

**Cigniti Technologies Limited**  
**Q2-FY20 Results Conference Call**  
**October 04, 2019**

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**Moderator:**

Ladies and gentlemen good day and welcome to the Investor call of Cigniti Technologies limited to discuss their Q2 H1 FY20 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 of Cigniti Technologies Limited. As a reminder, all participants' lines will be in the listen-only mode.

Before we start the call, we would like to point out that certain statements made into this 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 belief 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 conditions, performance or achievements of the company or industry results to differ materially from the financial result condition, performance or achievements expressed or implied by such forward-looking statements. The risk and uncertainties relating to these statements include but are not limited to risks and risk of expansion plans. Benefit from fluctuation 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 increase in India our ability to attract and retain highly skilled professionals and our ability to win new contracts changes in technology, ability of financing and ability to successfully complete and integrate our expansion plans. Liabilities, political stability and gentle economic conditions affecting our industry unless otherwise indicated. The information<sup>2.08</sup> during is preliminary indicative and is based on management information, current plans and estimates. I would now like to hand the conference over to Mr. Srikanth Chakkilam for opening remarks. Thank you and over to you Sir.

**Srikanth Chakkilam:**

Thank you. Good afternoon everyone. Welcome to the Q2FY20 earnings call. We have clocked revenue of Rs. 214.6 crores which is a growth of 3.4% in rupee terms as compared to the previous quarter and EBITDA of 17.2% as compared to 15.1% in the previous quarter. For this quarter we've serviced a total of 267 clients. Travel, transport and hospitality continue to lead the breakdown which is followed by healthcare, BFSI and retail.

As I have been mentioning in some of the previous calls, the profile of accounts that we've been chasing has changed in terms of size and scale and result has come to fruition in this

quarter. Although the sales cycle was quite long, we added one of the largest retailers in the world which is a fortune company to our list of clients in this quarter and we've partnered with them for the long-term quality engineering journey.

We've also a climbed up our investment in our sales and marketing efforts, the benefits of which we will probably see in the coming in the next few quarters. We've been actively investing in sales; hunters, partnership based sales and also investments in the deal advisory space. This is to put us in front of the large opportunities in the quality engineering space.

Some of the trends that we're observing in the quality engineering industry is that QE is moving outside the test centers of excellence and making a presence everywhere in the organization, while traditional industries with scale less than the enterprises still continue to hold or build test centers of excellence. We still see a lot of independent QE opportunities and we continue to participate in many of them. Companies now not only have challenges with test data generation but also a need for analytics with this test data. We're now partnering with companies who can help solve this problem and we will eventually try to create an opportunity and build IP as we continue to explore this pace.

Coming to IP, we've been able to deploy Verita – our AI based diagnose and predict framework at more than (+25) clients and Velocita is there in all the test automation projects that we've taken up recently. RCA and open banking are some of the offering's that have picked up steam and we will continue to invest in this pace.

And one final update is on the HR side which is attrition; it has slightly decreased compared to previous quarter we are now at 17.7% as compared to 19% last quarter.

I'll now have Krishnan take over for key financial updates and then we have the floor open for questions.

**Krishnan Venkatachary:**

Thank you Srikanth, good afternoon gentlemen and thanks for being on the call. The revenue on a consolidated basis stood at about Rs. 214.60 crores as against Rs. 207.57 crores. On rupee terms as stated by Shrikant it's about 3.4%, on a dollar terms we've grown by about 2.6% and we've the expenditure on account of investments, in terms of sales and other folks. We have marginal increase in expenditure; however, on other expenditure we were able to maintain a tighter control.

We've achieved a rupee EBITDA of 17.2% dollar EBITDA of 17% as against the corresponding quarter which was 15.2%. We're stabilizing overall for the year. For six months ended we stood at about 16.2% on a consolidated basis. In the other income we have nominal exchange gain coming in and also the software exporting

incentive accounting for about Rs. 2 crores, keeping that in mind we've done a PAT which is at about 15.2% translating to an EPS of Rs. 23.

