Cigniti Technologies Limited
Q2 & H1 FY21 Earnings Conference Call
October 22, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q2 and H1 FY22 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. Now hand the conference over to Mr. Snighter Albuquerque from Adfactors PR. Thank you and over to you sir.

Snighter Albuquerque: A very good evening everyone. Before the call, we would like to point out that certain statements made in today's call maybe forward looking in nature and a 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 currently held beliefs and assumptions of the management of the company which are expressed in good faith and in their opinion reasonable. Forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, financial conditions, performance or achievements of the company or industry results to differ materially from the results financial condition, performance or achievements expressed or implied by such forward looking statements.

The risks and uncertainties relating to these statements include but are not limited to risks and risks of expansion plans, benefits from fluctuations in our earnings, our ability to manage growth and implement strategies, competition in our business including those factors which may affect our cost advantage, wage increases in India, our ability to track and retain highly skilled professional and our ability to win new contracts, changes in technology, availability of financing, our ability to successfully compete and integrate our expansion plans, liabilities, political instability and general economic constrains affecting our industry. Unless otherwise indicated the information contained herein is preliminary indicative and is based on the management information, current plans and estimates. I now hand the conference to Mr. Srikanth Chakkilam for his opening remarks. Thank you and over to you, sir.

Srikanth Chakkilam: Thanks for joining the Q2 concall and the earnings. Just to give you some quick highlights. The company accelerated its revenue in the current quarter by 16.1% to 307.9 crores in comparison to previous quarter and in dollar terms have grown about 17%. The revenue growth continues to see good traction with a healthy run rate of September as well. The last lines that are mentioned in the previous earnings call have completed KT and now at almost full billing with more potential to grow. The company during the previous quarter has won 16 new clients and the notable client edition includes some very large enterprise names and one Fortune 500 company. We also have renewals on track and continue to expand our existing account as well. We will continues to see travel and hospitality coming by and have renewed one major contract for more than one year with all metrics of the account close to pre COVID levels.

Overall, we are on track to achieve the numbers set for ourselves for the year and possibly will outdo as well**.** The company has invested additional manpower in line with its business transformation initiatives and commencement of outcome this contract which has subdued the EBITDA. The reported EBITDA for the September quarter was at Rs.31.92 crore, the EBITDA margin stood at 10.4%. One key event for the EBITDA was during the current quarter and six months period ended September 30th, 2021. The company had to reverse SCI benefit amount into Rs.9.74 crores pertaining to the financial year 2019 and 20% to notification number 29/2015-2020 dated September 23rd, 2021 issued by the Ministry of Commerce and Industry. If not for this the operational EBITDA margin would have been at 13.5%. The company has adopted a new tax regime in India in the current financial year on some of these things. Obviously, Krishnan will certainly elaborate.

However the growth demand is at extraordinary levels, we continue to see an unprecedented talent to our, and a situation to ensure that we do not lose key talent. Our attrition levels are also at close to 30% at an annualized rate. And we are working on returnship programs of past employees, alumni connections and long term retention programs to be implemented shortly and to ensure that talent is retained. We are also using the opportunity to reach out to clients and renegotiate pricing on the higher side and partner with us to help retain talent. And we hope that this activity will yield results in the quarters to come.

We continue to focus on pivoting towards a digital assurance company and we're seeing opportunities to file our offerings and strengthen case study. This effort of ours should yield some results in the next two to three quarters. We also have been keeping an eye on possible person acquisitions to ensure we strengthen our digital assurance story. However, we are yet to find right offset at the right volume and we will certainly keep you all posted on the progress. The company continues to invest in its quality engineering initiators in a business-as-usual manner and clients on the service to the Blue Swan platform continues to improve. With this, I will hand it over to Krishnan for key financial updates and then floor open for questions.

Krishnan Venkatachary: Thank you Srikanth. And good evening gentlemen, thank you for the time on a Friday evening. It's always a pleasure to interact with you all. While many of you could be guessing as to what is the surprise in the quarter which is coming through but of course, we'll have to say with some limitations whatever they take and comply with on the business**. (Inaudible) 7:51** stepping up back basically to what you call summarize as to what has happened over the last three years and look through them 17 posts which is an era for Cigniti in terms of transformation, 2017 to 2020 saw a very clear consolidation in terms of sustainability where we have been growing only about 7%-8% year-on-year on an average,. The year of pandemic gave us a big jolt in terms of trying to understand where the market, where the offerings needs to get through by putting our act together in terms of trying to spend on the offerings and we had the luxury of spending because we were able to retain the margin on two counts one is that, complete optimization of zero travel cost, zero customer entertainment or any kind of an administrative setup cost and further reduction in salary in terms of contributing together because, I can see that there is no layoffs, so these two contributors and for smaller share, we thought that we will divert into the energy where they had the right kind of money to put through into the offering.

