



“Expleo Solutions Limited Analyst Conference Call to Discuss the Consolidation of Group Businesses in India at Expleo Solutions Limited”

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Moderator: Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Analyst Call. As a reminder, all participant lines will be in listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Diwakar Pingle from Christensen IR. Thank you and over to you, sir.

Diwakar Pingle: Thanks, Steven. Good afternoon, good morning, good evening to wherever you have logged in from. Welcome to the Analyst Call to discuss the consolidation of group businesses in India at Expleo Solutions Limited. The press release and investor presentation have already been mailed to you and they are also available on the Company’s website. In case anyone does not have a copy of the same, please do write to us and we will be happy to send the same to you.

Representing the management today, we have Mr. Rajesh Krishnamurthy – CEO of Expleo Group; Balaji Viswanathan – Managing Director and CEO of Expleo Solutions Limited, and Desikan Narayanan – Chief Financial Officer of Expleo Solutions Limited.

Balaji will start the call with a brief description of the transaction. Rajesh will make some interactive remarks and then we will kind of open up the floor to the Q&A.

As usual, I would like to remind you that anything that is mentioned in this call which gives any outlook for the future, or which can be construed as a forward-looking statement must be viewed in conjunction with the risk and uncertainties that we face. This risk 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 the website.

Having said that, I now hand over the floor to Balaji.

Balaji Viswanathan: Thanks, Diwakar. Hello, everybody. It is a great pleasure to be in the Investor Call once again. Thanks once again for all the interest that you have shown in our Company and in our progress. We have been discussing about this over the last two and a half years where there have been many questions to me during every other quarter’s presentation about consolidation and the perceived conflict of interest or the focus of the Group on the India business per se. We have been working on this particular project for a while now, for almost five to six months. We have the best of the advisors working with us during the process as well, being JM Financial doing the full advisory, PwC doing all the legal and statutory pieces. J. Sagar Associates doing all the agreement pieces and BDO doing the valuation along with IDBI Capital Markets, who is doing the fair value assessment for this merger of all the group entities into Expleo Solutions Limited.

It has been a long journey and quite excited that all the business is getting consolidated under Expleo Solutions. And now with this consolidation, we have very strong 3,200-plus people company in India, close to around Rs. 600 crores of annual revenues. And with that, we also have new capabilities that we are adding as part of this consolidation. While Expleo Solutions have been focused primarily on banking and financial services, now we have focus on multiple other domains

and industries as well. And we are also adding engineering capabilities which is also one of the other fastest growing segments with automotive and aerospace businesses as well. With all this consolidation and with the kind of focus that we are looking at, the centers in Pune, Bangalore getting added into the Chennai center, you will see a significant positive momentum for all of us through this consolidation.

Finally, I also actually have one small request. If you could probably restrict the questions today only on the transaction and the consolidation alone, because anyway we are going to be coming up with our first quarter results and the investor call for that in the next four weeks. And we are also in a quiet period where we cannot talk much about the financial results for this quarter or the coming quarters as well. So, if we could restrict to that, we will be able to stick to our timeline of one hour. Thank you so much. Rajesh, would you like to add?

Rajesh Krishnamurthy: Thanks Balaji. I think this is a good milestone for us. With this exercise, we have managed to bring all our entities of the group into one single operating entity, this will go a long way in ensuring that our business structure is simplified and ensures that we are aligning the interests of all the stakeholders. Broadly, the advantage which I see is that India is a significant opportunity for us, both from a talent pool perspective as well as from a business perspective. Expleo as a group has many significant capabilities starting from consulting, engineering services, quality and digital. And having India as a significant base is crucial for the growth plans, which we have over the next three, four years. So, having this in a single consolidated entity is a significant step in ensuring that we are able to really leverage the synergies and the potential of what India centre can do for us. So, I am quite excited that we are able to bring this to a closure. This was one of the first initiatives which I decided to work on after I took over as Group CEO last year. And I am glad that it has moved forward quickly. Thank you.

Balaji Viswanathan: Thanks, Rajesh. Steven, now we can open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Congratulations for this combined entity and the merger. My first question is, what is the vision of the Group in terms of how do you see the opportunity set going forward, basically into testing and non-testing and the synergies which you see from this merger in terms of cost and others?

