“Coforge Limited's Q4 FY'2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q4FY22 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. Thank you and over to you, Mr. Agarwal.

Ankur Agarwal: Thank you Neerav, good morning, or good evening, everyone and thank you for joining us today for the Q4 and Full Year FY22 Earnings Conference Call of Coforge Limited.

As you know, we announced our Q4FY22 Results today, which are already filed with the stock exchanges, and also available on the 'Investors' section of our website, www.coforge.com.

Present with me today is 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, post which we will open the floor for your comments and questions.

Sudhir Singh: A very good morning, good afternoon, and good evening to all of you across the world folks. I hope all of you and your loved ones are keeping safe and healthy. Thank you for joining us for the conversation today as we share our FY' 22 and Q4'FY 22 results.

Before I delve into the quarterly and the annual results, I want to preface my commentary with a set of quick reflections on the FY'22 results.

FY'22 was a landmark year for the firm. As I walk you through our results you will recognize that in FY'22 our revenue has grown 38%, our EBITDA has grown 42% and our PAT has grown 45% over FY'21. You will also notice that the Coforge growth story in FY'22 is not just one of robust 38% growth. It is equally importantly the story of how we delivered this 38% annual revenue growth while simultaneously and significantly expanding our adjusted EBITDA margin by 90 bps in a severely cost escalatory environment.

In addition, the Coforge growth story in FY'22 has been a sage of other notable achievements too.

These achievements include the fact that in FY'22 the new order intake of the firm crossed $ 1.15 Bn. Not only did we sign 11 large deals in FY'22 but more importantly we've ensured that the median large deal size went up appreciably. The eleven large deals we've signed in FY'22 included a $ 105 Mn deal and three $ 50 Mn+ deals.

In FY'22 our operating profile continued to be de-risked with the Top 5 clients contributing just 22.9% to our aggregate revenues. At the same time that de-risked cohort of Top 5 and Top 10 clients grew 30.2% and 36% respectively through the year.

The other big structural change in the firm's profile has also centered around how the contribution of offshore revenues has jumped by 8% from 39% to 47% of aggregate revenues over the last four quarters – that is an increase of 47% in offshore revenues. Our ability to grow margins in a tough year like FY'22 arose primarily from our ability to sign large deals which in turn has allowed us to materially scale up our offshore operations factories.

Finally, the Coforge story remains one of a firm that has powered very significant growth through changing almost every facet of its functioning over the last five years and yet it continues to evoke one of the highest levels of employee commitment, and hence lowest employee attrition levels, across the industry.

With that preface let me start with the Q4 performance.

QUARTERLY PERFORMANCE – REVENUE GROWTH and MARGINS

The last quarter of the year was marked by another large US$ 50 Mn+ deal win. It was also marked by the highest ever quarterly EBITDA margin recorded by the firm.

In Q4FY22 the firm's revenues grew 5% sequentially in cc terms. In INR and USD terms that sequential growth number was 5.1% and 4.9% respectively. The revenue recorded for the quarter was US $232.4Mn. On a YoY basis, Q4 growth was 35.0% in US$ terms and 38.2% in INR terms.

Vertical-wise revenue growth breakdown was as follows. The BFS vertical clocked 128% YoY growth and contributed 27.7% to the firm's aggregate revenue. The TTH vertical continued its strong recovery and registered 46.8% YoY growth in the quarter. The Insurance vertical experienced 13.9% YoY growth while the Others segment, which includes Healthcare, Hi-tech, Manufacturing and Government outside India grew 10.5% YoY during the quarter.

Our top 5 clients and top 10 clients grew YoY by 25.8% and 32.4% respectively. Our top 10 clients. contributed 35.0% to our overall revenue in Q4. The growth in our top clients is reflective of not only our preferred partnership status with them but also our increasing wallet shares and a very productive client mining engine at work. The success of that client mining engine is also borne by the fact that over the last four quarters alone the number of US $10 Mn+ clients has jumped from 11 to 18. At the same time, from a client concentration perspective, we remain substantially de-risked.

In Q4, our offshore revenues were 47% of the total revenues which is a substantial increase from over 39% just a year ago. As you would recall from the color provided throughout the year, this has been one of the key drivers of sustainable margin expansion for us. It is closely tied to execution of our large deal wins and our expanding book of managed services contracts.

Moving onto the margin performance for Q4.

The firm reported an adjusted EBITDA margin of 20.6% in cc terms and 20.4% on a reported basis during the quarter. As noted earlier, this is the highest ever Quarterly EBITDA margin in the firm's history. Adjusted EBITDA was US$ 47.3 Mn for the quarter.

