Sagility Ltd.

Q1 FY27 Earnings Conference Call Transcript
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Siddharth Rangnekar: Good evening and welcome to the quarter one FY 2027 Earnings Webinar of Sagility Limited. This is Siddharth Rangnekar from CDR India and I shall be your host for today. As a reminder all lines will be in the listen-only mode and there shall be an opportunity for you to ask questions after the presentation concludes. Please note that this webinar is being recorded.

To introduce the management, we have with us today, Mr. Ramesh Gopalan, Managing Director and Group CEO; Mr. Srinivas Mattapalli, Executive Vice President and Group Chief Financial Officer.

Before we begin, I would like to state that some of the statements made on today's call could be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the quarter one FY 2027 results presentation that has been uploaded to the exchanges.

I would now like to hand over the forum to Mr. Ramesh to begin the proceedings of this webinar. Over to you.

Ramesh Gopalan: Thank you, Siddharth. Good evening, everyone, and thank you for joining us for our Q1 FY 2027 earnings call. We are pleased to report a strong start to FY 2027. Our Q1 performance reflects the continued relevance of our healthcare focused operating model, the depth of our client relationships, and the disciplined executions of our teams across geographies.

Before I get into the quarter's performance in more detail, let me briefly comment on the market context. U.S. healthcare organisations continue to operate in an environment where margin protection, cost discipline, and medical utilisation management remain critical priorities. While select payers have reported slightly improved or lower medical utilisation, the broader market continues to see pressure from rising utilisation, like medical costs, increasing regulatory complexity, and membership volatility. In this context, leading payers are prioritising margin recovery, clinical and care management effectiveness, stars performance, and focused administrative cost reduction initiatives.

Against this backdrop, demand continues to favour partners that combine deep healthcare domain expertise with operational scale, technology, analytics, AI and a demonstrated ability to deliver measurable outcomes. And this aligns very well with our strategic direction of moving beyond fragmented process-led models towards more integrated, outcome driven operating frameworks that bring together domain expertise, technology and AI, operational execution, and accountability for results.

And we are starting to see traction with clients for managed service deals constructs, where we take operational ownership of, an accountability for a large part of the value chain and deliver committed outcomes at a much lower cost. We are also making inroads with Sagility Synchrony, our AI-led orchestration platform, connecting fragmented workflows across claims and adjustments, enabling faster decisions, greater operational visibility, and improved outcomes.

Our other strategic priorities are increasing our capabilities in the healthcare value chain and expanding in the mid- and small-market segments. Our CareSeed acquisition helps us on both these fronts, strengthening our capabilities in the quality area, especially for Medicare Advantage plans, and giving us 26 additional clients in the mid- and small-segment. I'll cover CareSeed in detail in the subsequent slides.

So with that, let's quickly jump into specifics for Q1. We entered FY 2027 following a successful open enrolment season, during which our teams delivered consistently across key payer programs in one of the most operationally demanding periods for our clients. As seasonal volumes normalised, we carried that momentum into Q1. The growth during the quarter was led by expansion within existing client relationships, with FY 2026 client additions beginning to scale and contribute more meaningfully, supported by sustained demand across higher value service lines.

Sagility delivered a strong start to FY 2027. Revenue for the quarter was INR 19,635 million, or $207.8 million, representing 27.6% year-on-year growth and 15.2% growth in constant currency. Organic growth, excluding CareSeed acquisition, was strong at 27.3% in INR terms and 14.9% in constant currency.

Sequentially, reported revenue declined versus Q4, reflecting the seasonal impact of open enrolment and AEP volumes that we support in Q3 and Q4. Excluding the seasonality, steady state organic revenue grew 5.1% quarter-on-quarter from $197.3 million to $207.3 million. Importantly, these seasonal revenues are recurring, and we expect the usual uptick again in Q3 and Q4 of FY 2027.

On the profitability front, Q1 adjusted EBITDA was INR 4,716 million, or $49.9 million, growing 27.9% year-on-year with a margin of 24%. Adjusted PAT increased to INR 2,697 million, or $28.6 million, up 35.1% year-on-year with a margin of 13.7%. This margin performance was delivered while implementing our annual salary increases effective April 2026 and absorbing the impact of an increase in statutory minimum wage in Karnataka and Telangana. The increase in minimum wages in Karnataka was pretty significant, and so absorbing this reflects the strength and flexibility of our operating model. And MR will cover more details about this minimum wage impact in his section.

Turning to new wins, our commercial momentum remained healthy with $35.3 million of steady state ACV signed during the quarter across 18 existing clients and 1 new logo. Before we move ahead, I want to take a moment to highlight the external recognition we earned during the quarter, an endorsement of our talent proposition, as well as our differentiated market positioning.

On the workplace front, Great Place to Work India ranks Sagility 11th amongst the country's 100 best companies to work for in 2026, and this was our first year of enrolling in the survey. ET Edge recognised us among the best organisations for women. On the market front, industry analysts continue to affirm our competitive positioning. We were named a major contender in both the Healthcare CXM and Revenue Cycle Management Intelligent Operations PEAK Matrix assessments for 2026. And Avasant recognised us as a leader in clinical and care management business process transformation in its 2026 RadarView. Next slide, please.

So this is the KPI slide. In Q1 FY 2027, payers contributed 89.6% of revenues, while providers contributed 10.4%. Our employee strength was 47,307 at the end of Q1, while quarterly voluntary attrition improved significantly to 28.6% from 38.1% in Q4 FY 2026, but was marginally higher than Q1 of FY 2026.

