



TRANSCRIPT: Coforge Limited Q3 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 Q3 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 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. Thank you. And over to you sir.

**Abhinandan Singh:** Thanks. A warm welcome to all of you to the Q3 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](http://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 as always with opening remarks from our CEO, and post that we will also 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.

A very good evening and a very good morning to you across the world folks. I hope that your family, your loved ones, your team members and you are safe and healthy. I appreciate your taking the time and joining us for this conversation today.

I shall now share details of our quarterly performance and our perspective on the outlook going forward.

We are pleased to report that in the quarter under review, Q3 FY21, our consolidated revenue grew by 3.3% QoQ in constant currency terms. In USD terms, revenue grew 3.8% QoQ to USD 160.8 Mn. In reported terms, revenue increased 3.2% QoQ to Rs. 11,906 million. Our sequential c.c. growth of 3.3% in the current quarter follows a sequential constant currency growth of 8.1% recorded in the previous quarter. YTD growth at the end of the first nine months of the FY'21 is 5.7% in cc terms; it is 4.2% in \$ terms and 10.7% in INR terms.

During the quarter under review we saw our BFS business grow 7.7% sequentially and contribute to 18% of our quarterly revenue. The Travel vertical recorded a quarter-on-quarter growth of 9.8% and contributed 20% to total Q3 revenue. Our Insurance vertical experienced a decline of 3.9% QoQ and contributed 32% of the quarter's revenue. You will recall that the Insurance business had grown 12.6% QoQ in Q2. Other segments collectively expanded 4.7% quarter-on-quarter and they represented 30% of the quarter's revenue.

In terms of geos, Americas grew 6.7% sequentially contributing 49% to the revenue mix, EMEA grew by 3.9% contributing 36% to the revenue mix and the Rest of the World declined by 6.5%

contributing 15% to the revenue mix. The drop in RoW revenue was on account of lower revenue realization from India.

Our top five clients now contribute 24.4% of the total revenue and the top 10 and the top 20 contribute 34.1% and 47.7% of the total revenue respectively. Over the last three years the firm has actively limited exposure to any one or any set of clients. Our confidence in the future also rides on the back of limited exposure to any one client where a potential downside can result in a material risk to performance

The firm's broad-based growth was reflected in the number of million-dollar plus clients which increased to 115 at the end of the quarter under review, up from 109 clients at the end of the preceding quarter.

Onsite revenues represented 62% of total revenues in Q3; it was lower than the 64% reported in Q2.

Moving on to margin analysis...

We delivered an EBITDA of Rs 2,145mn, before RSU costs. This translated to an EBITDA margin of 18.0%. The YTD EBITDA, pre-RSU costs, for the first nine months of FY'21 also stands at 18%. Our EBITDA margin for Q3 reflects the impact of selective wage hikes given for niche skills during the quarter.

After baking in the impact of RSUs granted to the leadership team in March 2020, the EBITDA post RSU costs for the quarter stands at INR 2,009 million.

The effective tax rate for Q3 was 21.1% of PBT.

Our net profits increased by 1% over the last quarter to INR 1,220 million.

I shall provide an overview of order intake now

The order intake during Q3 remained strong and the large deal signing momentum continued. We secured fresh business of US\$ 192 million during the quarter under review.

Our order book executable, which reflects the committed order book for the next 12 months, now stands at USD 501 million which is up 18% year on year. This is the first time in the firm's history when the order executable has breached the USD 500 Million mark.

Out of the US\$ 192million order intake, the U.S. Geo's contribution stood at US \$116 million, EMEA was at US\$ 45 million and we secured US\$ 32 million from the Rest of the World.

We signed 11 new customers during the quarter.

Two large deals were signed during the quarter under review. The first deal was in the Insurance vertical where we signed a \$45mn+ multi-year deal. The other deal came from the nascent and emerging Healthcare vertical that currently gets reported on as part of our “Others” revenue segment reporting.

### **DELIVERY OPERATIONS & CAPABILITY BUILD**

An intense focus on execution, and a complete recreation of the firm's technical services stack has been the highest priority item for the firm's leadership over the last three years. This is driven by a strong belief that sustainable and long-term growth can only be built on the back of deep and differentiated tech service lines and an operating culture that can deliver surprise-free execution.

The firm, as it stands today, is a composite of a \$ 100 Mn Product Engineering service line, a \$ 100 Mn Intelligent Automation service line, a \$ 100 Million Engineering Convergence based Cloud Services business and a \$ 50 Mn Enterprise Integration service line. Today, 51% of our revenue comes from the Product Engineering, Intelligent automation, data services and Enterprise Integration service lines. The revenue stream from Cloud and Infrastructure, which is another 21% of our aggregate revenue, is in addition to these revenue streams. The strong demand for these capabilities will drive our foray into newer verticals beyond Financial Services and Travel in the years to come, and we have talked of some of those verticals in the earlier investor calls.

Solutions, accelerators and frameworks from our Cloud services line are embedded in around 3 out of every 4 large deals we are pursuing. We increasingly find that cloud usage is driven by an attempt to accelerate innovation as hyper-scalers continue to ship over 3000 new releases a year. Transdisciplinary integration, convergence of multi-clouds and systems resilience across the stack including applications, architecture, data, cloud, infra, workplace, networking and security is the key agenda of most client organizations.

To address this, we are leading with an agenda that we call Engineering Convergence for the Cloud. We empower clients to reimagine how they buy, consume and innovate in today's multi-cloud world while ensuring security and reliability. This is practically achieved through our deep capabilities in Cloud platforms, hybrid cloud architecture, alliances with hyper-scalers and our advanced AI OPS platform which is an integrated programmable platform. This journey is also enabled by Coforge's Cloud Innovation Factory which showcases skills ranging from prototyping, MVP creation and driving migrations at scale.

