"Coforge Limited's Q2 FY'23 Earnings Conference Call"

October 20, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'2023 Earnings Conference Call of Coforge Limited. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Agrawal – Head, Investor Relations and M&A at Coforge Limited. Thank you and over to Mr. Agrawal.

Ankur Agrawal: Thank you, Inba. A very warm welcome to all of you and thank you for joining us today for Coforge Q2 FY'23 Earnings Conference Call. As you're aware, we have announced our Q2 results today. These have already been filed with the stock exchanges and the same are also available on the "Investors" section of our website, www.coforge.com

I have with me today, our CEO -- Mr. Sudhir Singh; our CFO -- Mr. Ajay Kalra, and Mr. Vikas Jadhav, who has recently joined my team as Investor Relations Leader at Coforge.

As always, we'll start with the Opening Remarks from our CEO, and post that we will open the floor for your Comments and Questions.

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

Sudhir Singh: Thank you, Ankur. A very good afternoon, very good evening, and a very good morning to all of you across the world, folks. Thank you for joining us today as we share our Q2 Fiscal Year '23 performance and the business outlook.

I shall as always walk you through detailed commentary around revenue, margin, order intake, order executable over the next 12 months, and metrics around people, operations, capability demonstration and impact creation.

Quarter two, the quarter under consideration was a very strong quarter for the firm on all fronts. Revenue increased sequentially by 6.2% in CC terms, adjusted EBITDA jumped over the previous quarter by almost 200 bps, order intake for the quarter once again crossed US$300 million, two greater than $30 million TCV deals were signed, and attrition dropped down by 160 bps to 16.4%.

With that overall context, I shall now talk you through the quarterly performance and our assessment of the outlook. Starting off with the quarterly performance metrics around revenue analysis, I'm pleased to report that during Q2 FY'23, the firm registered a sequential growth of 6.2% in constant currency (CC) terms. In USD and INR terms, the growth was 3.4% and 7.1% respectively. On a year-on-year basis, revenues grew by 22% in CC terms, 16% in USD terms, and 24.8% in INR terms. At the end of the first half of fiscal year '23, revenues have seen a growth of 22.9% in constant currency, 17.7% in USD terms and 25% in Indian rupee terms.

I shall now detail the vertical wise growth for the quarter under review. During the quarter, our (BFS) banking, financial services vertical, grew 14% quarter-on-quarter in constant currency terms and contributed 31.7% to the revenue mix. The insurance vertical grew 5.5% sequentially in CC terms and contributed 23.2% to the revenue mix. The travel vertical saw a sequential growth of 4.9% in

CC terms and contributed 19.3% to the total revenue. The rest of the world portfolio saw a marginal sequential decline of 0.9% in CC terms in Q2, and this was after having grown 11.4% CC sequentially in Q1, it contributed 25.8% to the total revenue mix.

Within the regions, the EMEA region grew sequentially 12.9% in CC terms, and contributed 38.5% to the business. Americas grew by 4.5% QoQ in CC terms and contributed 51.3% to the total revenues. The rest of the world contracted by 7.3% sequentially in CC terms and contributed 10.2% to the revenues. The decline in the rest of the world business was on account of contraction of the India business.

We also saw growth across our top customers during the quarter. During the quarter under review, our top five and top 10 customers grew 4.4% and 4.2% sequentially in US dollar terms respectively. The top five clients contributed 23.1% to our revenues while the top 10 contributed 35.8% to the revenues.

During Q2 fiscal year '23 offshore revenue saw further pickup, representing 49.8% of the total revenues, almost 50%. You will recall that just eight quarters ago, in Q2 fiscal year '21, offshore revenues for Coforge were only 36% of the firm's revenues. This has been a structural shift in the firm's operating profile, and an important and sustainable long term margin improvement lever for the firm.

With that, I shall now move on to the margins and the operating profits discussion. I'm glad to report an adjusted EBITDA margin of 18.4% for the quarter under review. This is almost a 190 bps improvement over Q1 FY'23 adjusted EBITA margin.

In our case, it is important to note that of this 190 bps improvement in the adjusted EBITDA margin, only 10 bps came from positive currency impact given the headwinds because of our exposure to the European markets. The remaining 180 bps of sequential margin expansion was driven by five key factors: These were, continued improvement in offshore revenue contribution, an increase in utilization. improvement in the number of fresh campus graduates engaged on live projects, higher contribution of higher margin businesses, and finally, operational efficiencies.

We have called out in the past that the increase in velocity in the median size of large deals has not just been a factor in helping scale up and drive robust sustained revenue growth. It has also equally importantly allowed us to significantly scale up our offshore operations where as I noted earlier, our offshore revenue contribution to overall global revenue has jumped from 36% to nearly 50% in just over the last eight quarters.

