification in India from July 2022 to July 2023. This incidentally, is the second consecutive year that the company has got this recognition, 'Great Place to Work.'

Before moving on to the balance sheet and the outlook going forward, I want to emphasize our strong belief that growth in IT services businesses is largely predicated on a firm's ability to hire and retain the best talent. Hence, during this year, we also plan to materially expand our leadership teams across the verticals, geographies and capabilities to be commensurate with the growth agenda of the firm and you would have seen that reflected in the SG&A increase during the quarter itself.

Balance Sheet

Balance Sheet quick metrics, before I close. Cash bank balances at the end of quarter stood at $42 million USD, after payouts towards an interim dividend declared in May. Capex spend during the quarter was $7.2 million USD and the debtors at the end of the quarter stood at 72 days of sales outstanding.

Summing Up & Outlook

I will conclude with the summing up and the outlook section going forward.

On the revenue front, the key drivers poised to drive our sustained growth include a robust executable order book of $745 million over the next 12 months, the record order intake of $315 million in Quarter 1 itself, including the two large deals we closed, the exceptional growth in the BFS vertical on the back of consistent large deal wins, continued and sustained rebound of the travel vertical which we continue to see in FY23 and beyond, the incremental revenue potential that we see from our 60+ Forbes Global 1000 clients, the low client revenue concentration that we see and most importantly, the grounds up real-time conversations that we are having with our clients, they are what provide us comfort around sustained robust growth going forward.

At the beginning of this year, we had provided an annual revenue growth guidance of around 20% growth in constant currency terms. Given our performance in Quarter 1, we now upgrade our revenue growth guidance for fiscal year ’23 to at least 20% in constant currency terms.

On the margin front, we maintain our annual margin outlook of delivering an adjusted EBITDA between 18.5% to 19%. At this stage, we see an immediate jump of between a 150 to 200 bps in Quarter 2 over Quarter 1 itself. This expected sequential step up in Q2 over Q1 margins will be on account of the continued increase in offshoring, planned improvement in utilization and a large tranche of fresh college graduates who are now becoming billable.

Coming up, we believe we are well-positioned to deliver another year of strong operational and financial performance and fiscal year 2023 will be a milestone year in our journey where we not only will achieve and surpass our publicly stated goal of becoming a billion-dollar revenue

enterprise, but we will also begin advancing firmly, steadily, and hopefully with speed towards the next important milestone of $2 billion USD revenues.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchstone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Hello can you hear me?

Moderator: Yes, we can hear you, sir.

Sandip Agarwal: Yes, thank you. Good morning and congrats on a good execution. Sudhir, very good commentary and very strong reiteration of the strong demand environment and your ability to pick up margins.

Only two things wanted to know, like, you know, while you are saying that we are upgrading our guidance to at least, but given the kind of order book we are seeing and given the incremental revenue which is, incremental deal which is increasing on the order book, don't you think this number could have been upgraded more? Are you keeping something for the macro uncertainty in your kitty? Number one.

Number two, on the margins again while you know it is very, very welcome step that you are confident of recovering such a substantial margin in just one quarter. My question was that, you know, if you see last couple of years, post-COVID the way we have seen tough competition from the from the FAANG companies in terms of recruitment, they have come into India and also given tough competition to all Indian companies in terms of recruiting the best talent. And now in last two, three months, we are seeing massive recruitment by EPAM across the major cities. So, all these things along with the pressure from the startups have pushed the attrition levels at insane numbers and also has pushed the costs. Thereby also, you know, along with the travel pains, and the lock down pain, which has triggered the subcons as well.

So, my question was, aren't we at the worst of the margin, in that sense, isn't our P&L keeping at least 300 to 500 basis points of cost right now up front, which with normalcy returning should reverse, number one. And if that is not the case, does this equation actually is even valid, that you know, on macro uncertainties, the growth will come down and margins will also go down. How is that possible? Can you, can you please explain or what is your sense on that because if growth is going to come down, then your attrition has to fall extremely sharply. And that will

result into substantial savings in the form of subcons reversing to a great extent and also the replacement costs going down substantially, but the mathematical equation which says that growth will also come down and margins will also come down. Is that at all valid, means I haven't seen that working out in the last 30 to 35 years.

