Coforge Limited Q2 FY2026 Earnings Conference Call

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MANAGEMENT:

Mr. Sudhir Singh – CEO- Coforge limited

Mr. John Speight – President and Executive Director - Coforge limited

Mr. Saurabh Goel – CFO - Coforge limited

Mr. Manish Hemrajani – Head - Investor Relations - Coforge limited

Moderator: Ladies and gentlemen, good day and welcome to the Coforge Limited Q2 FY2026 Earnings Conference Call. Please note all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the management's opening remarks. Please note that this conference is being recorded. We have with us today from the management team, Mr. Sudhir Singh, CEO, Mr. John Speight, Chief Customer Success Officer, Mr. Saurabh Goel, CFO, and Mr. Manish Hemrajani, Head of Investor Relations. I now hand over the conference to Mr. Manish Hemrajani. Thank you and over to you, sir.

Manish Hemrajani: Thank you, Inba. Good afternoon and thank you for joining us to discuss Coforge's results for the second quarter of FY2026, which ended on September 30, 2025. Before we begin, please note that today's discussion may include forward-looking statements, which involve risks and uncertainties. Actual results may differ materially, and Coforge assumes no obligation to update these statements. With that, I will hand the call over to Sudhir.

Sudhir Singh: Thank you, Manish. Ladies and gentlemen, thank you for joining us today as we share our Quarter 2 Fiscal Year 2026 performance and the outlook for Fiscal Year 2026 and beyond.

Quarter 2 has been an exceptional quarter for the firm. The firm recorded 5.9% sequential CC growth and registered an EBIT of 14% for the quarter. The business is on an even keel and key operating metrics, number of large deals signed, free cash flow, order intake, next 12-month signed order book, DSO days, in addition to other metrics like revenue growth, EBITDA, and EBIT margin progression, continue to reflect the robust health of the business. Our sustained, robust, and accelerating growth story, exemplified by Q2 results, is now well into its ninth year. Our growth continues to be driven by an execution intensity that is uniquely our own.

Execution, we have always believed is the ability to not just create strategies and share plans, but to actually deliver upon them. Nowhere has the core DNA of execution and getting things done got more clearly reflected than in our ability to transform our core business with AI and to emerge as a partner, dare I say trusted partner, for our clients that has helped move them beyond simple AI pilot projects to true integrated enterprise adoption. We are fundamentally changing the delivery of our technology in BPO services by embedding AI early on, leveraging our proprietary Coforge IP.

Our platforms, including Code Insight AI for enhanced software reverse engineering, BlueSwan for integrated automation and orchestration, and ForgeX for rapid transformation are infusing generative AI and intelligent automation into the very fabric of our delivery models. To fully grasp the complexity our clients face on the tech operations front today, please recognize that AI engineering is very much like software engineering. The challenges are familiar, but the tools are new. The reliance on traditional SQL databases must now be augmented by vector databases and embeddings.

Simple API calls are evolving into complex MCP calls to manage the contextual flow of information across models. This is a landscape characterized by technological confusion and nascent protocols. For the next 18 to 24 months, the market will be flooded with competing standards and tools.

In this immature ecosystem, our clients need assistance across two different axes. One, they need assistance to help drive a deep understanding of their industry problems and processes. And two, they need assistance with driving a deep understanding of how AI works and critically, how it does not work. The ability to combine deep industry knowledge with honest technical counsel is what allows us to deliver solutions that are not just theoretically innovative, but ones that actually get executed and drive genuine profitable outcomes.

I shall leave you with two examples of actual work done for clients in the AI realm. And after that, segue into our quarterly results. Example one, we are leveraging code inside AI, our own code intelligence platform to harness the power of advanced LLMs and reasoning models with layered knowledge to decipher massive undocumented legacy codebases at a leading travel industry client. This process involves more than just static analysis.

The platform Code Insight AI is designed to reverse engineer the original intent and complex flow of the code, automatically generating high quality documentation that explicitly maps out system behaviors and extracts critical business rules. By creating this comprehensive, structured understanding of the client's core platforms, CodeInside.AI fundamentally enables and de-risks the vital modernization effort.

Example 2 is an example of using SLM to do forward engineering. For a mid-sized US bank seeking to modernize its fragmented IT landscape using AI and a low-code platform, we have developed a custom small language model to accelerate low-code application development on the OutSystems platform itself.

With those two quick examples, I shall now segue into the quarterly performance and start with revenue analysis. I am pleased to report the firm registered a sequential revenue growth of 5.9% in CC terms. In Indian rupee and US dollar terms, the sequential growth was 8.1% and 4.5% respectively.

The growth during the quarter was led by the travel vertical which grew 6.4% sequentially in dollar terms.

Other verticals which include healthcare, retail, high-tech and manufacturing grew 5.9%.

The insurance vertical grew 1.8% and the BFS vertical grew by 4% sequentially. Government outside India vertical grew 0.4% QoQ in dollar terms. Our top 5 clients and our top 10 clients grew 6.2% and 9.8% quarter on quarter respectively. They contributed 21% and 30.8% respectively to our overall quarter 2 revenue.

Moving on to order intake. Quarter 2 was yet another strong quarter, both from an order intake and a large deals closure perspective.

During the quarter, we signed five large deals. The velocity and median size of large deals signed by Coforge has been increasing over the years, and I shall reflect more on this in my concluding remarks. The total order intake during quarter 2 was 514 million US dollars. The executable order book which reflects the total value of locked orders over the next 12 months, stands at a record $1.63 billion. This number, some of you might recall, was $1.3 billion a year back and is currently 26.7% higher than at the same time last year.