On the annual KPIs, following the CareSeed acquisition, we now have 109 active client groups, including 26 clients added through the transaction. Each of these 26 clients currently generates less than $1 million in revenue.

With that, let's move to the CareSeed section. So quick introduction to CareSeed. We closed this acquisition in June this year. This is a company founded in 2012, headquartered in Kansas City. CareSeed delivers on HEDIS reporting and has two platforms, Forecast which provides HEDIS reporting and quality analytics, and Harvest which delivers cloud-based medical record review and chart abstraction. So you see the numbers, $5.1 million was CY 2025 revenue with a 95% recurring revenue and a 31.4% EBITDA margin. 30 small- and mid-payer clients, but 26 additional clients as far as we are concerned with a 14-member strong team. So the core acquisition hypothesis was along the four pillars.

On the capability front, it strengthens our position in quality, especially for Medicare Advantage plans across HEDIS, CMS Stars, quality reporting, and care-gap orchestration. Technology, like I said, two modules, Forecast and Harvest. And we'll talk about the synergies and how this technology will help us to offer a more integrated quality operation. Cross-sell opportunities, 26 new clients. HEDIS as a service itself is a cross-sell opportunity because CareSeed today is a technology platform, and we can sell the abstraction services on the CareSeed platform. But more importantly, there are broader care operations that we can deliver using the CareSeed platform. And from a talent perspective, we get people with capabilities across quality, technology, and client management. And they have very established relationships across these 30 clients.

If you move to the next slide. So this is the value proposition, right? So while CareSeed does HEDIS reporting, the combination of CareSeed and Sagility can deliver an end-to-end quality operations continuum. So, it just not only provides technology to report on HEDIS, but like I said, at the minimum, we can do the chart abstraction that is required to complete the HEDIS reporting. But more importantly, we can create the chase list. We can integrate their Forecast and Harvest with our population health, AIP platform, which provides the workflow for care coaches and care managers.

And from a functionality perspective, it's just not identifying care gaps, but taking it further to care gap closure. So the member outreach, behavioural change using our whole person approach, all of this is possible, thereby delivering an end-to-end quality program for our clients. What this means is health plans can move beyond HEDIS reporting to member level orchestration, while unlocking star improvement and revenue uplift. So the synergy potential between what CareSeed offers through a technology platform and Sagility's strong clinical practice helps us deliver this end-to-end value in quality.

Going to the next section. What we also did in the last quarters, we engaged Everest Group to conduct focused research on the payer market trends and factors influencing partnership across 50 key decision-makers across payer organisations. And these were the key findings. So payers face mounting cost, workforce, and regulatory pressures. And 70% of them claim to have adopted AI, but only 10% of them reported measurable improvement. What that really means is people who are doing AI implementation on a piecemeal basis aren't seeing the returns that they expected. So redesigning large part of the workflows end-to-end is very critical before you embark on an agentic implementation of AI.

And 70% of the decision-makers identify domain-led intelligent operations as a priority, where healthcare expertise remains the vital foundation, right? So what that means is the deep domain knowledge that we consistently keep talking about is required for this workflow design and for AI implementation. And payers are also increasingly looking towards more strategic partners. And so our willingness to take accountability for end-to-end workflows, commit to outcomes is something that is resonating well with payers, and this is more increasingly going to become the key criteria in partnership decisions.

With that, I'll come back for closing comments, but let me hand it over to MR to walk you through the financial section. Over to you, MR.

Srinivas Mattapalli: Thank you, Ramesh. Good evening, everyone, and thank you for joining us today. Sagility had a very strong financial performance in Q1 FY 2027. Revenue for the quarter was INR 19,635 million, which represented a year-on-year growth of 27.6%, or 15.2% in constant currency. Excluding CareSeed, revenue grew 27.3% year-on-year, or 14.9% in constant currency. After normalising for open enrolment revenues in Q4 FY 2026, our sequential organic growth in constant currency terms was 5.1%.

Adjusted EBITDA grew 27.9% year-on-year to INR 4,716 million, with a margin of 24%. Adjusted PAT grew 35% year-on-year to INR 2,697 million, with a margin of 13.7%. Operating cash flow remained strong with cash generation at INR 3,161 million, translating into an EBITDA-to-cash conversion of approximately 70%. Collections improved with DSO reducing to 80 days from 87 days in quarter four FY 2027, comprising of 52 days of receivables and 28 days of unbilled revenue. Overall, the quarter reflects the resilience of our business with strong growth, healthy profitability, strong cash generation, and an improved working capital performance.

On this slide, let me provide you some context on the quarter-on-quarter revenue movement. Our business follows a predictable seasonal pattern driven by the U.S. open enrolment cycle. As a result, revenue strengthens in the second half of the year and then normalises in Q1 as open enrolment volumes taper off. Quarter four FY 2026 included approximately $24.8 million of open enrolment revenues, which did not reoccur in quarter one. Therefore, the sequential revenue decline should be viewed in the context of this expected seasonality and not as change in underlying demand.

The steady-state revenue trajectory remained healthy. Q1 FY 2027 included INR 0.4 million from CareSeed, which became effective 11 June, 2026. After adjusting for the open enrolment revenue in quarter four, the underlying sequential growth was 5.1%, as discussed earlier. Let me also briefly walk you through the bridge from our quarter four FY 2026 adjusted EBITDA margin to Q1 FY 2027. We exited Q4 FY 2026 with an adjusted EBITDA of 24.9%.

