Coforge

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Operator: Ladies and gentlemen, and welcome to the Coforge Limited Q1 FY27 earnings conference call. All participants' lines 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, and Mr. Himanshu Sarda, AVP, Investor Relations. 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 Q1 FY27 earnings press release. I now hand the call to Mr. Sudhir Singh. Over to you, sir.

Management: Thank you. And a very good morning and evening, ladies and gentlemen. Thank you for joining us today. Please allow me to start today's call with a quick reflection and a recap. This, ladies and gentlemen, is the 10th year that the current management team at Coforge has been at the helm. Nine years back, what was a $400 million revenue organization when we took over, is poised to close the current year having grown almost 7 times in just 10 years. As you listen to our Q1 commentary and the very robust growth and margin expansion we see ahead of us in this year, we hope you will recognize that the execution intensity and the commitment that has got us here over the last 9 years is not just undimmed, but it is actually getting stronger.

Over the last 9 years, we have delivered a revenue CAGR of 21.9%. Over the same 9 years, we have delivered an EBIT CAGR of 24.6%, and we have delivered a PAT CAGR of 24.1%. That is an exceptional record of sustained profitable growth. And yet, that is the past. It is the future which is far brighter. And it is the future which in the short term looks set to mark Coforge out as the firm which truly brought the promise of enterprise AI to life. Our pipeline of large deals in Q2 and beyond has never been stronger than it is today. In Q2 itself, the quarter we are in, one month has elapsed, and we believe that we are likely to sign large deals in numbers that will be very close to what we signed in the full year just 3 years back.

You will recall in Q1 we had indicated that we were set for a flat quarter because we were culling elements of our India government and data center business to ensure that we deliver on our promise to expand reported FY27 EBIT to 15.5% on a consolidated basis and reported FY27 EBITDA to around 20.5% for the year. We are pleased to report that not only have we exceeded the full year EBIT margin target in Q1 itself, but that we have also grown 1.1% CC sequentially. Excluding the impact of the businesses that we culled in Q1, we have grown almost 5.2% CC in sequential terms in Q1. Our growth in Q2 and beyond is likely to be very robust, and our margins having reached this threshold already will sustain at a minimum and likely expand further.

In Q1, 86% of our business came from AI-led engineering, data, and cloud services. Equally importantly, in Q1, the Encora acquisition was consummated using the proven Coforge integration playbook, which is uniquely our own. We immediately and fully integrated both organizations on Day 1 itself, on the 24th of April. As part of our playbook, we parted ways with leaders running the acquired firm on Day 1 itself, so we had immediate and complete effective control. Today, on July 28 in India, all aspects of Encora operations for the last 3 months are being overseen by Coforge leaders who led the Encora due diligence effort. We are ahead of the cost synergy plans we had shared as part of the acquisition case, and this is reflected in the fact that our consolidated reported EBIT margin in Q1 is already at 16%, while our consolidated EBIT plan for FY27 that we had shared with you was 15.5%. At this time we know that Encora will create exceptional business value and synergy, in line with what Cigniti, SLK Global, and Incessant did.

Excluding one-time exceptional costs, EPS for the quarter was 13.30 compared to 13.80 in the previous quarter. This performance is particularly noteworthy given the 25% increase in our equity base following the Encora acquisition and the incremental interest cost associated with the acquisition financing. As we had guided earlier, we remain on track to be EPS accretive in FY27 following this acquisition.

Before I get into the detailed commentary, let me talk a little bit about how we are moving enterprises from AI adoption to what we call enterprise autonomy. Let me also reflect on the next wave of AI-driven opportunities for our industry. We believe that the AI-driven disruption will create select, yet outsized winners. The new AI-driven world demands that our industry pivot itself from operating on a scale of people to a scale of intelligence. The AI conversation has changed. A year ago enterprises were asking how do we deploy AI? Today they are asking how do we operationalize it, how do we govern it, how do we scale it, and how do we turn it into measurable business outcomes? This shift, which is creating the next wave of opportunity for our industry, is what we at Coforge call the shift towards enterprise autonomy. We believe this next phase of AI will not be won through access to models. Every enterprise will have models, clouds, and agents. The differentiator will be applied AI grounded in the business context. It will come from operationalizing intelligence across the enterprise. It will come in the form of AI that works inside real, complex enterprise environments. That is where value is moving and that is where we are focused. This is why we built Coforge Neuron.

