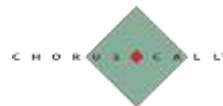




“Expleo Solutions Limited
Q4 FY '23 Earnings Conference Call”
May 26, 2023



MANAGEMENT: **MR. RALPH GILLESSEN – CHAIRMAN AND
NON-EXECUTIVE DIRECTOR**
**MR. BALAJI VISWANATHAN – MANAGING DIRECTOR
AND CEO**
**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 Q4 FY '23 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 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 Ms. Asha Gupta from E&Y LLP Investor Relations. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Michelle. Good afternoon to all participants in the call. Welcome to the Q4 and Full Year FY '23 Earnings Call of Expleo Solutions Limited. The results, press release and investor presentation have been already mailed to you and you can also see on the Company's website. In case anyone does not have a copy of press release and presentation, please do write to us, and we will be happy to send you the mail.

Representing the management today, we have Mr. Ralph Gillessen - Chairman and Non-Executive Director, Mr. Balaji Viswanathan - Managing Director and CEO, and Mr. Desikan Narayanan – Chief Financial Officer. Mr. Balaji will start the call with a brief overview of the quarter gone by which will be then followed by Mr. Desikan, who will be getting into detailed financials. And after that, we will open the floor for Q&A session.

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 forward-looking statements must be viewed in conjunction with the risks and uncertainties that we face. These risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual reports which you can find it on our website.

Having said that, I now hand over the call to Mr. Balaji. Over to you Balaji.

Balaji Viswanathan: Good afternoon, everybody. Thank you once again for joining our earnings call. Glad to be part of yet another quarterly earnings call from our side. Glad to also inform you all that, finally, we have crossed the line from an amalgamation and integration. We believe as a business, we've been working as One India for a while and only till now we have merged and all the entities are together effective from April 1, 2022 onwards, and that's what you have seen on the consolidated reports as well. So, glad to announce that, that's also details of the amalgamation scheme in the release, press release that we have sent out.

On the business front, I'd say that the outlook is quite positive. We are still seeing quarter-to-quarter growth despite all the headwinds that everybody was talking about, therefore having a close watch. But at this particular point of time, I would say even though there are some larger engagements, which are not getting closed on time. But from an overall pipeline and from overall business activity, we haven't really seen much of a slowdown per se in most of our geographies. And we continue to see positive traction.

Whatever investments that we made and the decisions that we made on investing in digital, investing in the related field, and also the investment that we made last year on acquiring capability on data governance and the data quality piece is helping us in our growth. And that's

something that you could see in our geography-wise split, and where we can see U.S. once again in the double-digit number as well.

We continue to invest in our training and upskilling this year once again, last year we went on a little bit of a slowdown on graduate hiring. This year, we are confident doing a significant amount of graduate hiring similar to what we did in 2021, likely to add a little more than 500 people over the course of the year for training on specific skills and capabilities where we see demand in the market.

We continue to focus on our costs, and that's something t you can see in our improving margins as well. Quarter-to-quarter, I would just like to add that we had a onetime engagement in one of our engineering clients for the work done in the previous years. We were working on getting some of the payments which are to be done for the efforts that we have taken, which were not agreed earlier, but the extra efforts were deployed in the previous year. But after a lot of negotiations, persuasion, we managed to get some resolution. And that was close to around Rs 28 crores, which we got in the last quarter of the calendar year 2022, which is the third quarter of this financial year. And during the course of the year, the total amount that we got from the particular customer for resolution is approximately Rs 41 crores, of which Rs 28 crores was in the last financial, last quarter. And that's why technically, the numbers are showing lower than what the previous quarter numbers are as One India, as One Integrated company. But from an overall business perspective, we are still growing at close to 9% quarter-on-quarter in terms of overall business and also in terms of the margin perspective.

And finally, last but not the least, we are also happy to inform that the Board of Directors have recommended a final dividend of Rs 5, 50% of the share value for the financial year, March 31, 2023. So that's a big update from us from a business side.

I will now pass it on Desikan to go through the numbers.

Desikan Narayanan:

Thanks, Balaji. Good afternoon to all. Its long wait, ended now, and now we are One India entity and also the dividend is declared. So, I will walk you through the consolidated numbers of the One India financials.

Will start with quarter-on-quarter performance. The revenue for the quarter ended around Rs 231 crores against Rs 240 crores in the previous quarter. Profit before tax stood at Rs 39 crores compared to Rs 77 crores in the previous quarter.

As mentioned by Balaji on the one-time impact of around Rs 28 crores in the previous quarter, for the process of apple-to-apple comparison removing this impact in the previous quarter, you will see a growth of around 9% in revenue and PBT dropped by 20%. The major reason for the drop is due to the forex gain in the previous quarter. In the previous quarter, we had Rs 12 crores of forex compared to the current Rs 1.2 crores during the quarter. So, that had a greater impact on the PBT.

