



“Expleo Solutions Limited
Q4 FY '26 Earnings Conference Call”

May 14, 2026

MANAGEMENT: MR. RALPH GILLESSEN – CHAIRPERSON AND NON-EXECUTIVE DIRECTOR – EXPLEO SOLUTIONS LIMITED

MR. PHANI TANGIRALA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – EXPLEO SOLUTIONS LIMITED

MR. P. PALANIAPPAN – CHIEF FINANCIAL OFFICER – EXPLEO SOLUTIONS LIMITED

MODERATOR: MS. ASHA GUPTA – ERNST & YOUNG LLP

Moderator: Ladies and gentlemen, good day, and welcome to Expleo Solutions Limited Q4 FY '26 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from E&Y LLP, Investor Relations. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Nirav. Good morning to all the participants in the call. Welcome to the Q4 FY '26 Earnings Call of Expleo Solutions Limited. The results and press release have already been mailed to you, and you can also see the same on the company's website. In case anyone does not have the copy of press release and presentation, please do write to us, and we will be happy to share with you.

Representing the management today, we have Mr. Ralph Gillessen, Chairperson and Non-Executive Director; Mr. Phani Tangirala, Managing Director and CEO; Mr. P. Palaniappan, CFO, whom we will be referring to as Mani. Phani will start the call with a brief overview of the quarter and year gone by, which will be followed by Mani, who will be giving you the brief update on the financials. After that, we will open the floor for Q&A session.

As usual, I would like to remind you that anything mentioned in the call, which gives any outlook for the future, or which can be construed as forward-looking statements must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find on our website.

Having said that, I will now hand over the floor to Mr. Phani. Over to you, Phani.

Phani Tangirala: Thanks a lot, Asha, and a very good morning to all, and thank you for joining this call and continuing your trust on Expleo. So, let me start by informing that we have done a good quarter and delivered a good result in Q4 FY '26 with income up by 14.8% year-on-year, 3.1% quarter-on-quarter and 15.5% on the EBITDA. I would say this growth is primarily from various factors.

I would categorize them into 4 major categories. The good news is the Europe started to lead us from the front. There has been a significant movement with their own European cost pressures. There is significant work flowing in, and that resulted in Europe leading it from the front, which is the fastest-growing region for Expleo. So, that is one.

From a sector viewpoint, we have banking, financial services and insurance on the technology side and aerospace defense on the engineering side have performed extremely well. Primarily, this is an outcome of BFSI being one of the pioneers in adopting technology faster than anyone else.

And we are being one of the very few who have embraced the AI way in 2023 and started doing POCs in 2024, we started seeing that. And I would say today that there is not even a single

financial services proposal that goes out without AI element into it. So, they are very fast in terms of adopting technology.

And aerospace defense, this is something which I have been saying quarter-on-quarter and in our earnings call even before that probably attributing to the global scenario, there has been a high spend on defense and aero has been doing very well, and we have a very positive outlook even for the upcoming year as well.

And the third area where I see things attributing to the growth is our internal revenue is picking up, which is extremely good news, and we foresee this trend to continue given the European situation, what we see.

And the last driving factor, obviously, is our forex gains. I mean that has a decent impact on the growth. So, these are the 4 major areas which have propelled our growth, and we will see to that this is at least maintained in the quarters to come.

Having said that, let me also talk about the pressures. The pressures on margin, pressures on revenue will continue to be there. I mean this is not something only to Expleo. This is a global trend that we are observing. The total ticket size is shrinking with advent of artificial intelligence and its services. The ticket size is coming, and the engagements have become shorter.

So, the only way we want to overcome this is by increasing the volume rather than going after big ticket items, which may not be the way to go in future. This continues. But the other part of it is we are in a juncture at this point of time where we have to start cannibalizing our own revenue by infusion of artificial intelligence. This is not a favor anymore. This is a demand.

Most of the customers are expecting any new proposal, any new work to have a significant element of AI, may not be so much in the engineering services where the AI adoption is very less. But on the technology side, it is significant where our bulk of business is. And more so, as I told, in financial services, the adoption is much more higher.

So, literally, no financial services proposal today goes out without having an AI element. So, that results in the new business ticket size to be smaller. And also, for the existing business, the renewals will have a significant element of AI, thereby cannibalizing a bit of our revenue to stay relevant. We don't do, somebody else will offer them to do. So, we are proactively doing that. This may have some pressure initially, but the success of it will only see a multiplication factor applied thereafter.

So, from that point of view, we stand a clear advantage. This is what something which I've been saying in every earning calls as well that we have an advantage of an early world. We have put the expleo.ai platform much ready last year. And this year, we can proudly say that 15% of our revenues are influenced by AI. So that puts us in a place where we are leading it.

But I mean, this is where the sustenance matters. We have to continue to be invested. We are improving expleo.ai on a constant basis with the R&D going into there because the others will catch up very, very soon.

