Cigniti Technologies Limited
Earnings Conference Call
May 05, 2022

Moderator: Ladies and gentlemen, Good Day and Welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q4 and FY22 Results.

Today we have with us from the management Mr. Srikanth Chakkilam – Chief Executive Officer and Non-Executive Director, Mr. Krishnan Venkatachary – Chief Financial Officer, Mr. Vinay Rawat – Chief Revenue Officer, Mr. Sairamprabhu Vedam – Chief Marketing Officer and Mr. Raghuram K – President and Global Delivery Head.

I now hand over the conference to Mr. Mr. Snighter Albuquerque from Adfactors PR. Thank you and over to you, Sir.

Mr. Snighter Albuquerque: Thanks Margaret. 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 the currently held beliefs and assumptions of the management of the company which are expressed in good faith and in their opinion please reasonable. The 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 achievement expressed or implied by such forward looking statements. The risks and uncertainties relating to these statements includes, but are not limited to risk and risks of expansion plans benefit from fluctuations in our earnings, our ability to manage floor and implement strategies, competition in our business including those factors which may affect our cost advantage rate 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. Reliabilities, political and stability and general economic conditions affecting our industry unless otherwise indicated the information contained herein is preliminary indicative and faced on the managements information current plans and estimates. I now hand the conference over to Mr. Srikanth Chakkilam for his opening remarks. Over to you, Sir.

Mr. Srikanth Chakkilam: Thank you Snighter and good evening everyone. Welcome to the Q4 earnings call of Cigniti. So, for the previous quarter we have had 5.7% growth and the revenue we have done is about 325.46 crores in comparison to Q3 and for the year we have had stupendous amount of growth close to 38% that includes many enterprise and fortune clients. The growth also includes several digital opportunities in areas beyond quality engineering. Although the company initially plans for growth that included both organic and inorganic growth we have been able to pull this off through largely organic growth and solely organic growth through investments into sales, marketing and revenue.

The year also saw expansion into newer areas and geographies, change in leadership and also addition to the management team in line with the aspiration of the company's vision. We have been firm with our plans to graduate and go digital assurance and engineering service company, a market that is now valued at $300 billion and the digital product development market being far bigger than this. This market offers an explosive headroom for growth for companies which have strong capabilities and data analytics, AI, ML and cloud-based engineering. If you look at the global 2,000 companies we have been partnering and continue to partner with service providers who can help with such capabilities.

The global AI market is accepted to grow at 38% from 2022 to 2030 and the continuous research and innovation directed by large, big tech companies are driving an option of advanced technologies and continue to produce humongous amount of data every seconds which calls for data engineering services and specialist leading into data first digital transformation. So, in line with this thought process and to leverage our existing client based for more than 200 plus clients along with many Fortune 500 clients we proposed the acquisition of Aparaa Digital Private Limited known under the brand name of Round Square and this was approved by the board for all cash deal of $4.8 million.

We believe the synergies between round square and its active learning AI based platform and Cigniti debt in its services and in relation with its clients will further influence business outcomes for our clients and help become a strategic partner through a data first digital transformation approach. Coming to profitability the EBITDA reported for the quarter stood at 32.6 crores and for the year stood at 129 crores. We are optimistic as a company about evening out the cost to multiple measures that have already been identified and bring in a healthy balance of growth and profit in the days to come. I will now hand over the floor to Mr. Krishnan Venkatachary to talk about financial.

Mr. Krishnan Venkatachary: Good evening ladies and gentlemen and thanks for attending the call. The year has been a breakout year we have done a growth as Srikanth mentioned that we have done a top line growth of about 38% just taking a step back into the last 4 years, 5 years from 2017 to 2020 has been a year where we try to do a sustainable revenue model in terms of growing at an average of about 8% and trying to concentrate on lesser clients and consolidating the clients from about 450 to 250 clients. We have been successful in retaining that and increasing the wallet share while the EBITDA has been stabilized or stabilizing at about 15%.

I think the pandemic gave us a food for thought and also gave us clear direction that we as a company need to derisk various sort of measures and that is one of the reasons we did started investing about 18 months back in center of excellence creating offerings in terms of reaching out to other key verticals which helped us to support and sustained a revenue during the pandemic and the cost savings and the cost optimization measures which were there in terms of nominal salary reduction and then non-travel and things like that let us to a 16% EBITDA last year on a comparable normalized basis to which could have been at about close to 15%, but I think the year gave us those kind of investment what has made and continued the investment during the current year which was necessitated and which has resulted in a lower EBITDA which is close to about 11% comparing to what it was in the previous year, but I think our growth engine has kicked in very clearly.

