Coforge

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Operator: Good day, ladies and gentlemen, and welcome to the Coforge Limited Q4 FY26 earnings conference call. All participants will be in the listen-only mode. We will open the floor for questions post the management's opening comments. Please note that this conference is being recorded. Joining us today from the Coforge leadership team are Mr. Sudhir Singh, CEO; Mr. John Spate, President and Executive Director; Mr. Saurabh Goyal, CFO; Mr. Lalit Wadhwa, CTO; and Mr. Vic Gupta, Head of AI Practice. Before we begin, please note that some of the statements made in today's discussion relating to the future should be construed as forward-looking statements and may involve risks and uncertainties. Please refer to the disclaimer to this effect in the company's Q4 FY26 earnings press release. With that, I now hand the call over to Mr. Sudhir Singh. Over to you, sir.

Sudhir Singh – CEO: Thank you. Good evening, and thank you for joining us today. Please allow me to start the call off today with a quick reflection. This month marks the beginning of my 10th year at Coforge. It will also mark the 10th year since John, Saurabh, Madan, Vic, and I started the turnaround at Coforge. We were a $400 million firm when we started nine years back. We hope to close this, the 10th year of our turnaround story, with the firm having grown almost seven times in just 10 years.

The turnaround of Coforge has been driven by an execution intensity that is uniquely our own, and also by an insatiable hunger to make a mark on the industry. Today, as we look at FY27 and beyond, that execution intensity remains undimmed. Our hunger for growth remains unquenched. Our margins are poised to take a big step up starting FY27, and we believe that our growth story is not even half done.

During these last nine years, we have, as a team, delivered a revenue CAGR over nine years of 21.7%, an EBIT CAGR of 24.6%, a PAT CAGR of 24.1%, an EPS CAGR of 22%, and a free cash flow CAGR of 19%. There is no firm in our industry that can present metrics at that level for the extended nine-year period that we have.

During these nine years, there were periods when we made contrarian bets and shared positive contrarian growth outlooks even when the macros were bleak on calls like these. We have proved each one of those contrarian bets and backed each one of our guidance statements, ensuring they came true based on our subsequent performance.

Illustratively, five years back when COVID struck, we shared that despite our material exposure to the travel vertical, we would grow smartly in that year itself, at a time when our peers were projecting declines on account of COVID. And we did grow, and handsomely at that.

Again, two years back on a call like this, when we acquired Signity, there were concerns that a publicly listed testing services firm with a 12% EBITDA would kill the Coforge growth story. However, two years later, that portfolio operates at a 19% EBITDA, and the growth of the constituent clients that came into Coforge from Signity has exploded on the back of very effective cross-sell. The top two clients of Signity that offered $25 million to $30 million revenue per year when we acquired them two years back have scaled up to $75 million per year collectively.

I say this because as you hear our commentary today, and as you reflect on what we share by way of our expected performance trajectory going ahead, we would urge you to please remember that

we are the team that has delivered unfailingly for nine years on all plans that we have shared with you. We have every intention of fulfilling all outlook commentary that we share today with you on this call.

With that preamble, I shall now cover our performance for Q4 and FY26. Last quarter, during our Q3 results call, I shared that we believed we were on course to close a very successful FY26, and that we were headed for an exceptional FY27. We are pleased to report that FY26 has panned out as indicated, and equally importantly, FY27 too is poised to deliver on that promise of exceptional performance.

Moving on to the annual performance review, I am pleased to share that FY26 was a very successful year for the firm. The firm grew 29.2% in US dollar terms. We signed 21 large deals through the year, with 11 of them coming through in the second half of the year. The quality of our growth was remarkable, in that all our key industry units grew strongly through the year, and the growth was led by our top 10 and top 20 client relationships.

The reported EBITDA of the firm grew by 370 bps in FY26 over FY25. Beyond these immediate metrics, the real highlight of FY26 has been the quiet, yet vital work done at our back end to truly automate and AI-enable our processes and functions, and to reshape and right-size our delivery and G&A organizations. That quiet effort, unshared until now, has now structurally reset the margin profile of Coforge for FY27 and beyond. Coforge was always an industry leader on the revenue growth front, yet our EBITDA and EBIT numbers were middle of the pack. Starting in FY27, which is this year itself, we believe we will, along with retaining revenue growth leadership, emerge as one of the highest EBITDA and EBIT performers across the mid-cap segment.