So, having said that, let me also spend some time on the upcoming year. I would say that this strategy, we have divided into 4 major areas or 4 major focus areas or levers.

So, this year, our heavy focus will be to new logo acquisition compared to the last year where we have taken a strategic call of spending more time on existing accounts. But that helped us definitely, that helped us increasing the stickiness and others. But as I talked about, adoption of AI will reduce the revenues. So, there is only a way to go and get new logos.

So, from that point of view, we have this year started a partner-led growth initiative, an aggressive partner network has been created. A partner management team has been reinforced and identified more than 15 partners whom we will go and do a joint go-to-market strategy across the regions. This covers all the regions. And already, we started seeing the benefits of it in the initial years. But these are primarily going towards the upcoming quarters and months where we leverage heavily on the partner-led growth.

As I also spoke to you earlier, the new geography, the Middle East, the last 3 years has shown a significant gain. Probably this year, it has started showing some resistance in the initial part of the year, but I don't think so that will continue once the war situation is over, that will settle. But in that context, we have done significant analysis on the market of Egypt, and we have made that as our strategic go-to country for the upcoming year.

We have done some investments in making the market know about Expleo's presence in Cairo. We have done events. We have done CXO conferences, and we are very bullish about Egyptian market. That is our first strategy where to increase the new business. And the second one is we have looked at our top 20 accounts, our key accounts. And we are completely putting the focus on moving all the 20 accounts on to expleo.ai platform.

Today, out of these 20 accounts, at least 5 accounts are in one way or other adopted expleo.ai, our AI capability. And the idea is to expand this to all the 20. So, that leaves 60% of our revenue will be in one way or other influenced by AI. The third is we don't want to spread too thin on the sectors in our investments. So, we have identified the 2 sectors as our primary focus area.

Within BFSI, we have taken payments as one thing, which is totally getting revolutionized across the globe. The payment industry is meeting regulatory and compliance deadlines in 2028 in U.S. and many countries in Europe and the adoption of a UPI kind in Middle East and North African market is extremely becoming popular.

So, with that, we have decided that payments will be our area of focus for this year, and we have done some significant investments in generating simulators that can work across the Mastercard, Visa, RuPay or any American Express and the UPIs of the world.

So, those are the investments we have done, and we are gearing ourselves up for the demand and the changeover for 2028, where a significant spend will be made in CY '26, CY '27. So, that's the third, the focus area on the payments that is on the technology side.

On the engineering side, as I said, the focus area will be on the aerospace, defense. We have a good traction coming in from the India with the Make in India initiative. And also, we are seeing a significant demand coming from Israel as well, that is a country which we have been supporting for more than 2 decades now, and it is highly warming up for new activities where we are actively involved in at least 3 Israeli companies.

The last of the strategy, the fourth one is, of course, the people. So, I have talked to you about in the past, our investments are on people. And with AI 360 as our flagship learning and development program. The last earnings call, I have informed you that we have started this. We're very happy to announce that 70% of our organization is now AI qualified.

We have a 3-level training program and certification program where the first level is for everyone to understand the basics of AI and use of basic AI tools. Second one is one level above with more hands-on experience and third level is a thought leadership level. So, in that, we managed to get 70%. This is helping us twice because we are now, by and large, seen in the market as an AI company looking for AI resource.

And second, our continuous demand that is coming with the increased AI footprint, we are able to use our own resources. That is what we intend to do. And by end of this year, not even till December, I think by September or October, we want to hit anything between 95% to 100% achievement on this. So, as I said, that our investments are significantly going on the people, and we'll continue to go on that.

And let me also, in that context, talk about attrition. While we keep hearing the biggies laying off 10,000, 20,000 people, there is some fear factor, but that is very frankly not resulting in the lower attrition. Attrition levels continue to be at challenging levels. We are moderating it at around 15%. But there are a stark difference people with 5 to 10 years' experience are the people in demand. People above 15 years are the ones who get laid off.

So, the demand and attrition or these layoffs are not really helping, and the demand continues to be there on the emerging technologies for a range of 5 to 10 years experienced people, they continue to be demand and the attrition is also high in that particular range. So, we'll continue to stay invested on this.

We'll increase our employee engagement with all the training and other programs and employee wellness is taken at the center of our employee engagement. So, these are the 4 major strategy. So, I'll just repeat. One is on the new business. Second is growing existing accounts. Third is sector focus on payments and aerospace defense. And the fourth one is on people. So, this will be the strategy for FY 2027.

So, now let me also give you a few updates. And I'm very proud today, we are inaugurating a new facility in our Bangalore, which is much bigger than our existing facility where primarily this is because of our increasing demand in aerospace defense, where we have now acquired a space and we'll be inaugurating it today with a lab side because we have a significant increase in test bench production, and that is our key specialty in this particular area. And our current lab may not meet that kind of requirement.