During quarter one, margins were impacted by approximately 40 basis points from statutory minimum wage revisions and around 50 basis points from annual salary increases. We also saw approximately 100 point reduction in operating leverage as seasonal open enrolment volumes normalised during the quarter. These headwinds were largely offset by favourable foreign exchange movements, which contributed more than 100 basis points during this period. As a result, adjusted EBITDA margin for Q1 FY 2027 was 24%, again reflecting the resilience of our operating model despite absorbing both annual compensation increases and initial impact of the minimum wage revisions.

The key takeaway from this slide is that while quarterly performance is affected by seasonality, the underlying fundamentals of the business remain strong. Importantly, we were able to maintain healthy margins despite these headwinds.

In this slide, I want to give an update on our Q1 performance in the context of our long-term performance trajectory. Over the last three years, we have consistently scaled both revenue and profitability. Our revenue has grown from INR 47,536 million in FY 2024 to INR 76,174 million on a trailing 12-month June 2026 basis, while adjusted EBITDA increased from INR 11,436 million in FY 2024 to INR 19,228 million on a trailing 12-months June 2026 basis. Most notably, adjusted PAT has more than doubled from INR 5,896 million in FY 2024 to INR 12,006 million on a trailing 12-months June 2026 basis, supported by strong operational execution and a lower finance cost base. This momentum has continued in Q1 FY 2027 with a healthy growth and resilient profitability, reinforcing our focus on delivering sustainable and profitable growth.

Turning to some of the other financial indicators, adjusted EPS continues to grow faster than revenues, reflecting strong PAT growth. Adjusted ROCE remained above 50%, reflecting efficient capital deployment and the strength of our business model. Cash conversion at 70% improved versus FY 2026, supported by healthy operating cash flows and an improved DSO performance, partially offset by earnout payments relating to a previous acquisition. Our balance sheet continues to strengthen, with net debt reducing to INR 1,110 million and net debt-to-adjusted EBITDA at 0.06x.

Next slide. While this is a busy slide, this summarises our quarterly financial performance. The quarter included two impacts from the statutory wage revisions.

First, as called out earlier, the in-quarter impact of the minimum wage revisions was INR 70 million, reflected above adjusted EBITDA. Based on the current notification, we estimate an impact of approximately 120 basis points for FY 2027 on adjusted EBITDA. Second, a one-time past service cost item of INR 151 million related to gratuity and compensated absences arising from the statutory minimum wage revisions in Karnataka and Telangana. This has been reported as an exceptional item below EBITDA.

These estimates are based on the minimum wages notification currently in effect, and any revisions to the same could result in a change to the estimated impact.

Moving on to the next slide. This slide represents the bridge from reported EBITDA and reported PAT to adjusted EBITDA and adjusted PAT. Adjusted EBITDA excludes M&A earnouts, stock appreciation rights, other income, and foreign gains and losses. Adjusted PAT further excludes intangible amortisation and exceptional items.

For Q1 FY 2027, it also excludes the one-time impact of the minimum wage revision recognised during this quarter. These adjustments are consistent with the way we represent underlying operating performance and are intended to help investors assess the performance on a comparable basis.

Moving on. This slide represents our forward-looking position of debt repayments, share price payment awards, M&A earnouts and intangible amortisation. We remain on track to fully repay our outstanding debt during FY 2027. This will further strengthen our balance sheet and reduce finance costs. The changes in FY 2027 are primarily driven by the CareSeed acquisition debt repayment and foreign exchange movements.

Moving on. Our balance sheet continues to remain very strong. At the end of Q1 FY 2027, we had INR 9,674 million cash and cash equivalents, providing significant flexibility to invest in strategic priorities and initiatives.

We'll continue to follow a prudent capital allocation approach, balancing growth and investment and balance sheet flexibility.

This slide summarises our cash flow performance. We generated INR 3,161 million of operating cash flow during the quarter, and our free cash flow was INR 2,416 million after fixed asset additions of INR 745 million. During the quarter, we paid cash for M&A of about INR 1,360 million.

Net cash used in financing activities for INR 566 million, primarily reflecting repayment of borrowings and lease liabilities. We remain confident in our ability to sustain healthy cash generation while continuing to invest in growth.

With that, I conclude my remarks. Thank you for your time, and I'll now hand the call back to Ramesh for his closing comments.

Ramesh Gopalan: Thanks, MR. So in closing, we continue to execute on our long-term strategy of enhancing our service capabilities across the healthcare value chain, expanding into mid- and small-payer market, and investing in tech, analytics and AI capabilities to deliver on the transformative managed service deals. Our strategy is bearing fruit as we continue to see steady growth in our top-line against an industry backdrop of muted growth. While the operating environment remains dynamic and deal timing can be difficult to predict, we remain confident in our revenue outlook and reiterate our FY 2027 guidance of low double-digit organic growth in constant currency. On margins, we are maintaining our 24% to 25% guidance despite absorbing 120 basis points incremental impact from minimum wage increases in Karnataka and Telangana.

If the eventual outcome on minimum wages results in a lower impact, we could be at the upper end of that range or even higher. By the end of Q2, particularly as we enter the OE and AEP season, we expect greater visibility into the full-year outlook and will provide you a better update in our next earnings call.

With that, I'm happy to take questions and hand it over back to Siddharth.

Question-and-Answer Session

Siddharth Rangnekar: Thank you. Participants who wish to ask questions, kindly click the Raise Hand icon at the bottom centre of your screen. We will wait for a moment for the questions to assemble. We take the first question from Akshat Agarwal of Jefferies. Your line has been unmuted.