We did see some increase in the DSO during the quarter compared to the previous quarter, this is mainly due to the collection delay. Of course, we've received a huge collection in the month of May. This was expected to receive in this quarter. So, if I just apply this on that, we'll be around 90 days compared to 108 days what we have there.

Now, we'll talk about the full year performance of FY2023. Our revenue grew by 22%, that is Rs 742 crores to Rs 903 crores. The EBITDA margin is at 22.2% against the previous year of 16.7%. So, excluding the one-time impact of Rs 41 crores, we have ended up with a revenue growth of 16% and of EBITDA of 18.3%. Our earnings per share for the year increased by 98%. We ended with an EPS of Rs 86.27 from Rs 43.61 per share last year. If I exclude the onetime, the increase is around 36%.

On the cash balance, we have around Rs 155 crores compared to Rs 179 crores last year. During the year, we have also parked surplus fund, which is getting us the higher interest compared to interest in those markets in the country. That's the reason you will see an increase in the other income. That's considerably because of this. So, with this comment, I would open it up for the Q&A session.

Moderator: We have the first question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I just have 2 questions. One, if you could share a bit of a comment on your growth outlook now on the merged business? And second, in the past call, you had once mentioned that the merged shares would be about 14 million. But what I see in the release of the results, it's about 15.5 million. So is there any creation of treasury share or anything by any nature? Or I might have done an error in writing, either?

Balaji Viswanathan: I'll take the first question first. In terms of growth prospects, we normally don't need a forward looking statement, but like what I mentioned, pipeline looks quite positive. The business activities are quite positive as well. There are some pockets which are showing a little bit of sluggishness, particularly in terms of taking the time to make the decisions, but we don't really see a big systemic challenge there. So earlier, we were growing at 33% - 34% when we were only without the merged entity. Now with the size of the entity, we still think that we should be able to grow at low to mid-teens. And that's what we have seen in this financial year as well. As the integrated entity, our growth is around 16.5%. And we think that we'll probably be there in that range anywhere between the 10% to 15% range, in terms of growth.

And in terms of share, no, the amalgamation scheme has not changed. It's still the same. Right from day 1, we had announced that it will be a total of 15.4 million shares, and it continues to be the same. Desikan, if you want to add anything.

Desikan Narayanan: That's true. —Before merger we had 1.02 crores shares, and we issued now 52 lakh shares and it now total up to 1.55 crores shares. That's the same position throughout from the beginning, We didn't issue any other shares.

- Moderator:** We have the next question from the line of Pooja Ahuja from Monarch Network Capital. Please go ahead.
- Pooja Ahuja:** Firstly, I wanted to understand, you mentioned that you're expecting 10% to 15% growth. Last quarter, if I'm not wrong this year, 15% to 20% growth. So, what led to this kind of change even though you've suggested that the outlook is quite positive?
- Balaji Viswanathan:** Yes. So, Pooja, good question. So, like what I mentioned that there is some amount of slowdown or sluggishness, but it's not a systemic one. And like what I mentioned, we are expecting it to be in the mid-teens to the high teens, that's what our expectation is. So, it's not changed significantly. And now the scale is also very different because earlier our numbers are in the range of around Rs 130 crores to Rs 140 crores in a quarter. That's what has been there between Rs 100 crores to Rs 125 crores to Rs 130 crores are what our numbers are in a quarter. So, currently, where we are at close to like Rs 230-odd crores in a quarter. So, both the scale and a little bit of a sluggishness is what is making us say that it would probably be in the range of around 10% to 15%. But the expectation is that it will be in the mid-to-high teens.
- Pooja Ahuja:** Okay. And is it possible to give this quarter's number in terms of what was for the listed entity and for the unlisted ones?
- Desikan Narayanan:** Actually, we don't have it. We just consolidate. Maybe, I can check and come back to you
- Pooja Ahuja:** Sure. And thirdly, just one answer, Europe has seen a sharp decline this quarter. Is it because of the one-off revenue that we booked last quarter? Or is there something else?
- Balaji Viswanathan:** Absolutely, yes. That's the reason. That's it.
- Moderator** The next question is from the line of Udit Bokaria from Catamaran. Please go ahead.
- Udit Bokaria:** Sir, in the past, you had mentioned that your employee headcount, including subcontractors were in excess of 4,000 in FY '22. So when I look at the presentation today, so can you help me reconcile like what is the correct number? What is the number for FY '23, including subcontractors? And secondly, during FY '23, how many freshers did we hire?
- Balaji Viswanathan:** Yes. So, our current headcount, including contractors, is about 4,030 or 4,040. That's where we are at this particular point of time. And we have close to around 150 trainees as of March 31. Currently, we are running at close to around 240 trainees. And we expect that we will hire anywhere between 550 to 600 trainees during the year.
- Udit Bokaria:** And what would be the similar number like at the end of FY '22?
- Balaji Viswanathan:** FY '22 was close to 3,850 or 3,900 in terms of total headcount. We have added around 190 to 200 headcount in total, because some of the engineering projects don't depend on headcount because these are all primarily manufacturing, engineering and project management.

