

21 November 2018

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Mumbai - 400001.
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Name of Scrip: CIGNITITEC

Scrip code: 534758

Dear Sir / Madam,

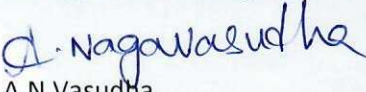
Sub: Transcript: Kaveri Seed Q1 & FY 2019 Result Conference Call on 13th November 2018-Reg

Please find attached herewith Transcript of Cigniti Technologies Limited Q1 and FY 2019 Result Conference Call made on 21st November 2018. 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.N.Vasudha
Company Secretary



Encl: as above

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Cigniti Technologies Limited
Q2-FY19 Results Conference Call
November 13, 2018

Moderator: Ladies and gentlemen good day and welcome to the investor call of Cigniti Technologies Limited to discuss the Q2 and H1FY19 results. Today we have with us from the management Srikanth Chakkilam, Chief Executive Officer and non-Executive Director and Krishnan Venkatachary, Chief Financial Officer. As a remainder 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, please signal an operator by pressing * then 0 on your touchtone telephone. I would now like to hand the conference over to Mr. Srikanth Chakkilam for his opening remarks, thank you and over to you sir.

Srikanth Chakkilam: Good afternoon ladies and gentleman. Before we start the call, I would like to point out that certain statements made in today's call may be forward looking in nature and a disclaimer to this affect has been included in the earnings presentation shared with you earlier. The 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 the actual results, financial conditions, performance or achievements of the company or industry results to differ materially from the results financial conditions, performance or achievements expressed or implied by such forward-looking statement. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding expansion plans and the benefits from there on, fluctuations in our earnings, our ability to manage growth and implement strategies, competition in our business, effect of cost advantage, wage increases and expansion plan liabilities, political instability and general economic conditions affecting our industry. Unless otherwise indicated, the

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information contained herein is preliminary and indicative and is based on management information, current plans and estimates. Thank you.

Thank you for joining us for the Q2FY19 earnings call. For the benefit of some of you folks who may have not tracked us before. Cigniti is one of the largest independent quality engineering services company, serving some of the best in class companies across the world in the areas of quality engineering, DevOps and digital transformation. The independent quality engineering market is predicted to be at \$34 billion, out of which test automation market continues to grow and dominate. The digital testing and digital transformation opportunities in this space are also growing in double digits and that market is expected to be at \$550 billion according to various industry reports. Cigniti has been continuously enlisted as a leader in this space by various industry analysts such as Gartner, Forrester and Nielsen Hall as market leaders in quality engineering and DevOps. Our service areas typically are test automation, performance testing, security testing. We have also spread our branches into digital offerings, that typically include mobile testing, robotic process automation, E-commerce testing, testing readiness for cloud migration and analytics. We also help companies across the world achieve their digital and DevOps ambitions. One of our key areas of differentiations are platform Blue Swan which has five major component Verita, Velocita, Cesta, Prudentia and Praxia. I would not like to run everything here on this call but to just to give you a quick glance on some of these tools. Verita is a quality engineering dashboard that drives business outcomes and improves predictability, actual rate transformation and promotes collaboration and the underlying technology as powered by AI. Cesta is also one of the worlds first integrated test migration platform and is also a patent tool of Cigniti. We are headquartered in Hyderabad and majority of our delivery operations are operated from Hyderabad. Our delivery account at the end of Q2 was about 1,800 including onsite and offshore, while our total head account including operations is at 2,100. At the moment we are predominantly operating in North America, UK and APAC out of which majority of our revenue comes from North America, stands about 83% and UK at about 11% and the rest of the revenue comes

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from APAC and rest of the world. We continue to focus on North America which in our opinion is one of the fastest growing areas and adopt to technology trends quicker than other regions. We also continue to invest in UK which is our next biggest market. We have added 18 new clients in this quarter from verticals ranging across travel and hospitality, ISVS, healthcare, energy and insurance companies in services related to test automation, digital, mobile, robotic process automation and DevOps. Three of these clients are in the fortune 2000 category. Management continues to focus on high growth areas such as automation, digital and DevOps to fuel our growth in the quarters coming ahead. Our revenue for this quarter stands at 204.96 Crore, while EBITDA for the quarter ending September is at 37.14 Crore, while the EBITDA margins stood at 18.1% and the PAT at 49.53 Crore. So, with this I leave the floor for any questions and also my colleague Mr. Krishnan Venkatachary is open to take questions on.

