



“Indegene Limited
Q3 FY26 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good morning, and welcome to the Indegene Limited Q3 FY26 Earnings Conference Call. As a reminder, 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 this conference call, please signal an operator by pressing “ * ” then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Agarwal from Indegene Limited. Thank you, and over to you, sir.

Abhishek Agarwal:

Thank you, moderator. A very good morning to all of you and thank you for joining us today for Indegene's earnings call conference for the third quarter and 9 months ended financial year 2026. Today, we have with us Mr. Manish Gupta, Indegene's Chairman and CEO; and Mr. Suhas Prabhu, CFO, to share the highlights of the business and financials of the quarter.

I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange website. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion will be forward-looking in nature and must be viewed in relation to risk pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Manish to make his opening remarks.

Manish Gupta:

Thank you, Abhishek, and good morning, everyone. Thank you for joining our Q3 earnings call. It was a good quarter for Indegene. We grew revenue by 30.8% year-on-year and 17.1% quarter-on-quarter. Even if I exclude BioPharm, which was acquired effective October 2025, the growth was 18.3% year-on-year and 5.9% quarter-on-quarter. We delivered an Adjusted EBITDA margin of 18.5%. Our top 5 customers grew by 3.1% quarter-on-quarter, and 3 out of these top 5 customers are now \$25 million-plus accounts. We continued deepening and broadening our relationships with our customers. The \$1 million-plus customers grew by 12 and now are 52. Our active customers grew by 10 and now are 86.

Our revenue per employee now has crossed \$70,000 annual mark. This is, by far, the highest in the industry, underscoring the tangible impact of technology and AI and the very specialized nature of work we do. This is also a good quarter on new business generation front. We also had a marquee deal wins with large and small customers and performed well on the renewal front as well.

We won seven large deals exceeding \$1 million ACV each across three accounts in Q3.

- (i) For a top 10 pharma company, we have secured omnichannel orchestration for the whole of U.S. for a multiproduct portfolio on the back of Indegene Invisage and BioPharm Tandem, combining AI to boost prescription without reliance on on-the-ground sales team. This engagement is expected to yield \$10 million-plus annual revenues with a 2.5 quarter lag post go-live, which means revenues will start accruing from Q2 FY27. We also secured a change management engagement for omnichannel operations from the same customer, the value exceeding \$1 million ACV.
- (ii) A young emerging pharma, has entrusted Indegene with a product launch covering various aspects of both commercial and medical services, consisting of three work orders also aggregating over \$10 million.

(iii) Finally, we won a \$20 million TCV business consisting of two work orders for being an end-to-end commercialization partner to a midsized biotech company. Gen AI is a key part of this partnership, and this engagement is expected to yield \$5 million of revenues in the first 12 months.

All these deals have been won on the back of highly specialized resources and our AI-based platforms coming together to deliver very compelling value propositions for our clients.

Outside of these deals, there are other places where we increased our footprint as a strategic partner to our customers, again, using our domain expertise, specialized skills, technology expertise and Gen AI platforms to help transform our customers' operations across both commercial and medical ops. I am going to share some of the successes with you today.

- For a large medical device customer, we are managing global pharmacovigilance workflows using AI-driven automation, significantly reducing manual case processing and accelerating aggregate reporting. This is a multiyear \$7.5 million TCV deal, which has gone live effective January 2026.
- For a midsized pharma customer, we are reimagining their R&D operations through Gen AI and setting up a global innovation centre for them. We are deploying our AI-assisted NEXT Medical Writing Platform within the customer's private cloud AWS environment for regulatory use case as a start with many other document authoring expansion possibilities.
- Beyond some of these examples, we are also very actively engaging with our existing and prospective clients with what we are calling agency-less model, where AI-led modular solutions replace traditional fragmented agency structures.

Gen AI is creating productivity gains across our commercial and medical segments. We have been expanding our catalogues to convert productivity into volume expansion by enabling our customers to do more. This has enabled us to deliver more for the same while also adding higher complexity work to our catalog, which helps penetrate deeper in adjacent spend areas.

The scale and mix of wins as also the pipeline and discussions reflect improving industry sentiment, faster customer decision cycles and the strength of Indegene's GTM approach combining Gen AI with domain expertise. All this points to strong momentum in the industry given the near to midterm outlook, impact of policy changes and increasing adoption of Gen AI.

With that, let me move to developments impacting the life science industry and its outlook. The bio pharma and life science industry remain resilient led by 20, 25 large companies that have consistently shaped the market over the last few decades. Despite a year filled with policy driven headlines- pharma tariffs, MFN pricing, H-1B visa discussions- the actual impact to the industry and consequently to Indegene has been minimal. Although MFN pricing has generated attention, its near-term impact remains limited.

