



TRANSCRIPT: Coforge Limited Q4 FY2021 Results Conference Call
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FROM COFORGE:

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Moderator: Ladies and gentlemen, good day and welcome to the Coforge Limited Q4 FY'21 Earnings Conference Call. 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. Abhinandan Singh, Head, Investor Relations and M&A at Coforge Limited. Thank you and over to you Mr. Singh.

Abhinandan Singh: A warm welcome to all of you to the Q4 FY'21 Earnings Conference Call of Coforge. You would have received our results by now. Those are also available on our website, www.coforgetech.com. Present along with me on this call are our CEO Mr. Sudhir Singh and our CFO Mr. Ajay Kalra. We will start this forum with opening remarks from our CEO and post that we will open the floor for your questions. With that, I would now like to hand over the floor to Mr. Sudhir Singh, our CEO. Over to you, Sudhir.

Sudhir Singh: Thank you, Abhi, and a very good evening and a very good morning to you across the world folks. At the outset let me state that I hope your families, your loved ones and you yourselves are safe and healthy. These are trying times for the world and particularly for those of you who've joined us from India. We deeply appreciate your taking the time and joining us for this conversation today.

With that, I shall now share perspectives around our quarterly and annual results and our outlook going forward.

We are very pleased to share that the quarter that just closed, Q4, has been a very strong growth quarter for us. We are equally pleased to state that for the full year gone by, we have delivered on both our growth and margin guidance.

Quarterly performance – revenue and margin

Before I jump into an analysis of our Q4 results, I would like to highlight the very strong operating markers that have characterized our Q4 performance: robust hiring with direct headcount up almost 9% QoQ, continued deal wins with two significant deals secured, and very strong cashflow with an OCF of \$ 44MN which is 144% of EBITDA.

We are pleased to report that during the quarter under review (Q4 FY21), in dollar terms, our consolidated revenue grew by 7.1% QoQ to USD 172.1 Mn. In reported terms, revenue increased 6.0% QoQ to INR 12,615 million. In constant currency terms, our revenue grew 5.1% QoQ.

During the quarter under review, our largest vertical, Insurance grew 4.9% QoQ. Insurance revenues represented 31.2% of the quarter's revenue. After two consecutive quarters of 5.4% and 9.8% sequential growth the Travel vertical recorded a growth of 0.2% this quarter. The Travel business contributed to 18.9% of Q4 revenues. Our BFS business, after recording three quarters of sequential growth of 6.2%, 6.5% and 7.7% in the first three quarters respectively, de-grew by 4.6% sequentially in Q4 and contributed 16.8% of the firm's quarterly revenue. We expect BFS to rebound very strongly in Q1.

Other verticals including Retail, Manufacturing, Government outside India, Healthcare and Hi-Tech collectively expanded 17.6% quarter-on-quarter fueled by strong growth for our Cloud, Digital Integration, and Intelligent Automation services.

Our top five clients grew 10.1% quarter-on-quarter and our top 10 clients grew 13.2% quarter-on-quarter. Our Top 5 clients contributed to 25.4% of our total revenue and our top 10 clients contributed 36.5% of the total revenue. In order to ensure sustained and predictable growth we have always de-emphasized reliance on any single client. These numbers around client concentration that I shared are in line with our intent to create a de-risked operating model which delivers robust, predictable, and profitable growth in the long term.

Onsite revenues represented 61% of total revenues in Q4FY21. This indicates a gradual rise in offshore over the past three quarters, with onsite revenue at 61% now being lower than 62% recorded in Q3FY21 and 64% in Q2FY21.

I shall now move on to the margins and the operating profits for Q4.

During Q4, we delivered an EBITDA of INR 2,268mn. This was before accounting for RSU costs and part of the SLK Global acquisition related expenses booked during the quarter. EBITDA margin for the quarter stands at 18.0%. As indicated, when I spoke to you in January, we distributed a broad-based one-time bonus during the quarter for more than 85% of our employees who have provided extraordinary support to our operations and business during the pandemic. We had also instituted selective wage hikes in Q3 for niche skill holders. Our EBITDA margin for Q4 reflects the impact of this distribution.

The effective tax rate for Q4 was 22.9% of PBT.

Our net after-tax profits for the quarter increased by 9.0% over the last quarter to INR 1,330 million implying a net margin of 10.5%.

Annual results

The financial year FY2020-21 has been an unusually difficult year for all businesses. But for Coforge, which has historically had one of the highest exposures within its peer set to the Travel, Transportation and Hospitality industry, the challenges were severely amplified. This is reflected in the change in the share of our revenues from the Travel industry, which contributed 19% to total revenues in FY21 compared to 28% in FY20. Consolidated revenue for the full year FY21 grew 11.5% over last year to INR 46,628 million. In constant currency (CC) terms, growth for the year was 6.0%, which you will recall is in line with what we had indicated earlier.

