

Cigniti Technologies Limited
Q2 FY21 Results Conference Call
November 06, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q2 and each one FY21 Results. Today, we have with us from the management Mr. Srikanth Chakkilam – Chief Executive Officer 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 “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Snighter Albuquerque from Adfactors. Thank you and over to you, sir.

Snighter Albuquerque: Thanks Suzanne. 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 expressed 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 indicative and is based on the management information, current plans and estimates. Over to you Srikanth sir.

Srikanth Chakkilam: Thank you, Snighter. Good afternoon everyone, thank you for joining the investor concall of Cigniti Technologies for the quarter ending September 2020. I hope all of you are safe and healthy as we continue to live in COVID normalized times. There are opportunities arising from surprising corners and trends not following the norms. In the previous calls, I mentioned about our exposure to the travel and hospitality industry, for Cigniti during the beginning of the financial year exposure to travel and hospitality was around 27% of our revenues and it caused

unpredictability in revenues, obviously of course due to be the pandemic. Although we continue to hold fort with our existing clients in the travel and hospitality industry, the road to recovery in this industry unfortunately seems to be long; with second lockdown in some countries and the pandemic, again rising its hood the trends for travel and hospitality industry seem to be weak at this point, at least for one more year or 18 months in my opinion. Cost reduction has been a prime focus for the travel and hospitality industry. Some of them that we are dealing with, that is coming out straight and that is evident in the pricing pressure trends that we've seen in some of the accounts and related industries. Having said that, there are growth opportunities in the sense that there's a lot of opportunity for vendor consolidation in travel and hospitality and we're aggressively pursuing all these opportunities. We continue to hold fort no doubt about it, we are not letting go any of the revenues in this particular industry but the trend as of now seems to be weak. Having said that we have consciously and continuously worked on replacing the TTH revenue with other vertical such as BFSI and healthcare, and some of our efforts that we've started putting in March, April have started coming to fruition. In fact travel and hospitality is no longer the highest exposure for us, obviously revenues have come down, but we have consciously put efforts to increase revenues in areas such as banking, insurance and health care. And some of those efforts have come to provision, we have been able to add good logos in medical devices and health care and also expanded our revenues in the existing client base, such as utilities, retail and insurance and banking. In fact, banking and insurance is now the highest share of the revenue pie for us, coming close to 19.5%. And with some of the existing clients, renewing multimillion dollar SOWs for multiple years. We continue to put conscious efforts in banking, insurance, healthcare and 5G. 5G is something that I stated last time, so we're putting efforts there as well. In terms of building capabilities, in terms of hiring new talent, and in terms of marketing efforts. So, like I mentioned today, our banking and insurance exposure and growth of course, is higher than the travel and hospitality industry.

In terms of billing headcount, we have almost reached pre COVID billing headcount, we could have possibly crossed it as well as of today. This is an encouraging trend although clients are now okay to move the billing offshore as work from home has made boundaries invisible. So, this is quite evident in some of the margin improvement that you would have seen. And also alongside the travel costs coming down significantly, going by the current trend, we anticipate revenues also to reach pre COVID levels. Although billing headcount has reached pre COVID levels, because some of the work moved offshore, the revenue is still not at pre COVID levels, but in the current momentum we anticipate to reach the pre COVID levels by the end of the year. Also, the quality of the revenue by then would have significantly improved because of reduced dependency on cyclical industries such as travel and hospitality.

We have also seen improvement in utilization both on site and offshore as compared to last quarter. We are obviously thankful to our employees who have adopted to these times and have ensured high customer satisfaction levels, despite not being able to engage in the manner

they were used too. Due to this, we have now restored the previous level of pay scale, and we have removed the 5% pay cut which was implemented at the beginning of the financial year. Our overall attrition levels are at about 15% and we're continuously trying to enhance our employee experience, even though all of us are working remotely. Again, we continue to monitor various risks such as immigration, immigration policies, and we're consciously taking measures to not disrupt or impact client experience.

