"Coforge Limited Q4 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2023 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 Agarwal – Head (Investor Relations) and M&A at Coforge Limited. Thank you, and over to you, sir.

Ankur Agarwal: Thank you, Aman. A very warm welcome to all of you. And thank you for joining us today for Coforge Earnings Conference Call. As you are aware, we announced our Q4 and Full-Year FY2023 Results today. They have already been filed with the stock exchanges and they are also available on the Investors Section of our website.

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

As always, we'll start with opening remarks from the Management Team, 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 very much Ankur. A very good morning, good afternoon, and good evening to all of you across the world, ladies, and gentlemen.

Thank you for joining us for the conversation today as we share our results for Q4 and full year FY23.

I am pleased to share that despite the uncertain macros Q4 has been a successful quarter for the firm. Our growth in Q4 has not just been robust. It has equally importantly been broad based across our verticals, across our service lines, across regions and across client size-based cohorts. We remain steadfast in our belief that organizations and teams that excel at execution are always best placed to face and negotiate headwinds like the ones that we face today. We remain focused on execution, and we remain committed to driving robust, sustained, and profitable growth, despite the ambient challenges, in FY24 as well.

I am also pleased to share that FY23 was a milestone year for the firm as we crossed the US$ 1 Billion mark. We believe we shall look back at FY23 as not just the year where we crossed the US$ 1 Bn revenue mark but also as a year where we laid the foundation for an accelerated growth journey towards the next revenue milestone of US$ 2 billion through significant investments to enhance the firm's capabilities.

Our employees continue to be the architects of our growth journey and their commitment reflected over the years in one of the highest employee retention and lowest employee attrition rates that Coforge prides itself on has driven us and will continue to drive us in the future. To mark the US$ 1 Billion revenue milestone the firm will, starting tomorrow, gift all active employees with an Apple iPad.

With that context, let me start with an overview of the performance in Q4FY23.

QUARTERLY PERFORMANCE – REVENUE ANALYSIS

I am pleased to report that during the quarter, the firm registered a sequential revenue growth of 4.7% in constant currency terms. In US$ and INR terms, the growth was 5.0% and 5.6%, respectively.

The growth, particularly important in an environment like this, was broad based. The BFS vertical grew 4.5% QoQ in CC terms, the Insurance vertical grew 5.0% QoQ in CC terms, the Travel vertical grew 2.4% QoQ in CC terms and the Other verticals together grew 6.4% QoQ in CC terms.

Our top 5 clients and top 10 clients grew 23.9% and 26.6% YoY respectively and contributed 23.0% and 35.5% respectively to our overall Q4 revenue. As I've remarked in earlier calls we derive a lot of our confidence in driving surprise-free, sustained from our lack of overdependence on a single or a group of client relationships.

Our strong sequential revenue growth performance came despite headwinds in the BFS sector, particularly in our mortgages portfolio. Overall, we see the growth of the firm during the quarter as a reflection of the very strong execution engine that the firm has built, the deep client relationships that remain resilient and our ability even in an environment like this to continue to identify, chase and close large deals.

QUARTERLY PERFORMANCE – MARGINS AND OPERATING PROFITS

Our Q4 gross margins sequentially increased by 71 bps following an earlier sequential increase of 133 bps in Q3. The gross margin for Q4 was 34.1%.

Our Q4 adjusted EBITDA margin sequentially improved by 109 bps and was at 19.6% for the quarter.

Our ability to not just hold the line but to expand GM and EBITDA margin sequentially once again reflects the strong execution ethos of the organization. The increase in adjusted EBITDA was driven by a material increase in utilization, continued increase in offshoring percentage and the relative absence of furloughs that we encountered in Q3.

The consolidated Profit After Tax (PAT) for the quarter excluding one-off charges, stood at INR 2,327 million. The reported PAT for the quarter was INR 1,148 million. The quarter saw two one-off expenses. The first is on account of expenses linked to the US$ 1Bn milestone celebrations, primarily the gift of an Apple iPad to each one of 21,000+ employees to mark this occasion. The second is on account of provisions done against ADR expenses so far.

ANNUAL PERFORMANCE – REVENUE ANALYSIS

We registered consolidated revenue of US$ 1,001.7 million and have clocked a growth of 22.4% in CC terms, 15.6% in US$ terms and 24.6% in INR terms. You will recall that at the beginning of FY23 we had provided a revenue growth guidance of around 20% CC growth and had subsequently revised it upwards in Q3 to at least 22% CC growth. Our revenue performance for the year is in line with our track record of meeting and exceeding the revenue guidance every year for the last six years.

Vertical wise performance for the year was as follows. Banking and Financial services (BFS) grew 47%, Travel grew 21.5%, Insurance declined 3.7% and the Others segment grew 23.1% in CC terms.

Geographically, Americas grew 16.3%, EMEA grew 37.0% and RoW grew 7.0% in CC terms during the year.

ANNUAL PERFORMANCE – MARGINS AND OPERATING PROFITS

We are pleased to report that in FY23 our gross margin increased by 55 bps to 32.5%. The increase has allowed us to significantly expand our investments in sales and capability build throughout the year.

The adjusted EBITDA margin stood at 18.3%. It is important to note that during FY23 we incurred a hedge loss of INR 239 million versus a gain of INR 224 Mn in FY22 and this adverse swing has led to a negative impact of about 60 bps on the EBITDA margin.