So, we have acquired this space, which is having at least 4x bigger lab on the test bench manufacturing and assembly part of it. And also, for the technology teams, this is a much bigger and more employee-friendly space and a state-of-the-art facility. So, that is something which also indicates that our demand and our growth is validated by this.

So, with all these as things, we are looking at a strong pipeline, but uncertainties as we all speak, continue to remain. We have achieved what we have done despite all these uncertainties. But hopefully, we will continue on this and come out successfully in the coming quarters as well. Thank you so much. Now, Mani will cover the financials.

P. Palaniappan:

Thanks, Phani. Good morning all. Thanks for joining the call. I'll now talk about the financial highlights for this particular quarter compared to the previous quarter.

Our operating revenue for the quarter ended March 2026 is at INR 2,863 million compared to INR 2,794 million in the previous quarter, which is a growth of 2.5%, primarily due to benefit from forex as Rupee depreciated against Euro as well as U.S. dollar.

Total income grew by 3.1% to INR 2,989 million in this quarter, primarily due to higher operating revenue and higher other income from forex gains. At constant currency, our operating revenue decreased by 0.9% to INR 2,768 million in this quarter compared to INR 2,794 million in the previous quarter. Adjusted EBITDA margin for the quarter is at 15.5% versus 16.6% in the previous quarter, mainly due to wage increments, partially offset with operational efficiency improvements.

Profit after tax margin, including other comprehensive income, is at 16.5% compared to 8.1% in the previous quarter as the previous quarter had an exceptional cost on account of Labor Code changes and also due to higher mark-to-market forex gains in this quarter.

I'll now talk about the highlights of this quarter compared to the same quarter of last year.

Our operating revenue for quarter ended March 2026 is at INR 2,863 million compared to INR 2,558 million in the same quarter last year, which is a growth of 11.9%, primarily due to higher on-site revenue growth from Europe in the BFSI vertical and benefit from forex due to Rupee depreciation, primarily against Euro and the U.S. dollar.

Total income grew by 14.8% to INR 2,989 million in this quarter, primarily due to higher operating revenue and higher other income from forex gain. At constant currency, our operating revenue grew by 0.7% to INR 2,576 million versus INR 2,558 million in the same quarter last year.

Adjusted EBITDA margin for the quarter is at 15.5% versus 15.6% in the same quarter last year, primarily due to wage increment fully offset with operational efficiency improvements. Profit after tax margin, including other comprehensive income, is at 16.5% versus 9.1% in the same quarter last year, primarily due to operational efficiency improvements and lower depreciation and amortization costs in the current quarter.

I'll now talk about the financial highlights for the full year FY '26 compared to FY '25. Our operating revenue for FY '26 is at INR 11,080 million compared to INR 10,248 million in FY '25, which is a growth of 8.1%. And this is primarily due to forex gain on account of Rupee depreciation against Euro and the U.S. dollar.

Total income grew by 10.1% to INR 11,459 million, primarily due to higher operating revenue and higher interest income from higher cash balances. At constant currency, our operating revenue decreased by 0.4% to INR 10,212 million compared to INR 10,248 million in FY '25.

Adjusted EBITDA margin for FY '26 is at 15.6% versus 16.2% in FY '25, primarily due to impact of wage increments, partially offset by operational efficiency improvements in our core delivery costs and optimized spends on nonessential and discretionary costs.

Profit after tax margin, including other comprehensive income in FY '26 is at 12.3% versus 9.8% in the previous year due to higher other income from cash balance and higher other comprehensive income on mark-to-market forex gains, partially offset by wage increments and onetime impact from Labor Code changes.

Earnings per share is at INR 79.89 in FY '26 versus INR 66.52 in FY '25, which is an increase of 20.1%. Cash position stood at INR 376 crores as of March, 2026 versus INR 229 crores as of March 2025. That brings my update to the end. Thank you. We can open the floor for Q&A session.

- Moderator:** Thank you. First question is from the line of Disha from Sapphire Capital Partners.
- Disha:** So, firstly, my question was on our growth. So, you mentioned the 4 drivers that we are targeting for FY '27. What sort of overall revenue growth are we expecting? And what sort of margin guidance for FY '27?
- Phani Tangirala:** See, I mean, with so many uncertainties around these are very hard predictions, but our direction is to have a sustainable double-digit growth in terms of revenue and remain at the current EBITDA levels, ma'am.
- Disha:** So, the EBITDA margin without including the other income, could be around 15%, 16% sort of range, right?
- Phani Tangirala:** This is something which I have been consistently saying that that is a range which we are confident around, and we'll stick to that.
- Disha:** Okay. And sir, you highlighted about Egypt being our target market for this year. Could you elaborate a bit more on what sort of revenue you see from there? What sort of initiatives have taken? How will you scale in this market? If you could just elaborate a bit more on that?
- Phani Tangirala:** So, our entry into Egypt is primarily driven by our success in Middle East, be it in United Arab Emirates, followed by our subsidiary creation in Saudi Arabia. So, all these have been bearing

fruitful results. And then we had always an eye on Egypt, which is from a proximity point of view, very close to our Dubai office.

