

Cigniti Technologies Limited
Q3 & 9M FY21 Results Conference Call
January 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to Investor Conference Call of Cigniti Technologies Limited to discuss the Q3 and Nine Month FY21 Results. Today we have from the management, Mr. Srikanth Chakkilam, Chief Executive Officer and Non-Executive Director and Mr. Krishnan Venkatachary, Chief Financial Officer.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Snighter Albuquerque from Adfactors. Thank you and over to you sir.

Snighter Albuquerque: Thank you so much Neerav. Very good afternoon to everyone. We would like to point out that statements made in today’s call may be forward-looking in nature. And a disclaimer to this effect has been included in the earnings presentation shared with you earlier. 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, reasonable. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, financial condition, performance or achievements of the company or industry results to differ materially from the results, financial condition, performance or achievements expressed or implied by such statements. The risks and uncertainties relating to these statements include, but are not limited to risks and risks of expansion plans benefit from fluctuations in our earnings, our ability to manage growth and implement strategies, competition in our business, including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals and our ability to win new contracts, changes in technology availability of financing, our ability to successfully compete and integrate our expansion plans, liabilities, political instability and general economic conditions affecting our industry. Unless and otherwise indicated, the information contained herein is preliminary indicative and is based on management information, current plans and estimates. Thank you. I now hand the conference over to Mr. Srikanth Chakkilam for his opening remarks. Over to you sir.

Srikanth Chakkilam: Welcome to the investor concall of Q3 of 2020-2021. I would start with some highlights and events of Q3. We hired Mr. Ganesh Ramamoorthy as the Chief Revenue Officer of the company. His roles and responsibilities include the acceleration of revenue for the company and

improving the quality of revenue, through better quality deals, higher yield per account and work in the relevant service offerings of digital transformation. This move is important for the next phase of journey possibility where we are pivoting into a digital assurance company from a quality engineering company. Other highlights include Dubai Gold and commodities exchange, where we are giving end-to-end services and quality engineering. Toyota Motor Corporation Australia, Med Tech Intelligence and two other Fortune 500 logos in healthcare space. They are restricted to the healthcare space and in the medical device testing space, where we have seen quite a bit of traction since the COVID-19 pandemic has started. While our overall dependency on the TTH has come down from 27% to 16%. Other areas such as healthcare, BFSI and NIFCs have made up for the lost revenues. We see traction in healthcare, financial services and there are some green shoots in Telecom, although it's in the initial stages. While COVID-19 pandemic seems to be normalizing in some parts. There have been second lockdowns in parts of Europe, which has made it difficult for our clients, especially the airlines and airports that we deal in Europe. It has made it difficult for our client base to recover in those places and visibility is still an issue for customers and recovery is quite slow. We do not expect the travel and hospitality sector to revive immediately. We are assessing this on regular basis.

Interim, we have got a lot of traction in the medical devices and ISP space where we think we will build momentum on. Another good news in the quarter was that we were positioned in the Gartner Magic Quadrant again for the fifth consecutive year as a niche player for software testing services, which validates our credibility among clients. This quarter, the revenues stand at 223.9 crores, which is a slight uptick from the last quarter and EBITDA at 14.3%. And the drop from the previous quarter will be elucidated shortly with CFO. We expect the financial year to end at around the same level as last year about, with a variance of plus or minus 1%. Finally, the upcoming year will be a year of investment for Cigniti to aim for higher growth and be more relevant in the IT landscape. As we pivot into a digital assurance company and subsequently a digital transformation company, we intend to create momentum on business through investments in deal advisory partnerships and alliances offering sale and improving yield to investments and client partners and engagements for our top 40 accounts. I will hand over the call to Krishnan to talk more specifics on the numbers.

Krishnan Venkatachary:

The quarter has been pretty flat for us. We are consciously aware of the numbers in terms of where we are. To explain we have done a dollar revenue \$30.49 million as against \$30.13 million, an increase in terms of INR by about 1.2% moving from 221.2 crores to 223.9 crores. The reduction in EBITDA predominantly contributed by 12 crores in terms of a reversal of the salary cut, which we enforced on the six months, we saw that as an investment back into the people because Work from home being a norm, we do not want to lose out on the people which are especially critical for us. So we have reversed and rewarded them back very clearly in terms of reversing the salaries, as an investment. Apart from that, we have net addition of about 98 people during the quarter, out of which 42 people was the billing that was supposed

to have commenced, however got delayed. The billing has commenced from 1st of January in terms of contracts on a nine month basis, which is a more ideal comparison for us basically on a USD\$90 million to USD\$90 million comparison where we started the year. We had a contribution of 27%-28% coming from travel and hospitality, which dropped down to 16% in the current composition. While we anticipated that this USD\$ 90 million, the differential of about 12% is close to 11 million. This already has been pumped in new initiatives and new sectors like retail. Overall healthcare contributed a big way this quarter as the current segment of travel only contributed 16%.