Lastly, our consolidated profit after tax for the quarter stood at Rs.2,011 million, which reflects a year-on-year increase of 37.1% in INR terms.

With those comments, moving on to the order intake for the quarter. I'm very pleased to report an order intake of US$304 million during the quarter under review. This is the third consecutive quarter, where the firm has reported an order intake of more than $300 million. This again is another very important structural shift in the performance matrix of the firm. As you will recall up until just six

quarters ago, the order intake for the firm had only crossed the US$200 million mark a couple of times.

In terms of geographic regions, Americas contributed USD141 million, EMEA contributed USD134 million and USD29 million was secured from the rest of the world's region.

During this quarter, we won two $30 million plus TCV deals. The first of these is a $32 million TCV three-year deal, to transform and manage technology infrastructure for a large wealth management platform provider.

The second one is with a large global bank that is undergoing multiple large scale digital theme change transformation programs over the next three years.

With an additional IT investment of US$2 billion to become nimbler and more focused on the key growth markets pivoted towards Asia. We signed a global contract with them, which will allow us to operate across the US, UK, Poland, Hong Kong and India within data, digital, QE, Salesforce, and low code applications like Appian and Pega.

Our executable order book, which reflects the total value of locked in orders over the next 12-months, stands at a record high of US$802 million compared to US$745 million in the previous quarter. This metric, which we track closely and report on quarterly, is also indicative of the strong expected growth beyond just the current fiscal year. During the quarter, we signed 11 new logos.

And before I get into the delivery and operations updates, I just wanted to give an update also on the company's proposed ADR offering. The current market conditions are not favorable and hence ADR listing has been delayed though the company remains fully committed to the ADR listing. The company continues to monitor market conditions closely.

I shall now touch upon highlights of the quarter related to our delivery operations. During this quarter, we materially strengthened our partnerships with leading industry platform providers. Our partnership with ServiceNow was enhanced to an elite level partner status. This upgraded partnership with ServiceNow will open doors to our customers for innovative co-developed industry solutions with a faster time to market.

Coforge was also accredited by AWS as a public sector partner. This partnership will enable us to provide tailored cloud-based solutions on AWS platforms for our customers in government and non-profit sectors.

We also expanded our partnership with Google in APAC to offer our clients Google Cloud platform-based solutions. Coforge became an SI partner for insurity for one of the top P&C insurance platforms globally.

Coforge has over 700 SMEs dedicated to its insurance practice and will provide full cycle services for insurity suite of cloud-based solutions.

We did also sign a global partnership with Tricentis, a leader in enterprise test automation. This enables us to deliver continuous testing in devops, cloud testing and enterprise applications testing solutions.

On the recognition front, during the quarter, Coforge was proudly recognized as one of India's Best Workplaces for Women. We have won this recognition second year in a row, and this added testament to our people-centric approach, and employee-friendly policies comes after having been certified as a Great Place to Work® in the last quarter.

The CMMI Institute assessed Coforge Delivery Services at CMMI Maturity Level Five. This is the Seventh Consecutive Time we've achieved CMMI Maturity Level 5, since our very first assessment in 2004.

Coforge also received an award for the 'Best Use of (AI) Artificial Intelligence in the BFSI sector' at the Financial Express-FUTECH Awards 2022. We were recognized for the application of AI in credit risk scoring.

Coforge was named in the Top 15 Service and Technology Providers standout globally by ISG. And we were Among the Leading Providers in the Booming 15 Category based on the Annual Contract Value won over the last 12 months according to the Third Quarter 2022 Global ISG Index™.

In line with our mission to engage with the emerging, we announced a center of excellence dedicated to exploring applications of Web3 Technologies and the Metaverse. The center of excellence was inaugurated as part of Coforge's Annual Technology Conference, TechCon 2022 that saw multiple demonstrations, and proof of concepts for the Metaverse using cases across industry verticals.

We also announced setting up of a low code/no code service line to focus on developing industry-specific use cases, leveraging low code/no code platforms, such as Pega, Appian, Mendix and OutSystems to accelerate time-to-market for our customers.

We continue to invest in improving our engineering excellence through initiatives such as developing a plug-and-play devops framework, and an automation accelerator framework.

Finally, domain aligned learning and development efforts continues, with approximately 2,300 of our engineers getting trained in the quarter alone on BFSI, travel and insurance domain areas. During the quarter, 500 graduate engineer trainees were also inducted and trained on cloud and digital technologies.

