

Cigniti Technologies Ltd
Earnings Conference Call
May 03, 2023

Moderator: Ladies and gentlemen, Good Day and Welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q4 FY23 results. Today we have with us from the management, Mr. Srikanth Chakkilam, Chief Executive Officer, Mr. Krishnan Venkatachary, Chief Financial Officer, Mr. Vinay Rawat, Chief Revenue Officer, Mr. Raghuram Krovvidy – Chief Delivery Officer, Mr. Sairamprabhu Vedam, Chief Marketing Officer and Mr. Veera Reddy Patlolla – Global Head of HR. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Smit Shah from Adfactors PR. Thank you and over to you sir.

Smit Shah: Thank you, Zico. Good day everyone. Before the call, we would like to point out that certain statements made in today’s call may be forward looking in nature and the disclaimer to this effect has been included in the earnings presentation shared with you earlier. The investor call may contain forward-looking statements based on the currently held beliefs and assumptions of the management of the company which are expressed in good faith and in their opinion reasonable. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the company or industry results to differ materially from the results financial condition, performance or achievements expressed or implied in such forward-looking statement. The risks and uncertainties relating to these statements include but are not limited to risks and risks of expansion plans, benefits from fluctuations in our earnings, our ability to manage growth and implement strategies, competition in our business, including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals and our ability to win new contracts, changes in technology, availability of financing, our ability to successfully compete and integrate our expansion plans, liabilities, political instability and general economic conditions affecting our industry. Unless otherwise indicated, the information’s contained herein is preliminary indicative and is based on the management information, current plans and estimates. I now hand the conference over to Mr. Srikanth Chakkilam for the opening remarks. Thank you and over to you sir.

Srikanth Chakkilam: Good afternoon, everyone. I'm pleased to present you with the results of our fourth quarter. Despite the challenging market environment, we've achieved a yearly growth of about 22.3% in dollar terms, which is a testament to the hard work and dedication of our team. We did

experience a slight decline in our Q-o-Q growth and this was largely due to some unforeseen ramp downs and budget cuts, which contributed to revenue flatlining. However, we are confident that we will see comebacks from Q2 and Q3. As we continue to focus on expanding our digital offerings and winning new logos. On a positive note, our EBITDA improve from QoQ from 15% to about 16.1%, which demonstrates our commitment to the financial discipline and efficiency. We also have a good order book for the company, which is a strong indicator for our future growth potential.

As we continue to expand our digital focus, we are putting in all efforts to offer digital first solutions. For our clients. We believe that this will enable us to stay ahead of the competition and also provide better value for our clients. In this regard, I'm also pleased to update you on the recent developments at Cigniti. As you may be aware, we've inducted a new board members Mr. Srinu Kandula to our team. Who brings a wealth of experience and expertise into the digital space, which will be quite invaluable for us as we continue to grow our digital focus. We are confident that under his leadership and guidance, we will be able to stay ahead of the curve and provide even better value to our clients. We will remain committed to the financial discipline and efficiency and we are confident that our continued efforts will ensure sustainable growth for the company. I'm also pleased to announce that we will be giving a dividend of Rs. 3/- per share and also special dividend of Rs. 2.5/- per share to commemorate the completion of 25 years. We are grateful for your continued support and also look forward to the continued success in the future. I now hand over the call to Mr. Krishnan, our CFO.

Krishnan Venkatachary:

Thank you, Srikanth and warm welcome and good evening to the shareholders and members and been a pleasant evening and thank you all for joining. I think the year has been fantastic for us amidst all the global events, whether it is Ukraine war or whether it is European slowdown and off late in the last quarter in terms of the looking at the global economic situation driven by the US markets, invariably I think we have whether the storm basically in terms of dollar terms this year has been a growth which has taken us at about close to 23% as against 168 million or so we have delivered at about 206 million with an efficiency in margin which was promised clearly that we will build in efficiencies across while the EBITDA for the years stands at about 14.4%, comparing to what it was at about 10.4% or so in the last year. By for the tremendous year I think consecutively comparing to the previous year where the growth rate on dollar terms, which was there at about close to 36% or so, I think we have marched ahead in terms of our growth. I think Cigniti very clearly that our sales strategy, our technology strategy has paved way and we are moving ahead in the right direction coming back to the business, I think I will have my colleagues to speak about the situation and the current scenarios. But I think by far the entire order book position, assuming with the current set of uncertainties with about 85% renewals coming through is in the range of about close to 202 million. And we are confident that the year ahead though, we are not in the process of giving any guidance.

We should be continuously improve our EBITDA margin and also grow in similar lines as to where we are and things like that profitability increase in terms of stability in terms of the resources and there has been a price increase in more than 50% of the revenue build accounts, which has contributed marginally. And also the newer wins which has come from strategic accounts at a higher margin, while this being the case, I think we have by far reviewed on a constant basis regularly in terms of our manpower and our utilization levels have gone to about close to 82% or so, signifying very clearly. One is that there is a mix and match in terms of trying to get that built and two is that we have also done on a periodical basis to let go based on performance parameters people so that we don't take a aftermath or the shock at the end of the year as to what we do for the size of the company where we are in, I think it's a continuous process and we have also done a churning on the pyramid side.