So, that's where we started investigating the market. And then we realized that financial services is probably one of the areas which are highly adopting change and with the sovereign AI being also initiated in Egypt. So, that is where we thought we will focus.

And the entire last year, we have spent time analysing the market and our target segment areas. And this year, we started our market campaign aiming at, one, to make the industry or the region know that Expleo has arrived in Cairo. Second, is we are doing marketing and social media campaigns on that front.

Most recently, 2 weeks back, we have done a CXO roundtable conference with the banking CXOs and got into touch with them to understand their needs, their challenges and how we can position ourselves. So, these are the areas where we are.

At this point of time, we are highly focused in covering each and every bank and understanding their pain points and address what we can do. Quantifying the business is something which we'll do it subsequently. But more important now is the actions. Are we doing all the right actions to make ourselves felt in that particular market? Yes, we are doing everything.

And then it's only a matter of time when the pipelines start growing up ma'am, we will be able to quantify how much revenue. But given our track record in Saudi and UAE and even in Kuwait, I see that, that is a promising market. I can't put a number against it at this point of time.

Disha: Yes, I understand, sir. And sir, last one I think we spoke you also mentioned there was something about inorganic growth and acquisitions that we're targeting. So, any update on that? Anything that is close to being finalized? If you could just share any updates on that?

Phani Tangirala: Thanks for asking that. And definitely, yes. And as a part of our optimal cash utilization strategy, we definitely are inclined towards doing M&A. And that is where we have identified close to 9 assets last 3 months, and we have moved into a due diligence phase in 3 and very, very likely to close something in the upcoming quarter.

Disha: So, whenever we are acquiring, what sort of acquisition rationale do we have? What sort of assets are we looking at? How will that synergize our existing business?

Phani Tangirala: So, we want to look at something which is putting us into a stronger position in terms of client acquisition in one particular geography that will be U.S. So, it is a two-pronged approach. One is where the acquisition should help us deeper into U.S. market. And second, from a service point of view, it should be a complementary service to what we do.

So, it could be anything on the AI space or anything on the data space or any of the key implementations on the Salesforce or those are the things where we see, which is not very limited to one particular sector, which can be cut across. So, from a service point of view, it is industry-agnostic service and from a region point of view, high U.S. focus. These are the

2 criteria we have imposed on ourselves to see while evaluating the assets, and that would continue.

Moderator: Next question is from the line of Vaibhav from TCG Asset Management.

Vaibhav: Congratulations on a great set of numbers, sir. So, my first question is on what sort of AI-infused services are we currently including in BFSI proposal? And what is the sort of win rate is there around the renewals that we are seeing over the last 1-year?

Phani Tangirala: Okay. In terms of the kind of services, I can broadly classify into 2 areas. One is on the digital assurance and digital engineering. So, digital assurance is primarily because of the DNA that we carry on the quality assurance in the past, which has moved into quality engineering and now has a very high adoption of the artificial intelligence. Let me spend a little bit more time telling what on that front.

If you see the traditional software development life cycle always had 80% of the efforts spent in code generation and 20% on ensuring that the code is of quality, right? That equation has totally changed. That 80% has shrunk much, much smaller with advent of AI that is coming on the part of the digital engineering. But once something comes from a black box like AI, the need for maintaining the quality is much more than before.

So, the spend is going through a shift where the generation of code is becoming a lot easier, but to ensure the quality with all those guardrails of AI and to ensure that you are not into biases or any other parts of the negative things that come out of AI, you need to have a very robust quality assurance part of it.

So, that is what we provide is anything that comes out of a code generation, we use AI-infused services to ensure that not just the functional fitness is there, the performance fitness is there, but it is also protected against the side effects of artificial intelligence. That is on the quality assurance side. When it comes to the digital engineering side, wherever since we started developing the last 10 years, the software development, DevOps, DevSecOps kind of a thing, there is an infusion of AI.

We have our own platform, expleo.ai, under which we have a sub-tool called Codeplay, which is not only catering to the requirements of the sovereign AI or the local thing, but also helps in faster generation of code, faster generation of processes, reengineering, digital modernization of legacy platforms into this. In all these aspects, this AI is infused.

So, to answer your question, primarily, if I see where the revenue on the pipeline is showing interest, these are the 2. On the quality assurance, AI infused and on the digital engineering side, also AI-infused, primarily on legacy modernization.

Vaibhav: Understood. And my second part to this question was, something mentioned that renewals would be under pressure because all of BFSI proposal will be coming with the AI services being a part of it. So, with our 2 focused services, like you said, digital assurance and digital engineering, what sort of win rate are we having around renewals for FY '26, if you could quantify?