Moving on from here to people metrics, during the quarter under review, we added a total of 546 people to our net headcount in the IT business. For the overall firm, including the BPS business, our total headcount at the end of Q2 FY'23, stands at 22,991.

Utilization including trainees during the quarter improved to 77.3% from 76.2% in Q1. The last 12 months attrition during the quarter declined to 16.4% in Q2 from 18% in Q1. Employee attrition at Coforge continues to remain amongst the lowest and probably the lowest across the IT services industry.

At the beginning of the current fiscal year in March, we had offered very significant increments to our workforce in recognition of their role in ensuring surprise-free operations, which in turn translates into a repeat business rate of 93% that Coforge enjoys. That commitment, investment and trust in our 23,000 employees has resulted in one of the most satisfied and committed employee teams across the industry. We continue to believe that any investment made in the well-being and the recognition of our talented employees drives benefits across multiple axis. Our latest results, including the margin jump are a testament to that.

Finally, the attrition number of 16.4% is a testament to the bond between the employees and the organization. And it also speaks to the clear investments that all of us as team Coforge have seen the firm make in walking the talk about being client centric.

Balance sheet metrics. Cash and bank balances at the end of Q2 FY'23 stood at USD50.3 million compared to previous quarter balance of USD42.4 million. CAPEX spend during the quarter was $5 million compared to USD$7.2 million in the previous quarter. Debtors at the end of the quarter stood at 70 days of sales outstanding compared to 72 days in Q1. The board has declared an interim dividend of Rs.13 per share.

Summing up and outlook moving forward, a record high 12 month locked in order book, a highly committed workforce, top clients driving growth, robust quarterly order intake of $300 million plus, a large deal machinery that continues to close pursuits at scale, and the absence of a disproportionate reliance on any single client, gives us confidence that revenue growth will continue to be sustained and robust in FY'23 and beyond.

The financial services and travel industry contributes to nearly 75% of our global revenues. And they continue to be resilient on the demand front despite the ambient macroeconomic uncertainty.

We continue to focus and count upon our intensely execution focused operating culture and take confidence from our track record of having been able to drive exceptional growth even during the pandemic when we had entered the pandemic with almost 1/3 of our revenue coming from the heavily impacted travel industry.

On the margin front, our adjusted EBITDA margin for H1 FY'23 is already at 17.4%, and it has already factored the annual wage hikes rolled out in Q1 FY'23 beginning. At the mid-year mark, we are slightly ahead of where we were on the margin front at the same point last year, and we believe we will deliver within our adjusted EBITDA annual guidance range of 18.5% to 19%. The nearly 200 bps sequential increase in adjusted EBITDA margin in Q2 over Q1 has set us up well for that achievement.

To conclude, we would like to make two points: One, we reiterate our annual revenue growth guidance of at least 20% in constant currency terms, and adjusted EBITDA margin guidance in the range of 18.5% to 19% for FY'23.

Second, I also want to reiterate and provide you an update on the proposed ADR listing which I referred to earlier. As I said, current market conditions are not favorable, and hence the ADR listing has been delayed. The firm however, remains fully committed to the ADR listing. We continue to

monitor the market conditions closely. For more details around this, we refer you to the notes to the results of this quarter.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on the touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2.' Participants are requested to use handsets while asking a question. Anyone who has a question may enter '*' and '1.' Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Hi, thank you for the opportunity, and congratulations for the solid execution on the offshore shift. Sudhir, I just wanted to pick your brains about the fact that is the shift in -- or the higher proportion of offshore mix also linked to the changes that we are seeing in terms of the higher T&M proportion of business? That's question number one. The second question was with regards to, so while we continue to do well in terms of the P&L performance, I was just looking at your cash flow, the cash generation in first half of the year is down sharply despite a 17%, 18% growth in revenues in USD terms and a significant growth to the EBITDA level. So, if you could talk about those aspects. Thank you.

Sudhir Singh: Thank you for the two questions, Manik. I'm going to take question #1, and I'm going to request Ajay to respond to question #2. T&M is linked to the offshore metrics that you talked about. T&M now versus fixed price, you would have seen, fixed price was roughly about 54% around a year back, it's down to roughly about 50%. That's largely because most of the offshore ramp up that has happened -- a significant part of it has been under a T&M construct, which over the next six months is planned to be migrated to a managed services construct. I'm going to hand this over to Ajay now to respond to the cash flow issue.