Moving on to the quarterly performance review, the quarterly sequential constant currency (CC) growth revenue growth of 2% in Q4 followed the sequential CC growth of 8%, 5.9%, and 4.4% recorded between Q1 and Q3. The Q4 year-on-year growth rate was 21.2% in US dollar terms. Free cash flow (FCF) to PAT for the quarter came in at 110%, significantly ahead of our guidance of around 70% FCF on a sustained basis. I would like to draw your attention to the fact that Q4 FY26 EBIT of the firm is 16.6%, while it was 12.3% in the same quarter a year ago.

More detailed revenue commentary is as follows: in Q4 FY26, the firm registered a sequential revenue growth of 2% in CC terms, 1.7% in US dollar terms, and 5.2% in INR terms. For the year, we have grown 29.2% in dollar terms. Our ability to grow at this rate in a very challenging environment is driven by our ability to increase wallet share, particularly across our key accounts. An exceptional market-based industry solutioning and AI specialist cadre drives this by staying laser-focused on continually crafting business solution-led proactive deals and solutions. 21 large deals in FY26 is reflective of the success of that engine.

In FY26, in US dollar terms, the healthcare and hi-tech verticals grew by 98%. The travel vertical grew 62%. The BFS vertical grew 12%. Government outside India grew 17.5%, and other emerging verticals, which include retail and manufacturing, grew 27%.

Our key accounts drove significant growth this fiscal, outpacing the broader business. The top five accounts of the firm grew 45.8% year-on-year in US dollar terms, and accounts ranked six through ten grew at 30%. Collectively, these 10 accounts contributed 30.8% of total revenue and grew at

40.4%. The top 10 clients are spread across industries; five are BFS clients, three are travel clients, one is an insurance client, and one is a public sector client.

On an annual basis, Coforge now has one client with revenue greater than $100 million, three clients with revenues between $50 million to $100 million, nine clients with revenues between $20 million to $50 million, 23 clients with revenue between $10 million and $20 million, 42 clients with revenue between $5 million to $10 million, and 167 with revenue between $1 million to $5 million. This client set's addressable wallet is going to expand now that the Encora integration is complete.

Order intake in Q4 was very strong from both a volume and large deal closure perspective. During the quarter, we signed five large deals. The total order intake during the quarter was $648 million. The executable order book, representing the total value of locked orders over the next 12 months, stands at a record $1.75 billion. This number is 16.4% higher than the same period last year. This figure does not include the impact of framework agreements that we have already signed and are nearly assured revenue streams for FY27 and beyond. We expect revenue realized in FY27 from those signed framework agreements not accounted for in the signed order book to also be material.

On the people front, our total headcount at the end of Q4 stood at 35,777. We saw a net addition of 436 people during the quarter. Utilization stood at 82.5%, and last 12-month attrition remains one of the lowest in the industry at 10.8%. We remain one of the lowest attrition firms across the sector. With those remarks, I shall now hand over the call to our CFO, Mr. Saurabh Goyal.

Saurabh Goyal - CFO: Thank you, Sudhir. I would like to begin with two accounting matters that impacted the financials in the current quarter. Effective FY26, realized gains and losses on cash flow hedges are reported under other income/expense within forex gain/loss. Earlier, they were adjusted to revenue. The change aligns our presentation with peer practice and isolates revenue and EBIT margin from currency fluctuation. Profit before tax and profit after tax are unchanged. All comparatives have been restated, and reported revenue and EBIT margins reflect this change.

The second accounting matter relates to the reversal of deferred tax liability due to the Signity merger. Following the implementation of the Signity amalgamation scheme in FY26, deferred tax balances on the merged entity were re-measured. A deferred tax liability of approximately 181 crores has been reversed and credited to the provision for tax in Q4 FY26. This adjustment resulted in an effective tax rate (ETR) for the quarter of negative 7%. The normalized effective tax rate for the quarter is 22%. The reported ETR for the year is 13%, while the normalized ETR for the year is 23%. This is a non-cash, one-time benefit. Cash taxes paid in Q4 remain unchanged. Steady state ETR guidance for FY27 is between 23-24%.

Moving to margins, in FY26, EBITDA expanded to 30,464 million rupees, up 77% versus the previous year. EBITDA margins came in at 18.6% compared to 14.3% a year ago. EBIT expanded to 23,645 million rupees, up 83% versus the previous year. EBIT margin came in at 14.5% compared to 10.7% a year ago. More important to note is the Q4 exit rate of EBIT margins. EBIT margin came in at a record 16.6%, up 231 bps quarter-on-quarter, driven by the following tailwinds: SG&A leverage contributing 100 bps; foreign exchange fluctuation adding 80 bps; direct cost reduction due to third-party costs adding 50 bps; and lower marketing spend adding 40 bps.