Balaji Viswanathan: Yes. So, first one is that we have always had three different entities, one focused on Quality, the other two focused on both Quality and Engineering put together. So, now, with this consolidation, apart from going beyond Banking and Financial Services in the Quality business and also enhancing our Consulting and technology capabilities through the Pune unit that are getting added as part of the enhanced quality business. We also have a significant presence on the Engineering capabilities that are getting added into the entity. Engineering business incidentally has a scene of significant growth, while globally all the other engineering businesses have been going down. But the India engineering business has seen a significant growth, including the entity in Bangalore, which is focused on engineering, growing almost 25% to 30% this year. And with this, we will be

able to find a full end-to-end capability for ourselves, right from Engineering, Design, Consulting and Quality, and also the enhanced capability on Digital services and so on. So, the opportunity is significant, and we see ourselves harnessing whatever we have built so far in the last 12 to 13 years independently, now will be combined and we will actually see a stronger momentum for the company, both for the group to send business to us and also in the local markets as well. Rajesh, would you like to add anything?

Rajesh Krishnamurthy: Overall, if you look at Expleo Group, we have two very strong heritages, we have a very strong heritage of Engineering services with very strong presence in Europe, because of the oldest SQS acquisition which brought very strong Quality and Consulting capabilities, and those are the key tenets of the services offered by Expleo. If I look at what we are planning over the next three to five years, we are looking at a very strong strategy around diversification of moving into newer industries. So, we have always been very strong in Automotive and Aerospace, but given the current situation with the pandemic, etc, we have in a very aggressive Fashion diversified into Healthcare, into Medical Devices, into Construction and Manufacturing industries, etc. At the same time, on the Quality side, we have also been expanding into newer industries like Energy, Utilities and Services etc.

The bridge which is bringing together these service lines is around digital, because we believe that products and the processes used to make these products are becoming more intelligent. And given our traditional strength in domain skills, we believe that building a digital capability on top of our domain capabilities will set us apart. And for this, scale is required and for this India will be very, very critical. So, for me, bringing together the very strong quality testing, test automation and quality engineering skills which were traditionally there in Expleo Solutions, with the engineering skills which we have been building in Pune, and bringing them under one umbrella, gives us the size and scale and ability to attract the talent and ability to scale up, which is going to be critical in executing the group strategy.

Anuj Sharma: Thank you for the detailed answers. My second question is very specific on the Bangalore entity. The Bangalore entity, while it has been growing faster, the net margins are much lower than either the listed company or the Pune based company. Any reasons why the margins are lower? I mean, they hover around 5% versus 14% and 20% respectively, and what is the outlook there?

Balaji Viswanathan: If you look at the Bangalore entity and how it has actually shaped up in the recent past, there has been a lot of investment that are being going into the Bangalore entity because the size of the entity is not as big as what the Pune entity is. And most of the margin related challenges, because in terms of pricing and the kind of services that are being offered, there are not too much of difference. But the primary reason has been around the investments to propel the growth. And we expect that with all the wins that the Company has had in the last couple of years, with new clients, including capitalizing on some of the offset requirements for the aerospace through the Indian defense as well, it should be in line with what we are doing in the other two companies as well.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from PGIM Mutual Fund. Please go ahead.

- Himanshu Upadhyay:** My first question was with the merged entity; can you give a break-up industry wise what was the revenue last year? Which industry contributed to what percentage of the combined entity if, let us say, FY 2021 is the base year?
- Balaji Viswanathan:** We have not really done an industry-wise split, Himanshu. But we have it by entity-wise. But, if you were to look at it entity-wise, primarily, the Bangalore entity is focused on automotive and aerospace. And the Pune entity is focused to some extent on automotive, but also have variety of other industries as well, gaming and entertainment, media, insurance is also another big component of what the Pune entity has been doing. And with Expleo Solutions, we have always had banking and financial services, that is our 95% plus contributor from an industry perspective. May be, we will work on that, and we will come back to you with the industry-wise break-up. But, that is how the split is. And if you were to look at the size of the organization, the Bangalore entity is approximately Rs.97 crores to Rs. 100 crores, and Pune entity is approximately Rs. 150 crores to Rs. 155 crores. And the listed entity is around Rs. 301 crores what our revenue was. So, that is the rough split. But for a more accurate number, we will probably come back to you when we do our next round of investor call as well.
- Himanshu Upadhyay:** And the size of balance sheet of the combined entity, what would be the...
- Balaji Viswanathan:** As of March 31, 2021, we would be at approximately Rs. 562 crores.
- Himanshu Upadhyay:** And net cash on the combined entity balance sheet?
- Balaji Viswanathan:** Desikan, do you want to take that?
- Desikan Narayanan:** Combined entity cash balance will be around; including everything is around Rs. 189 crores.
- Himanshu Upadhyay:** And Pune entity, I think the working capital is higher, what would be the reason for that?
- Desikan Narayanan:** Working capital, it depends upon the AR and other things. Traditionally, it is more from an one-time perspective as of 31st March, it is the reason. But it goes up and down. And there was a little higher working capital. But subsequently, there were some payments which happened from the debtors which has reduced it in the month of April and May. So, it is more time related thing rather than a permanent thing.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from iThought Portfolio Management Services Ltd.. Please go ahead.
- Rohit Balakrishnan:** I have one question. So, in the presentation that you had shared, the group share was around 30% for the consolidated entity. How do you see this moving over the next three to four years? I mean, what is the strategy of the group now that everything is consolidated? If you can share a bit about that.