The effective tax rate for Q4 was 13.2% of the PBT while normalized tax rate was 21.4%. The current quarter reflects tax benefit on account of dividend received in India from foreign subsidiaries.

Our consolidated PAT for the quarter an increase of 12.7% QoQ and an increase of 52.5% YoY. The quarterly PAT stood at US$ 27.7 Mn.

ANNUAL RESULTS

In FY'22 the consolidated revenue of the firm registered a growth of 38.0% in US$ terms, 37.6% in constant currency terms, and 37.9% in INR terms. Consolidated FY22 revenue stood at 866.5 Mn in US$ terms.

On an organic basis, revenues in FY22 grew at 24.9% in US$ terms and 24.1% in INR terms. You will recall that at the beginning of FY'22 we had guided to an expected organic cc growth of 17% and had been revising the guidance upwards in every subsequent quarter.

FY22 proved to be a stellar year for our BFS business which clocked 102% growth on the back of multiple large deal wins including the US$ 105 Mn+ TCV contract won in Q1. BFS constituted 25.5% of FY22 revenue. The Insurance vertical logged another strong performance and grew 20.2% and constituted 28.3% of the firm's revenue. The TTH vertical recovered smartly in FY'22 to grow 36.0% over FY'21. It is important to note that the TTH vertical revenue in FY'22 was 5% higher than that recorded pre-pandemic in FY'20. It constituted 19.0% of the total FY22 revenue. Other businesses, including healthcare, retail, hi-tech, manufacturing, and public sector outside India collectively grew 21.6% YoY and represented 27.2% of the overall revenues.

Looking at the geographic splits of the revenue, Americas grew 49.7%, EMEA grew 32.5% and RoW grew 14.6% during the year. Geo-wise revenue contribution for FY22 stood at Americas – 52.0%; EMEA – 35.0% and RoW – 13.0%.

We experienced strong growth across our entire offering spectrum during the year and all our service lines are scaled businesses today. Our Digital portfolio which comprises of product engineering, intelligent automation and data & integration service lines made up 51.5% of technology revenue and 46.6% of overall revenue. Digital and cloud-infra services combined is 71.3% of our technology revenue and grew at 24.5% in FY22.

In addition to remarkable topline growth, we had also embarked on a journey to improve our profitability during the year under review. Adjusted EBITDA (before ESOP and acquisition related costs) increased by 43.7% during the year translating into an EBITDA margin of 18.9% in cc terms for the year.

The ability of the firm to expand margins at a time when the industry has grappled with higher retention and hiring costs merits a quick comment. Significant margin expansion during the quarter and progressively through the year, has been driven by the following factors: (1) a progressive and significant enhancement in offshore revenues, (2)an expansion in gross margin as pricing power has increased, (3)operating leverage from the very strong growth we've witnessed, (4)induction of 6.7x number of Graduate Trainee Engineers compared to any previous year and (5) a phased return towards normal pre-pandemic gross margins for our Travel business. I will close these observations with the comment that our exit adjusted EBITDA margin in Q4 last year was 18%. That number this year now stands at 20.6%

Finally, our net profits for the year came in at US$ 89.1 Mn reflecting a 45% YoY growth. The effective tax rate for the year stood at 17.0% of the PBT.

That rounds off the revenue and profits analysis for Q4 and the full year.

ORDER INTAKE

FY22 has been the best year in the history of the firm in terms of the size and velocity of large deals won. In the first half of the year, we had already secured a US$ 105 Mn TCV four-year eight-month contract and two US$ 50 Mn+ contracts. That momentum continued in H2, wherein we signed another US$ 45 Mn+ TCV contract in Europe in Q3 followed by another $50Mn+ deal in BFS space in Q4.

The order intake for the quarter was US$ 301 Mn including 3 large deals out of which one was greater than US$ 50 Mn. It comprised US$ 158 Mn from the Americas, US$ 104 Mn from EMEA and US$ 40 Mn from rest of the world. I would like to call out that the total order intake during FY22 was US$ 1.15 Bn, crossing the billion-dollar mark for the first time in the firm's history and up 47.3% over the order intake number of US$ 781 Mn recorded in the fiscal 2021.

As a result of strong order inflows, booked orders for the next 12 months, now stand at US$ 720 Mn. This number stood at $ 520 Mn at the same time last year. This robust order book for the next 12 months, the order intake of $ 1.15 Billion over the last four quarters and a track record of repeat business from clients of over 93%, imparts a high degree of confidence in our plans to drive accelerated growth to the next key milestone of $ 2 Billion in revenue that we have set for the firm.

12 new logos were signed during the quarter taking the total count to 47 for the financial year.

