

**Cigniti Technologies Limited**  
**Investor Call**  
**August 05, 2020**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q1 FY21 Results. Today, we have with us from the management Mr. Srikanth Chakkilam – Chief Executive Officer and Non-Executive Director and Mr. Krishnan Venkatachary – Chief Financial Officer. 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 “\*” and “0” on your touchtone phone. I now hand the conference over to Mr. Schneider Albuquerque from Adfactors. Thank you and over to you, sir.

**Snighter Albuquerque:** Thank you Vikram. Good evening ladies and gentlemen. Before the call, we would like to point out that certain statements made in today’s call maybe 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 health, beliefs and assumptions of the management of the company which I express 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 conditions, performance or achievements of the company or industry results to differ materially from the result financial condition, performance or achievements impressed or implied by such forward looking statements. The risks and uncertainties related to these statements include, but are not limited to risk and risks of expansion plans, benefits from fluctuations and 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 instabilities and general economic conditions affecting our industry. Unless otherwise indicated the information contained herein is preliminary indicate and is based on the management information, current plans and estimates. I now hand over to Mr. Srikanth Chakkilam for the opening remarks. Thank you and over to you, sir.

**Srikanth Chakkilam:** Thank you Snighter. Good evening everyone. Let me begin by thanking you all for taking the time and connecting with us for the Q1 concall. I hope you and your loved ones are all keeping safe during these unprecedented times. We are dealing with a major global challenge as the COVID-19 situation continuous to evolve. As we move into FY21 the entire world is engulfed with challenges created by the crisis. However, this situation has also opened up new

opportunities for all of us and it is all about how quickly we adopt to the new norm. We have been able to rapidly mobilize our operations and work from home in a seamless manner without hindering customer experience and productivity. Today 99% of our workforce continue to tirelessly work from home. I sincerely acknowledge the role and support of our employees and also the front line support staff who have enabled operations during these unprecedented times. We have not downsized our staff in these times and have continuously checked their well-being, conducted survey for their needs, invested on training programs and also facilitated their moment from client locations such as UK and US to India and also within India while following all the norms set by the government. COVID-19 has been a catalyst for many companies to go digital and adapt and adopt to the digital world almost instantly.

Even industries which were slow to adopt technology have been forced to use various digital platforms to ensure business runs as usual. Cigniti has proven itself as a world leader in quality engineering having won many clients in the Fortune 500 space and transforming quality engineering buildings of many companies. Also, by working on cutting edge technologies pioneered a new methodology and testing and building its own IP to bring in cost and productivity efficiencies for both client and our company. For example, our AI-led testing approach through VERITA provides a differentiated value addition to our clients with VERITA's ability to predict the defects through the use of AI and help companies become more resilient in their digital transformation effort.

There are practically unlimited opportunities in the era of digital transformation and also since we have proved ourselves as a leader in the quality engineering space we are now at an important junction to capitalize on our story to become the leaders of digital transformation. Areas such as 5G, medical devices, ecommerce, retail, hi-tech and technologies in cloud automation, AI, machine learning and cyber are the road ahead are becomes leader in the space. Now we are consciously investing into leadership, technology, advisory councils, partnerships and marketing in the areas I just mention apart from continuously strengthening our quality engineering initiatives. We have built several client case studies in new age areas such as service virtualization, AI and automation all of which will play a critical role from here on.

Coming to the specifics of the company for the quarter we have clogged a revenue of INR 218.4 crores versus INR 233 crores in Q4 which is a dip of about 6.3% in INR terms. We have clogged an EBITDAM of 16.5% versus 13.5% in the previous quarter. As expected due to our higher exposure in travel, transport and hospitality we witnessed a dip in revenue, but it is better than what we anticipated. The major impact comes from TTH clients in UK and Europe which contributed to biggest impact for our company. We continue to operate in critical areas for travel, transport and hospitality clients and hence the retentions of most clients have largely not been an issue up until this point. The top 20 clients have not churned out and continue to be the same from the previous quarter although we expect it to slightly change in the coming month largely due to the slower recovery process in TTH sector. April and May have been most

impacted in terms of billing, but we started seeing recovery from June and the positive trend is likely to continue. We have been able to quickly pivot a new vertical such as healthcare, medical devices, testing, hi-tech and also reduce impact from TTH industry.

