

Cigniti Technologies Limited
Q1 FY20 Investor Conference Call
25th July 2019

Moderator: Ladies and gentlemen, Good day and welcome to the investor call of Cigniti Technologies Limited to discuss their Q1 FY20 results. Today, we have with us from the management, Mr. Srikanth Chakkilam – Chief Executive Officer, and Mr. Krishnan Venkatachary – Chief Financial Officer of Cigniti Technologies Limited. As a reminder, all participants will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srikanth Chakkilam for the opening remarks. Thank you and over to you sir.

Srikanth Chakkilam: Hello everyone. Before we start, I would like to point out that certain statements made into this call may be forward-looking in nature and the disclaimer to that effect has been included in the earnings presentation shared with you earlier. Unless otherwise indicated the information contained herein is preliminary indicative and is based on the management information, current plan and estimates.

Very Good afternoon to everyone present on the call. The role of quality assurance and testing has changed from just defect identification to becoming the enabler of customer delight and business outcomes. The focus on customer centricity drives digital transformation requires IT systems which deliver top performance across all attributes such as speed, convenience and security. Emerging technologies such as AI, IoT, Robotic Process Automation, AR and VR are increasingly becoming mainstream. In addition, the adoption of cloud and growth and connectivity and open architecture have led to an increased focus on security. Automation has become commonplace and Intelligent automation is becoming mainstream, which is leveraging AI. Quality at speed has reached the critical mass where a massive majority of folks, we speak to our reader regularly talking about Agile or DevOps or getting started with it. All of these changes and more including the transition to Agile and DevOps is making it imperative to continue acquiring new skills in this industry such as SDET and create newer roles in the quality engineering teams consistently. And the need to differentiate services with agility, technical capabilities and intellectual property is much more well pronounced today. And that is what is helping Cigniti to invest in, this year Nelson Hall also recognized Cigniti as one of the top two largest testing services, top two independent testing services companies a pure play globally. To play a bigger role and gain largest share of the quality engineering space. We should be able to cater to the needs of large global enterprises by delivering services at scale. By providing

tangible business value and ROI to our clients' quality initiatives. We are making investments into strengthening our delivery and differentiation using our proprietary IP, which is BlueSwan. We are increasing our footprints within the Fortune 500 and Global 2000 companies worldwide and the client list continues to be promising. This quarter we added clients across banking, insurance, retail and ISVs. One client of these is even the Fortune 500 space, and two of them in the Global 2000. Some of the efforts made in previous two quarters are coming to fruition in terms of ramping up of resources in the current quarter. Utilization continues to be at optimum levels and a healthy level of onsite offshore mix is being maintained. Our focus is on enabling digital transformation that ensures quality at highest speed and greater customer centricity. One of the key areas or the focus has been IP led quality engineering services powered by Cigniti's proprietary IP BlueSwan. More than 30 of our clients have now leveraged BlueSwan to achieve reduction in software product lifecycle and higher returns on the QA investment. Understanding the market trends we also launched new service offerings in the areas of robotic process automation, IoT testing and Block Chain testing and testing in DevOps. Since the time we rolled out multiple strategic initiatives in 2017. We have seen positive outcomes and our key performance indicators have improved. We have strengthened our delivery capabilities and augmented our industry domain capabilities in the last 10 quarters which is helping us deliver business value to our clients in terms of accelerated product reduces while increasing automation coverage and lowering the cost of quality. In the last year, we have focused on bolstering our IP from many industry verticals we are working with, such as banking, travel, financial services, insurance, and ISVs. We have rolled out multiple training programs within the organization to focus on talent skills across the organization, specifically in the field of SDET which is hot, technical skill that is required in the market right now. In the recent years, we also significantly enhanced Cigniti Enterprise Sentiment Analyzer, which is a part of our BlueSwan suite. Powered by AI, which is helping our clients to understand end clients' sentiments and better their products and be more responsive to the changing needs. All of this is helping us approach larger enterprise deals with greater confidence than before. We aim to work with more enterprise accounts, and do more business with the existing enterprise customers, which I think will drive growth in the coming quarters. Thank you. I leave the floor open for questions and my CFO to comment further.

Krishnan Venkatachary:

Good evening gentlemen, for the quarter we have clocked a revenue on a consolidated basis for 207.57 crore the entire data is available, the EBITDA stood at about 31.64 crore and PAT at about 28.5 crore on a comparison basis. Comparing to the corresponding year June the PAT may look as subdued but if you have to exclude the other income, which is in terms of a tax reversal, we have been faring well. The quarter has seen improvement in terms of the yield towards the realization and onshore and on site and offshore rates. The mix has been remaining healthy and we are able to maintain a good contribution in terms of 57 o 43. We are poised and there are on dollar terms, we have done 29.85 million as against 29.5 million of last quarter immediately. Though it may look like a stagnation but I think we had a couple of wins which commenced a little bit at least we should have built about \$500,000 estimated in June,

which is commenced from sixth or seventh July and the recognition is going to happen in the current quarter. And the order book position looks very healthy and we are poised that we will be able to achieve good growth in the coming quarters as we move on. This is a summary in terms of what we have done in financial performance and we are open for inviting questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Radhika Iyer from Suruchi Securities. Please go ahead.