Also continuing from the updates in the previous concall. We continue to put efforts to expand adjacencies relevant to quality engineering and we have forged partnerships in areas such as mobile cloud, RPA, application development management and so on. And some of the encouraging trend again here is that we have already landed some accounts in the space and we are confident of building momentum on this front as we move along in the year by making some leadership hires, by adding on capabilities and we will continuously provide updates on this.

Coming to specifics in the current quarter we have achieved about 3.5% growth in terms of dollar revenue and about 1.6% in terms of rupees at about INR 221.2 crores versus to 18.4 in the previous quarter, and EBITDA we have touched about INR 19.9 crs close to 20% versus INR 16.5 crs in the previous quarter. We have serviced a total of 208 clients and added new clients in the utilities, pharma, healthcare and insurance space. These are the updates from my side. I will now hand it over to Krishnan to talk on financials and other related matters. I'm happy to answer questions once Krishnan finishes his update. Thank you.

Krishnan Venkatachary:

Thank you Srikanth. Good afternoon, ladies and gentlemen it's been a pretty decent quarter for us. Though we are not providing any guidance, but we are pretty confident. During the onset of pandemic where the panic was quite high, at that point of time, we took a call and we were very clear that we should be plus or minus 2% with the last year set of numbers in terms of revenue and of course, much ahead on profitability. We are meeting the budget expectations in terms of what we are trying to do and we have moved around from Q1 levels to the Q2 level, in terms of a good set of growth with a lot of traction and excellent project pipeline and the visibility. While the revenues have clawed back to 30 million, but I see the next quarter also coming up very well as Srikanth mentioned that our number of billable resources have come back to the pre-COVID level and it is now marching ahead. So, that is the confidence at which it is moving for the quarter.

This quarter has been phenomenal in terms of where we were able to gain comfortable goodwill in terms of retaining the set of people and then redeploying them back with a 5% cut for the past six months which has been reversed out from October, that speaks volume in terms of the commitment from the company, and also commitment from the employees and commitment to the client which has helped us to serve and retain the clients systematically. the shift has been about close to +2% in terms of shifting from onsite to offshore, which is a welcome move, while the top line could take a share in terms of the revenue but we are

consolidating in the pandemic in terms of more of offshore business. Our end-to-end solution involves more of offshore, and we are able to gain a better margin in offshore that is what is also reflected in the EBITDA margin, touching north 19% which is close to about to be very precise at about 19.99%. In terms of sustainability we are very confident that we should be able to sustain this at about +19% and then start moving up in the years to come.

As it comes to the accounts, top 20 has been encouraging for us. We were at about close to 49% which is moved up to 50% in terms of contribution. Would like to remind while there could be an interchange in terms of the top 20 accounts, but our top 20 has remained stagnant over the last six quarters in terms of this fantastic set of numbers coming through. We have chalked out the real strategies in terms of the going head for expansion of other offering into these top 20 accounts, while the balance account also continue to contribute in a big way. The churn rate over the quarters have come down and it's hovering around close to about 67% which is a healthy trend.

In terms of the billing rates and utilization as Srikanth mentioned, the utilization has come back to the pre COVID level for on-site it is about 95% and are about 77% for offshore but we expect that to improve a bit more however, we need to consider the various ifs and buts which is hovering around. My billing rate has cloud back to about \$69 about 90 cents more realization comparing to last quarter and at a flattish level at about \$21 in the offshore methodology. As I mentioned, the consolidation has been pretty good in the top 20 while the travel sector, which when we started the year was at about 27-28% and is now hovering around 18. We have been compensating a bit where retail and BFSI have contributed a lot and healthcare has contributed a lot and we expect to get a visibility in terms of moving forward.