ORDER INTAKE

One of the highlights of our Q4 performance was the continued clocking of large deals and a very high level of order intake despite the strong prevailing headwinds across our industry.

The total order intake during Q4 was US$ 301 million. This is the fifth consecutive quarter where we have clocked an order intake of greater than US$ 300 million. With our performance in Q4, we have closed FY23 with the highest ever recorded yearly order intake of US$ 1.3 billion.

Equally importantly, during the quarter, we signed 2 large deals. They came from the BFS and the Travel verticals respectively.

From an annual perspective, FY23 was a landmark year in that we signed 11 large deals through the year, of which 2 were over US$ 50 million and 5 were over US$ 30 million. Our deal pipeline continues to be both robust and resilient as exemplified by our current quarter performance. We expect this deal momentum to continue in Q1FY24 as well.

The executable order book which reflects the total value of locked orders over the next 12 months stands at a record US$ 869 million. This number was US$ 720 million a year back. The confidence that you will see in our revenue forecast guidance for the next year later in this commentary stems also from the next 12 months committed order book which continue to be unimpaired.

10 new logos were signed during the quarter taking the total count to 44 for the financial year.

Finally, as I round up this section, I wish to note that during the quarter, we also signed up as a preferred technology partner with one of the largest retailers in the world. This is not a large deal but our partnership status and the size of the wallet that we will now address makes this material.

PEOPLE

Our total headcount at the end of Q4FY23 stood at 23,224 and we saw a net addition of 719 people, that is an increase of 3.2%, to our headcount during the quarter. This net headcount increase has come despite a significant expansion in utilization by 120 bps. Utilization during the quarter stood at 81.5%.

Our LTM attrition for the quarter fell further and is now at 14.1%. We remain one of the lowest attrition firms across the industry.

I would now handover the call to John Speight, Chief Customer Success Officer, for providing insights into our Operations and Capability creation. Over to you, John.

DELIVERY OPERATIONS & CAPABILITY BUILD

Thank you, Sudhir.

I shall now touch upon the highlights of the quarter related to our delivery operations.

In the insurance sector, Coforge continues to grow its Duck Creek business, all on the back of successful implementations and upgrades across US and Europe. A positive move in this quarter has been the successful expansion in Australia and NZ.

For a leading US life & annuity insurance carrier we successfully completed a major enterprise-wide business transformation program to simplify their processes and drive operational efficiency, thereby delivering significant cost savings. We also helped a 'Top 100 US Carrier' successfully complete a multi-year Tax Compliance program, enhancing their legacy Policy

Admin System to ensure that their Life Insurance products were compliant with the latest IRS regulations.

Our AdvantageGo business successfully launched its new ecosystem, leading with our proprietary Underwriting Workbench that connects to best of breed data providers to provide real-time exposure insights to underwriters.

In our TTH business, we successfully enabled a leading airline's major transformation journey involving one of the largest and most complex migrations of airline Passenger Service Systems. We leveraged our travel domain capabilities, our global Amadeus certified Engineering team, our proven Agile Delivery framework and more than 12,000 business test case automations to execute the migration successfully and on plan.

In our BFS business, a tier 1 bank has recently appointed us as their strategic data & analytics partner to help them accelerate their cloud adoption, analytics, and visualization initiatives across the bank. We are leveraging our strong partnerships with AWS, Snowflake, Databricks and Microsoft to help drive their transformation programs by delivering best-in-class solutions.

Pega continues to be a strength for Coforge, recently we closed a major 18-month program of work for another global bank in which we are combining our Pega, Data and Quality Engineering capabilities to help drive their digital transformation agenda.

We are also seeing sustained growth in our Salesforce business, underpinned by our new industry-specific solutions. For example, we have recently rolled out our "Broker 360 Management Solution" for insurance customers. Built on Salesforce Service Cloud and Experience Cloud, this solution provides our customers with a complete view of the activities performed by their Agents and Brokers. This growth was recently recognized by ISG, with Coforge named as a Leader in the Salesforce Application Managed Services and as a Rising Star in Salesforce Mid-Market Implementation sectors.

We continue to explore and invest in our Metaverse Center of Excellence. In collaboration with our technology partners, we have developed expertise that enables the creation of digital humans. We are now working with our customers to help them integrate digital humans, along with AI and Chatbots to create lifelike customer experiences within the metaverse. Our continued focus on Metaverse & Web3 was recently recognized by HFS when they awarded us 'Horizon 2 – Enterprise Innovators'.

Recognizing the importance of Cyber Security, we have invested to extend our services in this area, adding threat intelligence services to our extensive portfolio. We can now leverage our advanced capabilities in areas such as Dark Web & Deep Web Monitoring, Brand Protection and Cyber Threat Intelligence to help secure the safety and privacy of information assets.

In our constant endeavour to upskill employees globally, we continue to invest in technical and domain training and certification programs. Focus recently has been on core engineering skills such as AWS, Pega, Appian, Microsoft Azure, ServiceNow, GCP and ISTQB. We have also extended our learning programs to train teams in areas such as “how to navigate leadership transitions” and “how to build digital excellence”.

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

FINANCIALS

Thank you, John.