All the pharma majors have now inked deals with the U.S. administration in return for pharma tariff reprieve and expedited drug application reviews, while conceding on pricing, impacting a very small segment of consumers, limiting the adverse impact. Further price increases to other segments are expected to offset the price reduction.

The pharma industry enters 2026 with a stable growth outlook, strong innovation momentum and significant operational pressures and is expected to grow 5%-8% CAGR through 2029. While patent expiry and pricing pressures will persist, the order trends, M&A activity, increased access, strong innovation pipeline support the industry's growth outlook.

Importantly, as revenue for approved drugs steadily declines, pharma companies are under pressure to improve efficiency, expedite launches and modernize commercial operations. This creates a structural demand for Indegene's offering across content, medical, regulatory, safety and omnichannel operations with accelerated adoption of digital and AI-led transformation.

Now, having talked about the industry, let's spend some time diving slightly deeper in everyone's favourite theme and topic, AI. One of the big benefits Gen AI should accrue and would accrue to the health care and life science industry is using Gen AI to accelerate discovery and hence more drugs getting into clinical trials, clinical trials being made more effective and efficient, more specialized and effective drugs being marketed and reaching patients. That's what Gen AI could enable. And this vision, of course, will require per unit cost of trials, compliance, sales and marketing to come down over time as volume of drugs increase. This is what we, at Indegene, are excited about, the role we can play in this industry.

At Indegene, given our scale, nature of engagement, specialized talents and very strategically thought to platform approach of Gen AI products. We are positioning ourselves and getting recognized as a strategic cutting-edge partner to deliver superior outcomes and not a point solution or a legacy provider stitching partnerships with point solutions to stay relevant. Our platform approach enables us to help clients reimagining their value chains, shifting from isolated productivity wins to holistic transformation.

At this point in time, it's also useful to throw light on our three Gen AI platform approach, which helps us to reengineer and reimagine the entire process in three key areas.

1. **Content Super App**, which integrates agency of record, Tectonic, content production and MLR workflows. As an example, a top 20 pharma customer adopted our replicator module, which is a part of the Content Super App, for a few markets in Europe for two assets in a channel. As we successfully complete this deployment, we also have the ability to scale seamlessly across additional content formats and channels in global markets.
2. I already alluded to our **NEXT Medical Writing Platform** getting implemented with a midsized company. This is an enterprise-level engagement.
3. **Audience Intelligence Platform** powers omni-channel operations and analytics with modular AI components, where we are combining the power of Tandem IP acquired through BioPharm with our Invisage.

Now let me move to an update on the progress made with BioPharm post the acquisition effective October 1. On the integration of BioPharm, specifically transition of services such as IT, HR and finance from the seller to Indegene is on track for completion by March 31, 2026. BioPharm has seen no disruption in active engagements. Client response has been positive with many exploring combined Indegene-BioPharm capabilities. Employee integration is progressing well with a strong retention across the organization. Technology IT integration is progressing as planned and will conclude by year-end. Joint business development has begun delivering results, including two omnichannel wins with large

Indegene customers, integrating BioPharm capabilities. Cost synergy totalling to around \$1 million per annum is expected to accrue progressively in FY27 and have been identified for action.

Now finally, let me talk about the segment integration which we've gone ahead and done. In our previous earnings calls, we had mentioned that BioPharm is integrated within Enterprise Commercial Solutions. Also Tectonic, which is a combination of enterprise commercial with capabilities acquired through CultHealth, is part of Enterprise Commercial Segment. There is an inevitable blurring of lines across the Enterprise Commercial segment and Brand Activation segment. Many capabilities and engagement start off as brand specific, but morph into enterprise segments or capabilities. We also are very clear that in the long run, the enterprise part of the business will continue to scale, and that's a very robust business. Reflecting this reality, we have integrated Brand Activation and BioPharm into Enterprise Commercial Segment. Going forward, the company will report results under three segments: Enterprise Commercial, Enterprise Medical and Others.

I will now hand over to Suhas for a deeper dive into financial performance. On to you, Suhas.

Suhas Prabhu:

Thank you, Manish. And once again, a very good morning to everyone. Let me walk you through the key financial highlights for the quarter. Q3 was a strong quarter with revenue rising to INR9,421 million, reflecting a robust 30.8% year-on-year growth and 17.1% quarter-on-quarter growth.