In terms of the sector, travel and transport and hospitality and management continue to be dominant at 28%. Healthcare follows at about 16% and BFSI at about 15%. This is then followed by retail and commerce at about 12% or so.

We've successfully navigated and all our divisions and all our regions are now profitable. 80% of our revenue still continues to come from North American region. Canada contributes 5% and UK-EU about 9-10% and remaining comes from rest of the world. While our focus is on the rest of the world, you'd have seen a reduction in the standalone revenue which has come down by about Rs. 2 crores as compared to the previous year. We are putting our energies in the other region which is yielding out to be more profitable and my top 20 accounts contribute about close to 46% of the revenue and with the rest at about 54%.

The resource mix has been at about 37-63. 37 being onsite and the revenue mix has been 64-36 where onsite is at about 64.

Because of the new age offering, we're able to get a better rate in terms of the dollar rate. We are almost stabilizing and notching an inch up at about \$70.5 onsite with the utilization at about 93.8% and offshore at about \$21.6 as against 81% and overall the company has got about 82% utilization. The cost remains to be under control.

One of the factors which we're trying to address is that we have a little bit of churn in terms of the accounts, what we've seen is that it has been voluntary in nature. We've started moving up; about 35% contributions are coming from digital and new age offerings which involve BlueSwan stacks and other kinds of tools. While doing that and moving ahead we've deliberately started moving out on the slower phase of accounts and we feel that the churn rate which is currently close to 11% will further substantially reduce and enable us to grow in the coming quarters. We are almost in the fag-end of dropping out our grandfather contracts.

And so far, we are walking in the right path and the kind of investments that have been envisaged I think we are poised very comfortably to deliver in the next two quarters.

With this I leave the floor open for the question and answer session.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Ashish Agarwal from Principal Mutual fund. Please go ahead.

**Ashish Agarwal:** I wanted to understand on the growth side, how should we look at growth going forward? The growth rate for last few quarters has been very-very muted and this quarter itself on year-on-year basis it is mid-single-digit type of a number. On the profitability front, should we believe margins will sustain at these levels going forward?

**Srikanth Chakkilam:** Ok. So Ashish like I mentioned some of the accounts that we've been chasing have been quite big in nature and the sales cycle has been pretty long, having said that we have one deal which is a fortune 25 company and given that they have large IT budgets, we have a great opportunity to replace some of the incumbents and grow pretty well within the accounts. In the coming quarters we have a few more clients lined up which will possibly give us an opportunity to mine and like Krishnan mentioned earlier some of the churn that we've been facing is mostly due to legacy contracts that we've had where we're operating on a core flex model with the core team staying and the flex team going up and down. All the new accounts that we're signing up we're ensuring that we have visibility in terms of the revenue not dropping down and the second thing is also the larger accounts reduce its scope for churn. This double-digit churn that we have today we are focused on bringing it back down to lower single-digit and that itself will cut down a lot of de-growth which is going on in the company.

**Ashish Agarwal:** Is it fair to assume that we will get into a double-digit year-on-year growth rate in next two or three quarters?

**Krishnan Venkatachary:** It is possible. That's a right assumption, to supplement your point in terms of margin we are confident of sustaining the margin as we put all the metrics in place and moving forward it should move north from here. We are very confident of sustaining this and growth.

**Ashish Agarwal:** Secondly, on the balance sheet side other current financial assets there has been a sharp jump as compared to the number which was at the end of March. What is the reason for the same?

**Srikanth Chakkilam:** In terms of the balance sheet and other current financial assets....

**Ashish Agarwal:** We've jumped from Rs. 31 crores at the end of March to almost Rs. 111 crores.

**Krishnan Venkatachary:** It is a regrouping. While I answer the question, you can continue with your other set of questions if you have, I'll answer this question. It is on account of the IndAS, if you look through, we have regrouping in terms of the lease assets being classified in current assets and current liabilities.