We have consciously held back in terms of other sectors through mining and then winning. In the nine month period, we have added close to 38 clients and the quarter has also been healthy in terms addition of another 15 clients, so that is one of the reasons we have moved ahead. Comparing last year to this year, we are on full blown taxation comparing to what it was with all concession we had, we have generated a good amount of cash flow for the quarter and overall the nine months generated, cash flow close to 133 crores. Our receivable days been pretty well this quarter and continuing over the last nine months. Except for the first two months, we are still hovering at 52 days, which is a healthy comparable metrics. In terms of the debt, we have become a zero debt company. The working capital or any cash credit limit is not utilized, we are surplus on funds. The overall surplus funds are about 187 crores, where investments have been made in mutual funds and bonds and free cash flow. The entire annualized yield for the mutual fund and bond investments have been in the range of about 7%, managed effectively by Avendus Capital. Our top 20 has not changed in terms of the composition both in terms of the clients, and contributions. They have moved up marginally in terms of contribution, about close to 51% coming from the top 20 clients. We are using this as an opportunity where with travel and other costs not coming through, trying to reinvest back into business with layer and lot of initiatives in terms of marketing and other spend. The marketing contributions are close to 4 to 5 crores of investment which was necessitated for us to get into few of the partnership and alliances events.

The client serviced has been at 206 and we are happy with that because we're trying to get into a low client and high volume mix. Our utilization levels have improved too, we have moved from 77% utilization in offshore to close to 81% uptick. Also, on the onsite we have more or less remained stable at about 94%. And our billing rate has marginally come down, and offshore is one of the reasons because of the discount which has been necessitated for one year with the clients in a marginal way. However, onset rates have compensated and improved. The airport mix more or less remained stagnant at about close to, on the manpower basis at about 27 to 73. Top 20 continues to contribute in a big way and there is no rejig. The additional factor is that, other than US rest of the countries where we have been claiming a small number of grants, there has been a reduction in the grant about close to 450K compared to the previous quarter, which is one of the reasons probably the differentials in terms of where we are, what we are it has come to. But as it stands today, we are pretty confident that as we don't give any

kind of guidance, and as we started the year compared to last year, this year is a year of waves where we thought that we will be doing plus or minus 2% compared to what it was previous years both in terms of revenue and probably profitability also, minus the other income which had various factors like software export incentives where everything was available up until last year and that sizable chunk has moved out this year. And with full blown taxation still, we will be in a better off position to be at about plus or minus 2%.

Though cognizant of the quarter numbers, but comparable just as a single line offering industry, we are pretty confident that for the year we have done a very good consolidation. And we have used this opportunity. A lot of initiatives have been taken in terms of enhancing offerings, working around and beyond testing, and then laying a roadmap in the next four years to become a player who is more commendable in terms of a digital transformation journey. We have used this opportunity and geared up the team completely to invest in these areas. We are confident that we are marching along a good path and the results will be seen in the coming quarter and also the subsequent years to come where we have a very good amount of visibility. As we start the year probably as it stands today with the order book position that we have, we are commencing with close to about 108 million in terms of availability due between April and March of next year. But we have almost another two months for me to close. So we are pretty confident that we are on a good path for high level digit moving forward growth and optimistic about it. And with these few words, I leave the forum open for the question and answer session and we'll be more than happy to address all the questions. Thank you.

Moderator: The first question is from the line of Akansha from Shah & Jain Broker. Please go ahead.

Akansha: When can we expect dividend distribution?

Krishnan Venkatachary: The board is actively reviewing every quarter. We are cash surplus on a standalone basis which means we have wiped out all the losses and become revenue surplus over the last and this quarter. As per the law we waiting for audited results to come through, the board will take an informed and appropriate decision in the coming quarter.

Moderator: The next question is from the line of Tejpal Jain from Suruchi Investments.