Lower ESOP costs added 20 bps in the quarter. This was partially offset by the headwind related to provisions we made for certain doubtful debts to the extent of 60 bps. Moving to cash flows, FY26 FCF of $135 million experienced a 68% year-on-year increase. In FY25, this metric was $80 million. The quarterly phasing of free cash flow was negative $21 million in Q1, $37.5 million in Q2, followed by $45.7 million and $73.7 million. The Q4 FCF of $73.7 million marked the highest quarterly FCF recorded. Net cash improved to $117 million from $93 million year-on-year, despite a $36 million reduction in a working capital line and paying dividends of $61 million. The Q4 FCF to PAT ratio incorporates the impact of the DTL reversal from the Signity merger. On a normalized basis, Q4 FCF to PAT is 156%.

Looking ahead, we anticipate FCF to PAT to be maintained at 100% from FY27 onwards, in contrast to our earlier guidance of 70-80%. In summary, FY26 witnessed significant improvements in all financial parameters. Revenue grew 36% in INR terms, EBITDA grew 77%, EBIT grew 83%, PAT grew 92%, and FCF grew 68%, resulting in structural profitability and cash flow enhancement. With Q4 FY26 EBITDA margins at 20.5% and EBIT margins at 16.6%, we are confident of achieving EBITDA margins of 20.5-21% in FY27 on a consolidated basis, which includes Encora, and EBIT margins of 16.5-17% on a standalone basis (excluding Encora), and 15.5% on a consolidated basis. This increase is driven by: adoption of AI at scale in delivery and functions; G&A synergies of 20-25% from the Encora acquisition; and the planned closure of a 20 million dollar low-margin portfolio in our India business. With this, I hand back to Sudhir Singh.

Sudhir Singh - CEO: Thank you, Saurabh. Mr. Lalit Wadhwa, Chief Technology Officer, who joined us as part of the Encora merger, and I shall now share our plans regarding the AI imperative. These are exciting times. In our industry, labor by default has been disrupted and is being replaced by AI-native process redesign and domain-specialized agents. We are moving from a world of IT delivery to one of business orchestration. As this happens, firms engineering outcomes for customers are compounding, while firms only billing hours are getting left behind. Just as the advent of cloud created downstream opportunities, AI is creating new value pools. As agentic systems rise, there is a growing need for tech firms to help clients with: AI-ready data pipelines; agent lifecycle management; and recurring high-margin managed services to monitor models and govern agents.

We believe there are six moats that will define winning firms in the AI space. Coforge has built proprietary assets to back each of them. Moat one is deep domain expertise. Horizontal AI skills will commoditize quickly. Generic AI is a commodity, while applied AI is a clear differentiator. We are driving specific knowledge of business context and workflows. With more than 150 scaled AI engagements completed across BFS, Insurance, Travel, and Healthcare, this is an agenda we are pushing. The second moat is strong client intimacy. AI will never commoditize relationships; trust and proximity still shape demand. Moat three is reinvented delivery models that orchestrate humans along with AI agents. Our hybrid AI Mod Squads are unique delivery units comprising AI agents and specialists, driving 40-50% faster time-to-market.

Moat four is agility at scale, including internal adoption of agentic AI. Moat five is a scalable AI platform. Coforge's One AI platform is a composable agentic AI platform with over 100 domain-specific solutions. Finally, moat six is an AI-enabled workforce. We have over 30,000 AI-trained staff and more than 11,000 data and AI practitioners.

These assets enable us to capture five growth vectors. Opportunity one is Mod Squad monetization via outcome-priced pods. Opportunity two is upstream advisory for multi-modal AI strategy. Opportunity three is brownfield modernization via proprietary platforms like Coforge Quasar AI, delivering over $40 million in client savings. Opportunity four is AI-led engineering transformation, and opportunity five is the agentic AI platform opportunity, redeploying engineers to agentic orchestration—the highest margin work.

We are also eating our own cooking. On the SDLC front, we are driving 25-35% productivity uplift in development, 40-60% in code generation, and up to 10 times faster modernization. In internal operations, we use AI to drive 40-60% lower effort on financial analysis and 30-40% lower screening costs for recruitment. The market is recognizing this with over 25 AI recognitions from firms like Everest and HFS. I will now hand over to our CTO, Mr. Lalit Wadhwa.

Lalit Wadhwa - CTO: Thank you, Sudhir. Most enterprise AI pilots never reach production because of gaps in surrounding architecture. We close this gap with a reference architecture designed for production-grade behavior and a delivery model leading with business outcomes. Our reference architecture enforces deterministic guardrails around probabilistic LLM outputs, solving failures like hallucinated domain logic.