Ajay Kalra: Thank you, Sudhir. Manik, our cash flows have been in the range of 65% to 67% of adjusted EBITDA for the last few years. We expect this year to be no different. There will be variations in the quarter-on-quarter cash flow due to DSO being different in various quarters as well as the payables getting straddled from one quarter to other quarter. In the first half of financial year '23, The reason of lower cash flow is because of the investment in working capital. Our DSOs combined both billed and unbilled increased in this period by three days whereas if you compare with the same period last year, they decreased by one, with one day constituting around $2.5 million that investment is around Rs.80 crores, which is what the primary difference of reduction in the cash flow. However, we believe from a cash flow perspective given this, we expect to be a strong second half and we do expect the OCF to be in the same range.

Manik Taneja: And the last one if I can quickly ask. When I look at our BSE format in terms of cost shedding, there is a line item called, contract cost, which has gone down sharply on a sequential basis. If you could help us understand what exactly was this included?

Ajay Kalra: There is always a reclass between the contract cost and the deferred revenue cost, and there will be variation around that. So, it's business as usual, and there's nothing specific around.

Manik Taneja: Thank you and all the best for the future.

Sudhir Singh: Thank you, Manik.

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

Vibhor Singhal: Yes, hi, good evening. Thanks for taking my question and congrats on the great execution once again.

Moderator: Sorry to interrupt. Mr. Singhal, your audio is sounding a bit muffled. If you're in a speaker mode or something, can you switch to handset please?

Vibhor Singhal: Is it better now?

Moderator: Yes, please go ahead.

Vibhor Singhal: Hello, sir. Thanks for taking my question. So, Sudhir, my couple of questions. One, of course, was definitely want to compliment you. I think the lower attrition number in such an environment, I think this indeed is a testimony, I think of employees being happy and probably being well taken care of. So, the question related to that is that given that our attrition is quite low at this point… I mean, relatively lower than the peers at this point of time. Our utilization is also off from the weak levels. Do you believe that these two numbers, attrition is probably industry wide is expected to stabilize in the coming quarters as well. So, these two numbers could actually provide some kind of a tailoring for us in terms of our margins, not just the next couple of quarters, but in terms of let's say, going forward for FY'24 as well. Could we be looking at some incremental margin tailwinds, which are probably absent in FY'23, on a competitive offer -- on a relatively YoY basis? And my second question is basically just wanted to understand the nature of our business in EMEA. So, I think our EMEA business supported very strong around 7.9% growth in this quarter, and this was reported. I'm sure, this would have had the cross currency impact, so the constant currency growth would have been very strong. So, despite all the, I mean the geopolitical scenario in Europe, what exactly is leading to this kind of a strong growth in Europe, and it's -- last quarter, it was kind of down, this quarter, it's up, so it's kind of quite volatile also. So, some color on exact nature of this business, which makes it volatile as well as the strong growth behind in this quarter?

Sudhir Singh: Thank you for both the questions, Vibhor, and thank you for your kind comments. At the outset, let me respond to both the questions in order. To the specific question around margins, there have been three principal drivers -- three principal modes, which have allowed us to continue to augment margins, despite the fact that we did not get the kind of tailwinds from currency depreciation that some of our peers did. The first has been the structural shift in offshoring that I talked about and the fact that offshoring -- offshore revenues as a percentage of overall revenues are now approaching 50%. The second is what you referred to to which is the fact that utilization jumped by 120 bps sequentially. And our utilization number, it is important to remember, includes training. And the third is the fact that our fresh campus graduates are increasingly becoming billable. And as I've talked about in earlier calls, this is a channel that has really started building up for us over the last year and

this year. Utilization, fresh campus graduates and offshoring levels, all three, we believe are factors that can help drive in the longer term margin expansion, and in the more immediate term, establish material margin moats for our business. So, that is how I would characterize utilization, fresh campus graduates getting built and offshoring levels getting enhanced over time. Coming to your second question around EMEA, you're right, EMEA continues to be a strong growth driver for us. EMEA in terms of revenue contribution, despite the currency depreciation there, has risen to 39% of our aggregate revenues. The nature of our business is centered largely around banking and the travel industry only. Our exposure to other industries in EMEA is extremely limited. The second thing which is important to note about our business in Europe is, our relationships here are limited, yet deep. They're not fractured, they're not dispersed over a very significantly large number of clients. So, we do get a clear grounds up view of the demand outlook coming from these limited, yet deep relationships. And a lot of the confidence that we have around meeting and exceeding our annual revenue guidance also comes on account of that. Did I answer your questions, Vibhor?

Vibhor Singhal: Yes, I think, pretty much what I was looking for. Just maybe a bookkeeping question if I could, I mean, if you have the number handy right now, that would be great or maybe I could ask later. Can I get the CC QoQ or CC YoY growth for the EMEA region -- the constant currency growth?

Sudhir Singh: Just give us a minute, we're trying to get that. 12.9% in CC terms -- the number would be, Vibhor, 12.9% QoQ in CC terms.