The offshore shift has happened to the tune of about close to a percentage point, which has also contributed to the margin, which is in our endeavor where clearly on the managed services to get over more into the offshore and bring in predictability while the top 20 accounts continue to contribute about close to 50% and the newer revenues during the year have contributed about close to 7%. I think we are extremely happy to state that our nurturing and growing the account in terms of the strategy coupled with our digital initiatives which are being taken up in terms of mining from the existing account as a digital transformation and service provider is also taking shares. The total digital revenue comparing to 9 million what it was last year. They have touched at about close to 18 million close to in this current year on 206 million and we have checked this to a double digit 200% growth for the next year. In terms of the contribution, what is coming through, that's the target where we are getting through.

We also have our share of the backlogs in terms of customers pushing down, ramping down on few of the unexpected areas in terms of the IT technology as a sector where our exposure is very less, but I think even on the fewer other sectors which we have carefully priced in and still we have worked out strategies in such a way that making a double digit growth should be a possible scenario as we stand today, our dollar rates have inched marginally and we are there hovering at about \$74 plus. In terms of the onsite and my on offshore rates have moved ahead to \$24.4 and overall the receivables and the collections, I think there has been a fantastic cash generation.

I regret to inform, and there is a small typo error in the presentation to the investor presentation which is carried. I think the total cash and cash equivalents in the balance sheet is at and also the company investments in mutual funds put together is at about close to Rs. 302 crores is what is the total numbers and the that has that figures are slightly interchanged though net, net everything remains the same and we have generated a free cash flow of Rs. 157 crores for the year after paying out for a dividend and after paying out for the acquisition of the company Aparaa Digital which is about close to Rs. 25 crores and we have also paid a dividend of about Rs. 7-8 crores. And we have paid buyback of shares with taxation at about Rs. 55 crores and all put together about Rs. 85 to Rs. 90 crores. After that netting off, we have

generated a cash flow of about close to Rs. 157 crores applying for the CapEx of nominal CapEx of Rs. 13 crores we are left with about Rs. 144 crore, which is accumulated out into the investments the receivable day stands at about 55 days and the team has been doing a fantastic job in terms of the collections cost optimization has been order of the day Q3 to Q4 again, we have come down on the cost, which is a global phenomena today. I think that will continue to be a continuous exercise as we start moving wherever there is optimization. We are trying to bring in overall net net. I think we are on a good track and our integrations have been successfully completed and the full blown results will be felt in the coming quarters and I'll have my business colleagues talk about the overall scenario in terms of the business and technology. I have with this few words, I thank everyone and I'll be back again on the question answer session, but I think I'll hand over the mic to my colleagues and CRO of the company Vinay Rawat, over to you Vinay.

Vinay Rawat:

Thanks, Krishnan. Good afternoon to everyone. I think Srikanth and Krishnan have already spoken about our last quarter. Krishnan also touched on our overall sales strategy, which instituted last year and I'm glad to inform that that the strategy actually has been working in terms of growing our existing accounts, our new new accounts strategy has yielded industry standard results and we are actually making few changes which we believe will actually yield better results in the coming financial year. Coming to the customers outlook, the only thing which actually we have seen is this specifically last quarters the customers actually have become or rather have taken a precautionary approach where they are much more careful in terms of doing the discretionary spend. However, we haven't seen any drastic cuts or any sort of panic in their overall spend, which makes us believe that whatever few ramp downs which actually we saw last quarter with few of our customers, some of them actually will come back either in next few months and we expect that going forward. I think our overall given that we have a pretty strong order book, our revenue outlook should also be remaining pretty healthy. I think that's pretty much it from my side right now and actually hand it over to Raghu basically talk about customer satisfaction, Over to you Raghu.

Raghuram Krovvidy:

Thanks Vinay. Good afternoon all. I think all my colleagues have covered the working strategy and business scenario this far from our clients perspective. We have seen one of the best results in our client satisfaction scores standing at about 3.87 out of 4 with superior coverage in terms of response. This is important score to us because it means a lot in terms of the value of delivery that we conduct on a daily basis to right. We continue to see increased demand of digital services and we continue to ramp up on the digital capability in the last call, we did speak about our strategy of increasing our digital footprint as a company. And so we continue you to do a great job there and we continue to grow that piece of business significantly. And overarching from our technology standpoint, we continue to invest into innovation relating to all the latest technologies, AIML and no code and stuff like that. That continues with our clients, as we expand the services footprint. Each of our existing accounts as Vinay alluded to, focus has increase the wallet share in existing accounts and our clients have been extremely

receptive for increased capability and we will continue to see our success in this area. With that, I think from our overarching technology standpoint we are focused on the right areas as Vinay said we are fine tuning our N-N strategy to see how we can fare better there and we will continue to scale capability and present globally in terms of headcount, our utilization, our gross margins, our unutilized costs, all those metrics have done extremely well over the last few quarters. With that Krishnan, I'll hand it over to you.