Let me briefly touch upon the key balance sheet items and tax metrics. Our Cash & bank balances at the end of FY23 stood at US$ 73.4 million, compared to previous quarter balance of US$ 22.4 million, net of working capital drawing. Capex spend during the quarter was US$ 4.3 million. The days sales outstanding were 61 days in Q4 versus 73 days in Q3, in the INR terms. In US$ terms, DSO days were 59 days for Q4 compared to 68 days in Q3. The Effective Tax Rate (ETR) for Q4FY23 (excluding one-off charges) was at 18.3% and for full year FY23 was 20.4%.

The Operating Cash Flow (OCF) for the full year FY23 was about 68% of the reported EBITDA.

As you are aware that Coforge has filed for an ADR for which we have incurred an expense of INR 523 million over the last 18 months. These expenses were reflected as recoverable from the selling shareholders in the balance sheet. As the market conditions continue to be unfavourable for the ADR issue, basis accounting prudence, a provision of INR 523 million for these expenses has been made in Q4FY23. We will continue to watch market conditions to see if a favourable window opens for the ADR.

Additionally, the board has approved an amount of ~US$ 11.5 million towards gifts to all the employees and celebrations across all locations for achieving US$ 1 billion milestone. An amount of US$ 9.8 million towards gifts has been incurred in Q4FY23 and balance for celebrations will be incurred in Q1FY24.

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

SUMMING UP AND OUTLOOK

Thank you, Ajay.

As I had mentioned exactly a year ago in our quarterly conference call, we had started planning towards our next revenue milestone of US$ 2 billion and FY23 was all about proactively putting the right building blocks in place for that goal and beyond. During the year, we have significantly invested in and bolstered the front-end leadership teams, our capabilities, and the execution machinery across the organization. During the year, we also initiated a new organization

structure to position us well for this journey to the US$ 2 billion revenue milestone. The new org structure focuses on scaling existing key accounts to US$ 50 million and US$ 100 million, leveraging a broader ecosystem of alliances and deal advisors, charging up the revenue hunting engine and creating differentiated service offerings. The core verticals will work as Global Integrated Business Units (IBUs) and the service lines have been reclassified in to six Global Horizontal Business Units (HBUs), which will be market facing and actively contributing to revenue growth. The new org structure has already been rolled out from 1st April 2023.

The new structure that is now settled with teams that are now primed, the continued large deal wins, strong executable order book, a resilient deal pipeline, anticipated broad-based growth across our core businesses gives us confidence that we shall continue to drive robust, sustained, and profitable growth in FY'24.

For FY24, our revenue growth guidance is 13% - 16% growth in constant currency terms. On the profitability front, we expect our gross margin to increase by about 50 bps in FY24 and adjusted EBITDA margin to remain at similar levels as FY23.

With that I conclude our prepared remarks and open the floor for your questions and comments.

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. Participants connected on video link, please click on the raise hand button on the tool bar or the Q&A tab and click raise hand. The operator will announce your name when it is their turn to ask a question. Ladies and gentlemen, we will wait for the moment while the question queue assembles.

The first question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Yes, hi, good morning, everyone. Thanks for taking my question and congrats on a very strong performance yet again. We have just got accustomed to getting surprised by the company every quarter. So, Sudhir basically if I could just start with the visibility that you have for the guidance for FY24. We ended the year with an order backlog, a 12-month executable order backlog which is up 21% on a YoY basis. We are guiding to basically the growth of 13% to 16%. So, just wanted to take your, take on what is the visibility that you have towards the top end of the guidance given that we are ending the year at such a strong growth in the executable order book. So, does that mean that you might expect some slowdown on a YoY basis, it's not necessarily a decline, but maybe a deacceleration on a YoY basis in the order inflow in the first half of the year, or do you think the demand environment remains strong enough for us to be able to do this guidance and of course take it as we see it during the course of the year?

Sudhir Singh: Vibhor, mathematically, we need to clock roughly around 3% sequential growth every quarter over 4 quarters on an average to hit 15%. If you look at our track record around execution, the

guidance that we've given in the beginning of the year over the last 2 years, we've been able to revise it both those years upwards and then exceeded by the time the year ends. So, 13% to 16% clearly is something that we believe is in the realm of the possible. The ramp that we have because of the Quarter 4 growth, the fact that large deals pipeline continues to be resilient and large deals continue to be closed, also gives us a lot of comfort. The order executable number, which is the next 12-month orders booked, at $869 million is roughly about 20% more than where it was at the same time last year. So, there's a lot of comfort that we derive from that as well. Lastly, the deal velocity has continued unimpaired. Order intake has been at more than $300 million for 5 quarters running, so we feel that the guidance that we're giving you is clearly in the realm of the possible. Our intent, as always, will be to try to hit the upper end and hopefully if all goes well, try to exceed it also over time.

Vibhor Singhal: Got it, Sudhir. That's really helpful. Really great to hear that. My second question was on the margins front. So, I think this year also we saw a very good expansion in the gross margin front, was slightly lower at the EBITDA that of course as you had mentioned that we are investing a lot in our sales capability and for the next year also you just guided to the same thing that we're looking to expand our gross margins by 50 basis points but the overall adjusted EBITDA margins might remain flat. So, just wanted to understand, I mean do you believe this higher than, I mean the last year kind of investment in sales and marketing will continue and that… that will continue to have that gap between the gross margin expansion and the EBITDA margin expansion and just a related bookkeeping question, if we could just maybe get a broad idea as to how much could be the gap between reported and adjusted EBITDA margins in FY24?