Radhika Iyer: Can you just throw some light on the cash flow position of the company? And the sustainability?

Srikanth Chakkilam: Absolutely. The current quarter has seen cash generation of about 27 crores from the operation. And we expect in similar lines are going to improve slightly further in the coming three quarters. So that is a state of where we are in, 27 crore has been generated in the quarter and we expect for the next three quarters. Overall, the company is that, if you look at it I have a limit of about 15 crore from Federal Bank in terms of cash credit limit. But the utilization as it stands today I can give as against 30th June is that today it's about 30 lakhs or so just nominally but we should be getting it out of our way by August in terms of while the renewals are coming through. And we have a cash surplus of about 60 crore in terms of term deposit to the bank. And in the overseas limits probably we have about a \$7 million used with 5.1% on a total line of credit limit of \$15 million, we have just utilized about 7 million at about 5.1% compensating the 7 million if you look at it, we also have a cash deposit so we have net-net surplus and we generated about 27 crore during the quarter and we expect probably three quarters to have a similar or slightly improved cash flow generation. So probably further relaxation in my utilization in the line of control so I don't have any other long-term debt or any of any debt of any nature in the company.

Radhika Iyer: Noted sir, thank you.

Moderator: Thank you. The next question is from the line of Mitesh Seth from Mata Securities. Please go ahead.

Mitesh Seth: Just wanted to ask you during the quarter. How many clients have we added and from what sector ?

Krishnan Venkatachary: Yes. So we added the client from banking, insurance and ISVs, and retail this quarter. The number of clients is 21. We added 21 clients during the quarter.

Mitesh Seth: Okay. Sir and going forward sir do we see any slowdown in terms of any particular sector? Do we see our business getting impacted because of a slowdown in any particular sector or our business being impacted or are we looking to concentrate on any particular sector as such?

Krishnan Venkatachary: So we are a sector agnostic company. However, traditionally we have been strong in BFSI, travel and hospitality healthcare and ISVs. In our current interaction it doesn't seem like there is a slowdown in any of the sectors that we are working with. I have seen some news articles that some of the larger players seem to be worried about banking and financial services. But in our experience, where we are working with some challenger banks, an upcoming banks, I think we have not seen any such indication as of this point.

Moderator: Thank you. The next question is from the line of Aishwarya Agarwal from OSS Capital. Please go ahead.

Aishwarya Agarwal: I just wanted to get a sense of the company level growth rate for FY20. And what would be your EBITDA margin outlook for FY20?

Krishnan Venkatachary: Just wanted to reiterate the point is basically that asset policy level basically we do not want to set a guidance estimate very clearly. However, the considering the investments what we are making, the effort what we are making and the optimization and the order book which is happening we are very confident for a robust growth. Which is going to be for the year for FY20. Having said that, probably you may relate to ask basically that the quarter one probably comparing to the quarter four seems to be more or less with about 1.5% to 2% growth. But I think I have already answered in my earlier stance very clearly about \$500,000 worth of billing has commenced from 6th of July, because of which probably the growth is subdued. But I think we are confident that we will be having a robust growth on comparison to previous years, but as a matter of principle, as given with the directions by the board is that we don't set up anything on that as regards to EBITDA. We had a healthy EBITDA last year and we are confident and we will be taking the right steps. And we should be able to maintain the same set of EBITDA numbers very clearly.

Aishwarya Agarwal: Just one more question, will you be able to improve the billing rates going forward?

Krishnan Venkatachary: We have been doing it on a constant basis, if you look at it for the quarter as against comparison to the previous year. The previous year, the average rate billing has been at about 69.4 the onsite rate has now moved to 71, my offshore which was at about 22.6 has move to 23.1. So we have definitely done it, I think with the technology offerings which is contributing about 30% which is on the New Age business. And as I start focusing a bit more because the penetration of the new age business is expanding and the efforts are slightly to be felt in the coming quarters more aggressively and also across for the industry. We are confident but I think at this stage I would remain more pessimistic in terms of saying that this is one of the good rates we have achieved. And we would like to maintain these results and see that at a level playing field how do we able to come at a better way. But I think with these technology, digital and other initiatives where we are trying to take I think we are confident that we will be able to improve this. But in my pricing in terms of my margin and EBITDA as it stands basically, I am very confident with the current set of 71 and 23. I will be able to maintain this and move

forward and achieve but anything extra or excess comes then, will always be beneficial and contributing to the checker clearly.

Aishwarya Agarwal: So, one more question, when will the dividends be paid?