Krishnan Venkatachary: Thank you, Raghu, and thank you Vinay. And I request now Sairam Vedam, Chief Marketing Officer to talk about the marketing strategy and the updates.

Sairamprabhu Vedam: Good evening. Thanks, Krishnan, Vinay and Raghu, as our executive team alluded, we are putting our head down to focus and ensure we always put the clients interest at the center. But I'm extremely glad to update a few seminal recognitions that reinforces the pivotal brand strategy at the center of everything that we do. ISG recognized us as a contenders in digital met tech services that includes met tech digital transformation, pharmacovigilance, regulatory affairs quadrant which is our vertical enforcement going back to the energy utilities recognition that we got earlier. We are also recognizing the manufacturing supply chain digital transformation. That's one set of accolades more importantly, market positions. I am very happy to also announce that IDC for first time in Cigniti history we have been put up in the operational digital engineering landscape, which again strengthened our pivot to its equality first digital engineering move that we are doing third and foremost Zinnov, another leading firm position Cigniti for our intelligent automation services in the middle tier service provider segment across RPA intelligent automation for banking, financial services, retail manufacturing as breakout providers. So that sort of summarizes as seller positioning strategy that is tying together what our on field sales and innovation delivery alluded to. That's pretty much it and the digital engineering recognition is a strength in the direction. And we are expecting some significant call outs. As we move forward, before I end, what we're also seeing is I just wanted to give this note, so Gartner revised, its IT services spend note actually to 9.1% in 2023. This is as of April 2023, which is a revised market outlook up from 5.5%, which is actually a 3.6% more that Gartner is predicting. While definitely there are headwinds and cautious note that we are all looking but we believe that certain key verticals where we are also playing well are expected to show significant resilience healthcare by 5% to 6%, travel and transportation by 6% to 7%, these are from the Nasscom McKinsey report from global 2000, vertical spends, and I'm only calling out the key verticals and incidentally, Cigniti plays strong there, including energy utilities, which is expected to grow by 11% to 12% from the McKinsey report. So we are here to answer any more questions. I am giving it back to Krishnan, Sir.

Krishnan Venkatachary: Thank you, Sir, for the brief note. And I now hand over the mic to Veera who is our global HR Head, Veera over to you.

Veera Reddy Patlolla: Thanks Krishnan. Good evening everyone. We had a great last year which resulted in increase of our overall headcount by around 400 people with majority of these additions being freshers.

So post pandemic, if you see across the industry, attrition has been a big concern, especially in the IT industry. However, over the last six months, we have seen that. Stabilizing at Cigniti we are running below 20% now and we are very soon expecting it to go to pre COVID levels. As our CFO covered, we are not looking at any ramp downs as we have a robust continuous performance evaluation mechanism which helps in manpower optimization from time to time. We've also planned salary revisions this year to cater to the rising inflation, and the same will be closed this month. So last year we have been recognized as a great place to work. By great place to work institute. And this is a testimony to our employee friendly culture and leadership credibility in our effort to continuously improve. This year we will be focusing on the D&I. L&d apart from the other engagement activities that we have been doing, hopefully we'll get better by day and truly live up to the standards of a great place to work. That's all the update from my side. Thank you very much. Over to you Krishnan.

Krishnan Venkatachary: Thank you, Veera. I think we'll now move on to the question and answer session. We can take it up.

Moderator: Thank you. We will now begin the question and answer session. Our first question is from the line of Raaj from Arjav Partners. Please go ahead.

Raaj: Wanted to know your outlook for the FY 24?

Krishnan Venkatachary: Overall outlook I give probably on the economic environment as to what the business is, probably my colleague Vinay will speak. I think the overall outlook we are confident with the current set of order book and the renewals at about 85% as I told you, I think the numbers in terms of though we don't provide any guidance. So overall the scenario in terms of the performance for the next year though we don't provide any guidance, but I think we are confident that the current quarter performance could be repeated out very clearly and we should be able to grow over the last average of the over the last two years. Has been there another confidence level at which we are moving ahead because looking at the order book and the renewals at about 85% and the likely expectations the market is expected to revert back somewhere around August, September. But in terms of specific, any specific question to the economic environment in the US or anything specific, probably we can some of my colleagues can answer if you have anything specific, yeah.

Raaj: Overall outlook is there will you be able to protect your EBITDA and everything?

Krishnan Venkatachary: Overall for the, please don't look at the quarter in isolation. You look at the whole year in isolation. In entire we have done at about 14.5% EBITDA. So we are confident of improving this and not to decrease this. If we committed last year also from 10.4%, we made it to 14.5% neutralized basis. I would like to make it clear is that last time I had some one of the expenses. Which we were there at about 12.5% to 14.5%.