Akshat Agarwal: Yeah, thanks. Thanks for giving me the opportunity. Hi, Ramesh and Srini. Impressive numbers, I must say. So please accept my compliments. I had three questions. Firstly, what is the proportion of our employees on statutory minimum wage that are residing in Karnataka and Telangana? I'm just trying to ascertain if other state governments increase minimum, statutory minimum wages, what is the kind of impact that is left for us to take? That's the first one.

Secondly, I assume that the 120 basis points margin impact in FY 2027 is recurring in nature. If so, does the company have a way to recover this in the future, say in FY 2028 or subsequent years? And finally, what's driving the strong 5% sequential growth in the underlying revenues in Q1 If this trajectory is likely to sustain, why the low double-digit growth guidance despite the strong showing in Q1 That's all from my side. Thanks a lot.

Ramesh Gopalan: Thanks, Akshat. I'll answer some of them and MR can answer the others, right? So on the first question, as you know, our operations in India, predominantly are centred in Karnataka and Bangalore. We also have exposure in Hyderabad, which also went through Telangana, also went through a minimum wage hike this quarter. The rest of the operations are across Tamil Nadu and we just started operations in Indore, so much smaller; and we have some operations in Mumbai. So much, much smaller compared to Karnataka and Telangana. That's the answer to the first question. Roughly from a percentage terms, I would think that less than 15% to 20% of our employees are in states outside of Karnataka and Telangana.

Your second, I don't know if it's the second question, the 120 basis point impact. Yes, of course, it's not an impact that we anticipated at the beginning of the year. Like you said, it's not something that you can easily mitigate within the year. But we've already started thinking about ways to mitigate this impact. Like I said, we are expanding in states outside of these states and we'll continue to focus a lot more of our expansion in those states.

Secondly, operational efficiency is something that we anyway work on year-on-year, right? As I've explained in the past, our ability to retain margins is based on generating better operational efficiency year-on-year. And so this gives us an additional impetus to work harder on those operational efficiencies. And that's part of the reason how we believe we can absorb the impact even in the same year. But the full impact in terms of mitigating that will probably take another 12 to 18 months for that to play out.

The last question. Look, the sequential growth, I wouldn't read too much into it. The sequential growth between quarters, we're not saying will continue to be at the same levels. But having said that, we are continuing to see traction across all of the clients. As I've mentioned in the past, we continue to derive a large part of the growth from existing clients. And the fact that our existing client base has grown over the last two, three years gives us additional opportunities for growth. Also, like I mentioned in my remarks, the new clients that we added in FY 2026, we are starting to see growth in those clients as well.

So overall, it's pretty broad-based growth across the client base, as well as in the high-value areas like clinical and so on. That's what is driving growth. The 5% may not continue every quarter. Overall, for the fiscal year, like I said, we're very confident of delivering double-digit growth. And towards the end of Q2, if the OE season pans out as we expect it should, we should be able to provide you much closer guidance.

Srinivas Mattapalli: So let me add a couple of items onto what Ramesh has just said. One, from an impact perspective, what it means is not only the folks who are on minimum wages get a hike to ensure that they are at that level. There's also cascading impact on people about to ensure pay parity across, right? It impacts a larger portion of people than the base associates whose salary is directly impacted, and that is translating into this entire 120 basis points impact. As a proportion, about 65% to 70% of our headcount is in Bangalore and Hyderabad, which are impacted by these minimum wage revisions.

Akshat Agarwal: Thank you so much. That's all from my side.

Siddharth Rangnekar: Thank you. We move on to the next question from the line of Baidik Sarkar. Your line has been unmuted.

Baidik Sarkar: Ramesh, Srini, Abhishek, hi. Congrats on a strong quarter to the entire team yet again. Very strong headline numbers in terms of your organic growth Y-o-Y. Would it be possible to break this down into the volume growth across the new clients that we've onboarded in this quarter?

Ramesh Gopalan: Baidik, we couldn't hear you clearly. It was very choppy. Could you repeat that question?

Siddharth Rangnekar: Baidik, you were not clear. Request you to repeat your question.

Baidik Sarkar: Yes. No, let me just try again with the question again. I was just trying to understand if you could break up the 15% growth into volume growth from existing clients and the volume growth from the clients you have onboarded in FY 2026, which you alluded to. I am just trying to assess if the pipeline of the ramp-up from our existing clients, given the cost pressures that you spoke about. I am just trying to understand how strong the ramp-up from thereon has been. Because you seem to continue with your guidance of lower double-digit, which in the context of where the macros are, might be conservative, which is okay. But I'm just trying to split this growth of 15% between the newer clients and the older clients, and if there was a pricing lever, if at all that we exercised in this quarter.

Ramesh Gopalan: No, the last part is simple to answer. There were no pricing levers that we exercised, right? I've continued to say this in the past. Given the situation of our clients, the movement in prices is in the opposite direction, right? So there's more pricing pressure than any price increases that we would get. So there is no revenue growth because of price increases.

To your other question, split up the growth from FY 2026 clients to others. I don't have those numbers handy. We can come back to you with those numbers. But broadly, if you look at it, even the deal wins that we've been quoting every quarter, the ACV number that we've been quoting, that comes from at least every quarter in the last three, four quarters that we've quoted. Those wins come across 15 to 20 clients at a minimum every quarter, right? So the growth is pretty broad-based across clients. But if you can see the percentage of our top three, top five, they also continue to increase.

So our top clients, to your question on clients under pressure, yes, they are continuing to look at additional opportunities. We are continuing to sell additional services to those clients. And it's just not the volumes of the same work that we do, but it's also additional services that we manage to sell into those clients. But specific numbers, Baidik, I don't have it handy, but we can come back to you.

