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16th May 2019

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Name of Scrip: CIGNITITEC

Scrip code: 534758

Dear Sir / Madam,

Sub: Transcript: Cigniti Q4 & FY 2018-19 Result conference call on 3rd May 2019- Reg

Ref: Company's letter dated 2nd May 2019 regarding Intimation for Earnings call under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Please find the attached herewith Transcript of Cigniti Technologies Limited for Q4 & FY 2018-19 Result conference call held on 3rd May 2019. The same was displayed at our company's website: www.cigniti.com.

This is for the information and records of the Exchange, please.

Thanking you.

Yours Faithfully,
For Cigniti Technologies Limited

A-Nagavasudha

A.N.Vasudha
Company Secretary

CIGNITI TECHNOLOGIES LTD. Hyderabad

Encl: as above

Cigniti Technologies Limited
Q4 FY19 Earnings Conference Call
03 May 2019

Moderator: Ladies and gentlemen, good day and welcome to the Investor Call of Cigniti Technologies Limited to discuss the Q4 & FY19 Results.

Today we have with us from the management Mr. Srikanth Chakkilam – Chief Executive Officer & Non-Executive Director; Mr. Krishnan Venkatachary – Chief Financial Officer & Mr. Phaneesh Murthy – Independent Director of Cigniti Technologies Limited.

As a reminder, all participants' 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. Srikanth Chakkilam for opening remarks. Thank you and over to you, sir.

Srikanth Chakkilam: Good afternoon everyone. This is Srikanth. Before we start I would like to point out that certain statements made in today's call may be forward looking in nature and the disclaimer to this effect has been included in the earnings presentation shared with you earlier. The investors call may contain forward looking statements based on the currently held believes and assumptions of the management of the company which are expressed in good faith and in their opinion reasonable.

Forward looking statements involve non and unknown risks, uncertainties and other factors which may cause the actual results, the financial condition, performance or achievement of the company or industry results to differ materially from these results, financial conditions, performance or achievements expressed or implied by such forward looking statements, the risks and uncertainties relating to these statements include but are not limited to the risks of expansion plans, benefits from the fluctuations on our earnings, our ability to manage growth and implement strategies, competition of 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 complete and integrate our expansion plans, liabilities, political instability and general economic conditions affecting our industry unless otherwise indicates the information contained herein is preliminary indicative and is based on the management information, current plans and estimates.

Coming to the operational highlights of Q4 FY19 the company revenue from operations for the quarter under consideration stood at Rs. 206.44 crores as against Rs. 178.65 crores in Q4 FY18. EBITDA for the March quarter was at Rs. 28.82 crores and EBITDA margin stood at 14%. The company had profit for Q4 FY19 stood at Rs. 29.88 crores against net profit of Rs. 19.8 crores in Q4 FY18.

Revenue from top 5 clients contributed to approximately 18% of revenue on top 20 clients at about 47%. We continue to be industry agnostic and although we focus on travel and hospitality, BFSI and healthcare. One of the biggest trends of last year has been the continuing adoption of Agile and DevOps.

This is again in line with what we have been seeing over the last few years which has resulted in most organizations ending up with buy model set up in which both Waterfall and Agile models exists side-by-side. Typically it is the customer facing applications at our first move to the cloud and develop using Agile and DevOps principles.

One other related trend that has emerged in the last year is the use of AI in combination with Automation. Automation has been flagship in most of the accounts that we have opened. The other trend that we have seen is the skill related(technologies such as Automation and increasing adoption of Agile and DevOps have lead to change in the skills from QA professionals.

Industry has now demand for something called SDETs which is Software Development Engineer in Test. There is a lack of well-rounded professionals in the market which we are seeing and has also lead to our dependency on hiring people onsite and possibly setting up onshore delivery centers or near-shore delivery centers which are closer to the client.

I would like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Just wanted to understand couple of things. First of all, the revenues for this quarter have declined; also margins have declined very sharply. Any specific reason for it and how should we look at growth in margins going into FY20?

Krishnan Venkatachary: Ashish, I will take this question. In dollar terms revenue has moved up by about close to a percentage, about 0.8% from 29.33 million to 29.58 million. However in rupee terms, on account of reduction in realization the revenue has dropped. In terms of EBITDA margins, during this quarter we have hired a few set of consultants in anticipation of the revenue which has deferred into the next quarter. Hence the cost got partially accounted for and also we have paid a few consultants in terms of converting our factoring into commercial line, which needs to be priced in. So, it is a combination effect in terms of rupee realization versus accounting per expenditure. In terms of moving forward I think as we see the whole year, the second and third quarter has been a blip in terms of huge currency variation, but we are confident that we are bouncing back in Q1 to an EBITDA of close to about 17% on a consistent basis.