Raaj: So looking at the commentary, we can assume that from March like from FY22, your growth in FY23 as similar thing can be there in FY24 also, right?

Krishnan Venkatachary: Yeah, but you will also have to keep in mind on 2 counts. Basically because when there has been a push in the market, while we are confident on the growth to move up, you can't expect the 400 basis point improvement in the EBITDA. What is there at 14.5% and we expect about another 200 to 150 basis point improvement in EBITDA.

Moderator: Thank you. Our next question is from the line of Mr. Pankaj Kumar from Alfa Cap. Please go ahead.

Pankaj Kumar: My first question sir, would be on the wage hike. So we were saying that we would be taking a wage hike in April. So has that been taken and how much is that, Sir?

Krishnan Venkatachary: The rate hike has not yet been implemented. It is effectively April. It will be implemented and it's a split between offshore and on site. The offshore could range anywhere between 10% to 12% and off site on site could be around anywhere ranging between 2% to 4%.

Pankaj Kumar: And Sir in your initial commentary you said that there we have seen some ramp downs in Q4 and that is why at flat Q-o-Q revenue and we are saying that improvement would be from the second quarter. So it's like first quarter is like week and then things will improve from the second quarter or? How are we thinking in that trend?

Krishnan Venkatachary: No, exactly. This is a justification to be given basically for a flat quarter between Q3 to Q4, Q3 to Q4 the flat quarter in terms of the break up, if you look at it is that there has been some amount of ramp down, which has contributed about close to about \$900,000, and then about 400 K of discounts which we have been negotiating and need to be provided basically, which is relating to the previous period, but where it was allowed us we were negotiating for the service credit. I think that needs to be due to a change in VM office. We need to provide that out very clearly. So these are the two instances which would have neutralized. I think we would have been definitely honored our trajectory of course. But I think if you look at it, the unplanned reduction which is scripted and which has already been considered in my 85% renewal is already 15% and knocked upon the unplanned reductions ramped down. So probably if you look at mostly as a Q1, Q2, Q3, Q4, we expect sequentially to grow very clearly there's no shaking start to the quarter. Basically, we expect sequentially to grow, but these are normal part of the business and that's the reason I have pricing so that 85% of my renewal with the delta being coming through based on the pipeline available in terms of pressing the engagements in terms of the probability of conversion.

Pankaj Kumar: And, Sir, on the order book side, you're saying 202 million right now, but in the last quarter, I think you were talking about 210 million for the next year executable for FY24.

Krishnan Venkatachary: Absolutely, right. That's the reason I told you. That when I priced in a higher percentage in terms of the renewal, considering the market now though, we are expecting that around the Q2 time, probably all this should easy out still as a conservative estimates, we need to work through very clearly and that is the reason I've priced at about 85% and I've also moved ahead on a cautious approach to push with the sales and the delivery team to really get the delta in terms of the differentials out where we can start working at the beginning of the year rather than coming and looking at it at the time of ramp down which is happening. So we have provided enough question over that and we are trying to be transparent.

Pankaj Kumar: And Sir on the previous question you said that margin we can expect improvement of 100-150 basis points. So that would mean like Q4 to kind of sustain for the next year.

Krishnan Venkatachary: Probably you can look at it that way. Q4 to sustain for the next year, but probably there will be oscillations between Q1 to Q2 to Q2 to Q3 to Q4. The way that currently has ramped. Up, if you look at it because it's obvious that we will be providing some salary revisions and there could be we have gauging the economy and what it is happening. We're trying to do, we are trying to get through to the optimization. I think there will be a small variations coming through between the quarters, but I think overall we expect this to sustain.

Moderator: Thank you. Our next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: So the first question was that, can you give a split of your revenue for the year, full year between say digital application services and things like that? Like what are the key sub segments? And how should we look at it?

Vinay Rawat: I think the way industry categorizes digital services, so lot of work which we actually traditionally have been doing even in our core services actually falls into digital services. I think what when Krishnan actually gave his commentary earlier when he was referring to what he was referring to digital engineering services, which actually which was about 8% of our overall revenue in last year. But if you look at the digital services which we do or which we provide to our customers, it is closer to about 30% of our overall revenue.

Naysar Parikh: And what is the rest, is there business, is there BPO BPM, is there some application service is there testing, can you give some broad bifurcation

Vinay Rawat: So we don't do BPO BPM. And I'll just give you an example. We do a lot of data migration and data migration from antrum to cloud and anything around data assurance. Any application when actually moves out from antrum to cloud anything around that application during that process, that assurance is actually like we do that. In addition to that, of course, there are native application development, there are mobile web applications. Of course cloud native applications like Salesforce or Service Now or NetSuite to those kind of applications which

needs any sort of customize. So those are the kind of things actually which we provide digital assurance around them and that's what actually I'm categorizing as a digital services. In addition to that, we also help customers to not only implement the entire Dev OPS pipeline but also automate them. Do data engineering data analysis provide AIML services what is being categorized as digital engineering services. I hope I answered your question.