DELIVERY OPERATIONS & CAPABILITY BUILD

In line with our vision of "Engage with the Emerging", we continued to strengthen our positioning across existing and new partner ecosystems such as AWS, Kong and AppDynamics to enhance our capabilities and provide a differentiated offering to our clients. During the quarter, Coforge became an AWS Travel and Hospitality Competency Partner, reflecting the firm's demonstrated experience of helping travel and hospitality clients transform their businesses. We also announced a global partnership with Kong – a Gartner 2021 leader in Full Lifecycle API management. The firm also announced the extension of its partnership with Cisco AppDynamics, the leading full-stack, business-centric observability platform. This strengthened collaboration will see the launch of a new Performance Monitoring-as-a-Service offering for business-critical applications.

As a testament to our delivery capability, Coforge earned the Global Elite distinction in the new Pega Partners Program, where we are among the only 9 elite partners globally. The Global Elite distinction is reserved for the top-performing partners with demonstrated capabilities in Pega technologies, engagement strategies, or vertical markets. In addition to Global Elite status, Coforge also earned Specialized distinctions in Customer Service, Delivery and Manufacturing.

The Coforge Salesforce Business Unit also won the 'JAPAC – Breakthrough Partner of the Year' award from MuleSoft, for its excellence in enabling customers to accelerate their digital transformation initiatives.

We continue to execute seamlessly against the large banking mandate we won in Q1. We are now also partnering with the client, in addition to the original mandate. to drive data driven transformation and in developing their next-gen data and analytics platforms. Our Salesforce delivery to the client has been identified by Salesforce as the largest European implementation of Salesforce Financial Services Cloud.

Coforge Digital Consulting Services are now part of a steering committee at one of the major European central banks to lead a multi-year transformation & modernization program. In this role we work directly with the CIO and their core leadership team.

During the quarter, we implemented the Life Data Foundation data ecosystem on a modern AWS platform for an American insurance and investment management organization to integrate their data from key functions. This initiative resulted in benefits valued over US$ 10 Mn to the customer. Our MuleSoft integration delivery to the client was nominated for the ONE IT Award for "adaptability for future digital integrations".

On the TTH side of the house, we continue to grow our existing relationships. We are also focused on cross selling our cybersecurity offerings to our travel clients, where our teams are already engaged in delivering security vulnerability and incident management services across 80 airports around the globe.

For a large US-headquartered global enterprise information management services organization, Coforge has been providing Artificial Intelligence services for their customers across geographies using Coforge's Quasar Artificial Intelligence accelerator.

PEOPLE

During the quarter under review, we added net 722 people to our headcount in the IT business. For the overall firm, including the BPS business, our total headcount at the end of FY22 stood at 22,500.

Utilization, including trainees, during the quarter was 76.1%. The number of trainees added were 6.7x as compared to FY21. Excluding trainees, utilization during the quarter was 80.1%.

Attrition during the quarter increased marginally to 17.7% but continues to remain one of the lowest across the industry. We continue to focus on this as a critical operating metric reflective of the Coforge culture and an engaged & committed workforce.

Before moving on to balance sheet and outlook, 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. For us, this was a year where we added nearly 10,000 new team members to the Coforge family despite the testing environment.

BALANCE SHEET

Cash bank balances at the end of FY22 stood at US$ 62.2 Mn, after payouts towards an interim dividend declared in January. Capex spend during the last quarter was US$ 3.4 Mn. The debtors at the end of the quarter improved and stood at 63 days of sales outstanding.

SUMMING UP & OUTLOOK

Over the past five years Coforge has completely and successfully transformed itself through changes effected across several vectors. Key changes that have enabled our pivot to robust, sustained and profitable growth have included a change of leadership, the change in the center of gravity of the leadership to the markets, change in the performance ethic of the firm to a "can do" attitude, change in strategy to focus on select core verticals where we had deep domain expertise and last but not the least, a complete recreation of the tech capability stack to engage with our clients across the emerging technologies continuum. These changes, allied with an intensely execution focused culture, have driven our financial performance.

Two weeks back we concluded a Leadership offsite where we reaffirmed our commitment to robust, sustained and profitable growth in the years to come. In the typical Coforge execution-focused operating style we vetted once again our growth plans for FY'23 and also created an aggressive, timebound plan to get to the US $ 2 Bn milestone.

I shall share our outlook for FY'23 basis our discussions in that offsite.

Given the $ 1.15 Billion order intake over the last four quarters, the already locked-in twelve-month executable order book of US$ 720 Mn and the grounds up conversations that we are having with our clients we are planning for around 20 percent constant currency revenue growth in FY23. On the margin front, we expect to maintain adjusted EBITDA between 18.5 to 19 percent in FY23. Summing up, we are on track to deliver another year of strong operational and financial performance as the company continues to enhance its capabilities and scale up its delivery resources to fulfil the rapid pace of growth planned.