And last year, we did not have any training at all. So we do not do any campus hiring or we did not do a concerted campus hiring. It was less than 100 or 110 people whom we hired from the campuses. But this year, we are doing a concerted effort on hiring from the campuses.

Udit Bokaria: As we mentioned that we had a target of scaling our employee headcount to 10,000 people by CY '25. So is that still on, or...

Balaji Viswanathan: Yes. That plan is still on between organic and inorganic, the expectation is for us to get to a 10,000 headcount by December 2025.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: First of all, congratulations on finally getting the merger done right, which is huge. The first question is on the EBITDA of Rs 200 crores. Is the impact of this one-off for the customer in that number? And if so, what is the sort of, pro forma EBITDA number?

Balaji Viswanathan: Rajesh, thanks it was a big task to get the merger completed, particularly when there are a lot of things which are out of our control and getting it done. On the EBITDA numbers, Desikan, do you want to answer?

Desikan Narayanan: Yes. Actually, if you look at the things, if I reduce the one-time impact of it, it will be around Rs 158 crores. So, it's what we spoke about the yearly impact of around Rs 41 crores.

Balaji Viswanathan: Rs 41 crores in total.

Desikan Narayanan: Rs 41 crores, so is there in Rs 158 crores number.

V.P. Rajesh: Okay. And then the Q3 one-time customer payment that you got, I assume it was in the private entity, not in the public entity.

Balaji Viswanathan: That's right. Yes.

V.P. Rajesh: And lastly. Yes, lastly, housekeeping question, Desikan. So the cash came down quite a bit this quarter. And how much of that is at the parent's pool level versus what you're keeping here in India?

Desikan Narayanan: See, as mentioned, out of the Rs 155 crores, over and above, we have in parent company. We have passed around Rs 6 , and we have passed in the parent thing. So if you add that Rs 46 crores to Rs 155 crores, that will go up to...

Balaji Viswanathan: Rs 201 crores.

Desikan Narayanan: Rs 201 crores, yes. That's the overall number.

Moderator: The next question is from the line of Rohit from ithought PMS. Please go ahead.

Rohit: Balaji and Desikan, congratulations on getting the merger done. So, while we just wanted to sort of think about probably next 2, 3 years now, so, at the time of merger, the thought process was to significantly increase the share of offshoring from a group level in India being a very significant part of that strategy. So, if you can give some sort of a midpoint check on where we are on that and how does the next couple of years look on that point? And in that context, if you can just share what was the revenue of the group? Last year versus this year, the overall parent and what is the expectation for this year in terms of growth?

Balaji Viswanathan: Okay. I'll probably try and split this into 2, the first part on the offshoring. The overall offshoring revenue from what it used to be in the earlier quarters, the 3 Chennai-based entity was in the range of around 37% to 38% of the revenue coming in from offshore. But now the merger of all the entities put together, considering that other unlisted entities are primarily delivering offshore are now the offshore revenue or the on-site revenue, which is coming from other countries outside of India, is in the range of around 20%, from the 37% odd that we were at earlier.

And in terms of group revenue, the listed entity, the erstwhile listed entity had close to around 18%. Now we are in the range of around 28% of only the pure group revenue where we are only at the delivery center. But similar to what I had mentioned in the past as well, there are a couple of customers where group is doing all the account management and engagement in Europe, which but still it is getting reflected directly with us. If you include that, it will probably be in the range of around 40% to 41%.

Rohit: Sorry, I think I should have clarified. I was asking the overall size of the renewal for the parent in 2022 flat, and how was your expectation. And specifically on the engineering side, like what portion would now be the offshore renewable energy?

We had said that we were in the low single digit or mid-single digit and the aspirations to get to 20%, 25% over the next 3, 4 years. I believe that call was in 2021 at the time of proposal of the merger. So any numbers that you can share, where are we from that standpoint in terms of offshoring? And how do we get to that number of 20%, 25% and when do you think it will get there?

Balaji Viswanathan: Okay. I'll probably take the second part first, and then I will ask Ralph to talk about the group financial performance, even though I know it gets better to hear from Ralph. On the engineering side, the offshoring has significantly increased. And that's the reason why, as a merged entity, now the total contribution from the group is in the range of around 28%, from the erstwhile 18% odd that we were doing. So, the engineering fees which were in the single digits in 2021 when we started this particular zone, is already in the range of around 15% to 18% right now, and it's only likely to grow.