Neuron is our AI operationalization platform. Its purpose is simple: to help enterprises move from AI pilots to AI operations. It brings together enterprise knowledge, decisions, workflows, governance, agents, and execution so AI can operate at enterprise scale. Neuron is not another model, co-pilot, or agent marketplace. It is the operating layer that helps enterprises move from experimentation to production. We are backing this vision with meaningful investment. Today Coforge has more than 11,000 data and AI practitioners, 8 AI platforms, 22 AI assets, and over 100 reusable AI agents and accelerators. During FY26, we invested approximately $58 million in AI innovation. Furthermore, approximately 30% of our active engagements already leverage AI within delivery workflows. These are not future ambitions; these are capabilities we are deploying today.

In terms of evolution of the delivery model, technology alone is not enough; the delivery model must evolve as well. That is why we have combined Neuron with forward-deployed engineers, with mod squads which are hybrid agent-human pods, and with reusable AI assets. The traditional model was built around effort; the emerging model is built around outcomes. In this context, what makes Coforge different is straightforward. We are not competing on model ownership, and we are not trying to be an AI infrastructure company. Our advantage is applying AI inside complex industries where domain knowledge, execution discipline, governance, and measurable outcomes matter most. We know the industries, our workflows, and what it takes to move AI from ambition to execution. We believe the next wave of enterprise value creation will come from operationalizing intelligence across the enterprise, embedding AI into decisions, workflows, and operating models. That is the journey Coforge is enabling through Neuron.

Moving on now to revenue commentary, consolidated revenue for the quarter stood at $592.2 million. In Indian Rupee terms, revenue stood at 55,277 million. I want you to recognize that these figures include only 2 months of contribution from Encora, with revenue starting May 1 and not April 24. Revenue excluding Encora grew 1.2% sequentially in CC terms. If we take out the impact of the government and data center businesses that we culled in the quarter, the rest of our business grew 5.2% CC sequentially in Q1. Our consolidated revenue on a year-over-year basis in dollar terms has grown 33.3%, and sequentially, it has grown 21.1%.

On an organic constant currency basis, Banking and Financial Services grew 2.9% sequentially and now contributes 24.7% of consolidated revenues. Insurance grew 4.6% sequentially and contributes 13.6%. Travel, Transportation, and Hospitality grew 1.7% and contributes 21.3% overall. Healthcare and High-Tech grew 11.6% sequentially and contribute 17.3% to our revenues. Government outside India contributed 6%, and Others, now at 17.1% of revenue, declined 8% following the planned portfolio exits.

From a geographic perspective, organic growth was led by Europe and the Americas, which grew 8.4% and 3.5% sequentially in CC terms. The Rest of the World segment contracted 22%, reflecting the impact of the portfolio exits across the India government and data center business. AI-led engineering, data, and cloud services together contributed 86% of consolidated revenue during the quarter, ahead of the 80% share we indicated when we announced the Encora transaction. AI-led engineering remains our largest revenue contributor at 50%, followed by data services at 21% and cloud at 15%. The addition of Encora has further broadened our client portfolio. Coforge now has 1 client with revenue greater than $100 million, 3 clients between $50 million and $100 million, 14 clients between $20 million and $50 million, and 29 clients between $10 million and $20 million. Our top 5 clients contributed 18% of Q1 revenue, and contribution from our top 10 clients stood at 26.1%. During the quarter, we signed 4 large deals. As I noted, in Q2, we expect to sign more deals in terms of numbers than we possibly ever have in our history. Total order intake during the quarter stood at $691 million. Our next 12-month executable order book expanded to an all-time high of $2.23 billion compared with $1.55 billion a year ago. That's an increase of 44.2% year-over-year, which provide strong visibility for the year ahead.