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

Moderator: Thank you, we will now begin the question-and-answer session. The first question is from the line of Sandip Agarwal from Edelweiss Financial Services. Please go ahead.

Sandip Agarwal: Good morning and thanks for taking my question and congrats on a good set of execution. So, Sudhir, when you say 20% constant currency number for FY23, is it at least or you think, it is realistic or a conservative number, #1?

#2 When you talk about margins, you have taken into consideration a scenario which can further deteriorate from here on attrition or you think that you are guiding that range, considering the current attrition situation?

#3 Given what you are seeing today and given the uncertainties on global macro and what you know, most of the economists are talking about, what is your sense that how critical is our tech operations to the client and how much they are enabling the revenue growth and margins of the client, profitability of the clients that this will be the last cost to cut, what is your sense on that?

Sudhir Singh: Thank you for the three questions, Sandip. Let me take them in order. If you look at our record, at the beginning of fiscal year '22, we had offered a growth guidance of at least 17% in CC terms. We concluded the year, between organic growth and the acquisition that we did during the year, at 38% growth. This year, we are not offering an "at least" guidance, as you noted. We are offering an "around" 20% organic CC guidance, which we believe is a realistic, achievable number. We will, of course, as we did last year, revise guidance over the year as appropriate. We started last year with 17% guidance and ended at 38%. We keep revising numbers, basis changes in market conditions or any changes or acquisitions that we might consummate. At the current point in time, we believe the current guidance is a realistic guidance. Of course, we have always had a conservative bias and that's fundamentally why we have always met and in most cases exceeded forecasts that we have shared. That Sandeep is the answer to question one.

Question two, the adjusted EBITDA guidance of 18.5% to 19%, we feel confident around this. We have done most of the scenario modeling around worsening attrition, significantly worsening attrition and everything else on this front under the sun. We believe that if we have an exit EBITDA margin of 20.6%, when at the same time last year, we had exited at 18%, there is a significant cushion available to us on margins. At this point in time, we're calling out a margin that is broadly in line with what we've already delivered in FY'22 , while our exit rate is significantly higher on the margin front than it was when FY22 started.

Coming to the third question from you was around global macro conditions, the changes that we've been observing, what all of us have been tracking and how critical those are to tech operations. I think the short answer is very. Tech operations continue to be critical and over the past few years, not just the last year, we've seen increasingly that tech spend is no longer regarded as the first discretionary item or even the second or the third discretionary item that gets pulled out. Our growth projections are also not based on macro conditions moving up or down on a sliding scale. A lot of it is also based on the order executable that is already signed, and I talked about $720 million. A lot of it is also based on the fact that repeat business has climbed up to 93% from 89% last year when we saw the hits that we saw in the Travel business. A lot of it is based on the fact that the travel industry, which is as you know, a material industry for us, is seeing clear evidence of a bounce back and we have a lot of tailwinds building up there. A lot of it comes from the fact that we've been really investing specially when you look at our sales team. When last year ended, we had about 180 people in sales and marketing while today we have 280.A lot of it is based on the pipeline that is getting built globally, and a lot of it is also coming from the fact that our growth, as you would have noticed is broad based. It's not one vertical, one tech service line that's driving it or one or two clients. Broad based growth, low client concentration, a de-risked model and in just about every scenario that we could model 2 weeks back in our leadership off site, these numbers feel extremely achievable to us. I want to pause right there, Sandip, and I want to thank you again for the questions.

Sandip Agarwal: Thank you Sudhir, that is very helpful and very strong comments. Thank you.

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

Vibhor Singhal: Good morning and thanks for taking my question and congrats on a strong quarter yet again. Sudhir, just 2 questions from my side. One, just wanted to check, what is the overall outlook on the insurance segment? We've been doing really great in that segment. Some of our peers are not able to catch up. So, overall, how is it looking especially in the European market and how do you see insurance vertical playing out for FY23 specifically? My second question is any timeline that you could probably provide for that $2 billion revenue target that you mentioned in the press release and the opening remarks?

Sudhir Singh: Thank you for both the questions, Vibhor. Let me take them in order once again. As you've noted, insurance as a vertical for us has been a very strong growth driver over the last 4 years.

