



“Coforge Limited Q3 FY2022 Earnings Conference Call”

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FROM COFORGE:

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'2022 Earnings Conference Call of Coforge Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Agrawal, – Head (Investor Relations and M&A), Coforge. Thank you. And over to you, sir.

Ankur Agrawal: Thanks, Margaret. A very warm welcome to all of you and thank you for joining us today for Coforge Q3 FY'22 Earnings Conference Call.

As you know, we announced our Q3 Results today, which we have filed with the stock exchanges and the same is also available on the 'Investors' section of our website, www.coforge.com. I have with me today our CEO -- Mr. Sudhir Singh and our CFO -- Mr. Ajay Kalra for the call.

As always, we'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 very much, Ankur and a very good morning, very good afternoon, and a very good evening to you across the world, folks.

Since we are meeting for the first time in the new year, I'd like to wish you and yours a very healthy, happy and meaningful 2022. Thank you very much for taking the time and for joining us for the conversation today.

Before getting into the details for the quarter, I would like to highlight the strong operating markers that have characterized our year-to-date, and our third quarter performance:

You will recall that our performance plans for the current fiscal not only warrant registering very aggressive growth, but they also involve expanding our EBITDA materially at the same time. In Q3, the shortest quarter of the year, we saw continued sequential EBITDA expansion despite existing supply side pressures.

The quarter also saw robust, broad-based sequential growth, continued net headcount addition at a very fast clip, strong growth across our top clients, yet another large deal closure and a continued improvement in the offshore-onsite revenue mix. Onboarding senior talent at scale, successful integration of acquired businesses and attrition below industry average for the other call outs.

Quarterly Performance – Revenue

With that, I move on to the revenue and the growth section around our quarterly performance. I do want to call out at the outset that every time our effort to organic, I shall be calling out performance excluding SLK Global, the acquired entity and consolidated, we refer to the aggregate firms consolidated performance.

With that, we are pleased to report that the firm experienced robust organic growth during Q3 fiscal year '22. On an organic basis, excluding the acquired SLK Global business, our quarter-on-quarter growth during Q3 was 5.7% in constant currency terms, it was 4.6% in US dollar terms and it was 6.1% in Indian rupee terms.

The firm's consolidated revenue including contribution from SLK Global grew quarter-on-quarter by 5.2% in constant currency terms, 4.2% in US dollar terms and 5.7% in Indian rupee terms. On a year-on-year basis, Q3 growth was 37.8% in US dollar terms and 39.3% in Indian rupee terms.

On a year-to-date basis, at the end of the first nine months of the current fiscal year, the firm is growing 39.2% in US dollar terms. On an organic basis, the firm is growing 26.2% year-to-date in US dollar terms.

The consolidated reported revenue registered by the firm for Q3 fiscal year '22 was 221.6 million in US dollar terms and 16,581 in Indian rupee terms.

I shall now detail the vertical wise consolidated revenue growth for the quarter under review:

In Q3, our BFS vertical grew 111.9% year-on-year. The Insurance vertical growth 23.1% year-on-year.

The Travel, Transportation, Hospitality vertical grew 27.4% year-on-year. The Others segment, which includes Healthcare, Government outside India, Hi Tech and Manufacturing, grew 18.8% year-on-year.

Our consolidated vertical wise revenue contribution is available in the fact sheet uploaded on the firm's website. You will notice that BFS is now 28.4% of the firm's revenue, Insurance is 27.8% of the firm's revenue and TTH is 18.3% of the firm's revenue.

Our Top 5 clients grew 18.4% quarter-on-quarter, and they contributed 25.2% to our overall revenue.

Our Top-10 clients grew 15.5% sequentially, and they contributed 36.1% to the total revenues in the quarter.

We continue to, and I believe you would have noticed that remain very de-risked from a client concentration perspective. Equally importantly, sustained growth across our key client relationships has seen the number of greater than US\$ 10 million client relationships double from nine to 18 over the last two years.

Our offshore revenues represented 46% of total revenues in Q3 fiscal year '22. One of the important and positive structural changes in the firm's operating profile has been the continued expansion of offshore revenues as a percentage of overall revenues.

Offshore revenues as a percentage of global revenues have risen by 10% over the last five quarters from 36% in Q2 fiscal year '21 to 46% now in Q3 fiscal year '22. This reflects ongoing execution of our recent large deals, which have a larger offshore component as well as our expanding book of managed services contracts. We also believe that this remains a key margin expansion lever going forward. An aspect that I shall detail now.

Quarterly Performance – Margins and Operating Profits

Moving on to the margin performance for Q3:

In Q3, we recorded an adjusted EBITDA margin of 19.5%. This is the highest quarterly adjusted EBITDA margin recorded in the last 10-year history of the firm. And it reflects strong execution during a period where the industry is combating rising retention and hiring cost. This expansion in EBITDA over the last quarter came during the shortest quarter of the year, where we had multiple headwinds on account of hiring and retention costs, a sequential decline in revenue of our AdvantageGo platform business and the impact of holiday-related furloughs.