Krishnan Venkatachary: Good afternoon ladies and gentleman, thanks for joining the first earnings call. I am sure all of you will have the brief investor presentation which has been sent by Adfactors PR. A few Q metrics as sounded by the CEO basically taking back the company to where we are from 1998 when we commenced as a software generic software company in 2009 to 2012 setting a base for the QA and in 2012 to 2017 has been a journey in terms of time testing out QA conversion into QE, transformation into offshore centric and with the combination a of DevOps. So the kind of investments which we went through with the inclination to invest in IP, move ahead with the products, move ahead with the services but I think the 2017 was an enlightening where over the last 6 quarters we have done a concrete revisiting on rethinking strategy, we have moved ahead and started focusing. Investments in terms of the products will continue, in terms of generating IP but it will used purely only for solution so that we focus on a value added solutions and readying the company to move up. In pursuit of that I think over the last 6 quarters we have moved ahead and we have been successfully delivering year-over-year in terms of the numbers. As it stands, basically for the highlights for the quarter is that the revenue stood at about 204.96 Crore as against 169 Crore in the corresponding quarter of FY18. The

EBITDA stood at about 37.14 Crore and the fortunate part is that we have been able to pull through and we are able to do the value added services to the clients and we were able to optimize the cost and get through the EBITDA to a greater extent and we also have the net profit for the quarter, of course that include an other income which we will get into the discussions may be certain export incentives which has been accounted for over the last 6 quarters, 7 quarters and the exchange fluctuations which has total to about 49.53 Crore as against 9.81 Crore. In terms of our utilization, as informed I think the main part of the success story over the last 6 quarter has been that we have been able to give a value add to the client in terms of getting the offshores and take business model. Our overall utilization is at about 88%, our onsite utilization over the last 6 months is at about 96% and my utilization for offshore stands at about 85%. We have clocked the billing rate average at about \$67 and at about \$22 for the offshore and with these utilization, I think in terms of the verticals probably continues to be a good vertical for us in terms of the travel and transportation which continues to contribute in a big way for us which is contributing about 22% and we also have a BFSI which is margin accruing for us which is at about 16% contributing. We still continue to work with technology companies, which is essential for us at about 17% and the healthcare contributes 10%, retail and commerce is about 9% and the rest of the segments contribute its fare share of success. Invariably as a testing company as an end-to-end service provider, we claim ourself as vertical agonistic, however, we have the world over a period of time in terms of trying to specialize on few verticals which is by default and not by designed clearly. In terms of contribution of the revenue, I think the regional contribution, we have been very fairly successful in terms of retaining our fare share of pie , the Canadian and North American region continue to contribute about 83%, UK contribute about a fair and sizeable size at about 11% and rest of the areas contribute the rest. The reason is that we can proudly claim that as an independent testing service company, we are the number one which is operating as distinctly as an independent service company from the North American region. With this kind of, just to give the structure for the benefit of the investors basically getting into the call, we operate holding company as

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listed entity which assets 100% own subsidiary in US, Canada, UK, Australia and we have a few of the branches being operating in Dubai and South Africa and this is where we are in terms of the numbers and I would like to use this forum probably to move forward and then have an interactive sessions and just for the benefit of the investors that over the last 2 months, we have started convincing interacting with the investors on an extensive basis in terms of where we are, what we are and what is the business we are in. The market space for QA and QE space is quite huge and has a huge potential to move up over the next 5 years. We have been continuously recognized and rated by the industry analyst such as Gartner, Forrester and Nielsen Hall and with the kind of confidence and the kind of investments we have made in the senior management, who have been averaging at about close to 4 years plus with us and consistently experienced in the testing in the QA space as well as the industry verticals, we feel that we are really geared up to move up and the best transformation which took place for the company in terms of the corporate governance, we inducted independent board members which the information is detailed and available with you which the board deliberates and runs through professionally in terms of waiving the operations and we are governed by the audit norms by the Big 4 which is associates of the Big 4 which is SR Batilboi and co. these are the steps which we feel that we are confident, we are poised to and we have generated during the first 6 months the cash flow which is equivalent to close to about 90 Crore from the operations and we are virtually becoming slowly moving forward in terms of, we have long-term debt nil now today but we have short-term debt which we feel from the operations will get moved out which is slightly in terms of working capital. With these couple of facts, probably I would like to leave the forum open to questions as we are poised on our interesting journey to move forward, thank you.

Moderator:

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. We will take the first question from the line of Madhur Babu from Prabhudas Lilladher, please go ahead.

Madhur Babu: Congratulations on a good margin execution. Sir, considering this is the first call, can we just explain our strength. Let us say in travel vertical, just can you explain how we are doing, what are the kind of deal size is, have we displaced any Indian IT increment in getting a deal, just a brief with the case study kind of think would be very useful.