Naysar Parikh: Yes got it, and also I was trying to understand the remaining. So I understand the digital engineering which is 8% and your digital services assurance which is 30, what is the remaining?

Vinay Rawat: So the remaining services are around QA QE, including automation with we do a substantial part of performance management, test automation, functional and performance testing. Those are actually the balanced services into that 70%, which actually you're asking for.

Naysar Parikh: And from a margin perspective can you give us a sense of what would be the margins in your digital engineering versus digital services in this? What is the kind of delta, especially given that you won't be growing your digital engineering and digital services faster, so just from a margin perspective or billing rate. What is the kind of delta between the three?

Krishnan Venkatachary: The assets stance basically we are trying to make it slightly better asset stance. Basically there is a blended rate basically translated about close to the \$6 variant in terms of what we are at on the quality engineering to the digital side, basically.

Vinay Rawat: In terms of percentage, digital services actually drive close to about 10% to 15% higher realization as compared to the QA/QE services.

Naysar Parikh: So it's 40% is around 10%-15% higher than the 70% of QA/QE right.

Krishnan Venkatachary: That's right.

Naysar Parikh: And after the wage hikes that you are going to do and the order book that you have of \$200 million, the billing rate on that order book, does that make in the wage hike that we are doing or that wage you know we need to take further price increases to compensate for the a wage hike, which will be implemented from this April.

Krishnan Venkatachary: The current market is such that we won't be able to really go ahead and push for a rate increase with the customers. The current market is very clearly get that renewal done if possible for mining, which is possible. What we're trying to do is a combination of factors basically that newer wins on the digital side will offset is one of the areas. The second thing is that. We also have gone for certain cost optimization measures which will also offset and these are the two aspects basically which should take us through.

Naysar Parikh: But just like for like in the gross margin levels, fair to assume we'll be at least 8%-10% lower on the current order book? And then obviously we need to use the utilization of the measures to bring it up, is that fair?

Krishnan Venkatachary: Yeah, it's fair basically because of the continuous exercise and we have mastered it this year and we have mastered it earlier in the pathways. But this year has been a full blown year where we have done it beautifully. I think we are confident of further improving it.

Naysar Parikh: One last question, in terms of your obviously the climate is not very cold, but just in terms of. Your new client wins and you know even to maintain a 10%-15% growth. What is the kind of pipeline that you have today and are there any large customers especially dollar 1 million plus customers that you are targeting? And which you expect that there could be scope for increasing revenue share from there?

Vinay Rawat: So I alluded to in my commentary that the sales strategy which actually we implemented, we started implementing last year was predominantly to increase our market share or wallet share in our existing customers. Our endeavor is that our minimum customer size where we spend sales bandwidth should be a million dollar and we are in fact we have made a significant progress in last one year and we are reasonably confident that like we will continue to make progress over there and make an average size of our customer where we are spending our sales bandwidth to be about a million dollar. As far as the new business is concerned, we actually have a good healthy pipeline. We have certain deals in play right now as we speak where the decisions are actually expected in next couple of months. We continue to actually implement some new channels to generate connects with the new customers, which is what in fact I was mentioning in my earlier commentary that we are we are implementing new strategies to bring in new customers, new connects. New leads in our pipeline, which will actually help us generate new business closer to somewhere 8% to 10% of our total yearly plan.

Naysar Parikh: And you're currently your million dollar clients are how many?

Krishnan Venkatachary: There are totally about close to 43 clients in terms of million Dollar plus.

Moderator: Thank you. Our next question is from the line of Abhishek Sharda from Hem Securities. Please go ahead.

Abhishek Sharda: So Sir, first thing I want to ask, can you share what is the attrition rate, current attrition rate and what is your view on it going forward?

Veera Reddy Patlolla: So last year we ended at 20% annualized attrition and currently as we speak that this April trending at below 19%, we are also looking at going below 15% through the year. So hopefully we will continue at that number.

Abhishek Sharda: So you're saying in FY24 we can see around 15%. Is the understanding correct?

Veera Reddy Patlolla: 15% to 16% is what we are anticipating.

Abhishek Sharda: One more thing I want to ask like we have ended this year at 14.5% EBITDA margin and we are expecting a 100-150 basis points improvement so. Like is this 15.5% EBITDA margins are or 16% EBITDA margins are sustainable? Or I mean there is more like hope of improvement in this.

Krishnan Venkatachary: This is sustainable. More is merrier, we'll always scope for more because we'll endeavor to get more, but I think in terms of sustainability, I think the baseline we will definitely sustain slightly better than this.

Abhishek Sharda: And sir one more thing, like globally BFSI, space is like going through basically a challenging time. So what is our view on this space? And are we like facing any challenges in some like dealing of deals or something like that in this space?