The adjusted EBITDA margin expansion in the current quarter follows a sequential adjusted EBITDA margin expansion of 260 bps in constant currency terms in Q2 over Q1. The principal execution-related drivers have been higher offshore revenues and a calibrated flattening of the delivery pyramid.

As I've noted earlier, offshore revenues as a percentage of global revenues have risen by 10% over the last five quarters. Our offshore revenues have grown at a CQGR quarterly growth rate of 11% over the last five quarters outpacing the firm's overall growth. In absolute terms, adjusted EBITDA reported for the quarter is Rs. 3,226 million in Indian rupee terms and \$43.1 million in US dollar terms.

As you know, adjusted EBITDA excludes ESOP costs and any non-recurring items such as acquisition related expenses. We believe our mix of increased offshoring levels, continued improvement in the delivery pyramid and operating leverage from growth has set the ramp for another strong sequential expansion of adjusted EBITDA margin in Q4 over Q3.

Our consolidated profit after tax for the quarter stood at Rs.1,837 million in Indian rupee terms. This is an increase of 25.2% quarter-on-quarter and an increase of 50.7% year-on-year. In US

dollar terms, our consolidated PAT for the quarter stood at US\$ 24.5 million, which is an increase of 23.1% quarter-on-quarter and an increase of 49% year-on-year.

As I conclude the first two sections of my commentary around revenue and margin performance, I would like to underline once again that not only are we attempting to drive very strong growth as exemplified by our 39.2% year-to-date growth number, but that we are equally committed to expanding our adjusted EBITDA margin at the same time in fiscal year '22 over fiscal year '21.

Order Intake

With that, I move on to the order intake section. This year has been the best year in the history of the firm in terms of the size and the velocity of large deals won. In the first half of the year, we had already secured a US\$ 105 million TCV, four-year, eight months contract, and also two US\$ 50 million plus contracts. That momentum continued in Q3, and we signed the USD 45 million plus TCV contract in Europe. The order intake for the quarter was USD 247 million; it comprised USD 91 million from the Americas; USD 110 million from EMEA and USD 47 million from the rest of the world.

I would like to note again that in the first nine months of fiscal year '22, our total order intake stands at USD 850 million, and this is 9% more than the order intake of USD 781 million in the entire last year, which was fiscal year '21. As a result, booked orders for the next 12 months now stands at USD 701 million.

With robust order book for the next 12 months, coupled with a track record of repeat business from clients of over 90% imparts a high degree of visibility and confidence in achieving our stated goal of a billion dollars plus of revenue by next fiscal year. 13 new logos were signed during the quarter. They included one of the world's largest retailers, and one of the largest global travel tech firms.

Delivery Operations and Capability Build

I shall provide quick color around delivery operations and capability build efforts now:

An intense focus on execution reflected also in our attempt to increase margins by 100 bps in the current fiscal year despite the supply side pressures, along with a complete re-creation of the firm's technical services stack has underlaid our efforts over the last five years to create a product engineering-driven culture.

At the end of the current quarter, our revenues from product engineering, enterprise integration, intelligent automation, data services, and cloud infra services stand at 72%. The bulk of the remaining organic revenue around 27% came from the ADM service line application development maintenance, which is also being aligned with the product-first approach.

We are re-creating the ADM service line as a composite engineering service line with training at scale of full stack developers and scrum masters. Our strong belief that robust and sustainable long-term growth can only be built on the back of both the technology and industry expertise continues to drive our investments.

In our view, surprise-free execution is what has led to the number of greater than USD 100 million accounts for the firm doubling over the last two years itself. Our execution against the USD 105 million, four year eight months TCV contract won in Q1, and the two USD 50 million contracts last quarter continues to remain firmly on plan.

As we've shared earlier 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 of our clients' organizations. Our recently created Salesforce service line, our engineering convergence side approach, our AI OPS platform, which is an integrated programmable platform, and our own proprietary platforms continue to drive differentiation and address our clients' objectives.

During Q3, a global travel concierge company and a leading US based retail chain have chosen Coforge as the journey to the cloud partner.

We have also won two new Digital Transformation Programs from an Australian entity to replace their legacy CRM applications with the modern Pega solution.

While Pega continues to be the flagship alliance partner in our digital process automation service line, strategic initiatives, such as our in-house, Appian Academy has become a crucial lever to enable our growth for Appian-based services as well.

In Q3, on the digital integration front, we secured a mandate from a US-based client to rearchitect and support their systems around a configurable Mulesoft, Salesforce platform and thereby enable future acquisitions for them with speed. During the quarter once again, Mulesoft indicated that they are prepared to agree to use the Coforge-Mulesoft 4 migration service for a majority of their strategic European clients.

Moving on, Coforge was also named as a Major Contender in the Salesforce Services in Insurance PEAK Matrix Assessment 2022 of the Everest Group. This is the first time Coforge is being assessed for its Salesforce capabilities. So, marking our entry as a Major Contender, helps validate the maturity of the practice, and our deep understanding of the insurance space at the same time.

