"Coforge Limited Q3 FY23 Earnings Conference Call"

January 20, 2023.

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY23 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Agrawal – Head of Investor Relations and M&A at Coforge Limited. Thank you, and over to you, sir.

Ankur Agarwal: Thank you, Faizan. A very warm welcome to all of you. And thank you for joining us today for Coforge Q3 FY23 earnings conference call. As you are aware, we announced our Q3 results today. These have been filed with the stock exchanges and they are also available on the investors section of our website, www.coforge.com.

I have with me today our CEO, – Mr. Sudhir Singh; our CFO – Mr. Ajay Kalra; and our Chief Customer Success Officer – Mr. John Speight.

As always, we'll start with opening remarks from our CEO, and post that we'll open the floor for your comments and questions.

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

Sudhir Singh: Thank you, Ankur.

A very good morning, good afternoon, and good evening to all of you across the world. At the outset let me wish all of you a very healthy, happy, and meaningful New Year.

With that, I shall now share our Q3'FY23 performance and the business outlook.

Q3 this year has been a very strong quarter for the firm despite the fact that it was the shortest quarter and a furlough ridden quarter. In this quarter, we signed five large deals which is the highest number of large deals signed in any quarter in the history of our firm. Our quarterly order intake for the firm again has been the highest recorded ever. Our utilization jumped 300 bps sequentially, our attrition levels came down further to 15.8% and they are probably one of the lowest or the lowest across the industry. And finally, our 12-month executable signed order book stands at $841 million and that again is the highest ever.

With that context, I shall now take you through the quarterly performance and our assessment of the outlook.

QUARTERLY PERFORMANCE – REVENUE ANALYSIS

I am pleased to report that during the quarter, the firm registered a sequential revenue growth of 3.7% in constant currency terms. In USD and INR terms, the growth was 2.0% and 4.9%, respectively.

The 170-bps difference between the constant currency and $ growth was on account of 70 bps of hedging losses and 100 bps came from cross-currency headwinds.

On a YTD basis, at the end of the first nine months of the current fiscal, the firm has grown 22.9% in cc terms, 24.6% in INR terms and 16.3% in USD terms. On a YoY basis, the firm has grown 20.7% in cc terms, 24.0% in INR terms and 13.6% in USD terms.

I shall now detail vertical-wise growth for the quarter under review.

During the quarter, the BFS vertical grew by 39.3% YoY in cc terms and contributed 31.1% to the total revenue. This strong growth came despite the impact of very considerable softness in our BPS mortgage portfolio. Our Travel vertical grew 25.6% YoY in cc terms and contributed 19.3% to the revenue mix. Insurance vertical revenue declined by 6.8% YoY in CC terms and contributed 22.1% to the Q3 revenue. Others vertical grew by 24.1% YoY in cc terms and contributed 27.4% to the revenue mix. Within the Others vertical, Retail & Healthcare now stands at about 8% of global company revenue and Public Sector (outside India) stands at around 7%. These two verticals are the probable next two global verticals that the firm will carve out over time.

Within the geographies, Americas contributed 49.2%, EMEA contributed 40.3% and Rest of the World contributed 10.5% to the revenue.

The farming engine of the firm continues to drive the growth of our top customer relationships. We continue to very successfully mine our key client relationships under a structured enterprise-wide key accounts program. In Q3, our Top 5 customers grew 5.4% sequentially and Top 10 customers grew 3.5% sequentially in USD terms. Our top 5 clients contribute 23.9% to our aggregate revenues while top 10 contribute 36.3%. We see the current state of top 10 client relationships offering two distinct advantages. First, as you would have noticed, we are not overly reliant on or overly concentrated in any single client relationship. Second, we expect to significantly expand our wallet share in the top 10 clients given the clear success that our key accounts program has driven for us in the recent quarters.

The offshore revenue saw a further pick up and crossed the 50% mark representing 50.5% of the total revenue in Q3. You would recall that just 9 quarters ago in Q2FY21, offshore revenue was only 36% of the firm's revenue. This has been a structural shift in the firm's operating profile and an important & sustainable margin improvement lever.

With that I shall move onto to the margins and operating profits discussion.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS

Our Q3 gross margin sequentially increased by 133 bps to 33.4%. The significant increase in gross margin in Q3 came about because of (1) offshore revenue contribution increase, (2) a 300 bps improvement in utilization and (3) continued increase in billing of graduate engineer trainees hired directly from college.

We believe, that the structural shift in the gross margin profile of the firm augurs well for a increased margin gradient in the years to come. It takes considerable effort to effect a 14 % swing in offshore revenue contribution which we have done. Again, it takes considerable effort to build a campus hiring engine at scale which is now in full play at Coforge, and it took considerable effort to move the needle on utilization by 300 bops in a seasonally short, furlough ridden quarter which we have achieved. Today, we have another 1000 Graduate Engineer Trainees who are undergoing training and as they become billable over the next four quarters that should provide a further gross margin fillip.

It is important to note that our gross margin increase has been driven by the three efficiency levers noted above and not by currency tailwinds. The entire tailwind on margins on account of rupee depreciation was wiped away by the hedge losses sustained during the quarter. That hedge loss of INR 129 million during the quarter created a headwind of ~60 bps on the margins.