**Ashish Aagarwal:** What is the number of the lease asset sir?

**Krishnan Venkatachary:** it is translating about close to Rs. 70-80 crores. That's the number predominantly. I'll also mail you the details.

**Moderator:** Thank you. Next question is from the line of Virendra Verma from Intesa Royal. Please go ahead.

**Virendra Verma:** Sir just wanted to check the taxation rate, in the current quarter its just 4.5% and in the previous quarter it was much higher. Can you just explain your taxation policy considering that we had a corporate tax rate cut by the government in this previous quarter.

**Krishnan Venkatachary:** I'll take the question, there were some tax reversals which in the US entity which in the previous quarter has been provided which led to the reduction in tax. In terms of the tax structure which I would like to make it very clear is that we still have the carry forward losses which is running though with us. So these carry forward losses which is running through which is expected till mid of Q1 - Q2 of next year, we are under the MAT regime of 18.5% which introduced previously this MAT regime was about 22%. Now that MAT is about 18.5. We are not availing the nil MAT seasons. We'll be losing out on the MAT credit though we are not price it in the book and also the translation time as suggested by our auditor probably is that after we consume all the losses, we should be doing it in 2020. So we shall on the Indian entity we still continue to be at about 18.5% on the profits moving forward but I think on the US entity also similarly where we've been at about 21% but I think we still have the carry forward losses available for this December. So overall I expect the tax rate in all regions including state central taxes all put together we should be anywhere hovering around 6-7% for this year and for the next year first two quarters would be in the same order range.

**Virendra Verma:** Sir if you can just give us futuristic view, like in FY20-21 what kind of volume growth will the company have because if you see the volume on YOY basis you have a decline in your volumes were very low

**Krishnan Venkatachary:** In terms of the volume growth just wanted to preempt it could be a routine boring statement but I just want to excuse us we don't really go ahead and give any kind of guidance, but we are pretty confident that we should be able to achieve a tune number and move forward. That is the optimism at which we are trying to work around.

**Virendra Verma:** As to understand some are more of a macro perspective because in the testing kind of thing the way. Let's take an example that the recent controversy relating to watsaap happened so what kind of capabilities are been developing so that that you get that kind of opportunities like not exactly the whatsapp scenario but the complexity in the digital space which is happening. Are we continuing to invest in our IP and also in new offerings such as open banking and RT ?

**Srikanth Chakkilam:** So like I mentioned in my statements that we are continuing to invest in our IP and also in new offerings such as open banking and RPI not just the whatsapp but there have been many airlines fiascos and so on there is a continuous disruption happening across the world in terms of technology and we're continuously participating in many of the deals to ensure that we are upping our capabilities, we are hiring people we are investing into IP we are developing capabilities and every deal that we are signing is digital so if you've looked at some of the large sites they have stopped grouping the digital classification because every deal that we're signing is some sort of digital. So we're seeing the same trend and so we are continuing to invest in same space.

**Virendra Verma:** Ok Sir. Thank you.

**Moderator:** Thank you. I would like to remind the participants if you wish to ask a question, please press \* then 1 on your touch tone telephone. We take the next question from the line of Tejal Jain from Sruchi investment. Please go ahead.

**Tejpal Jain:** Hi Sir. Good afternoon. Sir last year in Q2FY19 I was going through your presentation and you had plan out a plan related to targeting high margin and working capital business. So the question I wanted to ask was what has happened during in the last four quarters. The numbers does not match with the plan that you shared with.

**Krishnan Venkatachary:** Let me take the question in two perspectives in terms of one is talking on a two quarter basis comparatively in terms of the growth. Second thing is on a two quarter basis you are trying to compare in terms of margins as well.

**Tejpal Jain:** Yes I am talking about there were certain things that you shared with regards to plan to achieve the growth and when we look at the numbers currently, it doesn't realize or it does not match with the plan.