What was originally we planned in our 500 million journey to have both organic and inorganic and the year we could have grown at about 20%, 25% is the rest which we have planned through inorganic has been supplemented completely out of organic growth and we know for sure that where we are accelerating and while it is so that I think the differential 4%, 5% EBITDA which has been predominantly on account of one we have reinvested back into the business in terms of sales and marketing, in terms of bringing in with stability and trying to get the visibility with respect to partners which will start yielding results which contributed about close to 2% of the revenue and we did invest on people which is about close to 1.5% of the revenue which was on account of the labor turnover being at about 31% we just did some corrections in a midway through in October, November which was necessitated and we have seen the effect of it probably the attrition rates have come down to 31 to 29 while it is so there has been one time cost in the GNA which is equivalent about 1.5% which for sure will get reversed in the current year in terms of not recurring. So, we are pretty confident net-net differential 3.5% is a justified cost and which we are trying to monitor optimize and see what best can be done.

This is summary in terms where we are in terms of full-blown taxation and what we have delivered out while it is so I think North America continues to be leader contributing about close to 89% and the rest of the world contributing about the balance share of the business. The revenue mix is always healthy that we have made a paradigm shift on my offshore is contributing about 49% and 51% from onsite while the dollar rates for the quarter as increased marginally on the offshore front and also by about half a dollar and onsite overall year-over-year we have increased by about close to $4 in terms of the onsite rates.

The new client added during the quarter is about 18 and the number of clients active is about close to 231 and the top 20 clients continue to dominate my show in terms of contributing your combination of about 33% or 50% in terms of the revenue, 33% in terms of revenue comparing to 29% what it was in the last year and there has been a tremendous increase in terms of digitalization we have in spite of the pandemic, in spite of working from home model I think we have been very successful in terms of not losing any client on account of delivery issues or capability issues we still have done utilization onsite about 96.4% and offshore at about 83.5% on overall basis.

In terms of the sectors probably the BFSI continue to dominate in terms of about 19% and then follow travel and hospitality as bounced back at about 16.5% and retail and commerce at about close to 15% continue to be the dominant sectors contributing while this year necessitated to net addition of about close to 600 plus employees which was also made us to spent some amount in terms of the CAPEX which has definitely impacted a little bit on the cash flow while it is so the receivables we had to accommodate the customers in terms of increasing the average receivables days which you have seen as it has notably moved up by about close to 70 crores that is getting back to normalcy in terms of getting corrected over the current quarter and that is one of the reasons probably the net cash generated from the system has come down.

The directors have recommended to the shareholders in terms of a dividend of continuing dividend in spite of the margins being dipped comparing to last year with a confidence that yes there is enough cash flows available and the company is confident of bouncing back so the same amount of dividend has been declared out completely and as Srikanth announce that at about consider the proposal which is in terms of picking out to the company which is on the digital foray and we are confident that this company which is currently running a revenue run rate at about 3 million in the last year closing with an EBITDA close to about 18% is likely to gallop in terms of the growth and then also do a cross selling and up selling in terms of the current set of clients.

Overall we are looking at a very positive note to move forward while it is so we would like to make a very clear statement that we are cautiously optimistic in terms of improving the margins we are trying to monitor all the cost optimize the best while we there has been euphoria in terms of the revenue growth which we have achieved over a period of time in terms of the last 18 months, 24 months to the current 12 months, but I think we have also seen that the growth impact of the margin and then we would like to structure the growth out very systematically and that is one of the reasons we have brought in a new CRO who is Vinay Rawat who will be just giving us glimpses out next to me and he brings in a lot of experience in terms of winning large accounts and maintaining and leading and creating a stickiness with the client. With these few words I will hand over the mike to Vinay to say a few commentary in terms of the sales area. Over to you, Vinay.

Mr. Vinay Rawat: Thanks Krishnan, I will give a quick introduction of mine I joined Cigniti three months back after a long career with Wipro and after that a private equity debt company Infogain, and I left Infogain after the successful exit to apex partners.

I will just give you a quick rundown on the market demand which actually I see here from an overall digital transformation perspective, the business transformation of enterprise that will continue. There is definitely cautiously optimistic outlook and most enterprises post pandemic situation where they are actually tapering down, but nevertheless because the digital business transformation continues their investments into these areas is something which is continuing. We are seeing very reasonable demand which continue to actually accelerate our growth in our customer base.