So we had the luxury to really recoup and then invest back into the business. So what has happened, what has resulted in that and what is the confidence which we have very clearly is that, while the first two quarters and the third quarter had a marginal in terms of a standard revenue in terms of 29-30 million. We broke the orbit and went in Q4 to 32 million. We have moved at about 36 million and today I can proudly say in the segment, on the top line we are a comparable company which is on the top, moving from 36 million to 42 million in terms of the revenue which is approximately 16%-17%. Is this conference high that we'll be able to continue though we don't provide guidance, the current orderable position in terms of what we have and the current run rates what we have, we have pretty poised and grounded to see that very clearly it is no more 8% growth, it is going to be phenomenally high growth, which is coming ahead in terms of the next couple of quarters coming through. While I might resolve myself in terms of the numbers, it is a simple math, as my growth is accelerating, and where I'm trying to capture on the opportunities and trying to renew, and I am trying to push through. And to see what the second grab that is probably slightly underestimated in terms of my margins probably we thought that we'll could pull over and do the same kind of margin for the current year, which just tapered down, I'll reason out very clearly and in the interaction also.

One, there was a phenomena as Srikanth mentioned that there is a retention issue of 30% in terms of the people and technology all over. Today the customer is under pressure, they are not able to get set so, they are trying to reach out on the discounts as well as stretching on the receivable. These two as a phenomenon which run through for every company. So invariably, people are trying to look at grappling with retention. While people add buffers that enough point of time with a larger revenues were able to really equal it up and move the curve. We were in a double-whammy, basically we were trying to retain people, we are trying to reinvest in the business and we are trying to expand our business and to get the personnel. But we have done the act right very clearly because net-on-net if you look at our, except for the last quarter this quarter we have bounced back to 13.5% with some more optimization coming through in terms of EBITDA except for SEIS benefit. **(Inaudible) 11:34** retrospective effect where the government has caped and we are forced to really move forward and provide and reverse these provisions out to the tune of about 10 crores. Otherwise, our PAT would have stood around close to 10% and for the next two quarters move up so on a Y-o-Y basis, , while we are high in terms of offering 15.9% or 16%. But the growth has come in phenomenally for which we need to compromise basically in terms of technology to really high **(Inaudible) 12:03** global phenomenon in terms of retaining the set of people.

So this was one of the reasons the operating cost has really moved up while as a company we have been trying to do a little bit of mix and match to see that what best can be done to optimize, we also keep in mind with interest to see that how the cash is protected and what is the best it can be invested into getting the right kind of returns today for the business. Having said that, almost all the entities across are profitable for us. And we have adopted a new transfer pricing model which has started yielding and a better benefit in terms of trying to get more cash into the Indian entity which is a listed entity. And that could benefit us as a corporate in many ways to move up. Our gross margins have moved up by about close to 3.5% and the operating margin has moved up comparing to last quarter by about close to 5%, which is about 24% because of the essentiality of these provisioning are a little bit on the business development side which needs to be done. My EBITDA margins have dipped otherwise would have been hovering around 13.5, 14 I've given the explanation out over there.

My receivable days have definitely moved up from around 52 to 53 days to close to 56 days which is about four, five days. While on comparing with the industry parameter we're in a good wicket. But, definitely yes with the volume coming in at about 300 crores as revenue, we are keeping a tight leash on the receivables to really get there while the normalize EPS could have been at about Rs.19 we were there, we are there at about 15 on account of all these issues. My on set and off shore continues to be healthy, the reserve mix is about 78 and 22. But there is a pressure which has come down during the quarter which we are trying to correct out on the offshore realization, the realization has come down by $1 while the onsite remains stagnant at about $75 which in fact it has inched up the notch and we are trying to make that and then one of the initiatives which are trying to look at the top 70 accounts Srikanth will address the question is that, we are trying to convert the 70 accounts predominantly into a full blown managed services and trying to expand the valid share in a big way. So that should give us a benefit, but in terms of revenue mix we are there at 51 to 49 which is again a healthy trend which run through. We have added about 16 new clients and the total number of active clients as per the end of the quarter is about 231. The clients across the various sector invariably and the top 20 clients continue to contribute 25% and the top client contributing about 2% and the top five clients at about close to 8% on top ten 15%.

The geographical mix has remained the same, U.S. has been contributing predominantly at about 85% and UK at about 10% and the rest being contributed by the rest of the world. We see a lot of traction in Singapore and Dubai in a big way coming through. While it is so, the BFSI has continue to be a contributor in a big way, where it has contributed about close to 19% in terms of the segment and the travel transport hospitality, we have got some good news where it has remained stagnant at about compared to Q1 to Q2 at 15.5 but I think in Q3 we can proudly say that we cannot disclose any numbers. So, the current of last 20 days in terms of the orders which has flown through, renewables which has flown through that sector is going to come back and we have not lost the client and we are trying to retain and expand the business over there.