Krishnan Venkatachary: Again this year, if you look at it the entire listed company and the dividend policy is governed by the standalone entity which is Cigniti Technologies India Limited which is Cigniti Technologies Limited which is out of India and we have a carry forward unobserved revenue loss which has been carry forward in the books of about close to 77 crores as of 31st March 2019. This carry forward loss has to be wiped out very clearly and we are making our efforts to get that wiped out this year. Once this is wiped out and become one would be surplus probably we are eligible for declaring dividend as per the loss unless and until the loss ament, but I think there are enough cash flows which is getting generated and the dividends distribution is not an issue, but I think the applicability is an issue and the board is also have actively considered every quarters looking at it in terms of where we are going to do it when we are going to get into it or whatever. The moment we get that wiped out ideally which we are optimistic that we should be able to do it quickly and then get it over then the dividend policy applicability and the dividend will be appropriately decided by the board.

Moderator: Thank you. The next question is from the line of Darshan Patel from Patel Investments. Please go ahead.

Darshan Patel: Sir, I wanted to understand with this BFSI fiasco happening in India and globally, how are we planning to derisk ourselves from this?

Krishnan Venkatachary: Which fiasco are you talking about?

Darshan Patel: BFSI is going through a lot of trouble in India and globally.

Krishnan Venkatachary: Our exposure to Indian clientele in BFSI is probably, I don't know, less than, I think probably 0 to 0.5% I think not even maybe 0%.

Darshan Patel: And globally?

Srikanth Chakkilam: Globally we are working with reputed clientele in terms of the client names. And we have never had an issue with accounts receivable or the timelines getting delayed in terms of product development or application testing. So at this point, our exposure to whatever you are saying is very-very minimal or zero.

Krishnan Venkatachary: Just want to add a point what Srikanth said very clearly Darshan is that. Our contribution from BFSI is 17% out of which 99.9% is coming from the overseas location. I do understand that the BFSI fiasco extends also to overseas locations probably if it is a parent company over there, or whatever it is, but ideally, invariably what we are working through is the direct bank direct

established players, and we are working on what is very critical is called a major critical application. So invariably for them even to on their continuing business they cannot afford to lose out on their business, probably yes, I take your point in saying that will there be a robust growth coming in in terms of the BFSI segment for me to really attract and work, I am also de-risking my business. So, I am trying to be very careful in selecting the client what it comes, I am not trying to take it as all and sundry. I am trying to do it in such a way that if it's a mission critical application POC see that get the ground, do a DNV verification, see where we stand, what it is and then I am trying to accept in that segment. So ideally I am secured but I think I am not giving a big push in terms of trying to take upon a BFSI and as Srikanth said earlier we are vertical agnostic so invariably, we have balancing act invariably and something like travel and hospitality can never be discarded with clearly because everybody has to travel and everybody has to take up. So that is one sector which we depend on and retail is one sector because there are hundreds of thousands of sites which needs the e-commerce push. So we are balanced on that side, I hope to have addressed query

Darshan Patel: Yes, sure. So another question I missed some cash flows if you discussed anything on the cash flows? How comfortable are we with the cash flows?

Srikanth Chakkilam: Okay, it is very simple basically, we are net-net cash surplus now. But it could look as a debit and credit as a balancing act because it is essential for every company on a growth stage basically, to have the right kind of line of credit especially at 5.1% in overseas location have utilized about 7 million. But I think offsetting then probably we have about close to 60 crore plus in India in terms of surplus, which is lying in the banks as fixed deposit fortunately we have not ventured into debt or equity or any other funds because we just evolved the treasury policy and any investment now should take us through in a much better shape in terms of return. But having said that we have generated in Q1 about 27 crore and we are very confident that similar to or a positive cash flows in the next three quarters coming through ahead just from the operations very clearly. So we are we are sitting pretty tight on the cash flow and we are comfortable and we are confident and optimistic. And there are no issues on that.

Darshan Patel: Okay. Sir one last question, are we looking at any kind of acquisition?

Srikanth Chakkilam: So as such like I mentioned in the last calls also, this is just part of the business that we keep evaluating different companies that can add technical capability to our overall mix. We are not looking to make acquisitions for scale at this point.

Darshan Patel: I don't mean by in terms of scale I mean in terms of venturing into.

Srikanth Chakkilam: Some special addition to our current repertoire in terms of either a service, like IoT, which has.

Krishnan Venkatachary: The management probably to supplement Srikanth's statement, the board of the management are very open to such ideas, in terms of strengthening our independent testing nature business

to see what best can be done. On that front, I think I can probably give an answer in a nutshell is that yes, there's has been an extremely positive push from the board and the management to actively review proposals which is coming as a part of the business in terms of what it is. But if you look at a definitive timeline or if you ask everything, I think we don't have a definitive timeline and whatever comes through has to be disseminated through the exchanges to the shareholders systematically.

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

Srikanth Chakkilam: Thank you everyone for participating in the call and your valuable time. We look forward to addressing you in the next quarterly results. Thank you.

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.