



“Expleo Solutions Limited Analyst Conference Call”

July 20, 2022



MANAGEMENT: **MR. RALPH GILLESSEN – CHAIRMAN & NON-EXECUTIVE DIRECTOR**
 MR. BALAJI VISWANATHAN – MANAGING DIRECTOR & CEO
 MR. PRASHANT BRAMHANKAR – NON-EXECUTIVE DIRECTOR
 MR. DESIKAN NARAYANAN – CHIEF FINANCIAL OFFICER

MODERATOR: **MS. ASHA GUPTA, INVESTOR RELATIONS – E&Y LLP**

Moderator: Ladies and gentlemen, Good Day and welcome to Expleo Solutions Limited Analyst 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 the conference call, please signal an operator by pressing '*' and then '0' 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 Investor Relations. Thank you and over to you, Ms. Gupta.

Asha Gupta: Thanks Neerav. Good afternoon to everyone and welcome to the Expleo Solutions Analyst Call. The agenda for today's call is to discuss the investors' queries related to the composite scheme of amalgamation providing for the merger of group entities in India under Expleo Solutions Limited. Request to all participants to avoid asking any questions related to the quarter or business update.

Representing management today we have Mr. Ralph Gillessen – Chairman and Non-Executive Director, Mr. Balaji Viswanathan – Managing Director and CEO, Mr. Prashant Bramhankar – Non-Executive Director and Mr. Desikan Narayanan – Chief Financial Officer.

Balaji will start the call with brief update and then we will open the floor for Q&A session. As usual Safe Harbor Clause applies.

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

Balaji Viswanathan: Thank you so much and thanks for all the participants who are joining this call. It is an opportunity for us to clarify any questions that you may have on the scheme that we published and before the meeting that we are going to have for the shareholders on August 2nd. In line with what we had presented over the last three odd quarters when we first presented the plan for merger, we are in line with what we were expecting at that particular point of time in terms of growth. And in terms of what kind of value this is going to add to the overall Expleo India as one entity.

We had some investments which we had to make in Engineering business to propel the growth that we had last year which is almost 60% plus growth that we saw in the top line and for that we had to make some investments. We will answer those questions because that is the kind of questions that we had received so far, but in line with what we have been mentioning over the last three investor calls, we are in line with what we were projected to achieve in terms of both the headcount numbers and in terms of what the budgeted numbers that we were talking often on revenue.

We should be crossing the \$100 million mark this year and we are quite confident that we will clock that \$100 million mark this year. And we are in a reasonably good position from a margin perspective once we have adjusted for all the onetime costs that we had incurred last year to make sure that we are able to scale / grow on some of the niche areas where we did not have the skills at that particular point of time.

So, having said that we will open up for questions rather than me explaining where we are. I know that you have a few questions on the unlisted entity numbers and also on the expenses and professional fees and others. So, we have Prashant here who could answer a part of the questions and I will be able to answer any other questions that you may have. Thanks so much. Asha, we can open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arnav Sanghvi from Vallum Capital Advisors. Please go ahead.

Arnav Sanghvi: So, I have a question on the post-merger scenario. So, after the merger do we expect any peculiar margins or any change in a statutory or product mix?

Balaji Viswanathan: We had mentioned earlier as well so the technology business has been running in the range of around 18% to 20%, EBITDA level and the engineering business was always running in the 16% to 17% EBITDA levels in the past and we expect that once the merger happens we will be in that 17% to 18% once the merger happens in terms of our profitability or EBITDA level. We do not see any long-term impact on those expected margin levels, of course considering that we may not really have any other macro-economic situation as such, but at this particular point of time we do not see any shrinking of margins significantly from what we had expected which is the 17% to 18% mark. And in terms of product mix, the listed entity was focusing on technology services always and the whole purpose of this merger was to try and make it a replica of what we have at the Group level which is an Engineering plus Digital and Technology services and that is what is going to be our main stay going forward and we are not really looking at a big change in the product mix, but from a strategy perspective our objective is that we will start selling the engineering enabled digital services for automotive, aerospace, transportation and others in our direct market results because in our direct market which is Middle East, India, APAC and also in the USA, we have only been selling the quality assurance and the software development services for now this will actually enable us to sell the other engineering services into this market as well. So, that is what we are trying to keep it up simple as possible. Our objective is to try and drive profitable growth.

Arnav Sanghvi: And also I wanted to ask any change in the India specific strategies given the problems that we are facing in Europe today?

Balaji Viswanathan: Can you be little more specific on what problems that you are referring to?