Moving on to the people front. On the people front, our total headcount at the end of Q2 stood at 34,896. We saw a net people addition of 709 during the quarter. Utilization during the quarter stood at 82.3%. Last 12 -month attrition for the quarter fell further and is now at 11.4%. We remain, as always, one of the lowest attrition firms across the industry.

I shall now hand over the call to John Speight, President and Executive Director, Coforge, for providing insights into our operations and capability creation. Over to you, John.

DELIVERY OPERATIONS & CAPABILITY BUILD

John Speight: Thank you, Sudhir. I will now highlight the quarter's delivery and capability milestones. Coforge is advancing with an AI-driven service portfolio. Our strategy captures the surge in enterprise investment in AI infrastructure and data modernization, fueling sustained high-quality growth. We design solutions that address clients' most complex mission-critical challenges. AI is embedded from the outset, delivering clear, measurable returns.

Evolve Ops AI anchors our Mission Zero initiative. Clients experienced zero touch operations, zero disruption for enterprise systems, and zero friction for end users. Over 25 clients have completed a full year without a single P1 incident. This highly automated delivery model expands margins and increases contract value.

Our proprietary Quasar AI platform now offers multi-framework agentic support, secure RAG as a service for trusted data, and smart LLM routing for optimal performance and cost efficiency. Client success stories this quarter show the impact of our approach. A major

U.S. airline and a European insurance company selected Coforge to implement strategic domain data meshes, migrating to cloud platforms like Snowflake and Databricks. These programs established Coforge as the partner of choice for foundational AI infrastructure and recurring data engineering revenue.

A leading broker dealer, Fintech, chose Coforge to design and build its agentic AI platform automating complex financial advisory workflows. Another US airline selected us to build its enterprise agentic AI framework on AWS Agent Core, enabling scalable, autonomous business process execution.

For one of the world's largest fintech's, we established a new quality engineering hub, leveraging our BlueSwan AI accelerators to embed intelligence throughout the testing lifecycle and accelerate time to market.

AI runs through our delivery lifecycle, driving internal efficiency and strong contract execution. Our agentic production support offering for data clients now resolves L1 and L1 and L1.5 issues in nightly ETL cycles, delivering immediate cost savings and optimizing margins on managed service contracts.

Our AI-driven service portfolio aligns with the future of enterprise technology spending. Strategic AI programs across engineering, cloud, data, and quality engineering are fueling durable revenue growth, stronger margins, and enhanced shareholder value. With that, I will now hand over to our CFO, Saurabh Goel.

FINANCIAL OVERVIEW

Saurabh Goel: Thank you, John.

If you recall, we made some changes to our disclosures last quarter, where we presented a detailed breakdown of our financial statements as part of a fact sheet. This quarter, the fact sheet has been updated to reflect reported profit and loss metrics. All adjustments to P&L have been taken off.

As previously stated by Sudhir, for the second quarter, revenue reached $462.1 million. This figure represents a sequential growth of 4.5% in dollar terms, 8.1% in INR terms, and 5.9 % in CC terms. The hedge loss reported for the quarter amounted to INR 307 million as compared to INR 158 million in the previous quarter, reflecting adverse impact of 78 bps in the reported EBIT. ESOP cost for the quarter further reduced to 1.4% to revenue for the quarter reflecting 20 bps upside on EBIT. The EBIT margin for quarter 2 was 14%, an increase of 251 bps quarter-on-quarter and 240 bps year-on-year.

In the first quarter, a one-time bonus provision for employees amounting to $5.5 million and $0.5 million for acquisition-related expenses was recorded. PBT sequentially went up 410 bps, which was on account of foreign exchange gains in the current quarter and an exceptional legal expense of $3 million in the first quarter related to cybersecurity breach with the client.

The PAT for quarter 2 stood at 9.4% of revenue, an improvement of 82 bps compared to previous quarter, and 275 bps year-on-year. Earnings per share for the quarter was Rs.11.2 per share. For the first half of FY2026, EPS was at Rs. 20.7 per share, reflecting an increase of 101% over previous year's first half. Capital expenditure for the quarter stood at $4 million.

Free cash flow increased to $37.1 million reflecting FCF to PAT ratio of 86%. In addition, the company was able to reduce its credit line, which led to a reduction of interest expenses. Billed DSO stood at 63 days, unbilled at 26 and contract assets at 15 reflecting a total working capital cycle of 104 days.

With that I hand over the call back to Sudhir.

SUMMING UP AND OUTLOOK

Sudhir Singh: Thank you, Saurabh.

And I shall sum this up as follows. The 5.9% sequential CC growth in Q2, a next 12-month signed order book which is 26.7% higher YoY.

A sales execution engine that signed 14 large deals last year and has already closed 10 large deals in the first half of this year, a potential pathway to 14% EBIT in FY2026.

One of the lowest employee attrition rates across the industry are all, ladies and gentlemen, pointers to what we believe will be an exceptional fiscal 2026.

We remain committed, strongly committed, to turning in the ninth consecutive year of robust growth, despite the uncertain macros swirling around our industry.

Our growth philosophy, as always, continues to focus on driving very robust organic growth.

We overlay that organic growth with a near-perfect record of executing turnarounds of all assets that we have acquired over the last nine years.

Moving forward, we shall continue to focus on robust organic growth and continue acquisitions as well.