Ashish Agarwal: So from FY20 we could built in around a 17% type of a margin, am I right?

Krishnan Venkatachary: Absolutely.

Ashish Agarwal: And the growth rate, this year it looks like the dollar growth rate has been 9%, 9.5% and our stated goal has been to have that 12%, 13% this year and next year a higher growth rate. This year obviously has been lower than expected so how should we look at the growth going into FY20?

Srikanth Chakkilam: So Ashish, we do not provide guidance however based on some of the activities that we are doing the kind of accounts that we are chasing has changed. The profile of accounts that we are chasing has changed significantly as to what we used to chase 18 months ago. Now we are chasing the large enterprises, to have more predictable revenue. The sales cycles in these large accounts tend to be longer than what we used to do earlier. So based on that once we are able to crack some of the large accounts I think we should be in a better situation.

Ashish Agarwal: Okay, when you say you are looking to close large accounts, what is the problem we are facing? Is it the size of the company which we are struggling to close or is the decision making being delayed in these accounts. What is the reason for it?

Srikanth Chakkilam: There are multiple reasons and it starts right from getting registered in the vendor management, to giving the response, to the RSP, to making a difference to negotiations to the whole nine yards. Depending on the industry and depending on the sector that we are operating in, this sales cycle usually varies anywhere between 6 to 12 months. However, some of the deals, we entered from last year itself so it is not like we are starting all new.

Ashish Agarwal: Okay and on the supply side, how much is the pressure on the supply side both offshore and onsite and can that impact our margins going into FY20?

Srikanth Chakkilam: like I mentioned earlier there is supply pressure both offshore and onsite. Offshore is not so much a problem as compared to onsite. However, we are in the process of training about 50 assets within the company both onsite and offshore included. But until we manage that pressure, we are likely to hire from the market which can have pressure on pricing.

Ashish Agarwal: Okay and just one data point. What was the free cash flow generated for the full year in FY19?

Krishnan Venkatcharay: From operations Rs. 131 crores.

Ashish Agarwal: So operating cash flow was Rs. 131 crores and what was this number last year?

Krishnan Venkatachary: Last year it was Rs. 32 crores.

Moderator: Thank you. The next question is from the line of Tejpal Jain from Suruchi Investment. Please go ahead.

Tejpal Jain: Can you throw some light on the new additional clients that has been added in Q4 FY19?

Srikanth Chakkilam: Sorry I believe your question is how many clients did we add in Q4?

Tejpal Jain: Yes, and if you can throw some light?

Srikanth Chakkilam: We added about 15 new clients in Q4. The clients range, I mean again we are a vertical agnostic company but the clientele that we added the 15 in Q4 range from travel and hospitality to healthcare and the financial industry and also ISVs.

Tejpal Jain: Do we have a breakup with regards to the geography and the ticket size?

Srikanth Chakkilam: So about 81% of our clients are based out of North America, which is US and Canada so we serviced about 223 clients overall and the breakup would be in that range only. And the average ticket size is about 300,000.

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

Darshan Patel: Just a couple of questions. Firstly on the cash flow front, you know since now we are generating a good amount of cash flows how we plan to use this in terms of any kind of organic or inorganic growth going forward?

Srikanth Chakkilam: Yes, can you repeat the question please, I am sorry?

Darshan Patel: Sir, how are we looking at growing in terms of organic or inorganic growth going forward? Are we looking at any kind of tuck in acquisitions?

Srikanth Chakkilam: I really cannot comment on the inorganic side, we just play it by the year and if there are opportunities in that regard you know we just play it by the year.

Darshan Patel: But how many players of our size are there in the market out there, because I believe we are among the top players in this space?

Srikanth Chakkilam: We are an independent quality engineering service company. There are independent testing players in the market. We would certainly be in the top two or top three, when we compete in the market we compete with all the large Sis. As a independent testing market companies I think in our size range there would probably be one or two.

Darshan Patel: No the reason being now since we are very we have done some strategic moves by introducing Mr. Phaneesh Murthy also on to the Board etcetera, so how he is bringing value to the Board, how is he bringing value to this business? I was just trying to get an angle from there?

Srikanth Chakkilam: Mr. Phaneesh Murthy has been there, done that multiple times. He has been there on both sides of the table so he has helped large companies scale up from very small revenues to multi billion dollars. He has also helped companies with their IT strategy. He brings value to the table in the sense that he knows what it takes for an IT services company to scale up to the next level and also what the clients expect from IT services companies in terms of providing value to them.

And he provides these inputs on a continuous basis and provides mentorship to the Executive management of the company and helps in various strategies related to sales or delivery and other strategic initiatives.

Darshan Patel: Certainly. Having said so, coming back to my questions, how are we looking at growth in terms of okay let us not talk about inorganic growth, what about organic growth, how are we looking at organic growth going forward? Are we looking at opening up to newer sectors because I think major part of our revenues come from mainly Tourism and BFSI?