Arnav Sanghvi: Like with the Russia-Ukraine war earlier and now post this interest rate hike and you know inflationary environment are surrounding, so do you have any change in strategy or may be outsourcing business to India or anything like that?

Balaji Viswanathan: So, we had maintained this earlier as well. So, the objective is that the Group will continue to move more business to the Best shore center and India is one of the important Best shore centers for the group and they will continue to work whatever has been signed in Europe or in any other Western market to India as well and that would continue to be the case. So, we had mentioned

even during the amalgamation and when we were presenting the merger at that particular point of time that the current Group business composition is around after the merger would probably be around 30% and that something which we are expecting will go to around 40% to 45% over the next three years and the direct business will continue to grow and that will continue to be at around 55% or 60% of the total business. So, we do not see any let down or slowing down on the Best shoring efforts from the Western markets into India.

Moderator: Thank you. The next question is from the line of Srishti from Monarch Network Capital. Please go ahead.

Srishti: Sir, I had one question on the fact that our technologies sister concern did a revenue of Rs. 190 crores and our Infosystem did about Rs 150 crores. However, the consolidated incoming entity has done about Rs. 300 crores, so there is a difference of Rs. 45 odd crores. Can you help me understand the whole financial aspect of this?

Balaji Viswanathan: I am not able to understand why you are saying so? But the numbers as far as the Expleo Technologies numbers is around Rs. 194 crores is what the revenue was for last year and the Expleo Infosystems which is the Pune numbers is around Rs. 151 crores and the combination of these two which is approximately Rs. 345 or 346 crores this is what the total is. All of that will actually move into the Expleo of the listed entities when the merger happens, but of course, the effective date of the merger is from April 1, 2022. So, obviously it will be for the 2022 - 2023 numbers rather than the 2021 - 2022 numbers, but the entire business is moving. So, there is not really anything which is not moving as part of the merger so there is no gap in the number.

Srishti: Okay. So, effectively, we have gone from Rs. 560 crores in FY '21 to Rs. 750 crores merge-to-merge in FY '22?

Balaji Viswanathan: That is right. Rs. 750 crores is what the combined entity numbers was as of March 31, 2022 and the entire Rs. 750 crores will move into the listed entity. So, you need to look at what the revised number would be for FY 2022-23. Rs. 750 crores is all the three entities put together.

Srishti: Yes. So, actually where I was coming from in the merger perspective. Where is this Expleo Infosystems consolidated revenue?

Desikan Narayanan : That is because you see that Expleo Infosystem took over technology in July beginning or June end. So, you see only the 9 months number which reflecting in the consolidated Expleo Infosystem entity so that is the reason we do not go with that. You need to see standalone what we put together we will get the sum of Rs. 750 crores.

Srishti: Understood, okay. So, that is pro-rata. To follow up on that how our profits come down at the PAT level, the difference is minimum, so this consultancy fee that the technology company actually has an expense. So, is that also what we incurred in the three-month period for that merger to happen?

- Balaji Viswanathan:** No, the consultancy fee is actually knowledge transfer which we had to do for specific project. I will request Prashant to answer that in detail.
- Prashant Bramhankar:** So, this is whenever we start a new capability we have to invest to make sure that we develop this capability, certain capabilities exist as part of our group in the Western world. So, when we start a new capability, initially, we utilize the resources and the knowledge transfer training aspect from our Group. This is a onetime expense so when we grab the projects in this particular skill sets in future, this cost will not be there because the local capability has already developed. Of course, when we start handling the newer area this might be seen again, but for this particular capability this was a one-time thing.
- Srishti:** And sir, the other question was that actually the Pune entity took over the Bengaluru entity that led to a cash outgo, did we always envisage that?
- Desikan Narayanan:** Yes. Because the whole purpose of this exercise is to make sure that we are One India. So, the reason we had the engineering business, Bengaluru business taken over by Pune and both together gets merged into the listed entity that was the plan we had.
- Srishti:** Understood. Can you just tell that incoming cash that we will have on our books as a merged entity?
- Desikan Narayanan:** As the merged entity, I cannot tell it now, because, of course it will be on the 1st of April, 2022. As of 31st March, 2022, if you look at it the financials, we had Rs. 155 crores in ESL that is the listed entity and Rs. 12 crores in the Pune entity and Rs. 9 crores in the Bengaluru entity.
- Moderator:** Thank you. The next question is from the line of Udit Bokaria from Catamaran Advisors LLP. Please go ahead.
- Udit Bokaria:** Sir, if you can help me understand which geographies are we doing direct business and what is the thought process going forward like in which geographies will we have our direct salespeople and where will we sourcing from the parent and second, is if you can tell what is the current employee strength as of March 31st, 2022?
- Balaji Viswanathan:** So, any other market outside of UK and Europe are considered as direct markets and UK and Europe we have group sales team different and they do the selling and where we actually do the delivery at times. So, all the other are direct market except for UK and Europe at this particular point of time. For some pockets of Europe, which we still do directly, but it is a very small component, it is not a significant and large component. So, basically the entire Asia, Africa, and US and Southeast Asia, the APAC region all of them are actually direction region. We are not present in Africa in a big time right now except for Egypt to some extent, but in all the other markets we are not present in Africa. In terms of employee count, we closed 31st March, 2022 with little over 4,300 employees.

