

22<sup>nd</sup> November 2018

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Name of Scrip: CIGNITITEC

Scrip code: 534758

Dear Sir / Madam,

Sub: Transcript: Cigniti Q2 & FY 2019 Result conference call on 13<sup>th</sup> November 2018- Reg

Ref: Company's letter dated 5<sup>th</sup> November 2018 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 Q2 and FY 2019 result conference call made on 13<sup>th</sup> November 2018. The same was displayed at our company's website: [www.cigniti.com](http://www.cigniti.com).

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

Thanking you.

Yours Faithfully,

For Cigniti Technologies Limited

*A. Nagabrudha*

A.N.Vasudha  
Company Secretary



Encl: as above

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

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**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 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 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 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.

**Neerav Dalal:** Thank for the opportunity and congratulation sir good set of numbers. I had a few questions. One is in terms of your currency conversion, you are at like 69.4 for this quarter, what I have seen is that for companies that is generally this quarter has been about between 70.4 to 70.7, so just wanted to know what currency rates do you use, do you book the revenues at the start of the quarter or at the end of the quarter, end of the month or start of the month, how does that work.

**Krishnan Venkatachary:** Okay so our accounting as a practice which has been suggested by the auditors and also as per the accounting systems. What we follow very clearly is that I take a quarterly moving average clearly, I don't do a monthly accounting, I do a quarter end accounting. The quarter end accounting is taken up for translation for the outstanding receivables that are payable.

**Neerav Dalal:** Yeah that is the last day. Because where I am coming to is that, you have given the second quarter FY18 number of dollar 24.5, if I were to use that number at 60 or 90 million, the rate comes to 69, so I was.

**Krishnan Venkatachary:** Yeah 69 right are right, we have done at 69.9.

**Neerav Dalal:** Yeah, that is for the second quarter of this fiscal year, but if I were to go back, second quarter of last fiscal, you have given dollar number of 24.5 against an INR number of 16.90, which comes to 69, so I was not sure whether that is the correct number or not.

**Krishnan Venkatachary:** Okay, I will take a look at it and come back to you Neerav in terms of the math in the last quarter but I think the previous quarter, probably sorry the corresponding quarter of the last year but I think, we know because as we know for sure basically that as been accounting invariably we start looking at accounting for the quarterly moving average, we don't try to look at only for translations in terms of the assets and liabilities for the balance sheet date we try to do it at the closing date rate.

**Neerav Dalal:** Correct and employ cost on absolute number has actually declined in this quarter despite the Rupee depreciation, so I just wanted to know what has changed or what are the initiatives that has changed.

**Krishnan Venkatachary:** Nothing much has changed, thanks to the regulations where we are operating in the regions where we are operating invariably, so it is a combination, one is that in fact, the displayed numbers will have the contract higher coming through being declared as an other expense as it does not come as an employ benefit expenses over there. But to me when I have clarified across to the board or whatever it is, that I have an analysis which very clearly says overall, I think there is a shift up moving from salary to contract. It was the regions where we are operating for the projects what we are coming for the specialized skills, sometimes we may have to hire locally, so we just get the foot into the door in terms of getting a consultant and then finally try to really lap upon our own employ so that is one of the reasons. But as a part of the measure yes you will see some amount of improvements coming through because as a policy in HR we have started inducting pressures into the system, so which will optimize and I am trying to look through in changing the pyramid structure, which we will have in a couple of quarters, we will start looking at in terms of the benefits which every company that is we are not an exception to.

**Neerav Dalal:** So, what you are trying to mean is that going forward at some point in time, subcontracting cost would start to decline and you will get benefit from recruitment and pyramid change, so that would be the lever.

**Krishnan Venkatachary:** I will put it in a very different way Neerav in terms of saying that, it is like a walking on a thin line of sword in terms of because it depends on the economic environment. We would try to balance it out in such a way. That is the challenge we would like to give for HR guys the job, so let him do that, I think that is where we will try to give the budget and start looking at it, but you can be rest assure very clearly that we are conscious of this fact and we are working continuously on this.

**Neerav Dalal:** Okay and just to clarify you said the revenue mix of 57 and 43 is in favor of onsite.

**Krishnan Venkatachary:** Yeah 57% in favor of onsite and 43% in favor of offshore.

**Neerav Dalal:** And what would have been this number say last quarter or corresponding quarter, sir any number that you can.