In the Insurance space, during the quarter, we delivered a strategic project for an insurance major's life product, helping them with expanding their accelerated underwriting footprint.

On the Travel side of the house COSYS, the next-generation Air Cargo Ground Handling platform developed by Coforge for SATS has been implemented by us at another airport in the

Middle East. With this rollout, three major airports in that region will now be operating on the Coforge developed COSYS platform. Separately, another leading airport in the Middle East as well as an India-based airport governance body has partnered with us for their IT transformation and IT security improvement over the next three years.

Travel Technology again has always been a strong end market for us. Building upon our deep domain knowledge and a decade-long engagement with a client, we were selected during the quarter to be their preferred partner for their partner network program. That program involves product delivery and implementation of the entire product portfolio of the client.

And finally, both SLK Global and WHISHWORKS were folded into the Coforge master brand during this quarter. These businesses now operate as the Coforge Business Process and the Coforge Salesforce service lines, respectively.

People

With that commentary, I move on to the people section now:

Net employee headcount addition was yet again near an all-time high for a quarter. During the quarter under review, we added a net 1,087 people to our headcount in the IT business. This is an increase of around 7.5% to the global IT services headcount, which now stands at 15,467. For the overall firm, including the business process solutions business, our total headcount at the end of December 2021 stood at 22,130. Utilization for the quarter was 77.1%. As you're aware, we include trainees in our utilization calculation as well. And this year, the number of trainees is likely to be around six times, or what it was two years back.

Attrition during the quarter increased marginally to 16.3% and remains one of the lowest across the industry. This relatively low attrition number in our view is the best possible testament to our workplace culture and environment. And we believe reflects the very strong affiliation that members of team Coforge have with the firm.

Balance Sheet

Balance Sheet, quick commentary:

Cash bank balances at the end of the quarter stood at USD 440.8 million after payout towards an interim dividend declared in October, and the acquisition of the residual equity of WHISHWORKS. CAPEX spend during the quarter was USD 2.3 million. The debtors at the end of the quarter stood at 70 days of sales outstanding.

Summing Up and Outlook

Four years back, I had shared our plans to carve out a path to deliver robust, sustained, and profitable growth.

More recently, at the start of the current fiscal year, we had indicated that we plan to grow at least 17% in organic CC terms. Over the next two quarters, we had raised that guidance to at least 19% and subsequently to at least 22% organic constant currency growth. Given the sustained growth momentum, we are pleased to revise our annual revenue guidance upwards. We now believe that our consolidated revenue will grow around 37% in constant currency terms over last year, and that our organic revenue will grow around 24% in constant currency terms over last year. Reported dollar growth based at current exchange levels will be higher in our view.

In the last fiscal year, we delivered an adjusted EBITDA margin of 18%. This year, we continue to target an adjusted EBITDA margin of 19%. And we believe we will end the year between 18.9% to 19% adjusted EBITDA margin. This will require another sequential expansion in the adjusted EBITDA margin in Q4 over Q3 by around 130 bps and we are working towards that.

To sum up, we expect consolidated revenue to grow around 37% in constant currency terms, and adjusted EBITDA to grow around 44% in CC terms for the year. Fiscal year '22 continues to promise to be a landmark year in our 40-year history. We believe that our growth this year has set us firmly on the path to be a billion dollars plus IT services firm next year. The significant and concurrent jump in both revenue and adjusted EBITDA margin during a supply constrained year, a structural change in our cost structure with an improvement in both offshore-onsite mix and the operating pyramid, continued broad-based growth, significantly augmented employee headcount, strong growth with our top clients, material attrition in the Fortune 1,000 clients numbers, sustained large deal wins, an ability to onboard senior talent at scale, successful integration of acquired businesses and attrition below industry average, we believe set us up very well to continue on the path to robust, sustained and profitable growth in the years to come.

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

Moderator: 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, while you very clearly are confident of a billion-dollar roadmap for the next year and the kind of margin we are reporting all set to be very positive, there are a couple of things which investors are always wanting to know. Do you also see that this high growth demand environment is going to be there for a longer period of time and it is not a short period of time the way we think? Number two, if you see the digital portion of the businesses are becoming substantial, because the structure of the deals have changed in the last two, three years, and the way digital spends are driving revenue for the enterprises, you think that digital at any time can start decelerating or leave aside the base effect, but the proportion of the business will be substantial going forward in next two, three years, maybe 80%, 90% of the overall business and even if that grows at 20%, 25% versus 35%, 40% now, then, structurally, we're moving in a trend where growth will keep on surprising positively, do you believe it is a possibility? Finally,

how difficult is the supply side situation? Has it started to show signs of peak bend behind, or you think peak bend will probably be next quarter or current quarter, what is your sense on that?

Sudhir Singh:

Thank you, Sandip, for all the three questions. Let me take them in order.