Udit Bokaria: The thought process that like going forward as well Expleo, India will be investing in the sales there and doing direct business or the group will also start employing salespeople there to grow their business?

Balaji Viswanathan: We will continue to invest to grow the technology business in the US. If you recollect last time also we talked about when the Group will actually be likely to invest in the US through an acquisition which may happen in 2023 or 2024, at that particular point of time, there might be a different strategy, but at this particular point of time, at least for the next 18 to 24 months, we will continue to invest in the US to grow the technology business.

Udit Bokaria: As the Group has also expanded its vertical they have expanded into Healthcare business, so what is the thought process of growing that division in India?

Balaji Viswanathan: Sure, I will actually request Ralph to answer this because he was part of that acquisition of the healthcare business in Europe and working on trying and building that capability in other market as well, so Ralph would you like to add.

Ralph Gillessen: Thank you Balaji. Probably one additional information in the US. You probably know we have even in the engineering and consulting side, go-to-market and salespeople and capacity on the ground in North America. But as Balaji said, we will even continue to invest in the go-to-market from India for the Technology business. And in addition to this regional expansion, we are even focusing even on the diversification of our industry portfolio, and this is even where we are making at the beginning of the year, this investment in life sciences and chemicals. As we even see there on the one-hand side and the relevance and the importance of our engineering portfolio and the digital portfolio and the technology portfolio. And this is why we made the acquisition with a strong focus at the engineering side. And as we have even done it with aero and with the automotive business, we are now using the digital and technology capabilities. We need to stitch together even their new solutions and offerings for this industry. So, even this was an acquisition focusing more on the engineering side of our capabilities and the portfolio. And we see now that we will continue to grow this as we are even doing it with the aero and automotive part, but even bringing the technology and digital capabilities to these customers.

Udit Bokaria: Sir, my last question from my side so, when we do business with Group versus a direct business what is the revenue per employee that we bill? and what is the margins in our direct business versus the Group business?

Balaji Viswanathan: Actually, more than revenue per employee, we basically look at what our realizations rates are effectively per hour in dollar terms and we are in the range of around \$23 to \$24 per hour is what our realization rates are right now. It is a blended rate, but across multiple geographies, but that is what the current rates are. And in terms of what the Group business versus direct business, I would say it is almost the same. Group is slightly lesser than the direct market primarily because there is no SG&A there and the margins are lower in the direct business than the Group business, but the realizations rates are almost the same.

- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, past calls you have commented about fairly high growth rate. I think in Quarter 4 also we talked about a fairly high growth rates for a combined business, is there any change there? So, the reference point was plus 20% type growth as what we have been doing? So, is there any reference change there? And second net of adjustment it would be very helpful if you could give us the FY '22 PAT number for the merged entity, if you have given the revenue number is Rs. 750 crores, ex. of that one off what would be the PAT number and this extra expense that you have taken in FY '22 from your commentary, is it fair to assume that we will not resurface in FY '23?
- Balaji Viswanathan:** On your first question on growth rate, we continue to expect that we will be around 20% mark for sure and we hope to continue that at least in the next 12 to 24 months for sure unless there was some major macroeconomic changes which will impact the demand which we do not foresee at this particular point of time, but if that were to happen.
- Desikan Narayanan:** So, combined PAT for all the entities together is around Rs. 82 crores.
- Balaji Viswanathan:** It is around Rs. 82.5 crores is what the combined all the three entities PAT for Rs. 750 crores revenue and some of these onetime expenses that we talked about which is the consultant fees or onetime investment that we had to do in 2021-22 for getting those new businesses if we were to do that, it may probably go up by another Rs. 15 to 20 crores.
- Pritesh Chheda:** So, adjusted for onetime it is another Rs. 15 crores?
- Balaji Viswanathan:** Yes. It will be in the range of around Rs. 95 crores.
- Pritesh Chheda:** And is it fair to assume that this onetime was a feature of 2022 and is not a feature of 2023?
- Balaji Viswanathan:** No. That will depend on what the strategy is and what the new opportunities are in 2021-22 we had to invest for specific client opportunity which was one of our global clients and for them that was the capability that we had to build and we had to transfer. Right now, we do not see a similar of ask in 2022-23, but if there is a similar ask for building a new capability which we do not have in India we may have to do that investment which will once again be in one time.
- Pritesh Chheda:** And the EBITDA that we would have seen in 2022 would be shared lowered than the 18% number right when you have these one off?
- Balaji Viswanathan:** We were at around 16.3%, but we still expect like what I mentioned even in the last three quarters as well we should be in the range of 17% to 18% going forward.
- Pritesh Chheda:** And sir just last one clarification the merged entity what will be the capital base or the number of shares whatever and your holding would be 75% right?