Sudhir Singh: Sandip thanks, thanks for the question. And thanks for the detailed commentary as well. Let me take both your questions in order. As far as the revenue guidance is concerned, as you noted, we have upgraded the guidance to at least 20% CC growth for the year. And I have always maintained, the firm has always maintained that when we give a guidance, the intent is always A) to achieve it, and then B) Try to exceed it. The guidance continues to be conservative, as it always has been from our end. The intent has always been to meet and exceed and as, as the next three quarters evolve, we will keep updating it as warranted.

As far as the second question is concerned, your question if I were to synthesize that was fundamentally that if growth were to fall, would margins fall as well. Our take on it is, as follows. Given the order executable, we have; given the order intake, we have seen; given the velocity and the size of deals going up, we do not really see growth tapering down below the guidance that we have set. We have set a minimum threshold, we believe all the metrics that you talked about, almost every macro scenario that we can model will still allow us to deliver this base minimum growth.

We believe the margin guidance that we have given, and I reiterated that in my prepared commentary is definitely going to get met in just about every scenario that we look at including variations when it comes to revenue variation.

I appreciate the aspects you talked about. We do see salary costs having gone up. This quarter, the average salary increase was greater than what we gave in Quarter 1 last year. I want to emphasize that, because of the factors that you were calling out, we see continued competition in the market, we do not want the scenario under which attrition goes up and then we post facto try to retain people. So, we have built all of that cost upfront. We believe margin guidance is something that we should be able to deliver on and there's just about no scenario that we can see where growth is going to be below the guidance that we have offered. I trust I have answered your question, Sandip.

Sandip Agarwal: Thank you. Thank you. That’s really helpful and best of luck for the current quarter.

Sudhir Singh: Thanks Sandip.

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

Vibhor Singhal: Yes. Hi. Good morning sir. Thanks for taking my question and congrats on great performance yet again. So, Sudhir two questions from my side. One is I wanted to basically get some idea on the travel vertical. As you mentioned that we have basically surpassed the pre-pandemic revenue

level in this vertical, which was badly hit by the pandemic. So, just wanted to basically understand the difference in the nature of the travel verticals that we have today? And where are airlines and specifically, where are airlines and hospitality segment in terms of their revenue to us pre-pandemic? Are we still below the pre-pandemic level and the revenue has come from other sources or have we surpassed that? And how do you see the growth potential in that vertical going ahead? Specifically, I am talking about these two sub-verticals of airlines and hospitality, given the kind of travel surge that we are seeing globally?

And my second question, I will probably take the second question once you answer this one.

Sudhir Singh: Thank you for the question, Vibhor. Let me address the question that you had around both the sub-verticals, airlines, and hospitality. Airlines, travel in general, we really don't see a demand problem coming up for the rest of the year. Airlines, if I were to just refer to the latest TSA data that we were looking at, it's 20% growth in Quarter 2, and I am talking Calendar Year Quarter 2 over Quarter 1, saw 20% increase. The domestic RPK metric, which is the Revenue Passenger Kilometre metric, month-on-month has gone up 9.3%. Clearly, everything that we are picking up from all sources around airlines shows a very significant bounce back and from all metrics, it appears to be a sustained bounce back moving forward.

The second sub-vertical you talked about was hospitality. Again, hotel occupancy across North America, is currently higher than the pre-pandemic level. We expected it to come up slower, but it has actually bounced back much, much faster. The US Travel Association when they came up with their latest reflection, on how they see the rest of the year panning out, said that both the travel spending and a volume surge will continue despite the inflation that the US is seeing.

On the demand side, both the sub-verticals we talked about Vibhor, all data backs up the fact that the demand has come back and is likely to continue to remain sustained, irrespective of whichever way the macros play out.

Vibhor Singhal: Right. So, my question was actually one is, where are we in terms of our revenue from these sub-verticals vis-à-vis pre-pandemic? And a second question is a follow up to your commentary that, yes, these companies are doing really great and their cash flows are definitely improving. What are we seeing from them in terms of their tech spend? I mean, have they already upgraded large part of their basically content and overall technology? Or do you still believe there is immense scope for the digitization and the technology upgradation given that they are now generating cash as well?