**Krishnan Venkatachary:** Okay, I do not remember exactly the corresponding quarter but at least I can talk about in terms of where we are, which is about 58.5 or so, 58.4 or so in the last quarter and the shift to offshore has slightly improved.

**Neerav Dalal:** Okay, sir we are still sticking to the indicative numbers that you had given in terms of revenue growth of about 10 to 12 to 15% revenue growth for this year in dollar terms, would that be achieved.

**Krishnan Venkatachary:** As it stands as I have explained to you on a quarterly call basically we don't really look at it in terms of any guidance, but I think we are upbeat and very-very positive on the business and we are running on the right track.

**Neerav Dalal:** Okay, but in terms of this revenue mix, where do you see these numbers settling at, where do you see onsite settling at 55 or 50.

**Krishnan Venkatachary:** I will put it other way Neerav, basically is that it is a healthy trend basically. I had an internally target that I should be at about 55 or 45 but I think I am putting it as a healthy trend is that more and more I get into DevOps and agile and kind of an environment, I think it means more of onsite related investments in terms of the people and where we need to be closely working with the clients which is very good because it will start yielding me although slightly at a higher rates at \$90 to \$100 or \$110, so it is a both way double edge sword basically that I can't keep really pushing it out but I think I am balancing it out reasonably and I don't really count on this beyond a level and as long as the volume picks up and neutralizes, I am fine basically.

**Neerav Dalal:** That is probably the tax rate for the full year.

**Krishnan Venkatachary:** The tax for the full year in terms of a percentage always remains distorted for you but invariably I can say that US regime of tax on account of carried forward losses will be at about 4.5% and in India we operate which are the two major region on a mat at about 20% to 22%, so I think it is going to be on an average at about 30% to 40% in the overall scheme of things for the year basically and we expect this tax accrual to benefit and continue for about a year plus.

**Neerav Dalal:** Okay, thank you, I will come back for the followup.

**Moderator:** Thank you, next question is from the line of Sandeep Dotla from N.S. Associates, please go ahead.

**Sandeep Dotle:** Good afternoon sir. I had been an investor for the last 4 years, sir just I have been tracking the results , for half yearly net profit has been something around 88 Crore, wherein I think if you just calculate the one time profit for the H1, it is something around 32 Crore sir. I just heard sir

that you don't give projections for the full year but can we expect another 60 Crore to be added in H2 to make it something around 150 Crore sir.

**Krishnan Venkatachary:** Probably you are trying to put lot of numbers in my mouth but as a principle again I would like to repeat very clearly that we are not in the process of giving guidance but we are upbeat and confident that we are optimizing our operations day by day and we are moving ahead in our growth front and we are very confident that we will be able to sustain and move on in the business, so I would like to refrain from commenting on the numbers for the year as it stands.

**Sandeep Dotle:** Fine sir, another query is sir, there was some development regarding BlueSwan but nothing has been updated regarding BlueSwan.

**Krishnan Venkatachary:** In terms of the BlueSwan as regards there was a review which was made by the board in terms of the strength of the BlueSwan and how we start using it and what we leverage terms things like that. In terms of transparency we just came out and said that we are reviewing the BlueSwan as an operation, we reviewed it, there is nothing in terms of an outcome, what we thought is that we will give an aggressive push to BlueSwan in terms of using them in our services and by investing little bit further from within the invested resources so that as a part of R&D and customizing and localizing it for the people because it is doing a fantastic contribution for me in terms of penetrating the newer account so ideally you can.

**Srikanth Chakkilam:** Like Krishnan mentioned, just on account of transparency, we just put it out as we are reviewing something in terms of the BlueSwan opportunity but after the board and the management review, we decided that we will continue to push BlueSwan across our clients than taking it outside for at the moment, so that is where we stand right now.

**Sandeep Dotle:** Fine, sir last query, when can we expect the dividend sir from the company since now it has been we have cash reserve right now.