Baidik Sarkar: Yeah. So just a quick follow-up on that, Ramesh. You've been alluding to cost pressures and claims ratios in the U.S. for a while, I mean, that's public data. And the fact that most of our incremental work is ROI-based managed services, right? For which the offtake is pretty good. So in that context, a bit of a futuristic question. Should one assume that the only constraint to your growth is your ability to kind of scale up your delivery? Because I mean that's what the industry macros are suggesting, right? There is cost pressure, very little outsourcing. So what's the constraint? I mean, I know it's a bit of a pie in the sky question, but yeah.

Ramesh Gopalan: Yeah. No, I mean, you made it so simplistic. No, but on the contrary, scaling up execution is the least of our concerns, right? So I'm not trying to be arrogant, but we've always executed well. And our ability to scale up execution is probably one of our strengths. And as we scale, we still continue to deliver the same level of quality, right? Some of these managed service conversations take time, right? So for example, we are in active conversations on a number of such opportunities, and we've been in those conversations for three to six months, right? So some of these deals do take time, so timing is an issue.

And to your other point, I wouldn't say that all deals that we are winning are managed services deals, right? That's the direction we'd like to move. There are active conversations on managed service deals that we are currently having. But it isn't that every client that we are talking to is talking of a managed service contract or on an outcome basis and so on. We still continue to win specific process level work on an effort basis, be it FTEs or transaction rates, right? So that mix still continues to be there.

Baidik Sarkar: Right. And if I can just squeeze in one last question. I know you did allude to clarifying this after Q2. But the open enrolment season in Q3 and Q4 for us was, I think slightly ahead of expectations. Given conversations that you might be having with your clients today, any indicative trend as to which way that number might be going? Because we're coming off a very strong base from last year.

Ramesh Gopalan: Yeah. Look, the proportion of seasonal revenue to total revenue, we believe will continue in the same way that we had last year, right? With the addition of BroadPath, you're right, our seasonal percentages have gone up. And those percentages will most likely hold for FY 2027 as well. But the specifics of what exactly those seasonal revenues will be, look, most plans would be finalising their bids by this time. So we'll get to know specifics only by September. So that's why I said when we meet again in October, we'll have a much better sense of where those volumes will land, depending on individual client requirement. But overall, the seasonal revenue proportion to the total revenue, we believe will continue to be at the same levels as FY 2026.

Baidik Sarkar: Got it. Just heading into Q2, unless there is a dramatic client churn, is there any reason to believe that we will not continue with this level of organic growth on a Y-o-Y basis?

Ramesh Gopalan: Baidik, you're asking the same question multiple ways, right? So we are still guiding to low double-digit growth, right? So yes, we did 14.9% organic year-on-year growth. Will it be exactly that number, plus, minus some number? But yes, definitely, we are reasonably confident of delivering the double-digit number.

Baidik Sarkar: Okay. Thanks, Ramesh. Best wishes.

Ramesh Gopalan: Thanks.

Siddharth Rangnekar: Thank you. We move to the next question on the line of Rohit Thorat from Axis Capital. Your line has been unmuted, Rohit.

Rohit Thorat: Yeah, hi. Thank you for the opportunity, and congratulations on a good set of numbers. My first question is on growth in top fourth and fifth client. If I look at TTM revenues in that cohort, revenues have remained relatively, like the growth has remained relatively soft, whereas every other cohort has done well. So any comments on that? Why growth is a bit lower on specifically on top fourth and fifth client compared to?

Ramesh Gopalan: Yeah. When we look at numbers, not every client grows every quarter. Right? Specifically, to answer your question, one of the clients in that cohort, we are moving a large volume from delivering onshore to an offshore location, right? So and I've mentioned this in the past, this is a very, what should I say, very recurring part of our business where clients start some piece of work onshore, and over a period of time, they would like us to migrate that work to an offshore location. And that is actively happening in a large line of business for a specific client as we speak. And that's what is actually a reduction in revenue for the client, which is bringing that whole cohort down.

Rohit Thorat: Okay. Second question is on the margin part. So you have kept adjusted EBITDA margin unchanged at 24%, 25%. You are already at 24% in Q1. Going forward, there aren't really any margin headwinds for you. So any reason why you have not increased basically lower end of guidance? Do you foresee any potential margin headwinds which might impact margin going forward for KPI?

Ramesh Gopalan: See the first answer is the minimum wage impact for this quarter was only for a month and a few days, right? Because it was effective May 23rd in Karnataka. And we'll have a full quarter impact going forward from next quarter, right? That itself is almost more than double the impact that we had this quarter, right? So it's not the same. Beyond that, like MR mentioned, our hedges were also taken last year at a much lower value, right? Although it won't play out on the adjusted

EBITDA, it'll play out in the actual EBITDA and EPS. The full impact of minimum wage will be felt in Q2. And like I said, 24% to 25% is a broad range. We believe that at this point, we should do better than the lower end of that range. But we still wanted to see the impact of this minimum wage before we commit to a number. And we'll give you a more narrower guidance as we come to the end of Q2.

Rohit Thorat: Yeah. Thank you. Those were the only questions from my side.

Siddharth Rangnekar: Thank you. We move to the next question from the line of Vamshi Krishna from Kotak. Your line has been unmuted.

Vamshi Krishna: Hey, hi. Thanks for the opportunity, and congrats for a good set of numbers. Ramesh, so my first question was on M&A. So with CareSeed, I think on the Investor Day you had alluded to two acquisitions in clinical services. I'm assuming both would be in care management. So how close are we for the other acquisition that we had planned, and what are the typical valuations of these assets? And second is that between BroadPath and CareSeed, we have added over 55 mid-market clients. Where are we in terms of cross-sell, and can CareSeed acquisition help in acceleration of revenue growth in the top three and top five client cohort as well?