- Balaji Viswanathan:** The current group business share for the combined entity is approximately equal to 33% to 34%, and the direct business is approximately 66% odd. The growth projections are also something very similar is what we have projected at this particular point of time. And we expect that over the next two to three years, the group business contribution would probably be in the range of around 42% to 45%. And the direct business contribution would be in the range of 55% to 57%.
- Rohit Balakrishnan:** Got it. And in terms of our geographical mix, I think Rajesh mentioned that the other two entities also have a strong bias towards Europe. We as a company do not have a very big presence in U.S. So, just wanting to understand that strategy, how do you think that would evolve over the next two, three years? Is that a big part of the growth lever for you guys, if you can talk a bit about that?
- Balaji Viswanathan:** See, we have been talking about this in almost every other investor call, U.S. is an unconquered territory, and it is something which is an interesting geography, and we are all interested in tapping that particular market. But if you look at it, we have not really even scratched the surface of the other geographies as well. U.S. is certainly an important element but may be the focus will be more on consolidating and making sure that we stabilize and play to our strengths in the regions where we are right now. And as we go forward, 2022 and 2023, we will have a more stronger U.S. focus. From the traditional Expleo Solutions business, that is the banking and financial services business, we have been doing some investments in sales and infrastructure in the U.S. where we will probably see some traction going forward around the end of this year and early next year. But overall, as a full-fledged focus on the U.S. market is likely to happen may be three to four quarters from now. Rajesh, would you want to add anything more?
- Rajesh Krishnamurthy:** Look, overall, the North America business is a relatively small business for the group. Today, it represents in the range of 5% to 6% of the total revenues of the group. So, given the size of the market, the complexity of the market, it is our strategic intent to consolidate our position as a very strong European player. Does not mean that we will not do business in the U.S., we are continuing to grow our U.S. business, in fact, quite aggressively, the growth of our U.S. business is significantly faster, but it is a much smaller business. Today, we do not have any significant expansion plans, but we will continue to chip away and grow the business. And we will also obviously leverage the strong capabilities which we have, especially in the BFSI segment in India, and the growth will continue. But at this stage, our primary focus is on strengthening and expanding our position in the European sector.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Congratulations, this was I think long overdue. So, just a quick clarification before I ask questions. Desikan, what was the cash number you said for the consolidated entities?
- Desikan Narayanan:** It is Rs. 189 crores as of March 31, 2021.
- Balaji Viswanathan:** That has changed now, but it was as of March 31.

- VP Rajesh:** Understood. So, my first question is, Balaji, you had given the guidance that the group is looking to double its headcount in India over the next two to three years. So, what is the update on that after this merger?
- Balaji Viswanathan:** So, when we talked about it in the beginning of this year, we were at approximately 2,600 odd people in India. Now, as we speak now, as of June 30, we have already crossed 3,200 plus, and we are well on the way in terms of building a 5,000 people organization in India by 2023.
- VP Rajesh:** And then you mentioned that you have now, aside from Quality and Testing, you will have quite a big revenue from the Engineering and R&D services. So, can you just talk a little bit more about that, because as Expleo investors we are not well aware of what you guys do in that particular area?
- Balaji Viswanathan:** Sure. So, from an Engineering services perspective, we work right from software engineering to mechanical engineering and supporting production for primarily automotive and to some extent in the aerospace segment as well. Our revenues, like what I mentioned, primarily the Bangalore entity's revenue is completely from the Engineering services, and around 15% of the Pune revenue also is through the Engineering services business as well. This actually opens up quite a few new clienteles for us, both from a direct perspective and also from our parent as well, where we have some of the work that is being done in Europe, which is also being executed from India as well. So, it will be spread across the hard mechanical engineering and setting up of plans and setting up for infrastructure power production to software design embedded systems, digital piece in the engineering space.
- VP Rajesh:** So, you compete with the folks like Cyient or Tata Elxsi of the world in that particular area?
- Balaji Viswanathan:** Yes, that is right. So, from a direct market perspective, we would be competing with them in this market as well. But till now we have not been active in the side of the market, because most of these businesses have been focused on what we were able to do in Europe and in other parts of the world.
- VP Rajesh:** And what kind of cost synergies we expect once you integrate these two businesses?
- Balaji Viswanathan:** We expect the Pune entity actually has a significant amount of building space and real-estate considering the kind of SEZ facility that Pune has got. So, looking at consolidating some part of the lease premises, and apart from that, we are also expecting that some of the shared services will start delivering synergies. But it will be the finance, HR and some of these other elements as well. It is not that we are going to be doing any cost cutting or reduction per se, because of the kind of growth that we have for ourselves, we may not really add too much of capacity, and we will be able to cater to the growth without adding too much of capacity.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