Sudhir Singh: Airlines and hospitality, in both the sub-verticals, Vibhor, our revenues compared to pre-pandemic levels are now higher.

Vibhor Singhal: Okay.

Sudhir Singh: The fact that we bounced back almost 15.4% sequentially last quarter. Last quarter is when we crossed pre-pandemic levels and we'd called that out. These two sub verticals and the broader

travel sector in general is focused on 2 key technology buckets where they are investing significantly more than the others. They happen to be migration to the cloud, and a lot of that, especially in the airline context, is being driven by resilience issues. And the second space where significant money, and focus, and investments is going is in the whole contactless travel/automation. So, cloud transformation and contactless automation are areas of spend. In both of these areas, we are not towards the lag end of the cycle. We are, in almost all cases, either in the first half or in the middle of that investment cycle.

Vibhor Singhal: Got it. Got it. My quick second question is actually on the margins front. I mean you very well mentioned that we are -- there is no way that we are going to miss our guidance. And we will be able to meet the guidance, we did pretty much that last year as well. So, I'm sure we'll have enough confidence in the company being able to deliver that. Just wanted to understand, is this going to be the trajectory of our margins going forward as well, that in 1Q, I know there is a salary hike impact also, what as you mentioned, there was almost 100 basis points of SG&A spend as well. So, is this going to be a trajectory going forward for a margin profile every year, that in Q1 we're going to see a sharp fall on Q-on-Q. And from there on every quarter, we are going to build up on it. Or do you think as management, we are working towards maybe smoothing the margin profile throughout the year?

Sudhir Singh: Vibhor, let me first start off with margins. Q1 margins were higher than Q1 margins last year . Q2 margins will be higher than Q2 margins last year. Our annual margin guidance is more or less in line with margin levels last year. So, we feel very, very solid about delivering on the forecast around margin we've given you.

Vibhor Singhal: Sure.

Sudhir Singh: As far as the trajectory is concerned this year, we've taken a conscious call around investments in Q1 because we feel very confident that we will deliver on the annual guidance. That is why in quarter 1 itself, our investment in SG&A jumped by 100 bps over quarter 4. And that's largely despite actually the fact that our salary increases this year, we've consciously given higher than we gave in quarter 1 last year. If I were to look at the composite picture around margins, this year has been a bit of an outlier because the kind of salary corrections we've done at the outset are significantly north of what in under a more stable cost regime one would normally do.

Vibhor Singhal: Okay.

Sudhir Singh: When things around attrition come back to normal, I would expect that the Q1 drop is not going to be as significant. It would likely be about 250 bps over Q4 and not about 350 to 400 bps as you've seen in this year.

Vibhor Singhal: Got it. Great. Thank you so much for taking my question, Sudhir, and wish you all the best.

Sudhir Singh: Thank you very much, Vibhor.

Moderator: Thank you. Ladies and gentlemen, to ask a question, you may press "*" and "1." The next question is from the line of Manik Taneja from JM financial. Please go ahead.

Manik Taneja: Hi, thank you for the opportunity. I just wanted to pick your brains on a couple of things. In case you see pressure in terms of --

Sorry to interrupt you, Mr. Manik. Can you please speak a little louder? We cannot hear you, sir.

Manik Taneja: Yes. Is it better? Am I audible now?

Moderator: Yes, please go ahead.

Manik Taneja: Yes. Thank you for the opportunity. Sudhir, basically just wanted to pick your brains on how do you think or in terms of how do you see each of your service lines behave in case we see pressure in terms of customer spending? That's question number 1. And then I also had a couple of clarification questions. If you could help us understand the impact of the one-time related to an Indian government customer that's there in note#7. And also clarify on the sequential improvement in margins that we're expecting in second quarter. Thank you.