Contributions have also come on account of cost reduction and cost optimization and there has been a good amount of cash flow generation which is very important factor. Post tax application, the operations yield at about INR 94 crores for the first six months, post-tax application of about close to nine crore which leads us close to INR 85 crores of cash realization for the first six months. If I compare that with the previous years, the last full year saw a generation of about close to INR 80 crores whereas the comparable last six months generated about INR 45 crore. We are in a very healthy position in terms of cash flow generation. We expect netting off all the working capital which is just a mirage in terms of using for the purpose of limits on the last day of the month or whatever it is, if I pushed it out probably in two quarters put together we expect about INR 200 crores plus as a net, net cash available on hand by March. The way the business is ramping up which is more than enough power for an engine to fire through in terms of investing that or distributions or whatever it is in terms of the decision making. We are on the right path and the visibility is great and we expect to move forward in a galloping nurture. With these few words I would like to thank you once again for your patient hearing and I would like to open up the forum for question and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: I was going through your deck and I missed out on the onsite offshore employee count and how that has been shaping up and if there would be an impact on it given the second wave that is coming up in Europe and US?

Krishnan Venkatachary: Srikanth, I'll take this question. In terms of the second wave, I will not delve deep into it as in some cases it is more of a precautionary lockdown and I think COVID is here to stay, which we have learned the hard way over the last six months. If you look at the offshore onsite as a combination comparing to the previous quarters from average resource count, I think it will be the right measure; in terms of availability from 530 have come down to 499 which is close to 7% down in onsite whereas in offshore we have moved up from 1500 to about 1625. So, in the overall yield in terms of the people in revenue mix there is about 2% shift compared to what it is in the previous quarter. It has given a shift in favor of the offshore which is contributing to the margin.

Nirmal Bari: Okay, my second question is on the same lines. Now that work from home is becoming a relatively more acceptable proposition, do we expect this testing to also move offshore? Is customer's acceptability of offshore testing increasing or something?

Krishnan Venkatachary: I will give statistics, Srikanth then you can supplement it. Currently if you look at it in terms of resource mix it is about 76% offshore and 24% onsite. This directly answers the question in terms of acceptability of the customer towards work from home as a culture whatever the location. It is and more predominantly offshore because it saves a lot of cost across the globe. Srikanth you may add up points.

Srikanth Chakkilam: Offshore acceptability has always been there. In the world of agile and DevOps we were seeing a trend that colocation was becoming important, which is also there at this point in time, but right now wherever cost is becoming important and productivity is not taking a hit. Clients are absolutely fine with offshoring and this has always been there

Nirmal Bari: My third question is on the cloud adoptions. Since COVID the cloud adoption proportion has increased significantly, specifically for retail and some of these other segments, that is what we are listening from all the IT companies. So in an era where everything moves to cloud, how does the opportunity for testing change for us in terms of quantum as well as in terms of the quality of work that we would be doing?

Srikanth Chakkilam: It will change in the same proportion it is growing, whatever cloud adoption is happening. So if for example somebody wants to move from Microsoft Cloud to Amazon cloud, you would have to test for the functionality being the same, irrespective of moving from one cloud to another so the testing would grow proportionally. The opportunity for growth is directly proportional

to the growth in the cloud era and we are witnessing it, some of the banking customers that we have who are going all digital, we have been helping them to ground up their ability to move to cloud seamlessly.

Nirmal Bari: My question was actually more from the perspective of clients who would be having their systems on premise moving to cloud. So an on premise system, would have an app or whatever tested first and then implemented, but in a cloud the go live happens much faster, and there are multiple iterations of the same app coming up with minor changes and all. So, does that make a difference in our business or no?

Srikanth Chakkilam: I did not understand that question fully, but my understanding is that the adoption of cloud on premise or otherwise is an opportunity for companies like Cigniti and we are seeing growth.

Nirmal Bari: if the opportunity for testing for an on premise system was say Rs.100, what would it be when the system moves from on premise to cloud and on an ongoing basis if the opportunity was 100 what would it be on the cloud?

Srikanth Chakkilam: This is totally dependent on the scale of the application. So, if the scale is huge, then going to a private cloud will be very expensive, versus going to on premise will be lower and it depends on the application totally. We help clients in such situations where they want to decide between moving to on premise or otherwise, in terms of how seamlessly it can be done and how quality engineering can help achieve it seamlessly and that is an opportunity for Cigniti in terms of improving its revenue, its digital revenue and being new edge.