Vibhor Singhal: Got it, got it, that's an amazing number in this kind of environment. Thanks, Sudhir, thanks for taking my questions and I wish you all the best.

Sudhir Singh: Thank you, Vibhor.

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

Rishi Jhunjhunwala: Yes, thanks for the opportunity. Sudhir, a couple of questions. One on the hiring side, right, so we have -- our headcount overall has grown 11% versus you know how our 12 month executable order book, as well as our near term outlook is looking like. This number seems to be, you know, a bit low. Is there a, you know, a mix change, because you know, probably shift from BPM to IT services, what is the reason for, you know, the lower headcount growth? And also on the utilization, do you think that the current levels are where you would like to maintain or you can go back to 80%-plus?

Sudhir Singh: Sure. Rishi, answering both the questions. Hiring - the 11% headcount increment that you talked about, is a derived number where the BPO part of our business has seen a material drawdown on the headcount, and the tech side of our business has seen a material uptick in terms of headcount. One of the principles underlying reasons behind making the SLK acquisition was making sure that automation could be injected and has been injected at scale. Secondly, that's also a business that relies a lot on transaction-based, volume-based processing. And on that side, headcount continues to draw down over the last three quarters. Technology business continues to see a very smart uptick every quarter. Last quarter, we had added on the tech services side, a net headcount of around 700… I think it was a shade shorter than less than 700, but around 700. And this time again we've added roughly around 550 net headcount on the technology services side. Coming to the second question

around utilization, we believe the utilization number -- that number can go up. We are however looking at our current margin profile, the confidence that we have around meeting our annual revenue guidance, and the fact that we continue to prioritize growth over other metrics. We are -- we would like to hold utilization at more or less the levels that we are at currently. Roughly around 77.5% to account for any growth spurts that we encounter going forward in H2 and beyond. Did I answer your questions, Rishi?

Rishi Jhunjhunwala: Yes, yes. Thank you. And just a follow up there on the BPM part. Would it be possible to get an understanding of how much of the deceleration or the decline in this quarter was attributable to drawdown because of volumes versus automation? And the reason why I also ask is, it seems like your minority interest numbers are strong, which means SLK is actually getting more profitable from a margin perspective. So, you know, has there been a revenue deflation, but margin expansion happening there?

Sudhir Singh: The SLK business has exposure to the mortgage processing industry, Rishi. And on the mortgage processing side, volumes have gone down. The revenue of that business is flattish, but the EBITDA is clearly accretive to the company's profile. At this point in time, that's how we see it. The pieces that are working well for us are that the other assumption around cross sell revenues, selling technology into that base, selling technology into Fifth Third Bank, which is the material player there, has worked out well for us. We had talked last time around how the BPO business had signed its first material travel vertical contract. We are on the verge of signing another industry -- insurance industry vertical contract as well. Overall, summarizing, the business growth currently, given the market condition, especially because of the exposure to mortgage is flattish,-revenue profile, EBITDA is accretive as you noted right now.

Rishi Jhunjhunwala: Understood. So, I guess, you know, next year further, you know, acquisition of the stake in SLK Global doesn't get impacted because of any kind of change in revenue trajectory, is that a right understanding?

Sudhir Singh: Absolutely right, nothing there, which is going to change.

Rishi Jhunjhunwala: Thank you so much. All the best.

Sudhir Singh: Thank you, Rishi.

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

Dipesh Mehta: Yes, thanks for the opportunity and congrats for very strong execution. Firstly, just want to get sense about revenue growth outlook for the vertical. You indicated CC revenue growth, but I think if you can help us what led to the kind of growth? BFS reported very strong growth, and you alluded some weakness in mortgage but despite that mortgage, I think overall growth remained very health in this quarter. So, if you can give what segment contributed to growth and how we expect outlook across the vertical?

Second question is about the Note 7, which you mentioned, where you mentioned some amendment to customer agreement and related deferred tax for the future profitability. If you can provide some more detail of it. Thanks.

Sudhir Singh: Sure. So, I'm going to take the first question around vertical wise outlook including the BFS vertical outlook that you asked for Dipesh, and Ajay is going to take the second question that you asked. Let me take the verticals in order.

BFS, you're absolutely right. Even though we are exposed to the mortgage sector - as an overall contribution to the firm's revenue, it's a very small piece, it's roughly about 2%, 2.5% only. Given the buoyancy, given the demand that we've experienced on the BFS side, the BFS vertical continues to power growth for us.