Ralph Gillessen: Yes. Everyone probably just a statement from my side. And I think what I already confirmed in previous call, even what I can confirm in this call is that we may see good and steady growth for the group. And of course, all the different business segments, especially even at the engineering side.

I think for the last financial year 2022, we even have communicated, I think roughly a growth of 26%, 27%. And we can even see, even in the first quarter of this year that we had, as a group, very healthy growth rates, especially coming from larger engineering customers, the larger engineering segments in Europe.

And at the same time, you're probably even aware about the more macroeconomic climate here in Europe, what is even now presenting roughly 50% of the revenue that we have shared even in the investor of this year. And we see that the GDP is probably around 1% or 2%. From a technical perspective, even Germany is now in a recession after 2 consecutive quarters of negative growth. And we still see good and healthy demand on the one hand side.

But as well as you said, we see a little bit of slowdown in decision-making from customers. And this is even where we are, and even Balaji was giving a guidance there for the entity. But overall, I can confirm that even Expleo Group is growing. This growth was across all the different business segments.

Rohit: Okay. So, again, on this engineering part, Balaji, on this part, so I think last year, FY '22, we did about Rs 194 crores in the engineering business. If you can share what we did in FY '23? And in terms of this number of whatever FY '22 that we've done, still this seems 15% - 18%, what you said, seems to be not very clear. Because as far as I remember, we were doing Rs 700 million, Rs 800 million in terms of engineering from a sharing point of view. So, this number still seems to be a bit more, so, I'm not able to understand it properly maybe.

Balaji Viswanathan: The total offshore revenue from the group, that is contribution from the group is at 27% right now. Earlier, we were at 17% to 18% till the last quarter when we were looking at only the erstwhile listed entity. Now, at the merged entity, we are at around 27% of our revenues coming purely from the group.

And the other one which comes indirectly through the group is in the range of another 13%, 14%. So total would be in the range of around 40%. So that's what I meant and I...

Rohit: So, I understood that part, but I was specifically asking that, I mean, I think which you also answered, maybe I got it wrong. At the time of our call during the merger, I remember that it was shared by the offshoring portion in the engineering services, is very small.

Balaji Viswanathan: I got the point, Rohit. Just to clarify that, yes, that's what I was saying, that the offshoring component of engineering has started growing from FY '21 itself because there was a concerted effort. And that is the reason why at the merged entity, the overall number is higher because the offshoring component of engineering is higher. And similar to what I had mentioned your expectation is the Group's revenue contribution by 2025 would be in the range of 40% to 45% from the current 27% odd.

Rohit: Okay. So, maybe I request if I'm not able to circle back on the number, maybe I'll reach out separately and understand it.

- Moderator:** The next question is from the line of Sugandhi Sud from InCred Asset Management. Please go ahead.
- Sugandhi Sud:** So, I just wanted to follow up where the last participant left. If I just adjust your unlisted entity revenues for and I'm taking a guess of what the number for the list could've been in the fourth quarter. But if I just adjust for that Rs 41 crores of onetime revenues that you have reported, it seems that the invested business is flattish to slightly down. Could you give us an idea about how the non-BFSI testing has done and how the engineering has done, And what's the outlook for those two separately?
- Balaji Viswanathan:** Sure. So, the overall testing business as such, that is overall quality assurance business is what we used to call it as, which is not testing alone now. It includes software development. It includes low code, no-code RPA and a whole lot of other stuff as well. That business has grown between last year to that is March 2022 to March 2023 to the range of around 23% odd.
- And the automotive business has grown. The aero business has declined a little bit. And the transportation business has just started because we did not have much in 2022 and most of these businesses have only started now. So, overall, from a growth trajectory, the technology services business has grown in more than 20% range year-to-year. The automotive business has grown, not to the same extent, but the aero business has slightly declined from where it was earlier.
- And that was primarily because we had a significant amount of on-site presence for one of our aero clients outside of India, which was generating a significant amount of revenue, but not so much in terms of profits. But profitability has not changed much in terms of the overall construct.
- Sugandhi Sud:** This is the non-engineering business, the vertical-wise color that you have given for the non...
- Balaji Viswanathan:** Technology, automotive and aero or engineering. Technology services is what I mentioned is the non-engineering. Sorry, Ralph, you wanted to add something?
- Ralph Gillessen:** I think we will see. I think when you look at the growth, I think with the government and from the automotive segment, and they are going from and better than electronics as well as you see the mechanical and product engineering. I think this will be especially from the larger view in markets, the drivers for the venture or even a foregoes from our perspective.
- Sugandhi Sud:** So, also on your margins, if I look at your gross margin, especially there's a 5% point decline in gross margins and the headcount which is not one of them, It's looking to a significant digital competence has increased. I know that there are significant savings and the other opex, that there were also one-off costs last year that you have some technology transfer costs of Rs 15 crores, Rs 20 crores in the engineering business. You shared this in one of your earlier calls.
- So, what is the outlook on gross margin and billing rates? And with respect to that, would you like reiterate or update your EBITDA margin guidance of 15% to 18% for the merchant fees?
- Balaji Viswanathan:** Yes. So, the overall margins, I'm not sure where you're seeing a decline. It hasn't really gone down.