Retail and commerce and our healthcare continue to contribute about 14%, 15% and that's the sum up in terms of the contribution which has come through. While it is so, I'm sure that there will be some questions coming around in terms of the cash flow coming through, the first three months definitely we had net-net neutral in terms of the cash flow, the second three months we have generated about operating cash flow of 27 crores from the business, we hope to enhance this because dominantly the money starts and receivables and we should be able to get that out because we have put all the measures applied out very clearly. And we should be able to have the clients coming back and pushing from 60 days to 75 days, and few of the clients have pushed from 75 to 90 days. Has resulted in some amount of, course it doesn't have any impact on the working capital pressure but, we will be able to pull that out and the cash generation should really start moving u.

We had a couple of organizational changes as well, which will be addressed in terms of the questions, under compelling personal resale the CRO had to separate and which was well accepted, he has been a good well-wisher for us and the business has been secured and there will be a set of second level and third level kind of connect which is already happening around and we don't see any issues and these are common in organization which happens and it is part of life. So, that is there where we are. As it stands, we are poised for a good year added terms of the revenue growth, in terms of the margins, probably net-net we could be lagging comparing the last year by about a percentage or so as there is a tremendous pressure in terms of the employee retention. And we hope that to taper by about Feb, March with the tailwind coming down in terms of businesses, but we have laid a strong foundation so we are very confident that we will be able to sustain this growth momentum and have a rate of about at least 15 million by March to take it to a next orbit as to where we are. With these few comments probably I would like to close my submissions, and then open the session for question answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shweta Jain from ANS Wealth. Please go ahead.

Shweta Jain: If I look at the slide number #4, where we have the resource mix and the revenue mix. So, what I understand is that 78.8% of the company's resource basically generates 50% of the revenue. Am I looking at it correctly, is this the right way to interpret?

Krishnan Venkatachary: Yes, absolutely 78% of the resources definitely generating 49%.

Shweta Jain: Okay. So my question now is if this efficiency considered to be very good, is it average compared to the industry is what I wanted to understand, how do I read this number, is it good, very good, average, bad if you could just help me understand?

Krishnan Venkatachary: Okay, this is very good because normal industry average is about anywhere between 70 to 30 because especially on the technology projects, but today with the constraints on COVID, with the constraints on customer not entertaining people, with the advancement on technology which people are offering. We have the advantages were in terms of the monopoly every company is having, but ideally the situation is, we have always been there at about 72 to 27, 28. So that's how the pattern so this is extremely good.

Shweta Jain: Okay, thanks. Sir my second question is we've added 16 clients. So if you could just give some sense around what would be the contract value for these 16 clients and also, typically these contracts would be time and material based?

Krishnan Venkatachary: Out of the 16 clients, four clients we have got multi-year, multi-million dollar clients which is predominantly I can say, for three year. All these are time and material, one client we have planned for 18 months on outcome based, which has been there for about close to 1.6 million. And the rest of it basically has been ranging anywhere between 600to 1.3 million with a varied time frame, could which as I told you from six months to 12 months to 14 months or so, that's the summary.

Shweta Jain: Okay. And sir the overall, the clients and the contract and the order value that we have, how much percentage would be time and material base, and how much percentage would be the outcome based and also, if you could help me understand the EBITDA margins in both these type of contracts?

Krishnan Venkatachary: Yes, as a general thumb rule on an outcome based basically the EBITDA margin definitely moves up by about 1%-1.5% to 2% easily. Of course, the efficiency has to come in basically, because we are now trying to experiment outcome based model to start moving up, if you look at last quarter, we trying to convert, in this quarter we attempted for 10 accounts, and we have converted two accounts worth about close to 3 million. So, I can say about close to 3.5% in our experience what you have seen in terms of enhancement which comes to its overall margin, but considering the reinvestment what we need to make it's safe to assume 2.5% to 3% in terms of an EBITDA. But, in terms of the percentage of contracts, when we had this outcome base overall which is fixed built or whatever it is you call it under the nature, while we are 97% to 3% 2% in terms of the fixed built, that scenario is slightly changing we are currently there at about 92% to 8% or so. But the ideal mix could be that how an organization grow and transform itself basically to get there to about 30%, 40%. But it's an effort, we are making a separate attempt on that and a separate team has been put in place to do that, to look at the top 70 clients which are contributing a big way to see that how best we can move and we need to throw in very clearly that when we tried to convert it's for the client, while it's a win for me, what is win on the table for the client also is that increasing the throughput and reducing the cost for him which means that, I need to balance it out that while my growth has to be there, I can't really consume my revenue out, taper it out also. So, I need to look careful to pick and choose and do that.