It is important to note that growth, excluding the Travel vertical, has been 18.4% in CC terms for the year. The Insurance business grew 12.8% in cc terms in FY'21 over FY'20. It now contributes to 32.5% of total revenue. The BFS business grew 14.6% in CC terms in FY'21 over FY'20. It now contributes to 17.4% of total revenue. You will notice that Financial Services is now approaching 50% of our aggregate revenues. Travel & Transport was down 26.9% in cc

terms in FY'21 over FY'20. It now contributes to 19.3% of total revenue. Other businesses, including Retail, Manufacturing, Government outside India, Healthcare and Hi-tech collectively grew 28.2% year-on-year in cc terms and they now represent 30.8% of overall revenues. Starting next quarter, we will start offering revenue and margin data around these verticals as well.

The geo-based growth cuts also showed sustained growth. Americas, which contributes to 48% of our global revenues, grew by 6.1% in cc terms. EMEA revenues grew by 3.3% YoY in cc terms and now represents 37% of the revenue mix. RoW grew 12.3% in cc terms during the year and contributed 15% to total revenue.

The digital and the product engineering portfolio of the firm constitutes 52.1% of the firm's revenue. This excludes revenues from our Cloud Services business. The digital and the product engineering portfolio grew 9.6% in FY'21 over FY'20.

The significant growth in revenue was accompanied by an uptick in operating profits as well during the year.

EBITDA (before ESOP and acquisition related costs) increased by 16.3% during the year and stands at Rs. 8,391 million, translating into an EBITDA margin of 18.0% for the year.

Finally, our net profits for the year stood at Rs. 4,556 million, implying a net margin of 9.8%. The effective tax rate for the year stood at 21.8% of the PBT.

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

Order intake

We secured fresh business of US\$ 201 million during the quarter. Out of this US\$ 201 million order intake, the U.S. contributed US \$119 million, EMEA was at US\$ 65 million and we secured US\$ 17 million from the rest of the world. The cumulative order intake during FY'21 was US\$ 781 million. The order book executable over the next 12 months has expanded and stands at US\$ 520 million.

The robust intake was enabled and sustained by deal signing momentum. We signed two significant deals in Q4, both in the Travel vertical. We also added 11 new customers during the quarter.

A key and welcome shift in FY'21 in large deal complexion for the firm has been the increased ticket size of the large deals closed or being pursued. In Q3 we had shared that we closed a \$45 Mn TCV deal with a new logo in Insurance. At this stage the firm is pursuing three greater than \$ 50 Mn TCV deals, out of which one a \$ 100 Mn+ TCV deal. Importantly, and incidentally, these three pursuits are not renewals.

The other important shift in FY'21 has been in the qualitative change in the client roster of the firm. As shared earlier, accelerated growth going into FY'22 shall also be driven by the fact that

the firm has become empaneled as a preferred tech services partner across Multiple Fortune 100 and Fortune 500 BFS and Insurance clients.

Delivery operations and capability build

I would like to now cover some of our operations and capability build achievements over the past quarter. From a capability and service line perspective, Coforge today is a composite of a \$100 Mn Product Engineering service line, a \$ 100 Million Cloud Services business which is focused on driving Engineering Convergence, a \$ 100 Mn Intelligent Automation service line, and a \$ 50 Mn Enterprise Integration service line. We see strong demand for these capabilities, which is expected to underpin our growth story in the months, quarters and years to come.

A key component of our Product Engineering offering is the AdvantageGo business. AdvantageGo is now acknowledged as a core insurance software player. Investments made over the past three years, with products and their roadmaps fully aligned to provide higher value to the customer through valuable core product version upgrades, have enabled us to capture the market for pre-bind Underwriting software. During the quarter, one of the world's pre-eminent specialty risk organizations went live with our Underwriting product, and we have received very positive feedback from the business users on application stability and performance. We also successfully completed discovery phases for two large Underwriting programs at a Fortune 100 and a Fortune 500 Insurance carrier.

Recently, the Exact Max solution (which is AdvantageGo's powerful reinsurance exposure management solution) was tested for its capability to process a load of two billion location datapoints, which demonstrates its capability to assess locations for predicting potential loss or exposure (e.g. hurricane path or flood damage to an area may involve many insured locations). While "Exact", the earlier version, can process millions, "Exact Max" can process billions in terms of data volume and is targeted at reinsurers who insure multiple insurance companies and therefore need the high volume capability.

In the cloud and the infrastructure space, which is already as I said a very significant part of our overall business and our future growth strategy, we have strengthened our "Infra as a code" practice and developed more than 50 use-cases for single click migrations or environment rollout in the Cloud, helping our customers with multi-fold improvement in time-to-market while reducing costs. We are also leveraging our capabilities across the Cloud, Digital and Verticals business lines to introduce full stack industrialized cloud solutions and develop industry-specific transformation use cases. For a BFS client in North America, Coforge completed an end-to-end Infrastructure-as-a-Code solution from scratch, delivering a single click infra provisioning and configuration management that includes Middleware App, Database, and third-party software on Azure.