- Sugandhi Sud:** I'm just looking at the employee cost as a percentage, they have by 5% points for FY '23 for the combined business.
- Balaji Viswanathan:** Okay. So, we also have similar to any other technology companies, we also have a contract employment that we do for some of the short-term projects as well. So, overall, from a direct cost perspective, it has not changed much.
- And so even though we have not added too much of headcount, the direct cost proportion has not changed much. And from an EBITDA perspective, we had indicated earlier, we are saying that will be in the range of 15% to 18%. And this year, despite the onetime if you take off the onetime, we'll still be at around 18.3%, and we expect that we should still be in the similar range of 15% to 18%. We don't expect any significant change from that range at this particular point of time.
- Sugandhi Sud:** Subcontracting, how much would that be as a percentage, sir?
- Balaji Viswanathan:** It depends on the demand. It depends on the season as well. Overall, for the year, it will probably be in the range of around 16% to 18%. But it's not the same every quarter.
- Moderator:** The next question is from the line of Kshitij Saraf from Tusk Investments. Please go ahead.
- Kshitij Saraf:** Just one question on the technology capabilities that you're looking to add at the group level, and what we can expect flow through to India? What sort of business we can expect? So, basically, what are the capabilities that Expleo Group is looking to build on? And what can we expect as business coming down to the Indian combined industry?
- Balaji Viswanathan:** So, the expectation from the group varies by each industry units. So, from a technology business perspective, the expectation is around software development, DevOps, automation or hyper automation is what we call it as, to some extent data and analytics and AI.
- These are the kind of demands that we are seeing from our group and also from our better customers as well. And for engineering business, it's once again defers by the industry, auto and aero, the auto industry requirements are primarily ADAS, AUTOSAR and multiple other car software and car digital engineering requirements.
- And from an aero business perspective, most of the requirement right now is on the avionics side rather than the aerostructure side, primarily around what kind of design, stress testing and certifications and validation. Those are the kind of work that we are looking at. Those are the kind of work that we are seeing as the demand from the customers. Ralph, do you want to add?
- Ralph Gillessen:** So, I think on technology, as Balaji said, we've been taking it to companies, I think we continue with the software quality competences as we have and building it more into the development, the business analytics side, including data. And on outdoor, there's a lot even on software designed vehicles where we will definitely strengthen the integration into electronic and embedded capabilities. The technology capabilities are becoming a body software defined today,

compared to aerospace or even an aero defence where we still see software more embedded in the product itself, but the product is typically not purely defined by software.

So, that we believe and create a strong focus on the line, structure, stress activity in the mechanical engineering fleet. This is I think it is really where we must make a good or a clear, good understanding between the correct set of data at the different industries. And this is not only different in the aero and defence compared to the automotive segment, probably much more can be seen the shift into everything smallest.

Kshitij Saraf: That's helpful. And just on the deal sourcing. Are we looking to have a special focus on large seeking now that the entities are merged? And how much of it would be proactive from the Indian unit as opposed to business going through from the group side, the grouping then?

Balaji Viswanathan: Yes. The focus is on looking at opportunities that as a \$1 million-plus opportunity is what we typically call it as. So, the expectation is that most of the engineering side of the business, the opportunities are larger and for longer terms as well. The technology business, by its nature, has stock in terms of term, it's stock of engagement, but all the customers are anyway long-term customers as well.

So, our focus is to look at adding more in the \$1 million to \$10 million range. And that's what if you look at our top 10 customer contributions after the merged entity, it's around 35% from the earlier 53%, 54% of the erstwhile listed entity.

So that way, the larger size engagements have increased significantly from what it used to be earlier in the erstwhile listed entities. And just to clarify the last question, what the information on the subcontractor costs related one. So we have seen a significant decline from the 2022-2023, and one of the reasons why you're seeing a lesser amount of cost there. So, from close to around 21%, 22% contribution in 2022, we are at in the range of around 15% in 2023. So that's the reason why you're seeing the overall headcount process reducing even though the number of headcounts has increased, just to clarify, yes.

Moderator: The next question is from the line of Harshil Shethia from AUM Fund Advisors LLP. Please go ahead.

Harshil Shethia: Sir, going ahead, so when we are targeting around 10,000 employees by FY '25, is this on a combined basis?

Balaji Viswanathan: Yes. This is on a combined basis, I mean, it will be both even if it's also with an expectation of something inorganic as well.

Harshil Shethia: Okay. And secondly, sir, how much will be the current employees of the unlisted entity?

Balaji Viswanathan: I think it's around 1,900, or close to 2,000.