As an illustration, for an Insurance major, we've implemented an Infrastructure-as-a-Code transformation program. This resulted in an on-demand automated environment management that drove reduction in time to market, increase in productivity and reduction in infrastructure cost. Expected benefits are 10x reduction in time to market and 4x increase in productivity.

The other material service line, Product Engineering service line leads with Design Thinking, Lean and our “Agile.NEXT” framework to drive successful product creation. Last quarter, one of the world’s longest standing general insurers went live on our Insuretech product platform – AdvantageGo. Across the AdvantageGo product suite, we are aiming to maximize upsell opportunity during FY22 via self-service cloud version of our products. In this context, Underwriting has already been tested with Azure native PaaS offering for true cloud deployment for our clients on this Insuretech platform.

In other areas, for a leading asset management firm in Europe, we implemented a cognitive search platform analyzing terabytes of data from multiple sources like SEC filing, emails, the Aladdin platform and analyst reports. The solution was developed on AWS using different open-source AI frameworks enhanced by our proprietary AI accelerators.

For a leading global provider of supplemental insurance, Coforge’s Experience Studio exponentially decreased the amount of time required to stand up marketing sites requested by 70,000 field agents, reducing the amount of time required per site from weeks to seconds.

For the largest ground-handling and in-flight catering service provider at Singapore Changi Airport (SATS) we rolled out CoSYS+, the next generation Air Cargo Ground Handling System platform that we developed. This application enables end to end visibility of Cargo and is incidentally now also used for tracing and tracking COVID Vaccines as Singapore moves into a regional role for vaccine distribution.

The quarter also marked a big milestone for our DPA BPM service line. The service line crossed the 1,000 SME mark and is poised for significant growth in fiscal year FY’22. We continue to be a Platinum Partner of Pega, and we were placed as a “Major Contender” in Everest Group's Pega Services PEAK Matrix® Assessment.

Finally, as I conclude this section, a very remarkable impact of the sustained reputation for reliable execution and deep tech capabilities created to the service lines has been the sea change in the client mix of the organization. Over the last 12 months, we have increasingly penetrated and have become empaneled as Preferred Service Providers in Tier-1 Banks and Tier-1 Insurance firms.

Over the last 12 months, we got empaneled as a preferred partner for 2 of the world's top 10 banks. In over the last 24 months, we have become preferred service partners of 10 global insurance organizations that are part of the Fortune 500. The runway for sustained and significant growth that these developments have created cannot be overstated.

#### **PEOPLE**

Total headcount at the end of the quarter was 11,424. This represents a net addition of 262 employees during the quarter. Given the order executable referenced earlier we are in the middle

of an active employee addition drive. The net headcount addition in this month i.e. January alone is already higher than the net headcount addition of 262 people in all of Q3.

Utilization during the quarter was 79.8%. Attrition fell further to 10.4% and continues to be one of the lowest across the industry. We think that's important because given the demand outlook relying on hiring alone might not be the best approach forward.

### **BALANCE SHEET**

Cash bank balances stood at INR 5,365 million, which is an increase of INR 1,218 million over the previous quarter. Capex spend during the quarter was INR 149 million. The debtors at the end of the quarter stand at 75days of sales outstanding.

### **SUBSIDIARY INFORMATION**

For Advantage Go, the revenue for the quarter was INR776 million, EBITDA was 32%. For WHISHWORKS, the revenue for the quarter was INR563 million, EBITDA was 23%.

### **HEDGE POSITION**

Outstanding hedges in USD are US\$ 74.84 million at an average rate of INR 76.89 to the US\$. In British Pounds, we have 22.10 million outstanding, and that's at INR 98.81 to the Pound. In Euro it is 4.67 million at INR 89.21 to a Euro. And in AUD it is 4.01 million at INR 54.23 to the AUD.

### **OUTLOOK**

With 10 months in the current calendar year nearly behind us, we are on track and confident of delivering on the 6% constant currency growth guidance that we had shared for the full year. You would have noted that during Quarter 3, on a YoY basis, we delivered a growth of 6.3% in cc terms. Also as noted, on a year-to-date basis, at the end of Q3, we are currently tracking at 5.7% growth in cc terms, 4.2% growth in \$ terms and 10.7% growth in INR terms given the cross-currency movements.

Our margin trajectory also remains on track. At the end of Q1, we had provided a guidance of 17.1% EBITDA margin pre-RSU cost which we had subsequently raised to 17.8% EBITDA margin pre-RSU cost for the year. We believe we will end the full year at around 18% EBITDA margins, pre RSU costs.

We see significant growth in the quarters to come and increasing employee headcount and retaining the proven employees who have delivered robust and consistent growth for us is key to our operational efforts. Just as we implemented selected wage hikes in Q3 to drive retention, reflected in the low attrition numbers for Q3, we are also evaluating distribution of a one-time bonus for those employees who have provided extraordinary support to our operations and business during the pandemic in Q4. Our guidance of 18% EBITDA margin (pre RSU costs) for the full year includes impact of any such payout to employees in Q4.

As I had noted last quarter in my commentary, over the last 3 years our firm has delivered against revenue and profit plan in every quarter with no exceptions. We remain hyper focused on execution and committed to setting the pace on growth for the industry. Our record over the last 12 quarters, and particularly during the current year despite our historical exposure to the Travel industry, is a testament to that commitment.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

**Sandip Agarwal:** Sudhir, I have a couple of strategic questions. First, I will start with a precursor on the actual numbers. So, how do you see the current quarter numbers? Our strong performance of BFS particularly if you see has been marred a little bit by Insurance, so, how much would you assign of that to seasonality, and how much of that will you assign to some kind of spillover which may have happened? Second, the guidance which you are maintaining, and I know it is a good practice not to change guidance probably very frequently, but is it only a good practice which you are right now looking at giving the guidance, or do you really believe that the remaining quarter will also be a little softer, and that is the reason you're maintaining the guidance? That is on the historical aspect. On the strategic side, what I want to understand is that you very well explained the strategic deals and the order book and everything, which looks very, very good, and obviously, your whole team has done a great work. But I want to understand in a little more detail, as we have spoken about the business units around the hyperscalers, and we are still seeing that kind of numbers which are coming from hyperscalers particularly on the growth front, so, where are we in that journey? Of our team integrating with the plans of the hyperscalers, how are we strategizing on that, and what kind of delta can we see in coming months from this?