As far as the first question around demand environment and the demand outlook is concerned, we continue to see no slackening in the demand environment from what we've seen over the past few quarters. We also believe at the same time that robust sustained growth in the future will also come from factors besides just the demand environment being positive. Where we stand today, we have \$701 million 12 month booked orders compared to a number that was only \$501 million in the same quarter last year. That gives us confidence. We also derive confidence from the number of large deals signed, and the fact that a lot of those deal ramp ups have really begun around the middle of the current fiscal year. There should be a step jump next year from that factor. In the case of revenue, still 18% to 19% comes from the travel, transportation, hospitality sector and we expect another bounce back and another fillip next year as the sector bounces back in calendar year 2022. Of course, the fact that the roster of clients now has 60-plus Forbes Global 1000 clients, the fact that the farming engine is doing very well and the number of \$10 million clients has doubled over the last few years, the fact that our client concentration is low, and we are not banking on one particular client to drive growth, the fact that growth continues to be broad-based across our businesses and importantly the fact that order intake this year in the first three quarters cumulatively is 9% higher than what it was all of last year, gives us comfort both around the growth outlook, and also the demand environment which is positive. So, that's the answer to question one. Question two around digital expanding. If you look at the last five-odd years, I did call out the fact that across the five service lines - product engineering, data, cloud, intelligent automation, enterprise integration, revenue numbers are already at 72%. We do not have a material legacy service line, like a big portion of our revenue coming from mainframe. The remaining 27% out of the remaining 28% of our revenue which comes from ADM is increasingly being pivoted to a product engineering first mindset. I suspect at some point in time, it will be really very difficult to call out any portion of the revenue that we have as a quasi-legacy or legacy revenue. For the portion that we are calling out as 72%, the five service lines, we see strong growth going forward across them as well. Third, as far as the supply side situation is concerned, we expect attrition in Q4 may be marginally higher, but more or less very close to what we've already experienced in Q3. We haven't seen a slackening on the supply side pressures, but we haven't seen a very material increase on those fairly substantial pressures from the previous quarter. You would have noticed that despite the supply side pressures, we've been able to manage margins, actually grow margins materially sequentially and we continue to be able to hire at scale. This quarter itself the headcount has gone up net on the technology services side by 7.5% sequentially.

Moderator:

The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah:

Sudhir, just wanted to understand when you have given a guidance of 37% in constant currency US dollar terms, if I assume a 50-basis points kind of a cross-currency tailwind, it comes to

37.5% for the dollar terms. So, in that scenario, Q4 implied growth could be 5.5%. So, am I mathematically correct because Q4 generally we have a seasonal strength coming out of WHISHWORKS related revenues also? Question number two is in terms of your Q4 adjusted EBITDA margin could be 20.8% which would be higher than your full year margin of 19%. So, it seems that your upward journey in margin may even continue in FY'23 as well. Can you share some outlook about the growth because some of your mid-cap peers have been indicating confidently that more than 20% growth is likely even in FY'23 on organic basis?

Sudhir Singh:

Thanks for the question, Sandeep. I don't have a ready translation of the annual CC growth into the USD number. So, I can't confirm the 50 bps upside that you are talking about. In CC terms, the 37% that we have offered is a number that we feel very confident about. And as always, as in the past, the intent will be to reach that number and again the attempt will be to exceed it. That's how we see the revenue growth numbers and the guidance. As far as Q4 adjusted EBITDA of 20.8% is concerned, that calculation is correct. Even the 19.5% that we registered in Q3, is the highest ever over the last 10-years. So, that 130 bps is going to be a very smart further fillip on where we have landed already. That calculation around 20.8% I can confirm is correct and is a number we are going for and we will attempt to reach in Q4. As far as growth is concerned, the intent is to drive very robust growth. We are not at a stage right now where we can offer a hard number as a +20, -20 or 20 at this stage. But everything that I talked about, the 12-month booked orders, the fact that large deal ramp ups signed this year are still happening and will be a fillip, the fact that in our case travel is 18-19% of our revenues and that industry clearly is poised for a smart demand rebound, the fact that farming is doing well, the fact that client concentration is low and hence to that extent we feel de-risked, the fact that all businesses are doing reasonably well and very well, gives us comfort that next year should be a solid year. If you look at this year, I have already offered you information that we will in organic CC terms grow 24%. This was a good demand outlook year. Last year through the pandemic, if you were to take out the stressed travel vertical we had grown about 18.4%. So, the intent will continue to be to drive robust growth.

Sandeep Shah:

Is it fair to say 4Q has a seasonal strength because of WHISHWORKS that may continue in this year as well. And when you say 37% CC growth, is it in dollar terms or is it in INR terms?

Sudhir Singh:

It's in constant currency terms.

Sandeep Shah:

Okay, 4Q will have a seasonal strength because of WHISHWORKS?

Sudhir Singh:

WHISHWORKS, AdvantageGo, the erstwhile Incessant which is DPA, they've all been fully integrated, I do not believe that we will see the kind of ups and downs that we were seeing earlier. It will be a smoother gradient than what you've seen in in WHISHWORKS in the past.