Our new service offering in cyber, RPA and support has also helped us expand within our existing accounts. We continue to be cautiously optimistic as we are still not out of the woods as COVID-19 still dictates the economic recovery. As stated in the previous investor call, the company has retrenched employees on account of COVID-19 and has consciously taken a pay cut of 5% to support this endeavor. Although the utilization levels are dropped, we have improved our efficiency and have been to abstract higher productivity and continue to monitor quite diligently. Utilization levels have been on the uptake since June and as speak as well and we will continue to be maniacal about this particular lever. Travel cost as expected have come down except from the moments of folks from US and UK which is sort of onetime in nature. We have also been able to add 10 new clients in the last quarter in the areas of medical devices testing, hi-tech, oil and gas, utilities and government/federal contracts.

We have been able to engage with clients remotely through mechanism like webinars, client advisory councils, quarterly business reviews and also continue to actively monitor our pipeline. Attrition as compared to last quarter has been on the lower side and we will continue to keep an eye on talent, retention and attraction. At this point I will have Krishnan Venkatachary takeover who give the key financial updates and then we will have the floor open for questions.

**Krishnan Venkatachary:**

Thank you Srikanth. Good evening ladies and gentlemen wishing you all a safe stay. Taking a cue from what Srikanth has said that we have achieved on a consolidated basis for the quarter INR 218.4 crores as against INR 233 crores. In terms of dollar we have achieved \$29.25 million as against \$32.27 in the last quarter. While on a dollar term the dip has been at about 9.4% and on rupee terms the dip is at about 6.3%. The EBITDA has moved from 13.5% for the last quarter to 16.5% due to effective bench management, reduction on travel cost universally and the fact that we have gone for a 5% cut. Just to be cautious and put it out very clear as an opinion is that our major revenues comes from the US and Canada which is about 90% we have not availed any kind of subsidy in that region as we are not eligible so which means that this is an operational efficiency improvement which has come through in our operations and we hope to continue to enhance that moving forward.

On a standalone basis we have done revenue of about INR 72.99 crores with an EBITDA at about INR 12.53 crores which is at about 17.2% and with a PAT of INR 12.2 crores which is 16.7%. Our taxation in the overall scheme of things has reversed back to the normal levels this year, we have carry forward absorbed losses which have been completed and we have moved into the normal taxation regime now of course with availability of MAT credit and different tax credits. Effectively speaking that we are on the right track as Srikanth mentioned as against what we anticipated as an aberration I think we are able to win back in a major way with about

6.5% or 7% reduction in travel % and still resulting in contributing as a top segment to the tune of 21%.

The top 20 accounts have contributed about 49% and rest of the accounts; we have serviced about close to 205 accounts and rest of the accounts have contributed about 51%. On an analysis of the top 20 accounts there has been some jumbling in terms of the top 20 within the 20 in terms of the revenue downside and margins moving up. I think in the overall scheme of things probably our GM has increased by about close to 5% in the top 20 accounts and the revenue yield also has marginally up about a percentage or so combined to the quarter. Our onsite utilization continuous to be at about 91% this is the key strength for the company in terms of effectively managing the onsite bench because we had a couple wherever the project ramping down in terms of contractors and on a back to back basis we have let that go and on the other employees predominantly either they were deployed or they were put as per policy on H1 and 15 days of bench and then moving into LOP and then moving them away. Fortunately we were able to place them invariably. My utilization on offshore has dropped down predominantly as we consider in terms of April -May being the aberration June has come into a peak billing where net addition of about close to 80 people. It dropped to 76% I think it is now clogged back to about 80% in July in terms of my offshore utilization partially that has also affected in terms of the small billing rate aberration which has come from \$71 to \$68 onsite and offshore at about 22 to 21 marginal reduction.

About 45% of our revenue is from the offshore and we hope that we should move by a couple of basis points at least by the year end as more and more clients have been preferring in terms of what needs to be done in terms of trying to shift the business out from the onsite location with travel being restricted. We also have claimed subsidies amounting to about \$300,000 during the quarter from Australia and UK regions this has moved into the system. I think in terms of the order book position we are on a very comfortable wicket the sectors that have been discussed in terms of compensating for travel are healthcare and various other sectors. I think the focus has increased thrust has been there on these sectors. We are very confident that we will be able to march ahead with the kind of run rate what we are currently holding we are expecting that we should be able to deliver good set of numbers in the coming quarters.