**Krishnan Venkatachary:** Yeah, it is a good question. I am bound by the company's act in India basically for the purpose of the Indian Company's Act to declare dividend, so it means that the revenue loss which is getting carried forward from 2017 March needs to get wiped out before we accumulate and move forward for a dividend, otherwise there is always a discussion which runs through in the board in terms of the positiveness but I think we are governed by the act, we need to comply with the act in terms of the revenue lost carried forward, which I am sure you will go through the numbers and when we published this 30th September uploaded already the balance sheet but I think I will be able to provide you the details, then we will be able to set an estimate as to where we are, but I think the board is conscious and board will take appropriate decision and then uniformly it will be disseminated back to the exchanges, yeah.

**Sandeep Dotle:** Yeah, fine sir, thanks a lot.

**Moderator:** Next question is from the line of Praveen Rai from CDS, please go ahead.

**Praveen Rai:** Yeah, hi, very good afternoon to Mr. Srikanth and Mr. Krishnan, thanks for having us in, sir my question is like how effective is the company countering competitors, so what is the strategy is the company having in place in the long run like for example does the company have any plans to acquire any businesses across the globe to strengthen the existing business, so that it can span across the different geographies etc.

**Srikanth Chakkilam:** So again thanks, like I mentioned earlier in the call, one of the key differentiations is our platform BlueSwan, one of the tools. There are 5 components in this, Verita, Velocita, Cesta, Prudentia and Praxia, so Verita is automation, there is a quality nearing dashboard that runs on AI and Cesta is also a patented tool of Cigniti, so we use this differentiation and we typically compete with large SI's, so we use this differentiation and all are 1800 delivery folks are passionate about quality engineering and they are certified in IST QB and various other quality engineering process, so typically when we typically compete with large SI we use our differentiation and try to win account. On the acquisition side, again I have to refrain because these are some things we generally keep a ear to the ground but you know we can never say what will happen. At this point there is nothing on our radar

**Krishnan Venkatachary:** Just want to add a point basically gentlemen is that, business is inherent with competition, how do we mitigate the competition is that as Srikanth rightly said that we have our own investments in terms of the tools which we are able to penetrate and able to get a better value because what is that differentiator which we to table to the client and what is making the differentiation to win as out very clearly so that is what. Apart from that what it is strategic and nothing stops us in any of the regions to really run through and review the business and move forward and get the client, but in terms of any kind of any other opportunities of any nature which are strategic in nature, I think it will be the board which has to really deliberate and the board is fairly large and independent board and which runs systematically, periodically through what the company is doing and where it is adopting. Is it in line with the global environment challenges and how it is aligning itself and then they will come back systematically in terms of setting the direction and putting it across very clearly as to what needs to be done. At this stage I think I would like to leave the comment at it very clearly.

**Praveen Rai:** Yeah sure, thanks a lot, that is it from my end.

**Moderator:** Next question is from the line of Surendra Verma. Please go ahead.

**Surendra Verma:** I just wanted to check in the software testing if you see the global trends like this artificial intelligence, automation and machine learning is taking out very well at the client end, so in this how is Cigniti placed in the overall industry.

**Srikanth Chakkilam:** Yes like I mentioned earlier in the call, Cigniti is seeing good positive trends in these areas, so automation is one of our key strength. Again our BlueSwan platform is the underlying principles are on based on AI and we have deployed at several client locations. The areas that you mentioned come under the digital category, digital like I mentioned earlier is growing at 15% to 20% and Cigniti is no different to this trend. We are also continuing at that trend and we are continuing to invest into technology people and processes in these areas and we are seeing a positive trend on this side. We have few fortune 500 clients also in this category.

**Surendra Verma:** And what will be the revenue breakup for the digital as you mentioned one of the fastest growing segment for you also

**Krishnan Venkatachary:** Typically if you look through is that we don't publish the metrics in terms of packing or so but of course predominantly about 70% of the new wins have been coming out on the automation and digital space basically for us but I think on an estimated basis in terms of what it is because we keep reviewing it on a regular basis in terms of where we are and whatever it is, I think it should be a fair bit of share in terms of both.

**Srikanth Chakkilam:** We would not like to commit on the percentage but we are seeing a good positive trend.

**Surendra Verma:** And sir on the balance sheet I see that going like on a consistent basis, company has a lot of short-term borrowing which is ranging between 15% to 20% of the revenues in terms of value term, so why these short-term borrowing happens.