And what happens is that, we are trying to look at a twofold approach. Converting a client is always a challenge, winning a new client on an outcome based is a better method. So we are now trying to solution itself and solutioning at this level when you're trying to get in, we are trying to get there as an innovative solution to tell them is that, don't look at resources, look at the model in terms of how best we can offer you the technology and bring your efficiency. That is working out, but it will take some more time we're doing the campaigning, we have the right set of people being put on place. But it will make sure, it needs this maturity.

Shweta Jain: Sir right now you said 92% is time and material is it?

Krishnan Venkatachary: Absolutely.

Shweta Jain: So now our active clients are 231 and Q1 there were 233. So have we lost a few clients, am I reading it correctly sir?

Krishnan Venkatachary: Yes, possible because I'm adding 16 clients, it cannot be a simple math of just adding 233 plus 16, because there are contracts which are nature applicable and performance testing which will have three months let's life style, six months life style. Sometimes these are interesting client where we need to land and expand.

Srikanth Chakkilam: It's a project coming to an end rather losing, it's project coming to an end.

Krishnan Venkatachary: Yes, exactly.

Moderator: Thank you. The next question is from the line of Krishnakumar from Lion Hill Capital. Please go ahead.

Krishnakumar: Sir you mentioned about client additions and also pulling down of the client or the tail end basically, so if you can give some color of how the order book has moved end of September, and how much of that order book is from recurring clients, if you can share that number compared to June?

Krishnan Venkatachary: Yes, that's definitely. I will put it out clearly in terms of what it is, were it stands as of 30th September in terms of what is billable between April and March in all goodness today, we have about close to about 84 million is what is billability in terms of the order book and further flowing there are few clients have really pressure down in terms of what needs to be done for the further visibility, further things are happening in terms of pipeline, but on the eternal order book if you look through for the next year what it runs through because some has gone in for three years, some has gone in for 18 months, the overall order book position as it stands today is about close to 142 million So which means that 80, 84 million is for the current year, and then the rest for the return order book and then if the pileup is happening around in terms of the conversion, so that is what color as of 30th June or 31st March we look through, the year started with about close to 120, 130 million. We have moved ahead after executing for two quarters, there have been a substantial additions coming through. And in June end probably I talked about 136 million or so, we are better off than that now. And that is the position today we are in sitting in a very confident details.

Krishnakumar: Sure, thanks sir. The other point is in terms of the Thailand clientele just to rationalize and focus efforts on mining the top clients more. So, in terms of clients mining the top 20 clients, the client mining and also cutting down tail end, how are we progressing sir, we don't seem to be moving in terms of dropping clientele as much as you'd like. Is that the right observation sir?

Krishnan Venkatachary: Probably your assumption will be absolutely not questioned. But, there is a rational, which I can explain in terms of what it is, I'm sure Srikanth will also add to it, in a year of a pandemic where we are not sure as to what is happening around may not be while basically cutting down on the client whereas creating a farming as a methodology by separating the teams as hunting and farming has already happened. And that is what is you see the results are happening. If I have to say very clearly, it will be about a couple of quarters down the line where we would like to say no, clearly because we will see where the third wave is happening, what is moving around and where it is moving around and then we try to look at it.

Just to answer your question on the Q1, Q2 if you look at the top 20 client, the names of the clients have not changed, the compositions have changed except for one client, where it has moved into 21st position and something else has come in. But, if you look at it, while the competition between the ranking has changed. The revenue has moved purely because of mining and expansion from 16.72 to 19.40 on top 20 accounts. Your assumption will not be questioned, but your answer is that yes, we are doing the mining and the focus is on mining, especially on the top 70 accounts, which is clearly there on the picture. Two is that, once I have the confidence the growth is sustainable and moving ahead and I'm out of this pandemic and I have secured myself with the right kind of offerings. This will happen in the two to three quarters where the cutting down of the clients will happen basically. And you will see that effect to it.

Srikanth Chakkilam: Just to add to Krishnan. We have identified the top accounts outside of the top 20, just to focus on farming, to reverse exponential revenue and the current processes that we have structured or structure of hunting and farming and also strengthening the offerings and service offerings to ensure that we will be able to offer more to the LT accounts, that's how we're approaching farming And in the meanwhile, like Krishnan mentioned, we will persist with some of the low-yield accounts until we get traction on the top 80.

Krishnakumar: Sure sir. Sir just one last question on the Chief Revenue Officer. So how do we intend to fill the position or the internally looking at somebody or hired?