Phani Tangirala: Very frankly, the win rate has not been a challenge. One is, most of our clients are with us for more than a decade. I mean most of our critical clients are there, some of them as high as 20 to 25 years also. So, the win rate is not major issue. But what is the issue is what I said before, the ticket size. the same piece of work is now expected to be delivered in 40% or 50% of the efforts. So, that brings us the whole thing downwards.

So, then you are under pressure to sell more. And that is how we are engaging with our clients to increase the scope of the work for the same amount what they used to pay earlier by rendering more services by increased scope coverage for them, and that is how it is. So, there is a bit of cannibalization that is happening, and there is a bit of pressure on that particular front. But win rate is not because we certainly are one of the pioneers in providing these services.

And our strength to the game has always been we understand the business because we are a business focused, sector focused, domain-focused company, and that helps. And then we understand the customers' requirements also, that particular customer's requirements because we have been in the system for 20 years.

So, the win rate has not been challenged, but the ticket size and the ability to draw the same revenue of last year is what will be under pressure. And we at Expleo is not the only, I think this is a market trend where everyone, if they are not AI ready, then you have no choice but to show degrowth on that.

Moderator: Next question is from the line of Sankaranarayanan from ithoughtPMS.

Sankaranarayanan: So, we are seeing the productivity gains through AI-led services, which is deflating our existing revenue. So, can you quantify the productivity of AI due to the implementation in our core legacy services? And if it's in the range of, let's say, 20% to 30%, how much of it is being reinvested to the same back to Expleo?

Phani Tangirala: Okay. Good thing. One is we have a range of services, and the productivity gains vary from service to service. As I said before, if it is a code generation, the productivity gains are as much as 60%. If it is an automated execution of test cases, it could be anything between 30% to 40%. So, it ranges anything between 20% to 60% depending on what service you render. Then your second part of the question is how much of that is reinvested?

That is the most unfortunate part is today, the entire market doesn't allow you to do that benefit of those productivities to be translated because they know that the suppliers use artificial intelligence and upfront, they want that benefit completely be passed out to them. So, at this point of time, though we have a premium attached to each of the AI service, it is not in comparison with the savings that we get out of it because bulk of that saving still goes back to the customer.

Sankaranarayanan: Okay. Because some of your peers in the Tier 2 segment, so they were all saying that the 50 percentage or roughly 60 percentage of whatever productivity that they are giving is being reinvested back to themselves. So, their net productivity will not be the high number. But in our case, you are saying that we are not getting any reinvestment from our client.

Phani Tangirala: To slightly disagree on that because it cannot be generalized because we fly in the same market. If someone is doing a piece of work for 100K and I'm going to challenge that saying that why are you paying 100K and I can do it for 60K. So, then it becomes, again, everyone will be in the same plane, right?

So, very difficult unless you are running large multiyear contracts on fixed bid projects, which cannot be renegotiated halfway through, there is a possibility of clawing back your gains. But the customers are smarter than us. Very frankly, they know what is happening and nobody is letting go wonder with huge gains just because the AI is put in.

Sankaranarayanan: Got it, sir. And second question is on our growth. So, in this quarter, we have done 12% YoY revenue growth. And in the overall FY '26, so how much of our 8% growth has come from Expleo's Group and how much of our growth is coming from our own efforts?

Phani Tangirala: Okay. See, our revenue proposition between the business coming from group is around 30%, right? So, that ratio is not significantly changing. But I would say that by 2 or 3 basis points, the revenue coming from group has increased, which is what I made in my opening statements that the revenue coming from group has increased, which is definitely a good news because from our total revenues, I would consider Expleo Group as my largest customer.

And if that is growing, then definitely that is a positive news. But having said that, the direct business is not lagging too much behind. I mean, we are just 1 or 2 basis points lesser in terms of growth, but both are growing. That's why the percentage is still hovering at around 32% to 33% of the total revenue coming from Group.

Moderator: Next question is from the line of Gunit Singh from Counter Cyclical PMS.

Gunit Singh: So, these are the following list of my questions. So, for this year, our EBITDA has mostly remained flat year-on-year even for Q4 despite the dollar appreciation and euro appreciation. So, I would like to understand why has this remained flat? Is it because of lower margins in our current orders?

And when we say we're looking at a healthy double-digit growth for FY '27? And considering that the rupee would not depreciate as much as it did in FY '26, so do we realistically think that our EBITDA margins will be maintained or they will fall? That's my first question.

And my second question would be, you mentioned about AI cannibalizing some of our current revenues. So do we see any AI redundancy risk maybe in the coming 2 to 3 years wherein our clients, I mean, wherein AI capabilities would reach at a stage where the clients would themselves be able to use AI to fulfill their requirements. That's my second question.