Sudhir Singh: Thanks. Thanks for all the 3 questions, Manik. I'll take question #1 and #3, and I'm going to request Ajay to take #2. At this point in time, Manik, if I were to look at the material service lines from our vantage, product engineering, data, salesforce, cloud, and digital which within our context is more centered around integration, demand is buoyant across all. If there were to be an issue around demand macros, we would expect ADM as a service line to possibly see some impact. But at the current point in time, given the migration that we are trying to effect, and I talked about L&D initiatives in this regard, I suspect we should be able to weather that and deliver at a very minimum on the annual guidance that's already out there.

I'll take question #3 as well and then request Ajay to jump in on question #2.

As far as the sequential margin expansion is concerned, Manik, there are 3 levers that we believe will help us grow at least 150 to 200 bps over Q1 in Q2 itself. The first is utilization. The second quarter has already begun. The first month is nearly over, and we believe utilization is going to see a very smart rebound jump in Q2 over Q1. The second is offshoring, and you've seen this Manik, it's already 8% higher than where it was a year back. Offshoring revenues continue to go up and that is a structural, sustained driver along multiple axes- productivity, fresher induction and so on. And the third piece, which derives from the second factor, is the number of fresh college graduates who we are increasingly incorporating into billable roles. Those three factors - utilization increase, offshoring going up, number of fresh college campus hires getting billable in quarter 2 - are the ones that will drive this blip in Q2 over Q1. Ajay, on to you for question #2.

Ajay Kalra: Thank you, Sudhir. Manik, on the note #7, this is an old earlier years dispute where one of the Indian government clients have deducted arbitrarily amounts which are not contractual. We are adequately provisioned against any eventuality. There is an outstanding of Rs. 137 million, which is in dispute with the client. We are in the negotiations and we are confident of recovering the whole of the AR including this Rs. 137 million.

Manik Taneja: Sure. Thank you for the clarification. Just wanted to understand if there is any P&L impact of that amount in the current quarter.

Ajay Kalra: As mentioned in the note as well, there is no impact on the current quarter, Manik. These are for the earlier years, and you would see the similar note in our annual financial results.

Manik Taneja: Thanks, and best of luck for the future.

Sudhir Singh: Thank you, Manik.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Yes. Thanks for the opportunity. Sudhir, can you comment a little bit on the insurance vertical? So, we have seen, you know, some decline this quarter, and over the past 2, 3 quarters, the sequential growth has kind of tapered off from a pretty strong 1Q last year, which of course, could have been related to the acquisition as well. But given that a rising interest rate environment should ideally be positive for insurers, how do we, you know, expect that to play out slightly from a medium-term perspective and what exactly went wrong this quarter?

Sudhir Singh: Rishi, I believe quarter 2, which is the quarter that we are already in, is the quarter from which you should see not just a rebound, but a smart and a sustained rebound in the insurance revenues on a go forward basis. Your point is noted, but as I have said in the past also in group calls, we believe insurance has been a differentiated vertical for us and a growth driver for us. And by the time the year is over, over the next 3 quarters insurance should again clock in a very solid performance for us. From the macro perspective, we continue to see in insurance, strong momentum across commercial, specialty, personal lines, and the broker business and we specifically are targeting the mid-tier market here.

The demand there, that we see ahead of us for the remaining 3 quarters is strong, I would almost characterize it as very strong. And we also find carriers are increasingly looking at alternatives to large Tier 1 consulting firms given the current market dynamics. And Coforge, we believe, again, is uniquely positioned with its hyper specialized offerings in P&C insurance to gain traction. Quarter 2, you should see a smart rebound. And we believe it's going to be a sustained rebound on a sequential basis.

Rishi Jhunjhunwala: Understood, but was quarter 1 a more specific client issue or it was across that you saw some bit of volume decline?

Sudhir Singh: We saw a generic volume decline. There was one client where there was an issue, but that client also should see a bounce back in Q2, which is why there's a lot of confidence and which is why sitting here 2.5 months before the quarter gets over, I can tell you that we expect to see a smart rebound in quarter 2 itself.

Rishi Jhunjhunwala: Understood. The second question is on your geographic exposure, right. So, while optically it looks like you get almost close to 40% of your revenues from EMEA, can you give slightly more detail in terms of you know, what kind of verticals do you have exposure in Europe? And would it be fair to assume that some of the higher growth verticals are there in Europe and probably the impact from you know, the crisis, as well as currency will not be as high as it optically looks?