With that, ladies and gentlemen, I conclude my prepared remarks, and I look forward to hearing your comments and all three of us look forward to addressing your questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may click on Raise Hand icon from the Participant tab on your screen. We request participants to please restrict to two questions and then return to the queue for more questions. To rejoin the queue, you may click Raise Hand icon again. We will wait for a few moments until the question queue assembles. We take the first question from Abhishek Pathak of Motilal Oswal. Please go ahead.

Abhishek Pathak: Hi, am I audible?

Moderator: Yes, sir.

Abhishek Pathak: Yeah, hi. Hi, team. Morning. Congrats on a great quarter. I think it is great to see, a great print across revenue margins and cash flow generation. Sudhir, my question is, from a two to three year perspective, how are you thinking about optimizing for all these three metrics going forward, right? Because (a) growth remains paramount, (b) in an uncertain macro where demand still remains kind of sporadic, do we expect pressure on margins for both us and the industry, number two. And number three, on cash flow as well, where we are growing so fast, what is the steady state for these metrics for us going forward from here? And given a choice, how do you optimize across these three? That is the first question. And the second question is, a very interesting sort of data point around revenue per employee that you have shared. It seems to be going up and to be honest that looks like how the industry should move forward. I am interested to know your views on how you are doing it so early ahead of the curve and what will ensure this going forward as well. Thank you.

Sudhir Singh: Thank you for the comments and the questions, Abhishek. Let me take them in order. Revenue, our intent, as always, and exemplified by our results over the last nine years, continues to be that over the next two to three years and beyond, we will continue to turn in sustained and robust growth. That is the clear intent. It has not changed. On margins, If we do hit the 14% reported EBIT margin plan for the year, we will, at a minimum, irrespective of the changes in the macros, commit ourselves to delivering on that as the minimum threshold going forward in the years to come. As far as free cash flow is concerned, and as Saurabh had noted in his commentary, there were comments that we received on that last quarter, we believe on a sustained basis, you should expect free cash flow to PAT at around

70% to 80% going forward. We are very strongly focused on the free cash flow metric as well. As far as the second question around revenue per employee is concerned, you are right. Revenue per employee, we called out the revenue per employee for our tech services business. It is nudging 70,000 US dollars per employee. It is a metric that we have consciously called out to illustrate the impact of the AI-led platforms that John has been talking about over the last six quarters and the value that they create for our clients and in turn for us. We have always talked about how high quality growth and the best exemplar of that high quality growth we believe is the RPE metric that you have seen. Thank you.

Abhishek Pathak: Thank you team and all the best.

Moderator: The next question is from Vibhor Singhal of Nuvama Equities. Please go ahead.

Vibhor Singhal: Yea, hi. Thanks for taking my question and congrats team on a rock solid performance once again. Sudhir, one question for you and another one for Saurabh which I will take later on. So Sudhir, on the overall demand front, we have seen multiple macro headwinds play out in this quarter, from the hike in H1B visa fees to a very uncertain macro. Of course, evidently it does not impact our numbers at our level. But what is your take on how these could actually, if at all, impact the industry going forward? And a related question is that in our growth trajectory, if we see, I think the first two quarters growth, of course, has been led by the travel vertical because of the large deal that we had closed out. Going forward, next, let's say two to four quarters, which particles or which segments of the business do you think will take precedence in driving the growth?

Sudhir Singh: Thanks, Vibhor. Demand front, we talked about it over the last few quarters as well. We continue to believe that demand, especially with the advent of AI, has mutated, but the addressable demand continues to grow at a solid clip. When we look at our three core verticals, banking, insurance, and travel, and when we look at the trends that we see observed within them, we see positive trends. Banking, there are several factors that are aligning to create favorable conditions all the way from lower interest rates to the shifts in the regulatory practices. We are seeing financial institutions embrace real-time everything in the areas of payments or global remittances or security settlements. And of course, there are the efforts in terms of moving to T plus zero as well. So banking, demand outlook in general appears solid from our vantage point.

Insurance, as we observe it, the global insurance industry is entering an above trend growth phase. P&C insurance, every metric we are tracking is growing at about almost 4.5% per year. And the growth is increasingly coming from our vantage point by more complex risks, higher claims, rate increases, insurers focusing on specialized products like cyber, etc. And even L&A, we see growth of about 5% per year, driven by higher interest rates and more interest in saving products. So that is a quick summary, Vibhor, in terms of demand outlook. We continue to believe that the demand outlook is improving on the margins. It is not a vertical takeover, but it is improving on the margins.

As far as your second question is concerned, and then I am sure you have a question for Saurabh, as far as the verticals are concerned, we expect travel to continue to clip along at a solid pace. We believe insurance, in light of the commentary that I just shared, and banking will both do well. The two newer verticals that we have alluded to over the last two years are doing very well for us. One is healthcare, where we think that by the end of this year, we will have a book of business of almost $100 million. We may not touch that number, but we will be within nudging distance. And the second is public sector outside India, which is a book of business that has already crossed 150 odd million dollars and we think that in the coming quarters, we should start nudging the 200 million dollar run rate on the vertical as well. Those were the answers that I had for you Vibhor.

Vibhor Singhal: Great, great. Thank you so much for those answers. Very clear visibility of growth that you provided. Saurabh, if I can just trouble you for a couple of questions. So in this quarter, if I am correct, we have actually moved all the items like discounting income of long-term contracts and mortgage income and all that from our EBITDA calculations to other income. So now there will be no disparity between the India's EBIT and the PBT reported EBIT going forward as well.