Having said that, I think the phenomenal part being that we had a fantastic collection, receivables or receivables days as against March which is 66 days or 67 days has dropped down to 57 days and net cash generated during the quarter has been at about INR 50.2 crores which is definitely worth noting as even in the times of pandemic we have not gone bad with any of the customers and the collections have been phenomenally good. There are about 1 or 2% of the people who have come back asking for shifting days from 15 to 25 days or 30 days, which we have accommodated, but I think by and large we have seen that there is no client which has come asking for any kind of reduction in rate or discounts. It is because of the high quality

work what we do and the criticality in nature of what we are working on even in these travel clients that is the reason we are able to claw back and I can probably say that except one or two which have their own issue in terms of one on the travel side and one on the non-travel side entertainment industry, other than that we have not lost any clients invariably. We are able to retain these set of clients and with this summary I would throw open the floor for question and answer session on the business and financial side and the outlook.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

**Keshav Garg:** Sir, I wanted to understand that the promoter shareholding three years back was 48% and it has fallen to around 37%, so what is the reason for this?

**Krishnan Venkatachary:** One of the gentlemen holding about close to 9.5% shares by name Kumar he has less than 10% and has not been active in the business so he reclassified himself last year as a non-promoter because of which the holding seems low, but otherwise Mr. Subramaniam and family, Srikanth Chakkilam, Subramaniam Chakkilam together during the quarter of April, May, June they have gone for a market purchase to enhance their stake by about a percentage in the overall schemes of things. So it is just a reclassification which the gentleman really wanted to and he has the right to do it, but he is always with us together and we have a good relationship and he still continuous to hold the shares.

**Keshav Garg:** Wanted to understand about specialized testing services, what percentage of your total turnover comes from specialized testing and what percentage is traditional testing?

**Krishnan Venkatachary:** I can put it this way, new age technology is what we call as digital DevOps. All put together I still continue to hold at about close to 33% coming from the new age technologies and the rest of the things come from the QA engineering and QA assurance business.

**Keshav Garg:** And sir the margins must be higher in this new age technology is it?

**Krishnan Venkatachary:** Absolutely yes that is one of the reasons my average realization rates are also quite high if you look through they are at about \$70 in terms of the onsite rates and at about \$22 for offshore. The reason is that the realization on these 33% gives me a mix and these rates range anywhere between \$90 to \$110 and for offshore somewhere between \$28 to \$31 so it gives me an edge in terms of average realization being on the higher side.

**Keshav Garg:** And also sir like you mentioned that on our tax rate that accumulated losses have been set off, so sir what in terms of percentage what tax rate will we be paying for FY21 I mean effective tax rate on consolidated basis?

**Krishnan Venkatachary:** On a consolidated basis I think Q1 could be formed as a base basically we are at about 20% or so, little less than 21%. This could be an average rate which can come through because this is after netting-off the MAT credit and therefore tax credit coming through. So invariably we will be around these levels. We are in the normal tax regime of about 25% approximately, but I think setting up all these in all the regions put together we should be at around 21%.

**Keshav Garg:** Sir in the last concall you mentioned that travel and retail etcetera together the sector affected by COVID are more than a quarter of the turnover and still you could increase your EBITDA for the first quarter I think it is really creditable and like you mentioned that accumulated losses have also gone, so if you could start paying a maiden dividend then the company can come in the high quality IT companies which are really growing even in this lean period so please consider starting dividend or then a share buyback

**Krishnan Venkatachary:** Definitely your points will be noted gentleman and board is cautiously observing the entire position and just as a point in terms of the eligibility for the dividend basically on a standalone basis I still have on the Company's' Act basically another INR 13 crores to be wiped out as a revenue loss because there is a difference between the income tax laws and the company laws so there is an INR 13 crores on standalone and this company is a listed company which is a holding company so invariably standalone results are considered for the purpose of dividend or any kind of thing and we do hope to get that off from the books by this couple of months' time and board is definitely evaluating and we will definitely take this as a pointer and put it across to the board for appropriate consideration.

**Keshav Garg:** Sir we are already near INR 900 crore turnover, so do you think that in this financial year we will finally cross INR 1,000 crore turnover?

**Krishnan Venkatachary:** We are cautiously optimistic in the current pandemic as we start to move, but we do not provide any guidance at all.

**Moderator:** Thank you sir. We have next question from the line of Harit Shah from JHP Securities. Please go ahead.

**Harit Shah:** I would like to know what the current onshore and offshore mix is and how do you see it going forward?

**Krishnan Venkatachary:** In revenue terms the offshore to onsite as a mix is at about 45% to 55%, 45 being offshore and 55 being onsite. In terms of the people mix we are at about 74% offshore and 26% onsite. While I do not see any aberrations immediately in terms of offshore blossoming out in the coming quarter, but I think in this three quarters I expect my offshore to move by a couple of notch point basically because the way the discussions are happening around and moving around we could see that interest for the client lies in shifting projects predominantly by being contact less operation and getting into working from home I think more and more we are able to see

the tractions in terms of offshore coming in. So we have to wait and watch, but I think we are optimistic that it should move by a couple of percentage point for the whole year as a whole probably, but I think as it stands today we are at about 45% and 55%. This is about 100 basis point more comparing to what was in the last quarter approximately.