This year again, we've clocked 20 plus percent growth. When we look at the market and we look at the industry, we see momentum continuing in insurance in fiscal year '23 on the back of the economic recovery we've seen so far, the rising risk awareness and the accelerated digitalization that is now happening in insurance, which has been a laggard compared to other industries. If you look at insurance as a composite, global insurance premiums are also expected to grow between 3% to 4% depending on how who you speak to, in 2023. The flip on the insurance side that we're monitoring is that high inflation and the significant catastrophic event related losses, what is called CAT losses may impact insurer earnings and put pressure on their discretionary spend. If you bake the pluses and the minuses, we see significant demand for Coforge services, including digital experience, including accelerated underwriting, including claims optimization, call center transformation, core platform modernization. So, given what we've already built up, given the fact that insurance at the end of FY22 is still the largest vertical for us, we do expect outlook to be strong, positive, robust going forward as well, Vibhor. That's the answer to question number 1.

Question number 2, around the $2 billion plan that we've created . As you can imagine, in the leadership offsite that we had, we've named the year internally when we expect or we want desperately to get to $2 billion. We're not going to be sharing that year right now. At this point in time, the outlook that we are sharing, as we've always shared, is only for the next fiscal. We do understand that we should hopefully be materially north of $1 billion by the end of this year. Hence, the focus has pivoted to $2 billion and to getting there hopefully with accelerated speed.

Vibhor Singhal: Got it. Just one small bookkeeping question, if I may. What is the ESOP cost that we're expecting for FY23, ESOP/REC cost?

Sudhir Singh: Vibhor, I'm going to request Ajay to step in for that. Ajay, can you take that, please?

Ajay Kalra: Sure. Thank you Sudhir. Vibhor, we are expecting between 60-65 bps of ESOP cost next year.

Vibhor Singhal: Sorry, I missed that. Sorry.

Ajay Kalra: Vibhor, I will repeat myself. Vibhor, it's 60 to 65 basis points of revenue for the next financial year '23. That's the outlook for the MIP program.

Vibhor Singhal: Got it. Thanks a lot, Ajay and Sudhir. Thank you, guys, thank you so much and wish you all the best.

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

Dipesh Mehta: Thanks for the opportunity. Couple of questions. First of all, Sudhir, just want to get your perspective, how you think Q4 played out, in line with your expectation or there is some miss or some positive surprises if you can highlight considering so much macro uncertainty and across sector performance. Plus, we'd seen some margin miss versus what you indicated. Second question is about the BPS headcount decline, this quarter it is QoQ down. So, is there any seasonality in SLK business or any other seasonality in BPS business? Third question is about WHISHWORKS. Typically, WHISHWORKS has very strong Q4 and then taper off in Q1. Do you expect that seasonality to weigh on our Q1 performance?

Sudhir Singh: Thank you for the three questions, Dipesh. I just want to reconfirm question number 1. Question number 1, as I understood it was you wanted us to opine on how the year has panned out versus our expectations? Is that correct?

Dipesh Mehta: More for quarter rather than year.

Sudhir Singh: Understood, quarter rather than year. So, let me take all 3 questions once again in order. The last quarter we had set a stretch goal for ourselves. Clearly, the numbers that we were aiming at on the revenue side got exceeded given the tailwinds that we've seen, because the outlook that we'd offered for the full year was at least 37% growth in dollar terms, and we ended up at 38% for the year. So, revenue has been slightly ahead of what we had called out. On the margin side, we had indicated that we'd end the year between 18.9% to 19% margin for the full year, and we've delivered on that. And we've delivered on that after taking margin to 20.6% for the quarter, which as I called out, was the highest ever. The interesting thing is last quarter, quarter 3 was the highest ever on margins when we hit 19.5%. This time we aced the highest ever by a very significant 90 bps more. In today's environment, a firm of our size hitting 20.6% CC, 20.4% reported quarterly margin obviously is something that we are very pleased about. So, the quarter panned out in line, slightly ahead of our expectations.

Second, as far as BPS headcount is concerned, if you look at the BPS headcount progression over the last 4 quarters, Dipesh, we called out at the beginning of the year itself that we expected the acquisition to be margin accretive for us, and it's been significantly margin accretive because of the operating efficiencies and the synergies that we've been able to create, especially on the non-billable headcount front. So, moving forward, we had talked about the fact that we expect the BPS business to grow in Q4 over Q3 and it has, and we expect that growth momentum to continue in the coming quarter as well.

Third, as far as WHISHWORKS is concerned, there is no material seasonality within that business, Dipesh. As you're aware, the WHISHWORKS business is now fully integrated. It operates under the Coforge Salesforce business unit name. We merged the Mulesoft capabilities with the Salesforce capabilities, and it's been a huge capability and force multiplier for the firm. Given the contours of the new business, there is no longer material seasonality in WHISHWORKS in Q4. So, we should not be seeing a material tapering off in Q1 in what was WHISHWORKS, and which is now the Coforge Salesforce business unit.