We are focusing more and are kind of double dibbing in our current customer base where we will not be using our immediate acquisition which Srikanth just talked about to expand our base in our account to actually provide digital assurance and digital engineering services, but in addition to that we will also use that to acquire newer clients. Our key growth market strategy is to actually focus on existing accounts and make the top accounts close to $20-25 million level accounts. Overall, in our existing customer base we are seeing larger deal the demand for digital assurance and digital engineering partner is something which is very visible. It is a very competitive market and therefore our positioning of being a digital assurance partner across the digital transformation journey is something very unique and most customers actually have liked it.

So far all the customers whom I have met they are being pretty happy with our overall execution story and our ability to provide value through this digital assurance services to them. Still, I would say that we are in a pretty sweet space when it comes to being a niche provider and today when digital transformation journey actually happening at most of the customer places they are looking for boutique investor the great provider and that positioning is something which actually serves us very well. I will be happy to answer more questions regarding our market and our deep situations. I will also say that in terms of focus we are focusing upon improving our sales productivity, we are focusing on expanding our footprint and increasing our relationship level in our existing account to multiple CXOs so that we can address multiple budget centers within our customer base. Krishnan over to you.

Mr. Krishnan Venkatachary: Thank you. I will have a small commentary from our Chief Marketing Officer Sairamprabhu Vedam.

Mr. Sairamprabhu Vedam: Thank you Krishnan and thank you Vinay. Just to substantiate what Srikanth, Krishnan and Vinay spoke I am glad to update that we as a company have been recognized as a digital assurance leader. A couple of months back this is a pivotal moment considering our journey towards what we are as an organization. So, Nielsen Hall put us with leadership positioning in both AI cognitive testing, quality engineering and continues testing that strengthens our digital assurance positioning and also sets up at a firm footing to offer complementary digital engineering that will add so which in our viewpoint is the way forward for us. So, that is something that I wanted to sort of highlight and it is our agility, ability and adaptability which brings in this niche different creation that we continue to enjoy with a global 2000 customers and all that goes to the delivery execution excellence which I would leave to Raghu to give a few initial comments.

Mr. Raghuram K: Thanks, Sairam. Good afternoon all. I think in line with the vision of the company which Srikanth also mentions at the beginning of the call pivoting ourselves to digital assurance and engineering organization from a delivery standpoint. I am happy to let all of you know that we have invested a lot in this year to expand our capabilities, set up new technology centers of excellence, setup new technology practices which cater to things beyond quality engineering and overlapping into the digital space. We have been able to attract lot of top talent to ensure that we build that capability, we have resonated that with our existing clients as Vinay was eluding to we have got lot of positive feedback and we are working on maturing that practices to the next level. Having said that we are very optimistic that in the upcoming fiscal year or in the fiscal year that we just started we will be able to bounce back on the margins and deliver value to our clients with the digital space. Over to you, Krishnan.

Mr. Krishnan Venkatachary: Thank you ladies and gentlemen. We are now open to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Mr. Riddhesh Gandhi: Just want to initially understand while almost on every quarterly call we have been sort of indicating a revival in margins and even in sort of open discussion, just wanted to understand actually what is the reason why there is a discrepancy between what we have been expecting to happen and what is actually happening on the EBITDA and the margin side of it?

Mr. Srikanth Chakkilam: We have had the current market scenario we have had to invest a lot into retention mechanisms that is one. Secondly we have had few one-time sequence of events with regards to reversal of SEIS.

Mr. Krishnan Venkatachary: Just adding to those points probably gentlemen is that if you look at strength of the cost completely into the gross levels in terms of the cost of good sold with respect to the gross margins, with respect to the sales, with respect to the G&A. At a gross level we have definitely if your question is very valid in terms of why you are not able to predict out things clearly while we anticipated that the corrections what we have made in November in terms of sustaining the entire critical delivery folks to the tune of about close to 500 people including the non available managers which was necessitated for us to really go ahead and do a salary revisions while it is so I think the resource available crunch was also made in terms of hiring at a higher cost which was not anticipated and we thought that is a onetime exercise which we will be doing out while we predict in the market, but I think Jan to March continued its fate in terms of billing losses so where we have to go one step forward to retain people and assure them and provide them the right kind of mixes to the market who are going crazy.

Mr. Riddhesh Gandhi: If I can just push you slightly on this what the initial discussions was there initially that we had actually moved some amount of the contracts from the time base, performance-based contracts and we were expecting some of that recovery to happen in the future quarters. This was about two to three quarters ago and then of course we had adjusted for effectively picking increase and hike and some of that. So, we are not seeing that uptake happening because I understand delay obviously in a type of contract through performance base, but we are not seeing that uptake creeping back in and the other thing is that we have had the call in the middle of last quarter when we have conference call and even there we had indicated some amount of recovery. I am sure in a span of month and half I mean that much has changed to impact the profit margins?