Sudhir Singh: The second question is something that I'm going to deflect to Ajay, Vibhor. As far as the margin issue is concerned, a very key point to note also is that if you look at FY23 performance of the firm, there's a 60-bps negative that has come just on account of the hedge gain/loss, right. So, the 18.3% that we reported for Fiscal Year '23 would have been 60 bps higher, had the hedge gain/loss not played out the way it has. Going into FY24, we are confident of a continued expansion in gross margin from where we are right now, but we are equally committed to making sure that most, if not all of it, gets funneled into additional investments into capability build, into solution build, into sales enhancement. It's a tough macro. We do want to meet the guidance. We do want to exceed the guidance if it's possible. And the intent is going to be to keep pressing the pedal and make sure that the capabilities and the investments are helping us power growth at the time like this. Ajay, would you like to take question number 2 please?

Ajay Kalra: Sure, the difference between the EBITDA and the adjusted EBITDA is primarily the cost of employee stock options. The current year options, the cost would decline and would be around 60 bps for the next financial year. However, the options which are given in the current year, they are not factored in there and we will update that in our next earnings call.

Vibhor Singhal: Got it. So, it's going to be north of 60 basis points, 60 basis points for the earlier ones plus on top of that whatever the cost of this year ESOPs would be that will be over and above that.

Ajay Kalra: That is correct.

Vibhor Singhal: Perfect. Thank you. Thank you. Thanks. Thanks everybody for your valuable time and wish you all the best.

Sudhir Singh: Thank you, Vibhor.

Moderator: Thank you. Next question is from the line of Abhishek Bhandari from Nomura. Please go ahead.

Abhishek Bhandari: Thank you and good morning, gentlemen. Sir, I have 2 questions. First is on the Insurance vertical. You know, finally we have started seeing, you know some sequential you know, growth momentum picking up. If you could help us, you know, understand how should we think about this vertical in FY24 given that it has been a laggard and we have been, you know trying to do some leadership change there? Are you seeing a sustained momentum of growth coming back here?

Sudhir Singh: Abhishek, the answer is a clear unqualified, yes. It's been a 5% sequential growth. The way we look at our Insurance businesses, our Insurance business on the P&C side is largely focused on commercial, specialties, small and medium players. In that place the transformation spends are continuing and our partnerships are working very well. So, there is a clear continued growth vector that applies there. The second thing that's happened on the Insurance side is that our expansion into newer geos within the Insurance vertical has played out very well. I talked about 10 new logos, 4 of them actually came from Insurance across APAC, largely centered around Australia so that element is working well. On the L&A side there is pressure when it comes to discretionary spending but looking at our top 10 clients in that space, looking at a grounds up view, we think growth there again is going to be resilient. So, the answer, the short answer to your question is yes, we believe the turnaround that we've seen, actually it's a fairly significant turnaround that we've seen on the Insurance side will sustain. What I do also want to call out is next year, this year if you look at the dispersion across business units, it was very stark in our case. BFS was just on a tear. Insurance was pulling us down. Next year the guidance that we've offered, we believe all the three core verticals will more or less be in-line centered around that growth guidance number and deliver growth numbers that will be roughly similar. So, insurance should turn in a performance where the growth should be indicatively around 15% for the year as we've seen.

Abhishek Bhandari: Got it. Thank you, sir. Sir, the second question is on your, you know, longer term margin outlook, you know, while for this year, your aim is to improve 50 bps on GM and, you know, re-funnel that into sales and marketing, but eventually where would you want to, you know, stabilize on your sales and marketing expenses, you know, this year is already closer to 14.5%, you know, kind of number. Do you think maintaining this kind of S&M is necessary for the growth to remain where it is or eventually, you can taper it off to, you know, more like a 12% to 13% number what we've seen in the past?

Sudhir Singh: So, Abhishek, six years back the SG&A of the firm was roughly around 19%. We brought it down very drastically through COVID all the way down to 12.5%. We are now at about 14%.

The way we look at our adjusted EBITDA versus S&M investments is, the plan that we created internally around hitting a $2 billion mark envisages that at $2 billion revenue, the firm will have an adjusted EBITDA that is at least 150 bps higher than where we are, and on the outside, all the way up, in a good scenario 300 bps higher than where we are.

It's obviously going to be a pull and a push depending on the year. This year is a tough year. We want to keep pushing the pedal to make sure growth is maximized, and hopefully some of the results of these investments will play out next year, possibly even this year, in taking the revenue needle and the revenue growth rates much higher.

Abhishek Bhandari: Thank you, sir. And all the best for FY '24.

Sudhir Singh: Thanks very much, Abhishek.

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

Sandeep Shah: Yes. Thanks for the opportunity. Sudhir, the first question entering FY '24, do you believe most of the portfolio specific issues are largely behind in terms of Coforge where you are now turning positive even on insurance?

And second related question, are you witnessing any client specific issue because of the increased macro pressure, especially with the exposure with some of the regional banks in some of your acquired subsidiary SLK in the mortgage business?