Sudhir Singh: Europe, at the current point in time, Rishi, has exposure across the verticals that we work in. Three years back, if we were to have this conversation, I would have said that Europe for us was in some ways a 1 or 2 vertical play. But at this point in time, all the 3 verticals are in play. Even the emerging verticals are doing a good job in terms of driving growth for us. So, it really isn't a case of either being only travel concentrated or BFS concentrated or insurance concentrated. Europe continues to be a place where we have, when I talked about this 100 bps increase in SGA, we continue to invest very, very strongly in increasing the front-end sales and pre-sales team as well.

Rishi Jhunjhunwala: Understood and just one last thing, our bank borrowings have gone up from 3.5 billion to 6 billion on a sequential basis. Just wanted to understand the reason for that and was the cash flow generation weak for any particular reason?

Ajay Kalra: Yes. This is Ajay. There was an increase in bank borrowings in this quarter. And it is very typical of quarter 1, our cash flows are weak because all our significant annual payments whether it be the bonuses, the variable compensation of the employees, the interest payment, or the capex, those are all in the first quarter. And generally, our first quarter cash flows are weak. And however, we do expect that these will improve over the next 3 quarters. In addition, our DSOs were also higher in this quarter, which is very typical in the first quarter. And that is also eating into the working capital and requiring additional working capital, and therefore, is reducing the cash flow. But it's very typical in the first quarter of any year for us.

Rishi Jhunjhunwala: All right. Thank you, and all the best for the rest of the year.

Sudhir Singh: Thank you, Rishi.

Moderator: Thank you. Participant who wishes to ask a question to press "*" and "1." The next question is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha Agarwal: Yes. Hi, Sudhir. Congrats on a good quarter. A couple of questions. First is on the deal pipeline. Any directional sense can you give us on the pipeline? How much is it up on a Q-on-Q basis? And any change in mix or type of things that you're seeing or any change in the same cycle that you're seeing?

Sudhir Singh: Yes. Thanks for the question, Shradha. Deal pipeline continues to be robust. As I had alluded, now over the last 5 quarters, we've closed five $50 million plus deals, and that's obviously a significant step up in terms of the median size of the deals and the velocity of those deals getting signed. Order executable at $745 million, order intake during the quarter at $315 million again attests to that. At this point in time, large deals going forward when we look at the pipeline, both qualified, unqualified is robust. I would almost characterize it as very robust. And if I were to look across service lines and across geos, we have seen so far, absolutely no slackening of demand or the pipeline so far. $315 million, again Shradha, was almost equal to the highest order intake ever in the 40-year history in this organization. So, things are looking good.

Shradha Agarwal: Also, I mean, are you seeing more of vendor consolidation deals that are coming up rather than the large transformational deals that we used to have earlier in the pipeline? Any change in the type of deals that are there?

Sudhir Singh: Yes. The big change has been the number of proactive deals that we are closing have gone up significantly. A lot of these $50 million deals, the reason why we've landed them is because we are increasingly not being reactive. These are proactively structured conversations. Some of them have been absolutely sole sourced. And that's been the big change that we've seen over the last couple of years while the pandemic has been going on. It's not just what's coming to us. It's also what we are being able to create with the tech consulting and the process consulting teams in the front.

Shradha Agarwal: Right. And Sudhir, the next question is through SLK, we've got some exposure to the US mortgage market. So, in light of rising interest rates, how do you see SLK performing in 23? And do you see any near-term weakness in SLK's growth profile?

Sudhir Singh: So, SLK, the contribution numbers as you would have seen in the fact sheet Shradha, the contribution continues to be in line with the previous quarter. At this point in time, the cross-sell piece seems to be doing very well for us. In quarter 1, which was a quarter under review for conversation today, we've signed the first material travel client, leveraging what was the erstwhile SLK and is now the Coforge BPS business which has been a big milestone for us.

The second thing that's working well for us is that the Fifth Third Bank, which was their largest client and is also a JV partner for us, we've been able to start radiating now into the analytics space of the bank, which was not a space that the erstwhile SLK was able to break into. So, the softness that is there because of the interest rates that you alluded to is getting set off by the cross-sell that we've been able to achieve and which we hope to accelerate going forward.