Nirmal Bari: Okay, and my last question was on the DSO movement, so we have had quite significant collection of receivables in the first half. So how sustainable is the current DSO level?

Krishnan Venkatachary: It is sustainable. In fact, the encouraging part is that even the pandemic comparing the first month to the subsequent months, there has been a tremendous set of collection rate which is flowing across and we have not seen any kind of dampening and that goes to say the quality of clients whom we deal with and the kind of service we provide. So, we are not seeing any hiccups at all, and we expect this to continue.

Nirmal Bari: And with this government incentives that many of these clients were enjoying coming to an end in the previous month or in the current month, that will not have any impact on the DSOs right?

Krishnan Venkatachary: We have been very transparent in adding a slide in terms of what is the kind of incentives which we have been receiving. We have not been receiving which is the 90% of the revenue yields from USA and we have not been receiving any single.

Srikanth Chakkilam:

Krishnan Venkatachary: Yes, I understand he is linking into DSO comparing to the incentives which is coming through. So, from my perspective, my incentives which is accounted for are very miniscule in the total countries other than US and if you look at the corporations, which have been claiming out over there in terms of the net worth there is a cap available for what they are declaring. So, both of these companies we are working with do not get qualified in terms of the various incentives, which has been putting it out basically based on the net worth and other caps, which is the fine print of the policies. So we have been very carefully tracking it out and we don't see any imminent threat in terms of the receivable issues. We feel it will hover at around 57-58 days (+/-5).

Srikanth Chakkilam: And to supplement to Krishnan we also do credit checks wherever possible to try and ensure the collectability is not affected. Also we have an insurance mechanism in case things goes out.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand your comment with the growth outlook over the medium term?

Srikanth Chakkilam: You want growth outlook, you said?

Deepak Poddar: Yes, over the medium term. In terms of our top line

Srikanth Chakkilam: Okay, that part of guidance, I cannot give but we hope that we will achieve close to last year revenues towards the end of the year.

Deepak Poddar: And over the medium term, so sir I was not looking for this year over the medium term?

Srikanth Chakkilam: Okay, so based on some of the three to five year plans that we have set up for ourselves, we have made investments into a few areas such as 5G, banking and insurance and healthcare. Except 5G, banking, insurance and health care are generally not cyclical and one of the trends that we have seen is that, there's a lot of digital adoption, in terms of the way people are approaching healthcare and banking. There is a lot of possibility of overhaul in terms of the systems and the banking experience. Lot of dollars have been spent in enhancing this experience. I think we anticipate double digit growth in the specific sectors that I mentioned. We are hopeful that we will be able to build enough capabilities, hire the right leadership possibly towards the end of the year to sort of ride on this growth way. And if we do that we will possibly be in the double digit areas.

Moderator: Thank you. We move on to the next question that is from the line of Supratim Basu from Americorp Capital. Please go ahead.

Supratim Basu: A couple of questions. One, was that for the time I am hearing you guys talk about 5G telecom as a new vertical for the company, can you talk a little bit more in terms of what you're doing or planning to do in this segment, and what kind of clients you would be targeting?

Srikanth Chakkilam: So, at this point we're targeting, 5G experience testing, a lot of 5G is being rolled out in the US and there is a specific requirement from our existing clientele to test the 5G rollout experience and we are building some capabilities to measure the sentiment positive or negative, do some network testing and things of that nature to begin with. We have a Growth Advisory Council internally, and have appointed one gentleman from the telecom space to be on that Advisory Council who is helping us build this product, who's also an existing client for us. They provide software for all the large service providers, they start with US and Europe.

Supratim Basu: What does it mean when you say 5G experience rollout, if you are not working with a Verizon or T-Mobile in the US then, for any other customer what kind of experience?