Our growth in USD terms remained solid with revenue up 24.4% year-on-year and 15.1% quarter-on-quarter. Even excluding BioPharm, which we acquired during the quarter, we continued to deliver healthy progress, achieving 3.9% sequential growth in USD. EBITDA, adjusted for onetime expenses, came in at INR1,747 million, marking 15.7% year-on-year and 19.6% quarter-on-quarter increase. Notably, our adjusted EBITDA margins expanded to 18.5%, an improvement of 30 bps quarter-on-quarter.

One-time non-operational expenses related to the three acquisition transactions executed during the quarter and restructuring was INR105 million or \$1.2 million. During our last earnings call, we had outlined 150 basis points of impact due to planned investments towards enhancing our go-to-market capabilities and supporting business expansion beginning Quarter 3.

In addition to these planned investments, Quarter 3 also witnessed elevated costs related to upfront investments and go-live costs in large deals won in the recent past, which has been already mentioned on this call. As indicated in the previous call, we continue to expect EBITDA margin to return approximately to 20% over the next 6 to 8 quarters. EBITDA is expected to begin sequential improvement from Quarter 1 of FY27.

Moving on to PAT. PAT for the quarter was INR1,026 million, reflecting 0.5% sequential increase and 6.5% decline year-on-year with a PAT margin of 10.9%. Adjusting for onetime expenses, net of tax, PAT margin would have been 11.7%. Beyond these onetime items, PAT performance was primarily impacted by

1. **Lower interest income** given the \$65 million reduction in investment and surpluses in the U.S. following the BioPharm acquisition, also coupled with lower yields due to declining interest rates in both India and U.S.

2. **Higher Depreciation and Amortization** as non-cash charges, increased from INR234 million in Quarter 2 to INR396 million in Quarter 3, reflecting amortization of the intangibles from the recent acquisition. Amortization is expected to remain elevated for the next 3 quarters before reducing by INR50 million per quarter starting Quarter 3 of FY27 and a further approximate INR25 million per quarter decline beginning Quarter 3 of FY28. We have presented additional details in the investor presentation uploaded on our website.

Both these impacted about 205 basis points at a PBT level and 156 basis points at the PAT level. With BioPharm integration-related synergies beginning to take shape, M&A-related costs tapering off and the underlying business momentum remaining strong, we expect PAT to strengthen and support EPS expansion.

The geographic mix of the business remains stable with 97% of contribution continuing to come from the U.S. and European markets. North America more specifically accounted for 71.8% and Europe 25.5% of our revenues. These numbers have moved up specifically for the Commercial Segment and North America following the impact of the acquisition of BioPharm, which is entirely a U.S.-based business.

Moving to renewals. Most of our annuity business and work orders are renewed in this period as most customers have a Jan to December fiscal. While formal documentation is underway for a few, we have closed or nearly closed terms with most contracts which are due for renewal. During this cycle, we identified pockets of customers where, depending on the centralization maturity of the client, we proactively approach them with our Gen AI-enabled solutions and have been successful in offering certain benefits on price in lieu of volume or scope expansion. Overall, the renewals were stable in value terms with these Gen AI-led forays expected to yield positive results as volumes for the new deliverables included in our work orders ramp up through the period.

Overall, we head into 2026 from a position of strength with stable renewals, significant deal wins that Manish has already mentioned. Both of these providing confidence and momentum for the year ahead. With that, I'll pause here and move to your questions. Happy to take them along with Manish. Back to you, moderator.

Moderator: Thank you very much. We have first question from the line of Vinay from Monarch Capital. Please go ahead.

Vinay: A few questions from my side. One, we've added about 7 to 8 clients in the \$1 million in this quarter, and that is organically. Anything which helped this and what kind of momentum can we see going ahead?

Manish Gupta: Hi Vinay. So, first of all, our teams are in place and now, after a bit of consolidation in the industry, we see clients are back on the table. Everybody is now thinking about what next to do, what to be implemented.

And I would say that at least in the smaller companies, the decision-making cycles are also more agile and shorter. That whole trend, coupled with the fact that we've got a solid team executing on the ground, has helped this. Suhas, do you want to add on anything?

Suhas Prabhu: Yes. Vinay, thanks for the question. This has always been our approach at Indegene to get the breakthrough, expand, get into the doors, get into larger projects. And as we transform those projects from one-off projects to larger annuity businesses and enterprise deals, we see our customers growing into that \$1 million and beyond. And the success of those forays is what reflects in the increase in our \$1 million-plus customers.

Vinay: Okay. And on the BioPharm side, how are we looking at that? Because in the last few years, in terms of growth-wise, it was a little tepid. So, are we seeing some good momentum on BioPharm post the acquisition?