Moving to our people metrics, total headcount at the end of Q1 stood at 46,228, reflecting a net addition of 10,451 employees during the quarter. This includes 9,256 colleagues from Encora who joined following the acquisition. On an organic basis, our workforce increased by a net 1,195 employees sequentially. Utilization remained healthy at 82.5%, and we are holding it there because we see significant growth ahead. Last 12-month attrition declined further to 10.4%, remaining among the lowest across the industry. With that, I now hand the call over to my colleague, Mr. John Spate.

Management: Thank you, Sudhir. I will now highlight the quarter's delivery and capability milestones. Across our client base, AI-native operating models are moving from ambition to production with AI-led conversations converting into large multi-year engagements. For a leading global financial institution, we are building its AI platform and agent ecosystem across the SDLC landscape with the potential to deliver more than 50% productivity gains. For a leading Latin American bank, AI-enabled mod squads now span engineering, testing, modernization, and business analysis, targeting a 30-50% increase in delivery throughput. For a leading Fintech, we modernized its

AI-based coding developer portal using reverse and forward engineering agents on GitHub Copilot and Claude Opus. For a leading wealth management firm, an AI-led framework accelerated API transformation by over 3 months. For a leading wealth and asset management platform, our AI-native advisor experience desktop powered by over 20 specialized AI agents is delivering more than 30% advisor productivity gains.

For a leading investment services institution, we are supporting an AI-led operating model transformation with 40% of portfolios transitioned in one year and delivery cycle times reduced by 80%. For a global travel technology leader, the mod squad model delivered 30% productivity gains and a 22% reduction in manual effort. Please also note that our cargo platform, Cosys+, went live for one of India's largest aviation hubs, extending its footprint to 20 airports globally. For a leading Australian medical indemnity insurer, we progressed a large-scale core platform transformation serving approximately 40,000 healthcare professionals. For a large specialty insurance provider, Code Insight AI was leveraged as part of a modernization program to migrate to Azure, reducing technical debt by 92% and delivering 99.93% field-level accuracy.

In life sciences, for a leading biopharmaceutical company, an agentic audit platform identified $4 million in saving opportunities at 95% accuracy. In manufacturing, our Code Insight AI platform modernized a global automotive manufacturer's legacy landscape, reducing documentation effort by 70%, modernization cycles by 50%, and operating costs by 35%. For a leading European client, we secured a 5-year, $230 million plus AI-led transformation program using low-code/no-code platforms and AI-infused SDLC. These successes were complemented by recognition as both a leader and star performer in the Everest Group Duck Creek Services PEAK Matrix 2026, and a leader in the ISG Provider Lens Duck Creek Services ecosystem assessment. With that, I will hand over to our CFO, Saurabh Goyal.

Management: Thank you, John. Q1 marks a strong start to FY27, with the combined organization delivering results ahead of the operational and profitability objectives. I will lead with key highlights of the quarter: revenue up 49% YoY, EBIT up 101% reflecting year-on-year margin expansion of 414 bps, PBT up 92% YoY, and PAT up 110% YoY. Q1 FY27 reported revenues stood at $592.2 million, including $100.7 million that came from Encora for 2 months. Consolidated EBIT margin came in at 16%; organic EBIT margin was 16.7%. Within its first quarter as a part of Coforge, Encora delivered an EBITDA margin of 20.3% and an EBIT margin of 19.1%, reflecting a rapid expansion of the integration playbook and realization of SG&A and operational synergies.

Coforge's reported G&A for Q4 was 6.7%, whereas Encora was at 10% when we announced the acquisition. The combined organization is now at 6.6% for Q1 FY27 from a G&A standpoint. This represents a reduction of 40% in Encora G&A. This is further going to improve in Q2 as a result of the full quarter impact of actions taken. The hedge losses incurred during the current quarter amounted to $10 million. Additionally, we have a mark-to-market loss of $14 million on account of outstanding hedges, which will be realized over the next two quarters. From Q4 onwards, we anticipate a positive impact of $10 million in our earnings as the hedge losses will be eliminated because of no open book beyond Q3. Exceptional and acquisition-related expenses were recognized to the extent of $6.5 million in the current quarter, compared to $5.4 million in Q4. We had guided for acquisition and integration expenses of $15 million, and we are going to remain well within that budget. We expect marginal integration costs in Q2 and then nothing from Q3 onwards.