Saurabh Goel: Absolutely right, Vibhor. We have moved that to other income. And the detailed breakdown is available in the analyst factsheet in the other income section wherein you will see that the discounting income and the mortgage income and all of that are being reflected there. And quarter one has been recast to reflect that number. And going forward, we will focus on reported EBIT. That is the number we will hold. And FCF to PAT is what we will hold and revenue, anyways, we have been holding.

Vibhor Singhal: Got it. And this reported EBIT margin is what we are targeting, that we will touch 14% in FY'26?

Saurabh Goel: Yes.

Vibhor Singhal: Got it. Really helpful. I think this clarifies a lot of concerns which people had regarding the mismatch in EBITDA numbers. Really good to hear that. Secondly, just a couple of bookkeeping questions. What is basically timeline and the update on the Cigniti acquisition? When do you think this process can be completed? And secondly, just as we just mentioned that we now have a very large order book in the healthcare segment as well. We have this vertical which we report as others, which consists of healthcare, retail, manufacturing and all. Do you think there would be a time, maybe in the next few quarters, when we will start separating them out and basically give out the matrices of those individual verticals separately once they attain that critical size?

Saurabh Goel: Sure, Vibhor. So, question number one, the NCLT approval has been received, and they asked us to convene creditors and a shareholders meeting. The date is yet to come out, but as soon as the date comes out, within 35 to 40 days, it is a time-bound thing. It is not that it goes on forever. The meeting has to be convened. After that, it will go back to NCLT for the second motion filing, and then the merger will be completed. We expect that to be getting completed by either December, Jan timeframe. And whenever the merger is completed the minority interest, as I mentioned earlier, will be taken off effective 1st of April 2025 because the effective date of the merger is 1st April 2025. Absolutely right. So that is one. Second, on the healthcare or others component which has become larger, you would recall we used to have a public sector government outside India, used to be the segment which used to be part of others, which we have taken out. So, we at least wait for the business to get at least a critical mass of $100 million at least. Once that is done, we then start reporting that. So hopefully, we should see a vertical being carved out in next financial year, quarter one of FY2027.

Vibhor Singhal: Got it. Great, great, sir. Thank you so much. Thanks for taking my questions and wish you all the best.

Moderator: Thank you. Our next question is from Ankur Rudra of J.P. Morgan. Please go ahead.

Ankur Rudra: Hi, thank you for taking my call and thanks. Good to see the margins and cash moving up. Hi, can you hear me now?

Sudhir Singh: Yes.

Ankur Rudra: Hi, good evening. Thank you for taking the question and good to see the margins and cash moving up smartly this quarter. First question is on growth. 1H has been exceptionally strong, clearly held by the travel contract. I recall you had highlighted before that second half could also be stronger. Given how the macro has evolved since then, how has your outlook evolved for the second half and generally?

Sudhir Singh: Both John and I will chip in on this. What we discussed last quarter was that second half will be a growth half for us over H1 because our H1 numbers have been extremely strong. We continue to maintain that the full fiscal will be a robust growth fiscal for us. And H2 will also be robust growth half for us. John, do you want to add to that?

John Speight: Yes, I mean, one thing is to notice, traditionally, our H2, certainly Q4 is one of our strongest quarters. I would also say looking at the growth in our pipeline and opportunities really bodes well.

Ankur Rudra: Appreciate it. I think I noticed that this hiring was positive in contrast of other people not hiring at all but still was a bit light on 2%. But I am sure that is not much for us to read from an Outlook perspective.

Sudhir Singh: No, that is right. Because the hiring is we continue to focus on not only just the addition of people would focus on utilization as well and that is why you will see that the SG&A cost have got to be reduced because we have kind of moved people who are part of unbilled organization from a delivery perspective or overheads, they have been moved to billing. And that is why you saw that the SG&A has gone down, or the G&A part of the overheads have gone down. And hence the gross margin has gone up. And plus, we are moving into a seasonally weak quarter, which has a lot of holidays and furloughs coming in, hence the hiring observation.

Ankur Rudra: Appreciate it. On the margin side, you have delivered 14% margins. I think ahead of what most of us expected. Now, several of your larger peers are actually battling margin issues and we hear of pricing pressures thanks to AI-related productivity paths too. In that background, does it make sense for you to expand margins further from here or reinvest back in either into the business or to keep it margins and your price points more competitive.

Sudhir Singh: Ankur, once we hit 14% EBIT, if we manage to hit it this year, we will plan to at a minimum clip along at 14% EBIT, but our primary aim will be to make sure that we prioritize growth over any further EBIT improvement.

Ankur Rudra: So at the moment, the idea is to get to 14%, keep 14% for the year. But beyond that, you do not intend to, at the moment, expand margins meaningfully.

Sudhir Singh: I mean, if it expands, it expands, but the first imperative will be to prioritize growth and to keep investing in the business and be a very high growth firm. 14% will be the minimum that we will plan to deliver. We will not commit to more than that at this point.

Saurabh Goel: Yes, Ankur. Actually, 14% gives us comfort that we are running a business wherein you have enough scope for investments so that the growth keeps coming in. So I think that numbers once achieved for a year, we will just hold that number. Focus will be to reinvest anything that is over and above that for growth, because as Sudhir mentioned, that will be the prime imperative.

Sudhir Singh: Appreciate the comment. Thank you so much.

Sudhir Singh: Thanks, Ankur.

Moderator: Thank you. Our next question is from Dipesh Mehta of Emkay Global. Please go ahead.