Dipesh Mehta: Understood and last data point from my side. Can you give the SLK global revenue for the quarter? Thank you.

Sudhir Singh: Sorry, which global revenue, Dipesh?

Dipesh Mehta: SLK global, the acquisition.

Sudhir Singh: We're not calling out all acquired entities which have been fully merged and the SLK entity is now the Coforge BPS business. We have merged the earlier Coforge BPS business with the SLK business and put it all under the same leader who was running this unit for SLK earlier. So, we are calling out the BPS business revenues, but we're not calling out revenues on a go forward basis for individual entities that are now fully merged and SLK is now fully merged with Coforge.

Dipesh Mehta: Understood. Thank you very much.

Sudhir Singh: Thank you, Dipesh.

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

Manik Taneja: Hi, good morning. Thank you for the opportunity and congratulations for the steady performance. Sudhir, just wanted to pick your brains on a couple of things. We've seen significant offshore shift for us happen over the last 12 months and as you alluded, this is also being helped by the large deal momentum that we are seeing. If you could talk about how do we see this dynamic over the next 12 months? That's question number one. The second question was a clarification on the SG&A headcount. That number came off in 3Q and has reduced marginally in 4Q as well. If you could help us understand what's driving the optimization there. Thank you.

Sudhir Singh: Sure. So, let me take both the questions in order. We believe the offshore shift is largely structural. For the quarter, offshore revenue is at 47%; for the year, the overall offshore revenue is at 44%. We believe now, we were fairly conservative about it and did not call it out but given the continued offshore momentum, we believe the number is likely to sustain in FY23 at broadly the levels that we've seen in FY22. That's answer 1 to question 1.

Answer 2 to question 2, on the SG&A, we've actually very, very significantly enhanced numbers on the sales and marketing side. As I said, when FY21 closed, we had about 180 folks across sales and marketing. Now that FY22 is closed, we have somewhere close to 280. I won't worry too much about whether the number has gone up by 3 or gone down by 3 as is the case over the last quarter. The broad direction is what was a 180-member team is a 280-member team and our intent and you can I think deduce this from the margin guidance also, especially given the exit margin rate is to really, very aggressively continue to invest in the S&M and the solutioning headcount going forward as well, because we are crystal clear, growth is the primary imperative, and getting to $2 billion with speed is something that we're really fixated around.

Manik Taneja: Sure. Thanks and If I can ask one more. This is on our segmental margin performance. So, if you could help us understand why our margin profile in India essentially continues to be negative? And what drove the segmental margin improvement in case of European geography?

Sudhir Singh: Ajay, would you like to address that question?

Ajay Kalra: Yes, thanks, Sudhir. In India, we continue to have negative margins but if you look at the India segment, it's a very small segment and it's a competitive segment. So, we continue to improve our margins there, but again, given the one-time impact it is negative in the current year and quarter.

Sudhir Singh: Let me just add to that. While the margin is negative at the current point in time, the trend, it's been reversing. Even though India is a very small portion of our revenues, and you would have noted rest of the world has been declining as a revenue contribution for us, the intent is not to keep it that way forever. One of the things that we take great pride in is the fact that we believe we execute very well, and our margins are a testament to that execution ability. You will over time find us turn India, which is the last bastion where margins have been under pressure and do a complete and an effective turnaround there as well.

The other question that you had, I understood, was segmental margins. Segmental margins continue to be strong, which is what is playing into the aggregate margins having increased during the year.Something that helped us in FY22, and will likely help us even more on the margin front in FY23 has been the claw back on margin that we've been able to see on the Travel industry business side. Not only has Travel expanded significantly as a vertical in revenue, gross margins there have also gone up. One thing I do want to point out is if you look at our gross margin progression, our gross margin has gone up 340 bps between Q1 to Q4 of FY22. A lot of it, at least a major chunk of it, has come because of the positive reversal that we've been seeing on the travel side as well. Of course, insurance, BFS, the new deals that we've signed, have all been solidly margin accretive, and that is the other nuance that is important to us. A lot of times, large deals tend to actually have a drag on margins. Our large deals have allowed us to scale up offshore operations, have come in at good rates and have been margin accretive for us. I'm going to pause right there for any other follow ups that you might have.

Manik Taneja: So, Sudhir, one last clarification. So, is the travel rebound also helping with regards to your Europe segmental margins?

Sudhir Singh: Our travel business has significant Europe buyers, so it would be playing into the Europe turnaround as well. Of course, Europe as a geo outside the 3 verticals again is doing well. Also, if you recollect the large deal that we signed in BFS, $105 million deal was with the European bank. Also to the point I made earlier, that large deal is margin accretive and that's also helping both Europe and the firm.