Srikanth Chakkilam: We are looking both internally and externally to try and see if we can backfill the position.

Krishnakumar: Okay. Sir the last question, in terms of margin if you look at the industry across there has been a steady improvement in margins witnessed across large and mid-cap companies. Whereas we seem to have suffered a bit, and the improvement also seems to be quite slow in terms of margin recovery. So the worst P&Ls and are we on track to improve margins on this 13.5% in second quarter to a more industry level margins upwards, is that something that this is possible in the second half, how do you see the cost structure?

Krishnan Venkatachary: It's a very valid question for us possibly.. So, sustaining the margins is the right method. So probably making all our efforts, while I am giving a caution in terms of the labor pressure, what we have, that's a raw material for me, there is a pressure and there is a universal pressure. I'm trying to see that what best can be done to navigate out, but I can broadly say that the worse is over for us clearly.

Krishnakumar: Okay, sir just last on this point, so are you getting a billing rate hikes, how's the conversation with the clientele because the industry itself is suffering across from wage inflation. So are we able to push ahead our billing rates in the last three months, any color?

Krishnan Venkatachary: I can give a number, during the quarter where we have approached 15 clients, four clients have given us the right kind of increases what has been bargained out clearly and we are trying to look through. However the new ones we have released a newer rate cards and we are trying to be very firm on our rate cards. Everybody understands the pressure and we have formed a task force team to approach out very into the top revenue yielding account as well as in terms of the current project, because they also under deliverable and resource pressures so, they are willing to really relax the budget. And that should happen in October, November, and December, because then the final outcome of the budget for the next year we are positive on that.

Moderator: Thank you. The next question is from the line of Srishti Jain from Monarch Networth Capital. Please go ahead.

Srishti Jain: What are the industry level EBITDA margins and what do our peers generally make and do they vary from the investment that we cater to?

Krishnan Venkatachary: If you look at industry level margin, if you're trying to look at, the industry can be split up into software product company, software Service Company.

Srishti Jain: No, regarding testing**?**

Krishnan Venkatachary: Yes, so if you look at testing as a business probably, I would say very clearly that in the mid cap space, it is hovering around 16% to 17% and we are not an exception, we have peak about 17.2

also in the last year, the year before or whatever it is. And reaching 16%, 17% is quite easy with the optimization. But, optimization alone doesn't take us there. That is one of the reasons we have changed the line of business in terms of the methodology trying to get through as a technology as a selling, trying to get through based on offering what needs to be done. And with these combination as a process I won't be able to tell you immediately that, in the next two quarters I will be at 17%, 18%, it's a journey and I will take it up over there or maybe it's last, I'm optimistic that in six quarters I'll be there at about 18% or so. But, we are making all our efforts. So, if we have to draw a comparison into the industry, probably 17% could be a better average in testing, but that's an ideal condition. Today, this is not an ideal condition, because today it is a full factor and the people are not willing to stay even whatever maybe the retention policy, because the demand is quite high. That is what because more and more people are not able to visit on site. So the businesses are pushed for offshore. So invariably, which means there is a lot of floating around which is happening. And this is not an idealistic condition to really look at what could be the margin which is coming through.

Moderator: Thank you. The next question is from the line of Yash from Daiwa Capital. Please go ahead.

Yash: My question is pertaining to the employee cost and the number of employees which we have. So could you just give me a break up of the number of employees we currently have. And the addition which we have done in this quarter?

Krishnan Venkatachary: In terms of the total employee numbers what we have is at about close to 3425 as of 30th September, but if you look at it onsite it is about 700 or so and off shore which is about close to 2700, but in terms of average deliberative, where we have come through, the average billing over the quarter has been at about close to 2350 or so in terms of off shore and onsite has been at about close to 600, net addition probably I would say about close to 320 people also we added.

Yash: Okay, thank you. My second question is pertaining to the other expenses. So, if you can give us a break up of maybe the marketing expenses which was incurred, or any other substantial amount which should be known?

Krishnan Venkatachary: If you look at the marketing expenses have optimized, we spent about close to 5 million in Q1 and Q2 we have brought down to 4.8 million, and we are still trying to optimize on the sales and marketing expenses. But, the predominant our expenses has been on account of 1.2 million, 1.3 million in terms of the reversal of the sales benefit, which hit us very clearly from Q1 to Q2 company from 3.5 million to 5.5 million. And partially we commenced a little bit on our travel in U.S. which is good for us that is where we are able to get back the travel business over there.

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

Supratim Basu: Okay, so I just joined a little late on the call, so this SEIS benefit which has been reversed in this quarter what exactly is this the 10 crore number?