- Amar Maurya:** Sir, what would be our strength, I mean, you had alluded that currently the combined entity has something around 3,200 employees, right?
- Balaji Viswanathan:** Yes.
- Amar Maurya:** And what was this number in March 2020?
- Balaji Viswanathan:** It was approximately 2,900 I think. At the beginning of the year, we were approximately 2,600.
- Amar Maurya:** And when you say that 5,000 number you want to reach by 2023, correct?
- Balaji Viswanathan:** Yes, that is the aspiration. It is not that it is a guidance, but that is what we expect in terms of the growth that we will be able to drive from India, based on the talent pool available and also the kind of scale that we will be able to build. As we all know that the market has been going through or the entire technology industry has been going through a significant amount of talent challenges as well. So, that is what our expectation is.
- Amar Maurya:** Okay. So, sir, what I was trying to understand like if I see the last four or five years, I mean, there was a kind of a very muted growth even in the listed as well as in the unlisted entity. Probably 2021 was the year where unlisted entity had also seen a significant growth. So, in the unlisted entity, the combined number would be what in 2020? Because in 2021 you said Rs. 258 crores, what was the March 2020 number?
- Desikan Narayanan:** You want the combined revenue numbers of all the three entities, right?
- Amar Maurya:** No, I want the unlisted two entities number of March 2020.
- Desikan Narayanan:** Unlisted two entities number is approximately Rs. 230 crores to Rs. 231 crores.
- Amar Maurya:** And Rs. 231 crores had grown by 13%, 14%. So, basically sir, now when we are seeing this kind of growth, practically, we are talking about more than 15% to 18% kind of growth from here on. So, is this because of the change in the momentum which we are seeing in the IT industry? Or you are also factoring the merger that now the cross-selling opportunity as well as other things into this?
- Balaji Viswanathan:** So, we are seeing a significant momentum in the IT industry in the last six months, and we think that it will probably stabilize at some point of time, but that is one of the factors. And we have always been looking at what are the opportunities for us to drive a double-digit growth consistently as well. So, we managed to do that in 2021, rather 2020-2021. And we think that we will be able to sustain it. But like a normal practice, we really do not give a forecast, or we do not really give a forward-looking statement. But our endeavor is to try and drive a double-digit growth year-on-year.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

- Ravi Naredi:** Sir, you are merging the company, so why not you mention equity capital of other companies? My question is this, after the merger what will be the capital of Expleo Solutions, merged entity?
- Desikan Narayanan:** Maybe I can share what is the total number of shares in the merged entity, it will be around 15,519,739 it will be.
- Ravi Naredi:** You mean to say Rs. 15 crores will be equity, around?
- Desikan Narayanan:** Yes, equity will be around Rs. 15 crores.
- Ravi Naredi:** And sir, first we see consolidation at parent level, now at Indian company level, we hope you are doing everything for benefits of shareholder and market is showing that only. So, can you tell how this merger will help shareholders of Expleo Solutions?
- Balaji Viswanathan:** The way we are looking at it is how do we actually create a company which has a sustained growth, and which actually is able to generate sufficient cash and profits. And with the merged entity, our objective is also something very similar, where we are looking at accelerating the growth from where we are at this particular point of time. And that is the biggest advantage that I see for all the shareholders, including the promoter as well. So, the objective is to try and build a company which will accelerate the momentum. We have been growing at a CAGR of approximately 4% to 5% over the last three, four years, our objective is to try and get to a double-digit growth, and that will obviously translate into better margins and better cash and a better return as well for everybody.
- Moderator:** Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors LLP. Please go ahead.
- Mithun Aswath:** My question was more on the group, parent level. What kind of size does the group have? That was one question. The second question is, in terms of us trying to win business directly, with this merger, do we get any benefits of going to the market directly and trying to win more business? Because, before we have talked about potential acquisitions that we wanted to make, so just wanted your thoughts there. And with this merger, do we also get some sort of a foothold in the U.S. market in terms of some sales people in the other two companies, which are getting merged? Thank you.
- Balaji Viswanathan:** So, I will probably take the second question and then I will probably have Mr. Rajesh talk about the group business and the size of the group per se. On the second, focusing on the direct market and selling engineering and the non-BFSI quality services to others direct markets, which primarily is India, Asia, Middle East, to some extent the U.S. as well, is something which we will be able to do much better because we have now the pre-sales support, and the solution architect teams across other entities as well, which will be able to help us in bidding to the customers and in winning new engagements in this market as well. And as far as the sales teams of the other two companies are concerned, at this particular point of time, the sales or the pre-sales team are based in India, there is really nobody who is based out of U.S. or, for that matter, any other geography so to say. But all the sale is actually being done from India. And they support either the group to sell in those

markets or we sell directly in some of these markets as well. So, that is what we expect the sales capability or the pre-sales capability to help us in leveraging this particular industry as well.