Dipesh Mehta: Yes, thanks for the opportunity. A couple of questions. First about the 5 large deals, if you can provide some colour on those deals and particularly if you can touch upon how those deals are changing in terms of size, shape, and complexity, how Coforge is evolving, if you can provide some colors around it, maybe for H1 also helps. Second question is about the DSO. If I look, DSO is steadily inching up. I am including all the contract asset. It is almost eight days up. How one should look this overall working capital cycle evolving for Coforge. You think now we should stabilize or there would be further kind of uptick possible? Last question is about the healthcare. You say others is doing well and you attributed part of it to healthcare. If you can provide some sense about our focus area and what is working well for us in healthcare and what kind of investment you plan to ensure this growth momentum sustaining in that area? Thank you. And one small question, if I can add, any expectation about furloughs? Thank you.

Sudhir Singh: Sure. So, four questions in all. I shall take the large deals questions. Saurabh shall address DSO. John and I will look at healthcare together. And John has just closed a highly complex health care program in this week itself. And we will finally, furlough is an easy yes, easy question. So, we will just take that in advance. We do expect furloughs as we see them every year and we expect them to be at the same scale as we have seen over the past few years, which has been significant. With that, the five large deals, three of the large deals came from North America. Out of those three large deals, two came in, interestingly, from the insurance vertical in North America, and one came in from an airline, a new airline for us that was an NM deal. In insurance, out of the two large deals, one was an NN deal, a new client. So interestingly, out of the three large deals in North America, two were new clients opened with a large contract. The other two deals came in from the Asia Pacific region. Each of these deals, what we found very interesting is the one of the three deals in North America was around legacy modernization of the mainframe. The new airline where we started a new relationship with a large deal. This was fundamentally focused around digital transformation across all data services and IT services. And the third deal from North America in insurance centered around optimizing operations by implementing AI-infused modern AMS and QE using our own platforms. That is a quick flavor around the five large deals. Saurabh, would you like to address the DSO question?

Saurabh Goel: Yes. Thank you. Sudhir. See the reason for increase in DSO is one, the year on year growth is 31%. Last two quarters have been 8% and almost 8% in rupee terms. Now when we arrive at DSO, we are looking at last 12 months revenue, which is inflating the DSO numbers because the currency has moved up significantly that's one. Second is the focus is to make sure that FCF to PAT is being maintained because once that is within control rest everything gets under control. So, the focus will be to maintain FCF to PAT of 80 odd percent, 75 to 80 odd percent. And once we maintain that for a year-on-year basis, that will take care of any concern that we will have on the DSO. This DSO is more of a metric which is impacting, getting impacted because of currency and a 30% growth that we have year-on-year. If you calculate DSO basis current quarter run rate, the numbers will fall significantly. Okay, John.

John Speight: Thank you, Saurabh. So, there are few areas on healthcare that is driving our growth. One of the areas is there is a huge focus on how AI can actually be used to automate and improve patient care. So, what we are seeing is a very large drive in improving the end-to-end platforms, the plumbing, the data, the data collection, so therefore that they can create insights and provide that additional comfort to customers, to patients. So that is a big area for us. The other areas we are seeing a lot of focus on the payer and the life science space. Again, it's how AI and data can be used to drive insights and semantics around patient care, drug processing and so on.

Sudhir Singh: Dipesh, those were the answers to your four questions. Thank you for the questions.

Dipesh Mehta: Thank you.

Moderator: Thank you. We take our next question from Kawaljeet Saluja of Kotak Securities. Please go ahead.

Kawaljeet Saluja: Hi, thanks a lot and congratulations on a good all-round performance team. My questions are all data-related, so it is all for Saurabh. Saurabh, the first question that I have is, I am trying to reconcile the big gap between constant currency revenue growth and dollar revenue growth this quarter. Your constant currency is 6%, dollar is 4.5%. I do not, that is like a chunky 150 basis points gap between the two numbers, which seems a little bit at odds with what I have seen for the rest of the players in the industry. Just trying to understand the mechanics and the calculations behind it here.

Saurabh Goel: So two parts to it, Kawaljeet, one hedge loss is in the top line. There is a, almost the hedge losses in the top line have doubled, which is all reported in INR. So from Rs. 15 Crores last quarter, we are sitting at Rs. 30 Crores this quarter. So that is one line item which impacts our reported revenue number in either currency. I mean, the tailwind would have been otherwise much, much higher in terms of rupee terms if the hedge losses were not there in the top line. So that is one. Second is the exposure to pound and euro is very significant in our case. And over there, there was a headwind rather than a tailwind because of which between dollar and pound there was a significant tailwind because of which the dollar revenue went down. And the third thing is because of the India business growing this quarter. So, these are three reasons because of which the dollar number is lower as compared to and then rupee number is higher.

Kawaljeet Saluja: Okay. The second question, thanks for that, Saurabh. The second question that I had is around the headcount addition versus the revenue. I mean, see, your utilization rates have not changed quarter on quarter. Your headcount addition is fairly moderate, actually, and your revenue growth is 6%. So, I am just trying to understand the gap in the headcount addition versus the strong revenue growth with an unchanged utilization. Is there a big bump up in the subcontracting cost or is non-linearity really at play over here?

Saurabh Goel: So, I think two parts again. One, you look at revenue per headcount has gone up in the current quarter from 67 odd thousand dollars per annum to 69,000. So, there is nonlinearity, which is getting played out. Number two, the headcount addition that you are looking at between two quarters is a point in time view, but when you are ramping up last quarter, the headcount was added towards the end of the last quarter, there was no full quarter revenue that had come for those people. That is why you are seeing that the headcount increase is only 2% wherein the FTE increase at the same utilization is much larger than that. So that is second point to it. And subcon is not playing an impact here because it is already included in the overall headcount. So, it is not because of the subcon that the headcount has reduced or has not grown that significantly. So that is the reason.