**Krishnan Venkatachary:** Probably I think I can boldly comment and say very clearly over the last 6 months that I don't have any borrowings where I started paying the borrowings very clearly but I think 30th September when I am trying to push through the breakup of the short-term borrowings as it is coming through as I explained earlier is about \$10 million towards receivables backed up in terms of being factoring on a cash credit which is available which will get knocked off over the next couple of quarters or so, but I don't think I have enhanced any kind of a short-term borrowing, what is represented as short-term borrowings, what it is in terms of the detail, I will move offline and try to provide you the complete breakup for the details of the balance sheet item which has been published out.

**Surendra Verma:** Okay sir, thank you and all the best.

**Moderator:** Thank you. Next question is from the line of Subratan Basu, please go ahead.

**Subratan Basu:** I just had some number questions, one I don't know if you published our investor update for this quarter or not but if you could give me the actual constant currency revenue number in dollars for this quarter and last quarter.

**Krishnan Venkatachary:** We have done published our investors number but I think we have done it on the Rupee basis, probably I will just check the mailing list in terms of including you but in terms of the dollar constant currency revenue for the current quarter, this 29.53 million as against 29.28 million of last quarter which means we have grown about 0.7% or so

**Subransu Basu:** And the number for the same quarter last year if you have that handy.

**Krishnan Venkatachary:** I am afraid I don't carry that in hand.

**Subransu Basu:** Okay, now if you were to breakup this other income number between of 23.36 Crore for this quarter, you have got 6.8 Crore is your exchange gain and what would be the balance.

**Krishnan Venkatachary:** Balance relates to the export incentive which is due for technical services company.

**Subransu Basu:** Okay, so that is what you have mentioned earlier in the call, okay and interest income would be how much.

**Krishnan Venkatachary:** Very nominal, very meager and nominal.

**Subransu Basu:** Okay and then you know are also getting used to IndAS, so you have mentioned 6 Crore as items that will be reclassified to profit or loss and at basically 6 Crore this quarter and 12.6 Crore for the first half so what is this item.

**Krishnan Venkatachary:** I think it is a re-measurement of currency based on translation, on a translation basis when we consolidated into India, I can mail you the details.

**Subransu Basu:** Okay, so from our perspective we should be looking at 43.5 Crore as the net profit for the quarter.

**Krishnan Venkatachary:** Probably just let me add a point basically which I was trying to submit basically is that though my revenue growth is only 0.7% on the EBITDA front, I moved from 14.5% to 16.5% on a constant currency basis. On profitability basis basically we can say that if I remove the exchange gain and if I remove the tax reversal and if I remove the export incentive still I am at about 46 Crore absolutely, at about 46.09 Crore for 6 months as an operational PAT.

**Subransu Basu:** Okay, so this 6 Crore number is not a cash item, this is basically a noncash accounting item.

**Krishnan Venkatachary:** Yeah.

**Subransu Basu:** Okay and then last quarter you had this 13.6 Crore right back on US taxes where you had a refund, is there anything else that is pending on the tax front.

**Krishnan Venkatachary:** Nothing is pending basically but just to word of caution is that as a conservative accounting principle we have not accounted for deferred tax credit, we have not taken it on the books pending assessment of the Indian entity, the assessment is underway. So we thought that why taking a deferred tax credit and then reversing it based on the assessment of that. We are confident of running through the assessment, so we thought that we will not do the deferred tax credit, so that is one element which was not considered at all basically.

**Subransu Basu:** No, this 13.6 Crore this is US taxes on an actual cashback that you have received, correct.

**Krishnan Venkatachary:** Absolutely.

**Subransu Basu:** Okay and one final question that when I look at the receivables on the Indian company, the standalone entity and compare it with the receivables on the US on the consolidated basis right there is a mismatch, so I am just wondering whether this is just arbitrage that you are carrying out between India receivables and US payables.

**Krishnan Venkatachary:** Yeah, see if you look at on a standalone basis, the standalone receivables are from various entities on a cost plus billing which we have done.

**Subransu Basu:** Correct.

**Krishnan Venkatachary:** But if you look at on a consolidated basis, the intercompany elimination is taking off and that is the final receivables for the company which will be a measure because that are the end customer received for me.