Vinay Rawat: So while BFSI actually happens to be our largest market segment, but the clients which we have been dealing with, they have been pretty stable and our business with our BFSI client last quarter and also for foreseeable time period, which we actually have like this quarter or next quarter looks to be pretty stable. The banks which we deal with or the institutions which we deal with, they are fairly stable organic conditions they don't have at least on the surface of it they don't, it doesn't seem to be that they are under any sort of risk of what happened with few banks in the US market. In fact we do expect that resulting out of this there could be an opportunity for consolidation and depending upon how we are placed, we could be beneficiary of that. So that's pretty much I can share as of now.

Abhishek Sharda: And Sir lastly one more question like we have been consistently able to improve our EBITDA margins from last like 4-5 quarters. So can you share like from which vertical we are getting this improvement mostly from which vertical?

Krishnan Venkatachary: The business vertical in terms of travel and yielded slightly better for us and on the healthcare sector, which is especially where we are working on the medical devices sector, I think these are the two sectors which are contributing.

Abhishek Sharda: Travel and healthcare are the like major sectors from which we are getting improvement in right.

Krishnan Venkatachary: Yes.

Moderator: Thank you. Our next question is from the line of Hiten Boricha from Sequent Investments, please go ahead.

Hiten Boricha: Firstly, I want one clarification Sir. On slide number 4, you have mentioned the number of client adds on Q4 is 230 and as on full year FI 23 it's 301, so just want to understand what's the current number of client, is it 300 or 230?

Krishnan Venkatachary: There are two things which you have to look through is that 230 clients live as of Q4 total service to clients will come at 301 because some clients get serviced and moved out. So as of now, the live service client as of Q4 is 230.

Hiten Boricha: So my first question is on the outlook, Sir. So we have done a very good revenue growth of around 30%-32% this year. But based on your starting commentary, which you mentioned, we have seen some sort of slowdown in the Q4. So is it understanding current that. Revenue growth will be somewhere between 15% to 20% considering the slowdown with the growth in the US market, especially in the banking sector, we will take at least two to 3 quarter from here. Just wanted to understand on that side.

Krishnan Venkatachary: Actually, we do not provide any guidance. In terms of numbers, that has been the practice over the last five years in terms of not providing any guidance, but I think we have, we have talked about in terms of I've given the data as much as possible in terms of the order book and in terms of the confidence as to where we are and things like that. The market is market base we are, but I think as a mid-CAP segment, probably yes. And the size at which we are in, we are pulling all our strengths basically. But I think we are, we will not be able to give you any guidance, but I think we will be able to conclude to say that the confidence and optimism is quite high.

Hiten Boricha: So let me take it in the other way somehow this this slowdown in the BFSI sector, especially in the US is, is it impacting our growth CR for next 2-3 years? What's your visibility on that? I just want to understand is it impacting the growth? So we were doing a very good growth in last couple of years. So is the pace has come down because of the?

Vinay Rawat: I think we so I just mentioned earlier, the earlier gentleman actually asked the similar question where I did mention that customers which we have in our portfolio, they are fairly stable. We don't see any risk with respect to their business in the sense like. There's no indication it's not only based on what we actually have read in the media or press, but also from our customers. They're fairly stable organizations and stable institutions so that is one part. The second part with regard to our business with them that has been fairly stable throughout the last quarter and our customers actually have indicated to us that this outlook for that business is fairly stable. So going back, we are not getting any indication from our customers with regard to our business or with regard to their own business that there is any risk as of now. But as you know things can change but. We're just sharing with you. What part of the visibility today?

Hiten Boricha: Just a last question, Sir, on the headcount, we have added up to somewhere around 400 employees this year. So can you give what kind of number we are looking to add this year also? Are we looking to add some?

Krishnan Venkatachary: It's a linear business, so invariably if my business has to go, basically the addition has to happen. I can't say that I have a non-linear revenue, which is 20%- 30% dollars hardly. My non-linear revenue could be on the consulting side, which is coming at about close. To 2%. So invariably it will be pro rata in terms of depending on the growth which has come to.

Moderator: Thank you. Our next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Sir, can you please indicate on the revenue growth by FY24.

Krishnan Venkatachary: Revenue growth for FY24 as a principal probably we don't give any guidance. We have also already expressed the higher level of optimism.

Rishikesh Oza: OK, So what is your order book as of now?

Krishnan Venkatachary: About 202 million.

Moderator: Thank you. Our next question is from the line of Pankaj Kumar from Alfa Cap. Please go ahead.

Pankaj Kumar: Sir, this question on number of clients, so 230 number of clients this is lower than all the rest of the quarters. So any constant strategy we are doing that to we want to improve client revenue per client. So we are reducing number of clients or how we should be thinking on that one.