Kawaljeet Saluja: Right. The final question is on the hedging philosophy. Now, normally, what I see with companies is that when they have an annual cycle, they want to lock in their currency rates at the beginning of the year, so they are going to roll in 12-month hedge. And they also run balance sheet hedges here. When I look at your hedging, I just get a little bit, what I would say, I am unable to draw a pattern behind the hedging because it is more than doubled on a YoY basis for USD on a sequential basis as well. It has gone up. And the hedge duration seems to be of a far shorter duration so what is the underlying mechanics and the philosophy behind the hedging gap?

Saurabh Goel: So, one thing, Cigniti was added. Cigniti, until now, they were not hedging as a legal entity. They never used to hedge. So, hedges for Cigniti have been taken. As far as our hedging policy is concerned, it is very straightforward. We hedge on rolling four quarter basis, which is 90% of the net exposure for the immediate quarter, followed by 80, 70, 60. So the bump up that you see in hedging is because a large business getting added, Cigniti and the other acquired businesses that we have taken over. And the policy remains same, it is 90, 80, 70, 60. And that is why you see that a lot is short term just because of new entity getting added in the overall hedging policy.

Kawaljeet Saluja: Fantastic. Thanks a lot for all the clarifications, Saurabh. Congrats to team.

Moderator: Thank you. We take our next question from Prateek Maheshwari of HSBC Securities. Please go ahead. Mr. Prateek Maheshwari, could you please unmute your microphone and ask your question?

Prateek Maheshwari: Hi, guys. Thank you for the opportunity. I am very impressed with the all-round performance, especially with the margin improvement and the improvement in the FCF generation quarter-on-quarter basis. Just thank you for the comments on FCF generation. Just wanted to understand how, I think you guys said about how you guys' plan for the first half, second half of this year, and then how do you plan for the FCF generation to improve in the next year as well. And the other question I had was on your growth. I think probably you also discussed a 5 billion plan 5 years out. I just wanted to understand that how do you guys see that with your present verticals and if you would need to add any verticals for that kind of growth.

Sudhir Singh: Thank you for the questions, Prateek. John and I will take them together. We haven't given any timeline for hitting 5 billion dollars. All we maintain and we continue to maintain is that we will deliver sustained, robust and profitable growth. The intent of course is to grow at the fastest possible clip. John, do you want to add anything to that?

John Speight: I think anything I would add is, and you alluded to it on your commentary earlier on, which is the placement of Coforge with its execution mentality along with its engineering prowess and how we see this aligned with AI will really drive our business, the value we deliver to our customers exponentially over the coming years.

Sudhir Singh: Prateek, that is how we would answer the questions. Is there anything else we can answer for you?

Prateek Maheshwari: No, thank you so much, Sudhir.

Sudhir Singh: Thank you, Prateek.

Moderator: Thank you. Our next question is from Sumeet Jain from CLSA. Please go ahead.

Sumeet Jain: Yes, hi. Thanks for the opportunity. So, question for you Sudhir, you said that you are seeing demand improving on the margins. So, can you just highlight, is it for Coforge or for the overall industry? That is one. And secondly, do you believe AI is actually a headwind or a tailwind for the IT services industry. And one question for Saurabh in terms of ETR, we can see the tax rate is pretty volatile quarter to quarter. So what are you expecting for the full year this year, and probably next year as well?

Sudhir Singh: Saurabh, would you like to lead?

Saurabh Goel: Yes. So, Sumeet, ETR on a sustained basis is roughly 23.5% to 24% is what a sustained ETR is what we would maintain. Last quarter there were certain transactions advantage go related certain things that happened because of which when we carved that out so there were certain tax benefits we got because of that and that is why the ETR was at 17% but on an ongoing basis without any one-off benefit coming in we would believe that 23.5-24% is the number one should bake in the model.

Sudhir Singh: Coming back to your earlier question around the demand, as I shared, demand is from our vantage clearly increasing on the margins. And we play in the same sandbox that the other players do. So, we believe that for folks who have the right set of offerings, demand should be increasing on the margins for them as well. We believe that AI is a clear tailwind for firms that understand the domain and also have an appreciation for how to apply the relevant AI-specific technology. There can be no better example of this than the fact that the velocity of our large deals, despite the macros, continues to increase very, very appreciably. As I had noted earlier, at the end of the first two quarters, the first half of this year, we have already logged in 10 large deals. If you were to contrast that, we had a number of only 14 for all of last year. So that is how I would represent the response to both questions. John, would you like to add to that?

John Speight: I would like to corroborate with what Sudhir said about being a tailwind. I think people have underestimated the complexity of implementing AI across the enterprise. Yes, you can do a POC here and there, but to actually get real value out of it needs deep, deep engineering prowess across the whole infrastructure from cloud, data, and then obviously the tooling of actually using that data into your LLMs, your SLMs, and so on to actually derive insights and value. So for us, I think it is a great situation to be in.

Sudhir Singh: Sumeet those were the answers. Do you have anything else for us?

Sumeet Jain: Yes, just one more extension of this. I mean, like you have already reported a very strong revenue per employee metric improvement at around $70,000 per annum in this quarter. And I am sure I mean, there are different, different kinds of projects where the AI penetration is slightly higher in certain projects while lower in other. So, do you see this revenue per employee moving at a significant pace over the next 2-3 years, which is an important metric to track, to judge the advancement of an IT services company on the AI front?