Manish Gupta: It's just a quarter, but the customer conversations have been very positive. We have been taking them to our customers, and they are excited about the joint proposition. The pipeline is building up. We also had done shows with their customers. And there, the acceptance was very high.

Everyone was super thrilled that a company like Indegene has become the new home for BioPharm, which has much more specialized capabilities. We're going to see how this plays out. But overall, we are very bullish about what we can do with this business.

Suhas Prabhu: To add on to that, BioPharm, during the quarter, did \$10.3 million of revenue on a stand-alone basis. And this does not include certain pass-through costs, which are the media buying costs and are reimbursed by our customers. While typically the calendar quarter 4 is a strong quarter for BioPharm, we feel encouraged by a couple of deals that we have won which include BioPharm capabilities.

Manish already mentioned in his commentary the Tandem IP getting integrated and being offered as a single offering to our customers. And its early days on transforming the brand engagements to enterprise engagements, but we are having very serious and exciting conversations with our customers, both at BioPharm and Indegene customers.

Vinay: Okay. And just one last question. We've always kind of given the guidance of mid-teens growth. But this quarter, even apart from BioPharm, you did about 18% plus growth. So, are we looking at a stronger market ahead? And would we look at maybe growing at higher teens instead of mid-teens going ahead?

Suhas Prabhu: Vinay, we would refrain from giving out any guidance going into the future. But having said that, our performance quarter-on-quarter has increased as you saw last quarter as well as in Quarter 3. And the deal win pipeline, that Manish already mentioned, has been robust. So, we believe that this would be steady and increase hereon.

Moderator: We have the next question from the line of Sathishkumar from Kotak Securities.

Sathishkumar: A couple of questions. One is now with the brand business, acquisition of Cult and BioPharm becoming significant for Indegene, I mean, we have seen the growth in the brand businesses more than the enterprise business. So, any risk of drag on growth from these business in the near term? And second is what is the outlook for growth in the top accounts? And has the pipeline normalized for some of the accounts which were impacted earlier?

Manish Gupta:

Yes. Let me start with the last point. Our pipeline in the large accounts is robust. It's just the conversion has taken more time than what we expected it to. So overall, we believe that over the next few quarters, you'll start seeing growth in top accounts overall.

Even some of the customers where we had issues, we are gaining momentum, and we're getting back in those businesses. So that part of the equation, right now, looks robust.

Now as far as brand and enterprise is concerned, we don't see a risk of drag on growth. Because strategically, Indegene has grown from the enterprise route. But now with Gen AI, with more centralization as a theme, which is also driven by Gen AI and the pressures on the industry, we clearly see an opportunity of moving upstream, downstream from a centralization perspective.

A lot of the upstream processes are with the brands. That's where centralization will play out. It's super critical to have credibility with the brand teams. And we have acquired those capabilities, build those capabilities. Using that, we drive centralization theme at an enterprise level.

And that is clearly how customers are thinking. It's still early days. A few customers have moved on that, and that's where we are seeing traction. But given what we have seen in the industry, over time, these things become a trend. And we will be benefiting from this trend. And if you think about it, there's nobody who will be able to bring capabilities the way we do from an enterprise and brand perspective.

Moderator:

We have the next question from the line of Chirag Kachhadiya from Motilal Oswal Financial Services Limited.

Chirag Kachhadiya:

A couple of questions. So, you mentioned that the current phase of renewal cycle from calendar year's perspective. So, can you shed some light like what volume increase we are witnessing from the existing top accounts? And second, also from the new logos, what volume increase we are witnessing on YoY front? Also, from the pricing point of view, what are the trends at the moment?

Suhas Prabhu:

Thanks, Chirag, for your questions. So firstly, as I mentioned, renewals have been fairly stable. And on value terms, we're seeing this net-net to be in line with our expectation of what we started the year from an order book. And on top of it, we have added new customers where the 6-month, 3-month kind of engagements have now converted to an annual annuity business, and that is the volume increase or net value increase that we are seeing on the renewals.

Now more specifically, on the pricing front, we're not seeing any specific trends. What I would mention here is that there have been more customers where our cost-of-living adjustments have been accepted and very few where there were negotiations. And the net impact from a cost-of-living adjustment is positive.

But this impacts a very small portion of our business, given that this applies only on the time and material part of the business and a larger business is the catalogue pricing or the fixed price contracts. And further, as I had already mentioned in the call earlier, there are pockets where we have proactively gone ahead and offered certain benefits to our customers coming largely out of sharing the Gen AI-led productivity benefits that we anticipate.