Krishnan Venkatachary: Yes, so the scheme is from 2015 to 20. 2015 to 20 the government came back for 2019-20 they have not notified the scheme, but they said that they were trying to accept the from the people, in terms of 2019-20 as they have done from, it is a **sunset** clause from 2015 to 20. But, after all this pandemic and various other things, they came back now and on 27th September where the circular dated 23rd as told by Srikanth, they just released a retrospective effect saying the 2019-20 capping across the sector to 5 crores and removing few of the sectors out from these claims. So which means that, amount became ineligible for us invariably and we need to expense that out.

Supratim Basu: Also, to this extent it means that the margin, so this is for FY20 or FY21, that this adjustment has been made?

Krishnan Venkatachary: This has been made for 19-20. Unfortunately, on account of this IndAS and other accounting, they are not trying to take it as a balance sheet adjustment, neither they are taking it as an extraordinary item, it says that it has to be routed through the P&L and then it has to be expense out.

Supratim Basu: Yes, because you got the margin benefit on the previous year. So you have to take the margin expense this year.

Krishnan Venkatachary: No, previously we accounted that as an other income where it has benefit not in the EBITDA. But this time it will get affected in the EBITDA very clearly because of the accounting because, they don't want to show it as a negative in other income Invariably there provision doesn't allow us to do that.

Supratim Basu: Okay. Second question is, we've been talking about this for the last 18 months, maybe 24 months now, this whole rationalization process now, I heard the previous comments made to my fellow analyst, it looks like that the company is not biting the bullet on rationalizing its client base, especially if it means that while your revenue goes down, there is no real impact from a margin perspective, or from a cash flow perspective or from absolute EBITDA perspective. So could you kind of talk a little bit more as to why this process is getting pushed out? First time we spoke about this was back in the year 2018. And we are now in 2021, 3 years down the line and this is still a continuing process.

Krishnan Venkatachary: I just want to recap out very clearly that in 2018 we were there at about close to 430 clients, 440 clients. We are 50% of that if you look at it over the last six quarters-eight quarters if you look at it, six, seven quarters and six, seven quarters if you look at last year of last year cannot be compared very clearly, comparing to last year as to where we are, we are stagnant in terms of the number of clients very clearly, maybe barring if I have to measure five, six clients, we say that they are the total we were there at about 210 or 220 we are around that. So, the revenue is, if you look at the substantial revenue from what it was at about 122 million last year the first half itself which has moved to 78 million and which is poised growth in the coming two quarters which means that still my clientele remains the same invariably which shows that if there is a drop edge in 230 clients to 200 clients or whatever it is, is not going to affect me at all at any point of time very clearly, it will not only.

Supratim Basu: No, there are two aspects to this right. Krishnan there is a cash flow aspect of this and the resource aspect of this. So if you've got let's say 230 odd clients, but if one were to do a margin analysis of these clients, or EBITDA analysis of these clients, and I'm just picking a random number, it's only the top 150 of these clients who are actually giving you a positive EBITDA, it doesn't make sense to just apply the bulletin and drop the balance 80 odd clients, which would then also have the effect of freeing of resources. Free of people today which is which is a very big thing right now in this market.

Krishnan Venkatachary: Yes, absolutely we have done it, we have done, we attract clients very clearly based on the clash of the margin and what has been coming down below 24% has already been knocked out as a client list very clearly, if we look in terms of the statistics though I might not have published out very clearly the top 20 account is contributing 36.5 my balance accounts all put together, if you look at it for the quarter it been contributing at the gross margin level at 35.8%. So, I take your point, we monitor that, we do that and we also have a desire to bring it down. It is not that we are not trying to take the bullet, it will happen because there are two quarters we have separated the teams into hunting and mining. We are giving an opportunity to the mining team very clearly to look at this or say no and stop moving forward which will happen if you see in the next two quarter because we have no choice at all the variable pay and another link to it, it will happen clearly

Supratim Basu: Okay, so I will come back to you on this two quarters from today. My last set of questions clearly revolve around the people situation in India today and the fact that your clients are not giving you rate increases so in the U.S which is facing an inflationary environment currently. Now if you were to look at your manpower profile, would you say that bulk of your manpower is specialized IT engineers or would you say they are common technology IT engineers?

Srikanth Chakkilam: So first thing Supratim. We are proactively reaching out to our clients especially want to use a situation to try and see if we can partner with us to help us rate increase. We have already started the process we've seen some clients already increase rates so just want to call that out, the activity is also going on. Secondly, more than 65% of our projects today are test automation based so, when you say IT generalists or IT specialists our engineers are on the test automation. I don't know how you want to categorize but I would think that there's a specialist.

Supratim Basu: Question that I'm asking is that, how scarce are the skill sets in the India population today, India IT population today.