At the same time, recognizing that a Multi-Cloud Infrastructure might offer the best return on investment for many customers, as it de-risks vendor lock-in and leverages best of breed capabilities across hyperscalers, we have also been investing in accordingly re-skilling our

employees. Today, 50% of our Cloud & Infra resources are already Multi-cloud certified and this number is set to keep growing with speed.

Coforge has also created an AIOps platform for the Cloud space, which combines AI and Automation, with programmable infrastructure that provides our customers a built-in capability for multi-cloud management. In one of the significant deals we won during the quarter under review where we have signed a full scale IT outsourcing deal, our AIOps Platform and Cloud and DevOps capabilities were the key differentiators that helped us secure that win.

Our technology innovations include a game changing cloud Hyperscaler innovation for Insurance, in which we are leveraging our AIOps platform driven capabilities to deliver rapid business outcomes to our Insurance clients, along with expediting their journey to the Cloud. This helps insurers reimagine how they buy, consume and innovate in a multi-cloud world whilst accentuating security and reliability, and as a result further enhances our positioning in this space.

For a client in the BFS space in Europe, Coforge deployed three environments on AWS in a fully automated manner, enabling the customer to onboard new and existing business workflows quickly based on their business needs.

In an interesting convergence of emerging technologies, for a large bank, we have built an Azure based advanced data analytics platform which uses Azure Machine Learning and offers deep insights and dash boards to help monitor banking operations. We have also built a recommendations system to deploy suitable products to this bank's customers and designed a risk profile engine to help predict defaults.

Finally, we also signed a very large digital transformation initiative with one of the world's largest travel tech organizations. This will support their vision of application transformation to next gen platform within the Google environment.

People

We registered the highest ever quarterly people addition in the firm's history during Q4, with a net increase of 967 people in our headcount. This represents an 8.8% increase in net headcount QoQ and a 9% sequential increase in production headcount. Total headcount at the end of the quarter was 12,391. In Q1, FY 22 as well, we expect to increase net headcount by around another 1000 employees. This employee addition is in line with the order bookings, the deal momentum as well as the demand environment that we are seeing. We believe strongly that unless hiring is done upfront, and unless attrition is contained, firms will struggle to fulfill demand out there.

Utilization during the quarter increased to 81.0%. Attrition remained stable at 10.5% and continues to be one of the lowest across the industry. For us, sustained low employee attrition levels reflect a highly engaged and committed employee base. That in turn creates value and deeper relationships with clients and helps in times like this. Our annual Client satisfaction Net promoter Scores this year, during the pandemic, were again the highest ever in the history of the

firm. Our annual client satisfaction net promoter score this year during the pandemic were again the highest ever in the history of the firm.

As noted earlier in the presentation, in Q4 we distributed a broad-based one-time bonus during the quarter for more than 85% of our employees. This came on the back of selective wage hikes in Q3 for niche skill holders. Effective April 1 of the current year annual wage hikes have been rolled out.

Balance Sheet metrics

Cash bank balances stood at INR 8,391 million, which is an increase of INR 3,026 million over the previous quarter. Capex spend during the quarter was INR 127 million. The debtors at the end of the quarter stand at 70 days of sales outstanding. OCF to EBITDA for FY'21 stands at 80%.

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

Hedge position

Outstanding hedges in USD are US\$ 74.69 million at an average rate of INR 76.95 to the US\$. In British Pounds, we have 21.81 million outstanding, and that's at INR 100.92 to the Pound. In Euro it is 4.54 million at INR 91.08 to a Euro. And in AUD it is 4.11 million at INR 56.24 to the AUD.

Subsidiary information

For Advantage Go, the revenue for the quarter was INR 855 million, EBITDA was 31.0%. For WHISHWORKS, the revenue for the quarter was INR1,005 million, EBITDA was 24.0%.

As you are aware, last month we added a new subsidiary **SLK Global Solutions** where we have acquired a controlling interest. SLK Global Solutions is a business process transformation enterprise, offering BPM and digital solutions for the financial services industry and is a quasi-captive for Fifth Third Bank. Fifth Third Bank has become a top-5 account for Coforge post consolidation. The first closing involving two tranches, to get us to 60% equity stake, has been concluded. Accordingly, Coforge now owns 60% while Fifth Third Bank continues to own 40% in the business. The business will contribute about 11 months of its FY22 performance into Coforge's FY22 consolidated financials.

We believe this transaction represents significant value creation for both organizations because of five key reasons. One, it is a quasi-captive with a five-year minimum revenue commitment. Two, straight off the bat, it has created a top five global client for us in a core vertical. Three, it is margin accretive. Fourth, it is a high growth firm with a three-year revenue CAGR of 17% and a proven tenure execution-oriented management team, which has driven that performance on revenue and margin and continues to stay with the firm. And fifth, we have secured this at a reasonable enterprise valuation, a single-digit EBITDA multiple.