Srikanth Chakkilam: So in travel and hospitality which is one of our strongest areas and also fast growing region, we have at this point at least 3 fortune 500 company. I don't know if I can mention some of the names but they are in the airline space, they are in the truck industry and also in the hotel industry at least 3 of them are in the fortune 500 category. In one instance, we have displaced a large SI, in another instance we compete with the SI on the overall QA wallet share and we are increasing the wallet share. The kind of work we do and that in some cases is end-to-end testing, end-to-end quality engineering services and also cutting edge services with regards to robotic process automation which is one of the fastest growing areas in today's world, it comes in the digital category, so digital is growing north of 15% to 20% according to various industry reports and which is something we are also experiencing. So travel and hospitality industry is certainly looking positive for Cigniti.

Madhur Babu: Sir let us say Mindtree or NIIT Tech all of them have a testing practice in the travel side, so do we encounter these companies, or have we taken over any of the teams from these kinds of competitions.

Srikanth Chakkilam: I don't know in fact and comment on that but we have certainly displaced some of the large vendors who in the travel and hospitality space. I cannot specifically talk about companies.

Madhur Babu: And second sir, margin execution has been very strong over the last 3 to 4 quarters, I think directionally margins have been moving up, can you give us the lever, I mean how is the onset of your I mean offshore shift happening and currently what is the head count in onsite of the total 1800.

Srikanth Chakkilam: So, 541 is onsite the remaining is offshore about 1251 i suppose. Margin expansion is primarily on the account of changing the pyramid mix. We are adding a lot of entry level positions, we have managed to add about 51 last quarter, we continue to do that. The second one of course is all the new contracts which are sort of being executed at higher rates and were negotiating higher rates from our existing clients as well, so these are the two main levers. The third lever of course is use of our platform IP, BlueSwan to try and get non-linear revenues which is not people dependent that is still in early phase so that is where we are on margin expansion

Krishnan Venkatachary: Our focus always has been continued and then we have been trying to we have skewed in favor of the offshore as you know basically the margins really move up and where we have controlled. The people mix in terms of as Srikanth Chakkilam suggested gave the statistic as onsite is about 540 and were 1250 on the offshore. In terms of the percentage of revenue mix it translates to 57 to 43 which we feel is very reasonable. We will have a headroom for improving about 100 to 200 basis points on this. But I think the overall utilization where we are at about 88% is we feel is quite reasonable as there has been a conscious effort over the last 6 quarters in terms of all these front, in terms of improving the margin and not only that I think we have rationalized it will improve my EBITDA and the number is that we have rationalized on the sales and the general administration cost as such in terms of optimizing the space and bringing in absolute rationalization in any of the enabling function, so a conscious effort has gone through over the last 6 quarters, so that is the result which is being seen over the quarters.

Srikanth Chakkilam: The other thing that I want to mention was some of our focus on the high growth areas such as the digital DevOps is also helping us move up the value chain.

Madhur Babu: And just one last. Sir I think with this kind of margin and free cashflow generation, the balance sheet should improve, sir what is the current net debt position and when do we expect to become debt free.

Krishnan Venkatachary: Yeah, so the conscious effort is being made to make it even a short-term debt completely debt free, as I speak to you probably just I think I have about \$10 million towards short-term debt back by receivables and the way things are going probably I am sure that we would have done the math numbers that we clearly as we are heading probably somewhere around Q1, Q2, I anticipate as my business sustains and move forward that I should be able to completely company the debt-free company.

Madhur Babu: Okay sir, thanks. I will come for a followup.

Moderator: Next question is from the line of Ashish Agarwal from Principal Mutual Fund, please go ahead.

Ashish Agarwal: Sir, just wanted to understand couple of things. First of all the revenue growth in this quarter in dollar terms look low, is that more because of the offshore shift. Secondly, on this incentive income and I think reporting that as other income is good, because some of the other companies report it as a part of revenue. I must credit the management for that but this incentive income how big it will be going forward and on the balance sheet side, I just wanted to understand our net worth has increased by close to 80 Crore though the first half profit is close to 90 Crore, what is the reason for this 10 Crore difference.