Sudhir Singh: Yes, Sandeep. Thanks for the question. Portfolio specific we believe, and I just answered the question. Insurance is on a clear turnaround. Portfolio specific we also believe that the dispersion across the business units in terms of growth is not going to be as stark as we found in fiscal year '23.,And growth, which is very important in a year like this, growth should be broad-based.

I expect our core verticals to show broad-based growth. I expect our service lines to show broad-based growth. I expect growth across geos to be broad-based, and I expect growth across client cohorts to be broadbased, I can't specifically call out one or two clients individually, but client cohorts, top 5, top 10, top 20, top 50 should all be resilient and should be more or less in line with the kind of guidance that we provided and the planning that we have done.

Clients specific to regional banks, our exposure is minimal. The only material exposure that we have is to the relationship that we have with Fifth Third Bank. It is largely centered around operations, not technology. I am speaking to you after having hosted the COO and the CIO in Bangalore the day before. That's the relationship that is only likely to grow. I see absolutely no

contraction. We see absolutely no contraction. So, that's how I would characterize things that we see now today.

Sandeep Shah: Okay. Okay. And in terms of adjusted EBITDA margin, when we have given the guidance at the Q3 result, we were knowing about the Forex hedge loss which may be there for the nine months plus prediction for the fourth quarter. Despite there, there is a miss on the guidance as a whole, and how do you see the Forex hedge loss entering into FY '24 as a whole? It will continue to be pain you on adjusted EBITDA margin.

And also related question, when do you expect your investment into sales, marketing, capability building would be largely over? Because I think despite robust industry-leading growth, I think the SG&A leverage is not turning out the way it should have been.

Sudhir Singh: When we look at the numbers that we have delivered, 60 bps negative was on account of hedge. You're right. Nine months was baked in, but currency has been volatile through the year. Our exposure to Europe is far more than our peers, and you know this. Almost 40% of our revenue in this quarter has come from Europe-based clients. And that's been one cause of that

And the second, of course, is the gross margin has continued to climb very starkly. We could through the quarter have decided that we will not invest anymore and meet the 18.5% guidance, but we have taken a conscious call to make sure that we keep investing, because FY '24 is going to be a year which we do not see necessarily as a doom and gloom year per the normal commentary that we are hearing.

We see clear opportunities in the turns. We see spaces like commercial specialty SMB. We see spaces like CTB in banking. We see spaces like airlines, airports, hospitality, as places where demand is likely to be resilient and in some cases, growing actively. So, the intent was to make sure that we continue spending. We had about 14.5% percent on SG&A. We would be absolutely okay with taking that number over time all the way up to 15% and capping it there. So, that's, that's how we see it over time.

In the current context, given the uncertainty in the macro, the primary imperative is to meet the guidance that we have offered and a very strong incentive that all of us carry is to try to exceed it if possible. So, that's how we are looking at it. That's why we invested and that's why we took a very conscious call that we would continue investing even while gross margin was going up and not focus on meeting 18.5%.

Sandeep Shah: Okay. Thanks. And the question on the Forex hedge line expectation in the FY '24?

Sudhir Singh: Ajay, would you like to take that?

Ajay Kalra: If you see this over the last one year, currency movement on the hedges have been very sharp, and the INR has depreciated very sharply, and which has actually led to the losses that were

there in, in financial year '23. In financial year '24, if the currency stays where there is, obviously, the loss would be much lower, and we will not feel the gain, but if the currency continues to decline in future, the losses could be higher. So, it all depends upon how the currency movement happens in future.

Sandeep Shah: Okay. Okay. And just bookkeeping, sir. In terms of these ADR expenses, I think the process has been started more than a year back. So, why the provision now? And you are saying when the ADR listing happens, it would be recovered from a selling shareholder.

Ajay Kalra: Yes. So, these expenses are for the ADR and these were recoverable from the shareholders. So, as we started doing the ADR, these expenses were accrued and were recorded as recoverable from the shareholders.

However, given the situation and the market conditions we are in and obviously, we are committed to the ADR, but there is clear that there is no clear visibility when that will happen. So, from an accounting prudence perspective, we have taken a provision in this quarter, and this still remains recoverable from the shareholders. It's a provision, we have not written this off.

Sandeep Shah: Okay. Thank you. All the best.

Sudhir Singh: Thank you.

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

Shradha Agarwal: Yes. Hi. Congrats for the good revenue execution. Sir, just one question on the margins. So, the margin miss in this quarter was entirely because of hedge losses or was there something else also that led to margin hit. Because if I look at the hedge loss item, it was close to Rs 13 crores last quarter versus Rs 14.5 crores that we took this time around. So, not much of a change on a Q-on-Q basis, but margin expectation was about 170 bps increase versus what we have delivered is just 110 bps increment.

Sudhir Singh: Yes. Well, you are right, Shradha, but the margin come in at north of about 19.5%, right? So, there was really nothing that was terribly unexpected. We could always have, and I said this in response to the earlier question. We could always have toned down our spending through the quarter to meet the EBITDA numbers, but we took a very conscious call to continue the spend, and we will continue to spend in quarter one as well.

As I said earlier, the deal pipelines are resilient. We expect quarter one also the deal pipeline to be resilient. So, the last thing we want to do at a time like this when there is revenue pressure is to miss the revenue opportunity that exists out there in the market. Hence, we took a conscious call to do it. There was nothing on the margin front that came as a material negative surprise to the management.