Shradha Agarwal: So, do you expect SLK to grow lower than the organic business for Coforge in 23? Or do you think it will be at par with the overall organic growth?

Sudhir Singh: Early days. The current guidance from our end is at least 20% CC growth for us. So, it should be more or less broadly in line is where we see it for now. And we'll keep updating you on this as the quarters progress.

Shradha Agarwal: Yes, that's helpful. And another last bit from me. I mean, we did have very smart hiring last year, but hiring this time around seems to be a tad muted. So, any comments out there because I think the guidance you had given on hiring was that even this year hiring should be broadly similar to the last year level. But we've had a slow start to hiring in this quarter. So, that would be helpful?

Sudhir Singh: Yes. Shradha, on the tech business side, the net addition is almost 700, which is broadly in line with what we've seen in the recent quarters, and that continues to be good. And what we'd also done was we'd hired upfront in quarter 1 itself, if you recall last year. So, if you look at our current utilization, we have enough slack to be able to pick up growth going forward. Our utilization, as I told you, is only about 76.2%. BPO business headcount has seen a slight decline because the fundamental premise for acquiring that business was that we will take that $100 million BPS business, inject automation and try to do more of transaction-based volumes. And the BPO headcount has come down.,The Tech business continues to be, we believe very robust in terms of net headcount addition.

Shradha Agarwal: And sir, can we just reaffirm the hiring guidance for '23, the fresher hiring target that we're looking at?

Sudhir Singh: We don't have a hiring guidance at this point in time, Shradha. But fresher hiring continues to be a structured program. Last year, we hired 1600 and as growth continues to come through, given the pipeline we are looking at, we continue to invest very heavily in the fresher channel. It's more or less in line with the growth that the organization will see.

Shradha Agarwal: Great. That's it from my end. Thanks a lot.

Sudhir Singh: Thank you, Shradha.

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

Rahul Jain: Yes. Hi. Am I audible?

Moderator: Yes, you are.

Rahul Jain: Yes. Thanks for the opportunity. My question is on the guidance. What would have added to your confidence on this guidance post Q1, as you know, the growth in Q1 is not very high and also the order bookings on a Y-o-Y is kind of a lag, which brings down the BPM trajectory relatively lower versus previous quarter. So, is this just because you're having little better clarity on year with one quarter behind you and conversations are static versus which you were thinking earlier could have gone down --

Sudhir Singh: I'm sorry, I'm sorry, I'm sorry, Rahul. You're breaking up. Can you please repeat? I got the first part. From what I understand you wanted to know, why are we confident that we'll turn in at least 20% CC growth? What is the remaining part of your question, please?

Rahul Jain: Yes. So, essentially, so if you are adding to your confidence, it should either come from a better performance in Q1 or there's a better order intake or something, which is not the the case in Q1 as such. But is it because you have now better clarity since you have 1 quarter is already behind you. And conversation has not worsened, which you might be thinking earlier in light of uncertainty which is not as bad as now. Is that what is adding to your confidence.

Sudhir Singh: No, let me correct you there, Rahul. The order intake this quarter was almost the highest in the 40-year history of this organization, $315 million, right? If you go back 5 quarters, the firm used to struggle to cross $200 million. The highest in our history has been $318 million in a quarter and that was quarter 1 last year and we had signed, if you recall, a $105 million TCV deal. We've signed $315 million. In the nearly 40 years existence of this organization, this is almost the highest ever. That is where the confidence comes from.

So, the second place where a lot of confidence comes from is the fact that order executable, which is the 12-month signed order book has now jumped to $745 million. If you look at the 5-year history of this organization and this management team, our revenue numbers, their trajectory has very closely mirrored the order executable number. That I would pose it to you is where the confidence comes from. It's close to a 5% CC organic growth, which is we believe very strong. It is almost the highest order intake ever recorded in a 40-year timeframe for this organization. It is a 12-month signed order book of $745 million. And hence, we believe that the worst case scenario for us should be a 20% CC growth for the firm.