And we have expanded the scope by way of adding new deliverables that we would also start witnessing in the future. Now those volumes need to crystallize in the future. So, there would not be an ability to put a hard number on that at this point in time. Hopefully, that clarifies on both your questions, Chirag.

Manish Gupta:

I want to probably just take a minute to explain this because this is fairly important, what Suhas explained. If you got to think about it, brands and marketing gets budget, Gen AI is enabling more to be done at a per-unit level. Any savings, the brand doesn't pass it on back to enterprise because they are not incentivized to do that. They are incentivized to hit revenue targets. They come back to us and say, what else can I do. And that is what we are seeing with the increased catalogue, moving upstream, downstream over here.

Chirag Kachhadiya:

One last question. At BioPharm, in your other expenses line item, anything onetime gain during this quarter, which earlier not mentioned?

Suhas Prabhu:

Yes, as you rightly observed, what we earlier mentioned, these were one-time expenses which are the legal fees, diligence fees and the like that we pay to the advisers and therefore, the 3 transactions that we did and certain associated restructuring. This was \$1.2 million in dollar terms. These are transient costs and not expected to recur going forward.

Moderator:

We have the next question from the line of Sucrit D. Patil from Eyesight Fintrade Pvt Ltd.

Sucrit D. Patil:

I have two following questions. My first question to Mr. Gupta is, as global life science companies increasingly emphasize on digital engagement, data-driven commercialization and AI-enabled solutions, how is Indegene positioning its platform and service offerings to deepen client relationships and expand its role across the pharma value chain?

In addition to this, how are you balancing scaling newer digital capabilities while maintaining execution excellence and long-term differentiation in the competitive space? That's my first question? I'll ask my second question after this.

Manish Gupta:

I could talk about your first question for half an hour. It's a very broad question. But listen, we are very excited about this what's going on in the industry at this point of time. While we started the company 27 years back, it's almost that we were waiting for this moment.

Our broader positioning right from day 1 when we started the company was that we integrate deep medical expertise, health care expertise with technology expertise. And we continued on that part. Technologies evolved over time. From early days, we are working on mobile. I keep on giving the example of PalmPilot to SCOM-based platforms, digital, mobile. And AI is something which we have been engaging with from the last 9 years. In 2016, I remember setting up the office of CTO and saying we're going to take machine learning, computer vision and NLP and start driving productivity across the board and effectively.

So that's our broad positioning as a company which brings domain expertise and technology, knows how to deploy technology and also reduces the risk of any noncompliance and customers spending much more time in educating their partner given the specialized nature of work we do.

Today, we are positioning ourselves in the market and what we are building is a next-generation company, which enables this global pharma industry to take a drug from the lab right to a patient's hands. And whatever needs to be done for that, whether it's sales and marketing, patient engagement, regulatory services, medical affairs and parts of clinical trials. Those are the areas in which we are changing how they are done using Gen AI. And customers are seeing that happen.

Now, as far as your thing about how we maintain scale and operational excellence. I think that's, as Indegene, we've been pretty good at that. The operational track record over so many years, how we have grown customers, how we have maintained ESAT, CSAT, while preserving margin. That DNA is pretty strong in the company, and we continue to invest in that. Now there are multiple other things which we are doing. We're implementing a Malcolm Baldrige Model in the company to strengthen our processes. We are automating a lot of our internal processes. We have upskilling for our employees. We have Gen AI for all as an initiative for our employees. It can go on and on across the board on some of these internal initiatives, which is something which we have been traditionally very good at.

Suhas, do you want to double click on anything?

Suhas Prabhu: Yes. Let me probably try and put some financial metrics out there in relation to this. The office of the CTO or our investments in these kind of forays that Manish already mentioned, in financial terms, is in the region of 1.8% of revenues, and this has been fairly steady over the last 3, 4 years now. So, this continues.

And on top of it, we mentioned, 1.5% or 150 bps investment for enhancing growth in future, a significant portion or a major portion of that is towards some of the acceleration initiatives in Gen AI. And therefore, we don't see any significant change in our margins hereon because we are already investing and our financials already factor these costs in our past performance.

Sucrit D. Patil: That answers my second question also. Best luck for the next quarter.

Manish Gupta: Thank you.

Moderator: We have the next question from the line of Kawaljeet Saluja from Kotak Securities.

Kawaljeet Saluja: Manish, I have a couple of questions. First is that from your presentation and initial comments, it seems like AI will augment and accelerate your growth rate rather than acting as a headwind, which is the case for the rest of the industry. Is that understanding correct? And if yes, can you just lay out in simple terms as to how AI will augment or assist your growth rate?