**Sudhir Singh:** Thank you for the question, Sandip. I believe there were multiple questions there. I shall attempt to take them in order. Starting off with the first question around how we see the performance, quite clearly, we are very pleased with the fact that in Q2 we recorded 8.1% CC growth, and after that jump, in Q3 which tends to be a seasonally smaller quarter, it's been followed by a 3.3% jump. EBITDA outlook over the last three quarters, almost every quarter, we've increased the guidance. And we've been able to plow back money into employee retention to keep attrition low to make sure that the growth that we see ahead of us is secure. Overall, we feel good on that count. Insurance, the number that I talked about was a 3.9% decline. But one needs to remember that last quarter insurance grew 12.4%. And that was a 12.4% growth on a business that is almost one-third of the aggregate organization. In Q2, for two top-10 accounts, there were two milestone deliverables, where the revenue stream has now moved to a production support and operations & maintenance mode. In Insurance, as I had called out, we've signed a \$45 million five-year deal in the current quarter. Overall, we continue to feel exceptionally good about the insurance capabilities, about the new clients across insurance where we have become part of the preferred supplier list and around the growth agenda for insurance on a go-forward basis. BFS, you're

right, I believe last quarter grew roughly about 5.5% sequentially, it's been followed by a 7.7% growth in the current quarter and overall the last two quarters have been good for BFS. Travel is a third piece which I think is interesting because last quarter the Travel business grew roughly somewhere between 5% to 6%. sequentially. This quarter again it's grown almost 10% sequentially... the exact number was 9.8%. So, we overall feel good around the performance. When you've seen an 8.1% CC growth in Q2 and follow it up with a 3.3% growth in CC terms in Q3. We feel very good about the order executable, which is a metric that we've always kept a hawk's eye around. It is 18% higher at the current point in time compared to where it was at the same point in time last year. Guidance too has only been going up. I believe we were the only firm in Q1, despite our historical exposure to travel at that point in time, which despite all the ambient noise and the issues around the pandemic, said outright that this would be a growth year. We declared that in Q1. In Q2, we said we will grow at least 5%. In Q3, we said we will take that up to 6% CC growth. And as I confirmed, with just two months left for the year to conclude, we feel absolutely secure that's the minimum that we will deliver. On EBITDA projections going forward again, I think it's very important to note that there is a very active war for talent that is going on and that will have a cost implication. As one projects EBITDA going forward, we believe EBITDA will improve, but it is not going to jump very significantly. We will have to balance significant growth, which will imply that we have to hire a lot of people in a competitive talent market, with margins. Margins should show incremental improvement over the 18% EBITDA pre-RSU benchmark that we've established. But I don't see that margin benchmark going very significantly higher in the next four to five quarters. I'm going to pause right there, Sandip. I trust I answered your questions.

**Sandip Agarwal:**

Yeah, thanks a lot for that. Second part of the question, which was on the hyperscalers, if you can give an update on that, it will be very helpful?

**Sudhir Singh:**

Absolutely, Sandip. The biggest thing as we reflect back over the last 3½ years for us as a management team, has been capability, tech service line capability re-creation. In some ways sales capability and performance re-creation has been number two priority. For a firm that is roughly about \$625, \$630-odd million, there's a \$100 million product engineering service line, there's a \$100 million automation service line, and there is a \$100 million engineering convergence led cloud service line. We see, as I noted in my commentary, the cloud service line in conjunction with the alliances that we have with the hyper-scalers- and we now have alliances with all the three largest hyper-scalers- playing in almost 75% of large deals that we are chasing. This year, you would have noticed, we've already closed five \$20million plus TCV deals, we closed a \$45 million TCV deal in Insurance itself. In almost all the conversations around large deals that we've closed, and in three-fourths of the large deals that we are chasing on a go-forward basis, what we've done in terms of the engineering convergence framework creation around cloud, the work that we've done around the cloud innovation factory, the work that we've done with hyperscalers, interesting work that we've done even within hyperscalers around different aspects, is playing a very important role. We expect the cloud and the infrastructure service line to be significantly leading the firm's growth over the next two to three years.



**Moderator:** Thank you. The next question is from the line of Shashi Bhusan from Axis Capital. Please go ahead.

**Shashi Bhusan:** Looking beyond FY'21, given good demand environment, strong deal win and capabilities around product solution and offering with improved client mix, can we deliver growth better than FY'19 and '20, our growth at high teens in FY'22%?

**Sudhir Singh:** Let me answer that question in a few ways, right. Without getting into guidance, which we don't plan to provide for next year, there are a few leading metrics that we as a management team have always found to be very reflective of where we eventually land up. The one that we track, and I suspect you track as well, is the order executable number, which is firm orders which've been signed and which will be executed over the next 12-months. Now, order executable is already about 18% higher than where it was year-on-year. And that gives us very high comfort around the fact that growth should be robust. The second thing that gives us a lot of comfort is the number of large deals that have been signed. And more importantly, the number of large deals, including, as I said to Sandip's question earlier, the number of infra cloud-based large deals that are in the pipeline. The third thing that gives us a lot of comfort, especially in our context, is if you look at Travel, historically, we used to have significant reliance on that sector. Even that vertical, which is far less significant now for us, has grown 9.8% in this quarter and it grew 5.5% roughly in the preceding quarter. So there has been a clear rebound even in Travel. Outside the Travel vertical, I think it's very important to note that now, we are growing 11.3% YTD excluding the Travel business. The fourth thing which gives us a lot of comfort again, is the client mix of the top-20, top-30 clients of the firm and the manner in which it has changed. Over the last 12-months, we've signed two of the world's top 10-banks, as clients, where we're now a preferred service provider. Over the last two years, we've signed 10 insurance firms that are part of the Fortune 500. So there is clear runway for growth within those relationships that exists. Progress on partnerships and alliances - partnerships, not just with hyperscalers, but partnerships even outside cloud with Pega., Microsoft, MuleSoft, Salesforce- and the service lines that have been built, like automation, cloud, product engineering, enterprise integration, give us comfort. Cutting that long story short long story short and without getting into a hard growth guidance number with order executable at 18% year-on-year higher, we just feel pretty good given this clutch of factors around what lies ahead of us.