The integration process over the last three weeks has been progressing as per plan. We already have two joint bids that have been submitted.

Outlook

We are planning for significant growth and material margin expansion in FY'22. The recent SLK Global acquisition has created a significant inorganic growth component for the firm in FY'22. Hence, we are sharing our organic revenue and margin plans for FY'22. Given the exit ramp which the 7.1% sequential dollar-term growth clocked in Q4 has created, the large deals pipeline that we are addressing and the locked-in twelve month order executable, we are planning for at least 17% organic cc growth in FY'22.

In FY'22 we intend to expand the EBITDA margin of our organic business to 19% from the current 18% recorded in FY'21. This expansion will be driven by the reversal of the Travel business discounts offered in FY'21, by the operating leverage from the at least 17% growth and from increased offshoring. You would've already seen the trend around offshoring.

We expect SLK Global to clock both a higher rate of growth as well as register a higher EBITDA than the organic business.

Over the last fifteen quarters our firm and our team has delivered against revenue and profit plan in every quarter with no exceptions and no surprises. That fifteen-quarter record, particularly our performance during the current pandemic-hit year despite our historical exposure to the Travel industry, is a demonstration of that commitment. We remain hyper focused on execution and committed to meeting and then exceeding our plans.

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

Moderator:

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

Vibhor Singhal:

Just wanted a bit of color on the Travel vertical again. As you mentioned that it is now 19% of our revenues, but are we seeing any green shoots in terms of the recovery in the Travel demand across the globe in terms of our clients looking to increase their spends and will that vertical probably growing if not let us say in the first half but at least in the second half of FY'22? Secondly, my question is on the margins front. You have guided that 19% EBITDA margin is what we are looking for the organic business growth and as we understand SLK Global has a higher margin than that of core business. So, the overall margin profile of the company of course will be north of 19%. In the organic business, just wanted to check, given that we are looking for salary hike and also we divide some travel cost coming back maybe in the later part of the year, what are the levers that we think we believe could help maintain those margins at 19% level that we are targeting?

Sudhir Singh:

Thank you for the question, Vibhor. Let me take them in order and I will try to make sure that I provide you a detailed answer around Travel because I suspect that is a question that a lot of people have. I will then get to the margin question around why we feel confident that that is the minimum threshold that we will get to. Let me just start off with a broad sweep around the Travel industry and what we are seeing out there now. After about 15-months of continuously fighting this virus, the Travel industry is looking to rebuild and re-emerge. If you look at airlines, IATA estimates that travel will recover to 43% of 2019 levels this calendar year. And that is a 26% improvement over 2020. Overall, passenger-related number that are being talked about is about 2.4 billion in 2021. That is roughly going to be about a 33% increase over 2020. As the vaccination rollout increases, Travel and Hospitality sectors are going to see one of the biggest surges in Q3 and Q4. When I say Q3, Q4, I mean, Q3, Q4 in fiscal year terms which effectively is the holiday seasons- October, December and thereafter.

If I move on beyond airlines to the hospitality industry, the American Hotel & Lodging Association believes that hotel occupancy in the US shall increase from 44% to 52% in 2021 and then maybe to 61%, in 2022 which incidentally is still going to be below the 2019 level of 66%. What we are seeing interestingly is the adoption of new protocols to comply with safety measures and significant investment in digital. The focus is on hi-tech, low-touch solutions using smartphones. Hospitality interestingly, both traditional and casino operators, are moving very aggressively and making a boat load of investments when it comes to online gaming on sports, betting, etc.

The broader theme that we are seeing across Travel is accelerating movement to the cloud and increasing investments in cyber security. On those lines, with one of the top five airlines in the world in this quarter, a large deal that I talked about, we have consolidated cyber security operations across multiple OpCos of theirs and we are building a VAPT testing center of operations for that. We believe overall most of our customers are already out of the bottom of the cycle. We are seeing neutral to positive cash flows over the next three to six months. The pandemic did over the last 15-months cause travel enterprises to revisit their cost structures and to use this period for implementing cost containment initiatives wherever possible to restore health. At Coforge, in Q2 and Q3 we saw average sequential growth of roughly about 7% in Travel In FY'22, we expect our Travel business to be one of the fastest growing businesses, in light of the commentary that I just gave, across the organization. You would also have noticed that the two significant deals that we talked about in this quarter were both interestingly from the Travel vertical. One of them was centered around cyber security and security service line operations. The other one was a very interesting deal where the airline took out all their existing vendors and consolidated all their IT outsourcing spends with us. That, Vibhor, was a somewhat detail answer to your first question.

The second question that you had was margin guidance of 19% and what makes us confident that 19% is a number that we will deliver in a year in which salary costs are likely to be higher and competition for talent is definitely going to be acute. Three levers drive that assessment. The first is, given the specific circumstances of Coforge, is a significant fillip in our margins because of the travel industry discounts that were offered last year getting reversed in FY 2022. That's one.