The integration of Encora has progressed significantly ahead of plan. All 45 legal entities were migrated onto S4 HANA effective May 1, creating a unified operating environment from day one. Revenue recognition policies, planning systems, and performance management processes have been aligned. Based on the progress achieved to date, we remain confident of not only delivering, but surpassing the 15.5% consolidated EBIT margin guidance shared for FY27. Moving to cash flows, the combined organization generated a free cash flow of $52.9 million in Q1, representing an FCF to PAT conversion of 95.3% compared to negative 56.5% in Q1 last year. We remain confident of meeting the free cash flow to PAT guidance of 100% for FY27.

Moving to the balance sheet, as part of the Encora transaction, the company recorded approximately $480 million of customer relationship intangibles, which will be amortized over 12 years, resulting in a charge of $40 million per year. The accounting for the acquisition has been done on fair value of shares on the date of closing, which was 1,220 per share compared to 1,815 at the time of signing. This has resulted in lower goodwill on the balance sheet by $600 million. Regarding the term loan for the Encora acquisition, we had taken a term loan of $550 million. As of June 30, the term loan was fully drawn. The loan has a 3-year tenure and carries a post-tax interest cost of 2.99% per annum. The schedule of payments, including principal and interest, includes approximately $59 million in FY27, $209 million in FY28, $258 million in FY29, and a final tranche of $75 million in Q1 FY30. With this, I will hand over the call back to Sunil.

Management: Thank you, Saurabh. Summing up, FY27 is shaping up to be an exceptional growth year for Coforge despite the significant AI-driven flux. Not only do we expect to set the benchmark on revenue growth, but we also expect to emerge as one of the highest margin mid-caps across our industry. The exceptional AI-led engineering, data, and cloud services core, which contributes to 86% of our revenue, is what is helping us realize simultaneous growth across both revenue and margin expansion. As we had shared, for Coforge, the demand tailwind in the current environment is structural. We recognize that AI-generated code is cheap to build, but it is expensive to maintain, secure, and govern. We realize that agentic AI will create a massive managed services layer that will create recurring high-margin revenue streams.

Every AI advancement accelerates our growth. We are positioned for the near-term legacy modernization surge, the medium-term agentic deployment wave, and the long-term expansion of the global technology market. Our outlook for FY27 remains unchanged. We are confident of achieving an EBITDA margin of 20.5% to 21% on a consolidated basis. EBIT margins are expected to be in the range of 16.5% to 17% on a standalone basis and 15.5% or higher on a consolidated basis. Free cash flow to PAT for this year will be more than 100%. That was the end of the prepared remarks. We look forward to your questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from Sulabh Goel of Morgan Stanley. Please go ahead.

Sulabh Goel – Morgan Stanley: Hi, am I audible? My first question is on the fresh order intake number. How much is that driven by Encora compared to the core business? Also, we spoke about a UK deal last quarter that was outside the deal inflow. Is that now part of this fresh order intake?

Management: To your first question, the $691 million does not include the order intake from the Encora portfolio; that is only the organic piece from standalone Coforge. Regarding the framework agreement in the UK, that is still not included in the order intake. That will continue to come and sit on top of the order intake that we have already announced.

Sulabh Goel – Morgan Stanley: That is great to hear. My second question is regarding large deal expectations in Q2. Will those support growth rates in Q2 itself or will that be more of a Q3 phenomenon?

Management: We think Q2 is going to be a robust growth quarter, and everything needed for that is already in place. We have already closed some of these large deals in the first month of the quarter. Most of these will really start impacting Q3 onwards, yet Q2 should be very robust. As I stated, if you exclude the impact of the India government culling and the data center walk-away, even in Q1, we grew 5.2% CC sequentially.