Sandeep Shah:

There was a delay in booking of the AdvantageGo license revenue from 1Q to 2Q to 3Q. Is that done or there is something which is still pending in terms of license revenue booking which can come in 4Q as well?

Sudhir Singh: The AdvantageGo license revenue from the previous quarter came but AdvantageGo has sequentially declined over Q2. So, the fact is that our margin has done well despite the fact that we expected AdvantageGo to be a margin fillip but that did not translate, that did not come in. AdvantageGo today is of course a very important part of our overall portfolio, but it is only 3.5% of our aggregate revenues as we stand. The pending revenue from Q2 did flow in but Q3 what we expected was still not materially realized. The revenue growth numbers that I called out, equally importantly, the EBITDA growth has come despite those assumptions not playing out. Our attempt is in Q4 over Q3 to drive a sequential growth that should again hopefully provide a fillip to growth numbers and to the EBITDA expansion plan.

Ajay Kalra: The 37% growth year-on-year we are talking about is on a constant currency growth. From a dollar perspective, it will be higher, and the final number will be dependent upon how the dollar behaves in the next couple of months.

Sandeep Shah: That's why I asked, if I assume 37.5%, then dollar numbers implied growth comes to 5.5%.

Ajay Kalra: We can't confirm that as the dollar will behave the way it will behave.

Sandeep Shah: I understand. So, I think 37% number which you are saying is in dollar terms, CC, right, not INR terms.

Ajay Kalra: It's constant currency basically assuming all the currencies remain at the same level as of last year.

Moderator: The next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sudhir, just taking cue from the last question, what is the outlook on the insurance sector going forward, not just from a quarterly perspective, but let's say FY'23 perspective itself, do you see this vertical recovering meaningfully, AdvantageGo also to become start basically reporting growth in a decent manner, how are we looking at this sector over next quarter and the next three to five quarters?

Sudhir Singh: We expect insurance to do well for us and to perform strongly. Even in the current quarter, I did call out the fact that AdvantageGo which is about 20% or slightly lesser of our insurance portfolio saw a sequential decline in the holiday season. But overall, the insurance core services business has grown more than 6% sequentially in Q3. The core insurance services business continues to do well. AdvantageGo is likely to bounce back, and we feel positive about the insurance vertical. We have also been adding very strongly both to the senior SME pool and the senior leadership pool in the vertical because we feel good about this business and the growth prospects for this vertical continue to be strong.

Vibhor Singhal: Is there any reason that AdvantageGo is showing the kind of weakness that it is or is it something related to the overall maybe the industry or seasonality?

Sudhir Singh: We have had two quarters of sequential decline in AdvantageGo and we expect that to reverse in Q4 right now. This is a business where revenue recognition is contingent on licenses getting signed and that signing process normally is delayed by prospects till the last week of the quarter. So, there are some ups and downs that happen, as a consequence of when the license gets signed. Currently, we believe that next year this business will be growing over the current year and even next quarter it should grow over Q3.

Vibhor Singhal: My second question was actually on the margins front. So, just want to understand a bit on the margin walk that you are expecting going forward. So, as our guidance is that we maintain the 19% pre-RSU margin guidance, and as you mentioned that we were around 130, 140 basis points expansion on a QoQ. So, that means we will probably touch somewhere let's say 20%, 21% kind of EBITDA margins in Q4. So, just wanted to check that, thereafter, how do you see the margins playing out – do you think we can sustain those kinds of margins going forward after that as well? And what are going to be our acquisition costs next year?

Sudhir Singh: Vibhor, I am going to request Ajay, after I respond to the first question to give you a sense of the acquisition costs for next year. Let me start off by commenting on the margin question. We do expect to get to 18.9% to 19% adjusted EBITDA for the full year, which does imply an around sequential expansion of another 130 bps. We see eight levers to accomplish this. We are working across all the eight levers to get to the sequential expansion that we've indicated. Those eight levers are one, the fact that ramp up of the large deals from Q1, Q2, Q3 continues and the offshore factory as a consequence, should continue to grow. That's lever one that we're looking at. Lever number two that we are focused on is the upside that we are likely to get, as a consequence of the AdvantageGo business growing sequentially next quarter. Number three is the fact that quarter four will not see the holiday related furloughs that quarter three saw. The next lever that we're looking at is of course the fact that the number of billing days in quarter four, outside of furloughs, is going to be more than the number of billing days in quarter three. We do anticipate currently, in quarter four an increase in sequential utilization, that number should jump that's the other lever we're looking at. Also, in the background is the other lever around operating leverage that comes from higher growth. And the final lever, the 8th lever in play from our perspective is the delivery pyramid continued flattening, with the number of campus hires this year, being six times of what it was two years back and I would venture to say more than three times than what it was last year. So, those were the eight levers basis which we think there will be strong sequential expansion on adjusted EBITDA margin in Q4 over Q3.