Srikanth Chakkilam: So again we do not give guidance but the way organic growth is that we are being very strategic in the kind of accounts that we want to win, we want to ensure that they have good amount of IT budget and specifically quality engineering budget. So we can open an account today and ensure that it is very, very long term relationship and is giving predictable revenue to the company. We do not want to compromise on the quality of the accounts that we open that has been the organic growth strategy.

Darshan Patel: How many accounts have we retired in the last quarter?

Krishnan Venkatachary: Number of accounts retired since last quarter is about 18 accounts.

Darshan Patel: Okay and how many have discontinued?

Krishnan Venkatcharay: I would put both together as 18 in terms of contract completing. For client dropping out, we have almost nil ratio in terms of client dropping out. It is only the question of nature of the job where it makes us to conclude the contract, so the total number for the quarter is at about 18.

Darshan Patel: What is our retention strategy?

Krishnan Venkatcharay: In terms of retention strategy we currently have a churn rate which equals to about 16% to 18%. On a revenue number terms, in terms of the client numbers it is averaging at about close to 19%. It is a constant effort which we are trying to do in terms of seeing how the churn out can be brought down.

Srikanth Chakkilam: There are multiple things involved here Darshan. The 18 clients retiring is also a function of the nature of contracts for example if it is a performance or security testing contract it tends to be very short in nature but repetitive in nature as well throughout the year.

We are also consciously retiring some accounts based on the low yield or the low potential that they have. The third one is when we land an account, we want to ensure that they have the right amount of budget for them to last long and we are continuously investing in the high growth areas such as digital and DevOps. And we continue to build relation at deep levels within those organizations possibly at the CXO level as well. The only way you can really retain an account is by showing value and being partners, building the trust that we are partners for their business objectives. So that is what we are focusing on as a company.

We are training our employees and leadership in the delivery organization to be strategic enough so that they build relation with the clients and also show that Cigniti is providing enough value towards their business objectives.

Moderator: Thank you. The next question is from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: I had a few questions. One is that this year if you see we have done like about $29 millions in terms of USD revenues for the last four quarters. Now from here on how do you see the growth rates in terms of revenues? That was my first question. My second question is that the EBIT margins reported a decline, so on a full year basis we reached our 16% EBITDA margin target. Now from here on how do you see the EBITDA margins panning out? And lastly in terms of the tax rate we have got the benefit from tax refunds and I guess losses of the earlier years. Now from now on for FY20 what would be effective tax rate?

Srikanth Chakkilam: For the first part growth, I have already answered to Darshan we do not give guidance, but we are focusing on the organic growth in terms of chasing high potential strategic accounts. That is how we are approaching growth. In terms of the EBITDA, falling EBITDA we expect the EBITDA to move by about 100 basis points for the coming year.

Neerav Dalal: From the current level or from the FY19 level?

Krishnan Venkatcharay: I am talking about the FY19 levels clearly.

Neerav Dalal: Okay so 16% to 17% that is what you?

Krishnan Venkatcharay: Absolutely and in terms of the taxation we shall continue to enjoy barring the refunds or whatever that has been reversed out during the beginning of the year we will continue to enjoy the concessional tax rate in terms of MAT at about 22% for the current year as well for the financial year.

Neerav Dalal: Okay so 22% is what you would be looking at. And then in terms of the top lines what is the client metrics at the moment and of that what would be the repeat business that you would start FY20 with?

Srikanth Chakkilam: Well that information I cannot give the guidance. But majority of the business would be retained and, our focus is on the top 20 accounts to try and grow that percentage beyond what it is today.

Krishnan Venkatchaary: Here is just a supplement the answer what Srikanth has given. The top 20 accounts have contributed about 47% and it is healthy and the trend continues. There will not be any composition mix; we see the top 20 growing stronger from here. And in terms the carry forward revenue we have discussed about 16%, 17% in terms of the churn rate. Barring that I think we will have the continuity of the revenue coming through.

Neerav Dalal: So if I were to put it the other way, FY19 you would be have done say about $117 million, $118 million of revenues, about 70%, 80% would be repeat and new business would be say 20% of this?

Krishnan Venkatachary: As a combination. If you look at for 2018-19 new business has contributed about 13% and 87% has been the repeat business. For this year we were planning to improve the contribution from new business but as the market shapes up we will be coming out and talking on that.

Neerav Dalal: Okay and in terms of the EBITDA margin you said you would see an improvement, what would drive that improvement because I believe next year you will have the wage hike impact and you are actually starting at a lower base, I think there is still delivery issues in the US. So how do you plan to move from this 14% to 18% on a full year basis?