As we look at the BFS industry, we have like a lot of other commentators, also observed a great divergence between the BFS industry's top performers and the laggards out there when it comes to technology and their transformation. The overall spend for technology, most analysts are expecting that sector to grow about 4% to 5% even into 2023. And the largest spend that we are seeing is in the digital transformation area, has been, is and continues to be.

Specific cost take out initiatives within that industry are being prioritized in the run-the-bank area through automation where we operate, through workforce transformation which is leading to managed service operations, and through offshoring, again you would have seen that in our numbers, to reallocate investments disproportionately to digital transformation itself.

In that space, looking at the broad context, our strength in driving enterprise wise modernization, low-code automation, cloud migration, data solutions together, Dipesh, with our ability to rapidly scale knowledge in emerging technologies has put us in a strong, we believe relatively a somewhat unique position, which is allowing us to drive growth in that space. So, that's the BFS overall outlook.

If I were to very quickly look at travel, we see continuity and strong demand in the travel, transportation, hospitality industry. And our outlook there, we believe is very strong. In our client base, the ask around IT consulting, business operations over the next 18 months does appear to be strong.

I do want to point out that the demand and the business outlook in travel varies across sectors. So, for sectors like travel tech or hospitality, hotels or for cruise lines, the discretionary spending is tending towards being cautious for the next 6 months. In other sectors like airlines, airports, railroads, logistics, the spend and the demand remains high and robust. And we talked about this in the last call as well, Dipesh, global business travel association, we talked about some of those metrics, they do show corporate travel volumes prices continue to rise even in 2023. So, travel, bottom line, the business outlook is strong.

And finally insurance. Insurance, as a vertical, we are looking -- the insurers at least that we are working with are looking to shift their focus increasingly from basic digitization towards more of

what is called end-to-end digital transformation to improve customer experience and to launch new products faster.

So, our unit continues to see broad-based growth for all services, including core platform transformation, migration, API modernization, I mean and where you have the data driven transformation, the automation solutions, including partners in that ecosystem who continue to support us.

At a high very level, that's how we see the 3 verticals play out. I'm going to hand this over to Ajay to answer the second question.

Ajay Kalra: Thank you, Sudhir. Dipesh, if you look at our effective tax rate, it is low this quarter at 17.7%. This is due to one-time benefit that we got from one of our foreign subsidiary where we were able to take the benefits of our net operating losses. This was due to change in certain customer agreements. And our normalized effective tax rate continued to be 21% to 22%. This resulted in creation of a higher deferred tax asset during the quarter.

Dipesh Mehta: The question is more about future profitability. Do you expect it to have some implication on, let's say, next few quarter profitability because of certain amendment which you reported.

Ajay Kalra: No, we don't expect any.

Dipesh Mehta: Okay. Thanks.

Moderator: Thank you. We will take our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes. Thanks for the opportunity, and congrats on a good set of execution. Sudhir, just wanted to understand that first half has gone well, but second half, we are entering into December season, where some of your mid-cap peers are calling out higher than normal furloughs. And both quarters would be a part of CY23 IT budgets. Are you slightly bit cautious on the second half versus first half?

Sudhir Singh: Well, I mean on the revenue side, at the end of the first half, Sandeep, we are already growing 22.9% in CC terms. The order executable locked-in 12-month book is at $800 million for the first time. Like everybody else, given the ambient macroeconomic uncertainty, we are cautious but at the same time given the locked-in order book, given where we are already at roughly around 23% growth at the end of H1, given the order intake of $304 million that I talked about, given the fact that we are not reliant on any one client, right, for driving our growth. Our concentration -- revenue concentration isn't there. Given the fact, as I talked about earlier that our top clients are all doing well. They are actually driving growth for us. We are cautious but highly optimistic, that's how I would characterize it.

We are, of course, aware of furloughs that are likely to kick in this year. They normally do at around this time. We haven't seen a spike in furloughs vis-à-vis last year.Seems to be more or less in line with what we've seen in the previous year as well. So, that's how I would present this year.

Sandeep Shah: Okay. Thanks. And just last on a follow-up. We have a different method of guiding in constant currency. So, can you help us in terms of to achieve at least like a 20% CC growth, what could be the ask rate in 3Q, 4Q in terms of Q-on-Q growth? Just a bookkeeping question. Yes.

Ankur Agrawal: Hi, Sandeep. We can definitely take that question offline. It's a purely simple calculation from our annual guidance versus our H1 performance perspective.

Sandeep Shah: Okay. Thanks. All the best.

Sudhir Singh: Thank you, Sandeep.

Moderator: Thank you. Our next question is from the line of James Friedman from Susquehanna. Please go ahead.