As we have shared in the last two quarterly calls, we are investing aggressively in the front-end leadership and capability build to further drive accelerated growth. As a result of these investments, SG&A as a %age of the revenue for the quarter was 14.9%, almost a 121-bps increase over Q2 FY23. Despite these very significant investments, adjusted EBITDA margin increased to 18.5% for the quarter.

The consolidated profit after tax (PAT) for the quarter stood at INR 2,282 million, which reflected an YoY increase of 24.2% in INR terms.

ORDER INTAKE

The shortest quarter of the year has proved to be the most productive for the firm, both in terms of number of large deals and order intake registered. We closed 5 large deals during the quarter which is the highest number ever recorded in the history of our firm. One of these was a $50+ million deal within the insurance vertical. Our order intake of $345 million during the quarter was again the highest quarterly intake for the firm.

The $50+ million TCV deal was structured with a specialty insurance carrier to support its core systems upgrade as well as servicing and building capabilities in newer areas of operations. Another $30 million TCV deal was signed with a banking major. This deal was anchored by our Data & Analytics service line and involves advanced analytics in Financial Crime and Fraud management, BI/Reporting and Platform Modernization for the next 3 years.

Americas contributed $208 million, EMEA $113 million and rest of the world $24 million to the overall order intake.

Our executable order book, which reflects the total value of locked orders over the next 12 months, stands at a record high of $841 million compared to $802 million in the previous quarter. This metric, which we track closely and have reported quarterly over the last five years, is also indicative of strong expected growth beyond just the current fiscal year.

We also signed 11 new logos during the quarter.

PEOPLE

At the end of Q3, total headcount stood at 22,505. The quarter saw an increase in utilization by 300 bps and as a consequence we were able to deliver the volumes with a marginal decrease of 138 people in Tech services.

Attrition during the quarter further declined to 15.8% in Q3 from 16.4% in Q2. Employee attrition at Coforge continues to remain amongst the lowest, and probably is the lowest, across the IT services industry.

I would now handover the call to John Speight, Chief Customer Success Officer, for providing insights into our Operations and Capability creation. John joined the firm around 5 years back, shortly after I did, and I have had the pleasure of having him as my colleague over the past 12 years across organizations. He currently drives our Customer Success function and oversees Key Accounts growth and Consulting Capability build agenda.

Over to you John.

John Speight: **DELIVERY OPERATIONS**

Thank you, Sudhir.

I will now touch briefly on our key delivery operation highlights. As you are aware, effective delivery execution has and continues to be a core part of our customer value proposition. During this quarter we have had a number of successes which I will touch on today.

In our Insurance business, we successfully implemented an automated underwriting solution for a large US based customer. This resulted in significant reduction in time taken to issue policies and corresponding reduction in cost.

For a global specialty insurance group with offices across US, South America, UK and Europe we have been chosen as their global strategic partner to work with them in their Digital Transformation programs. This encompasses the run, build and transform across all of their systems, and will leverage our end-to-end services, spanning capabilities such as consulting, digital, data & analytics, cloud and automation.

Before I move on from Insurance, I just wanted to let you know that we were recognized for the first time in the recent Everest Peak Matrix for Application & Digital services for both P&C and L&A insurance segments. We were classified as a star performer in the major contender segment.

Moving on to Banking & Financial services. We have successfully completed a very large transition from the incumbent provider at a tier 1 bank. With the transition completed we have now embarked on transforming the delivery to outcome-based services models. The partnership with the bank has grown on the back of our delivery excellence and we are moving up the value chain. One such example is the modernization of their Business Intelligence platforms that provide advanced analytics services in areas such as financial crime and fraud.

In Travel, Transport & Hospitality business we have successfully partnered with one of the global airlines to improve their customers experience when using kiosks. We have now rolled out the new kiosk platform at 25+ airports worldwide & are currently planning the rollout for a further 20 airports. The new kiosks support 12 different languages and have helped improve the customer experience by significantly reducing the self-service check in time.

We continue to explore & invest in emerging technologies, our metaverse COE is now operational. The Coforge Metaverse experience center is a virtual reality space that is being used to demonstrate use cases across industries. We have also embarked on a program to use the metaverse for our leadership assimilation programs and employee onboarding here at Coforge. A great way to deliver value while we build up our metaverse capabilities.

Finally, we recently announced a partnership with the Mack Institute for Innovation management at the Wharton Business School. The Mack Institute supports both industry and academic communities, helping to apply innovation research into real-world deployable solutions. This partnership will help re-enforce our efforts to enhance our technology capabilities and to help us deliver value-add solutions to our customers.

I would now like to handover to Ajay for further details on the financials.

Ajay Kalra: **FINANCIALS**

Thank you, John, a very happy new year to everyone.

Let me very briefly touch upon the key balance sheet and tax metrics. Our Cash & bank balances at the end of Q3 FY23 stood at $49.5 million, compared to previous quarter balance of $50.3 million. Capex spend during the quarter was $5 million. The days sales outstanding were 73 days in Q3 versus 70 days in Q2, in the INR terms. In USD terms, DSO days were 68 days for Q3 compared to 66 days in Q2. The Effective Tax Rate (ETR) for Q3FY23 was at 23.3% as compared to 17.7% in Q2. You may recollect that we had a one-time benefit last quarter that we got from one of our foreign subsidiaries, where we were able to take the benefit of net operating losses. Our normalized effective tax rate for Q3 is around 21.5% and ETR will continue to be in the range of 21% to 22%.