The architecture has three layers. The top is the business architecture layer (goals and operating model). The middle is the Decisioning Atlas, our proprietary asset that enforces domain-specific reasoning chains with knowledge graphs. The bottom is a composable AI backbone, swappable with hyperscalers or sovereign AI clouds. We operationalize this with our AI Mod Squads and Forward Deployed Engineers (FDEs). We implement agent harnesses with a RALF loop—planner, generator, and evaluator agents tied with anti-hallucination patterns.

To contextualize, for a large Tier 1 bank, we executed an AI-led COBOL to Java 21 modernization of 11,000 lines of mainframe code in half the time requested. Our decomposition agents reverse-engineered legacy logic directly from source artifacts. In another example, a large group insurance provider deployed architecture on Azure with Trust AI, using Model Garden to abstract multi-LLM routing. The combination of FinOps and increased throughput resulted in productivity benefits of 40% and velocity gains of 50%. The path from pilot to production runs through architecture and delivery. I'll pass it back to you, Sudhir.

Sudhir Singh - CEO: Thank you, Lalit. Finally, for the outlook section. The deflationary argument assumes code generation is the entire job. It is not. AI-generated code is cheap to build but expensive to own, secure, and maintain. Agentic AI will create a massive managed services layer. Someone must monitor models and ensure governance. That is a recurring revenue stream for firms that can seize it.

Coforge has no bloated delivery pyramid to manage. Every AI advancement accelerates our growth. We are positioned for the near-term modernization surge, the medium-term agentic deployment wave, and the long-term expansion of the global technology market. We plan to compound our success by focusing on AI transformation pipelines, expanding our AI client base, scaling vertical agentic workflows, and upskilling 100% of our workforce.

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FY27 is shaping up to be an exceptional year. We believe revenue growth will be robust. We are confident of achieving an EBITDA margin of 20.5-21% in FY27 on a consolidated basis. EBIT margins are expected to be 16.5-17% on a standalone basis and 15.5% on a consolidated basis. We believe FCF to PAT metrics going forward will be 100% plus. That concludes our prepared remarks.

Operator: Thank you very much. We will now begin the question and answer session. We take the first question from Abhishek Pathak of Motilal Oswal. Please go ahead.

Abhishek Pathak - Motilal Oswal: Congratulations on a good quarter. If I apply a conservative revenue conversion multiple to your 12-month forward executable order book, I arrive at a very punchy FY27 growth number of almost 18-19%. Does the previous 1.3 to 1.4 multiple still hold? Should we assume a different conversion rate depending on global macros or AI deflation? Also, how much of the EBIT margin upgrade is due to internal AI usage versus better pricing from agentified solutions? And finally, what prompted the hedge book reclassification change?

Sudhir Singh - CEO: Regarding revenue, last year we indicated robust growth and delivered 29.2%. This year, our intent is again to deliver robust growth. In this challenging environment, our confidence is high that we will deliver industry-leading growth. For EBIT, the reset in Q4 is structural. It comes from automation and AI-led interventions and a conviction that G&A costs must be held constant in absolute terms.

Saurabh Goyal - CFO: On the hedge front, we worked with our auditors to align our reporting with market peers. If you add back hedge losses against revenue in the current quarter, EBIT margins were 15.2% against our guide of 15%. The improvement is operational.

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

Sulabh Govila - Morgan Stanley: Last year we had a tailwind from a mega deal won in March. This year, without that level of tailwind, how should we expect the growth cadence between the first and second half? Also, can you provide color on the framework agreements? Finally, what are the drivers for the increase in FCF to PAT guidance from 70% to 100%?

Sudhir Singh - CEO: Our tailwind this year comes from framework agreements signed but not recognized under the order executable. These are agreements where the MSA does not spell out a specific amount, so we don't add them to the order book yet. One material engagement is signed, and others are in the final stages. Our confidence also comes from a balanced portfolio; travel, healthcare, banking, and insurance are all moving in the right direction.

Saurabh Goyal - CFO: On free cash flow, the rigor we've brought into collections, managing payables, and structuring contracts gives us confidence that 100% is the bare minimum FCF to PAT for FY27.

Operator: Thank you. We take our next question from Vibhor Singhal of Nuvama Equities. Please go ahead.

Vibhor Singhal - Nuvama Equities: You mentioned AI code is cheaper to write but expensive to maintain. Do you believe this AI opportunity will lead to an overall expansion for the industry,

perhaps exceeding the current $250 billion size? And in the digital/cloud cycle, Tier 1 players captured the bulk of the opportunity. Will mid-tier players like Coforge be the primary beneficiaries this time due to their current size and agility?