**Shashi Bhusan:** What will it take to deliver TCV from the current run rate to sustainably above US\$220 million-plus, with one deal \$50 million plus every quarter?

**Sudhir Singh:** Shashi, I think we already have the building blocks to get there. Numbers, obviously, on a quarterly basis will have a little bit of a flex around let's say 200 million for now, and over time \$220 million. If you look at the last three quarters performance, I think we've been \$200 plus/minus, \$10-\$15 million in terms of order intake every quarter. So the building blocks are there as I see it. The horizontal technology service lines have ramped up. Most importantly, the technology service lines that have ramped up are the ones that are almost struggling to staff engagements on a go-forward basis with the demand surge that is coming through. The

leadership is in place, the operating culture is in place, the order executable has already been signed- it's 18% higher. Travel has rebounded as you can see significantly and with great speed. Partnerships exist. They are extremely strong. I think over the last 3½-4 years, we've all been working to put the building blocks in place and now I believe they are in place. We are increasingly becoming preferred partners to organizations where the wallet is now significantly larger than the wallets that we were addressing in the past. Travel business is a fantastic example. BFS business is a great example. We continue to wrest wallet share away from competitors of every size. So I suspect it is a question of time, and that order executable shall keep climbing up. The only other observations I want to leave you with is that digital projects, especially the BPM business projects, have short cycles. One doesn't necessarily lock in five-year TCVs in that space. That's why the climb in order intake gets moderated, but overall the trajectory is looking very, very positive and everything that we could have done by way of building blocks is not something that has to be done or is being done- most of it is already done.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

**Vibhor Singhal:** Sudhir, just one question on the margins front. So, I just wanted to pick your brain. You mentioned that despite the headwinds that we face in Q4 in terms of employee costs, and some potential salary hikes to vertical employees, we should be able to get 18% band pre-RSU. Just wanted to check, going forward on a sustainable basis, when we see some of these travel costs and the marketing expenses come back, would we be comfortable with similar kind of numbers, or do you believe we don't have enough levers left to be able to mitigate those segments on a sustainable basis going forward?

**Sudhir Singh:** Vibhor, I think we will absolutely at a minimum defend the 18% benchmark EBITDA pre-RSU that we've established and that's the minimum expectation that we have or ask of ourselves. And I know that you know this that the way we report revenue is, it's net of hedge gain, right? If you reflect on last year, we had a hedge gain of 3.2 million, this year we've had so far YTD hedge loss of 0.8 million. If you just account for that change, there's about 100 bps on margin that got depleted just because of the hedge gain netting that we do. We must balance the revenue growth that we see with the margin expectation that we hold ourselves accountable for given the fact that the number of open indents has climbed up as much as it has. And I gave you an example. In January itself, we've hired more people than we've hired in all Q3. We very strongly believe that the talent supply is only going to come at increasing wage levels when you hire from outside. Overall margin at a minimum will be at this 18% pre RSU EBITDA level. We believe we can inch it up slightly more next year, take it to a slightly higher level, but it is not going to be a quantum shift given what we believe is going to happen when it comes to employee salaries, both for retention and for attraction of talent.

**Vibhor Singhal:** So just to basically summarize, what we're saying is that we will try to inch up the margins next year despite wage hikes and despite the travel and other costs coming back as well?

**Sudhir Singh:** You're right. 18% will be the minimum. It should improve marginally.

**Vibhor Singhal:** Just to pick up on the Travel vertical again. So I think we've seen very strong recovery in the vertical over the last couple of quarters. When do you think that we could come back the traction in this segment come back to pre-COVID levels? I know you mentioned that our clientele has also changed a lot during this time and our top clients are no longer the ones that they were pre-pandemic. But in terms of activity, air traffic, when is the industry expecting itself to be back to pre-COVID level?

**Sudhir Singh:** Very varying assessments that are coming in. If I look at one of the sub-segments, airlines, depending on who you speak to, the most aggressive assessment coming in factors in speedy vaccine rollouts that are effective. There are normally two passenger load spikes in a year when it comes to the airline industry: there's a summer spike and there's a holiday spike towards the end of the year. The consensus is that airline volume levels will start coming back, not reach pre-pandemic level, but will start coming back with a high degree of confidence by around the holiday season of the current calendar year so that should be November – December 2021. We are going with that view for now and we haven't baked in a faster recovery into the planning or the projections that we are sharing with you. The growth that we are getting now is because in Q1 of the current year, I think we all know this, there was a precipitous drop that had happened.

In some of our key Travel accounts, the larger ones, spending has started inching back, so that is reflecting in the turnaround. There was, illustratively, an airline client which had gone into administration in quarter one and it has come back to live operations. And we interestingly are on the verge, hopefully, of signing a large deal with them in a quarter or two.

The third thing that's working for us in Travel is that our wallet share in some clients, and we gave examples of this in earlier investor calls, has gone up materially even though their wallet has shrunk. We had continued to invest in the and not ask SMEs to leave despite the fall that has happened, and that is bearing fruit for us.

The fourth aspect is that the discounts that we have had to give right through this year are now starting to come to an end. That has an upside not just on margins but also on revenue on a go-forward basis. And that's why you see that discount reversal translating into revenue growth getting reflected.