Mr. Krishnan Venkatachary: I think it is a valid question that is the reason I did not conclude my statements while Q1 to Q2 if you see on account of the contract paying on the time and material to deliverable basis the margins have increased from Q2 to Q3 as well the EBITDA moved up to 12.5% if you see from 9% from where we are in Q1 we have moved up to 12.5%. The full impact of the salary revisions which we anticipated and when we had in the call we thought that we have concluded it in November, December. On January 30th when we had a call with you all we thought that this is getting priced in, but however Jan, Feb, March we were necessitated to do a revision for critical folks which was essential because especially on the digital side where we are performing this was not anticipated is one thing. Second thing is for the newer contract which has come through we had some fulfillment issues and we have resulted to contractors which came at a slightly higher cost to really higher contractors which was even now the market is keeping and we expect that this tapering to happen probably in July, August in terms of what it is. As I speak to you I am continuing a revision in April which is going to be effective April going to be released out today, tomorrow and which is going to be about 12.5% in terms of the overall cost and where we know that is the reason we are cautiously optimistic. While it is so the second portion which was not anticipated out very clearly is that we are few of the leaders who exited out on the sale side which made the sale, the board has to be stronger. We had to necessarily move out definitely to arrest the slide in the sale side to retain the revenue to move forward which necessitated in investment, second we also did wanted to de-risk the business. So, we went ahead it is a first quarter in the US probably the last quarter for us Jan to March we took a decision to really invest in the partnership events very clearly as a committed cost which we need to comment at cost invariably so that we know that there is a channel of revenue which can come through this relationship. I understand that the business needs to be a bit more predictable in terms of what we are trying to do, but I think yes as a process when we are trying to get through certain unpredictable events have really shift us away. Adding to that I think some amount of cost which has gone into the legal side from Jan to March because on unethical practices we have proceeded and we have filed to the exchanges is that while we estimated some amount of cost after getting into the depth of it then magnitude in terms of the analysis required was quite high and hence the multiples went up in terms of for example as against some 150,000 what we estimated it went to $600,000 kind of a thing which we need to do out clearly. I think these became a business dynamic in terms of unaccounted for very clearly those are the reasons. We are trying to be more careful as we are budgeting and we have presented a budget yesterday to the board, we are trying to be much more careful and trying to get to the predictability while we have understood that the predictability cannot be 99%, but at least to an extent of about 90%, 95% we have tried to take up various things and then try to price in.

Mr. Riddhesh Gandhi: What I am saying is that even on this call you are saying you are cautiously optimistic etcetera. My only advice is if there is lack of predictability which then appears to be for the last three, four, five quarters in a row then why there is any guidance because it will work against us at the end of the different sort of keep providing these optimistic expectations and underdelivering is only advice?

Mr. Krishnan Venkatachary: Gentlemen I take your advice very clearly, but as a company I think maybe as a company we do not provide any kind of a guidance, but if you look at it as an optimism in life generally I am an optimistic person and we as a company and anybody will operate on optimal basis. So, there is some amount of optimism in the business very clearly when we live in life. In fact in the last call conference call remarks we cannot make it clear we expect the margin to be under pressure for the next two quarters which is on record as well very clearly. So, we are only putting all our efforts to see that this kind of a optimism to ensure that we will try to bring that down and yesterday while we have also used the word very clearly cautiously optimistic is that is the way to keep our spirits up in terms of move up clearly. We are doing our best, we understand that we rightly said is that the predictability has to be near perfect. We will correct ourselves and try to get to the predictability clearly what we have also jotted down in terms of running it through as to where things have gone wrong and again I am telling you that we are estimating and we hope that we will be able to estimate and get things back to track. We are not giving any kind of a guidance in terms of what it is. Our 500 million journey and industrial EBITDA at the end of fifth year from 2021 April reminds us a blueprint and we are trying to work towards it in terms of continuing to work towards it clearly other than that in terms of yearly guidance we are not providing anything.

Mr. Riddhesh Gandhi: So, the only other question is with regards to the buyback we are considering given you guys have already issued in dividend right now and in tandem buyback is effectively in a quasi-dividend, are we looking at an open market buyback or we looking at tandem buyback where everyone including to actually promoters tender it?

Mr. Krishnan Venkatachary: Whatever is normally practiced is what has been will be discussed by the board I think the matter is with the board on 18th. So, I would like to reserve my comments and then come back clearly on 18th which is very detailed even after the board approves that.