Sudhir Singh – CEO: The AI opportunity is multifold. We see a near-term modernization surge and a building agent deployment wave. Firms that ride these waves will do well. There is a clear need for AI-ready data pipelines and agent life cycle management.

Vic Gupta – Head of AI Practice: Our clients face application entanglement and integration problems. Every Fortune 1000 company needs to agentify workflows while integrating with systems of record. We are nimble and have greater client intimacy, which helps us deliver value through brownfield modernization.

Vibhor Singhal – Nuvama Equities: Regarding the travel vertical, with current geopolitical tensions and crude prices, do you foresee headwinds? And for Saurabh, can you quantify the India business we are discontinuing?

Sudhir Singh – CEO: The travel vertical continues to do well. Regarding Spirit Airlines, the impact is negligible—about 10 bps of budgeted revenue for FY27. We expect to be flattish in Q1 due to discontinuing the low-margin India portfolio but will return to a fast growth trajectory from Q2 onwards.

Saurabh Goyal – CFO: The discontinuation will impact revenue by roughly $15 million to $20 million in Q1. Other deals in the order book should nullify this, leading to a flattish quarter on a reported basis. The 150 bps margin gap for FY27 between standalone and consolidated is due to Encora amortization, which is roughly $40 million a year.

Operator: Thank you. We take the next question from Deepesh Mehta of MK Global. Please go ahead.

Deepesh Mehta – MK Global: What are the hedge losses sitting in OCI? Also, regarding the framework agreement, how should we understand its conversion into the order book? Lastly, BFS remained softer than the company average. What is the outlook for BFS growth?

Saurabh Goyal – CFO: The hedge loss in other income was 164 crores for the year and 70 crores for the quarter. I will get back to you on the specific balance sheet OCI number.

John Spate – President: Regarding the framework deal, it is typical for the UK public sector. We were awarded a $150 million plus deal over 5 years. It is a sole award to Coforge with an expected run rate of $4 million to $5 million per quarter via multiple work orders.

Sudhir Singh – CEO: For BFS, we grew 12% in a tough year. We expect performance to improve in FY27 over FY26.

Operator: Thank you. We move to our next question from Ravi Menon of Axis Capital. Please go ahead.

Ravi Menon – Axis Capital: Could we see near-term revenue headwinds in the product engineering side, particularly with Encora and smaller SaaS companies adopting AI for coding? Also, what do we need to do to move FCF conversion toward "best in class"?

Sudhir Singh – CEO: No, we do not expect headwinds. The high-tech business at Encora is under new leadership and we expect it to grow handsomely through FY27.

Saurabh Goyal – CFO: On FCF, it is a gradual step up. We are focusing on profitability and cash flow. In a couple of years, you will see this move towards 110-120%. ESOP costs will stay around 0.8% of revenue.

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

Sandeep Shah – Equirus Securities: Relating to the UK framework deal, will that $4 million to $6 million additional revenue start flowing from Q1? And Saurabh, what led to the capex inflow in the cash flow statement?

Sudhir Singh – CEO: Yes, revenue starts in Q1. The $150 million deal is signed, and we have a strong conviction for more following our success in Scotland and elsewhere.

Saurabh Goyal – CFO: The cash inflow is from the sale of assets pertaining to an AI-led data center we built in Q1, which were bought back by the client. Regarding the India business, it generated about $40 million last year; we are closing it to structurally reset our margins. For minority interest, it will decline from 54 crores per quarter to about 9 crores starting Q1 as share allotments to Signity shareholders finalize.

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

Kawaljeet Saluja – Kotak Securities: For Sudhir, the banking vertical revenues have been stagnant for five quarters. Is it due to clients expanding captives? And for Saurabh, does the $550 million loan need hedging against rupee depreciation?

Sudhir Singh – CEO: The slowdown in BFS was due to one top-three banking client that did not grow. We have refactored our engagement there and expect significant growth in FY27. It was not related to captives.

Saurabh Goyal – CFO: We have a natural hedge because our receivables in India are in dollars, which matches the dollar loan liability. This is why cash flow hedges have declined. The current mark-to-market hedge loss is roughly 140 crores to 150 crores, which should taper off by Q3.

Operator: Thank you. That was the last question for today. I now hand the call back to Mr. Sudhir Singh for closing comments.

Sudhir Singh – CEO: Thank you. We appreciate your time and the insights shared. These are exciting times, and we look forward to delivering on the outlook shared today. Thank you once again.

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Operator: Thank you. On behalf of Coforge Limited, that concludes today's call. You may now click on the leave icon to exit the meeting. Thank you for your participation. Goodbye.

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