Srikanth Chakkilam: So 5G, while Verizon and all, are rolling out their software, they're dependent on software from vendors outside of their own internal providers. So this company that we are working with, provides the software for the companies that you're talking about, and it is through them that we are building this.

Supratim Basu: So if I understand you correctly, you are essentially working with a software provider or platform provider to somebody like Verizon?

Srikanth Chakkilam: Yes. And they're working with all the telecom providers, both in US, Canada and Europe and with so much demand for the latest 5G offerings, they are under pressure to deliver this experience rollout. We already have active NSA but no revenue from some of the larger clients, we intent to use this as a foot in the door to get into the account and expand.

Supratim Basu: So if you can just give me a little bit more flavor in terms of what does experience rollout testing incorporate, include?

Srikanth Chakkilam: I want to but, I just have to hold on to a bit.

Supratim Basu: Okay. So this is a customer that you said you onboard last month, is that correct?

Srikanth Chakkilam: No, this is a customer that we have for the last two years. But the capability building has started about a quarter and a half ago.

Supratim Basu: Okay. And then, on the BFSI and healthcare vertical, seems to have taken up the slack from lower revenues and the travel and hospitality sector. Could you talk a little bit in terms of new client additions, which geographies they are coming from and what kind of work you're doing for them?

Srikanth Chakkilam: Yes, so more than new client additions we've been able to consolidate a lot of vendors and the existing clientele in the UK, where we had one digital banking customer with multiple vendors. We have been able to consolidate it to a single vendor, which is Cigniti and we've been able to sign a fairly significant size deal for the next four years.

Supratim Basu: This is in the US?

Srikanth Chakkilam: This is in UK, but even in Southeast US we've been able to, again consolidate vendors for one of the medium size bank. In Canada, we've added a couple of new clients. So, banking and insurance drove that 19.5%.

Supratim Basu: Got that. Just in the health care side, you have one name client which is actually to name clients, Glaxo and AstraZeneca. So, is the large part of your work in the healthcare space have to do with pharmaceuticals or do you work with other service providers in the space as well?

Srikanth Chakkilam: It is a mix of medical devices and pharma, in fact the last six months or so we added a lot more in the medical devices space, especially in the diabetes device testing space, which has picked up a lot of momentum.

Supratim Basu: Do you see significant growth, higher than company average growth coming from this segment?

Srikanth Chakkilam: We definitely see a lot of dollars being spent in this space and new compliance rules coming up for some of these companies, and they are dependent on companies like Cigniti to test for those compliances. And that is where we're seeing the opportunity and are able to add this medical device testing clients.

Moderator: Thank you. The next question is from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: One is on the margin side, what do you see the outlook, the margins have shown smart improvement every quarter. The second question is on the healthcare side. Now for an AstraZeneca or Glaxo what type of work, what type of testing would you be doing? You said that regulation is changing, but if we could just elaborate on that as well. Thank you.

Krishnan Venkatachary: Srikanth, I'll take it up on the margin and then you can just chip in and talk about the offering. Margin, Neerav is that we have been laying a foundation as I've been talking about a couple of quarters back in terms of how we really pull it out in terms of stabilization and how the margin is moving north. A couple of things that helped basically, is that we were optimistic that we

should be there at about 18, 18.5%, it touched about way ahead in terms of EBITDA, and also at the gross margin level basically, one is my optimization severely on account of this pandemic and once this discipline is enforced in terms of way we are, what we are and getting into more of a digital medium, that's going to stay up. So, I don't see any reason basically, and more-and-more offshore shift coming in now, we are trying to focus very clearly with more of offshore business where the margins can improve and also volume business where the growth can accelerate out very clearly on both sides. So, to answer your question in simple, we have made our inroads in such a way that we should be able to sustain with good gross margin and EBITDA margin as you have indicated in these two quarters put together on an average basis as a sustainable one moving forward.

Neerav Dalal:

Great. Sir just very quickly on this margin thing, as we see business move from onsite to offshore, on the one side we will have margin improvement but then revenue growth for the interim quarters would be a challenge. So, how do you see that move, so do you see in a couple of quarters, that problem being resolved and we get back to growth and so how should one look at that?