On the first part of the group, Rajesh, if you could probably take it.

Rajesh Krishnamurthy: Yes, sure Balaji. Thanks. Look, at the group level, we are targeting pretty aggressive growth. This year, we expect to grow at double-digit we are currently forecasting to grow year-on-year 12%, 2021 over 2020. And today, we call it best shore, our best shore leverage is relatively small, and which is what I plan to accelerate. I believe there is significant potential of scaling up our India operations and to become more cost competitive in the markets we operate in, by being able to offer a combined offering, and especially in the newer capabilities around embedded electronics, software, digital, etc. And that is probably the main reason why we see that by consolidating the group and simplifying the structure, I believe it makes it easier for our European teams to access talent in India. So, this year, we are expected to grow about 12% year-on-year and we expect double-digit growth over the next two to three years.

Mithun Aswath: Just the size of revenue I wanted to know actually.

Rajesh Krishnamurthy: We did EUR 900 million business in 2020 and we will do EUR 1 billion in 2021.

Moderator: Thank you. The next question is from the line of Suhas Naik from Kriya Capital Ltd. Please go ahead.

Suhas Naik: My question is to Rajesh, you are seeing a global revenue of \$1 billion, and whatever I heard from you is that it is likely that a large part of the business can get shifted to India to make it more cost competitive. So, in that sense, in the next couple of years, we should be looking at the much higher growth for the Indian entities? I am just trying to make one plus one, two.

Rajesh Krishnamurthy: You are exactly right, and that is the reason why Balaji has put forward, what I believe, we should be able to do better than that. Because as we continue to offer productized and industrialized solutions to our customers, where we are able to bundle capabilities around mechanical engineering, manufacturing engineering, electronics and embedded systems and so on, and as we are able to scale these capabilities, combine it with our quality services, our footprint in our large customers can become significantly bigger. We are increasingly targeting larger deals which allow us to really leverage our scale. So, which is why, for me, getting our Indian setups simplified and have a single go-to entity is critical part of the strategy. And that is the reason why we went ahead with this project.

Suhas Naik: As you have seen this combined delivery model which is getting built or which is already there, which we are trying to consolidate, how about the front-end here, are you going to invest significantly also in the front-end?

Rajesh Krishnamurthy: The front-end already exists. Let me remind you that we have 14,000 engineers in Expleo Group, out of which, India has only 3,000. So, we already have 10,000, 11,000 of our employees who are

front-end, if you like. So, we already have a very strong front office, we have teams deployed physically in France, in the U.K., in Germany, in Spain, in Netherlands, in Belgium and so on. So, the investment in the front-office, as you are referring to, already exists.

Suhas Naik: So, the good part is that we are already present in that space, we need to just scale up the Indian operations, that is what we are talking about?

Rajesh Krishnamurthy: Exactly.

Moderator: Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

Sunil Shah: Sir, I was just doing back of the envelope calculations, so when we are going to give this new share, our equity, I believe, will be getting diluted to about Rs. 15 crores. So, on a combined profit, we would be having earnings EPS around Rs. 60 for FY 2021, is my calculations ballpark in the right direction? EPS for FY 2021 on a consolidated entity, the merged, the listed and unlisted both together.

Desikan Narayanan: EPS will be around Rs 59.

Sunil Shah: Fair enough. And sir the ROE, the return on equity, on a standalone we were at 28%, so when we combine both entities, what would be our ROE, return on equity in percentage? I do not know the net worth of the unlisted company; hence I will have to get this.

Desikan Narayanan: The net worth of the unlisted company is there, I can tell you the net worth of the unlisted company, that is totaling to around Rs. 257 crores.

Sunil Shah: Okay. Fine, I will do the calculation. Sir, the other question is, earlier, I have been looking at this from the time of SQS deal. Sir, there was always an appreciation that more and more automation is coming in the field when it comes to testing the software. And thereafter, winning the business was getting difficult for the company at that point in time. Sir, how is the situation really there on the ground in terms of increased automation is actually during the testing of the software and it is a challenge for us or, or actually could you give me some more insight into this?

Balaji Viswanathan: I am not able to understand the question, what do you see as the challenge?