- Desikan Narayanan:** It will be exactly 71.05%.
- Pritesh Chheda:** And capital base?
- Desikan Narayanan:** Capital base will be currently I think we are around 10.2 million shares, it will increase to 15.5 i.e. another 5.2 million shares.
- Balaji Viswanathan:** It is around 10 million shares right now. We should be in the range of around 13.8 to 14 million shares going forward. I will come back to you in terms of what because that was there in the first initial amalgamation document we do not have it handy right now, but we will share it with you.
- Moderator:** Thank you. The next question is from the line of Athreya from ithought Financial Consulting LLP. Please go ahead.
- Athreya:** So, I just had some queries regarding the Expleo Technologies business, so, can you just explain what kind of work we do here because recently I read that our parent was working with an auto major and which put up the battery management system in record time, so does the Indian entity get to work on such projects?
- Prashant Bramhankar:** Of course, see the area of business what we do is primarily called as engineering services for many sectors whether it is automotive, aero, railway transportation and few other areas, defense. So, this particular project like what is being getting discussed in earlier couple of questions. In engineering services, it is mostly a product development kind of work it is a highly technical work and it is not that we have all the capabilities available in India, but at most of the companies are moving their product development work in India. We need to develop that to further secure our business and even secure our global position with this strong OEMs globally. So, this was one area where we wanted to develop the capability because it is a significant contract we invested at one time and after that we acquired two additional customers in India for the same capabilities where we did not have to make that investments. So, those projects are comparatively bit smaller right now, but that is where it started to develop business on the new capability which we developed by making an investment last year.
- Athreya:** I will just have a few more questions so I mean even in the other subsidiary which is Expleo India Infosystems and even the technologies business you had said that the margins reduced because of these one-off cost and then it will go in for 17% to 18%, but even the Pune entity historically it had very high margins, but why have that seen a decline in the last year?
- Balaji Viswanathan :** There are three main reasons one is that we had to make a forward investment in terms of capability and in terms of resources because as I had mentioned earlier as well so we went ahead and hired quite a few trainees to tide over what we foresee as the demand supply mismatch in the first half of 2022 and in the latter half of 2021 rather and that is when we actually have to hire almost 400 to 500 people and that was spread across multiple entities while the listed entities hired around 350 odd people, the Pune entity also hired close to around 100 plus people at that particular point of time and there are also some onetime expenses which we had to incur for the

SEZ. We had to comply with certain SEZ rules which we missed in the past, which we had to make sure that we do all of those before the actual merger so there was some onetime expenses which were incurred in the last year. So, both these put together was in the range of around Rs. 2 to 3 crores and that probably was the reason why the margins went down a little, but there was another question sometime back in from another investor as well I just wanted to preempt the next question. Pune entity actually have significant amount of group business anywhere around 80% to 85% of the business actually comes from the group and that is defined based on the transfer pricing rules that we have. We follow whatever the taxation rules are and we have reputed consultant who have actually given us opinion, but as of now, it is based on that particular number as how the current margins are it will continue to be the same.

Athreya: I mean even in Expleo India Infosystems it looks like the top clients contributes 26% in the second and third contribute 50% and 10%, is the top client or group or could you just name these clients?

Balaji Viswanathan: These are all from the groups. All these businesses are actually primarily from the group. So, like what I mentioned almost 85% of the business is coming from the group.

Athreya: And just one last question you had spoken about our technologies business and could you just name some client who we have in the auto and aerospace industry?