Mr. Riddhesh Gandhi: So, the only advice I would give here is that to actually do it as an opener market buyback which will also give some degree does that a cheaper form of dividend and with the promoters are actually directly looking to effectively increase this thing to see this through that is the only advice

Management: I think I will take your input and definitely this will be provided as a summary back to the board in terms of considering it actively definitely.

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

Mr. Danesh Mistry: My first question is on the other expenses which is there it is about 40 this quarter, so one you have mentioned clearly is that it is on account of some legal expenses which is 3.5 which you said is non recurring, but outside of that what could be the other drivers for the increase in other expenses?

Management: If you look at we have spent little bit portion in terms of addressing marketing and sales promotion which I explained in my previous question is one thing. There has been which you have covered it in terms of legal professional is one of the major drivers. The other major drivers is that in terms of the software license cost marginally moving up I would say that because of the cloud based cost and then the number of people moving up and also we have moved up in terms of trying to automate the HR as a solution in terms of success factor so that is one cost which we have reinvested back I think these three will be major drivers which is running through in the other cost.

Mr. Danesh Mistry: But this legal expense which is where you mentioned there was an ethical issue, was it impacting any of our customers or and you mentioned it is one time is it any other part of the other expenses which is one time or do we assume that going forward it will be a 35 crore kind of expense item in our P&L?

Mr. Krishnan Venkatachary: If you look at it that we are trying to look at in terms of you can assume safely at about 35 crores, but we are trying to look at it in terms of optimizing each and every area whatever is happening even in a smaller way for example being fear and we have been very cautiously providing for certain bad debts which in actual program for example we have as a policy that anything on 90 days and above we try to provide it, but I think we get I mean 100 day or whatever it is that is what we are trying to bring that discipline in terms of trying even the provisions does not happen. Similarly on every other cost for example post this Jan to March we have negotiated with the landlord where we are today and we have got one month rent free which has come through very clearly on this. So, one month rent free is a cost again which is translating about a crore of rupees or so. I think smaller pieces what we are trying to say is that which we are trying to look at it while your assumption maybe right. Second thing is in terms of the legal cost affecting the customers I think we have taken a complete control over the entire set of customers. We can make a statement that with Srikanth, Vinay and Raghu everyone around that we have not lost a single customer in terms of all this fiasco. All we have done also is that while we have covered the entire major set of clients which is in person by multiple personalities within the company in terms of about the senior management tapping up all the clients out and then trying to explain the issues which should be about 100 plus clients. We have also sent communication across to all the clients out very clearly detailing and we have got even assurances from the client saying that look we are extremely happy and that is one of the reasons we have got a client satisfaction survey in terms of 3.9 out of 4 and all of them have continued to stay with us and that is what is seen basically that the top 20 clients contributing such revenue and top 70 clients contributing about 70% of the revenue running through. So, we are pretty confident and there is no issues which you can tell you.

Mr. Danesh Mistry: This 3.5 crores is paid to the lawyers or paid to the clients for some damages?

Mr. Krishnan Venkatachary: These are paid to the lawyers we do not need to pay to any clients or any damage because we are in a business basically the testing of the business in the quality assurance side we do not assume any kind of a damage. One includes the detail audit by the legal team and in terms of discovering the laptop and things like that plus lawyer and other representation fees.

Danesh Mistry: And sir just to understand on your contractor cost if I want to see utilization it is also onsite it is about 96%. So, if that is the reason why our contractor cost are going up and if so how are we trying to kind of control it given where our utilization rate is?