Ramesh Gopalan: I got the second question, Vamshi. First question, I wasn't sure I got the full question. So you want to know what other acquisitions we are thinking of or what was the first question?

Vamshi Krishna: Yeah, which are the areas? Is it predominantly care management itself or it is...

Ramesh Gopalan: Yeah. On that, Vamshi, it's a function of, yes, areas that we want to increase our capability and what's available in the market. Clinical is a space that, like I said, it's an area that's seeing tremendous growth and it's an area that in which we are already strong. But for example, this is quality, but we are extending the quality, like you said to closing care gaps on the care management space. So other capabilities around these, we'd still be interested.

Like I've also mentioned on the past, while we are always interested to add capabilities on the provider side, when a lot of the RCM targets that came out didn't clearly add to our capabilities and the valuations were pretty high. But we continue to look for opportunities in the provider space, again, which can give us both capabilities that we don't have or increase the strength of our capabilities as well as give us access to new clients, right? So those are two areas we're definitely interested.

And anything specific to technology capabilities in the healthcare space, if we come across, we might be interested in more broader set of capabilities in the technology space. So those are the two, three areas that we would be looking at. What was your other question?

Vamshi Krishna: The second question was on the mid-market client acquisitions, which you...

Ramesh Gopalan: Yeah. Good question, right? So I think you're right. We've added a significant number of mid-market and small clients through these two acquisitions, BroadPath and CareSeed. So it gives us a good platform for us to sell it to those clients. But these clients, I mean, for example, BroadPath, while we didn't discuss, we continue to see a lot of good traction in the cross-sell opportunities in BroadPath. We have six or seven opportunities and active conversations in the pipeline on BroadPath clients as we speak. CareSeed also, we're very bullish in terms of starting the cross-sell, right?

Our ability to take the CareSeed capabilities to larger clients, I mean, that is something that is yet to be seen, because, as you know, the technology platform that CareSeed currently delivers to is targeted towards the mid-market. Most of the large clients will already have established players for quality reporting. The platform play itself may not be the opportunity for larger clients. But the combined CareSeed plus services, if there is a way we can package it to deliver some of the care management programs, then that could be an opportunity with large clients. But the cross-sell opportunities in the mid-market is pretty high.

Vamshi Krishna: Got it. I have just one more follow-up. Last year, I think some of your large clients, there was aggressive enrolment during the second half because of which you had indicated some $3 million incremental higher revenues than you had planned for the seasonally strong volumes. So when you say the seasonal strength will be recurring, you're including this surprise, or is that not really included?

Ramesh Gopalan: Not to that level of specificity. Like I said, when our seasonal revenues were more like the 3% prior to BroadPath, and now it's almost double at close to 6%. That's what I meant that we would still have that level of seasonality even in FY 2027, right? In addition to BroadPath, we also got, yes, we got additional seasonal opportunities on the clinical space, which we hadn't done before FY 2026. And that is likely to recur in FY 2027 as well.

Vamshi Krishna: Got it. Those are the questions. Thank you.

Siddharth Rangnekar: Thank you. We move to the next caller from the line of Rishi Jhunjhunwala of IIFL. Your line has been unmuted.

Rishi Jhunjhunwala: Yes. Thanks for the opportunity. Ramesh, firstly, some of your peers have been hinting towards some tightening of spending around some of the payers in the payer market in U.S. Has it in any way affected us as well? I know you're reiterating your guidance on a full-year basis, but is there any kind of spending pattern change that you have witnessed there?

Ramesh Gopalan: On core operations, Rishi, I mean, it may be very client specific, but we are not seeing any general slowdown. Like I said, cost pressures continue to mount and clients continue to look for opportunities where they can take out costs, right? If we have a good value proposition, we believe there is still opportunity out there. In response to Baidik's question, like I said, sometimes when you bid on a larger outcome-based managed service deal, it takes time. But other than that, I don't see any gentle slowing down, or at least we are not seeing in the conversations that we are having.

Rishi Jhunjhunwala: Got it. The other thing is, the other question is around penetration in top 10 national insurers. Please correct me if I'm wrong, we have reasonable exposure to 6 out of those 10. Just wanted to understand what do we need to do either from a buy or build perspective to have reasonable exposure to all 10 of them.

Ramesh Gopalan: Look, I've answered this question before, right? So the top 10 insurers also are the ones who have done outsourcing for the longest time, right? So it is in that, we're actually in 7 of the 10. It isn't that the other three haven't outsourced. So all the traditional opportunities might have already been outsourced. We are constantly trying to see what are some of the other areas where they haven't outsourced where we can penetrate. Like I said, clinical is an area, payment integrity is another area. So these are areas that we are constantly having conversations with them on. If we get in, it'll typically be in some of those areas where they haven't either traditionally outsourced or not outsourced to the same extent as probably claims and enrolment, right? So that's how we view entering other top clients where we are not present today.

Rishi Jhunjhunwala: Got it. And last question is on margins. I think you've maintained the margin guidance for the year, whereas the 120 bps, the minimum wage impact is an incremental headwind that has come through. A large part of that is getting offset due to currency, or do you think that the underlying operating margins are surprisingly better than what you were anticipating at the beginning of the year?