Manish Gupta: You're absolutely correct. We are very clear that AI is going to be a positive tailwind for us. And here is why we believe AI is going to be a positive tailwind. Let me start with a very specific thing of sales and marketing, which is where we get a significant portion of our revenues from. Enterprise Commercial Solutions was the largest segment, and we won a lot in that area.

Enterprise Commercial Segments came into existence over the last 15 years because of a few things: as digital started happening, complexity & the content volume increased many times, which was getting pumped to doctors and patients.

The tech stack complexity increased for customers, and the compliance risk increased. So, companies had to do more centralization and start taking as a theme. Some processes got centralized and we took a share of that.

Now with AI, customers are saying that I could do much more. And AI is not going to be done in a decentralized way. You think about a large pharma company with operations in 50 countries, 25-30 brands. They can't be having all their brand managers trained and requesting them to do AI. They will have to drive more centralization. That's what we are seeing with some of the early companies. And they are driving more centralization and more processes, upstream, downstream, many more high value-added processes. And when that is happening, we are positioned very well to take a large share of that. As I said, the specialized skill sets and the internal tech stack, which we have built. Now I can extrapolate the same marketing example I gave to regulatory, to safety and, over time, to clinical trials.

Kawaljeet Saluja:

Okay, that's reasonably clear. Just a couple of questions for Suhas. Suhas, first is that cash is back to where it was on a YoY comparison despite cash outflow for acquisitions. Have you taken on debt on your books? Or is that basically just an indication of strong underlying free cash generation? And what would be your OCF to PAT conversion given that there's a fairly high amount of non-cash charge in your P&L?

Suhas Prabhu:

Yes. Thanks, Kawal, and a very important observation. Thanks for bringing this up. So, cash flows have been significant, and we continue to generate significant cash. The balance is back to the past year levels despite the \$65 million for BioPharm and a little more for Warn.

The OCF to PAT ratio is 154%, given that there is significant non-cash charge, as you would understand, that the intangibles on the book need to be amortized over the period, but this doesn't obviously impact cash flows. Our cash flow to adjusted EBITDA is also a very healthy 90% during the quarter. And this enhanced ratio would continue given that the non-cash charge has increased in the P&L.

Kawaljeet Saluja:

Noted. The third question is that Suhas, and actually for Manish as well, when you look at acquisitions, they can be fairly expensive when it comes to P&L hit due to amortization and the consequent earnings dilution that it causes. So, when you look at acquisitions, is that a consideration? And if yes, how do you embed that into your decision making on whether to go ahead with an acquisition or not?

Manish Gupta:

Kawal, when we look at acquisitions, the first thing which we look at it is what value does it add to our customer stack or the solution stack. Can we take whatever we are buying and combine with what we have and take a larger market share? So that's the primary objective.

And then subsequent to that, we are also very disciplined in terms of what we are willing to pay for an acquisition, which is what you saw. This is a deal which will be sub-10 EBITDA multiple. And a company which has IP, has technology platforms. So, we are very disciplined on the overall price we are paying. That's the next filter after the strategic filter.

And after that we spend time in terms of how the goodwill, amortization, all the stuff will play out and what will be the impact. And we try to do the best over there. But we're also very clear that we are being slightly more conservative, from an accounting standard perspective. We're not going very aggressive as we have seen some other companies do. So, we have been conservative on that. But Suhas, on the last point, do you want to double click on and give your approach?

Suhas Prabhu:

Sure. And Kawal, we have also provided some additional colour even in the investor presentation on the amortization, including how these would ramp down over a period. We understand that in the short term, there might be some non-cash impact, which impacts the PAT margin. But as this is a transaction for the long term, we have consciously provided you and the street with how this would impact the margins going forward.

And the ramp down in the amortization over the next 4 quarters and then the 8 quarters should get it back to the sub 1.5% kind of a charge on our P&L. While in the near term, this might be having a higher impact on the PAT. But our cash flows will not get impacted, and we will continue to accumulate cash profits and go stronger on the balance sheet despite the non-cash charge.

Manish Gupta:

As you would see from the amortization schedule, FY28 itself, you start seeing bumps because of the lower amortization. And of course, FY29, it gets more or less normalized.

Kawaljeet Saluja:

Right. That's clear. And let me just sneak in a couple of more questions, if you permit. The first one is that, of course, the focus is always on the long term, but you have to balance that with, let's say, near-term considerations as well?

And I think one of the areas where there is basically some apprehension is on EBITDA margin because that seem to have declined. So, let's say, if you are an investor, how do you get that comfort that, let's say, if you have to lay out a trajectory on profitability, how would that shape out over the next 1, 2, 3, 4 quarters?