Manik Taneja: Sure, thank you and all the best for the future.

Ajay Kalra: Sudhir, just to add, the offshoring also is helping there in the European margin as well.

Sudhir Singh: Thank you, Ajay.

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

Abhishek Shindadkr: Thank you for the opportunity and congrats on a good quarter. A couple of questions. The first one is on the sales headcount growth that you alluded to. So, we are seeing a commensurate increase in the bookings number on a Y-o-Y basis. What I'm essentially trying to understand is the increase in the bookings number is a reflection of headcount or we are yet to see the efficiency benefits from increase in the sales number? The second is on large deals. It seems like our commentary is contrary to the perception what we heard in Q4, that large deals are fewer in the market, but we have been able to stitch them better. So, any color in terms of what we are doing differently could be helpful. The third is on wage hikes. When do we plan to give wage hikes? Any quantum for the same could be helpful.

Sudhir Singh: Thank you, Abhishek, for all the questions. I will take them in order. Sales headcount growth and the tie up that you did to booking numbers takes about, in my experience, when I started my life as a sales manager in Hindustan Lever more than 2.5 decades back, a year for a person to come in, settle down and start producing. Most of this increase from 180 to 280, comprises of folks who haven't finished that full year. So, a lot of that growth, the impact creation by that cohort, I suspect is still awaited, and hopefully will start playing out in FY23. I also would urge you not to conflate bookings with headcount numbers. As all of us know, it's less the number, more the caliber of who we bring on board and that plays into that piece, including bookings and the headcount correlation.

The second question around large deals and the fact that our commentary is different. My submission to you would be it's not just our commentary that is different. Our performance is different. So, our commentary is different, and we keep calling out large deals because our performance supports the fact that we are closing large deals. We closed 11 large deals through the year and almost every quarter, there's been roughly about 3. There was a quarter where we had 2. It's been very consistent and, it's not just large deals where you're scraping through the threshold or what we call a $20 million TCV. This has been a breakthrough year, not just in terms of numbers and velocity of large deals. It's basically been a breakthrough year in terms of the median size of those large deals having gone up. One $100 million plus TCV large deal, three $50 million plus TCV large deals, including one in quarter 4 itself, is why the commentary that we are offering is backed by facts on the ground..

To your question around, what are we doing differently, I suspect not much. It's fundamentally execution. It's fundamentally the collective decision that was made at the beginning of the year, when it was very clear to us that there was a lot of business, short cycle business for the asking. We did step back and take a conscious call to continue to focus on large deals, because if hypothetically, the market were to go south, short cycle deals go away almost immediately.

Large deals do not. We've always had a bias, about 3 things that you will always hear me talk about - robust growth, sustained growth, and profitable growth. That sustainability largely comes if the velocity around large deals is consistent. That's the answer to question number 2.

Question number 3, wage hikes quantum. Wage hikes have already been effected. In our case, they are effective the 1st of April, and that change has happened about 1.5 month back. Given what's happening in the market, wage hikes are substantially higher than what they were last year and that cost escalation has already been built into the cost model, basis which we've come out and talked about the margins that we are likely to deliver upon. As I said earlier, we're walking in with what we believe is material cushion, because an exit rate of 20.6% makes it that much easier for us to absorb a lot, lot, lot more on cost in the worst-case scenario, and still deliver to the numbers, at least, that we have called out. So, I'm going to pause right there Abhishek, but those will be the 3 answers to your 3 questions.

Abhishek Shindadkr: Great. Thank you for taking my questions and best wishes for 2023.

Moderator: The next question is from the line of Shradha Agrawal from Asian Market Securities. Please go ahead.

Shradha Agrawal: Hi, thanks for taking my questions and congratulations on great results. Sudhir, one question. When I see your fresh order intake, that number for Europe has been lower QoQ. So, how are we looking at demand environment in Europe as such?

Sudhir Singh: Shradha, Europe's been a very happy hunting ground for us.The largest deal that we closed in FY22, was in Europe with a bank, the $100 million plus deal. At this point in time, despite what's happening on the eastern European side, Europe for us across the Travel space, and for Travel Europe is a material market and Europe for us on the BFS side, where it has now become a material market, is doing extremely well. I won't even say doing well, it's actually doing extremely well for us. So, fresh order intake number notwithstanding the momentum in Europe continues to be strong as we see it now.

Shradha Agrawal: Right and secondly, on our insurance platform AdvantageGo, the license revenue number was not great in the first 5 months. How did the license revenue perform this quarter?

Sudhir Singh: It has done well, Shradha. We've grown about, more than 13% sequentially in Q4 over Q3.