**Harit Shah:** Given that fact there are lot of policy changes that is happening in US the elections are there and policies are more favoring towards creating job for locals, how do you look into the aspect, is there any strategy or is there any challenge that you foresee going forward?

**Srikanth Chakkilam:** This is not a new situation, we have been seeing this for quite some time now. India strategy there is hire local which we have been doing for quite some time and also in current pandemic situation clients are not necessarily forcing us to higher locally given that most of the operations are going work from home and things like that. So that is the reason Krishnan also mentioned that offshore component might shoot up by few basis points and the policy changes that we are seeing are also incremental in nature. They have not been very drastic, so I think not a major affect at this point.

**Harit Shah:** Why I am reiterating on this is because 84% of our total revenue comes from North America that is a major chunk, any impact on this will create an impact on the top line?

**Krishnan Venkatachary:** I can add a point to it the CEOs they themselves are aware of what is happening on the policy side and we are not, Cigniti alone is not an exception because there are host of companies available in the forum running through the same pattern. We are not averse to hiring people locally over there, but only thing is in terms of the margins which will have an impact and all are aware of the situation currently. In terms of their critical application if they feel that they need to hire I think the margins and pricing and the rates will definitely move up because of the difference of cost between the Indian hire versus the local hire so we are not worried on that. As regards Federal which has been signed up yesterday I think that is it is fine, it is a policy basically most of the federal contract if you understand it does not come directly into any of the SIs, it comes through subcontracting mode invariably and there we will have our covenants placed and running it through. Couple of proposals which are there on the pipeline we will also have our covenants run through in terms of what can be the rate. But this situation will push to get into an offshore model. It is only a temporary phase and phenomena post-election we have seen this tapering out at every point of time and we are confident that this will taper out.

**Harit Shah:** My next question was regarding the margins what kind of margins we are looking for FY21 is it going to be the same or do we see any improvement in that?

**Krishnan Venkatachary:** As we are not giving any kind of a guidance we do not want to talk about any estimated number, but I can say that with Q1 is upbeat for us and we know for sure that we are here to stay and then improve this margin upwards, positively.

**Harit Shah:** And the last question is regarding the pipeline we would like to know how do you see the order pipeline for the fourth coming quarters?

**Krishnan Venkatachary:** It is shaping up very well basically, I would say as of today I have billability of about \$82 million of order book and close to about \$100 million plus in terms of the pipeline which is running tight with us. I think the pipeline conversion is slightly delayed and it will have iterations clearly, but I think things are looking very optimistic for us and at least for a quarter we are cautious I think beyond that probably I think things will settle down.

**Moderator:** Thank you sir. We have a next question from the line of Suyog Kulkarni from Reliance Securities. Please go ahead.

**Suyog Kulkarni:** I have one question on a cash collection receivables days have improved significantly, but do you see these like this is the new normal, what is the reason for that have you changed the policy or have you witnessed some advances?

**Krishnan Venkatachary:** No, we do not operate on any kind of advance as a methodology very clearly. On two counts we have we have very cautiously pressed the button right from March first week when we could see and sense the pandemic thing before it was declared as a pandemic and we could press the button in terms of our collections and for March what we pressed it came and fell in April, May, June in terms of the realization, but as we started for most of the clients are notable clients and they have not been cash triangulated out very clearly and so we did not feel that and there is a continuous set of follow up which has been done. On the parallel what we have done now as a safety mechanism is that we have covered the entire US and Canadian regions and we have been probably one of the few I would say preempt right from 1<sup>st</sup> March in terms of covering the entire receivable under insurance for a nominal fee and that coverage for about a year helps me out in any kind of receivable which is actually 90 days and till date from March to August I have not submitted a single client and hope the situation does not arise, but I think that is what as a security which I have already done. So it has been a pure follow up and there are few of the travel clients in UK region who came out and asked for an installment settlement of the outstanding from January and February and they have honored all that. They have deferred the billability for April, May, and June. So they have gone ahead and they have got their government grants and they honored all the payables from their side and receivables for us so that is one of the reasons due to which we have seen on improvement and I think going forward we will keep up this pressure on very clearly in terms of the receivable of course subject to business eventuality we are hopeful and optimistic that we will be able to maintain good receivable days.