Tejpal Jain: My question is regarding the customer: What are the customer trends, what is the outlook going forward in terms of industries adopting digital faster and with that respect how do you look at the industry outlook?

Srikanth Chakkilam: So, our exposure to the manufacturing industry at this point is comparatively lower, to other benchmarks. But the sectors that we are dealing with such as healthcare, especially in the medical devices space, we're seeing a lot of digitization boom there. The number of deals we have won over the last nine months, majority of them have come from the healthcare and medical device space. Secondly, banking and financial services is also looking positive. We

already have a great case study in terms of digital bank, which we're trying to leverage to create an open banking and digital service offering. Thirdly, retail is also one area where we are seeing a lot of traction, given that people have moved a lot towards online shopping than before.

Tejpal Jain: My next question is on the same lines. Have we envisioned any plan or strategy to accommodate COVID, because it impacted most of 2020? A lot of non-traditional industry, which were not on the digital radar, have started looking to digitalize so that they can be more competitive. So which are those two or three industries which you look at who have come in and shown interest towards taking the digital leap?

Srikanth Chakkilam: There are two perspectives to it. One is in an area where there are a lot of new opportunities, like what you're talking about. The other one is, in areas where you have strength. The second area is our strategy. Prior to April 2020, we were positioned ourselves as a vertical agnostic company, but now we are focused in terms of three- four verticals that we want to go after, and place our bets there than, going after the areas where we do not have the strength. We are building offerings in the BFSI space and medical devices space. Last time I mentioned about our offerings in the 5G space, categorizing it into technology and retail than Telecom. These are the four areas that we'll be going after and overall we will be working with existing clients than going after new ones. The important thing is to make the investments, rollout additional offerings and create depth in our service offerings. We are trying to get more yield and more realization per account than going after new accounts.

Tejpal Jain: From a competitive landscape perspective are you facing competition from new players, and new entrant startups?

Srikanth Chakkilam: We generally compete with the industry leaders in most of the RFPs.

Tejpal Jain: Due to business continuity issue during the last one year, most of the CFOs, CTOs would be looking at reconsidering their budgets. What would be two strategic and critical things that you have to look into?

Srikanth Chakkilam: From that standpoint it is industry specific. Some places we have faced immense pressure on price. Due to project cuts, and other things mentioned earlier. Our strategy has been to try and see if we can get an exclusivity because we are offering discount and hopefully we will catch up later with other service offerings. There are areas where we have pro-actively gone to clients and pushed the revenue from on site to offshore. This was just to ensure that we are showing the required cost value to our clients. But overall, yes there are areas where we have faced pressure, especially in the sectors such as travel and hospitality. .

Krishnan Venkatachary: What Srikanth said in terms of point is basically, I don't think that CIOs and CTOs are looking at startups as competitors, rather we look at established players and often anticipate competition only from the established players. So the only reason it comes down to is, they ask for more

of a discount on the pricing in terms of the budget, and we tried to look at for a long term perspective. So there becomes an arbitrage with respect to the price and longevity. . But, over the last two months we are seeing is that the trend has been where people have started coming back to normalcy, and things are looking up. Some time to go, but it's a win-win situation where we are trying to arbitrage out.

Tejpal Jain: Can we expect dividend next year?

Krishnan Venkatachary: We have become eligible for the dividends, owing to the last quarter results and this year. Currently, the board is considering and will take a call. Overall, the board is positive on this outlook and will take a call soon.

Moderator: The next question is from the line of Devang Karani from Karani Spices.

Devang Karani: Year-on-Year in this year we are more or less expected to end flat. So how do we increase the revenue going ahead? You mentioned more realization with the earlier gentleman, but that is not coming into the numbers, so how are we looking to generate more revenue, considering our revenue has been constant for the three years now

Srikanth Chakkilam: To give you a perspective, last year the JFM quarter we generated good growth and we were on track to create higher growth for the year, but COVID hit us. We had significant exposure to travel and hospitality and we had this job of retaining the current account profile and also to make up for what was lost in the Q1. We had immense amount of churn just because of exposure to travel and hospitality. However, we have used the COVID period to look inside and see how we can generate more out of what we have. The current strength of the company is that we are able to sign a lot of Fortune 500 accounts, developing a great client base. The next important step is to create more offerings. Right now, our offerings are limited to quality engineering, testing, test automation and things around that portfolio. But we have started working on adjacencies, such as RPA, Cyber Security and DevOps, and have already started seeing some traction on that front. We intend to expand our portfolio of offerings around these services to generate more revenue for the company, in an 18-month journey from now on. We've already made the first move, we hired a chief revenue officer who is solely responsible for accelerating revenue for the company and help us pivot into the digital assurance stage that I mentioned earlier.