And finally, there are certain sectors within Travel which have interestingly proved to be resilient. Travel-tech has been one of them. One of our top 10 clients is from that space, it's an account where our growth continues, actually strong growth has continued right through the pandemic. And some of those resilient sub-segments within Travel we will continue to target while we wait for some modicum of recovery to happen across the broader industry around the holiday season of 2021.

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

**Sandeep Shah:** Congratulations on consistent good execution. Sudhir, the first question you already answered, so Insurance performance in this quarter you are believing it's a quarterly aberration. And the reason I am asking is, are you getting bothered with what is happening in the U.K. in terms of the pandemic as well as in terms of the Brexit process? So is it making you feel that, (a) the demand from U.K. across verticals; (b) in terms of demand Insurance, specifically coming from Europe, may be weak and you are less optimistic on U.K. and the insurance now versus what it used to be earlier?

**Sudhir Singh:** Sandeep, I am as optimistic if not more optimistic of the fact that insurance will continue to deliver robust performance in the future. The fact that we signed a \$45 million deal, one of the largest ever for us in the insurance space last quarter was reflective of that. The Advantage Go insure-tech platform continues to do extremely well. Not only is it profitable, I shared the numbers, it's also highly differentiated. In insurance, for a firm our size, what's very important is the fact that we have been able to get into the PSL's, I don't want to say of almost all but of a very high number of the large Tier-1 insurers where two years back we did not exist. Just plugging away at them, mining those relationships, growing those relationships by showing clear value alone has created a runway for sustained growth. It is not going to be just a one or two quarter growth, but sustained growth on a go-forward basis. We have, we believe, a fantastic insuretech platform, we believe we have very, very solid partnerships, we believe we have built up a very strong front-end consulting organization in insurance, and the delivery engine has been delivering surprise free delivery for a very, very long time. We feel as confident, if not more confident, of that segment than we have ever done in the past.

**Sandeep Shah:** Okay. Any view on U.K. as a market demand?

**Sudhir Singh:** In U.K., as a market, we haven't seen any softening. U.K. is a market where we play more on the product platform side. And we have some pretty interesting conversations lined up and very interesting opportunities lined up, if I just look at U.K. as an insurance market on the product platform side, the pipeline is only improving, it isn't static, it is not declining, it is actually improving.

**Sandeep Shah:** Okay. And in your initial remarks, you have given a good breakup of the revenue size from the digital and different buckets. So is it fair, 51 plus 21, 72% of your business is in new-gen services and the legacy business now within the portfolio is as low as 28%?

**Sudhir Singh:** 51% is clearly digital. The other 21-22 odd percent that I called out in cloud and infra is a mix of cloud and legacy infra. 51% is clearly new-gen. Out of the remaining 21%, cloud obviously is new-gen, but there is an infra component to it as well, Sandeep.

- Sandeep Shah:** Okay. And just last thing, when you say it looks like you are on track for 6% CC growth, but still the ask rate in the fourth quarter could be mid-single digit. So we believe the cost of furloughs won't be there in the fourth quarter, that's an achievable number looking at the order book. And that gives you a confidence to do a high intake of the recruitment. Is it the right way to look at things?
- Sudhir Singh:** YTD CC growth at the end of quarter three is already 5.7%, Sandeep. We are very confident, from that level getting to 6%, one month is anyway already over in the quarter, it is not going to represent a risk of any sort.
- Sandeep Shah:** Okay. And last question, you also said you are chasing four large deals, of which 75% has a component of cloud. That is what you said, right?
- Sudhir Singh:** No, we are chasing more than four large deals, Sandeep. What I was trying to say was that cloud and this engineering convergence framework that we have built for the cloud, the partnerships in the Cloud ecosystem that we've built, the Cloud Innovation factory that we've built, plays in three out of every four large deals that we are chasing. But the number of large leads that we are chasing is more than four at the current point in time.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.
- Manik Taneja:** Congratulations for a good execution. My question is around the revenue side have already been answered, Just wanted to pick your brains around some of the churn that we are seeing at the mid and the senior management level, especially people who have joined the company over the last 18 to 24 months timeframe. So what's driving some of that attrition while you have done well from a delivery standpoint? Why are we seeing some this churn at the leadership level?
- Sudhir Singh:** We are not seeing a churn, Manik. We have the most stable leadership team that at least we've seen in the market. Every business leader and I who came on board four years back, has stayed on and there has been zero churn. As an organization, given our operating culture, we have the lowest attrition across the industry at 10.4% and our organization's attrition has been the lowest for at least the last 4 to 5 years across the industry. The only place where there is churn -and there is going to be churn and has always seen churn - has been on the sales side. We offer, and we have talked about it repeatedly, we offer possibly the highest incentive structure for sales leadership and we hold them to a correspondingly higher performance expectation level. We cut our losses fast if we find very well compensated sales leaders are not performing. People in Sales who perform have done exceptionally well. We offer great avenues for wealth creation and career advancement for them. And where we believe performance is not at the level where it needs to be, we cut our losses fast and move on, consistent with the compensation and the incentive structures that we offer. So abbreviated answer, business leaders, senior leadership have seen next to no churn. Broader organization exceptionally low churn, Sales churn by design in line with exceptionally high reward structure which is in place.

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

**Dipesh Mehta:** Congrats for strong execution. A couple of questions, first about gross margin. If we look at, gross margin is down 200 bps in nine months, Y-o-Y ex-RSU. Now, can you help us understand how one should understand gross margin recovery going forward? Second thing, related question, is about when we plan to give salary hike broad-based? I think we gave some selective salary hike in Q3 and plan to give some incentive or bonus in next quarter. But when you expect broad based salary hike to happen? And how one should look at your RSU charges because that is also one thing which can play out on margin next year.