Krishnan Venkatachary: Thanks, I think a good question .I think delivery in terms of the people or whatever it is it is an universal issue, but how do we address the issue basically is that we are trying to do a pyramid mix and we have been fairly successful in converting it in this quarter. Also it will happen in the coming quarters with the induction of lot of freshers coming through. That’s one thing.

The second is the encouraging trends between 2017-18 to 2018-19 if you see our resource mix where we have been able to give a stable shift towards offshore and my offshore has shifted from 65% to 71%. We are in the last two quarters so this will start contributing to my margin. So invariably these are the two factors and while the utilization remains constant at about 85%, 86% I am very confident that it will be able to contribute to the margin.

Neerav Dalal: Right and finally if we see the SG&A, SG&A was averaging at about 24%, 25% for the last four quarters and which has inched up to 27% in this quarter. So how do you see this SG&A moving, do you see leverage in here or do you see no absolute increase in the SG&A cost going ahead?

Krishnan Venkatchary: We expect the SG&A in terms of cost to remain more or less absolute because the investments have taken place and with the push up of revenue the percentage will drop down. And we do not any anticipate any extraordinary expenditures coming through in SG&A to really shape up.

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

Mohit Agarwal: I wanted to get two things. One is on the overall services that we are offering, is there a breakup to know how much of this is coming from the new age offerings which is the digital transformation based services, and what kind of growth are you looking at within that bucket going forward?

And the second question is on the billing model. In terms of billing model, is it primarily T&A mode of fixed price basis if you can give us some color on what kind of breakup you have on the billing model for the business?

Srikanth Chakkilam: Okay so for the first part, the new age business I was talking about some of the trends earlier which is automation, DevOps and AI. So almost every new project that we take up, so let us talk about Automation, it is Automation in QA, it is there in every single project. All the new business has some level of automation. In that I would say about 30% would have some level of IoT or AI or some of the New Edge technologies that we are talking about and in terms of the second part, I would say 97% of our business model is T&M and about 3% is fixed.

Mohit Agarwal: Just one question on the New Age business offering follow on question. You know the industry is growing at about 25% to 30% on this segment of the business compared to the traditional offering. So from our perspective, how are we structured on the growth and any color on what is the percentage of revenue in today's standing as to how much are we getting from the digital and the new generation offering?

Srikanth Chakkilam: I can give you a segregation possibly in the next call but in terms of building capabilities and in terms of the case studies and stories that we have built in the New Age we have quite compelling stories in the ISP space and in the Airline space and also in the manufacturing space when it comes to digital IoT and AI. We are actually doing some cutting edge work in this space and have invested in infrastructure and Robotics Lab, a performance testing lab and also a large mobile devices lab to aid our digital initiatives.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Just one thing you said that the growth margins in this quarter was impacted because you hired some consultant in anticipation of growth and it got shifted. Just wanted to understand what was the reason for this delay in contract, is it to do at a client end or is it more on the fact that we were not able to hire people on time?

Krishnan Venkatachary: It is more to do with the client end.

Ashish Agarwal: So do you expect this growth to come back from Q1 or is that got delayed for a longer period of time?

Krishnan Venkatachary: No, it will come from Q1.

Ashish Agarwal: And can I ask you the reason for this delay, was it a compliance related issues or client was not there?

Krishnan Venkatachary: No, nothing from our side, it is something to do from the client's side.

Moderator: Thank you. The next question is from the line of Virendra Varma from Intesa Royal. Please go ahead.

Virendra Varma: If you can give an outlook on the independent software testing market for FY20 especially in the backdrop, like yesterday Cognizant had give out with a pessimistic outlook?

Srikanth Chakkilam: Sorry?

Virendra Varma: If you can give an outlook on the software testing market not for Cigniti alone but as a whole like what is the outlook, what is the growth rate, what are the segments where you see a good growth?

Srikanth Chakkilam: Well, I mean I have not read the outlook from the company that you are talking about. But in our experience and according to independent analyst's reports, this is an industry that has been growing and continues to grow. It is a $50 billion industry and with all the New Age technologies with so many devices filtrating into the market quality assurance, quality engineering has become a board room issue.

People can no longer ignore aspects of quality before they release a product or an application to the market. It has direct impact on revenues, sometimes machine critical and sometimes life threatening if the quality of a product is not up to the mark. And like I mentioned, it has become a board room issue and CXOs have had to apologize or in some cases resign from their positions because of bad quality of their applications or their products. So we continue to see a positive outlook for this industry.

Moderator: Thank you. The next question is from the line of Kiran M, an individual investor. Please go ahead. As there is no reply from the current participant, I have muted the line. As there are no further questions, I would now like to hand the conference over to Mr. Srikanth Chakkilam for closing comments.

Srikanth Chakkilam: Thank you everyone for participating in this call. I look forward to speaking to all again in the next con call for the next quarter.

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.