**Suyog Kulkarni:** I have just one more question for year ahead you are cautiously optimistic so which are the areas you are cautious about and which are the areas you are just optimistic about like can you help me with that please?



**Srikanth Chakkilam:** Like I mentioned the new age offerings that can help us position as a digital transformation leader that is where we are quite optimistic about like areas such as medical devices, 5G and ecommerce where we have set of clients and we have been able to expand and take those offerings out to new clients. I think that is where we are optimistic. In the areas again technology aid such as cloud, AI and RPA and machine learning so those are the areas. Cautious obviously we still have decent exposure to travel, transport and hospitality some of it has climbed back up towards previous levels not exactly to the previous level yet, but slightly crawling back. So again there we are cautious because the travel sector is operating very inefficiently at this point, but having said that these are some very large companies and they have not gone bankrupt and have not thrown the towel yet. So that is where we are cautious, and both put together is where we are cautiously optimistic.

**Moderator:** Thank you sir. We have next question from the line of Keshav Garg from Counter Cyclical Investment. Please go ahead.

**Keshav Garg:** Sir, we had some loss making subsidiary although the loss was marginal, I think in Australia, so do you foresee these subsidiary breaking even and making money going forward?

**Krishnan Venkatachary:** Absolutely, that is one of the reasons why we have continued with our subsidiary and we see a good business tracking and visibility and for this year in fact Australia started making profit in Q1. So the board and management has been keenly watching what it is and in Q1 we have turned out profitable. Almost all the other subsidiaries are absolutely profitable so we do not see an issue and we see lot of tracking and visibility in the Australian business.

**Keshav Garg:** And sir since 84% of our revenues are from North America and you would appreciate that US is in late cycle; basically from 11 years the US economy is on a upturn, so now there maybe next year or so God knows when, but downturn is due since the economy is cyclical after all, so the point is that we are doing well right now, but maybe one, two years down the line when the US economy dips somewhat so then we might have some kind of pressure on our sales, so are we looking at basically diversifying out of United States?

**Srikanth Chakkilam:** US I think continuous to be the largest market and I think it will be that for a long time however having said that we have already started our efforts in UK and other parts of Europe. So diversifying we will probably go into rest of the world mostly in UK and Europe and largely towards the Middle East not beyond that. I think US will probably still continue to have lion's share even as we go along in the next two years. So we will probably stick to areas that are in high growth mode that will perform even during a downturn. So it is important to identify those high growth areas now and invest than worry too much about having a downturn seriously.

**Krishnan Venkatachary:** Adding to the point, economic upswing and downturn is a part of the cycle and which is applicable to any industry and especially the hi-tech industry and what is more important is that where the spending happens the total estimated market of testing and the QA and the

entire market is about close to \$40 billion. So it is very important like what Srikanth said that we will have to gear ourselves and move around and create stickiness with the client in terms of handling the critical application and if you get embedded out with the client where there is more and more in terms of critical application I do not think downturn is going to affect. It will only have an marginal effect and adding to that if I do a counter measure in terms of enhancing my offering in terms of the technological areas which is being constantly worked out I do not think that this is going to our aim, but I think US will continue to be the flagship for many of the IT companies because suspending happens over there and the spending will not come down and we do not see that coming down.

**Keshav Garg:** Sir just wanted to understand on a same project sir our pricing, how does it compare with TCS like is TCS charging like 5%, 10% premium over for the same work?

**Srikanth Chakkilam:** I cannot really comment on that we cannot comment on competition crisis.

**Keshav Garg:** Sir, what I am trying to understand is that what is our strategy, is it to get business by cutting prices?

**Srikanth Chakkilam:** No, we do not go on price war, we go on value based selling. We will talk about how we are better as a company and how we can offer higher productivity and higher efficiency for the budget that is provided than undercutting folks and if you have looked at our pricing also in the last few years our pricing has actually gone up we have consistently come to the \$22 mark to the \$71 and we will continue to improve on this, will not go on a price war.

**Moderator:** Thank you sir. As there are no further questions from the participants I would now like to hand the conference over to Mr. Srikanth Chakkilam for closing comments. Thank you and over to you, sir.

**Srikanth Chakkilam:** Thank you everyone. Thanks for coming in the call. I look forward to talk with you all again in the next conference call until then please stay safe and look forward to speaking and seeing.

**Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Cigniti Technologies Limited that concludes this conference call. Thank you for joining with us and you may disconnect your lines.