Sudhir Singh: Early days in our view Sumeet, early days, but we think given the success of the Code Insight platform around legacy modernization, reverse engineering that we built and the demand that is coming our way given the clear draw for the EvolveOps platform in the cloud, in the infra management space that we have been looking at, and given the very clear success of the BlueSwan QE AI platform that was something that we acquired with the Cigniti acquisition, we think RPE should continue trending upwards, but as I said at the outset, still early days. I think the jury is out in it. We will have possibly something more definite for you over the next two or three quarters.

Sumeet Jain: Now, got it. And maybe one last question, if I can squeeze in, if I see the Cigniti numbers, which were reported separately this quarter, even they had a good sequential growth. So can you maybe briefly highlight, like, how long do you see that cross-selling, up-selling opportunity in the Cigniti being still applicable for you? And is the growth ambitions in healthcare retail vertical primarily on the back of that in the next one year?

Sudhir Singh: So as we reflect back as a team, Sumeet, we think that one of the best things and one of the best decisions that we ever made as a team over the last nine years was the Cigniti acquisition. You will recall that we got a lot of flak for that acquisition going into that acquisition. But as we look back, as we look at the current pipeline, the largest deal that we are pursuing today as we speak is a deal with a client that came into our client portfolio from Cigniti. Two out of the top three clients of Cigniti that we acquired over the last five quarters, we have already signed large deals within that portfolio. And not only did we get an outstanding set of leaders, I do want to point this out. This is an acquisition is not just about getting the clients in. Today, if you look at our chief marketing officer, he has come in from Cigniti. Today, if you look at our data automation leader, he came in from Cigniti. Today, if you look at the QE practice head of the firm, he came in from Cigniti. It has been a fantastic integration, acquisition from our vantage, and that business along with the cross-sell that you alluded to, is likely to keep on getting strong.

Sumeet Jain: Now got it. That is very helpful and all the best to you.

Sudhir Singh: Thank you.

Moderator: Thank you. Our next question is from Sandeep Shah of Equirus Securities. Please go ahead.

Sandeep Shah: Yes, thanks for the opportunity and congratulations on a strong execution this quarter on many fronts. Just wanted to understand a few things about margin. So, when you plan to give a wage hike or this time it may not be there because we have distributed some bonuses in the first quarter.

Sudhir Singh: We already announced the wage hike effective 1st of October, Sandeep, for the entire organization.

Sandeep Shah: And how does that will impact the margin in the coming quarter?

Saurabh Goel: So, Sandeep, we are not giving quarter-on-quarter margin guidance, but historically, we have had anywhere a drop of 100 to 150 basis point on the wage hike and then there are other levers wherein ESOP costs will go down. Depreciation and amortization as a percentage of revenue will go down, there will be levers to offset partially the impact of wage hike. So, that is how we are looking at a quarter three phasing out.

Sandeep Shah: Okay. So, most of the other questions we have answered just some bookkeeping question. Saurabh, when I look into the disclosure of interest expense, which is beside the least discounting, if I look at the average interest expense divided by the average debt, it comes to 25%, 27%. And if I apply same on interest income as percentage to the cash and bank balance, it comes less than 3%. Can you make us understand how this has been calculated while the interest expense looks very high?

Saurabh Goel: No, Sandeep, that is the wrong calculation. You do not look at the year-end or a quarter-end period-end loan amount and arrive at the interest cause basis that there is a consumption of our working capital utilization that happens through the quarter. It is a point in time view. It is not the average utilization of the working capital because it is not a long-term debt that we have in the balance sheet. It is a working capital. It goes up through the quarter. And then as we start collecting on money, the working capital limit goes down. So that is why the interest calculation cannot be done just looking at the balance sheet because it is a point in time view.

Sandeep Shah: Okay. And Saurabh, just to get more understanding, what is this nature of discounting income on long term customer contracts and income from mortgage business? You might have explained in the earlier calls, but just quickly if you can make us understand.

Saurabh Goel: Discounting income is basically a long-term contract, wherein you are recognizing part of the revenue now, and you are supposed to bill say $100 to a customer. one year down the line or you are going to collect $100 from a customer one year down the line so today when you recognize revenue you recognize 90 and balance 10 accretion happens in other income.

Sandeep Shah: Okay.

Saurabh Goel: 100 will go and as your unbilled revenue. So, your unbilled revenue will show 100, you are unbilled on the balance sheet side. Revenue will be 90, 10 will be other income.

Sandeep Shah: Okay. And just an explanation on income from mortgage business.

Saurabh Goel: Same thing, same transaction.

Sandeep Shah: Okay. It is for the long-term contract.

Saurabh Goel: Yes.

Sandeep Shah: Okay. Thanks, and all the best.

Moderator: Thank you. We take the next question from Sulabh Govila of Morgan Stanley. Please go ahead.

Sulabh Govila: Thanks for taking my question and congrats on a good quarter. I just had one question related to the deal wins and the executable order book. So, in the last two, three quarters, while we have had a run rate of 500 million odd on the deal wins front, excluding the large deal from Sabre that we have won. The increase in the executable order book this quarter has been quite sharp relative to past few quarters. So just trying to understand what has led to that. Is it more of a quarterly phenomenon or would you say that you have seen tenure of deals going down this particular quarter.