Number two, it will come straight off from the growth leverage, and I have talked about the fact that we will at least grow 17% CC organic core business; SLK Global should grow more. And the third lever for us, and you have seen that play out in the last two or three quarters, is given the complexion of the large deals that we are pursuing, we expect offshoring numbers to sustain and increase, and that again is going to have a positive impact on our bottom-line. Consequently, in Travel discount reversal, growth leverage, increased offshoring will more than compensate for the salary increases that are likely to come in, and are already actively in play within the organization. Those are the two answers that I can offer, Vibhor.

Vibhor Singhal:

Thank you so much for the detailed answer. Just one more small point on the salary segment. As you have elaborately explained about how the segment is feeling right now, what is our experience in terms of the overall inquiry levels? I know you mentioned we won two large deals in this quarter, but apart from that, of course, also are we seeing clients looking to spend more? Are we seeing new clients jumping on to, let us say, the cloud migration or more of an automation or hi-tech spend band wagon? I mean, if you were to quantify or even take a subjective look, are we seeing more and more inquiries and interest about more extending the service segment from the client?

Sudhir Singh:

We are seeing significant, I would say not just some, significant inquiries around cloud-centric deals, significant inquiries around security, especially given the low-touch high-tech ecosystem that is getting created around Travel right now. And that is getting reflected in Travel vertical growth numbers and in the large deal conversions that have happened and the large deal conversations that are still happening.

Moderator:

Thank you. Next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar:

Congratulations on great execution. I just have two questions. One is, can you just give us a colour in terms of the other verticals and growth expected next year, I think that is sizeable. So, when can we expect the breakup of that? And second is on the EBITDA margin, EBIT transition for this year and next year. So, one, is last quarter we had said that the RSU charge will be 60 basis points next year, so is there any change to that?

And second thing is, post the integration of acquisition from the EBITDA number to EBIT number, is there a material difference in the depreciation number for us as well as for the acquisition? That could be helpful, sir.

Sudhir Singh:

Thank you, Abhishek. I am going to answer the questions in order. I will talk about the other verticals and the RSU charges, and I am going to request our CFO, Mr. Kalra, to address your EBITDA to EBIT walk that you asked about.

Starting with the first question around other verticals. So, let me just start out by saying that next quarter onwards we will start offering vertical wise breakups of revenue. At this point in time, Retail and Healthcare & Pharma is roughly about 10% of our aggregate global revenues. Hi-tech

& Manufacturing, which is how we run it, is roughly about 8% of aggregate global revenues. And government outside India, not the Indian government- which is where there's significant amount of demand for both automation and integration services, is slightly more than 7% of our revenues. Next quarter onwards, we will make sure that we start offering you more structured cuts around this.

As for the ESOP, management incentive plan linked RSU, charges, they will go down in line with what we discussed earlier, they should be going down about 40 bps to 50 bps from FY 2021 to FY 2022.

The third question that you had around the EBITDA-to-EBIT walk, Ajay, can I request you to take that, please?

Ajay Kalra: Thank you, Sudhir. For the acquired business, the depreciation is approximately \$4.5 million dollars, that is what will come. They do not have any debt, so no interest cost is there, so that is the abroad walk between the EBITDA and EBIT.

Abhishek Shindadkar: Thank you. And just, there are no other RSU or typical charges for the acquisition, right?

Ajay Kalra: That is correct, no existing charges for the acquisition. That is correct.

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

Sandeep Shah: Congratulations on excellent performance across almost all the buckets as a whole. Sudhir, just wanted to understand, it is heartening to see your large deal pipeline with average ticket size going up. So, what is driving it, is it the connects with the advisors? Or is it our sizable increase in some of the digital pillars which is driving as a whole? And you believe this may be sporadic or this may continue going forward? And are you factoring in, because there are three deals above \$50 million, one above \$100 million, any of these in your guidance of 17%? Or it may provide a positive surprise to the guidance?

Sudhir Singh: Large deal pipeline and the average size of the deals that we are approaching has clearly gone up. The \$45 million large deal with a new logo, in quarter three, was indicative of it. My belief is, the ability to scale up conversations is driven by capabilities that take time to build and have now been built. The fact that the industry consulting service line, which leads a lot of these conversations and stitches the solutions together, has stabilized under a leader who has been with us for three years helps. The fact that the technology consulting service line has developed and has scaled up to the extent that it has and can contribute to that solution creation helps. The fact that the sales engine continues, we believe to be best in class, to be fantastic ambassadors of the organization helps. And the fact that you now have multiple digital service lines under a person who has now been leading it for more than three years for us at the helm, is what is allowing us to (a) engage upstream; (b) leverage the larger advisor/analyst ecosystem to get more threads right at the outset; and (c) construct solutions at the intersection of process knowledge and technology knowledge that allows us to differentiate and allows us to win at this point in time.