To the other part of your question around to what extent is it sustainable, it's a little early for us to talk about how sustainable this new level is. But we feel good, we feel actually very confident about what we've created. If we do exit quarter four of the current year at around 20.8% adjusted EBITDA, and you contrast that with where we exited last year, last year our exit on adjusted EBITDA was at 18%. So, it's a very material restructuring of the cost structure and the margin profile that has been done through a very, very difficult year. We would expect some of it to flow through. But we'll be able to offer a clearer outlook at the end of this year when we talk

about next year in total. Finally, I'm going to request Ajay, Ajay can you please address the question around acquisition related costs?

Ajay Kalra: Sure, thank you Sudhir. Vibhor, for the acquisition related costs if there are no new acquisitions, which we may do for financial year 2023, the acquisition cost will be zero.

Vibhor Singhal: Right. So, the entire SLK related cost will be basically consumed in this year itself and nothing in the next financial year?

Ajay Kalra: That is correct.

Vibhor Singhal: Great, thanks. If I can just squeeze in just one more question, could you be able to give an update on the timeline and what is the current status of our ADR issue and where we are in that process and when can we expect that process to complete?

Sudhir Singh: Yes, absolutely. So, we are proceeding with our plans to list in the U.S., and we have publicly filed a registration statement on form F1 with the U.S. SEC. When we actually trigger that and when the event actually happens will of course be subject to market considerations and to other factors including approval from the board. So, that's where we stand, we are proceeding with our plans as of now as I called out.

Vibhor Singhal: Okay, but you wouldn't be able to provide a timeline as to when that would close out as of now?

Sudhir Singh: From a timeline perspective Vibhor, in the U.S. we are not running against any regulatory deadline for the listing. We do have to refresh the F1 as and when required by the SEC. And in India, we will continue to seek approvals on the timeline as required under the local regulatory framework. There is no deadline to when that process needs to complete. But we are proceeding with the plans to list and that public filing and the registration statement on form F1 with the U.S. SEC has been done.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: My question on margins has been answered. I just wanted to understand the guidance a little bit better, just a organic and inorganic contribution really. So, if I were to look at the organic guidance you said about 24% is the growth which will need lead to about \$780 million, and your inorganic guidance will lead to about \$862 million so to say. Now, that means that the SLK will probably do \$81 million of revenue in FY22. Is that calculation correct?

Sudhir Singh: Vimal, SLK will do significantly better than 81 million this year. This year we are only recognizing 11 months of SLK revenues because the acquisition was consummated at the end of April. Last year SLK, as a firm had registered revenue of \$73 million. We had guided in the past that the SLK business this year will grow at least 22% and we remain committed to it. It will grow at least 22% almost in-line with the 24% guidance for the aggregate firm. So, it's not

\$81 million, it's a higher number. \$81 million is going to be the broad number for 11 months of revenue.

Vimal Gohil: Okay. So, FY23, will be materially better number because of one more year of additions plus you expect the growth to continue, would that understanding be correct?

Sudhir Singh: That's absolutely correct Vimal. As we look at the SLK acquisition, we feel very pleased about it, we feel very pleased about the demand outlook that we are seeing for next year. And indeed even for next quarter for that specific business. So, you're absolutely right on those counts.

Vimal Gohil: Would you want to share the contribution from SLK this quarter?

Sudhir Singh: SLK is the only business where we will be calling out their performance. Ajay, can I request you to share information for this business because the other have all been integrated fully. Ajay, can I request you to share those numbers?

Ajay Kalra: Yes. Thank you Sudhir. The SLK contributed \$22.4 million in the current quarter.

Vimal Gohil: And just to confirm, last quarter it was around 22.3?

Ajay Kalra: It was 22.2.

Vimal Gohil: So, it has been flattish on a quarter-on-quarter basis, which I would assume is probably because of seasonality or are there any other takeaway?

Ajay Kalra: No major issues, its transaction-based business with low number of days and hence lower revenues. And as Sudhir had indicated, we believe that we will have a sequential growth in quarter four.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Sudhir two questions, one in terms of sales and marketing, we've seen a pretty good leverage play out in sales and marketing over the last year. So, what's driving that and secondly, what explains the 5% reduction in sales and marketing headcount this quarter. And the second question was in terms of ESOP charges, we were at close to 1%, in terms of ESOP charges, how do you see that playing out in the next year?

Sudhir Singh: Sure, thanks for both the questions, Ashwin. I'll take question number one and I'll request Ajay to take question number two. Sales and marketing, Ashwin, we continue to invest very, very strongly and one of the things that we didn't reference in my upfront commentary was the fact that this EBITA expansion is happening despite a very strong investment, both in front end sales and also in capabilities. If you look at the number of folks that we have in the front-end sales, pre-sales activities, that number is roughly around 280 as we speak now. Same quarter last year,

that number was 180. So, on a gradient basis, it's been going up very strongly. And the third quarter FY'22 number could be a blip. Most offers that you make in and around the holidays really see people joining post holidays. We have been committed and we remain very strongly committed to both increasing the number of folks that we have at the front end and making sure that there's a very definite caliber improvement. This quarter has seen us hire two Executive Vice Presidents. And as you know, overall, we have only about 12 to 13 EVPs. Both of them have joined in the markets. I'm going to request Ajay to address number two please.