Desikan Narayanan: Yes, correct, Balaji. It's around 2,000.

- Harshil Shethia:** Okay. And in case of an inorganic acquisition and what area are we planning, sir?
- Balaji Viswanathan:** There's nothing which is as a strategy right now, we will come up with what we can do now that the merger is done, and now we have some amount of time to think about it. But as of now, all our plans are only to look at similar to what we did last year, which was a small acquisition, which is in the range of Rs 20 crores - Rs 30 crores. So that's what we have been thinking of all this while. The larger one is something which probably we need to think through now rather than we don't have anything which is already earmarked at this point.
- Moderator:** The next question is from the line of Zaki Nasser, an individual investor. Please go ahead.
- Zaki Nasser:** Sir, congratulations on seeing the merger through at last, it's been a long wait. Sir, you have mentioned we could have 10,000 counts by FY '25. Would that mean revenue growth would double from these levels, sir? That's my question number one.
- Number two, could you just elaborate on this Rs 28 crores received from a resolution. Would that mean that if this has gone right, our profit would have been more by Rs 28 crores? Or what would be the differential in profit on this?
- And we have given a dividend of Rs 5 per share. Expleo as a company would give a larger dividend. So, would this mean a change in the direction of our dividend policy, sir?
- Balaji Viswanathan:** Yes. So, going forward, we are not expecting the headcount growth will directly result in the revenue growth. It will not be the same proportion because there are multiple other factors as well. There's our group business, the transfer pricing policy, all those will also have an impact. But yes, some 4,000-plus employees to go to 10,000 employees primarily would mean that we expect the overall business to double as well. So that's our aspiration. I wouldn't say that's the expectation.
- And on the question about the onetime, the onetime is the money that we have got, it's not money that we are expecting. So, it's the money that we have got for work that was done in the previous years. But we had to negotiate for the extra efforts that we have taken during the previous years with the customer, and we finally managed to get that resolved in this financial year. It was not accounted for earlier because it was not certain. And that resolution based on that resolution, we got a total of Rs 41 crores during the course of last year. That is between April 2022 to December 2022, out of which Rs 28.2 crores was received in the last quarter that is October, November and December.
- Zaki Nasser:** So, that would not affect our P&L, sir?
- Balaji Viswanathan:** That has boosted the revenue under profit because since it came as a one-time resolution, it showed an increase in the revenue, and it showed an increase in the profit as well. So, the same extent because there is no cost involved in that. So, both the profit and the revenue went up by Rs 28.2 million.

- Zaki Nasser:** Okay. So, it would be safe to assume that our normalized profit for the year could be around Rs 115 crores instead of Rs 135 crores, if you take out the effect of that Rs 28 crores, sir?
- Balaji Viswanathan:** Profit after tax?
- Zaki Nasser:** Yes, sir.
- Balaji Viswanathan:** Yes, in the range of around Rs 110 crores to Rs 115 crores.
- Zaki Nasser:** And sir, if I may, one small question, sir. Sir, after the merger, Expleo has under its wing the BFSI as well as engineering. Could you just elaborate on how you like the company to pan out by FY '25 with a higher headcount, what would you see the engineering and how would you see the BFSI panning out?
- Balaji Viswanathan:** So, at this particular point in time, 75% of the business comes from the technology side of the business. We are not calling it as BFSI right now. So, basically, we're calling it as technology services and engineering services. The technology services side of the business is currently at around 75% and engineering services is around 25%. We expect it to be 60% - 40% in the next 2 to 3, 2 to 2.5 years by December, 2025.
- Zaki Nasser:** And that would mean a higher margin of profit, sir?
- Balaji Viswanathan:** No. It will be longer term deals rather than higher profits because engineering business normally does not have the same amount of margins as what the technology business has. But most of those engagements are longer term. So that way, there will be more certainty.
- Zaki Nasser:** Thank you, sir. And best wishes for the next 2, 3 years. Thank you, sir.
- Moderator:** The next question is from the line of Aman Shah from Jeetay Investments. Please go ahead. As the current participant is not answering, we move on to the next question, which is from the line of Faisal Hawa.
- Faisal Hawa:** Sir, on various LinkedIn updates of Expleo Group Germany and you're a parent that is, it is mentioned that we are growing at the group, it is growing at 25% revenue year-on-year, each calendar year. And that is almost like EUR 1 billion in revenue. So, if the parent can grow at 25%, and you are now saying that with the merged entities, the revenue has gone up, and so we will grow in the high teens. So it doesn't really add up because the parent is growing with much larger revenue. And it seems that we are doing some extremely relevant work abroad. So how do you really explain this? And secondly, I mean, on one of the slides, we have mentioned that our digital revenues have now reached a quarter revenue of Rs 100 crores. Is that right because that is like something really tremendous. It's like almost 45% of our revenues is coming now from digital.
- Balaji Viswanathan:** That's right. 42% of our revenue comes from digital at this particular point of time. Still we have not completely done the analysis of all the engineering businesses. Maybe it may go up a little

as well, but around 42% of our business is coming from digital right now. And on the growth between group and what we are doing locally, Ralph, do you want to take the first one on that?