Ramesh Gopalan: Both, right? Currency has played a part and helped us to retain the guidance. As all of you know, that currency has depreciated quite a bit in the last three to six months. So that's definitely an impact. But even otherwise, even in the underlying forecast, we had some efficiency initiatives planned, right? We are continuing to execute on those, and we'll increase our focus in some of those initiatives. It's a combination of both, right? It's both the exchange rate movement as well as some of the efficiencies we are trying to generate.

Rishi Jhunjhunwala: Got it. And last question, Ramesh, is just in terms of M&A and the pipeline around it. You've done two now in the last five quarters. What are you looking at from an M&A perspective going forward? Do you believe some of the client acquisitions can be driven through M&A, if not being able to pass through? And as a result, do you have targets in mind, or do you believe there could be some capabilities buys that you can potentially look at?

Ramesh Gopalan: At least in the space we are in, it's very difficult to do an M&A because somebody is in a specific client, right? It's mostly around capabilities. Like I answered the previous question, clinical areas, the provider side, some technology capabilities. These are broadly the areas where we are looking at acquisitions currently.

Rishi Jhunjhunwala: Okay. Thank you so much. All the best, Ramesh.

Ramesh Gopalan: Thanks.

Siddharth Rangnekar: Thank you. We move to the next participant, taking the question from the line of Seema Nayak of ICICI Securities. Your line has been unmuted, Seema.

Seema Nayak: Yes, thanks for the opportunity. My question is regarding client addition. Q-on-Q client addition is at 27, and 30 new clients have been added from CareSeed. So does that mean active clients have reduced for the core business? And are these large clients or smaller clients?

Ramesh Gopalan: No. Seema, the question, we clarified, right? CareSeed had 30 clients, but out of the 30 clients, there were some common clients, right? So 26 client groups were the new additions to us.

Seema Nayak: Okay, got it. And can you mention the BroadPath revenue contribution?

Ramesh Gopalan: MR, do you have the specific numbers? BroadPath has been fully integrated into the business, right? Go forward, the numbers we can give you is the clients that came in as BroadPath clients, their revenue share we can give. But today, any new sale that we are making, any new logo that we are winning, it's very difficult to say, is it a BroadPath client or a Sagility client, right? It's a combined team now. MR, do you have the revenue number for BroadPath clients?

Srinivas Mattapalli: Yes. I think it's difficult to split, but we will come back to you on that.

Seema Nayak: Sure. So you had earlier mentioned that the expectation for AI-led deflation is up to 2%. So where does that number stand for you now?

Ramesh Gopalan: Yes. That's more of a range, Seema. We don't measure it on a quarter-on-quarter basis. Like I said, for us, the deflationary things are around two, three areas. One is the question on the cohorts that someone asked. When volumes move from an onshore geography to offshore geographies, there is obviously revenue deflation. So that's one thing. Technology, not just AI, even when we did other kinds of automation, we could reduce the manual effort and some part of the savings go back to the client. Now with AI, that's the third factor. So all of this put together is what I historically said, even before we had 100 to 150 bps and that could increase to 200 bps over the near future and maybe even go higher in the future. But specifically, we don't have a means to track that on a quarter-on-quarter basis. But we can give you a broader sense of that in the next quarter.

Srinivas Mattapalli: Just to add, Seema, that number is approximately 13.5 million to 13.6 million for BroadPath in quarter three. Quarter one, sorry.

Seema Nayak: Got it. Thank you and all the best.

Ramesh Gopalan: Thanks.

Siddharth Rangnekar: Thank you. We move to the next caller. The question is from the line of Sameer Pardikar from Elara Capital. Your line is unmuted. Sameer, your line has been unmuted.

Sameer Pardikar: Yeah. Is it possible to give a breakup of seasonal revenue for last year, maybe quarter three and quarter four of last year, FY 2025?

Ramesh Gopalan: Sorry, what is the question?

Sameer Pardikar: I was asking whether it's possible to give a seasonal revenue that we have given for this year, quarter three FY 2027, quarter four FY 2026. Is it possible to give for last year, quarter three of FY 2025 and quarter four of FY 2025?

Srinivas Mattapalli: Yes. As I think Ramesh said, the proportion was much lower. We did about $20 million in quarter three and quarter four of FY 2025 combined.

Sameer Pardikar: Combined?

Srinivas Mattapalli: That number increased to $50 million last year.

Sameer Pardikar: Sorry, I missed that. You said $20 million combined of quarter three and quarter four, right?

Srinivas Mattapalli: In FY 2025, I mean, which was about 3% odd of our revenues. That increased to about 6% of our revenues and about almost $50 million.

Sameer Pardikar: When you mentioned that the seasonality that will be decided, intensity will be known only on the quarter two of this year. What basically drives this from maybe $10 million to $15 million a quarter to $25 million a quarter, the difference of incremental $10 million. So what is basically driving that?

Ramesh Gopalan: Look, there are two factors, right? Last year, the increase was two reasons. One, the addition of BroadPath. BroadPath does a lot more seasonal business because they help clients with Medicare sales and enrolment. So that's a seasonal business, and so that increased the proportion. Like I said, we also got a seasonal clinical work from one of our clients.

We could see an increase because most of the times the way it works is when clients prepare themselves for Open Enrolment season, things that we have done in the past, clients traditionally come back to us and ask us to support them. There may be clients who, when they sit down to look at what their projections are, if they feel that they don't have enough capacity to handle that in-house, they may give us additional work for that period. Right?

So that's the part that we wouldn't know until closer to end of September. Typically, the work that clients have relied on us for open enrolment season, they will come back to us this year as well for that work.