James Friedman: Hi. Good morning. Good afternoon. Good evening. I was wondering if you might share any view on budgets for calendar '23. I realize you've spoken eloquently about the macro, but any budgetary comments that you might be seeing would be instructed. Thank you.

Sudhir Singh: Thanks for the question, James. Still early days, but budgets for a lot of our clients normally start shaping up around mid of November. We should have more color around that point in time. At the current point in time, the metric that we look at is the locked-in order executable book over the next 12 months, which would take us to roughly around September of next year. And that continues to climb. It's actually seen a very sharp spike in quarter 2 over quarter 1 from $745 million to $802 million.

So, at this point in time, grounds up view, if I don't look at a top down, appears to be still robust, pointing towards robust sustained growth going into '23.

James Friedman: Got it. Thank you for the context. Maybe if I could follow-up. Anything on pricing or would it be the same response?

Sudhir Singh: Pricing has been a margin improvement lever, but not a material one so far. We've seen instances of being able to get back to clients, secure price improvements, but that's been more at a Statement of Work level and for niche skills and necessarily at MSA levels. From where we stand, given the currency depreciation that we've already seen take place, we do not see pricing accelerating or becoming more prominent as a margin lever going forward as well.

James Friedman: Thank you for the color.

Sudhir Singh: Thank you, James.

Moderator: Our next question is from the line of Abhimanyu Kasliwal from Choice Equities. Please go ahead.

Abhimanyu Kasliwal: Good day. Am I audible, sir?

Sudhir Singh: Yes, you are.

Abhimanyu Kasliwal: Okay. Firstly, hearty greetings to Mr. Ankur who I spoke to in detail a few months back. And my good wishes to Mr. Sudhir and the rest of the team because fantastic performance, good outlook, great attrition numbers. My questions were actually 2. One was related to attrition. We're expecting them, they've anywhere remained almost at the very bottom of the industry standards. Is this because to some extent our employee costs have been higher and this trend could continue, this could affect our margins?

My second question is, whilst we are expecting substantial margin improvement in the next quarter or 2 because that's how we can hope to give -- match up to our EBITDA guidance of 18% to 19%. Is this already being seen in the order book of $802 million or are we expecting to earn that because of increased offshoring and utilization because in the previous question, sir, you had mentioned that pricing strength has not been so much of a factor. How can we say that we have got the visibility so that we can confidently forecast such EBITDA margins? Sir, if you could just guide me -- guide us, we would be very happy.

Sudhir Singh: Thank you for the question and for the comments, Abhimanyu. If you look at our -- where we stand today at the end of H1 and you contrast that with where we were at the end of H1 last year, our adjusted EBITDA is almost the same, slightly higher than where it was at this point in time at the end of H1 last year. There is a seasonality to our business where every quarter 1, given the wage increases that happen on the first day of the fiscal year for us, margins go down and thereafter operational efficiencies kick in. It's a pattern that plays out every year.

We are at the same point where we were last year on the margin front. We closed last year and delivered and adjusted EBITDA of 18.7%. Our guidance for the current year is 18.5% to 19%. Some of the variables in play like offshoring have only strengthened compared to last year. Other variables like fresh campus graduates back channel continues to again strengthen. And third, utilization, you would have noticed including trainees is still around 77.5% alone.

So, these 3 -- each of these 3 variables are levers where we can always turn the dial up and extract more on the margin front.Not necessarily the intent right now. The intent is to make sure that there is some slack in the system to account for growth going forward. But because of these 3 variables, where we are right now across all these 3 parameters, we feel very confident that we should be able to replicate the same kind of a margin upswing that we've delivered over the year and that we specifically delivered last year when again supply side pressures were extreme. I hope I answered your question, Abhimanyu.

Abhimanyu Kasliwal: Yes, sir. Sir, one more slight follow-up question, sir, if I may. I -- from what I understood for industry discussion inside that employees at Coforge are not like employees at other firms, they seemed to be far more satisfied. Now, are we expecting that to be mainly because they are well-compensated and wages as a factor. Is this going to be the lever which we are expecting is going to keep attrition down because we look at other companies and they are showing attrition 1.5x your number. Regarding attrition, sir, any further thoughts?

Sudhir Singh: We've always believed over the years, Abimanyu, that compensation is an important but it is still only one part of the broader mix when it comes to employee satisfaction and in driving employee

commitment. The other variables, equally if not more important, are the operating culture, not the stated culture but the operating culture that employees experience on a day-to-day basis.

We do talk about it. We believe and our employees most importantly believe that the firm has at very critical points in time invested and put up money to walk the talk. For example when we were just a $350 million to $400 million revenue organization, the firm invested $75 million in creating what we believe is the finest technology campus in all of north India. At the height of the second wave of COVID, we took one of our campuses and converted it into an ICU hospital staffed with doctors, nurses, oxygen cylinders and what have you.