**Subransu Basu:** No correct, so basically if I look at it, if I annualize your 2Q numbers your consolidated receivables is about 60 days but if I annualize the standalone entity numbers the receivables is closer to 130 days, so I am just thinking that that is the difference is that you are holding the money in the US and arbitraging between the two entities.

**Krishnan Venkatachary:** Absolutely, that is a fair statement, second is that last for 3 to 4 quarters we have started generating cash, so we moved that down basically around 200 days to 130 days we hope to bring that down to about 90 days and then still continue to do the arbitrage.

**Subransu Basu:** I mean that is alright because as long as the Rupees depreciating makes sense to hold the money in the US.

**Krishnan Venkatachary:** Correct.

**Subransu Basu:** Okay, alright, thank you and all the best.

**Moderator:** Next question is from the line of Madhu G, individual investor, please go ahead.



**Madhu G:** Thanks for giving me the opportunity, has a couple of questions, would you be able to share the list of new clients you have made in the last quarter half year and what are the size of these.

**Srikanth Chakkilam:** I am afraid I cannot share the names but they are like I mentioned they are in the travel and hospitality vertical, one of them is large logistics company in the fortune 500 space in the trucking industry, we have added ISVs, we have added companies from healthcare and insurance.

**Madhu G:** Okay the next question is basically you talked about number one in independent testing in North America but is in your long-term plan wanted to focus around independent testing only or are you planning to get into services and digital that is MAC.

**Srikanth Chakkilam:** Yeah, sir like I mentioned, we have transitioned from being a software testing services company to a quality engineering services company, so this include the likes of serving clients in the areas of digital and DevOps so naturally there is a slight extension in our ability to go out into other areas of service but again this is a strategic call and it will have to be deliberated with the board and management on whether we want to branch out into other services, right now we are happy being the number one quality engineering services/DevOps digital player in North America and I think this has we have been able to create value for our clients shareholders, employs and so on; so at this moment that deliberation is something that we do constantly with the board and the management.

**Madhu G:** Sure, thanks for the opportunity.

**Moderator:** Next question is from the line of Madhu Babu from Prabhudas Lilladher, please go ahead.

**Madhu Babu:** Sir, the perception tends to be that testing is like more project based and you know there could be some volatility in revenue profile, so how do we tackle that because we are single service line focus company, how do we tackle the revenue volatility.

**Srikanth Chakkilam:** If you look at our churn rate it is actually less than 15% Madhu, typically if we focus, if we go after the fortune 500 global 2000 companies that have large IT budgets and subsequently large QA budgets, your ability to increase your wallet share and also predict the revenues and the stickiness towards the revenue is pretty high so that is where we are focusing on. In our early days of growth, we used to work with smaller companies but now we are working with the tier I sort of companies and the enterprise accounts what we in our language call an enterprise account fortune 500 global 2000 accounts and typically accounts have been renewing, have been governed by an MSA with multiple sort of use ranging anywhere between 1 year and 3 years, so in my opinion it is not project based, the only revenue that is project based usually is in the areas of nonfunctional testing which is performance and security testing but otherwise I think automation is a continuous activity, functional testing is a continuous activity, so is

something like digital and DevOps transformation for a large company that is a continuous activity. So in my opinion I think at least this statistics show that it is not project based.

**Madhu Babu:** Okay sir, thanks.

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

**Ashish Agarwal:** Hello, just wanted to understand what are the un-billed revenues at the end of September.

**Krishnan Venkatachary:** The un-billed revenue normally it is very-very small portion about close to 2.3 million.

**Ashish Agarwal:** And where is it accounting into balance sheet other financial assets.

**Krishnan Venkatachary:** No it will come in the grouping of receivables which are gone on routine basis, it gets built in October itself.

**Ashish Agarwal:** So what was the reason for a sharp jump in other financial assets.

**Krishnan Venkatachary:** Predominantly on account of regrouping if you compare it to the last year basically.

**Ashish Agarwal:** Okay, got it thanks.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Srikanth Chakkilam for his closing comments, over to you sir.

**Srikanth Chakkilam:** Thank you very much ladies and gentlemen, with this, we conclude this quarters earnings call. Do feel free to revert to us in case of any questions that were not fully answered and we will be happy to provide you any additional details by email or in person, thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Cigniti Techno that concludes today's conference call. Thank you for joining us and you may now disconnect your lines. Thank you.