Sunil Shah: Sir, the automation, by which I mean that the software is that getting developed, instead of getting tested and verified by third party entities, there are software's which automatically get this thing tested. So, products have been developed which are able to really analyze the error in the software up-front instead of getting it tested through third party.

Balaji Viswanathan: See, the static code analysis and the software code analysis, software have been there for a long time. But what we do in software testing is not just the code, it is a question of what the features are, what are the functionalities, how does it actually manifest to the end client, that is the bank's

clients or our customers' clients as well. So, it is not the question of just the code analysis alone, because code analysis is a very small part of the entire software testing element. And we also automate most of those elements, because you cannot read through millions of lines of codes to find out what the errors are. And most of it is automated; even we do it as well. But it is not just the software code analysis alone, but it is the question of understanding the features, understanding the risks involved, are there any malware as part of the particular software. So, all those are actually part of the software testing practice as well. So, there is a functional testing, there is non-functional or analyzing how it will perform at scale. So, the software testing lifecycle is actually a significant step and not just the code analysis. Code analysis is expected to be done as and when you are developing as well.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Advisors. Please go ahead.

Rajesh Kothari: Sir, my first question is, in terms of the organization structure, since now there is a combined entity, how the organized structure will look like from MD and the divisions' perspective?

Balaji Viswanathan: We have classified the organization as two segments, one is the engineering capability that we have, and other one is the quality capability that we have, and all the other administrative and shared services piece as well. Rajesh, do you want to take the response on the organization structure?

Rajesh Krishnamurthy: Sorry Balaji, I had a small disturbance, I did not hear the question, can you please repeat it for me?

Balaji Viswanathan: Mr. Kothari wanted to know the organization structure, how it is going to be in the future.

Rajesh Krishnamurthy: Organization structure for the group or for India entity?

Balaji Viswanathan: For the India entity.

Rajesh Krishnamurthy: Look, the whole idea of simplifying this is to ensure that we have a single unified organization structure. Balaji, of course, will be the CEO. Our colleague who was heading the Engineering services business will become the COO of the new entity. Balaji will continue to be the leader for everything related to Quality and Financial services as an industry and so on. And Prashant, who is the MD of the unlisted entity, will continue to be the overall lead for delivering the Engineering services business.

Rajesh Kothari: I got a little bit confused, you said Balaji is CEO and heading engineering somebody would be COO?

Rajesh Krishnamurthy: Basically, we have merged the unlisted entity along with the listed one. So, Balaji will be the combined CEO of the overall entity and the Managing Director of the unlisted entity, he will become the COO of the new combined entity. And in terms of their functional responsibility, Balaji will continue to, of course, lead the overall company, but Balaji comes with a financial services

background, with a quality and testing background etc. Prashant comes with an engineering services background and engineering delivery background, and they will be the respective people who will ensure that the work which we are transferring from the group entities abroad will get executed in India.

Rajesh Kothari:

Sir, my second question is with reference to winning the clients. As I understand, a lot of revenue, as you just mentioned that the group revenue actually will increase from 33% to something like 50% plus, something like that. So, it means you are expecting higher revenue share and therefore higher growth within the group compared to the outside group. So, for outside group, what is the strategy, whether India company gets the clients or whether the parent company gets it and then give it to India, how actually it works? And within the group, since you are also dealing with the parent company, how does the transfer pricing mechanism work?

Balaji Viswanathan:

So, I will take that out. The way we are looking at it, the direct markets have always been there as part of the listed entity all this while, and it will continue to be the same. So, we have a sales team already in place in India, Middle East, Asia. And now we have also started our teams in the U.S. as well. So, they will sell the Quality services, now they will also add the Engineering capability and selling engineering services as well. And apart from that, we are looking at partnering with a group where there are large global clients whom the group is servicing, who are also present in these markets. So, we will work with the group to try and tap on those global clients in these markets, so that we can actually sell it to them directly in the India, Asia, Middle East markets as well. So, that is how we are looking at it.

In terms of growth, the growth is not going to be very different, because both the segments will have to grow. Only thing is the group's business we are expecting it to grow faster. In terms of quantum like what we said that we will move from the current 32% to 33% to approximately 42% to 45% in the next three years, and the group direct business, from the current close to 66% will move to around 57% odd. But in terms of the quantum when you look at the growth, it will still be in the range, one will have to grow at probably around 12% or 15%; the other one will have to grow at around 8% to 10%.

Moderator:

Thank you. The next question is from the line of Dipen Shanker from Trustline PMS. Please go ahead.

Deepan Shankar:

Congratulation for this merger announcement. Firstly, wanted to understand, till now we have been holding cash utilization for the merger so far, but now since this is over, so will this cash be utilized for distribution as dividends or buybacks? Or you are going to focus on larger perspective in terms of acquisition? So, even in the acquisition what kind of size we are looking at and any region specific and what kind of area we are looking at?