Shradha Agarwal: Because if I look at the tailwinds that could have worked for us in this quarter was cross-currency tailwind, improvement in utilization, and hedge loss not being materially different from what it was in last quarter, but still our margin miss was close to 60 bps wasn't what we had guided to. So, just looking at was there anything exceptional that went in to beyond the hedge loss that we have been talking of?

Sudhir Singh: No, more than 100 bps increase in margin is a fairly significant increase. 170 bps obviously has always been a stretch, especially in a year like this. If you look at our margin in FY '23 versus FY '22, and you compare that performance with some of our peers, I think we have held up very, very strongly. Even 40 bps decrease that you see on an annual basis, 60 bps of that was accounted for via the hedge gain loss. Net of that, margins performance perspective on a yearly basis went up 20 bps in a very, very tough year.

So, that's, that's how I would characterize it, Shradha. We remain confident around the margin guidance we are giving for fiscal year '24. We will hold the line at the numbers that we have had on the adjusted EBITDA front, and we will continue to push to meet the revenue guidance and hopefully try to exceed it also.

Shradha Agarwal: Sure. Thanks, Sudhir. And the next question is, you know, we have had an impressive performance across client buckets, but if you look at the top five clients' performance, that's relatively compared to other buckets a bit soft. So, is there any client specific challenge? Was it broad-based softness because relative to other buckets, that grew relatively softer?

Sudhir Singh: No, I think in this case it's a classic kind of success being its own enemy, right? You do very well as a firm, and then you start looking relatively. There's bound to be cohort that will underperform versus the others. There is absolutely no issue with clients. Client relationships are resilient. Client relationships are strong. Client relationships are strengthening. And if I look at my top 5 or top 10 clients, when we look internally at gross margins, we actually see margins expanding there. So, we feel very, very solid about these from a pipeline perspective, from a resiliency perspective, from an ability to cross sell and improve our footprint there perspective.

Shradha Agarwal: And sir, the last bit, the salary hike cycle remains as of Q1, and what is the kind of margin drop that is expected in first quarter? And what is the quantum of hike that we are envisaging?

Sudhir Singh: Salary hikes will happen as committed to our employees. It's not just an issue of giving them an iPad and not giving then a hike, that's not going to happen. This is absolutely non-negotiable. Salary hikes, on an average, will be lower than the numbers that we have seen in terms of increments over the last two years. we are crystal clear on that. When the supply side was stressed, we went out, took a step up, gave higher than ordinary increments, and that is reflected in the very lower attrition that we have.

So, from our vantage, salary hikes will be lower. Margin, the margin impact, however, will be more or less in line with the same kind of margin drops that we've seen in the past. Quarter one

for us normally is about 16.5% adjusted EBITDA quarter. Quarter four is somewhere around 19.5% adjusted EBITDA quarter. And we expect the same seasonality to play out. So, it should be more or less the same by quarter in FY '24 as it was in FY '23.

Shradha Agarwal: Yes. That's helpful. And one last question, if I can squeeze in. In BFS, do you see any delay in the conversion cycle or any impacts on the pipeline build up given the macro that we are talking?

Sudhir Singh: On, BFS, Shradha, we see a very significant deceleration next year in growth. This year BFS for us has grown 47%. There is no scenario under which we expected to register that kind of growth in fiscal year '24. So, the way we look at it is BFS will more or less fall to the 15 to 16% kind of growth range, 13% to 16% or 15% to 16% kind of growth range from a 47% growth that we registered in FY '23 in that space. There is a clear slowing down. There is a clear cost pressure, but BFS is playing out in interesting ways.

Within BFS, we are really playing only in four areas. We play materially in asset and wealth management. We play in retail and commercial banking. We play in central banking, and we play in Fintech disruption.

Now in this space, run-the-bank is where there is most pressure. That entire run the bank space, there are, there is significant cost pressure to try to drive cost out through automation, through transforming the workforce to managed services through extreme offshoring. Change-the-banks, especially security, especially data, especially compliance is still resilient. So, those are the areas from which we will still see, we believe around 15% yearly growth, but the number will come down very drastically from the 47% that we saw. That's how we see it, and that's how I would answer you. Did I answer your question?

Shradha Agarwal: Yes. Yes. Thank you, and all the best for entering FY '24.

Sudhir Singh: Thank you, Shradha.

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

Ashwin Mehta: Yes. Hi. Can you hear me all right?

Sudhir Singh: Crystal clear.

Ashwin Mehta: Most of my other questions have been answered. Just one clarification. I missed the point in terms of how much is the expense for iPad is in the next quarter?

Sudhir Singh: Ajay, all yours.

Ajay Kalra: Yes. Ashwin, the impact of the gifts would be additionally, iPads would be only a couple of $100K, but there are other celebrations that have been planned, and total expenses for the billion-dollar celebration is $1.7 million in the next quarter.

Ashwin Mehta: Okay. Okay. Thanks. I think that's the only thing I had.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi. Thank you for taking my questions. So, two questions. Firstly, what proportion of our business would be linked to cloud, whether it is migration or development work on the cloud?

Secondly, a lot of people have talked about 2023 to be a year of cloud optimization. Are you seeing that in your own client base? And what is your expectation with respect to which service offering is going to see a slowdown, which service offering is going to be more resilient in the current macro context? Thank you.