Sulabh Goel – Morgan Stanley: Understood. Just one question for Saurabh on the net working capital and cash flow. The absolute number as a percentage of sales has shown an increase. Is that due to the consolidation of Encora or something more?

Management: The absolute increase is because of the consolidation of Encora, but the number of days has actually come down.

Operator: Thank you. Our next question is from Abhishek Pathak from Motilal Oswal. Please go ahead.

Abhishek Pathak – Motilal Oswal: Congrats on a good quarter. On Coforge Neuron and our mod squads, how are we monetizing these? Are they used as accelerators to win deals or as standalone offerings? Also, on our T&M versus fixed-price mix, the T&M piece has inched up. How does this reconcile with the move toward outcome-based contracts? Lastly, we are at 16% EBIT. Is it possible to sacrifice some margin to chase even more growth, or is expansion more organic?

Management: Neuron is effectively the operating system, layered by our AI platforms and 22 assets. While we cannot call out a standalone AI number, 86% of revenue in Q1 came from AI-led engineering, cloud, or data services. Regarding T&M versus fixed-price, about 6-7% of our global revenues are currently coming from outcome-based contracts. Regarding the trade-off between EBIT and growth, we believe strongly that solution-led selling does not warrant price discounting to accelerate growth. We feel assured we will set the benchmark for revenue growth while being one of the highest-margin mid-caps. Standalone Coforge for the quarter came in at 16.7% EBIT.

Operator: Thank you. Our next question is from Vibhor Singhal of Nuvama Equities. Please go ahead.

Vibhor Singhal – Nuvama Equities: Congrats on a solid performance. You mentioned enterprises are focusing on applied AI. We also hear about Small Language Models versus Large Language Models and token cost optimization. How do you see enterprise application adoption in AI leading for us? Is it similar to the 2018 cloud adoption period?

Management: Most enterprises are not tying themselves to a specific model or hyperscaler because access to models can change. As Coforge, we have introduced service offerings for token economics and SaaS-related security vulnerability assessments. Smart enterprises are increasingly focused on what they call enterprise sovereign AI, trying to bring data processing in-house with associated security and governance.

Vibhor Singhal - Nuvama Equities: Is there still an aversion to Chinese LLM models in Western markets?

Management: We are not working with enterprise clients in North America who are actively leveraging China-based models. I can echo that same comment across the UK and Europe. We have yet to have a client engage us using those models, though that may change with token economics, but we have yet to see it.

Vibhor Singhal - Nuvama Equities: For Saurabh, is the $230 million deal announced last week part of the Q1 deal wins? And regarding Encora's book value at $1.2 billion leading to lower goodwill, has that also lowered amortization?

Management: No, that was a Q2 deal. Regarding goodwill, only the goodwill reduced by $600 million. The amortization impact was roughly $40 million per annum, and we have kept it at that level. Customer relationship intangibles are close to 30% of the valuation.

Vibhor Singhal - Nuvama Equities: Previously, Q1 was seasonally weak for cash flows, but this quarter was strong. Can we expect this trend to continue?

Management: We structurally changed our approach to improve free cash flow quarter-on-quarter. It took us 2 to 3 years to reach this point, and we feel confident we can build on this.

Operator: Thank you. Our next question is from Ravi Menon of Axis Capital. Please go ahead.

Ravi Menon - Axis Capital: Congrats on a good quarter. G&A people costs increased faster than revenue. Are there one-time costs there? Also, the interest rate on the 3-year loan is just 30 bps higher than the 3-year US Treasury yield. Are there any restrictive terms like cash in escrow?

Management: G&A actually came down as a percentage of revenue. Coforge standalone was 6.7%, and whereas Encora was at 10% at the time of the acquisition. The combined G&A stands at 6.6%, which reflects a 40% cost out on Encora G&A. Regarding the loan, there is no restricted cash. We signed a 3-year fixed-term loan at 4.6% to avoid betting on interest rate movements. The post-tax impact in the P&L is 2.99% because we get a 35% tax benefit on the loan sitting in India. There are no restrictive terms.