Mr. Krishnan Venkatachary: This being one of year basically the fear of pandemic killed everyone. The fear of pandemic one as a psychology either it killed in terms of either sulking on your business, personally sulk yourself or try to fight and get back clearly. I think we did a second part in terms of fighting and getting back. We had a two reasons probably people may not agree with it. One is at a pandemic which everybody know about it. Second is that we are the disturbances in the entire sale and delivery team where people try to moving out very clearly. So, with that very clearly we thought that we need to go ahead and accept and we cannot turn down any customers which is all the value addition in terms of airport what we have sent and we do not want to branding that we have lost the client on account of non-executions. So, we thought that the best way out is that even if I can afford a little bit in terms of losing the margins and trying to execute the contract they can stabilize. There are accounts which we have started 6 months back with about 25% gross margins where through contractors and we have hired them with a condition that we will make them as a full time employee and they are becoming a full time employee effective April which means that the margins are bouncing back. We have reworked those margins on a step by step basis by about 200 to 300 basis point to get that back and if you speak we have done that very clearly on a large accounts. So, that is one of the psychology reasons to assure ourselves yes and also to send a signal to the market and also a signal to the retractors that yes we are not going to walk down by any kind of non fulfillment. So, with the challenges in the market in terms of the resourcing, with the challenges in the market in terms of the available pool we had no other options, but to go into the contractor, but if you look at in terms of the current set of mindset of the employees whether it is onsite or offshore most of them are willing to take a job directly as a contractor as against the full time. This is the issue faced by many of the companies which is in IT side because this work from home they get a flexibility completely and they wanted definitely to work as a contractor. Unfortunately fiduciary position like CEO, CFO or CMO, but I think rest of the technical post today enjoy that. So, these are the reasons clearly we are definitely debating why I can tell you that two things that my business get into non linearity mode to that certain major extent which is a long-term strategy this can dependent on the people come down. Two is that as I move into my digital transformation through a consulting rule probably the non-linearity will come in. The third portion is that if I even out my growth not to go for a crazy 40%, 50% growth and try to look at on my size like 25% growth or 30% marginal growth I think I will be able to balance it out in terms of the predictable technology where I am operating out clearly. So, it is a process sir I cannot assure that in one quarter things are going to change it is the process and we are working on the process.

Mr. Danesh Mistry: Sir one small question from me our short-term borrowings have gone up about 15 crores to 47 crores now, so how are we looking at it obviously we are funding some working capital limit and how do we try this in with the acquisition of Aparaa that we are going to make of 4.8 million plus the buyback we are kind of contemplating, how would our balance sheet look like after all these things especially on the cash and debt side sir?

Mr. Krishnan Venkatachary: I have cash equivalence investment and mutual funds all put together as of 31st March approximately about 240 crore plus. I have used my cash credit in USA and UK. UK comes to me at about 1.8%, US comes to me at about 3.2% and India comes to me at about 6.2%. There has been some obligation except for US and UK in India to use that limit in terms of trying to show a month end balance to at least start looking at renewals and whole idea of renewing this 25 crores limit is essentially we thought that if we go for really some expansion you get a cheaper source of credit clearly. While it is so while the fund available is at about close to 240 crores we could have always spent that out and saved from the nominal interest cost which we have been spending. We have been trying to look at it on a daily basis. My average return on the 220 crore or 230 crores is yielding at about close to 6.5% to7% which in the overall market which I am trying to look at it. Net-net I do understand that there are some taxation components, but then we are also eliminating the taxation and trying to do it. So, I do not see that utilization of limit as an issue. So, net-net if you look at it 200 crores on the Aparaa digital I can talk about on cash deal of 4.8 million I think the payout is going to be about close to 3 million which is going to happen in the next 60 days and then rest of the 1.8 million over a period of 24 months based on the financial projections even by them achieving that with the trigger and also the EBITDA which they have committed out very clearly. So, that is going to earn out based on the earnings what they have made out I do not see anything hitting out. What it calls for in terms of the balance sheet I would look out very clearly it is about close to 25 crores even you look at Rs. 80 in two months' time which is too pessimistic, but I think at about Rs. 75 on 3 million we should be spending at about close to 23 crores, 24 crores which is not going to affect me. The second portion is that I have a net asset equivalent to about close to a million-dollar coming out from there and that will still remain in goodwill in terms of what we are providing out and the payable will be at about 1.8 million which is 24 month down the line. This is what in terms of the balance sheet.

Mr. Danesh Mistry: Last thing sir we had an SEIS benefit of 9.7 crores which we have reversed is there any more such reversal expected or this was the last and was it this quarter or last quarter because we have mentioned as a 31st March very not too clear?

Mr. Krishnan Venkatachary: We are talking on a year-on-year comparison that is one of the reasons we put in this investor note if I had removed that 9.7 crores and if we had removed the legal cost I would have done an EBITDA at about 11.5% for the whole year is what strategic Investment tried to gave. This was done in the last quarter not in this quarter.

Danesh Mistry: There is no more provisioning that we need to do on the SEIS part?

Mr. Krishnan Venkatachary: I just wanted to make a statement very clearly the total SEIS received by us is about close to 6 crores. The total SEIS receivable buyers is at about 21 crores. The total 27 crores is under review by the DGFT Central Government in terms of the special panel to look at it as to what is this testing, what needs to be done and we have submitted all our arguments currently looks favorable while which is so basically we also have admitted as a contingent liability on this 27 crore over there saying that what government decides out very clearly because they are well settled case laws and instances which has allowed for the testing company and we do not have any issues. What was reverse for 9 crores was the company based on opinion from legal experts availed for the year 2019-2020 for which notification came back later saying that not allowed. So, we have duty bound to really ahead go and reverse that.