Sandeep Shah: No. Sulabh, so see, one, it is a function of the deals that are getting signed outside of the large deals also. Plus, the deals which have been signed in the previous quarter, when they start ramping up, the next 12-month revenues have started picking up. So, it is a function of the deals which were signed in the previous quarter and the current quarter and the ramp up getting stabilized because of which you are seeing the pickup in the total 12-month executable order book. It is not just the impact of the deal signed in the current quarter.

Sulabh Govila: Okay, so there is no change in the tenure of the deal?

Sandeep Shah: There is no change in the tenure of the deal. It is not that we have started moving to shorter term deals or anything of that sort. It is just that deals which were signed in the previous quarter and sit towards the fag end of the previous quarter, they started ramping up in the current quarter but not fully ramped up. So, when you sit in the current quarter, without any increase in audit and intake, the 12-month revenue has gone up.

Sulabh Govila: Understood. Thanks for taking my question.

Sandeep Shah: Yes, thanks.

Moderator: Thank you. We take our next question from Ashwin Mehta of Ambit Capital. Please go ahead.

Ashwin Mehta: Yes, thanks for the opportunity. Just one question. So, any sense on the contribution from Sabre this quarter? Are we at steady state here or further ramp up is expected in 3Q? And did we take over any people in this deal in this quarter or most of it was done in 1Q itself?

Sudhir Singh: Ashwin, we are at steady state. We do not expect any further ramp up from Sabre and the rebadging exercise is completely over.

Ashwin Mehta: Okay, thanks Sudhir. And just one more question in terms of margins. So, given that we have a margin impact of wages in the next quarter, which you will try to counter through the other measures. What we seem to be then indicating is that there will be a pretty smart improvement in margins in the fourth quarter for us to be at the 14% levels. Would that be the right understanding?

Sudhir Singh: That is the intent. That is what we are attempting to do, Ashwin.

Ashwin Mehta: Sure. Thanks Sudhir and all the best.

Moderator: Thank you. Our next question is from Ravi Menon of Macquarie. Please go ahead.

Ravi Menon: Hi. Thank you for the opportunity and congrats on a pretty good quarter. Good to see this broad-based growth and really good to see EPS growth as well. EMEA seems a little soft, especially the order intake also, what is your sense on that. And the rest of the world seems really good. So one of the which geographies or which countries specifically within the rest of the world portfolio are doing well or which verticals are doing well.

Sudhir Singh: Sure. So John is going to answer the question around EMEA and the demand outlook for EMEA that we see. I can tell you that from our vantage, Australia, New Zealand, Asia-Pacific, Middle East have not just done well, they continue to trend in a very positive direction, and we feel extremely bullish about those geos and the teams that we have put together. John, your view on EMEA?

John Speight: I mean, what we are seeing in EMEA is over the last couple of quarters, there has been delays and slowdowns in new opportunities and sign off of deals, but we are seeing that actually recovering and we are expecting significant upside over the next two quarters as deals come to be, as that haven't been closed. We see a positive uptick both across insurance. We see a lot of pent-up demand and also public sector with decisions from the government actually starting to flow through.

Ravi Menon: Thanks for that. Just a question about the unbilled revenue increase. Should we link this to the Sabre deal? And is this why you seem to be confident that free cash flow to PAT will be in a good 70% to 80% range over the longer term. When should we start seeing this come down?

Sudhir Singh: So, DSO unbilled that you see right now, Ravi, is not increasing just because of Sabre. There are any development contract that you sign up and any large contract that you sign up there is upfront effort that goes in and there is a requisite billing milestone which when achieved the billing happens. So, it is also a timing difference wherein when you receive approval from the customer and when you bill it. I think the way we are looking at the overall metric when it comes to cash, or the balance sheet is that focus on FCF to PAT and deliver anywhere around 75 to 80 and keep having double digit growth. So, I think that is the focus and the investments will keep going into customers as long as we continue to grow. But if we are maintaining FCF to PAT that keeps giving us comfort.

Ravi Menon: Thanks. I have seen a nearly $17 million increase in the long-term, unbilled revenue quarter on quarter. So, I was just wondering, in absolute terms now, we have added nearly $53 million to the long-term unbilled revenue year-on-year. So, when would that start reducing? Like, should we think about that as a deal anniversary for Sabre or something like that?

Sudhir Singh: No, so again, it is not just Sabre. There are multiple contracts. The long-term unbilled has always been there. It was there previous quarter, the quarter before that as well. So, it is not just because of Sabre, there is increase in liability as well. So, this number, as long as the overall number, as I said again, the overall number FCF to PAT is maintained between 75 to 80. We will be comfortable because if that happens, something or the other is being taken care of. We would want to make sure that FCF to PAT is getting converted at 75% to 80% and that is about it.

Ravi Menon: Thanks so much and one last question. Just a clarification. I saw that John has actually been added to the Board. John, congrats on that. I saw that Gautam seems to have resigned. So, is he no longer on the board?

Sudhir Singh: No, we shared that earlier as well. And there was an intimation sent to the Stock Exchange. Gautam is no longer with us. And we had shared that immediately after the last board meeting.

Ravi Menon: Thanks so much. Best of luck. Thank you.

Moderator: We take that as the last question for today. I now hand over the floor back to the management team for closing comments.

Sudhir Singh: Thank you, Inba. Ladies and gentlemen, thank you very, very much for your time and for your interest. We have said this over the last nine years. We really value these conversations, interactions, and we take away very rich learnings from them. We look forward to staying in touch, and we look forward to speaking with you again at the end of the next quarter. Thank you. Have a great day.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Coforge Limited, that concludes today's conference. Thank you for joining us. You may now click on the Leave icon to exit the meeting. Thank you for your participation.