Krishnan Venkatachary:

Yes, it is a good question and that's what I answered partially in the beginning is that, any kind of a pandemic or any kind of an event which takes place one has to think in terms of how do we really rework your business and start focusing out clearly into the differential methodology. So this has given us a thought very clearly in terms of our increasing and aligning our offerings much slightly, with testing and in and around testing in terms of the extended services, so that we are now trying to focus out very clearly with these clients. If you see on one hand basically we have brought down the number of client so that we are staying focused on a set of quality clients very clearly. On the other hand, basically we are trying to expand the footprint and portfolio with them in terms of the number of offerings, what we try to do. So, when I experiment that in these quarters very clearly, I know for the fact consciously that while offshore gives me a margin, it definitely cuts my revenue out in terms of the top line. So that is one of the reason I'm trying to play a volume game, the volume can come in in terms of one expanding the current business within them or adding up a few lines of business, which is what Srikanth mentioned. We have done a lot of investment into the current set of people and also the current set of business and also towards newer technologies so that we can start. Just an example, while I do my testing, probably I'll step back a bit and also helped them in doing release management. So, these are the kind of capabilities which have been built along with collaterals and the marketing medium has been geared up for us to really approach. So we are conscious of the fact and this is one of the year where basically people would like to float around and this kind of plus or minus kind of position comparing to previous year. But, the year next basically has to be the one where we really move up for which we have laid a roadmap for the next two, three years in terms of where we should be, what it should be in terms pricing etc. We will definitely come out separately out in terms of an analyst meet and things like that, as time permits and as the pandemic permits to move ahead and share our plans towards the

year end or so. So, to address your question, yes, the volume growth is also being addressed and that will be visible in a couple of quarters down the line.

Neerav Dalal: Got that and on the healthcare part?

Krishnan Venkatachary: Yes, healthcare Srikanth would you like to.

Srikanth Chakkilam: Yes. So the healthcare and pharma companies, they have their set of applications and software, where we do the functional manual performance testing in the general course of business. But right now, there is an opportunity with some of the healthcare companies especially with companies that have devices. There are certain ITP protocols such as ITPP 2721, which is a cyber-security protocol that they have to adhere to and this adherence has to be tested and conformance to that has to be tested via ASBA Certified Company, which is an FDA rollout and we are trying to get that certification so that we have the Certification Authority for their conformance. So that is something that we're working on for some of the healthcare companies that I'm talking about. And some of these, are for example, one of the clients that we work with they have an insulin administering device based on different things, you can administer the insulin through the app on your mobile and because it is directly administering it into your body it's a mission critical application and we have to ensure that the cyber security of the application is foolproof and we have to ensure that there is no over dosage because the app is acting funnily on a different OS and things like that.

Neerav Dalal: I understand on the equipment side, more so to do with the pharma companies. So are there pharma, industry specific software's which they have to use and there they need the testing from you or is it the R&D clinical research where they use certain software?

Srikanth Chakkilam: No, we are only working on the IT side.

Neerav Dalal: Okay, on the IT side, so it would be industry specific software's or you have the ERPs and the software that they generally use where they need you?

Srikanth Chakkilam: Actually there is nothing specific from our side in terms of offering, whatever software that they use we go and do our course of business. There's nothing specifically from outside.

Moderator: Thank you. The next question is from the line of Supratim Basu from Americorp Capital. Please go ahead.

Supratim Basu: Couple of follow up questions on the financial side. You mentioned that, there's been a market improvement and receivable collection days compared to, let's say four quarters back, where Cigniti was, so what kind of changes have you made to your processes which has enabled this?