The Operating Cash Flow (OCF) for the three months ended 31st December 2022 was $30.4 million which is about 69% of the EBITDA. The OCF was impacted due to collection for one of the large customers coming in the 1st week of January and which has also impacted the DSO by 5 days.

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

With that I will hand over the call back to Sudhir for his comments on outlook.

Sudhir Singh: **SUMMING UP AND OUTLOOK**

The five large deals signed during the quarter, the highest order intake in any quarter in the history of the firm and finally the highest 12 months signed order book in the history of the firm gives us confidence in our ability to drive sustained, robust growth in the coming quarter and in the coming year despite the uncertain macros.

The fact that the farming engine across the key accounts is delivering sustained, de-risked, robust growth, the change in our client portfolio mix where we today have 60+ Forbes Global 1000 client relationship to farm further, the aggressive investments in Sales, Marketing, tech and functional capability build that we are making allied with an improving margin gradient that allows us to invest further give us further confidence in that assertion.

As a consequence, we are upgrading our full year revenue guidance to 22% organic CC growth, and we maintain our adjusted EBITDA annual margin guidance.

With that, I conclude my prepared 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. Anyone who wishes to ask a question may press "*" and "1" on your touch tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2." Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants connected on video link, please click on raise hand icon to ask a question. Participants connected on audio, please press "*" and "1" to ask a question. We will wait for a moment while the question queue assembles.

The first question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Hi. Thank you, gentlemen. And congratulations on a pretty good quarter. Sudhir, you said that there were significant headwinds in BPM, but despite that you seem to have grown there -- sorry, no, this mortgage was a headwind. What are the other parts of BPO that actually did grow?

Sudhir Singh: No, I said that there were significant headwinds in BPS mortgage, Ravi, and the numbers that I called out were for the BFS portfolio, which includes the BFS BPS portfolio. The mortgage business saw a considerable decline but given the very significant momentum that we have ongoing across our broader BFS portfolio, it continues to power ahead with the speed that it has been over the past few quarters.

Ravi Menon: Thanks, Sudhir. But I was saying that specifically BPM itself seems to have grown from like 25.7 million to 28.8 million. So, are there parts of BPM that is still growing?

Sudhir Singh: BPM is growing, but it's the aspects of BPM, the parts of the business across BPM, which are not on the mortgage side are doing very well. We've talked about this in earlier calls as well, Ravi, the cross sell is moving very well. We've been able to make forays into the Travel BPO space. We've been able to very aggressively start getting into the analytics space, which is an allied area. We've been able to cross-sell very effectively in the Insurance space with the BPS offerings, which for the acquired entity SLK were initially only on the BFS side. Interestingly, in this quarter, in the BPM business, we also signed a $20 million plus deal. So, one of the five large deals that I talked about was a BPM led deal that we closed. Did I answer your question?

Ravi Menon: Yes. Great. Thank you. And one more follow-up on the service line. Data and integration, seem to have done really well over the last year or so. But this particular quarter, we've seen a decline there. I mean is there furloughs or some projects coming to an end. How should we see this?

Sudhir Singh: Most of the business right now on the data side is from BFS. There were very significant furloughs this quarter in the BFS clients that we saw. That's why you see a temporary blip. Data & Analytics, we feel very, very good about. It's really scaled up multiples over the last 2 or 3 years. And we see that growth continuing, hopefully accelerating hereon.

Ravi Menon: Great. Thanks so much, and best of luck.

Sudhir Singh: Thanks, Ravi.

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

Vibhor Singhal: Yes. Hi. Good morning, sir. Thanks for taking my question. And congrats on the very strong deal flow in the previous quarter and this quarter. So, sir, on the deal flow itself, if I could get some color on, as you mentioned, there was a $50 million deal that we booked in the insurance segment, would it be possible to provide some breakup of the $345 million? I mean, how was it in terms of vertical, what would be the number from banking, from travel and from the other verticals?

Sudhir Singh: Vibhor, I provided numbers around the geos. I can give you some more color around the 5 deals and where they came from. Two out of the five deals were from the insurance vertical, which we suspect starting Q4 is going to rebound smartly. One of them was a data & analytics led deal from the BFS space. The fourth came in from the BPM part that I talked about. So, that's broadly where four out of those five deals came from. The geo split is what I've given you. If I look at the current quarter, the quarter that got over, most of the large deals were centered around the BFSI space. They came almost evenly from insurance and from the banking.

Vibhor Singhal: Got it. Got it. That's really helpful. Also just wanted to pick your brains for the guidance part. So, we updated our guidance in this quarter and retained the guidance for margins also. And, in this quarter, of course, the growth was impacted because of the seasonally soft quarter. Given the numbers that we have, that leaves a very large asfor Q4, both in terms of growth and margins. Margins, I know you mentioned that we decided to spend more on the SG&A part this time, which can be recovered next quarter in itself. But I think on the growth part, the required rate for the next quarter comes out to be quite steep. So, I mean, is this the deal flow that we got in this quarter that's giving us the confidence or the overall momentum that you are seeing? And a related question to that is slightly a little bit of a longer term. I mean, how do you see, again, the next couple of quarters play out in terms of I mean the US possibly heading into a slowdown, how the client conversations have been around that? And how do you see the deal mix changing because of that?