Mr. Danesh Mistry: So, basically there were another 18 crores, but that will not get reversed anytime soon?

Mr. Krishnan Venkatachary:: Absolutely.

Moderator: Thank you. The next question is from the line of Keshav Garg from PPIPL. Please go ahead.

Mr. Keshav Garg: Sir wanted to understand why the promoter shareholding has reduced by 3.5% last quarter?

Mr. Krishnan Venkatachary: The promoters had secured erstwhile personally some loans. They have on good trade, pledge of securities shares invariably to settle that with the optimism that these loans will be settled out and the shares will be reverted back. As we say in the market in terms of the pricing and the pledge has been executed by the pledger and while we are there in talks with them saying that basically to agreed installment settlement to really get the shares back, but I think it is a discussion going on, but as a part of corporate governance as it moved out of the DP we need to necessarily file that out and that is how the filing has been made and that is purely the reason and it is not a open market sale in fact it is tax negative in terms of not suffering STT and selling out very clearly which nobody would do. While it is so they have been trying to do in terms of see what best can be done to really increase their share by buying out, but this still talks and negotiations are on very clearly.

Mr. Keshav Garg: Sir basically what I understood that the sale has not been made it just a technicality I mean it can still be reversed that is very reassuring and sir also you have started paying dividends in past two years the balance sheet is excellent and on top of that you are considering a share buyback so that is very heartening for all the shareholders. So, I just wanted to add what the previous speaker said that the ideal buyback is open market buyback wherein the promoters are not participating so that increases the confidence of the minority shareholders even further and so also in that kind of buyback the company has a great deal of flexibility to acquire share at any price so long as it is below the price determined for price buyback. Actually the cost of acquisition is quite low, but even if you are not doing that and if you are going for a tender offer sir my only request is not to keep too high premium so like our share is around Rs. 420 so then you can consider a buyback at not higher than Rs. 500 so that the company can maximize the number of shares that it can buyback and extinguish. So, the earning per share can increase even higher, but if you will do a share buyback at Rs. 1,000 then hardly a very small number of shares will be able to buy back and extinguish. So, EPS will not increase buyback to large extent so that was very humble request which you can kindly consider and sir lastly just wanted to understand so that have you seen the worst in terms of margins or you think that there is still a possibility of further expenses going up higher than the revenue.

Mr. Krishnan Venkatachary: Absolutely we have seen the worst with confidence we can say very clearly that we as a business to survive and as a business to move up and we are already at the influx point of the parabolic inverted parabolic curve and we know for sure that we are going to move up, but I think we will demonstrate and come back and give the numbers and then talk about it very clearly, but coming back to the buyback what you have said gentlemen I think we will take all your feedback and will sell it out, but we wanted to reassure on behalf of the promoters is that they are categorically made clear that they are not going to surrender even a single share in this entire buyback and they are not going to participate in the buyback in terms of trying to surrender the shares. So, it is for 100% sure that promoters do not want to sell in any shares, the intent is very clear to see that how best can be enhanced in terms of acquiring more shares. So, but in terms of the other suggestions given by in terms of the methodology these are valid input sir absolutely we will summarize and put it across the board.

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

Ms. Surabhi Saraogi: Sir just one question can you throw some light on your acquisition of Aparaa digital what are your expectations from this acquisition?

Mr. Srikanth Chakkilam: Like I mentioned earlier the intent of the acquisition is we as a company are wanting to go beyond quality engineering and become a digital assurance and engineering service company digital engineering service company in line with that thinking we have acquired with Round Square which has services beyond quality engineering capabilities in the areas of data analytics, AI and ML. So, we intend to leverage these capabilities, take them to our existing clientele, use our relationship and deepen the relationship with our clients and expand the wallet share. So, that is really the intent of the acquisition. We have been investing into digital engineering services for the past 18 months. Cigniti by itself has more than 100 resources in the space and we have been servicing offering such as cloud migration, RPA and so on and to add to those services now we will have additional capabilities in the area of data engineering analytics and to add to that a Round Square also has a platform on active learning AI based platform called Zastra which is a data and attrition platform at this point in time that can be used for several used cases beyond what it is completely doing with our existing clientele such as medical devices, insurance and so on.