As far as your question around the guidance is built, as I said, 17% is the at least growth number that we've offered. If all of them were to translate and were to be won, there would obviously logically be an upside there. The way we have looked at planning our numbers is, as you can imagine, the intent is to be conservative, and the intent is not to bake in all of them getting won. If all do get converted there will be upsides. But for now, only some have been baked into the guidance that we have offered you. Did I answer your questions, Sandeep?

Sandeep Shah: Yes, very much. Just few things, in terms of margins, this pricing discount reversal from the Travel accounts, will it come starting from 1Q of FY 2022 itself? And you had a non-recurring bonus payment which you might have done in the 4Q, which will not repeat in 1Q. So, these two factors will help you to actually mitigate some of the wage inflation which you plan in the 1Q FY 2022 as a whole? And Sudhir, with a sizable acquisition and robust free cash flow generation, any strategy or policy in terms of payout which you want to distribute to shareholders on a year-over-year basis?

Sudhir Singh: Sure, Sandeep. See, the salary increases that have been done normally have a delta negative of about 250 bps in Q1. Given the clutch of three factors that I talked about, including the Travel discount reversal, we believe it should get contained to only 100 bps. The positive impact in terms of buffering the salary cost implication will start getting reflected from Q1 itself. As far as the payouts are concerned, the one-time payouts are behind us now. The salary increase was already instituted effective 1st of April of this year. There are no other one-time payouts that are proposed or planned or will be instituted going forward. I hope I answered your question, Sandeep.

Sandeep Shah: Yes. And I had a question on shareholders payout actually. What I am asking is, the question was also on the shareholders payout, the cash distribution policy going forward, with the sizable acquisition payment also being due. So, Sudhir, if you can throw some light on this.

Sudhir Singh: As far as the payouts are concerned, it continues to be a Board decision, Sandeep. But the Board has shared with the management that the intent from a capital allocation perspective remains that we will attempt to return excess cash back to shareholders, in line with the Rs. 13 interim dividend that has been declared this time around.

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

Dipesh Mehta: Congratulation on very strong execution. A couple of questions. First, about the growth pattern. Typically, we have some seasonality in Q1 because of WHISHWORKS and our insurance product related seasonality. So, you think that kind of seasonality will play out or you think there are enough traction and in the business which will take care of couple of pocket of seasonality kind of thing?

Our second question is about the SLK Global integration. So, \$4.5 million which earlier you indicated, it included amortization charges also or it is only depreciation on the book of SLK

which we refer to? And because of SLK Global, any change in your effective tax rate which you envisage? Thank you.

Sudhir Singh:

Thank you, Dipesh. I will answer the first question, and for the second and the third question around the amortization, depreciation implications and ETR, I will request Ajay to step in. Let me take the first question first. We have just closed the quarter, Dipesh, with 7.1%-dollar sequential growth, 5.1% CC sequential growth. Quarter one, the demand profile as I shared with you, is good, it is solid and stable. We are not planning for great growth in H2 and tepid growth in H1. We expect the growth to be a good steady ramp through the year. H1 by itself should be strong given the demand that we see, given the supply pool that we have already created with our hiring. It is difficult to figure out on a quarterly basis what the number might land up being. H1 as an aggregate should be strong is what I can offer at this point in time. Ajay, would you like to step in and answer Dipesh's question around SLK?

Ajay Kalra:

Sure. Thank you, Sudhir. On the depreciation, the \$4.5 million which I mentioned about the depreciation for SLK, it is the depreciation on their books and it includes the cost of right of use of assets. However, it does not include the amortization of intangibles that will be on Coforge books as part of the purchase price allocation study that we will do. On the ETR, the SLK Global ETR is higher than the Coforge ETR by a couple of hundred basis points. Dipesh, those were the two questions that I noted. Did I answer your question?

Dipesh Mehta:

So, my question is, what kind of amortization charges one should expect considering integration for 11 months on Coforge book? And related is about ETR how much, let's say, right now we are at around 22-23, do you expect it to shift or 22-23 is a good range?

Ajay Kalra:

So, Dipesh, as I mentioned earlier as well, we are in the process of doing the purchase price allocation for SLK Global. And we will come with the actual numbers in our Q1 results as we will start doing the consolidation. At this moment, we are in the process of doing the study and I would not give any guidance on what the motorization number on the Coforge books would be. On the ETR, as I mentioned that it is 200 basis points higher than what Coforge ETR is, so we expect that to give an uptick of 20-30 bps because of that on the consolidated ETR.

Dipesh Mehta:

Understand. But overall, considering whatever I think once your study is done, but your EPS should be accretive for year one or you think the transaction itself won't be EPS accretive because amortization charges?

Ajay Kalra:

So, the way I will answer that question, Dipesh, is that our profit after tax (PAT) margin would marginally increase from FY 2021 to FY 2022. So, to that extent, it will be higher than what it was in FY 2021 after considering the amortization of the Coforge amortization of intangibles.