Krishnan Venkatachary: Thanks Ashish, I think interesting question. In terms of the growth on the dollar term, I think yes we have grown at about 0.7% by adding partially, predominantly on account of shift in transition which we are making in the offshore is one of the reasons basically and also a couple of contracts where we have supposed to have commenced during the quarter slightly got us probably the technology leaders talk about a shift life probably I would say that it got shifted towards the right and then the commencement has taken place in October or November, I think that is one reason in terms of us doing this and we are confident that the kind of wins which is coming through and the kind of findings what we have done and moving ahead I think sequentially I don't think it is going to be an issue. In terms of your question on incentive, the incentive scheme is eligible for

people for any company which operates on technology technical services very clearly and we categorize ourselves under back services which come through and there is a scheme of 2015 to 2020, where the government is trying to give on a net foreign exchange earned which is brought into India at 3% the duty importable license which can be traded off because we as a company probably we are not seeing much of opportunity for improving things to that extent value. So this is effectively from 2015 April till 2018 September which we have accounted for and October 2017 onwards this percentage has been revised to 5%, so effectively this scheme is for 5 years, the accounting for the entire years put together has been accounted for in the P&L account and as we have been explaining you I think as a conscious effort in terms of the corporate governance and prudent accounting methodology as per the IndAS, we wanted to show this distinctly and separately because it is not part of the operations. How much it can impact over the next couple of years or what it could be the questions which you are asking based on the Indian entity we estimate for the next 6 months this somehow should be in the range of about 3 to 4 Cores. But, I think the system has set clause in terms of moving ahead and finishing this by 2019 to 2020, which will be a quarter-to-quarter approval which is going to come through in terms of this incentive and trading of the licenses and the value for that which is coming through.

Ashish Agarwal: We can take 1 Crore per quarter type one because I think this quarter also, for this quarter you have reported to be around I think 1.3 Crore.

Krishnan Venkatachary: Yeah approximately.

Ashish Agarwal: Okay, good and on the net worth side.

Krishnan Venkatachary: Yeah, see on the net worth side, I can explain the difference 10 Crore difference in accrual is on account of there is a translation measurement if you look at it on a consolidation basis which I can offline come and mail you the details of in terms of why this difference is coming basically. So that is predominantly because in India we are consolidating everything in Rupee where the accounting take place across the globe in

different currencies, on that translations basically we have this and I will be able to share with you the complete reconciliation on an offline basis and I will mail you.

Ashish Agarwal: And just last thing on the other income side excluding the Forex gain and this incentive income, right it looks like to be close to a million Rupees, given the fact that we have almost 38 Crore of cash at the end of September and at the end of March, we have almost 17 Crore cash, that looks like a very low interest income, is it because most of this is lying in US or what is the reason for this.

Krishnan Venkatachary: Now predominantly if you look at it basically that we operate on a cost plus model where, we will have to bring in the money but at the end point balance of money which has been realized in, if you look through the analysis probably is that as how the flow goes for example, most of the time realization or when I do the factoring getting the money and whatever it is between 25th and 30th at the end of the month what I try to get in, so the money is lying in across entities but I think it will have the movement shift in the couple of weeks later and also with the ongoing kind of exchange fluctuation, we try to stagger and get same things out basically so that it can optimize a bit. Okay, you have the reason which is right.

Ashish Agarwal: Yeah, okay and these margins right of almost 18% in Q2, is this type of margin sustainable.

Krishnan Venkatachary: If you look through in terms of these margins which has come in EBITDA margin at about 18%, there are two factors to play basically, on a dollar growth basis, I think my margin has continued to grow from 14.00% to 16.6%, which means that a contribution coming through in terms of the Rupee has to look through. but then I would like to leave the forum open here and say that basically as the company for the size what we are operating and as per the principles probably is that while we are confident that we continue to be optimistic in our business, I think we restrain from giving any kind of a guidance or any kind of an estimate basically.

Ashish Agarwal: Right, but there is no cost pressure right which could have a deflationary impact on the margins.

Krishnan Venkatachary: To be very frank, we have done the best of the optimization but I think I am sure you will agree that business needs a periodical cycling of investments as we start generating cash be the automation or be the investment in sales or being the accelerating the enterprise value relationship so what is the timing, when we need to do, what we need to do, is always deliberated and put across but as it stands basically I think we have fairly understand the cost.

Ashish Agarwal: And just one thing on the cash-flow side, the first half of operating cash-flow you said was 90 Crore, right.

Krishnan Venkatachary: The first half of the operating cash was close to 89 Crore 90 Crore, yeah.

Ashish Agarwal: 90 Crore, and what could be the free cash-flow.

Krishnan Venkatachary: Free cash-flows after settling off all the settlements roughly about close to 45 Crore, I think.

Ashish Agarwal: So this 90 becoming 45 what is the difference majorly.

Krishnan Venkatachary: Yeah, we have repaid long-term loans if you look through, I think we are comfortable.

Ashish Agarwal: I am talking about only the CAPEX. What could be the CAPEX for the first half.

Krishnan Venkatachary: if you look through the CAPEX part basically in our investment is basically about 7 to 8 Crore.

Ashish Agarwal: 7 to 8 Crore, thanks a lot.

Moderator: Next questions is from the line of Neerav Dalal from Maybank, please go ahead.