Ajay Kalra:

Thank you Sudhir. Ashwin, for the current year, we believe our cost of ESOP would be 85 basis point, though we have seen an increase in quarter three. That is one time blip which we are seeing because of certain exercises that happened in quarter three. We expect this number to be lower in quarter four, taking the full year estimate to be 85 basis points.

Ashwin Mehta:

And how do we see this playing out, going into the next year do you think it can stay stable or we expect that to come off?

Ajay Kalra:

We believe that this number will go down by 10 to 15 basis points.

Ashwin Mehta:

And Sudhir just one question if I can squeeze in, in terms of travel how are you seeing the outlook going forward and any impacts near term because of Omicron or that's not necessarily there?

Sudhir Singh:

So, Ashwin travel has bounced back smartly already. Year to date first nine months, we are higher than where we were not just year to date last year but also year to date, fiscal year 20. Year to date this year travel business for us is higher than where it was pre pandemic. As we look forward, we do recognize that a lot of our recovery has happened from new account openings and from wallet share expansion in the existing clients that we had. There are clients, particularly European clients, where the business recovery has not been to the extent that we and they had anticipated in the current fiscal year. They are likely to bounce back on the IT spends aspect next year. So, that's a tailwind that we believe is still reserved for next year. Overall travel has executed a smart bounce back. Every other commentary that we have, all the other analysis that we've seen, again for the travel sector next year is projecting strong growth. Some of the broader drivers for that industry, of course, are purpose driven trips, the value that is now being placed around vacation time and the increased investment that's being done on crafting unique experiences. Also, Ashwin there has been an accelerated investment in digitalization with the focus on streamlining passenger journey experience.

And the latest report from SITA which also happens to be one of our clients, did talk about the fact that 85% which is a very high number for this industry, 85% of the CIOs and CEOs expect IT budgets for airlines and airports to expand sequentially in 2022 over 21. Overall, we feel very good about the fact that we are where we are on a YTD basis. And we do expect travel to register strong growth on a go forward basis as well.

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

Satwik Jain: So, I had a couple of questions. So, now that say in the next one, one and a half years, we'll be crossing the billion dollar run rates. So, how do you see the new possibilities coming up. And the second one was a bookkeeping question, that if you see the current tax rate was around 17%.

Sudhir Singh: Mr. Jain your line is not very clear. Would you mind repeating the question, please, you're breaking up a little.

Satwik Jain: So, basically, within the next one, one and half years, you would be crossing the billion dollar mark in revenues. So, how do you envisage the new deal wins or the new growth spectrum post that. And the second one was a bookkeeping question, that the current tax rate is coming around 17% which is lower in absolute numbers also, compared to year-on-year, as well as last quarter so could you shed some light on that. These were two questions from my side.

Sudhir Singh: Sure Mr. Jain, I'll take question number one and Ajay is going to address question number two around tax. It definitely could be a billion dollar plus in the next fiscal year. And everything that we have, by way of the 12-month order confirmed, by way of the large deals ramp up that we are looking at currently, by way of the fact that key accounts are scaling up very fast and the number of 10 million clients has gone up, by way of the fact that client concentration is low and hence we are not reliant on one particular client to drive growth which would pose a potential risk, the fact that all businesses seem to be on a very even clip, the fact that we've invested as much as we have in the front-end and in the back end capability makes us feel good that we should grow strongly. We have always said this over the last five years, that the primary focus of the firm is growth. And that's not going to waver when we grow beyond a billion dollar as well. We will continue to focus on attempting to deliver very robust, sustained and profitable growth going forward. Ajay can you address the tax rate question please.

Ajay Kalra: Sure. During the quarter we had recorded a benefit of INR 142 million, pertaining to a deduction available under Indian income tax laws. This is in respect to the dividend income received from our foreign subsidiaries. And that is driving the tax rate for the current quarter lower. This benefit includes for one year nine months, so therefore that drop is significant for the current quarter. Does that answer your question.

Satwik Jain: Yes, that was very helpful. So, it won't continue in the future, the dividend income benefits?

Ajay Kalra: It would continue but not at the same rate.

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

Abhishek Shindadkar: Just a couple of questions, you mentioned about some senior hires in your earlier comments. Can you just add any color in terms of service lines, verticals, and which organizations they are

coming from, anything you can elaborate? The second is on largely pipeline, how is it compared to last quarter and same time last year. And the third is a follow on to that is, in terms of joint events with SLK any color on that in terms of how it is progressing related to our assumptions when we acquired. Thank you for taking the questions.