Moderator:

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

Manik Taneja: Congratulations for the great execution. Sudhir, basically just wanted to get your thoughts on a couple of things. Number one is that given the demand strength and given the supply side constraints that everybody in the industry is facing, do you envisage a case wherein it may be possible to push customers for higher offshore pricing? That is question number one. And the second thing is that, given the second wave of COVID-19 here in India, do you see any near-term demand fulfilment issues for either you or the industry? Thank you.

Sudhir Singh: Thank you for the question, Manik. Pricing is stable at this point in time given the fact that demand seems to be outstripping supply for the industry at a macro level. There are clear opportunities to ask for a price premium depending on the SME mix and the solution offering that goes into the market. That is how I would characterize pricing at the current point in time. As far as supply fulfilment is concerned, at an industry level it is clearly going to be an issue, given the demand that we see and given the fact that onboarding operations during a pandemic tend to get restricted and constricted. At our end, what we have done, and you would have seen this, we have almost increased our production headcount by close to 10% in Q4. We are already almost in the middle of Q1, and the intent is to try to increase it by another 10%. We recognized, and I believe we called it out a couple of quarters back in an investor call, that there was going to be a supply crunch. And that two things were important, one, that attrition needed to be contained, and there is a very big difference between a 10% attrition and a 20% attrition. And second, that one needed to make sure that as far as talent supply was concerned, one onboarded people with speed even if it impacted margins temporarily. Now, in five months, our production headcount, and by five months I mean by the end of May this month, our production headcount should go up by around 20% over where it was on the 1st of January. Second, our attrition continues to be at 10.5%, and as you can imagine, we will move heaven and earth to make sure that it stays the lowest in the industry so that to that extent we do not have to go and backfill for attrition. At this point in time, I feel very confident. The TA function and the Revenue Assurance function, I believe, at Coforge has done a fantastic job of hiring. A 20% increase in a firm's headcount in five months is quite a chore. It has been executed upon; it was planned, and it has been executed to a tee by the revenue assurance team. So, we believe we are in a very, very good place when it comes to demand fulfilment. But at an aggregate level, to your other question around will it be a problem for the industry? It is going to be a huge problem for the industry. That is how I would characterize it.

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

Rahul Jain: Congrats on great year and great outlook. Just to reconfirm this, what is the effective date of acquisition? Is it now certain that it is going to be for 11 months for the year?

Sudhir Singh: Rahul, that is correct. The second tranche and the consolidation and the purchase of 60% stake got consummated towards the end of April, and the consolidation will be for 11 months, as you have noted.

Rahul Jain: Thanks. And secondly, from a growth in SLK perspective, how sustainable is it? We know the past track record has been pretty strong as well, but what part of it could be sensitive to interest rate changes?

Sudhir Singh: Part of the exposure that they have to mortgage would be susceptible to interest rate changes. The firm has grown 17% CAGR over the last three years. We will be very disappointed given the extent of synergies and the fact that we operate in the same industries, if we are not able to materially accelerate that growth curve over the next three years. The way we look at it is that we have onboarded a bunch of fantastic SMEs who were already growing at 17% CAGR for the last three years. We walked into the transaction with our eyes open, knowing the segments that they operate across, knowing the fact that we can scale up BPM operations across all our verticals. And knowing the fact that there are material synergies, same industry, between tech and operations. As noted we are going to be very disappointed if we cannot take that 17% growth CAGR and not influence it upwards materially. That is how I would put it to you, Rahul.

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

Sandeep Shah: Sudhir, you mentioned that there are two joint bids which have already been pursued along with the SLK. So, can you throw some light, is it cross-selling or is it up-selling? And do you believe that the 30 clients which they add to your BFSI segment, you will have ample opportunities in terms of cross-selling and up-selling, and also selling their services significantly? Part of which you have answered in a previous question, but if you can throw some light in these two new joint bids and the other opportunities.

Sudhir Singh: I shall offer you some colour there, Sandeep. The first opportunity is with one of the top five SLK Global clients where we have already started conversations with the procurement team. At this point in time, we have access only to operations and procurement there, who have asked us to submit a proposal – not a big proposal but a material proposal – around being considered as a potential technology services partner for them and signing an MSA. The second is a conversation that interestingly started off in Europe, which is where SLK Global does not operate, where the Coforge sales team has asked them to participate in a solution, which earlier on was only being created by the subscale BPM organization that we had, to become part of the solution so that we can create a solution and also have the credentials around both tech and operations to try to win it. That is a big one. These are the two pursuits, the two joint bids that are already in play.

One of the reasons why we were very excited beyond the five reasons that I talked about during my earlier remarks was the fact that SLK Global is a firm with a strong North America BFS bias. We have, I think, not penetrated BFS North America to the extent that we would like to. Cross selling both ways is a big part of the synergy and the business case And we do think these 30 clients of SLK and the clients that we have within the BFS portfolio in North America and in Europe, are places where cross-sell can happen, and it must happen? Yes, absolutely

Moderator: Thank you. We will take one last question from the line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod: Sudhir, you spoke about 20% employee addition between January to May, and you also ensured that attrition will not spike above 10%. Have you built any kind of buffer in your margin guidance to have that kind of retention ratio for the employees?