So, if you can just provide some broad direction, that's the first question. And second, can you detail out or flesh out your hedging policy? And does that need a relook in the context of the sharp currency moves here?

Manish Gupta:

I'll kick it off and then pass it on to Suhas. As an investor, if you look at our track record, in FY22, we took a hit on our margins to take more market share and then bought back the margins within a few quarters. And we have very clearly laid down that in the next 6 to 8 quarters, we will get our margins back to the levels we were at. And we have an internal game plan to that. Some bit of it is volume driven, but also, we see pockets where we can drive efficiency over the next few quarters.

Between me and Suhas, we are very actively tracking that and executing on that. We have laid that out. And going back, I would also see that there is track record of doing that as recently as a few years back. Suhas, you want to double click and give more details?

Suhas Prabhu:

Sure. And margins at an EBITDA level, we believe will hold and start improving going forward. Kawal, and as Manish already mentioned, there would be certain transient costs with higher growth rates, meaning higher upfront or setup costs, but these would get normalized progressively through the quarters going forward.

Coming to the second part, hedging policy. These are reviewed periodically. We had done a review 6 months ago, where we looked at the hedge accounting versus the mark-to-market accounting. We've been doing that again in the current quarter.

We'll seek input from experts. We'll have currency experts who are advisers to us on retainers as well as people from the industry and review our practices to keep it consistent with what the industry does, but also importantly, what that means for us as a business.

We believe that our policies have resulted in our financial performance is not getting impacted adversely. This is a risk management policy, and therefore, adversely, whether positively or negatively, given the drastic variations, and we believe that objective has been met. But having said that, we do review this on a periodic basis.

Moderator: We have the next question from the line of Seema Nayak from ICICI Securities.

Seema Nayak: My first question is on the change in classification. What's the reasoning behind merging Omnichannel with ECS? And second is on the margin impact, which has been very sharp. So how has the absence of wage hikes and one-time costs not resulted in material tailwinds for us? That's it from me.

Manish Gupta: Sure. Seema, as far as the merging of these segments are concerned, Omnichannel Brand Activation was single digit as a percentage of our revenues. It was around 8-ish percent of revenues last quarter.

And on top of that, what we are seeing is the line between these blocks were blurring. As I mentioned, we have Tectonic and a lot of our Enterprise Commercial Solutions is moving upstream is on the back of all the capabilities that reside in brand activation.

We have an omnichannel business sitting in Enterprise Commercial Solutions. We also believe it's going to significantly benefit from lot of the deep BioPharm capabilities that exist at a brand level. So, these lines were blurring, and we believe that these distinctions no longer actually held.

Over time, you would see larger deals happening in the Enterprise space. That's the direction we are heading into because we also believe that when change happens, enterprise wins. And we leverage the capability of brand activation. So that was, strategically, how we see the business growing, and that's why we collapsed these segments. Suhas, do you want to again give commentary on the margins?

Suhas Prabhu: Sure. Thanks, Seema. If I understood your question correctly, the wage hikes that we had in Quarter 2, why is there no impact of that in Quarter 3? Actually, the EBITDA margins on a consolidated basis has increased by 30 bps from the last quarter, which saw the wage hike.

So, this quarter specifically, there has been no additional wage hike. And the one-time costs, which is adjusted in the EBITDA has caused a 110-bps impact on the EBITDA margins. And therefore, the reported EBITDA would be 17.4%. And maybe you're also alluding to the labour code impact on our financials. Actually, there has been no material impact from the new labour code regulations of India, which has resulted in salary component changes, given the higher gratuity and leave encashment for many companies.

However, at Indegene, our comp structures have been such that we meet the threshold of 50% of our base pay being part of the total comp of our employees. And therefore, for the past many years now, our gratuity and leave encashment provisions have been at an enhanced level, exceeding 50%. And if there are further changes, we don't anticipate that to be material.

Moderator: We have the next question from the line of Sid from Fidelity.

Siddharth: One question I had on the margins and EBITDA. So, I think in your initial comments, you mentioned that EBITDA is expected to begin sequential improvement from Quarter 1 of FY27. So, are we expecting some EBITDA decline in the next quarter? Or am I getting it wrong? Or I just wanted to understand that.

Suhas Prabhu: Yes. So, Siddharth, we expect the next quarter to be fairly stable and increasing thereafter. As we have mentioned in the past, there are certain seasonality on margins. Our January to March quarter has the midyear wage hikes, which are typically minimal. The main wage hikes are in the July quarter, which is already behind us.