Second question is on weakness in top 11 to 20 band, this quarter seems to be a bit weaker. So if you can provide some color, what explains that weakness.

And the third question is about nine-month deal intake. If I look at absolute number nine months, it is largely flattish on Y-o-Y business, even though next 12 months we are seeing decent growth. So one should understand deal intake and how one can understand future revenue trajectory, the data we share? Thank you.

**Sudhir Singh:** Thank you, Dipesh. Let me take your questions in order. Gross margin this year has gone down essentially led by the fact that significant discounts had to be offered, especially in the first half of the current year to Travel clients. And there was material cost of retaining people on bench, especially onsite bench, given the fact that repatriation flights to India had been stopped. It was also a function of the fact that the revenue mix changed during the year. When you have some of your largest accounts in Travel, which also were profitable, their revenue shrinkage has led to fallout on the gross margin. As Travel recovers and as we continue to manage costs, you anyway have seen our utilization numbers have been around 80% odd, we expect gross margin recovery to continue to happen. So that's answer one.

The second question around salary hike timelines. Our salaries are going to go up at an org level effective 1st of April of the current calendar year. In quarter three, for niche skills, to make sure that attrition did not go up, especially given the staffing pipeline that needs to be filled, we have offered selective retention bonuses to SMEs. Quarter four, we will do a somewhat more broad-based bonus payout to employees. And 1st of April is when we will do the org-wide salary hike. All the EBITDA margin projections expectations that I have shared, Dipesh, with you and the other folks on this call, is baking those timelines and those amounts in.

The third question that you had was around RSU charges. RSU charges, as you would have noticed this year, are having an impact of about 110 bps on EBITDA. Next year, we expect it to fall to about 60 bps, so from 110 to 60 bps.

Number four, your question was around the top accounts. Top accounts for us continue to grow. They are however not growing at the same rate at which the firm is growing, which I suspect is

understandable. If I look at the top five accounts, in quarter two they grew sequentially 3.3%. And in this quarter they have grown 1.1%. If I look at the top six to 10 accounts, quarter two they grew roughly 6% sequentially and this quarter they declined 3% because of the two travel accounts that I had talked about. Overall top accounts we feel good about is the message that I would like to leave with you, Dipesh.

And finally, nine-month order intake. The metric that we track, given the fact that there are pieces of the business which, like DPA, like Integration have smaller project cycles, is order executable. Order executable, and we talked about it earlier, is the amount of orders that we have signed, which we will execute over the next 12 months. That metric has always, if you go back and look at our results, and we keep analyzing it, has always had a very strong congruence to revenue growth in our case. And at this stage, it is looking very robust at 18% higher than where it was at the same point in time last year. I trust I have answered all your questions, Dipesh.

**Dipesh Mehta:**

Yes. Just one follow-up. I was asking more about 11 to 20 kind of band rather than top 10. But is there any something more to read or you think it is more quarterly kind of thing and a couple of travel client explains that business? And last question is about, I think in notes we have mentioned some dispute with Indian government, one of the Indian government customers. So can you provide some colors, what is it exactly and how you expect it to flow?

**Sudhir Singh:**

Sure I am going to take the question around 11 to 20 clients, and I am going to request our CFO Mr. Ajay Kalra to give you a very clear answer around the dispute actions. There are now 115 clients that are more than \$1 million. So top 11 to 40, not just 11 to 20, is a dynamic set where a lot of clients, client relationships are ramping up very fast. There's obviously a relative growth trajectory across them. 11 to 20, at any point in time, the way we see it at as a firm our size, are a bunch of clients which we have handled well and can move to top one to five over 12 to 18 months. When I look at the current mix of 11 to 20, when I look at other relationships that are trying to break into that band, and the fact that some of the current 11 to 20 relationships by size are trying to break into the top 10 or top five, we feel good about where we stand with these accounts and their growth potential. The number fluctuation is just a function of normal operational ups and downs that would happen quarter-on-quarter. But structurally, 11 to 20 and more broadly 11 to 40 is a place where we feel very confident that both growth and margin accretion should happen from. Incidentally, top 11 to 20 accounts have grown 7% in the current quarter, Dipesh. So it's been a pretty good quarter for those accounts.

**Moderator:**

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

**Abhishek Shindadkar:**

Congrats on a great execution in the context of Travel vertical. So, you have answered my question in part, but what I am trying to understand is, the growth that we are reporting in the absence of or the loss of revenue that we are seeing in Travel, this combined with the 18% book number that you are talking of, I am trying to understand two parts, one, Travel revenue that probably is down 26% year-on-year, is that revenue lost permanently? Or do we expect those

projects to kick start in next year or the year after? And second part is, based on the order book number that you are talking, which has grown 18%, how has been the growth in the Travel vertical, especially in the last three to four months? If you can just elaborate on that, that could be helpful. Thank you.

**Sudhir Singh:**

Abhishek, thanks for the question. The firm is growing at about 11.3% minus the Travel business. And I think you alluded to that right now. It's very difficult to quantify whether the revenue loss is permanent or otherwise because some of the development projects, we believe are not lost but they will only come back when discretionary spend returns to the industry. It's difficult to forecast when they will come back, so we are not baking that into any projections that we are making. If all goes well, whenever the recovery happens, we should be back to the earlier revenue threshold for the Travel vertical in absolute terms. A big change that has happened is that the historical reliance that we had on Travel has gone away, it's now only about 19% or 20% odd of the aggregate revenue. It's fundamentally financial services at 51%, that is the biggest vertical for us now.

The other question that you had was around the 18% year-on-year growth in order executable. At this point in time, Travel vertical order executable is certainly much, much below 18% year-on-year, if we just look at all the executable from that vertical versus what we were looking at one year back. So there is a stronger bias and there is a stronger push that is coming in from Insurance, from BFS, from Healthcare, from the other pieces of work that we do in the other segment across the world. Did I answer your question, Abhishek?