Sudhir Singh:

Thank you, Abhishek. Let me answer all three questions in order. Senior hires as I said, we continue to hire senior folks and two Executive Vice Presidents have been hired since we spoke last around three months back. Our Executive Vice President strength should be in the region of around 14 for the company globally. So, these are clearly important additions for us. The first leader has come and is going to straddle global sales across the BFS and the BPS business, which is the erstwhile SLK business. The SLK business had a very strong bias towards BFS. We have hired this gentleman to be the Global Head of Sales for the BFS vertical reporting into the current business leader and also reporting to the current BPS business leader. So, that's the first hire. He was the transformation head of one of the largest BFS BPO players globally. That's his profile. The second leader has joined us and will run the insurance North America business reporting into the current insurance business leader. He again comes in with about two and a half, close to three decades of experience with tier one organizations. We've always had a very strong bias over the last five years as we've recreated the management team to hire people from tier one organizations. These are people who've seen scale, feel comfortable with scale, and can help scale up and grow businesses rapidly. So, both these two Executive VP hires are in line with that. In addition, we continue to hire other very senior leaders. Many SVPs have been hired both at the front-end and at the back. That's how I would characterize the hiring, Abhishek.

As far as large deal pipeline is concerned, if I reflect back on the current year, we signed a \$100 million plus, four-year eight-month contract in Q1. Followed that up in quarter two with two \$50 million plus contracts. We've signed the \$45 million plus contract in quarter three, which as all of us know is a shorter quarter. The pipeline is robust. We are seeing growth not just come from short duration deals. That of course is there because the general environment is bullish. But we have continued to stay very focused on figuring out a way of carving out large deals as well, because that is what is allowing us to ramp up our offshore factory, structurally change our cost structure, expand EBITDA despite all the ambient pressures around supply side. We feel good about the pipeline that we have, the recreation of the front-end that is an ongoing process, the investment that has been made. and I talked about it 280 odd people today versus 180 odd just four quarters back, again is what is helping us do that.

Finally, as far as SLK is concerned, as I noted, we expect SLK to grow broadly in-line with the rest of the organization for which I've already called out an around 24% organic CC growth. SLK has grown very smartly, they've grown completely in-line and I dare say higher than what we had expected them to grow when we were initially looking at this transaction. The other important aspect about the SLK, now the Coforge BPS business, is the fact that we expected it to be EBITDA accretive to the rest of Coforge. And despite the increase in the firm's EBITDA profile, it still continues to be EBITDA accretive. So, we feel very, very good about that

acquisition. And as Ajay and I have noted, even in quarter four we believe there's going to be a material upward blip on the revenue side in that specific business.

Cross sell has been very promising. As I said the new EVP who's been hired over the last 90 days is going to straddle the erstwhile SLK, now Coforge BPS business, and our BFS vertical, and be the joint sales leader for both. There's a clear and very significant joint pipeline that is in play, which is why we brought him on board to make sure that this transition goes through.

Moderator: Thank you. The next question is from the line of Shradha Agrawal from AMSEC. Please go ahead.

Shradha Agrawal: Just two questions. Can you give us some more information on the large deal that we signed this quarter the \$45 million deal in the Europe region?

Sudhir Singh: Yes, Shradha thank you for that question. The large deal that we signed in this quarter Shradha was signed in Europe, it was signed with a public sector institution. It's slightly north of \$45 million and is a six-year contract that we've signed. Normally our large deals are between three to five years. This is a public sector transaction. It's a six-year contract. \$45 million. Europe based.

Shradha Agrawal: And the execution will start from 4Q itself?

Sudhir Singh: Absolutely.

Shradha Agrawal: Okay. And would it be possible for you to give out the number for AdvantageGo in this quarter as well as last quarter what was that number?

Sudhir Singh: Shradha, we are calling out numbers only for all entities that have not been merged fully with Coforge. So, AdvantageGo, WHISHWORKS both of them got merged as was Incessant in the past. We will continue reporting the service line numbers for BPS and for product engineering, where SLK and AdvantageGo fall respectively. We won't be calling out standalone numbers.

Shradha Agrawal: But just qualitatively, if you can indicate what was the extent of decline in AdvantageGo in this quarter because it did indicate that it declined even in this quarter on a sequential basis. Was it a double-digit kind of?

Sudhir Singh: I can, absolutely Shradha. As I said the insurance services business grew more than 6% for us. AdvantageGo is now roughly about 2.5% of our consolidated revenues. So, it's obviously an important differentiating business. But it's not a scale business from our vantage. That saw sequential decline in quarter three, which we expect to reverse in quarter four.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to Mr. Sudhir Singh for closing comments.



*Coforge Limited
January 27, 2022*

Sudhir Singh:

We'd like to end the conversation by thanking you once again for your interest, for the comments that you have offered and for the insights that you've shared. Your questions always make us reflect on where we are headed, what we need to tweak, what we need to focus on. I know, a call this early morning specially for folks on the East Coast is always a little difficult. As it is because it's late evening for the folks across Asia as well. So, thank you once again. And we look forward to speaking with you three months from now.

Moderator:

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