Sudhir Singh: I'm sorry. Can you build on what you mean by cloud optimization? Because we have been talking about the cloud optimization from the last decade. So, what do you mean by 2023 being a year of cloud optimization?

Gaurav Rateria: Lot of the surveys that is being done with the CIOs are talking about that people overcommitted to the cloud spend and 2023 is where they are trying to optimize and reduce it, and then it's a temporary issue. But you know, wanted to hear it from you in terms of have you seen anything similar to that?

Sudhir Singh: Well, Gaurav, let me take the second question first. What you are talking about is something that does impact hyperscalers and I think that information is in the public realm, right? The hyperscalers have called down the revenue numbers. Clearly the cloud migration activities are not seeing a degradation, but are clearly seeing a deceleration. So, the numbers bear that. The data bears it, and that obviously is the hard growth being straight away from the numbers that the hyperscalers are doing now. So, we do see that, but our play, and I suspect the play of most of the SIs like us, is less around the migration piece. It's more around how do you enable operations on the cloud? It's more around how do you make sure that ROI on work that is done on the cloud is measurable, especially in an environment like this, and it's more around everything that you talk about in innovation terms, how does that get translated on to cloud?

From our vantage, cloud, the cloud service line is a material service line. We would not expect it to grow at a slower pace than the rest of the firm, but possibly at a slower pace than the pace that we recorded in fiscal year '23. So, that's how we are seeing cloud spends translating into revenue from our point of view playing out. Did I answer your questions, both of your questions?

Gaurav Rateria: Yes. That's very helpful. So, any particular service offering that is seeing like more impact under the current macro context in your portfolio than others? That would be helpful. Thank you.

Sudhir Singh: So, I will tell you the ones that we see are expanding, and the ones that are more impacted. This is all relative. This is not absolute. I don't expect any service offering to start degrowing. Service offerings where demand is very positive, is still buoyant, the first one is Low-code, No-code, particularly No-code within Low-code, No-code. The demand there is strong. It is solid. It is resilient.

The second one in an environment like this is integration. So, our integration continues to be unimpeded. And the third one I classify as being data, especially more on the analytics side than on the tech data services side. Those three areas, clear bright spots. Product engineering, still a bright spot.

People are talking about transformation going away, but increasingly, what was the legacy ADM business is under pressure, but product engineering, which fundamentally is all about full stack developers under a SCRUM POD-based models, continued demand despite the slowing down. So, those are the areas that we see on a relative basis we see demand outpacing the other service lines.

Again, on a relative basis, tying this back to your earlier question, cloud on a relative basis, the demand has gone down compared to the other service lines. So, cloud, infra clearly an area. in most of the verticals, with the exception of travel, is the space that is under stress. Travel, of course, as a vertical continues to be buoyant, right? When I look at our travel client base, we see a more committed, a more confident spend on technology for the next 12 months because of a return to profitability, because of the increased business demand, particularly, airports and airlines. So, there even cloud is resilient, but for the others. I would stick with what I just called out.

Gaurav Rateria: Thank you so much.

Sudhir Singh: Thanks, Gaurav.

Moderator: Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Hi. Thank you for the opportunity. I just wanted to get your thoughts around the fact that we have seen our offshore revenue mix increase materially over the course of last three years. How do you see this playing out over the next 12 to 24 months? And, also related question to a segmental margin performance, what is driving the significant drop off in terms of our segmental margins in EMEA as well as in Americas? Thank you.

Sudhir Singh: Sure. I'll take question number one around offshore, and Ajay, I request, Saurabh, you to take question number two. Offshore, we're at about 51% odd percent right now. Manik, I believe,

firm our size, the journey up to $2 billion, the cap will be about 54%, 55%. I don't expect us to be galloping towards that cap anytime soon.

If you look at us over the last eight quarters, you will find that the rate of offshore revenue increase has been decelerating. We're at 51%. We used to be at 36% about two, two and a half years back. We have obviously galloped our way to 51%. I see the pace of growth now decelerating, and possibly inching towards a 53%, 54%, if all, if all goes well.

Segmental margins, Ajay, all yours.

Ajay Kalra: Yes. Saurabh, would you like to take that question?

Saurabh Goel: Okay. Thank you, Ajay. So, I think the reason why we are looking at a little drop in margins between EMEA and the US, so there are two factors there. One, obviously, the growth that has come in, there are investments that have been done at the front end. So, when we look at our margins for the geographies, it also includes the investment that has gone into S&M. So, the large factor is actually the S&M investments and the capability investments that have been done at the front end.

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

Sudhir Singh: Thank you, Manik.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: Yes. Hi. Good morning and thanks for taking my question. See, our guidance and order book converging, it, it appears it is at the lower end of what we have achieved historically, but still, it needs $250 to $300 million of the additional revenue coming in through new deals etc. through FY '24. Now in the current environment where, you know, most of our peers are seeing unforeseen ramp downs or instances of vendor consolidation etc. Do you see any risk to the guidance that we have given? And, and have you seen in our client base, you know, any instances where we might have lost out there having the consolidation scenario the large, larger case? Thank you.

Sudhir Singh: Yes. I mean, there is always risk, Abhishek. It's a question of whether that's a theoretical risk or a practical risk. Look at our track record, the guidance that we have given at the beginning of the year is a guidance on revenue that we have always met and actually exceeded, and our record really over the years has been somewhere around quarter two or quarter threewe go ahead, revise it, and revise it upwards and then close the year and close that ahead of the revised guidance that we've provided.