And my third question would be regarding the loans of INR 100 crores that we have given. So, I want to understand to whom have we given these loans and at what rate? And finally, why are we not paying out dividends this year? Would be my list of questions.

Phani Tangirala:

So, out of these 4 questions, first 2, I'll answer. Third on the loans, I'll get my CFO to answer and probably ask my Chairman on the dividend part of it. So, the EBITDA is still at a decent level given that we have a good wage revision and then you have the Labor Code coming in. We have not allowed it to reduce because the wage revisions in the market trend today is anything between 8% to 10%.

And that has being in a services business where people are at bulk of our cost, that is not possible without we have a very robust operating expense controls being put in place. So, like what Mani has repeatedly said in his opening remarks, the most effort has been put in to protect the EBITDA levels despite having these onetime costs like the Labor Code or the wage revisions, which we can't go too low from the market because that will have an attrition and then you will have a rehire cost adding to it.

So, from that point of view, I think this is in line with my statements even in the past that we will always hover around it. We see this coming and we'll continue to see this. And also, the advantage you are giving on the forex, while it is true, but we also have a significant population in on-site, I mean, in Belgium, in Dubai, in United States, where the cost also will have the same impact. So, that is being negated.

So, on the AI redundancy part of it, while on paper, what you say is right, but we, at this point of time, don't see any of our customers' maturity level beyond even 50% of what it should be when it comes to adoption of AI and doing it themselves. In fact, bulk of the customers, that's where I see it as a huge opportunity rather than being worried about AI as bulk of the customers have not even made one attempt to get into the AI.

We are talking about a good number of customers where they are talking and implementing AI, while that number is good, but as a proportion of total number, there are many who have not even got into for the fear or for the lack of understanding, they are in an exploratory stage. So, the entire market itself is in multiple phases. There are some who have not even attempted to understand, some who are exploring, some who have done POC and some who have implemented.

For us to go to a stage where 100% of this market adopts it and runs it on their own and we don't require any implementer or service provider is far too fetched imagination, at least my judgment on this, sir. So, that I don't think so. I'm only seeing that this is a huge opportunity that we want to ride on and that will sustain for several years to come. So, that's on your continuity and the AI redundancy part of it.

The third is on the loans, whom are we giving loans and how much rate. Maybe, Mani will answer that.

P. Palaniappan:

Yes. So, the loans are given to our own Group, it's a related party transaction. It's given at an arm's length. So, the average return that we are getting is at around 9.5% to 10%. That's the interest rate that India is getting.

Phani Tangirala:

And the last one is on dividends. Ralph, you would like to take?

Ralph Gillessen: I think the last one on dividend, I think already it has been explained by Phani on the priority that we are giving on the execution of our M&A strategy. I think you have heard that we had screened the market, identified the targets and now even in the process and Phani has already even indicated a time-line there. And giving this priority, we will focus to execute on this with the highest priority today.

Moderator: The next question is from the line of Saumil Shah from Paras Investments.

Saumil Shah: Sir, I wanted to know more on our aerospace and defense sector. So, we are into engineering services, basically making from parts in this area? Or are we into software services in this area?

Phani Tangirala: I mean, you have covered everything. So, we are into multiple services on engineering. One is manufacturing engineering, mechanical product engineering, electronic and embedded systems and PCPR. So, these are the primary services.

But however, we also on the electronic and embedded systems, have a good track record, thanks to our French parent where we started manufacturing test benches in France decades back to major customers like Thales or Airbus. And that has now significantly moved to India because of the Make in India initiatives, and that has gained up.

And also, on top of it, the more and more defense spends and on the defense aircrafts and military helicopters being manufactured out of India is happening. So, the demand for the test benches that are required for all these manufacturing aerospace vehicles, I would say, is much more higher now. And even the test benches have to be manufactured.

Otherwise, it makes significant high-cost manufacturing them in Paris and then eventually shipping over to them. So, to answer your question, while bulk of our services are into the engineering services, we are also through our partners, do manufacturing and take a complete design-to-print responsibility for the product, where we are responsible for the final product and we ship it out of our premises, but the actual manufacturing part, we outsource it, and we take the accountability for the precision of its working.

Saumil Shah: Okay. Okay. Because sir, even in previous call, you mentioned that we are very positive on this piece, but still, it is contributing around 11% of the total revenue. So, can we expect it to reach to some good numbers, 20%, 25% in next 1 or 2 years? And what EBITDA margins are we enjoying there?

Phani Tangirala: Yes. So, the margins are in line with the overall margins. But these are defense contracts. I mean, if you see a bulk of it is dependent on the government-to-government agreements. There are so much of back and forth on that. So, while the outlook is extremely positive on that with a significant amount of aircrafts now, both Boeing, Airbus and Dassault Aviation, all wanting to manufacture out of India. I mean, this is an absolutely unpredictable market.