Balaji Viswanathan: We would prefer not to name them, but we have actually most of these French and German auto manufacturers are our largest clients.

Prashant Bramhankar: I mean you can just Google, but all your French and German auto OEMs, large car makers, they are our clients and there are only two large commercial aeroplane companies in the world. One comes from France, you can guess the names, they are some of the top customers for us.

Moderator: Thank you. Ladies and gentlemen, we will take the last two questions from the line of Mr. Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first set of question is on the ER&D business if you can talk about for FY '22 what was the mix between mechanical and digital portion and we had grown like 60%, so how was the growth in these two business sub segments as well as if you can talk about little bit on the what is the typical margin difference and at what scale can our ER&D margin business be better than the company margin because globally ER&D margins are much higher, so if you can talk about this, this is the first set of questions?

Prashant Bramhankar: If I look at this ER&D business for Expleo Technologies. In 2021, the split between mechanical and embedded systems or digital, it was 50-50 because of that large contract we spoke like few minutes back, but going forward or if I look at even 2022 and 2023 kind of like visibility we have, the mechanical engineering will be around 40%, 45% and 60% will come from embedded as well digital systems whether they are kind of avionics for aerospace some of the defense system or autonomous those kind of automotive systems that would be split. Second thing

whether the margins are higher on ER&D, so it is a different perspective. The margins as Balaji explained you on earlier so for engineering R&D systems like we are like in the 15%, 16% range and digital business was bit higher 1% or 2%. So, when we combined the whole entity I think we will be at the 16%, 17% range. So, we stick to that engineering R&D business has very high profit I do not think that is a two thing. It is more or less like a percent here and there from the digital business.

Aman Vij: Even going forward three years hence you think the margin will remain in this range only 17%, 18% in this division?

Balaji Viswanathan: When you are actually investing in a new business we expect that we need to do some amount of forward investing maybe we expect that the margin profile for many of these businesses will change, but it also depend on how much of these businesses are acquired directly and how much of it is coming through the group. When it is coming through the group it will be defined by some part of the transfer pricing mechanism. So, obviously there is an extent to which this particular margin can go, but as we start acquiring more direct customers in the engineering business this margin profile would change.

Aman Vij: Second set of questions is on the employee count addition which we are currently doing per month and what is the target for say FY '23 and FY '24?

Prashant Bramhankar: We have shared about 4,300 employees as of March 31, 2022. We expect that we should be in the range of around slightly less than 5,000 when we close March, 2023 and between March FY '23 to FY '24 we expect that we will probably be able to add anywhere between 1,000 to 1,500 employees. Our target I had mentioned earlier as well our stated objective is that both organic and inorganic we are targeting that we will be a 10,000 people company by 2025.

Aman Vij: Final question so Rajesh sir has given an interview in the French magazine about very ambitious target for the Group as well as the India part, so if you and maybe sir can talk about little bit on what are these ambitious targets which the company has set for itself?

Ralph Gillessen: Yes, I can probably answer you and even together with Rajesh and Management Team has worked on an Ambition 2025 plan. And I think it was even mentioned by Rajesh and by Balaji that we see this growth at the 20% mark in 2022 and we are even expecting to continue with the similar growth rate over the next couple of years and this is even and that even within strategic plan that will include organic and non-organic growth that we are even expecting to continue with growth rate upward of 20% till 2025 and I think even if you look that we have roughly building a revenue last year as he would project this even now over the next four to five years. I think you even see that magnitude of business that we would like to generate as I mentioned earlier on the continued expansion in the US and even the diversification in terms of the industry segment we are in will help us to achieve a significant growth rate where we are definitely expecting to outperform even the benchmark rather than the peer groups.

Aman Vij: Ralph sir, if you can clarify on the global level are we targeting like we had grown quite well last year, so are we targeting similar 15%, 20% growth at the global level as well?

Ralph Gillessen: We are targeting even 20% at a group level or at a global levels and this even into the globe that we will even see in India as from the group perspective we still see this as a large and even most important locations and then place where we even worked together with the European markets on project cum engagement especially for European customers, but we even see that we are achieving the growth rate even at the UK and Europe this was even mentioned by Balaji.

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

Balaji Viswanathan: Thanks Neerav. Thank you so much for your interest, quite impressed with the number of people who were actually there in the call and the kind of interesting question that you all had. This is actually an important phase for us as we go through this merger and as we go into the next steps of trying and growing the business into the next level. So, we will be a \$100 million plus company by end of the year which is also another milestone for us. So, thanks for your continued support and looking forward to the same going forward as well. I appreciate your time.

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