Srikanth Chakkilam: I understand that, there is a scarcity the resources that we call in software development, engineers and test so there is a scarcity.

Moderator: Thank you. The next question is from the line of Danish Mistry from Investor First Advisors. Please go ahead.

Danish Mistry: I had a couple of questions, the first one is linked to your balance sheet. If I were to see your cash flow essentially your receivables have gone up and you touched upon the fact that your DSO days have increased, so is that a yearend phenomenon and linked to that, I see your short term borrowings also have increased from about 16 crore to about 32 crores. So, just want to understand is this just movement of long term borrowings to short term borrowings or have we actually borrowed more..

Krishnan Venkatachary: We don't have any long term borrowings as regards to short term borrowing our facility renewal with Federal Bank is due for the month of October. So, we have been very careful in not utilizing the limit and there was a request to show them that some amount of utilization in the last two days to see that the utilization can really benefit us so we just wanted to renew the facility of 20 crores at a competitive rate and leave it out so that for any expansion it can be very useful. So, that is one of the reasons, second is that we have adequate cash if you look through about another 94 crores of cash and the fixed deposits and various other instruments which are available. So just answer the question probably, we have not utilized any of the CC in a bigger way except for the renewal purposes. We used U.S. **LOC**partially because the Canada realization were low. And we used that to really supplement it that and that is also getting almost reversed in the first 20 days, invariably we pressed on the realization and we have also changed the methodology because previously there was no hunting farming, but now in the farming they have a variable pay, but now we have linked it to realization. So now realization is running up fast, previously it was commission based, and those commissions were based on realization. Now, we realize that the lacuna in terms of that and we have plugged on that. So that is now we see the acceleration coming through. In fact, we have gone ahead into the market and just on the day of board meeting we have invested another $3 million in the company instruments so the last 20 days has been very encouraging in terms of the realization.

Danish Mistry: Got it. And on the debtor side on the receivables, do you think these will come off or these are very specific clients whom you want to grow business with, and therefore have given them a little bit more flexible payment terms?

Krishnan Venkatachary: Yes, there are couple of brands basically we have given a flexibility, but we will revert on that.

Danish Mistry: Hope will do. Second question, if I may is that on the employee part and you've quite clearly touched upon the factors like the rest of the industry has that attrition has been high. And there is a demand for talent out there. So what is our attrition number, if you can help us understand and second is that in terms of utilization, especially offshore where you have the bulk of your employees, currently we've shown a good increase from 77% to 84% Q-o-Q, where do you think we can take this to, because then obviously that would have an impact on our margins?

Krishnan Venkatachary: Good question, sir. But given a choice always we need more utilization, but it will become counterproductive if I'm going to utilize more than this level very clearly because I feel that I'm peaking at about 84, 85 because the budget will set in**.** In terms of the realization basically Srikanth did mention in this call that my annual attrition rate is around 30% or so.

Danish Mistry: Correct. And how are we addressing it, I know you've touched upon that you're trying alumni networks, past employees, but do you think that, even after current growth rate and the fact that you touched upon you have such a large and encouraging order book that to retain employees we need to give some more salary hikes or things like that?

Krishnan Venkatachary: We're contemplating. There are elaborative discussions going-on on that. We are trying to make some steps to see that what best decision can come through. But I think one of the methods is this definitely and we are trying our level best to see what best, at the most at the current point of time the top performance of four and five we are not trying to leave them out, we are trying to do that work base can be addressed to them, because it will be a percentage of the population which comes through and in the critical technology areas so that the billing is not launched. But, this is an industry phenomenon and I expect this to taper down by Feb, March or so because, with budgets cutting down and subsidies and grants coming down in U.S. I think we should be in a good wicket.

Danish Mistry: We will do. And I have just one question if I may, you did touch upon the other expenses with the other caller, but just to understand where do you think our other expenses will plateau out, for example I know this time the 95 crores includes 10 crores of the reversal. So, let's say you knock that off and make that 85 crores but if you were to see we move from 54 crores to 75 crores to now 85 crores of other expenses. So, where do you think this can top out given that we are increasing our employee base also. So, is there any element of subcontracting there?

Krishnan Venkatachary: I will use the word hired employees rather than subcontracting. We don't even 1% of the revenue subcontracting, but we have hired employees especially in the times of difficulty of travel and also availability of resources. And if I remove that out and put it out on top of my other expenses is more or less stable and out reached. If I remove that out and put it out as a salary because unfortunately being hired employee cost it is not grouped under employee benefit, it is grouped under other expenses. If I give a break up to that for you on a color very clearly I can share it by a separate mail, then I am on a good wicket**,** but if you compare 74 crores to 264 crores and 95 crores to 307 crores if I remove this portion and then start comparing over a period, my other expenses are almost getting optimized at every point of time.