Vinay Rawat: So going back to what I was mentioning earlier that our sales strategy is to increase our wallet share with our customers and provide them better attention, more focus and provide more services to them that obviously helps us to kind of deepen our relationship at various levels. And be a contestant to get more business for them. So our intent is to actually deepen that relationship further and continue to make our average size of account more than a million dollar. In fact if you really see which I think Krishnan mentioned that top 20 client, our top 20 clients actually contribute almost 50% of our revenue. And if you actually take even further like top 50 customers they almost contribute 80% of our revenue. So from overall perspective, our strategy will remain to actually go after new customers who will become substantial customers for us and continue to service them with more agility, more focus, more attention.

Pankaj Kumar: Sure, Sir. And Sir, one last question on the consolidated balance sheet. So we can see that there is an intangible asset also out there now and goodwill has also increased. So any comment on that, because I think earlier also we had some exceptional items some couple of years back.

Krishnan Venkatachary: No, that is on account of acquisition of Aparaa and accounting here off basically.

Pankaj Kumar: So both these intangibles as well as goodwill is on account of that acquisition.

Krishnan Venkatachary: What is paid as a money is split in terms of the their taken over assets, the differential goodwill and the differential is that the customer relationship is there maintained is valued as per the accounting standards and that's treated in intangible and return off over a period especially. Over a period of three. Years or four years or so. So that is the reason that intangibility.

Pankaj Kumar: That will be written of over a period of couple of four years.

Krishnan Venkatachary: Absolutely.

Moderator: Thank you. Our next question is from the line of Mr. Keshav Garg from Counter-Cyclical PMS, please go ahead.

Keshav Garg: I wanted to understand that last year we did a share buyback and now also we are sitting on decent net cash surplus and one year is about to pass since last buyback. So any plans on another share buyback?

Krishnan Venkatachary: I think the 12 months gap between one buyback or other buyback elapses somewhere around in July or so and definitely board when they take an appropriate decision. We will definitely come back uniform.

Keshav Garg: Sir, also wanted to understand that this quarter, fourth quarter there has been a marginal decline in our top line, but the employee expense has also come down marginally. But Sir, I understand that last call you mentioned that from first April, we are looking at wage hikes for our employees. So now going forward, in the first quarter, if our top line remains stable at this level at whereas the employee expenses go up then are we expecting us hit on our margins from first quarter one?

Krishnan Venkatachary: See, it's always a phenomena if you look through basically that India is always to grow sequentially leaving all that aside. Basically, the continuous optimization is happening on the wage cost. That is what you have seen the reduction while the appraisals takes place, the appraisals also basically will have an effect spread over four quarters, which is also in line with the revenue growth which has come through and the current quarter I have already made in my opening remarks that rationalized EBITDA is fair to assume at about 15.5% for the current quarter. While we add certain reversals to take it to 16% or so. So I don't see a big challenge, but we should look at here as a whole rather than looking quarter as a period. There could be a small variations in the quarter, but I think which is a natural phenomenon. But if you look through for the year as a whole, we are confident of increasing by about 150 bps.

- Keshav Garg:** So, that is very heartening to know. And Sir, lastly, Sir, with the stress especially on the IT side, I mean globally. So are we anywhere nearer to our acquisition target. Have you found anything or are we near that?
- Krishnan Venkatachary:** See our job is to review the proposals, but I think we'll come back to the market asset and the board decides. But the intent is very clear that we would like to move ahead on the inorganic side and we will definitely, when it culminates automatically the active consideration what we are doing in terms of culmination probably we'll come back.
- Moderator:** Thank you. Our next question is from the line of Utkarsh Somaiya, individual investor. Please go.
- Utkarsh Somaiya:** If I were to look at your results, it's significantly better than the rest of the IT services sector. So just wanted to understand what differs your company from a typical IT services company.
- Vinay Rawat:** I think there are a few factors, one most customers over the years actually are looking for niche players with very deep competency into certain specific areas. As you know, we are fairly well known not only into advisor analyst community but also to the customers especially into digital assurance, QA, QE, space. That specific positioning actually differentiates us as compared to any other providers or let me put it this way, that large providers who actually do everything under the sun. That's one part the second part our size actually makes us fairly agile, fairly responsive and be able to provide attention and focus, which acts most of these customers are looking for. The third thing which is actually helping us to gain market share into digital services is our existing relationship with the customers where we have been able to do a fairly good job of execution and as a result of that confidence and trust customers actually are trusting us on the digital services side as well. The last thing is our engagements with the customers actually have been fairly long term and where going back to the same thing which I was telling like our execution has been fairly stable, consistent. So customers actually trust us a lot. All these things put together it has given us momentum which has not gone down as compared to some of other peers in the industry. I think that's what I would say, but predominantly our niche positioning is what actually helps us to differentiate in the market.
- Utkarsh Somaiya:** So most of what you just mentioned goes to say that are very efficient at what you do. But I was looking for an answer in terms of understanding what your specialty lies in, in terms of any specific sector or is there any barrier to entry in terms of skill set that you possess that your clients don't?
- Sairamprabhu Vedam:** I will add in few points to what Vinay said. There are three buckets here. So one is this unique approach to having a specialized quality first quality engineering, digital assurance capabilities that puts the quality of the software as a central dialogue that we have with our customers, which is an all season thing because they have only one window to get their software right that's a very niche capability. Which also means that very specific competencies in that space