**Abhishek Shindadkar:**

What I am trying to understand is, especially how the conversations are moving, especially in the Travel vertical for the last three, four months. So is there an improvement in the conversations which could reflect in the booking's numbers?

**Sudhir Singh:**

There are clearly positive conversations and positive engagements because of which travel has grown 10% sequentially, 9.8% I believe was the exact number sequentially this quarter and grew 5.5% last quarter. On a relative basis, they have clearly improved and clearly improved very significantly. Not only have they improved on the revenue side, even the asks around discounts and credit extensions are going away or have gone away. So to that extent, it's been a good story. It's also a good story to the extent that firms that were struggling in certain sectors are reviving. And in a few quarters, those revenue streams should also be coming in. That's how I would translate what we are hearing. Overall, relative to where we stand, there is significant buoyancy. When we will get to the thresholds that we were at earlier is a little difficult to predict.

**Moderator:**

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

**Rahul Jain:**

Congratulation on a strong performance. I think you have given some color on this, but I would appreciate if you could tell us what is the growth in your qualified pipeline? And what could be the potential size of the same? And how has been your win ratio, how it has improved, and how the average size of large deals has moved up? So these kinds of things if you could share. And,



if you could add some vertical flavor to the same, you gave two good examples, how you have added F500 clients in bank and insurance. So any more inputs on that, that can add to the visibility would be appreciated.

**Sudhir Singh:**

Sure, Rahul. I will answer your question. And incidentally, I believe we missed the response from Ajay earlier on the question that was asked around the comment on India government question, I am going to request him after my answer to also step in.

From a pipeline perspective, the win ratios have been improving for quite a while now, and that trend continues. Out of the \$192 million, roughly order intake if you look at it from a geo perspective U.S. has contributed about \$116-odd million. EMEA came in at \$45 million, but EMEA has a very big chunk of the aggregate large deal pipelines that we are chasing as an organization. Win ratios continue to see an increase, obviously, win ratios at an enterprise level don't go up all of sudden, but the trend line continues to be positive as it has been for quite a few quarters right now. From a vertical perspective, as we look at the world, we see interesting opportunities in the pipeline on Insurance that we talked about earlier. We are seeing, interestingly, a large deal which has cropped up in Travel, which we are again pursuing very strongly at the current point in time. BFS, of course, as you would have seen, has grown 5.5% and 7.8% sequentially over the last two quarters. In BFS again, there are some interesting irons in the fire right now. The way I would characterize it overall is, large deals are spread across the three core verticals. Even the fourth vertical that we are trying to incubate, Healthcare, is a vertical where we signed a large deal that I just reported.

On an allied note I believe I had shared the view around getting onto the preferred service list of large banks and large insurance players. There aren't too many Travel clients that are including firms into PSLs at this stage, they are still hunkered down. But the inclusion on PSL's of Insurance and BFS majors has been good for us.

**Rahul Jain:**

Appreciate it. And another question is on the bookkeeping side, if you can share the segmental data that we typically give on the subsidiaries and business segment?

**Sudhir Singh:**

Rahul, so the advantage over the quarterly revenue was Rs. 776 million, the EBITDA was 32%. For WHISHWORKS the quarterly revenue was Rs. 563 million, and the EBITDA was 23%. I am going to now request Ajay to step in. Ajay, my apologies, I believe I stepped in earlier and you were planning to answer the question that came in earlier around the comment on the government.

**Ajay Kalra:**

Thank you, Sudhir. This was a question relating to the India government note which we have in our financials. This is an old government contract which was signed in 2014. This project has been delivered successfully and all the sign-offs are in place. We believe that these deductions which have happened by the client are arbitrary and these deductions have been contested. And we have legal opinions around that. We are in discussion with the client and are very confident

about the recovery. The maximum exposure, as you may have noted in the financial notes, is Rs. 198 million, net of all the provisions that we have made against this.

**Moderator:** Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:** I am sorry, I missed one question to ask. Sudhir, I wanted an update on the “Others” business segment, other verticals which is retail, healthcare, manufacturing, media, public sector, how are those cases doing? Have you finalized leader to lead any of these sub-verticals now? Because see, when we see the history of last 20 years for the large cap also, we have very clearly seen, and as you mentioned for the client perspective, same thing applies for the mature vertical that you can grow there quite good and there is a lot of opportunity. But obviously, the big delta comes from adding newer verticals and new geographies. So at least on the vertical side, you gave some indication, some information last quarter, if you can give a quick update on that front, what you are doing.

And second piece was on the ESG side, how we are moving towards that aspect, because it is becoming very important for the investor community. Thanks. That's all from my side.

**Sudhir Singh:** Sure, Sandeep. I am going to answer the first question around the vertical, and I am going to request our CFO, Mr. Kalra, to come in on the ESG piece which he is anchoring. On the vertical side, Sandeep, we completely agree with the observation that you have made. “Others” as an aggregate has been growing for us and has been growing very predictably for us. Our revenues in “Others” are currently centered around Retail, Manufacturing- more on the Manufacturing Distribution side when it comes to Manufacturing, Healthcare, and government work outside India. Those are the four primary segments right now. The two segments that we have talked about in the past that we have been examining, and where we have already started investing have been Healthcare and Hi-Tech.

Within Healthcare and Hi-Tech, the sales team is in place. In Healthcare there is a solutioning construct that has been put in place too. All of that is reflected in the large deal in Healthcare that we signed in quarter three itself. So Healthcare has progressed, the sales leadership is on the ground, the solutioning team is there and the back-end delivery is already servicing clients in that space. Hi-Tech is the other vertical that we are considering. But we have not made material moves in it. We would like to see Healthcare take some more shape. And after that, we will start investing in Hi-Tech as we have in Healthcare over the last nine months. It's still early days, our experience has been it takes about 18 months, roughly about 18-odd months from inception to a point where our verticals start making an impact in the market. Hopefully around three to four quarters from now we might have a compelling story and a stronger story around Healthcare to share with you..