**Krishnan Venkatachary:** A couple of reasons partially 1) As Srikanth explained earlier part in terms of a fortune client and the deal got delayed by 3 months and then we were able to secure the deal which the revenues will start realizing over the next two quarters and seen. So there are a kind of deals which we chased comparing to what it was and as we anticipated and planned and given to you all in the March quarter also. We have been doing it but I think the closure took a longer time as to what we expected due to various reasons invariably which is priced in from the client side. And that is one reason the second thing is that while doing that we also took a finer look in terms of certain voluntary attritions or churns which is essential as we try to increase our offerings on the new age services because if you look at it though the growth might really look a single digit growth but I think it represents in terms of the margin growth and also our dollar really stationed remaining more or less on a constant plus positive side. Which means that we are definitely delivering on the US side which is what taking us slightly longer gestation for us to really close up on the client. So that is known as a reason comparing

to what was anticipated as a time frame which has come down on the time frame but we are sure of thing that investments are now the anticipated closure which is lining up very close I think we are confident that we will be able to move much faster in the now coming two quarters.

**Tejpal Jain:** Thank you.

**Moderator:** Thank you. Before we take the next question, I would like to remind the participants if you wish to ask a question, please press \* then 1. The next question is from the line of Neerav Dalal from May bank. Please go ahead.

**Neerav Dalal:** Thank you for the opportunity. I just wanted to understand is there been a churn in the top 20 clients in the last one year or so. How do you see revenue per client move going on to?

**Krishnan Venkatachary:** I'll take the answer in terms of the top 10 clients in terms of the last one year there is no churn. In terms of what do you call capturing their IT budget move up. We have revised a strategy and then it started working now and we feel that we are in the right path to really go ahead and garner sizable chunk one third of the total testing budgets and I have asked Shrikant to supplement.

**Srikanth Chakkilam:** Krishnan mentioned wouldn't lose any of the top 10-20 accounts. Some of the projects have come to a natural end but there are large pockets of the multiple divisions within the larger accounts and many of them are still continuing. We are continuing to invest into some of these accounts. Earlier we were slightly constrained to make investments into the Top 20 but now we are going all out in terms of making investments in terms of the hunter farmer delivery manager approach sort of two in a box, three in a box model that many of the large companies follow we are getting into that model right now to ensure that we get a maximum wallet share of that US client.

**Neerav Dalal:** Ok and when do you see the company returning or you know surpassing the industry growth or reaching double-digit growth in terms of dollars.

**Srikanth Chakkilam:** About two to three quarters. If you consider this quarter October- November -December slightly slow generally but somewhere in the March timeframe I think we should get back to our previous growth rates.

**Neerav Dalal:** And would that growth be driven by top clients or would we see growth in the non-top 10 clients

**Krishnan Venkatachary:** It's a combination probably you can look at it as a 60-40 which is also healthy for the company basically because as I told you that we are chasing a bit of large deals and those large deals will translate definitely.

**Srikanth Chakkilam:** Some of the existing top 20 we've already maxed out in the wallet share it's a small percentage so obviously when we get some of the larger new clients. The current top 20 some of the current top 20 will be replaced with new ones.

**Neerav Dalal:** And when we say the large deals what would be the size and duration of these deals?

**Srikanth Chakkilam:** I'm talking about anything above 5 million per year contracts; it can go much more than that but just being conservative right now. It's a multi-year sort of a deal.

**Neerav Dalal:** Any specific industries that we are looking at technology or transport or IT?

**Srikanth Chakkilam:** Yes. In the retails space we are currently seeing large opportunities and also seeing opportunities in our strength areas which is TTH which is travel transport and hospitality and also insurance.

**Neerav Dalal:** Ok thank you.

**Moderator:** Thank you. Well, ladies and gentlemen that is the last question for today. Thank you ladies and gentlemen, I would now like to hand the conference over to Mr. Srikanth Chakkilam for his closing comments. Over to you Sir.

**Srikanth Chakkilam:** Thank you everyone for your participation in the call. I look forward to talking to you in the next earnings call. Thank you.

**Moderator:** Thank you ladies and gentlemen with that we conclude the conference. Thank you for joining the conference you may disconnect the lines.