Balaji Viswanathan:

Thanks, Dipen. So, we thought that we may not probably get into that cash distribution question in this particular call. Last six months we have been focused primarily on this particular engagement, we have not really focused on how we will be utilizing the cash. May be when we have our next conversation during the first quarter results, I can probably try and give an outlay of

what we could think of. But then over the next quarter or two, we will finalize on how we will manage it.

Deepan Shankar: And on acquisition trends, is there any specific plans?

Balaji Viswanathan: We are not looking at specifically acquiring only with the India money or India cash or within the India entity at this particular point of time. While if there are any interesting opportunities, we will evaluate whatever comes our way. But at this particular point of time, that is not something which is there in the strategic roadmap till now. May be, like what I said, over the next couple of quarters we will finalize on what we need to do and how we can utilize the cash for better use.

Moderator: Thank you. The next question is from the line of Saumil Shah from Paras Investment. Please go ahead.

Saumil Shah: I wanted to know the PAT numbers for the two unlisted companies separately.

Desikan Narayanan: For the Pune entity it is Rs. 25 crores and Bangalore entity it is Rs. 12 crores.

Saumil Shah: Expleo Infosystems you mean to say is Rs. 25 crores?

Desikan Narayanan: Expleo Infosystems is Rs. 25 crores, and Expleo Technology is Rs. 12 crores.

Saumil Shah: Now, if I see the financials for 2019-2020, for the unlisted company, Expleo Infosystems had a PAT of Rs. 33 crores, is it right?

Desikan Narayanan: Right.

Saumil Shah: So, why has it gone down so much?

Balaji Viswanathan: So, there was a correction in 2020, after the pandemic had hit. I had mentioned earlier as well, the engineering side of the business had a significant impact in the last year when the pandemic hit, because many of the work got suspended, moved out, put on hold. So, this is more a one-time aberration rather than a systemic number. So, if you look at the last three years number that will probably be a better view than just the last year's number alone. So, it has been a one-time impact for the Pune entity, only for 20%. Desikan, you want to add anything more?

Desikan Narayanan: No, that is true. It is more a one-time revenue impact which has happened in the last year, which has impacted the bottom-line. Other than that, if you look at in the previous year, in 2019-2020 the growth was almost 9% from what it was in 2018-19.

Saumil Shah: And my last question is, as you are saying that within two years we are expecting our workforce to almost double. So, what kind of revenue we can expect in percentage terms?

Balaji Viswanathan: So, I have mentioned this in my last investor call as well, the headcount growth may not exactly translate into revenue growth, because the way we are looking at it is that whilst we grow in the

direct markets, the revenue per head count is different compared to what you would see as what we get from the group markets as well. I would say, for 100% or 90% growth in the headcount, you can probably expect 65% or 70% growth in the revenue. But I just wanted to mention this again, this is not a forward-looking statement, this is what our aspirations are.

Moderator: Thank you. The next question is from the line of Jagdishwar Toppo from Japa Investment Advisors. Please go ahead.

Jagdishwar Toppo: First of all, congratulations on this great move, which is value enhancing as well as shareholder friendly. And valuation for the unlisted entity is also quite reasonable. And it eliminates the conflict-of-interest issues quite clearly. But one issue is still there, if I look at Expleo Solutions disclosure of related entity, there is a Rs. 20 crores loans and advances to France SASU. So, that number is still pending, or it is clear? And since it has been outstanding since last six to eight months, it has not been much, much clearer or much better, because we missed dividend twice, I mean, last year as well as this year, it would not have been better by giving good dividend to the parent and to address any liquidity issues that parent would have faced last year. This is my first question.

Desikan Narayanan: So, actually if you look at it, it is not from a loan perspective which we shared, this is from our U.K. subsidiary to the French Group, because if you look at our bank balance in the U.K. subsidiary, we want to utilize it better. That surplus cash what we had, that we passed it into a group pool which gets us almost 4% to 4.2% interest, which you do not get it if you keep it in the bank in the U.K. So, the whole purpose is more utilization of the balance which is there in the subsidiary we have advanced it to the group entity, it was the reason for that.

Balaji Viswanathan: There is no liquidity challenge anywhere, actually it is all cash pool arrangement and it is available on call. So, whenever we need, all it requires is 48 hours notice. But the reason why we have shifted is more a treasury decision to get a better return on the money rather than a loan per se.