The thing that gives us a lot more confidence now to be able to explore these areas more aggressively is because of the horizontal technology service lines that have got created. In the

last three and a half years sales has been a very important focus, but the highest focus has been on building technical service lines and capabilities. Now that product engineering is as robust as it is, automation is as robust as it is, cloud is as robust as it is, the Salesforce, MuleSoft practice is as robust as it is, we can take a lot of these horizontal capabilities and use them as segues for getting into new verticals. Which, incidentally, is what we have attempted in Healthcare, and might attempt in Hi-Tech also over time.

**Sandeep Agarwal:**

Just a question to that, Sudhir. You have given a very detailed and good answer, but I would like to rephrase my question again, because what I am trying to understand is that generally when we launch a service, obviously, a solutions team, sales team, everything is in a place. But from the outsider's perspective, the key thing is that you bring in a very senior leader, like the way you did in insurance, like the way you did in travel, so what kind of movement has happened on that front, at least in Hi-Tech and Healthcare? Which leader you have brought from which company or which competitor to start making that effort? And I am sure that if that leader comes in next three to four quarters, those verticals will scale up very quickly, as it happened in Insurance and Travel. So I wanted more color on that, whether the top leadership is in place on those vertical or is still in the search process?

**Sudhir Singh:**

You are right, in BFS, Insurance and Travel we got new leaders, though there were existing leaders earlier, because we thought that they would accelerate growth and they have. In this case, the intent is, Sandeep, to make sure that we are balancing cost and the revenue that is coming in. So we haven't led with one big leader running a BU, we have led with hiring a sales leader, a consulting leader, and a delivery leader. And we have all three of them report into an existing business head who runs the North America geo for us. That's the current configuration. That said, there is a very active search that is ongoing to identify a leader to run this specific vertical. Our belief is, over the next three months, since we are trying to hire the leader in the market, we should be able to have him or her in the mix.

**Sandeep Agarwal:**

Great, thanks a lot. And on the ESG part if Ajay can brief a little bit. Thank you.

**Sudhir Singh:**

Ajay, would you like to address the ESG question?

**Ajay Kalra:**

Sorry, I did not get the question. If you could repeat the question.

**Sandeep Agarwal:**

Yes. So I wanted to know what efforts we are making on the ESG side, because that is becoming very important for the global investor community to make their investment decisions. So, how we are reducing the carbon footprint, what methods we are using, what all we have done in that area on the gender ratios and other things also, if you can give some briefing on that.

**Ajay Kalra:**

Yes. So on the environment, we are continuously looking at and doing a lot of work with organizations in the field of energy conservation, as well as we are also making a lot of solar energy, making use of solar energy, plan to make use of solar energy in our campus, as well as we are very much focusing on improving our diversity, both hiring from a diversity perspective,

whether it's gender, whether it's nationality across the globe, so there are multiple areas where we are focusing towards the ESG.

**Sudhir Singh:**

Let me add some more color to what Ajay shared with you, Sandeep. The campus that we have, which is a principal campus for the organization in Greater Noida is a LEED Platinum Certified building. It is a state-of-the-art campus where the technologies that we have used involve using subterranean tunnels to drive air conditioning units to reduce the carbon footprint of the organization. When it comes to gender diversity we continue to push the agenda. Localization is an extremely important, one of the top five clearly called out initiatives at an enterprise level for the organization. It is being run directly by one of my directs. Under that initiative, as you are aware, we have over the last two years built up five centers in North America and five centers across Europe. If you look at the diversity mix of the leadership team, CEO minus one, CEO minus two, that also has improved very significantly and will continue to improve in the years to come.

On the sustainability front, this is an initiative that Ajay himself has led. In addition to everything that we had done around meeting Platinum LEED 5 certification, we are right now working with the state government in the principal campus that we have to figure out ways in which solar energy will not just power our campus, but can also be made available to the electric grid in the state in order to drive a larger social impact. In addition to this, the CSR activities in the organization continue to be very sharply focused, on making sure that we are working with local communities. The bias there is very strongly around enabling undergraduate and graduate students, when it comes to technology training and education. We are also into primary training and education from a community participation perspective. And interestingly, a very small animal welfare initiative also on the CSR side. So that's just a quick recap, building off of what Ajay shared with you .

**Moderator:**

Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

**Vimal Gohil:**

Most of my questions have been answered, just one point. This line item regarding contract costs which is worth Rs. 58 crore, that seems to be sticky over the last three quarters. Maybe if Mr. Kalra can probably highlight what is this regarding? And how could it pan out going forward? Thanks.

**Ajay Kalra:**

Thank you for the question. These are pass-through costs, they will come down in the future quarters, we expect them to come down.

**Vimal Gohil:**

So the average has been about maybe 1% of the total revenue. So would you expect that to come down to that level?

**Ajay Kalra:**

We expect that to come to a half that level over a few quarters.

**Moderator:** Thank you very much. That was the last question in queue. I would now like to turn the conference over to Mr. Sudhir Singh, CEO, Coforge Limited, for closing comments.

**Sudhir Singh:** Thank you once again. We have always been extremely grateful for the insights that your questions offer us and the suggestions that you leave with us. And we have always stepped back as an organization after these calls to reflect upon what we picked up as ideas, as suggestions, and as critiques from calls like this. We understand, especially given the pandemic, that we have been scheduling these calls at a late time for India. And I want all of you to know that we very sincerely appreciate the fact that you accommodated us with this ask around a late evening call during the pandemic. We look forward to moving the call back to a more India-friendly, and other geo-friendly, time as soon as the pandemic starts abating.

I would like to once again wish you, your loved ones, your families, and your team members a very Happy New Year. And I also hope that you stay very healthy, very safe, and very happy. Thank you very much for your time and for your interest. Thank you.

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

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**Note:**

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