Ralph Gillessen:

Yes, I think overall, as said earlier, the growth rate that Balaji had mentioned, the result was confirmed and published from our side for the fiscal year 2022, for the calendar year 2022. This is organic and nonorganic growth that we have achieved for the group.

We even see that we want to continue. And of course, all the business segments, which includes engineering, technology and consulting. Of course, our key regions, the projection is to continue with similar organic and non-organic growth. But even a significant part, even of the activity has no direct impact on our offshoring and best-choice strategy, especially what we're doing from latency side. So, also, we can't do the 1:1 correlation as you are making between the growth rate of the group and the growth of the listed entity in India.

But we certainly expect that we will increase with the growth in size to increase the share of activity that will be delivered from India from a group perspective. But I can't confirm that you can go on 1:1 correlation between the growth rate of the group and to what you see in the entity there. So, unfortunately, a little bit more complex in terms of portfolio mix by region, by capability and entire industry.

Faisal Hawa:

So, Balaji, I was actually not able to understand because the line is generally bad and because of the accent also, it's still...

Balaji Viswanathan:

So, what Ralph mentioned is that the Group grew by around 20% to 22% last year, which is through both organic and inorganic growth. And this year, we expect the group will grow closer to the 20% mark, once again, primarily through both organic and inorganic ways. And some of these engagements, which covers technology, consulting and engineering, particularly the consulting business is primarily run in the respective countries rather than there is not too much a scope for doing offshoring of that particular work. And many of these engagements, which are also acquired in their respective countries also don't have too much of offshoring scope.

Our expectation is that each entity will grow in the same range but give or take what the local dynamics will be. Our local dynamics or what we are expecting is primarily because driven by what we are seeing at this particular point of time. And I wouldn't say a slowdown, once again, like what I mentioned is just a little bit of sluggishness, but hopefully, it should get revived in the next quarter or two.

Faisal Hawa:

Also, there's an increase in the employee cost quarter-over-quarter, and this is almost to the tune of Rs 20 crores. So why has that come in? And that's one. And are we taking any steps to retrain our employees to really use a ChatGPT as an aid for programming?

Balaji Viswanathan:

There are lots of efforts that are being done. On the cost part, I'll probably have Desikan answer that. On the re-training and training part, there is a lot of effort that is being done. So, ChatGPT is a very small component of the programming element, which is going to now automate most

of the programming or most of the coding, so to say, and also the algorithms for doing the search and stuff.

But considering our line of business, it's not a significant element, but we are training all our employees, both through classroom, through platforms like Udemy and Coursera, and multiple other engagements that we are doing. We are spending anywhere between 10 to 12 hours every month with many of our engagements on training and re-training and reskilling our employees, both through online mode and through the offline mode because the requirement for what is going to come in the next 24 months, 36 months is going to be very different than where we are right now. So, that's one of the biggest focus areas for us. On the employee cost, Desikan can you...

Desikan Narayanan: Yes. Overall, one thing is quarter-to-quarter. This quarter, we had the revision. We do the revision on the calendar year, that is January, that is one of the reasons which we have increased. And also, we have an increase in the headcount. These two have contributed to the increase in the salary compared to last quarter this quarter.

Moderator: The next question is from the line of Aman Shah from Jeetay Investments.

Aman Shah: Congratulations for the merger being successful. My question is on DSO, sir. So what do we see in Q3 when the testing business was only the listed business, our DSOs for average would be around 78 days for a couple of quarters. And now on an increased revenue size, we see that to 90 days. Certainly, the unlisted entity is because the offshore part is higher, so DSOs would be higher there. But how do we see DSOs now?

Desikan Narayanan: With respect to the technology business, it's a little different where we just deploy people and based on the others and all those things. But in case of engineering, it's a little different business where we do more milestone business and also you need to get the client conformation for collection. That takes a little time compared to what it is.

So, if I look at a range or a benchmark for technology, it will be in the range of 65 to 75 which is more reasonable range But on the engineering side, it will be around 80 to 90. So those put together, if we maintain at around 85, it's a kind of a good benchmark for the DSO. That's a combination currently, we are looking at for both engineering as well as technology business.

Aman Shah: Okay. Okay, yes. So, second question is on the if we see that the segment-wise division that we have given, the technology and then aero, automotive and transportation. So technology will be essentially the testing piece across all these sectors?

Balaji Viswanathan: Yes, it is not across all the sectors. It's across the non-auto and aero and transportation sectors. So, anything which is I wouldn't say only testing because the testing as a business has seen a significant difference from where it was earlier.