The second thing we have started doing, is making investments and building service offering management layers, which will help roll out our offerings quickly, adding them to the existing portfolio that we have. , We have a portfolio of 206 accounts, out of which our focus is really on those top 70-80 accounts. This focus will surely create the required momentum for all of us.

Krishnan Venkatachary: Just to add on from a performance standpoint, we were at about \$11 million run rate in the last March at 11- 11.2 , which would have taken us out of very good number in terms of

comparison to the previous year. From 123 million to that of the previous year to 140 million, at around 15% to 18% growth. Unfortunately, firstly, testing QA and QE as a business only, and secondly in terms of exposure dealing on the cyber and other side has impacted us. There was an immediate panic button in terms of the first two months. While we had a good order book position, however after all the reconciliations tallied, we started the year with 85 million. From 85 million we filled the bucket and we are still filling it up. We have added around about 35 million, bringing it up to back to the desired levels, before it was on a flat run basis. In the process, we had to let go of incentives. At the same time, we have also invested back into the business, knowing very well that we are prepared that no other pandemic strikes. Any kind of other eventualities we have accounted for by trying to broader base of the business in terms of laying a four year plan. This plan is reflective of increasing the business as it is, increasing the offerings and working around and beyond the testing in terms of getting through. We are confident that the effort what we're making, should start showing in a partial basis. The next four years is going to be a buyout period and we are optimistic and confident as the number suggest, we are commencing the year with about 108 million of order book. So, effective April, May, June quarter you can start seeing the numbers flowing in a systematic way in our books.

Devang Karani: The margins of new business will be similar to the existing business or higher than the old business?

Krishnan Venkatachary: Always the efforts and persuasion shall be to realize a better margin. Past nine- months, we were at about 17%, which itself is a notch higher compared to what it was the last year. Spending on non-core expenditure was one of the reasons why we registered 1 17% margin. This again, however is again being reinvested back into the business. We are optimistic that we will cross 17% moving forward. I won't get into the specifics, however the endeavor has always been to cross the 17% mark, and with the newer offerings what have added, we will realize this at a faster rate. The new offerings are going to be stalwart and offer a lot going forward.

Devang Karani: Do you propose to write up the goodwill that you have on the books??

Krishnan Venkatachary: Goodwill which is around 50 crores has been systematic in its reflection in the books. There is an accounting provision which is preventing me from writing off the goodwill. This is a continuing business from Cigniti, so since there is continuity of business we have reflected the goodwill but we do an impairment testing on an independent basis for this. PNY carries out this review independently, therefore we aren't worried on that front However as we start getting magnified out in a couple of years, and we can knock that out from the books. .

Moderator: The next question is from the line of Satya an Individual Investor.

Satya: Your opening remark was that we will be closing this year with the same or plus or minus 1% of revenues and profit of last year. Can you reconfirm that?

Krishnan Venkatachary: Revenue yes, profitability minus the other income.

Satya: My second question is that, you also informed that your projected growth from next year onwards is going to be higher teen. In terms of the revenue growth, can you reconfirm that too please?

Krishnan Venkatachary: We don't give any guidance, but we are optimistic on those lines.

Satya: Is there any buyback plan within this financial year?

Krishnan Venkatachary: It is the board's prerogative in terms of looking at these aspects. While the investments in the business have been cleared by the board, we will come back appropriately to the market as and when the board decides.

Satya: Considering you are moving into other offerings, do you plan to have any acquisitions for niche segments, where you are planning to diversify?

Srikanth Chakkilam: We always keep a year to the ground on that front, but we can neither confirm nor deny that we would be doing any acquisitions.

Moderator: Next question is from the line of Satya an Individual Investor.

Satya: We have been re-iterating since the last two- three years there is a huge scope for testing. Are we feeling that the testing space is drying out, which is why we are looking at other digital offerings, digital space itself being very competitive with multiple players?