In fact, I mean, something of a complete manufacturer of Rafale should have started in the first quarter of last year. But for various geopolitical issues, that has not even started. While on paper,

it is all done and dusted. So, dealing with governments and dealing with supply chain, sometimes that becomes very unpredictable.

But only thing which I can say is the one segment where we have grown and I foresee a growth. And that's why in my opening statement also, I've said that aerospace and defense are continuing to be our focus areas, and we'll continue to focus on that. But very difficult to give a forward-looking percentage at this point of time.

Saumil Shah: Okay. Okay. And sir, my final question, can we know more on our parent company? So, what is the size of our parent? And what revenues and EBITDA they are enjoying versus what we are doing?

Ralph Gillessen: So, I think the parent company in terms of revenue is approximately at EUR 1.4 billion in revenue. And I think the EBITDA margin the business is generating is close to 10%.

Moderator: Next question is from the line of Anuj Sharma from Steadford Investments.

Anuj Sharma: A couple of questions. One is there has been a management change at the group level. So, what are the key priorities of Walter now, especially relating to India business?

Phani Tangirala: Yes. So, Walter has taken at helm, but I think Ralph is in a better position to cover this.

Ralph Gillessen: I think you're absolutely right. There was in the parent company, a change in the CEO position, and we have now for a little bit more than 4 months, a new CEO, Walter Cappilati on board. And he has certainly been assessing the situation. What we can clearly see is that the portfolio of the company, both in engineering and tech services is where we have our key strengths, and we will continue to build on this.

And this is even what we are having here with respect to this entity. In addition to this, we have the industry sectors on aero defense, automotive, transportation and BFSI representing more than 75% of the Group revenues and not only the revenues for ESL here. So, even there, we see that the priorities from a capability and industry perspective will remain. It will certainly make an impact based on the strategy he's currently preparing with the executive leadership team at a group level.

But as we are talking here about the entity here, I think it can only play in favor as we can clearly see a continued acceleration on best shoring and offshoring, a strong focus on the industry I have mentioned and the entity here that is even ESL, I think, is very good equipped even to cover additional demand that will most likely even come from the Group.

Anuj Sharma: Okay. Okay. My second question is on the engineering piece. I think some people touched on it. So, at the time of merger with our group entity, we were quite optimistic on the engineering piece. But over a period of time, we continue to see BFSI actually continue to dominate. And within the engineering, the auto piece really hasn't done well. It's shrunk quite a bit. So, is it looking like a structural trend that we might lose out on auto? And really, where do we want to

see the engineering piece? That's not really done well as to what we had anticipated or espoused to be?

Ralph Gillessen:

So, when I even give it the perspective of the Group, the Group is generating roughly 2/3 of its revenues in engineering. And there you can even clearly see that there's an upside potential on ESL even to capture additional demand in engineering going forward.

And as Phani said, it will predominantly even then in the aero and defense segment as you have probably seen and heard that especially the European automotive industry is facing significant headwinds, not only the French carmakers, even the German automotive segment is under huge pressure, not only cost pressure, we see significant divestments even there, cash constraints in the industry, a lower ability to invest or has an impact on the GDP of some of the European countries at the moment.

So, when it comes to engineering, I think there's certainly an upside here for ESL in the industries I have mentioned, but we continue to expect headwinds in the German and in the European Automotive segment.

Moderator:

Next question is from Navdeep Pundhir from Caelis Ventures.

Navdeep Pundhir:

Congratulations on great set of numbers. Sir, I want to ask you to elaborate on our Middle East and West Asia business because you mentioned that we have now moved into Egypt, and we also have deal wins with a few companies in Israel. So, what I want to understand is because we have also significant presence in aerospace and defense, how is the current geopolitical situation being looked at by the company? What is the feedback from our partners from there? Is it going to be helpful for us to gain more contracts going forward? If you can please elaborate?

Phani Tangirala:

Okay. So, from a Middle East point of view, we had a fantastic run of 3 years until this war. And very frankly, at this point of time also, I could say the impact of the current war can be divided into 2 segments.

The segments on the financial services, where we are extremely strong is so far not impacted. That's the good news and rather growing. The other part is on the retail side, where because of the supply chain with all the ships not moving, the sales have come to almost in the Middle East, especially in the Dubai to a standstill.

So, where we are seeing any industry other than financial services is having some headwinds because of this, but we expect that to be a short-lived and the client side also when we engage with them, it may resume back from June as a whole. So, that is at an overall level.

And now you also talked about how the geopolitical situation and the aerospace and especially on the defense side, it is impacted. As I clearly said, there are 2 regions that we should look at. One is Israel and where the investments have always been high and that is continuing to grow up with the current thing. So, while war is not something what we want, but that also propels the need for newer innovations and when newer innovations happen in the defense sector, then we are one of the front runners. So, Israel will continue to grow.