Moderator: Thank you. The next question is from the line of Surabhi Saraogi from Smith Capital Markets. Please go ahead.

Surabhi Saraogi: Sir, I have a couple of questions actually. My first question is can you give an update on your order book for the quarter?

Krishnan Venkatachary: I have about close to 84 million worth order book to be executed for the period October to March and then I did mention that later on an order book is the range of about +60 million.

Surabhi Saraogi: Okay. And sir can you give some color on the future outlook?

Krishnan Venkatachary: Looks bright, extremely great. And we are poised, we are consolidated our offerings are taking shape and we are with the market and we are confident that we'll be growing very aggressively and we don't see any reason for lagging behind in our four to five years target of 500 million in terms of revenue both organic and inorganic put together.

Surabhi Saraogi: Okay. And sir one more session is that, what is the reason behind the increase in trade receivables?

Krishnan Venkatachary: Yes, it is moved up by a couple of days from 52 days to 56 days, partially people have come back and requested for moving from 60 to 75 days and few of the brand customers where we have accommodated in terms of the cash cycle which will reverse back basically that is another reason.

Moderator: Thank you. The next question is from the line of Shweta Jain from ANS Wealth. Please go ahead.

Shweta Jain: I have few follow up questions, so one is a follow up to an earlier participant where he mentioned about the rationalization process which we started at 2018, so I just want to understand one we are done with the rationalization. How do the broad parameters for us would look like post the rationalization in terms of revenue in terms of EBITDA margins, if you could, and also in terms of the type of business that we would be doing once all of this cleanup is being done that was the first point that I want to know.

Krishnan Venkatachary: I just want to clear up in summary is that, rationalization in any part of life is a continuous and in business it is much more continuous and process. It has to change and evolve with time. For example, when I was doing 90 million or 100 million I was doing with 450 clients. Today, I'm trying to do about 150 million with about 200 clients, which means that that's a good amount of rationalization. What is that, which I'm trying to do is that, how do I de-risk my business in terms of just giving away the client not doing anything, and then trying to look around, rather than trying to test out and see what best mining can be done. So does it have an impact in terms of a EBITDA partially yes, partially no, because the amount of fixed investment what I make on these set of clients clearly will count for me in terms of the non-billable manager, in terms of the solution and group, in terms of the attention of the project manager and things like that. I'm very clear on that and that is the reason the mining team has been put in place, on a continuous basis, even for a new win what we are trying to do, we will only minimize on these costs when we see a potential IT budget to start looking at. So, it's a continuous process in terms of rationalization. All these cost, if I look through we feel that 230 clients yielding about close to +150 million, which means that my average ticket size has moved to about +700 thousand dollars. How do I get there basically, that the top 70 clients contributing about close to 80% of the business and the rest of the clients have 70% of the business and the rest of the clients trying to mix and match. Then try to restrict about 150, 160 client. It's a process we are doing it, and it's only the question of time at which we do and then what could be an EBITDA impact, maybe about 0.5% in terms of moving up very clearly. But, other than that nothing else because it's a continuous process.

Shweta Jain: Understood. And sir in our slides, we mentioned that 18.2% of the revenue is contributed from others. So just wanted to understand what does this others predominantly what forms the part of others here?

Krishnan Venkatachary: It can be power and agility, it can be anything else, I have a whole list, and I'll take your mail and send it across to you. Just for the space constraint we just grouped it and rather then I can do it across for you.

Shweta Jain: So we on boarded Mr. Phaneesh Murthy so just wanted to understand what role is in currently playing in the organization, and what role would you be playing going forward especially in the interim time that we onboard a new CRO, just wanted to understand your perspective on this?

Krishnan Venkatachary: He has been one of the key Directors for us. He is a strategist, visionary, everything and the advices and he continues to be on the advisory role very clearly as the Director. And it is very simple that he continues to be integral part of Cigniti in terms of trying to advise because he's industry specialist, visionary, and he understands where the technology is moving, where the market is moving, what it is. And today we are seeing the stability of revenue, our growth in the revenue on account of all these advisories and visionaries which has been provided by him. So he will continue to do that.

Shweta Jain: Okay. And sir do we expect further increase in our employee expenses or on what levels would they?

Krishnan Venkatachary: As a CFO, I don't want to answer, but as a businessman for CEO, he would like to retain people and build the revenue out very clearly. So we need to arbitrage between these two. So we decide to see what best can be done.

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

Srikanth Chakkilam: Thank you, everyone, thanks for the participation and I look forward to meeting you all in the next quarter and giving you more updates about the company.

Krishnan Venkatachary: Thank you.

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