Krishnan Venkatachary: Okay, fine. Now, I'm just trying to give a perception to the market as pandemic is a problem, basically that it could lead to a collection default in terms of the working capital cycle, and

things like that. So for that we anticipated and while we took our insurance cover, we could see some amount of collection dips in April. But compared to that May onwards, that is what I said there clearly is fact there has been a remarkable improvement in terms of the collections. Now couple of steps, which we have taken, that is follow up, which we are trying to do very clearly. Also, where we feel that there is an issue in terms of where we could see that this client could be into a cash flow situation, we just go up and in 30 days' time, we say that we are billing upfront to about 1% and we try to get the money in quickly. That could be the combination of about 5% to 6% of the total volume of business what we have done over the last six months, if you look at it purely. We keep the estimated litigation and various other cost in mind and then we try to get that out and move invariably, and consciously and consistently we have been bringing down the receivable because it is more to do with the type of clients in terms of their businesses, and that has been there at about 63 days or 64 days and now it's come down to 57,-58 days. So, wishful thinking is that we should be there around that number so. These are the summary comments, which I would say.

Supratim Basu: And you think this is sustainable on a longer term basis?

Krishnan Venkatachary: Absolutely. The discipline has been built in now where we have the ERP system in place and there's automated messages, the invoice and everything goes on time and then the entire follow up happens on an automated basis and we have a heavy follow up mechanism and we have the sales commission linked to receivables very clearly which means that the sales case has to be on the run invariably and also we have the delivery managers variable pay a linked to one of the KRAs being that the receivables realization in time. So, definitely the sales commission at least are paid only based on the receivables realized and not only sales made, so in a way that makes them all the more careful in terms of getting the money and especially in time.

Supratim Basu: Right. And did you actually have any defaults for which you collected money from insurance?

Krishnan Venkatachary: Insurance is a safe play we have put, one statistic which I can clearly talk about is that about INR 2 crores and 95 lakhs sorry for using the rupee term but then INR 2 crores and 95 lakhs is what is the receivables across 90 days out of which 2 crores and 55 lakhs have already been received as an unaccounted credit from the client without the invoice raised. So which means that we are remaining about INR 40 lakhs and when I filed I need to pay about \$20000 as a fee, so that's the reason I kept that as a safety mechanism and not to go ahead and claimed because I know for sure that I can play around with INR 40 lakhs on a revenue, which has been there at about close to INR 500 lakhs. While I have safely provided that in the books and as a provision for bad debts but I am still vigorously following up to get these.

Supratim Basu: Okay, and one final question on the taxation side, that is, you've taken a hit of around INR 9 crores for past taxes plus your, current taxes more or less is the same tax percentage, but could you talk us through this?

Krishnan Venkatachary: Yes, perfect. We have been under transfer pricing mechanism, as you all know very clearly that all my end contracts are signed by the subsidiaries and we try to get on to pricing mechanism from India for the services provided, which includes payroll plus infrastructure plus management and various other costs. Under the US regime very clearly, they try to allow the transfer pricing on the payroll plus market as one methodology or you go with a methodology if you try to put all other costs put together In terms of, all other cost plus a markup which is a slightly reduced markup, we have always been doing that on a complete total cost plus markup very clearly, the assessments are due from 2015 ones it is established, in terms of transaction. So 2015, 2016, 2017, 2018 were assessed out very clearly, and while doing this assessment also, they also reviewed or scrutinized the entire income tax return filed for 2015, 2016, 2017, 2018 calendar year which includes close to INR 340 crore of right off which after split in terms of about close to INR 200 crores in US and INR 140 crores in India while the Indian assessment is underway, and we are confident in terms of pushing it through fully. Even in the US successfully we made it through and then the entire assessments were completed with minor questionings.

Supratim Basu: So, this is the final settlement number for the US?

Krishnan Venkatachary: Sorry?

Supratim Basu: I said, so this is the final settlement number for the US?

Krishnan Venkatachary: Absolutely for the transfer pricing and then since the draft order has come, we wanted to be compliant on a corporate governance form which just came in after the balance sheet date. But still, when we discussed with the audit committee, E&Y and said that, let's move forward and take this out very clearly because it is an event which has come after the balance sheet date, but before it is being published. So we went ahead and we took that out and this is once for all done for the quarters.