Shradha Agrawal: Right, and any outlook on the travel hospitality sector that you would want to give out for FY23 and what are the considerations for margin guidance of '23? What are the key levers that will be available for us to defend the salary hike which we have given which is higher than what we have given in historical years?

Sudhir Singh: Sure, Shradha. Let me take both the questions in order. Travel outlook. Travel, of course, given the bounce back is a space where our Travel Business leader and I personally have been meeting almost every client across the world and we've literally been traveling to meet our Travel business plana. If you look at the Travel segment, particularly Europe, what's very clear now is that the global Travel industry recovery is clearly happening and it's on a significant upswing. We've seen this almost from January 2022. Most of the major airlines that I've spoken to, most of the leaders in airlines in person around the world, are predicting double digit profitability for the current quarter itself, April-June and for the rest of 2022, as well. What's been very interesting in a lot of my conversations is they don't seem to be demand constrained. They're more supply constrained around actually having the right number of pilots and cabin crew to staff the airlines. Europe is showing, to your question, very similar trends in travel, of increased bookings now and a significant upswing in travel, both domestic and international. International, of course, is important for Europe and so far, there has been no noticeable impact from the war in Ukraine. European commercial flights, we keep monitoring that. They've increased by 150% in March 2022 compared to March 2021 and across the conversations that all of us have had within Coforge, with the Travel clients, this improved revenue, and the profitability outlook is leading the travel industry to increase investments and we see it and we sense it and we benefit from it significantly in cloud, in cybersecurity, and in digitization initiatives focused around touchless travel. Last quarter again, Shradha, the same question had come up, and I had cited a metric from SITA, who had spoken to almost every CEO and CIO in the travel industry, and 85% of them expect IT spends in calendar year '23 to be significantly and materially higher than CY 22. So, that's a quick update around travel.

On the margin side, your question was around what are the levers that give us comfort that despite the supply issues, despite the retention & hiring costs, we will deliver at a minimum to what we've talked about, and I think there are multiple levers. The first one is, and I've talked about this, we are on an exit adjusted EBITDA margin of 20.6%. Last year, the exit EBITDA margin was 18%. The margin in Q1 for Coforge, adjusted EBITDA was 16.1%. So, through the year, ramp has been from 16.1% to 20.6%. That exit gives us a big cushion that's lever 1. Lever 2 is the fact that offshoring for the year is at 44%, but for the quarter 4, we're exiting at 47%. Compared to last year, that's 8% higher. We believe it's a structural shift in the cost structure and margin profile, so that will sustain. Third lever around margin that we feel very good about is, in FY22, and this has impacted our utilization in some ways, in FY22, we've hired 1680 graduate engineer trainees, which is 6.7 times more than what we did in the previous years, any previous year. Now, a lot of them are not billing, but they will over time start billing and that becomes a significant margin driver. Fourth, of course, margin driver, Shradha, is the natural operating leverage from what we think is robust growth ahead of us. Fifth is AdvantageGo, which you talked about, that business had 2 quarters of sequential decline last year, we don't expect that to repeat in FY23 and finally, a big lever which I've talked about is recovery in the Travel business. That's significant, not just from a revenue perspective, but also from a margin perspective and an upside perspective. Shradha, those would be the answers to the 2 questions that you have.

Shradha Agrawal: That's very helpful, Sudhir. If I can chip in one more. Any pricing increments, that we can factor in for FY23, especially from the travel vertical.

Sudhir Singh: Yes. I've been asked this question over the last 4 quarters, and I've always been shy about committing to pricing being a material lever but while it may not be a very material lever, clearly pricing power is definitely back with partners like us and if not a major lever, it's a clear minor lever on improving margins going forward now.

Shraddha Agrawal: Great. That's helpful. Thanks, Sudhir.

Sudhir Singh: Thank you, Shradha.

Ankur Agrawal: Thank you, Shradha. This is Ankur again, guys. I know there are a few more questions lined up. We will be happy to take those questions on a one-off basis post the call, but we'll need to wrap it up, operator. So, please conclude with the closing remarks.

Moderator: Thank you very much. I would now like to hand the conference to Mr. Sudhir Singh for closing comments.

Sudhir Singh: I would like to thank everyone, ladies and gentlemen, all of you for joining us at this early hour in India, and for the folks in the States and in Europe, for what is a very late hour in the US. Thank you very, very much as always for your interest, for your insights. I've always said this, and I've always meant it, that we learn a lot from your questions. We do try to bake in your insights to improve our performance, which has always been our intent and continues to be a very strong intent going into the future as well. Thank you once again, and I look forward to speaking to you 3 months from now. Thank you. Goodnight, Goodbye.

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