Mr. Sairamprabhu Vedam: Just to add to what Srikanth said the platform also has the capability to what we call the model validation every enterprise operationalize its AI implementation even as a digital assurance company that gives us a very unique edge, productionalizing AI model require ML validation and this platform has the capabilities to do that. So, in that sense it also compliments our assurance capabilities apart from laying a very firm footage in terms of up selling out ability to do a data first digital transformation which is a very selective and specialized thing that we are forging ahead so that is the intent with which as Srikanth and Krishnan outline the board approve this acquisition.

Moderator: Thank you. The next question is from the line of Keshav Garg from PPIPL. Please go ahead.

Mr. Keshav Garg: Sir since 85% of our revenues are coming from America and you would know that recently the bond yield curve inverted in the US market so which basically is a predictor of recession and usually after 12 to 18 months of yields inverting the recession section so that case sir what kind of demand outlook is there and sir you think we can get hit from possible recession in America?

Mr. Vinay Rawat: As we mentioned that business transformation started during the pandemic that is something which is continuing most customers with whom we have talked to they are definitely approaching the market very cautiously as you rightly mentioned. So, therefore from a overall spending perspective there is definitely a downward curve. However, their strength on the business transformation particularly in the digital engineering area is something continuing. We will continue to extent in these areas the other thing which is actually very favorable to us is that as long as they continue on the digital transformation journey there is an assurance partner required someone who is going to make sure that the goals and objective which they started this entire journey is met both from functions and features perspective, but also reliability performance and security perspective. So, yes if you check all the service company actually are giving a very cautiously optimistic outlook, but as of now based on what I have seen with our customer base we are not seeing a demand going down to the place where it will start concerning us. I think there is a still a fairly large market and demand which can give us our desired growth objectives.

Mr. Keshav Garg: Sir whom would you consider our closest peer in the Indian market I mean which company?

Mr. Vinay Rawat: Well from a overall competitiveness perspective every large company actually competes with us however our positioning of providing quality engineering services and combined with digital engineering capabilities is something which is very unique. So, the size and competency and the debt of competency if you look at which is what is very attractive to the customers I mentioned right in beginning most customers actually are looking at rupee solution providers based on these solutions actually who understand a particular function or a service fairly well and from that perspective I think we are really positioned well, but it is very competitive if you take any large Tier 1 or Tier 2 companies they do have this portfolio of service however there is part of their larger portfolio which not necessarily is attracted to many of the customers.

Mr. Keshav Garg: So, basically why I was trying to understand what I was trying to understand is that if you look at our operating margins and even if you consider 11.5% operating margins excluding all the one off items plus still that is half of the industry average which is around over 20% so then what the reason if we are I mean similar to the other companies our business if it is similar than why are our margins so low?

Mr. Krishnan Venkatachary: I think while what Vinay said in terms of the business why pretty much all the Indian companies are all comparable companies when you look at it, but I think their margins will be on the higher side basically because they come with a combination of one in terms of the size which gives them a leverage. Two, they also have a predominantly they are SI players incidentally coupled with the testing and digital. While we look at it in terms of 168 million I think predominantly we are in **(Inaudible) 56.54** at very clearly. So, on a apple-to-apple comparison probably is that an independent testing services company could be just for the metric sake in terms of what the business does or if we have to take the division within any of the bigger size companies it could be Accenture, Wipro, Infosys whatever it is. We have to look at only the testing as a division clearly and compare their numbers in terms of their right comparison clearly, but otherwise if you look at it may not be the right method to compare the 11.5% and we are admitting very clearly that hovering margins were around 15% to 16% and we are trying to improve resources about 18% as it moves up over a period of time is what is a visual thinking the optimism is that, but I think that is the comparable thing. So, if I have to look at industry as an average, when the industry operates 20 to 22 probably the testing companies will operate anywhere between 17 to 19 or so which could be depending on the size. So, we are as a company transforming very clearly. One we are trying to transform into business from a pure time and material who plays nominal testing we have evolved from a quality assurance or quality engineering company. From quality engineering we are trying to convert into a digital assurance in digital insurance we are trying to get into a digital transformation company as an added line of business as it continued as things probably will to that, that is a five year roadmap which we have. So, this 11.5% for one year today this is not the year for my comparison with respect to any of the thing and it has to be isolated and looked at.

Mr. Keshav Garg: So, basically shareholders should not basically take the operating margin of FY22 as a benchmark should consider it more of a one-off kind of margins and our stable steady state margins should be around 15% is that correct?

Mr. Krishnan Venkatachary: Absolutely.

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

Mr. Srikanth Chakkilam: Thank you everyone for your participation and your questions, your feedback will be taken and incorporated as much as we can and we take some of other feedback to the board as well in terms of considering the considerations for the buyback. We look forward to next concall and we will give you further updates about the company. Thank you very much.

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