Sudhir Singh: Let me take the questions in order. The first one was the question around the growth that we anticipate in Q4. The guidance that we give, Vibhor, and we've always given consistently is in organic constant currency growth. At the end of the first 9 months, YTD, the firm is already growing 22.9%. So, at least 22% constant currency growth guidance by our estimates is a relatively conservative guidance. We believe that we only need to grow, in CC terms, 3.5% to get there. And clearly, given the momentum that we have, given the 5 deals that we've signed, given that we've just grown 3.7% in a shorter, seasonally weak, furlough ridden quarter where mortgage industry was also seeing a very significant drawdown, gives us confidence that we should be able to meet and exceed the annual 22% CC guidance that we talked about. So, that's answer 1 to question 1 coming from you.

The second question from you was, how do we see the somewhat longer term play out and I did call that out in the commentary that I talked about towards the end. And we actually at Coforge believe it's also a good time in the industry when the world is looking at uncertain macros to actually lean into growth. That has underpinned our very strong, very committed, very aggressive investments in sales, marketing, capability build and you're seeing that in the current quarter itself.

So, given the 5 deals, which will now start ramping up, I suspect we'll start seeing the impact effectively from Q1 of next year. This quarter is likely to be a transition. We feel that despite the uncertain macros, despite the fact that there is a lot of ambient noise around what may or may not happen, we've been able to start insulating ourselves from a lot of that conversation. The order executable I told you is the highest ever, the order intake was the highest ever, the number of large deals have been the highest ever.

So, clearly, there's a good ramp for the next few quarters, which hopefully will insulate us, even if some of the worst-case scenarios start playing out. And we should continue to be, on what we've always called out, as robust growth. And I think it's going to be a very good time for us to prove that we can deliver sustained growth even if the market turns. We're looking forward to it. We'll see what happens but we feel good about the future.

Vibhor Singhal: Got it. Got it. Great. Thank you so much for taking my question and wish you all the best.

Sudhir Singh: Thanks very much, Vibhor.

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

Shradha Agrawal: Yes. Thanks for taking my questions. Hi. Congrats on a good quarter, Sudhir. Couple of questions. Our deal wins in insurance has been pretty strong, but somehow that is not reflecting in growth. For the last few quarters, insurance has been on a soft trajectory. So, do you see there is a delay in deals getting converted into revenue or is there something else which is holding back growth rate in insurance. That is question number 1. And then I'll ask the other question.

Sudhir Singh: Insurance, Shradha, quarter 4, which is the quarter that we're already in, we should see the clear turnaround and that vertical, that business for us get back on to a path that it should be. You are absolutely right. This quarter we closed two large deals in Insurance. We have had a large deal closure, if I remember correctly in the previous quarter as well. It takes a little bit of time to transition these deals, to lean into these deals. But Q4, the quarter we are in insurance should be exactly where it's been for us over the last 4, 5 years.

Moderator: The line for Ms. Shradha Agrawal has got disconnected. We'll move on to the next question from the line of Rahul Jain from Dolat Capital. Please go ahead. Rahul Jain from Dolat Capital, please unmute your audio from your side and proceed with your question.

Rahul Jain: Yes. Hi. Thanks for the opportunity, and congrats on strong performance. Sudhir, I am sure you would share the precise guidance for FY'24 in April, but just to understand the math now based on your 12-month order book that is up 20% and also based on multiple conversations with the clients and potential pipeline that the company is chasing, is it safe to assume that we may be able to replicate the current growth momentum at least for next two, three quarters, if not beyond?

Sudhir Singh: It's a, it's a tricky question, and I think you know that yourself, Rahul, as you posed that. We feel good, and I am saying this again, and I wouldn't say this if we did not really feel good about where things stand, right? It's always a very sweet spot to be in when you can get into quarter 4, the New Year is about to start and you have a tailwind of five large deals, which will really start delivering from quarter 1 of next year. Clearly, there is a buffer. You talked about it, the order executable being at 841 million, the order intake being at $345 million that we looked at.

So, the way I would characterize it is, I mean, one doesn't know the future, but everything that we could have done to insulate ourselves from a deteriorating or a significantly deteriorated macro in the quarters to come, we seem to have done a fair bit of it. We feel given our size, we're certainly not a large-scale IT player, we should be a $1 billion IT services firm, growth is as much a function of the ability of the firm to wrest wallet share, especially when things are slowing down by leaning into that opportunity as it is about what is the rate at which the broader market is growing. The broader market is way too big.

We still have a very small piece in that sandbox. We think as things change, we should be able to expand wallet share, and we should be able to drive what I will for now characterize as robust growth. Hopefully, robust growth despite the macros going up or down. And I leave it there, Rahul. I know it doesn't answer the question completely. But that's how I would present it.