So, if the question is, is there a risk to the guidance? I guess, the honest answer to that is there is always a risk to any guidance, but practically do we see a risk? And how significant is the risk?

We feel pretty confident. This is how I would call it out of the numbers that we provided, of meeting them, and as I have said repeatedly on the call, the intent will be to exceed them, and we will see how the year pans out.

On a client basis, we have seen absolutely no intent with any material client where under a consolidation exercise we got hedged away. It's a question that I received a lot. I understand there are some theoretical constructs out there. The large sized players can come in and start displacing the mid-sized ones. We don't believe in, we don't buy into it. We have not seen it and we will not allow it.

If there is one thing we pride ourselves on, it is execution. Execution means being in the trenches with our clients and knowing what's going to happen to their business, and what their decision pattern is in the quarters and the months to come. We like to think we have done an exceptional job over the last six years of doing that and at this point in time, we have seen absolutely no displacement out. We anticipate under any circumstance absolutely no displacement out. So, that's the answer to the question that you posed, Abhishek.

Abhishek Kumar: Thank you, and all the best.

Sudhir Singh: Thanks.

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

Abhishek Shindadkr: Hi. Thanks for the opportunity and congrats on a good quarter. I just wanted to understand, you know, the growth rates in the fresh order intake and the executable book. So, last year, you know, the executable book growth was lower than the fresh intake, while this year it is the other way round. So, how should we read that from a perspective of, you know, the quality of book and the tenure of book? If you can explain that, that could be helpful. Thank you for taking my question.

Sudhir Singh: You are very welcome, Abhishek. Thanks for the question. I mean, I can't parse through order intake versus executable numbers on the spot, but what I can tell you is, if you look at the last six years, Abhishek, and I'm not talking one, two, or three years. Look at the last six years. If you look at the movement on order executable, which we call out every quarter, and you tag that with the actual revenue growth delivered over the next 12 months, there has been a very, very strong correlation.

I did point out that we close the quarter with an order executable number of $869 million. That number is 20% higher than where the same number was at the same time last year. So, we derive a lot of comfort from that order executable piece. The other thing also that I very specifically called out is even in a quarter like quarter four, two large deals got signed, and we did call out that the quarter one that we are already into, almost a month into is a quarter where we expect the deal velocity, large deal velocity to continue. So, a lot of confidence comes from that. Order

executable has had a very strong correlation to actual revenue growth, and our intent will be to make sure that we don't lose that correlation in the year to come.

Abhishek Shindadkr: That's, that's helpful. What I was trying to understand is that, you know, fresh order intake growth lower than the, you know, growth of executable order book over the next 12 months. You know, historically, I mean, the assumption right now is that there are a lot of cost efficiency deals which are larger in tenure.

So, you know, that should have been reflected in this growth rates also, while, you know, the near-term transformation deals or shorter-term projects are more subsiding what the thought process, general perception is. So, should we read anything from these two growth numbers and kind of correlate to the mix of book or maybe, you know, we are thinking too far?

Sudhir Singh: Saurabh, you are closer to these numbers than I am. Do you want to take a stab at the answer?

Saurabh Goel: Yes. So, I think last year when we looked at order intake growth being higher than the executable, I mean, we had a large deal coming in which was spanning over a five-year period. So, what is happening this year is I think most of the deals that are coming in, they are around three-year period. So, I think when you look at intake, as in growth in the intake, it also is a function of five-year versus three-year deals getting signed.

So, that's one, but as Sudhir mentioned, where we derive he comfort from the next year projections, that actually comes in from the 12 months executable, because every deal we carve it and then derive what will be the next 12 months or 24 months or 36 months revenue.

So, I think it's more about one or two large deals getting signed, which are longer term period, and that's where the intake growth in a particular year be reflected very, very high, but I think there is nothing more to read beyond that. But when we look at our projections or immediate growth numbers for the next 6 to 12 months, the comfort that we derive is more from a 12-month executable order book.

Sudhir Singh: John, this question around client outlook and order is coming quite a bit. Do you want to provide some quick comment here on what you are seeing with the key accounts as the CSO?

John Speight: Yes. I mean, you have actually told a lot of points that I was going to flag off. I see quite a lot of benefit from our positioning, and the fact is that you mentioned the deep relationship, the bottoms-up approach, within the trenches, will always pride ourselves on execution, and this has actually positioned ourselves very, very well where there are significant cost-outs because they come to us with our technology capability to drive those costs takeouts. So, I actually see as a positive sign what they expect for us as an organization.

Sudhir Singh: Thanks, John. Thanks, Saurabh. Thank you, Abhishek.

Abhishek Shindadkr: Thank you for taking my question.

Ankur Agarwal: Thank you everyone. I think that was the time we had for the last question, and we can take other questions offline with everyone. Go ahead.

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

Sudhir Singh: Thank you very, very much. We mean this very sincerely. A lot of us, actually all of us on the call are going to remember this day very, very fondly. It's the day we crossed billion dollars, and we think it's fantastic that we got to start the day out here in India with all of you. It's early morning. Thank you very much for your time, for your interest, for your comments, and for your insights. Look forward to seeing you next quarter. Bye.

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

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

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