Srikanth Chakkilam: Post COVID the trends have changed in terms of vendor consolidation, one offering line versus multiple offerings. This is the trend that we have observed post Covid and that is where the other offerings has culminated. It also provides an opportunity for us to expand considering we've already done the hard work in terms of landing new account. Therefore it makes good sense for us to try and go beyond what we're doing today.

Krishnan Venkatachary: Changing and adapting to the market needs and conditions is essential at some point, given the kind of pandemic what we have seen. So, that is what every player is trying to do, while the vendor is trying to consolidate, and the customer is trying to look process it. So equipping myself with a complete set of qualifications and then applying it across in a niche area is always a welcome move. And we need to be balance the business, anticipating the unknown variable. But the deals are not drying out however there is an opportunity to do more.

Moderator: The next question is from the line of Akansha from Shah & Jain Brokers.

Akansha: Are we looking at fund deployment in the financial year 2022 in account of business segment?

Krishnan Venkatachary: In account of business segment is that your question?

Akansha: Yes.

Krishnan Venkatachary: Investment in the business segment in terms of expansion will be a continuous process. This year, we have done so by adding and enhancing our offerings. As we are building our capabilities in terms of the digital transformation making it an enabler for our clients, in a big way. To be specific to the question, if these investments are made, are they going to be amortized, are they going to be carried forward in terms of tapping the revenue potential or depreciating it out. No, we don't intend to do that, we have a very clear mandate in terms of what we are going to deploy out within the means available. We will continue to reap the benefits out of that over a period of time, but we will continue to invest with a specified cap, which will also be absorbed and spent during the quarter.

Moderator: The next question is from the line of Devang Karani from Karani Spices.

Devang Karani: The entire software testing industry is about \$40 billion industry and we are a very small size of that, the turnover overall which we cater to is very limited. So, why are we not able to get more market share in such a huge industry? Going into a newer industry is always welcome we are in the Magic Quadrant in the Gartner's book for five consecutive years because of our niche in the software testing business. However, when the industry is so big, why are we diversifying at this point?

Srikanth Chakkilam: Sure. So, if you just put your question in context, it seems valid and fair. But there are industry dynamics in place, when bigger players who can leverage resources in terms of cash and people, downplay the sector quite dramatically, you have to consider these external aspects while trying to make new offerings. One example that I can quote, is that of a large US based coffee chain. When they started off, they wanted be the coffee authority of the world. They focused on selling only coffee. But the reality is, when people go for a coffee, they also want some snack as a side dish. And, people have an opportunity to get both of them at another place. This company has no choice but to offer what the other person is offering, at the same time not lose their positioning on who they are. , The company would still retain it's positioning as the coffee authority of the world. We are setting off in a similar direction that, we don't want to lose our positioning as a Quality engineering player, but we want to graduate to a digital assurance player, where we are doing digital transformation work in addition to our core-competencies. Similarly, we are not diversifying into a new industry, buy just an adjacency to what we are already doing. For example, we do test automation, we are getting into RPA, we are doing security testing and we are offering end-to-end cyber security. It's not that different, it's just that we now have a little more room to do than what we already are doing.

Krishnan Venkatachary: And it brings in a lot of sustainability into the business your ability to influence the IT landscape also improves. When you are only doing testing you're limited to certain aspects and you're

indirectly influencing outcomes, however when doing a larger portion you can directly influence the outcome thus strengthening relationships at the client's place.

Moderator: The next question is from the line of Akansha from Shah & Jain Brokers.

Akansha: By financial year 2022 how would the revenue mix look like?

Krishnan Venkatachary: In terms of the new offerings?

Akansha: In terms of sectors

Krishnan Venkatachary: Segment- wise our travel fee continued to be about 15%-16%, our BFSIs is about close to 19%-20%, and retail is at about 17%. We expect the healthcare to slightly move up and show an uptick. So we anticipate healthcare to slightly contribute more and others to come down. So on an indicative basis we expect healthcare to really catch up with BFSI at about 20% and we expect travel to be at about sub 15%, our major contribution going forward would be from BFSI and healthcare and then comes the retail in a double digit growth.

Moderator: .I will now hand the conference over to Mr. Srikanth Chakkilam for closing comments.

Srikanth Chakkilam: Thank you, everyone. Thanks for joining the call. I look forward to giving updates and progress of the company in the next call. Thank you.

Moderator: Thank you very much. On behalf of Cigniti Technologies Limited, that concludes this conference. Thank you for joining us, you may now disconnect your line. Thank you.