Rahul Jain: Maybe, Sudhir, just a suggestion, which may help a lot of us, is that I really appreciate that you came out with your first-ever guidance at the most uncertain time, you know, and which somewhere says that you have some slight edge and the important word you always keep is "at least" in your guidance which is also a rare thing to see which clearly says you have a certain grip or understanding or visibility on the kind of an outlook that you share. So, what if we could, you know, can think of giving guidance on a 12 month forward rolling basis rather than giving an annual guidance? Because that guidance at the beginning of year is far more supportive of the thought, but as the year progress, I mean, having a guidance for Q4 now is not helping as much as it was helping me earlier. So, maybe that's a different aspect which we could work it over the period of time. Just a small suggestion. Thank you.

Sudhir Singh: No, I think it's great, it's a fantastic suggestion, Rahul. Thank you very much for that. And you are absolutely right, the first time we started giving guidance was around the time that COVID struck, and we had very significant exposure to the travel industry, and which is why we thought it was imperative. We like to think we have a very strong execution engine and very strong grip on the business that we step up to the plate and offer that guidance. I take your point.

The only response I will have to you is over the last five years if you look at us, every quarter we call out the next 12 months order book, right, which is what we call out as order executable. And if you look at our growth over the last five years, over the last 20 quarters, there has been a very strong correlation between the order executable graph and the actual revenue recorded over the next 12 months.

So, while we can't, and you will appreciate this, while we can't keep on giving a 12 month forecast, we do try to give some comfort, some indication around how much is already locked in. And I think we have not just a fairly, I'd like to say a very good record in terms of a very strong correlation between the OE (order executable) movement and the actual revenue that comes over the next 12 months. And I will leave you with that thought. But I take your suggestion. And I think it's a fantastic suggestion.

Rahul Jain: Thank you so much.

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

Shradha Agrawal: Yes. Hi. Sorry. Sorry, I got dropped off. Just another question on BFS. Some large IT names have expressed some concerns on capital markets. So, from that perspective, what is our positioning in the capital markets in the overall BFS? And how do we see macros playing out in that segment?

Sudhir Singh: Capital markets buy-side, especially asset and wealth management from our vantage, Shradha, has always been a good happy hunting area. The big change that's happened within our BFS portfolio, what's actually driven growth for us, really stems from that $105 million four-year, eight months deal that we announced about a year and a half back. It's a very significant ramp up in that bank, and very, very significant ramp up in some of the other top 10 relationships that we have.

So, if I were to look at it, if I were to start characterizing how we look at BFS, we still see spends even on the capital markets buy-side when it comes to enterprise-wide modernization. We see a lot of interest coming in around Low Code/No Code, and we see data solutions still in demand. If I were a betting person, we would still like to say that for the next few quarters irrespective of the macros, irrespective of what we are already picking up, irrespective of the fact that in BFS we have seen very significant furloughs in the quarter that closed, that momentum from a Coforge BFS business perspective should sustain. We see nothing as a leading indicator in the pipeline that we have, the locked orders that we have, to indicate that it will go down. That's how I would put it. There are issues. There are headwinds, but then given the momentum we have getting into that we feel good about where we are, and we think it is likely to sustain.

Shradha Agrawal: Yes. Thanks, Sudhir. That's good to hear. Another thing is, of the five large deals that we closed this quarter, was any deal driven by any vendor consolidation exercise taken by any large account? And were we, you know, on the favorable side of it, or any cost take-out deal in the pipeline, the increasing intensity of cost take-out deals versus transformational deals? Anything on the deal pipeline and the deal closure with respect to vendor consolidation, if you can talk about?

Sudhir Singh: Yes. I'm just reflecting on it as you speak. The $50 million deal was a clear vendor consolidation that came in, if I remember right, about $55 million over three years, and that was a win. That was a clear win. The BPM deal was again interesting. Smallish deal, but very material for us, $24 million deal. That again was a vendor consolidation. Cost is increasingly at play. John, you might want to add some perspective here, but in almost all of these five, costs and transformation seem to be going hand in hand. John, over to you for your comments.

John Speight: Thank you, Sudhir. Yes. I mean, we are seeing an increased interest in cost optimization programs. Obviously, vendor consolidation is one of those levers that can be applied. I expect to see more and more use cases around cost coming through. We also see an awful lot of interest around process efficiency, again, looking to drive down, to automate and reduce costs through efficiencies.

Shradha Agrawal: All right. And if I can squeeze in one last question. So, your margin guidance according to my calculation still implies a 200 bps plus sequential improvement that is required in 4Q to even get to the lower end of the guidance band. So, what do you think are the levers available to us to bring, to have such a sharp, you know, margin improvement exercise to happen in 4Q?

Sudhir Singh: Yes. Shradha, if you reflect back, the first two quarters of this year, our margins were higher than the first two quarters of the previous year. Our Quarterly margin always has a gradient. Last year, our Quarter 4 margin was 20.4%. We need to add 170 bps over Quarter 3 in Quarter 4 to get to the lower end of the guidance. At the current point in time, we feel good about it, and I'll tell you why. We feel good about it, (A) because there was a 100-bps impact in the current quarter because the mortgage drawdown. A lot of our mortgage business is transaction linked. There is a lag between the volumes going down and the cost being taken out. The cost is now nearly up corresponding to the lower volumes. So, that 100 bps is a natural flow that we will be getting into next quarter.