So, compensation, you're right, is one part of the mix. The other part is what people experience on a day-to-day basis. We've also from a philosophy perspective, looked at compensation as being one element of a 2-part scale whether the other piece is the benefits in addition to compensation. We've always believed, more importantly our employees have always experienced, a benefit basket that we suspect and like to believe is superior to what most of our peers across the industry have offered.

Just summing up, it's compensation as you noticed -- noted. It is benefits layered on top of those compensation numbers. And finally it's the operating culture built up over the years, which has actually stood us in good stead at a time like this when there have been significant supply side pressures. That's how I would summarize and present it to you, Abimanyu.

Abhimanyu Kasliwal: Got it, sir. Thank you so much and wish you all the best.

Sudhir Singh: Thank you very much for your questions and your comments.

Moderator: Thank you. we will take our next question from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: Hello. Congratulations on a good set of numbers. Sir, I want to know your bifurcation of order book in terms of annuity and short-term? And second, whether 190 basis point margin improvement, if you can give a bifurcation like what factors contributed how much, that way?

Sudhir Singh: Sure. So, we don't -- Chirag, thanks for both questions. We do not offer an annuity versus a short-term break. Some of the surrogates for that data could be looking at the fixed price versus the TNM mix. Fixed price for us has traditionally been a very high number of the overall number. It's been around 54%. Right now, I suspect it's trending at about 50 odd percent. So, that's a high number.

The second surrogate for looking at the extent of annuity business that we enjoy is the order executable number that we declare on an ongoing basis every quarter. Next 12 months, all the way up till September next year, we've already got a signed order book of $802 million that we talked about. So, those would be the surrogates for the annuity versus short-term question that you had. Would you mind repeating the second question around margins that you had.

Chirag Kachhadiya: Yes, the bifurcation, that 190 basis point improvement which we have, like, what factor contributed how much along that way, if bifurcation you can give?

Sudhir Singh: So, for the 3 principle factors from our perspective were offshoring. It was the utilization increase and it was the fresh campus graduates coming in. Of course, other operational efficiencies were the other pieces that came in. If you look at us, out of this 180 odd, roughly 20 bps has come from SG&A decrease. The remaining 160 odd bps that we are looking at is coming from a mix of offshoring and utilization that I talked about.

Chirag Kachhadiya: Okay, sir. Thank you.

Sudhir Singh: Thanks very much.

Moderator: Thank you. Our next question is from the line of Ashish Das from Mirae Asset Capital Markets. Please go ahead.

Ashish Das: Yes. Thanks for the opportunity. So, my question is in last con call, you discussed about -- your internal discussion is going on regarding $2 billion revenue annual run rate. So, what are the investments you are doing for that and when you are expecting to achieve that $2 billion revenue run rate? Yes. Thank you.

Sudhir Singh: Well, $2 billion is an aspirational target. We feel very secure around the fact that the firm will cross the billion dollar mark this year given the growth trajectory that the organization is upon. We run systematic cycle. We call it OGSM, objectives, goals, strategies and measures, which is normally a 5-year business planning exercise for the organization.

For each of those years, we call out the revenue number that would like to hit. Under the OGSM consonant that is currently in play and that's something that we're working on, we have already identified a year internally that we would like to hit that $2 billion mark. The exercise is a grounds up exercise where we look at revenue numbers coming from our horizontal capability service lines and apportioning them also over the industry verticals that we currently have and the newer ones that we want to create.

As we look at the $2 billion mark, the one thing that we are clear on is that we do not want to spend 5 years getting to it. We'd like to get it to it hopefully earlier. As I said, there is a year that's already internally been defined that we want to hit it by, and that growth numbers as I said is being done both horizontally and vertically with investments being assigned to each of these areas. Did I answer your question, Ashish?

Ashish Das: Thank you.

Sudhir Singh: Thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sudhir Singh – CEO, Coforge Limited for closing comments.

Sudhir Singh: Thank you very much ladies and gentlemen. I know it's morning for some of you and late evening for the others. We, as always, very sincerely, very deeply and very truly appreciate the time, the

interest that you've shown in us, and the insights that we gather from your questions. I know it is going to be Diwali in India and all of us across the world are going to be entering the holiday seasons. The next time when we catch up with you will be in the New Year and till then, we want to wish -- all of us at Coforge would like to wish all of you, your families and your loved ones a very healthy, a very happy, a very safe holidays and New Year. We wish you the very best for the next year and for the years to come. Thank you once again. Good night. Bye-bye.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Coforge Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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

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