Ravi Menon - Axis Capital: Since the loan is in India, does this mean you will reduce your forex hedges now?

Management: We are not hedging more. We have a natural hedge and will fund it through that.

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

Dipesh Mehta - MK Global: In the Rest of the World segment, margins are not showing the benefit of the divestment of low-margin India business. Can you reconcile that? Second, cloud revenue growth seems to be moderating. Lastly, can you reconcile the goodwill numbers between the presentation and the notes?

Management: Regarding the Rest of the World, there is a reduction in the India government and data center business, which had higher margins. Additionally, this quarter includes the consolidation of Encora. You will see those margins start expanding from here. Regarding cloud revenue, that can be classified under AI-led engineering or the cloud side. With the merger of Encora, which is mainly engineering, the percentage contribution of engineering naturally went up. Cloud services revenue is cloud and AI infra-related. However, sequentially cloud has grown 4%. Regarding goodwill, the result sheet has the notes with the correct goodwill recognized on the balance sheet.

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

Sandeep Shah - Equirus Securities: Some peers say there is no accelerated spend on the discretionary side, yet your trends show otherwise. What differentiates your delivery and go-to-market model? Also, regarding the $230 million deal, has the ramp-up started?

Management: Our performance has been materially superior for 9 years. We choose to work in select verticals, and our domain depth—where AI-led engineering, cloud, and data are 86% of revenue—marks a materially different firm. Regarding the deals, the ramp-up for the first deal has been completed in record time with 300 plus FTEs across 15 to 20 teams. The $230 million deal has already initiated its ramp-up. Regarding wage hikes, for a highly select group, hikes went into effect in Q1, but for the broader organization, we anticipate no hikes before January 1 of next year.

Operator: Thank you. Our next question is from Prateek Maheshwari of HSBC. Please go ahead.

Prateek Maheshwari - HSBC: How are you planning to grow Encora's revenues now that you are managing it? The top 10 client revenues haven't changed much despite integration.

Management: By Q3, we see very large opportunities. One of our top 10 clients now is from the Encora portfolio, and we expect that relationship to scale rapidly to over $50 million in the next 12-18 months. Two other accounts in our 11 to 20 list joined from the Encora portfolio. We feel excellent about things; the assets have already started making an impact, particularly with the 40% G&A synergy. Operationally, the organizations are now indistinguishable on margins.

Operator: Thank you. Our next question is from Aditi Patil from ICICI Securities. Please go ahead.

Aditi Patil - ICICI Securities: Our India government business run rate was $50 million last year, and we had a $15 million ramdown in Q1. Is the remaining $35 million ramdown expected uniformly?

Management: It is part of the base now, so there is no incremental impact that will come from a growth standpoint.

Aditi Patil - ICICI Securities: How is pricing done in outcome-based contracts?

Management: We use several models. One includes legacy modernization where only part of the revenue is assigned initially, but profits are supernormal upon success. Another is a monthly subscription model for mod squads, allowing clients to flex across FTEs and agents. We also look at flavors tied to technology or business options.

Operator: Thank you. Our next question is from Devesh Mehta of Invesco India. Please go ahead.

Devesh Mehta – Invesco India: How long will it take for the acquired entity to reach the order intake intensity of Coforge? And regarding deflationary trends in the industry, has anything changed beyond your own execution?

Management: Regarding the acquired entity, the organizations are already indistinguishable on margins. Starting Q3, they will be indistinguishable on revenue growth. Regarding industry trends, efficiency-related deflation is a reality, but the opportunities in legacy modernization, AI data foundations, cloud scalability, and security are real right now. In the medium term, custom agentic solutions and managing agentic ecosystems will create further high-margin streams. For us, the tailwinds are very strong, and the growth right now is robust.

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

Management: Thank you. We find these calls extremely instructive. We find your questions very insightful and we look forward very keenly to these interactions. Thank you for making time for us. We hope to see you again next quarter. Thank you. Good day.

Operator: Thank you, members of the management. On behalf of Coforge Limited, that concludes today's call. Thank you for joining us.