(B) The other pieces, again, are the specific around the GET (Graduate Engineer Trainees) numbers that we have. I talked during my commentary around the fact that we have a 1,000 GETs who are now getting billed which is the second lever that comes in. And the third lever, of course, will continue to be a modicum of operating leverage that we have always got around margin. So, our calculation shows we need to go up by about 170 bps, and we feel that we should be able to do it. We need to deliver about 19.7%. Last year we delivered 20.4% in Quarter 4. Given the fact that the offshore engine has scaled up far more than it was at the same time Q4 last year, we feel we will deliver, and that's why we made the assertion. We will deliver.

Shradha Agrawal: Just to add here, somehow my calculation shows that you need to get to a 20.8% margin in 4Q which is a 230 bps improvement. So, is this discrepancy because of your guidance being in constant currency and we looking at dollar term, sorry, we looking at reported EBITDA margin? Just want to get confirmation on the margin guidance.

Sudhir Singh: Ajay, do you want to address that?

Ajay Kalra: Yes, Sudhir. Thank you, Sudhir. Shradha, basis our calculation, the margin uptick that is required is 170 basis points. It's between actually between 150 to 170 basis point depending upon where our revenues will go. Since there is an uptick of the revenues from quarter three to quarter four, that will also help us improve the margin from a year perspective as well. So, you need to factor that as well while calculating the margin uptick. We can talk in detail offline.

Ankur Agrawal: Shradha, we can have a follow up with you on the exact calculations.

Shradha Agrawal: Sure. Sure. Thanks, Ankur. Thanks, Ajay. Thanks, Sudhir. Yes.

Sudhir Singh: Thank you, Shradha.

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

Rishi Jhunjhunwala: Yes. Thank you for the opportunity. Sudhir, you know, couple of questions. Firstly, on the margin side, right. So, if you really look at it over the past five, six years, you know, our gross margins have continuously trended down even if, you know, even though we have delivered industry-leading growth, and you have recently talked about, you know, expansion on the gross margin side in the near term as well. I know to some extent it was also in the last two years ago because of the pain on the travel and hospitality side. But just wanted to understand if you really look at, you know, us going, up in terms of the margin bands, where do you think the gross margin profile ideally should be? And, and do we have those levers? Or is it structurally that we are going to remain around these levels?

Sudhir Singh: Rishi, if you look at this quarter, we've walked the talk, right? The talk that you've heard from us over the last two or three quarters, we walked it. Our gross margin has jumped sequentially by 133 bps. And we believe very strongly, it's going to jump again sequentially in quarter four over quarter three. So, your question is valid. But I would point you to our numbers for the current quarter. This quarter gross margin has jumped very significantly. Now at 33.4% from 32% last quarter, and we believe we are going to be certainly north of 33.4%. I mean, if I were a betting man, I'd say more than 34% for sure in Quarter 4. So, I hear you. All I'd say is just look at the current quarter. We walked the talk.

Rishi Jhunjhunwala: Understood. The other question is, you know, if we look at the trajectory of your year-on-year growth in executable order book for the last three quarters, we have seen some bit of acceleration from 16 to 20 from 1Q to 3Q, and this is despite the fact, that during this period, you know, the overall macro has continued to become worse or at least sentimentally worse. And if I look at it from the perspective of, you know, where your next 12 months or FY '24 growth could be, even at 15% growth, it will imply that your executable order book as a proportion is probably one of the highest that we have seen in the past four, five years. So, just wanted to understand, you know, in terms of conversion of this order book into, you know, revenues, how much of it would be dependent on, you know, macro not becoming significantly worse? Or the other way to put it is, what could be the risk to this revenue conversion if at all?

Sudhir Singh: There is no risk to the revenue conversion. This is locked in orders, Rishi. What we call out every quarter is 12 month locked in orders, right. This is not a pipeline. This is what's already locked in. So the difference remains between the revenue that we are going for versus what we already have locked in. Very rarely do we find that what's already locked in kind of washes away. If you were to go back and look at the order executable that we end an year with and the actual revenue that we recognize, I would disagree with that assertion that getting to 15% means that we have to significantly up what we already have. I think the order executable that we are at currently, mathematically, nobody knows how it's going to pan out in the future, should make 15% a slam dunk for the future.

Rishi Jhunjhunwala: Yes. No, I was actually asking the other way round, that it looks like you will definitely do at least that, that much. So, was there a risk to that? That's what I was asking.

Sudhir Singh: So, maybe there was a compliment that I did not grasp.

Rishi Jhunjhunwala: Yes, yes, absolutely.

Sudhir Singh: We like to hope that we will. And, and I have obviously been trying to wordsmith my way out of here by talking about robust growth, sustained growth. We have always had robust growth, sustained growth for the last two or three years. You can, and I know that you know our revenue growth numbers of the last three years. We still think, despite the ambient noise, despite macros which even in the best case are likely to deteriorate somewhat, we have got enough of a tailwind to be able to push into the storm, if a storm does arise, and still deliver that robust growth, Rishi. That's, that's what all I can say, and I know you, you understand that. But we feel good about it. There is just a lot of good tailwinds. There is momentum building up at the right time right now as we see for next year.