Jagdishwar Toppo: Sure, I get it. But when we miss dividend to the ordinary shareholder, the money is going out from our entity to the parent entity, that is why I said, the alignment of the interest was great move. So, how do you want to eliminate it, because you have a Rs. 131 crores of cash on the balance sheet and the money has gone up from Indian subsidiary of U.K. to the parent? So, that conflict of interest is still there, it may be 4%. So, how do you address that?

Balaji Viswanathan: So, the 4% is the basically the return that we are getting, it is not 4% of the revenue, it is not a 4% of any particular number, it is a return that we are getting. It is a treasury decision to get better returns for our cash. Instead of keeping it in the U.K., we have kept it with the group as a cash pool, so that we get a better return. So, that we get better cash for that as well. So, that does not have anything to do with the decision on dividend.

Desikan Narayanan: And it is only from the subsidiary, we have our standalone from which we will be declaring the dividend, so that are two different things which we are looking at here.

Moderator: Thank you. The next question is from the line of Pritesh Rathod from Nippon India. Please go ahead.

Pritesh Rathod: May be your thoughts on how Expleo as a group will expand in coming three to five years in terms of the global delivery locations? You mentioned that you have 14,000 employees other than the 3,000 in India, how that has changed in last three years and what are the plans in terms of near shore on-site and offshore locations such as India? If you can just give some color over there would be helpful.

Rajesh Krishnamurthy: So, look, like I said earlier, last three years we have not really expanded near shore or offshore in a significant way. It is only since last year that this is a new strategy which in fact I have put in place. When we created a business plan last year for three years, we are looking at a CAGR of about 10% to 12% over the next three to five years, we started with \$900 million last year, we will be about \$1 billion this year, we are looking at \$1.1 billion plus next year. In terms of Best Shore, we call it Best Shore capabilities, India, of course, is the largest by far and that is where we want to continuously expand. And that is the premise under which we actually went ahead with this whole merger situation to simplify our set up in India so that we can ensure that the right capabilities are being built etc. In addition to that, we have capabilities in Romania; we have teams in Morocco and in Egypt. And these are relatively smaller teams, we have only about 800, 900 people in Romania, we have about 200 people in Egypt and maybe about 70-odd people in Morocco. So, the bulk of the volumes will continue to go to India, because I believe that is where we get the scale advantage, and we get the cost advantage and the delivery skills etc. So, given that today our overall offshoring is very small, it is in single digits. And really the objective is to take that to 25%, 30% in the next three to five years. So, that is why this becomes quite critical and a pillar of our strategy to transform, to go after larger deals, and to be able to leverage the synergies we have between Engineering capabilities, Quality and Testing services. So, that is the reason why this was a big step for us.

Moderator: Thank you. We will take the last question from the line of Rajagopal Ramanathan, an individual investor. Please go ahead.

Rajagopal Ramanathan: Just a simple bookkeeping question. The shares which are going to be issued, what is the indicative price? And therefore, what is the expected goodwill that we would need to recognize in the books?

Desikan Narayanan: I do not think there will be a goodwill coming in this. Because if you look at it, it will be an additional issue of shares which will be going for the valuation which is coming in.

Rajagopal Ramanathan: Are you issuing it at par or are you issuing it at a certain price? The reason I asked you this question is, the net effect remains the same. All that I am saying is, supposing you had issued the shares at say Rs. 900 or Rs. 1,000 or whatever, that would have led to a creation of goodwill on Expleo's assets. And then, obviously, you could think of choose to either write it off or keep the goodwill on the books over a period of time.

- Desikan Narayanan:** This is going to be issued at par, i.e. Rs.10/- per share rate is going to be the issue what is going to happen now.
- Rajagopal Ramanathan:** Fine. I think for the rest of the questions, I will probably wait for the quarterly earnings call. I just wanted to convey my best wishes to the entire group at Expleo.
- Balaji Viswanathan:** Thank you so much. And also, just wanted to highlight, as we also submit our applications to SEBI and to stock exchanges, the actual reports from the valuer, BDO and IDBI, all those will also get uploaded into our website and also into the stock exchanges website as well as over the next week to 10 days.
- Moderator:** Thank you. I now hand the conference over to the management for their closing comments. Over to you, sir.
- Balaji Viswanathan:** Thanks, Steven. Thanks, once again, for all the investors and analysts who participated in the call and the interest shown in us. Really appreciate and overwhelmed with the kind of responses as we saw today. And looking forward to continuing the momentum, what we have been able to build. Thank you so much. Rajesh, you want to give a closing remark.
- Rajesh Krishnamurthy:** No, thanks for all your questions. Thanks for taking the time to attend this call. Clearly, this is a major step forward for us and the group, and we are very confident that with this setup we will be able to accelerate growth; we would be able to leverage synergies and have a much better return, not only for the group but also for all other investors. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Expleo Solutions Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.