is something that we bring uniquely. The second thing is this combination of equality first approach to specific capabilities of digital engineering that we are now bringing in. Makes us a very unique proposition, which in case you heard about the analyst commentary that I reached at the beginning, some of the new recognitions that we got with specific positioning, be it from the IDC or from ISG or from the ZINOV reports, further calibrates that the last point is the in customer inquiry indices which we have reports from Gartner shows that more than 23 in the global 2000 companies came in for very specific combination, that we as a service providers offer which summarizes all that Vinay said and hence we have a very niche unique which seem to be definitely resonating and which we believe is important as clients increasingly 3 important things, assurance, automation and acceleration that's what we provide.

Utkarsh Somaiya: OK. And in which sector do you specialize in and who are the players you compete with in the marketplace?

Sairamprabhu Vedam: Let me answer it. In two segments, see our strengths. We've been across vertical player fundamentally because software quality is a cross vertical dialogue. But that's said today our key verticals are naturally in terms of revenue split, banking and financial services, but we have been a very strong travel transportation provider, which we are now seeing significant resurgence. And alluding to what I said at the beginning of the commentary, our competencies in sub segment of healthcare that is a med tech which is a high spend vertical even from the McKinsey report, that's another area. And we are also traditionally very strong in retail as a vertical. These are our top 4 verticals. And conjoined to that, our recognitions in Healthtech and Energy utilities, which is actually going to see 11% to 12% growth. We are already recognized provider in that. So that's from our vertical play, but essentially software quality is a cross vertical play even now because every vertical which invests in software needs quality to be deterministic.

Utkarsh Somaiya: And just one last question. When you have a dialogue with clients, are they more willing to spend on growth in terms of their internal business or the tech spends are more towards cost cutting? And has that changed in the past one? Yeah, in in this, in the market slowdown period, yeah, that's all from my side. Thank you.

Vinay Rawat: So as I shared earlier, we haven't seen any significant cuts as far as the budgets are concerned from the customers perspective, it is more repurposing the existing spend. I think the major trend change if I were to actually, you know, put my finger on is discretionary spend. Discretionary spend which used to be fairly common across different industry segments and organizations during pandemic where digital transformation organization for spending billions of dollars and that that is something which actually has come down and customers actually have become pretty cautious in terms of doing any discretionary spend. That's one particularly what we, you know, we have noticed as far as our customer portfolio is concerned.

Sairamprabhu Vedam: I think Vinay covered the two things. So customers are today postponing 1 short projects, but which are, you know, keeping the lights on, which is automation at the center of it. In fact, the research by Gartner emphasizes that global 2000 companies CFO's are only approving budgets which have only a shorter turnaround times of 18 to 24 months, at about 65% of them are investing on through digital net automation that pretty much summarizes what we as a value provider offer to the market with only one articulation? How can automation accelerate digital initiatives? In that sense it is a good place to be in as long as we execute well. It's our delivery teams are superb.

Utkarsh Somaia: If you can allow me one more question just to give a big picture view of the whole cloud transformation journey, which started a few years ago, where do you think we are in this entire journey? Have we just begun, is this just to slow down in the long term journey or just trying to understand the longer term picture. Maybe a five year view, 10 year view.

Vinay Rawat: So I think you know, I'm sure you've seen the results from Microsoft and Amazon and clearly the spend on the cloud transformation is actually kind of flattening most organizations or other most large organizations actually have already chosen their cloud platform, they have substantially, they have moved their infra applications data onto the cloud. So while I think the overall transformation and the cloud spend is here to stay. But the speed at which the money was being spent over last three years actually is has flattened and unless there are new applications or new areas which actually drive the cloud consumption as of now the visibility is that these things for the foreseeable future, actually will remain flat.

Sairamprabhu Vedam: I'll just add to what Vinay said in McKinsey report right which is very specific to service providers, Indian service providers, global ones. It actually throws in a new dimension there is a concept called cloud governance and cloud rationalization, which is a big opportunity because as Vinay rightly said, lot of dollars have gone in to buy hyperscalers. But service providers will see high growth coming from data analytics on cloud and it's likely to grow about 12 to 14%. You know that's where I think cloud migration, cloud migration assurance. So there are some sub segments of the post cloud transformation aspect for the next three years, which will be a good opportunity play for specific providers like us. So it's more about cloud rationalization now.

Vinay Rawat: I think. Multiple likely organizations actually have published this that for service providers, the biggest opportunity which will now will be in the areas of optimization, governance, basically helping the customers to consume what they have bought most optimally.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference and now end the conference over to Mr. Srikanth Chakkilam for closing comments.

Srikanth Chakkilam: Thank you everyone for your time. Look forward for the participation in the next call and look forward for continued support and we intend to give our best to all the stakeholders. Thank you.

Moderator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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