Rishi Jhunjhunwala: Yes. Fair enough. And one last question. Can you give some color on Advantage Go? I mean, it clearly has been a differentiated product on the insurance side. Historically, it's done really well. Just wanted to understand where it is, you know, how do you think about it, you know, progressing over the next couple of years? Are there any changes required in terms of, you know, the growth or positioning of that product?

Sudhir Singh: Yes. We realized about 6 months to 9 months, two to three quarters back, Rishi, that we definitely needed change within that business. That business has not been growing at the pace that the rest of the organization has to the extent that now it's likely just about 1%, may be 1.2%, 1.3%. Ajay, keep me honest on this, of our aggregate revenues, right. So, this quarter, when I say this quarter, I mean, Quarter 3, we onboarded Ian Summers who was the CEO of Sequel, our biggest competitor, our principal competitor in that same London Lloyd's Re/insurance market. He's now become the business leader. He is the person who is going to be driving this now in the London Lloyd's reinsurance, the Bermuda and the US market going forward.

So, long story short, we recognize the fact that we needed a fresh pair of eyes to look at the business. We recognize the fact that that business was actually pulling the firm down. And I am not talking down in absolute terms, but in relative terms, and that we needed to relook at it. Last quarter I talked about the fact that we have relaunched our underwriting platform and Ian and the team are reconstructing the overall front-end. Next year, not Quarter 4, next year, we think we should see, in percentage terms, growth from that business to be materially higher than what the firm will record. But again, in absolute terms, given the size, not very material.

Rishi Jhunjhunwala: All right. Thank you so much.

Sudhir Singh: Thanks very much, Rishi.

Moderator: Thank you. The next question is from the line of Rajiv from Citi. Please go ahead.

Rajiv: Thank you for the opportunity. Just one question. If we look at your executable order book or order intake, it looks really good, robust. But at the same time, if I look at the headcount, it is only up 2% YoY, and the utilization is almost at its peak level. How do we connect all these three data points?

Sudhir Singh: This is the first quarter, Rajiv, where you would have seen us not adding to the headcount, and that's largely because in the last four to seven quarters, we very consciously kept our utilization low, because there was a lot of supply side disruption. So, we were operating at about 77%. Today with the attrition rate having come down in our case to only about 15.8%, today, given the fact that where the market is joining ratio, joining ratio is the number of people who are actually joining versus the offers you roll out, having gone up almost 20% to 25% over the last three to four months, we felt confident enough to be able to take our utilization up by 300 bps within a quarter, which both you and I know is a furlough ridden shorter quarter, right? So, that released a lot of people that we could get into the billing projects. For us, starting Q4 once again, you will see the same cycle which has been going on for the last 8 to 10 quarters continuing. Net headcount will go up.

The second thing I want to point you to is, when we talk about headcount reduction, most of it in the current quarter was led by the mortgage BPS business. It's not a very material business, but it's a business that we do largely link to transaction volumes, and we have to react very, very quickly to volumes going down. So, the last two quarters has that overhang. Otherwise, where we stand today, I talked about this in my commentary as well, we have a 1,000 GETs (Graduate Engineer Trainees) who have either completed training or are undergoing training, and it's a 6-month training in our case and are available to bill anytime, right. So, we are not short of people who will be needed to staff the large deals that we won. And starting Q4, you will start seeing the net headcount back on the trajectory it's been at. This was a utilization correction quarter. It's been a very significant jump in utilization in a seasonally weak furlough ridden quarter. Next quarter onwards we will try to keep the utilization at around 80%, 81%, possibly take it a little bit more, and the rest is obviously going to come in by headcount anyway.

Rajiv: Sure. Thank you.

Sudhir Singh: Thanks, Rajiv.

Moderator: Thank you. The next question is from the line of Ashis Dash from Mirae Asset Capital Markets. Please go ahead.

Ashis Dash: Good morning. Thanks for giving me the opportunity. So, Sudhir, when you spoke in your initial remarks, you talked about retail and public --

Moderator: Sorry to interrupt you, Mr. Dash. The audio is not clear from your line. Please use the handset mode.

Ashis Dash: Okay. Is it audible? Better now?

Moderator: Yes, sir.

Ashis Dash: Okay. So, thanks for giving me the opportunity. So, Sudhir, in your initial remarks, you talked about two sub-verticals, retail and public, and you expect that to perform well going ahead. So, just want to know what type of, what growth you would rotate in those sub verticals in Q4? And what is the outlook going ahead?

Sudhir Singh: So, Ashis, this is the first time, you are right, that we called out the contribution. We are not calling out the growth numbers on a quarterly basis in this quarter or in the quarters to come till these scale up a little bit more. Outlook we think is positive for both of them. We like to think very positive which is why we are planning to carve them out at some stage as standalone verticals to become vertical number 4 and number 5 for the organization. John, do you want to add anything else to that? Or Ajay?

John Speight: Nothing from me, Sudhir. I think you commented well.

Ajay Kalra: Nothing from me, Sudhir, as well.

Ashis Dash: So, my second question is on both TTH vertical. So, you reported a large deal in Q1 FY '23. So, last two quarters you have not talked about any deals on TTH vertical. So, we have good quality, good competencies in the TTH segment as well as client base also looks strong. So, you know, I just want to understand like are we winning deals? How is the deal momentum in the TTH vertical? And what kind of growth you are expecting in FY '24?