Sudhir Singh: Yes, clearly Ritesh, that's part of the modelling that we do. And if you look at the last two quarters, you will see that we have been interjecting whenever we thought there was a material risk to ensure that attrition numbers do not crawl up at a point like this. Even in Q4, the margins have come in at 18% and they could have come in higher had we not hired the number of recruiters that we have. If you actually look at the fact sheet that we circulated, you will see that there is about a 36 people Indirect addition, most of those are people from the revenue assurance and the TA function, who were hired to make sure that the supply lines do not get squeezed out. So, it has been baked in into the forecasting and the planning that we are doing.

Ritesh Rathod: And maybe on your growth side, if you see for last three to five years, four years, you have been growing in the range of 18% kind of constant currency; FY 2021 also, keeping aside Travel, you highlighted 18%. Next year, you are highlighting a similar number. Next three years, can we be in this kind of growth trajectory, is that a possibility post-pandemic?

Sudhir Singh: See, there are organizations within our industry, not organizations with an India footprint, who keep clocking more than 20% every year. So, it is clearly a possibility if we expand our reference set beyond just SIs and firms like us who have India based operations. It should be something that organizations like us should be aiming for. As I said, my guidance is not 17%, my guidance is at least 17%. This year, when the pandemic hit us in Q1 (of FY21), in the first investor call, and everybody was understandably trying to write us off because of our Travel exposure, I had said in the first quarter call that come what may, FY'21 will be a growth year for us. In the second quarter we were able to give a more firm guidance and we said we will grow at least 5%. In the third quarter, we said we will grow 6% and in fourth quarter we have delivered on that 6%. At this point in time, Ritesh, at least 17% is what we feel absolutely sure about offering to you and to the other folks on the call. The intent will be to obviously scale up beyond. And is 20% an impossibility for firms, not just for Coforge but for firms with an India base? I think the answer should be no, we should be aiming for that over time.

Moderator: Thank you. We will take one last question from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Congrats on good set of numbers. So, Sudhir, just one question. Our guidance looks pretty healthy, the only fact is that our order intake has grown only 4% this year. So, is there a change in terms of the duration of our orders? Or do you think given the pipeline and the deals that we are chasing, we should see a material growth in terms of this order intake as we go forward?

Sudhir Singh: Ashwin, order intake, if you look at the last three quarters, has been centered around \$200 million. And the range, if I recall correctly, is somewhere around \$180 million to about \$200 odd million. Is any one of these large deal converts, that number can spike, and it can spike immediately. If I look at our order intake numbers over the last four years, four years back the number for the year

was about \$500 million, this year, it is approaching almost \$800 million. I think we are at an inflection point where a large deal, and we are trying to move away from this definition where \$20 million is large deal, more towards \$50 million, any one of them converting should see a material spike. It is just a question of if and when, and when it does, I think that number will spike.

Ashwin Mehta:

Okay. And just the last one, like we have pretty specialized people on, say, the Pega side or on the MuleSoft side. We have been expanding on the Salesforce side as well. Now, that is a very high growth area for the industry. So, in terms of retention and in terms of the wage hikes which are there, would you think there is a possibility that that war for talent leads to possible need for any further intervention as we go into the second half of the next year?

Sudhir Singh:

Ashwin, the one thing that we have always prided ourselves on as a management team is that we operate in the trenches, know what is happening with our people, with our clients, and we bake those in detail into our plans. The point that you are making is a very valid point and I have acknowledged it earlier. There is a war for talent. I think we did see it in advance. We recognized the fact that these are niche, highly skilled, high-cost resources. But we also recognized that these kinds of skills should demand, and we do demand higher rates for these. The margins for these businesses, I do not see them getting depressed, just because the cost structure might go up. As cost structure is going up, pricing also is going up. I do not see a risk of margin deterioration because of salary corrections to be done. In any case, we have done most of it. We have done two interventions in the last two quarters to make sure that attrition was stable. We do not believe collectively as a leadership team that margins will come under pressure because we have to do salary corrections and that we will not be able to demand a pricing premium in return if push comes to shove.

Moderator:

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

Sudhir Singh:

Thank you very much. And I very sincerely, very deeply and very, very personally mean that. I know these are very, very tough times for all of us across the world. And as I said at the outset, particularly for the folks in India. We have always learned from the comments that we get on these calls, we try to act upon the insights that we derive from these calls and we have always been, we are, and we will always remain very grateful for your presence, for your insights and for your questions. Please do stay safe. And I look forward to speaking with all of you three months from now. Thank you very, very much for your time and for your interest. Good night.

Moderator:

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

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