Rahul Jain: Right, right, sir. Essentially, what I was referring to was, let's say, order intake on a LTM basis, which remains same, but okay, I got the flavor. Secondly, let's assume in a – hello. Yes.

Sudhir Singh: Go ahead. We can hear you.

Rahul Jain: Yes, yes, sorry. So, let's assume if things have to worsen based on your past experiences from previous, relatively weaker economic cycle, you think that the kind of situation where we are in the, you know, project lifecycle or technology support, we could be still conveniently covering this year for sure, even if things have to worsen. Is that understanding right?

Sudhir Singh: Yes. So, I mean, Rahul, order intake obviously can fluctuate during a quarter and maybe LTM is not the best way to look at it. But as I said, the one key takeaway that I would like you to carry is this has been the almost the highest ever in our history. Second, as I said during my prepared comments, 20% CC growth bakes in almost any kind of negative that the macros can throw at us. And in response to an earlier question where we talked about interest rates, where we talked about demand environment possibly getting depressed in the second half, we baked all of that

in. And after baking all of that in, 20% CC growth is the least that we think we will deliver as an organization.

Rahul Jain: Right. Thanks for that color, and best of luck. I think you've delivered well in a COVID year also beating your guidance. Hope you will do this year as well. Thank you, and best of luck.

Sudhir Singh: Thank you, Rahul.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Yes. Thanks for the follow up. Just Sudhir, if you can break down our Others vertical, you know it's become like almost 28% of revenues and has grown pretty well over the past 2 quarters. But just wanted to understand which sub verticals within that, you know, are doing well and where you would see pressure. And, you know, if you can, you know -- if you're planning to split that out going forward.

Sudhir Singh: Rishi, Others, we've traditionally not called that out. But the one sub-vertical that's doing exceptionally well for us is public sector outside India, particularly across Europe and Australia right now as a composite. When I talked about other emerging verticals, I talked about some of the recent wins, not necessarily $20 million plus TCV wins, but significant wins that we've also recorded. Within this public sector space, it is digital process automation that as a service line is resonating sharply with the demand ask coming in from this set of clients. Other verticals also continue to shape up well. There's positive traction across media, there's positive traction around retail, where we've started working and we'd called this out with one of the world's largest retailers, and that relationship has ramped up significantly. And there's positive ramp up across healthcare as well.

Rishi Jhunjhunwala: Understood. And just one, you know, bookkeeping kind of question. So, you know, our BPM growth has clearly been strong and I'm assuming largely led by SLK, where we do not have a complete control in terms of stake. On the other hand, minority interest in the P&L has actually gone up substantially, if we look at it over the past 3, 4 quarters, which basically means that subsidiaries where we do not have complete interest their profitability has gone up substantially. So, you know, is it largely attributable to SLK? Is SLK now running at a, you know, profitability level, which is much higher than what we were initially anticipating? And what do you expect that will trend going forward?

Ajay Kalra: Yes. It is largely related to our BPS acquisition that we did last year. And the minority interest is primarily related to that. And as Sudhir had mentioned that we have been reducing our headcount, and we have been automating a lot of the processes and moving to the transaction-based pricing, the profitability of that business is improving. And that is what is also reflecting into the minority interest as well.

Sudhir Singh: Rishi, as Ajay said, along with cross-sell, this is the other premise that has worked out well for us. The reason why we wanted to make this acquisition was because we saw $100 million BPM business adjacent to a $100 million automation business that we already have. And as Ajay alluded to right now, the fact that we've already been able to start injecting automation is what has allowed us to drop headcount and hold revenue or slightly grow it over time. And that's why the margin and the profit is coming ahead of what we also would have thought about a year back.

Rishi Jhunjhunwala: Okay. Thank you so much.

Sudhir Singh: Thank you, Rishi.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Sudhir Singh, CEO, Coforge Limited for closing comments.

Sudhir Singh: Thank you very much, ladies and gentlemen. We understand this call and at this time is early for India and it's pretty late for some other parts of the world. We want to thank you for your continued interest and support. We continue to reflect very actively on all the questions and the suggestions that come out of these calls. And we look forward very sincerely to seeing all of you 3 months from now in the quarter 2 call as well. Thank you once again. 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.