Sudhir Singh: TTH this year should be, and I am talking TTH more from a North America and a Europe perspective, we are anticipating a pretty robust growth +25%. I am talking broad numbers at the current point in time, Ashis. What is working very well for us, while last two quarters we haven't declared a material large deal is the farming engine, something that John drives for the organization, right, has continued to chip away very, very efficiently. Our travel, transportation business obviously has rebounded, both the passenger side and the cargo side. There seems to be a lot of confidence and a lot of commitment around spends going up. So, spends are going up, we have been riding that wave. We had used the COVID period to wrest wallet share in many cases, become the only partner in a client situation. So, we have been riding that wave. We have been growing through the farming engine on the travel side. It's not as if there are no large deals that we are pursuing. We are, but we have had none to report over the last two quarters.

Ashis Dash: Thank you. So, that's it from my side. Thank you.

Sudhir Singh: Thank you, Ashis.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: Hi, Sudhir. One question. So, how do you think about the margins over the medium term, say, next two to three years, now given that there are definitely tailwinds on the supply side? We have got one of the lowest attrition in the industry. At the same time, the growth is looking quite strong. So, it depends on how do you think about investments in your business? Do you think investments will accelerate from here on? Or do you think operating leverage will be good enough for you to continuously report margin expansion going forward given growth continues to be strong?

Sudhir Singh: Hiten, we are very committed to margin expansion. We don't believe that growth for the sake of growth is the only goal that we should be going after. There are three things that give us a lot of confidence and which have allowed us to keep investing even at a time like this when macros are uncertain on the margin front. First is what I called out, our offshore revenue as a percentage of overall revenue is now 50.5%. The offshore factory has grown very significantly. Our CQGR in the last six or seven quarters for offshore revenue has been almost 8%. So, that structural tailwind means, along with the increased utilization, along with the fresher factory, the GET factory that is working, we think we should be able to move the margin needle materially. The only call, the execution call that Ajay and I have to take is when does one start moderating investments and letting the some of these margin levers start impacting the bottom line.

This quarter, and I talked about this earlier in response to a question which had come from the IIFL team, gross margin has already gone up very significantly. At what point in time do we stop this very aggressive investment in sales, marketing and capability. We believe, I am just trying to make sure that I characterize this correctly, we believe that even as we stand as a firm, there are enough levers for us in the short term, if we wanted to drive a material uptick around margins. So, a year or two years down the line, margins should be up. We have done a planning exercise where we planned around what we should look like at $1 billion, roughly where we are, versus $2 billion. And we would expect the margin profile to be superior, significantly superior at $2 billion given the operating leverage that will come in.

Ajay, would you like to take this and add some more color around data on this?

Ajay Kalra: Sure. Sure, Sudhir. As we have seen in this quarter, our gross margins have improved, but we have also done an investment. And as we go ahead in the near future, at least we will accelerate those investments and keep investing for the future, for future growth. However, as Sudhir mentioned, we will take the call on when to rein in those investments and start expanding the margins, and that that that should happen from one year onwards.

Sudhir Singh: Hiten, I am not sure we have answered the question. But if you have a follow-up, feel free to step in.

Hiten Jain: No, it does give me a lot of color. Thank you.

Sudhir Singh: Thanks a lot.

Ankur Agrawal: Thanks, Hiten. Operator, just keeping a time check here, we have time for one last question, please. And then, of course, we can individually follow up with everyone who has any questions. Over to you, operator.

Moderator: Thank you. We will take the next question from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Thank you for accommodating me, and congrats on a good quarter. So, just one question. It seems that, you know, broadly for the quarterly earnings we are hearing that, you know, the vendors have been able to defend vendor consolidation deals better. Any color in terms of who is losing right now in the market and, you know, any particular mechanisms in terms of pricing, delivery, you know, what's working for, you know, generally our vendor? Any color could be really helpful.

Sudhir Singh: I request John to step in as well. The only thing I can tell you is we certainly are not losing as you would have figured out. But John, would you like to talk about some of the levers that we are seeing in play.

John Speight: Yes. No problem, Sudhir. I think one of the biggest things that we have been very, very successful at over the last few quarters has actually been translating IT into business outcomes. It's really resonated well with our customers. Obviously, it's all based on a very, very strong execution bias on delivery. But what we have actually accelerated has been the use of consulting, consulting led solutioning. And this is actually paying significant dividends in the positioning of us to our customers, and also the types of conversations we are having with the customers, and actually how we can then take that to closure on deals.

Sudhir Singh: Ajay, anything else?

Abhishek Shindadkar: Thank you. That's, that's helpful.

Moderator: Thank you.

Sudhir Singh: Great. Ankur, over to you. Thank you.

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

Sudhir Singh: Thank you very much, ladies and gentlemen. I know it was early morning for most of you in India and possibly late evening for anyone who joined over from the States. Thank you very much for your questions. Thank you very much for your suggestions and your comments. We have always said this, and we have always meant it, that the insights that you offer mean a lot to us. They help us significantly. Once again, thank you very much for it, and once again, a very, very happy New Year to you and yours. Thank you. Good night.

Ankur Agrawal: Thank you, everyone. Thank you.

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

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

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