And in the U.S., we have the payroll taxes and benefits reset. And a significant presence in the U.S., about 700 employees, would enhance cost in the coming quarter. While the rest of the operational costs, we believe, would actually improve. These would offset some of those gains. And therefore, Quarter 1 would be where the increase is anticipated.

Also, the integration benefits, the cost synergies that we mentioned earlier in the call, have been actioned in this quarter, the benefits of which will also be seen in the coming quarter, which is Quarter 1 of FY27.

Manish Gupta: The short answer is you'll see a steady earning. It's not declining, and then the increase will start from Q1.

Moderator: We have the next question from the line of Shirish Pardeshi from Motilal Oswal Financial Services Limited.

Shirish Pardeshi: Manish, you gave a little depth on the Gen AI strategy. So, my reference slide is number 10. So, I'm more inquisitive that if I look back 7 to 3 clients or maybe top 5 and 10 clients, this scale up or the implementation or execution or inquiries, to what percentage of client it would have happened in top 5?

Manish Gupta: So Shirish, in our clients, Gen AI and AI-based products are being used. It's a very core part of our proposition. It's not a shift which is happening. Again, if you think about it, all our revenues were digital earlier. And by the way, our pricing was per unit. That's a very important part. Our commercial construct was that from day 1, we were incentivized to drive automation, drive efficiency and effectiveness. And hence, we have been investing and deploying AI-based solutions earlier which, over time, became Gen AI-based solutions in pretty much all our engagements. It's a very integral part of our operating model.

Shirish Pardeshi: And if I split ECS and EMS, where do you see this aggressive demand or maybe use cases ramping up from the client side?

Manish Gupta: Suhas, do you want to talk about it?

Suhas Prabhu: Yes. So, I wouldn't say that there is any specific trend on the demand side, Shirish. But what we are witnessing is that the pace of adoption or change in the current or the near term is higher on the Commercial side. Typically, in our past experience, it is faster in some of these initiatives compared to the Enterprise Medical side, wherein a lot is also risk management, compliance management functions, which tend to be a little bit more conservative or very deliberate and calculated in the adoption journey.

But on the demand side, I would say there's no specific trend. Both places we are seeing conversations, pipeline and demand shaping up with Gen AI embedded.

Manish Gupta: And if you just peel the deals which I spoke about, they are in both commercial and medical space.

Moderator: In the interest of time, we will take the last question from the line of Mohammed Patel from Edelweiss Public Alternatives.

Mohammed Patel: I only have one question. So, I wanted to have clarity on the investments that we are doing. So, we said EBITDA margin compression of 1.5% due to this investment. So, I wanted to understand what exactly is the nature of this investment?

Manish Gupta: So, we have hired a bunch of senior folks in our go-to-market teams, people who are solutioning, domain experts in Enterprise Commercial Solutions and Enterprise Medical Solutions, both. We have hired senior talent with some very specialized skill sets in markets. So that's some of the large investments which are there.

And of course, as Suhas alluded, in Q3, we also had some costs associated with projects which started, where we signed up orders and we started incurring costs where the revenue ramp-up will happen later. Suhas, do you want to double-click on this?

Suhas Prabhu: Yes. Thanks, Mohammed. I would also request you to go through our Q2 commentary where we have provided the breakup of the impact, the 150 bps that we mentioned. But to again emphasize on that, these were on three vectors.

Manish already mentioned the go-to-market. The second was capabilities. Senior folks who work with both the operations and the go-to-market to provide the right solution, bringing in new technologies into these solutions. And finally, the Gen AI licensing, cloud infrastructure and security costs that have been enhanced to ensure that there are the right infrastructure and controls and checks mechanisms as we start making more and more investments in this foray. We can't be left behind on those fronts. And to again make it clear, at the cost of repetition, these have already impacted us in Q3. These are not costs that will enhance in the future. This is already in the past. We had already provided that as the likely impact in Quarter 3, the full quarter impact, and that is already behind us.

Moderator: Thank you, ladies and gentlemen. That concludes the question-and-answer session. I now hand the conference over to the management for the closing comments.

Suhas Prabhu: Thank you once again for your active participation and continued interest in Indegene. We look forward to your participation in the earnings calls and such opportunities going forward. Appreciate all your questions once again. Thank you and have a nice day.

Manish Gupta: Thank you, everyone. Thank you.

Moderator: Thank you, management members. On behalf of Indegene Limited, that concludes this conference. Thank you for joining with us today, and you may now disconnect your lines.

(This document has been edited for readability and is not a verbatim record)