Moderator: Thank you. We move on to the next question that is from the line of Abhishek V from Vision Capital. Please go ahead.

Abhishek V: Yes, actually you spoke that digital adaptation is going to be a good opportunity. But actually, some days back, there was one article about the way the companies were expecting the flow of digital adaptation after the pandemic. So the companies are not so quick to adapt to digitization, because of the costs involved and even the impact, or maybe the risk involved in abruptly changing to the cloud base and the digital ways ahead. So the article said it's going to be more of a six to seven years kind of opportunity, rather than next one or two years kind of

opportunity. So is that the ground reality is the same or what kind of situation you're seeing and in that respect, what kind of guidance you want to do for next couple of years, top line, bottom line?

Srikanth Chakkilam: Okay. So again, guidance we don't give but I also don't know which article you're talking about. If you give a reference, I'll be able to look at that and be specific, but it again depends on the kind of industry that wants to adapt or go digital for example, in the US where I live in Dallas, in case you want to visit a doctor. Most of the time you cannot go and visit the doctor for minor things you have to go online and do a tele visit. So in that case, you're forced to go digital and they have almost gone digital overnight, and irrespective of the cost involved they had to do it. Similarly, people going to an ATM and touching the screen, they're not preferring it, instead they want to tap their phone to draw money. Even the card, the credit card; even my credit card is part of my phone now and I put that, I tap in case I want to draw cash, which of course is a rarity in the US. But in case you want to draw cash, you don't want to touch the screen in the current times. Similarly, ticketing in the US, if you go to kiosks and get a boarding card you want to go contactless that's the new thing that some of the airline clients want to build. So there are multiple examples of going digital where people are forced to go digital and you're right, it is not a one year, two year journey it is a very long journey. Some of it will need it forever, some of it will need it for now. So it really depends on which industry that you are referring to spend their money in, some of them have to do something but they don't have the money. So they'll have to think of innovative way and some of them have the money and they are forced to do it, they will do it. Hospitals and health care, they have no choice, they are going digital. So, it really depends on what industry and this digital world is a very, everything is digital now. So, it's very difficult to define what digital is in that sense. So people can write this way or that way.

Abhishek V: Will it be coming in at least two years that's what you can talk about or maybe because the article specifically spoke about the excitement or enthusiasm about the deal wins or sudden disruption had waned a bit because it is going to be a long term.

Srikanth Chakkilam: It can vary from industry to industry. I cannot specifically comment unless I read what you're talking about, but when you say digital, there are multiple technologies that are involved and some of them will grow next two year or six years or seven years. There are huge bets that have already happened and huge marketing push that is happening and because of the adoption of mobile, adoption of so many collaborative technologies, areas like cloud will be there to stay for a very long time.

Abhishek V: It means, all companies are going to be beneficial of these particular trends right, the disruptions which are happening?

Srikanth Chakkilam: They of course want to invest in those areas and right out the ways, yes.

Abhishek V: You spoke about one deal win in the UK right, is it in the BFSI space? I think some time back you spoke about it, so is it in the BFSI space and are we seeing good roadways in the European countries as well or is it only UK which we are seeing some kind of deal?

Srikanth Chakkilam: Yes, this banking deal I spoke about is from UK only correct. But US is where we are seeing more traction than Europe, actually in Europe except for UK and Ireland we really don't have that sort of presence, it's only UK and Ireland. So, in UK and Ireland we are not seeing as much growth as we are seeing in US.

Abhishek V: Are we looking to venture out in the European countries as well or US is a place where we want to, concentrate or focus on?

Srikanth Chakkilam: US of course will continue to be our main stay, UK is where we have about 12%, 13% of revenue coming from and we will possibly enhance that little more but US is where we are concentrating at this point of time.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Srikanth Chakkilam for his closing comments.

Srikanth Chakkilam: Thank you everyone for your patience and thanks for all the questions. I will certainly keep all of you updated on the progress in the upcoming quarters and I wish all of you to be healthy and safe and a Happy Diwali to all of you. Thank you.

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