On the other side, we are seeing a significant demand coming in the defense of Saudi Arabia. The Saudi Arabia has been procuring helicopters and defense equipment, which have to be locally customized, and then for that, there is a kind of a testing that needs to be done on the verification validation side where we see an opportunity. We haven't cracked the deals yet, but we have been in pursuant with pursuing these opportunities with the government sector on the defense side in Saudi Arabia. And hopefully, something will turn it around.

So, to answer your question, yes, Middle East has a slow setback in the last 2, 3 months. But hopefully, that will not last long. And on the defense side, it is only being promising.

Ralph Gillessen:

I think it's not a regional conflict. We should not underestimate there is not only the conflict and the war there. There is still another war in Europe. And both of them are resulting even then in a significant impact on the situation and the economic situation, especially in Europe. And even now, I think with energy prices going up even on the U.S. limited capabilities due to higher energy prices to invest across certain industries.

Yes, there is definitely an upside in defense. But we see where the defense spend is going today, it's going more into production and increase in production sites than really into investments into R&D spend. We should not underestimate this. So, I think a significant part even of the cost or even the money that is going into it is more production related than really R&D related.

Navdeep Pundhir:

Sir, a small follow-up on the same. We have seen that we have expertise in the aerospace thing. Are we also into drones or something because we have seen how there is a debate going on in the World regarding the efficacy of drones versus defense aircraft. And secondly, if you can just elaborate on the same lines regarding India, given the favorable European parentage we have? Thank you, sir.

Phani Tangirala:

So, on the drone specifically, we have done a massive campaign last year on the eVTOL industry, the Electronic Vertical Take-Off and Landing. And there are far too many start-ups who have emerged hundreds of them within India on the eVTOL space. So, we went in a very cautious note on that and waited for things to settle and rightfully so by end of the year, 1/3 of eVTOL companies have started showing decline.

But to answer your question, this is an area where we have significant expertise and we are focusing, but we don't want to put all our investments in that until that industry totally matures. Today, it is primarily controlled by the defense organizations. But eVTOL as a private industry is flourishing, and we are equipped for that. At this point of time, we haven't signed a deal on eVTOL yet, but our pipeline has those elements already. But that is something which is the future. So, we are just geared up on that.

On the similar outlook on India, though India defense spend may not directly impact us, but the offset requirements of Indo-French deals could be a high-value thing that we can look because there is an offset amount. Each of these have to be spent in India, and we are very well poised to consume that. So, from that point of view, there is an opportunity.

But as I said, this is, again, the same offset is what I believe will materialize a lot in later FY '26, but it has now been pushed to the end of this year. So, it all depends on when they will actually start monetizing and materializing the manufacture of these aircrafts in India. So, it is so much dependent on that, but that's what will fuel the growth of ASD, aerospace defense in India rather than the geopolitical situation, which is impacting directly India.

Moderator: Thank you very much. Ladies and gentlemen, we'll take the last question from the line of Hardik Jain from White Stone Financial.

Hardik Jain: Sir, as you mentioned in your speech and in your answer to one of the questions that most of these productivity gains due to AI, we have to pass on the benefit to our customers. So, I just want to understand, so a large part of our revenue model or billing would be based on the man hours that we spend on the client? Or is it milestone basis? Just wanted to understand that.

Phani Tangirala: So, we have a combination of both. While the client demands, a bulk of the transfer of the benefit of the productivity has to be going to them, which results in our top line coming down. AI is a kind of addictive. If organization takes success of productivity gains in one area, very, very highly likely that they will expand it to other areas within their organization.

So, that is where we are still able to protect our top lines on our key customers because we are engaged in one, we show them a 40% productivity gain. Then immediately, there are 2 such opportunities within the same organization that comes. Of course, you may say that this will have a saturation, but then you have to go to another customer, then you have to exhaust each customer.

So, there is a time factor to that. So, at this point of time, while passing the complete benefit to them may sound that are we not retaining anything for ourselves, this is driven by market. If I don't pass 100% of the benefit to the customers and if someone else does, then we lose the total thing. So, we are not risking that and then we have been lavish in passing it back to the customers. But the results are very, very encouraging.

There are 2 sides. One is they are expanding the scope and where they have been engaging us only on the quality assurance in the past are now allowing us to infuse AI into their software development, into their L1, L2 support, into their many other robotic process automations. So, that is how I am seeing it and not at all worried on passing on the benefit totally to the customers.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Phani Tangirala: Thank you, everyone. I think we are well poised both in terms of our strategy and our actions. We have a great support from the Group, and Ralph has been there with us ever since last 12 years. So, that link is helping us big time. And we brace all these headwinds and hopefully, we'll sail out with good success.

Ralph Gillessen: I would like to say thank you to all the shareholders for the continued support. And I would like to thank the CEO and the CFO for all the great achievements over the past quarter and years, and we are looking forward to doing the same in the near, mid- and long-term future. Thank you.

Moderator: Thank you very much. On behalf of Expleo Solutions, which concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.