Sameer Pardikar: Okay. Logically, the incremental, you say from $10 million to $25 million is incremental is coming from BroadPath only. Logically, the organic number, or we can say the number should be around $10 million to $15 million. I'm not asking for a number as such, but this number might see some decline, not exactly $24 million will be coming up for this year. Is it the right assumption?

Ramesh Gopalan: Why would you say that? BroadPath is now part of Sagility, right? Why would that change?

Sameer Pardikar: Okay. Is it safe to assume that same number will repeat for it?

Ramesh Gopalan: That's exactly what we are saying, right? We are saying it was 6% in FY 2026. We expect it to be a similar percentage for FY 2027 as well.

Sameer Pardikar: Yeah. Because...

Ramesh Gopalan: Similar percentage that's what we are saying.

Sameer Pardikar: Because for this year, the Y-o-Y growth has been quite on lower side, because the base now is up because of the quarter three and quarter four numbers. So just to understand what will drive us to go back to the strong high teen kind of a number from here on. The number for quarter three and quarter four has to be a similar number. That is what my context is. Second was, basically, you mentioned 120 basis points of wage hike includes the incremental impact of this Karnataka and Telangana wage increase. Is it the right assumption?

Ramesh Gopalan: The 120 bps impact is the minimum wage increase across Karnataka and Telangana. Wage hikes are separate and we are not giving you the percentage of that because that was factored into our planning.

Sameer Pardikar: So incremental wage hike impact will be recouped by what we are trying to do here?

Ramesh Gopalan: MR, you want to take that?

Srinivas Mattapalli: Yes. It's going to be a combination of obviously operational efficiency and some impact from our gains from FX as we go forward. If you remember last time, we did talk about the 24% to 25%, and being on the upper end of that number as if FX continues to remain at those ranges. Since it has remained at those, we are now confident of our ability to absorb that 120 bps and still be in that range of 24% to 25% margins.

Sameer Pardikar: Sure. Thank you. Thank you for the opportunity.

Siddharth Rangnekar: Thank you. We move on to the next question from the line of Rishabh Mehra of Demeter Advisors. Your line has been unmuted. Rishabh, your line has been unmuted.

Rishabh Mehra: Hi. I just wanted to get some perspective around your thoughts on, one, do you all expect your clients to see any more insourcing and stuff as they're getting tighter margins in the environment they're in? And secondly, have there been any conversations with them around trying to deflate revenue due to perceived AI gains? Those are the two main questions I have.

Ramesh Gopalan: The first question, I'm not sure. The basis for your question, right? As you probably know by now, we handle core operations for our clients, right? And insourcing this work, especially if it's not done in the U.S., if it's done in a different geography, will only increase the cost to the clients. So when they're under cost pressure, that's not the direction that they are likely to go. Right? So insourcing it from an offshore location to their own sites is only going to increase the cost. Right? So that's unlikely to happen. Your second question, yes. Obviously, the expectation of every client is can AI be used as a lever to reduce operating costs, right? Like I showed you in the research done by Everest, most of them have reported only very marginal improvements. They've not got the benefits that they anticipated.

Our value proposition to the clients is, look, if you are able to give us a significant part of the workflow, then we will be able to redesign those workflows and introduce agentic workflows and commit to a cost takeout, right? So that's our value proposition to the client, which is aligned to their objective of cost takeout in operations. Right? But the broad answer to your question is, yes. That's exactly what the clients want. But they've not been very successful in seeing those gains so far.

Rishabh Mehra: Got it. Thank you. My second query was just around this new ESOP pool that you all had announced, which is supposed to be around 3% of your equity. Has any impact on bottom line been decided on that? We'd say that we'll revert after the Board meeting?

Ramesh Gopalan: No. We are still going through the various approval processes. We still haven't reached the stage of grants and so on. But once that happens, in a subsequent earnings call, we'll report that.

Rishabh Mehra: Got it.

Srinivas Mattapalli: The 3% is obviously not for one year. It's over a period of time for which the grants will be applicable. It will be in-line with what the rest of the market also sees.

Rishabh Mehra: Okay, thanks. And my last query was just around a couple of your line items. In your Investor Day, someone had mentioned that you all will see a large change in your internal efficiencies because you all are pushing a lot of AI internally as well. How would you see your IT investments and your other cost and your head count growth change over the next year or two years?

Ramesh Gopalan: See, I'll ask MR to take the investment question. On the impact. The impact is, look, the work that we do for our clients is what will impact head count, right? If I'm, let's say, doing a process for a client with 100 folks, and if the client allows me to use AI or implement AI and other transformation technologies, I may not require 100 people, but may require 80 people, right? The internal transformation that we are doing is more around all of the support functions, right? Can I hire more efficiently using AI? Can I train people more efficiently using AI, right? That's not really going to reduce your head count, but it's only going to, for example, reduce the speed to proficiency in my training.

Today, if I'm taking six weeks to get somebody proficient, can I take the help of AI and reduce the training timeline to four weeks, right? So those are the kind of efficiency initiatives that we are working on in internal transformation.

Rishabh Mehra: Got it. Thank you. That's it from my side. Thanks for the opportunity.

Siddharth Rangnekar: Thank you. We take the next question from the line of Arvind Arora from A Square Advisors. Your line has been unmuted.

Arvind Arora: Most of the questions have been answered. There is just one clarification. As you are saying, the shift from onshore to offshore, so it's a margin accretive for us, correct?

Ramesh Gopalan: In the general sense, yes, it should.

Arvind Arora: Okay, understood. Okay, thank you.

Siddharth Rangnekar: That was the last question for the day. We thank the members of the management for their time and the participants as well. This concludes the call for the day, and you may log off this event.

Ramesh Gopalan: Thank you.

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