So, it includes all the non-auto, aero and transportation segment. So, right from testing, automation, RPA, low-code, no-code, software development, all of them are actually part of that particular compact.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: My point is there in quarter 4, our employee cost rises by Rs 20 crores versus quarter 3 of financial year '23. So why the Rs 20 crores employee cost rises in this quarter?

Balaji Viswanathan: Desikan just answered the part of the question. So, just primarily because January is when we do the salary increase for all our employees across the board. And this year, the salary increase was in the range of around 12% to 14% across the board. And the remaining increase is primarily because of the additional headcount during the course of the year of what we have added during the course...

Ravi Naredi: Okay. And sir, in next 1 to 2 years, you are giving some top line guidance. I'm not going into the that, but can you tell what...

Balaji Viswanathan: I was only talking about the next 2 quarters in summary, not for the next 2 years.

Ravi Naredi: Okay. Okay. And so what will be the margin?

Balaji Viswanathan: We expect the EBITDA to be in the same range as what we had indicated earlier, which will be the 15% to 18% range.

Ravi Naredi: Okay. Okay. Sir, I'm the shareholder of this company since last 10 years. I see that sometimes revenue go in the sky and sometimes go in the land. What is the reason for so many variation in the top line and bottom line?

Balaji Viswanathan: Can you be a little more specific, Mr. Naredi, because at least for the last 8 to 10 quarters that I can remember of, we haven't really seen any significant decline in revenue. We have only been growing, and the growth rate might have been a little different. But at least I haven't seen a significant decline.

Ravi Naredi: I'm telling about the growth sometimes 10% to 15% and sometimes no growth, like this I'm talking.

Balaji Viswanathan: So, quarter-on-quarter, we have never grown 10% to 15%. Year-on-year

Ravi Naredi: Year to year only?

Balaji Viswanathan: Yes. Year-to-year, we have grown in the range of anywhere between in the erstwhile listed entity, we have grown in the range of around 30% to 35% in the last 3 years. And this year, as a combined entity, we have grown 21%. And if you take the onetime impact, we have grown around 16% odd.

So I'm not sure that there has not been a significant fluctuation. At least what we can remember in the last 10 quarters, 8 to 10 quarters. If you have anything any specific quarter that you are referring to, I can certainly come back and give you on this one. But we don't expect it to be that volatile either.

So, that's why I look at what we have said in the range of 15% is what we are looking at. And I don't see that we will have a huge fluctuation in that.

Ravi Naredi: Okay. And so after merging of these owned companies, what changes you are seeing in the company?

Balaji Viswanathan: Significant. That's why we had mentioned about growing to a 10,000 people headcount over the next 2.5 years, which basically means that we have the potential of doubling our business in the next 2.5 years. But obviously, there are lots of other factors there, there's not a forward-looking statement or guidance per se.

But yes, the opportunity that we have in front of us is significant across all the 4 major industries that we are supporting at this particular point of time, which is banking and all the other diversified industries and auto, aero and transportation, all the industries actually have a significant amount of what you said a significant amount of growth potential, not just in India, but also across the globe as well.

Moderator: The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Sir, I just wanted to understand what your strategy for the U.S. because you had one acquisition of that Lucid. How is that faring in terms of growth? And also, I wanted to understand in terms of your headcount, you mentioned the 10,000 employees target would be inorganic and organic. So, how much of that do you expect from organic, and how much from inorganic? Those are the first 2 questions, and I'll ask the next one after that.

Balaji Viswanathan: So, Lucid has been doing exceedingly well, better than what we expected or what we have taken as a commitment when the acquisition happened. So, that's why you see that the combined entity, it's still contributing to almost a little over 10% of the total revenue from this.

And when we acquired the company, they were doing the range of around \$3 million to \$3.5 million. Now we're doing close to \$5 million. We expect to do close to \$5 million in this year. So, that's why it's I see a significant traction in growth. And as far as U.S. strategy is concerned, it's very similar to what we had mentioned earlier as well. We are looking at only tactical approach right now because U.S. is a large geography, and we don't have the bandwidth or appetite to go and target each and every state and client.

So, we have a certain focus on a couple of geographies where we have our existing customers, where we have our existing teams. And we will continue to do that at such time the group makes a big strategy into the U.S. so that we can piggyback on to what the group is going to do and help growing our business for the U.S.

Ralph Gillessen: Balaji, as you mentioned, Europe witnessed after the pandemic a strong focus on the group especially in Europe. I think that is even translated in a good growth in the group, especially in European markets and what we see there in India. We have now worked and we are working on the 2026 business plan. And from a group perspective, we were able to play a significant part in

this strategy. And I think even then, the business in India, they participate in the investment and the strategy that we are executing for the U.S. market for the next couple of years.

Balaji Viswanathan: And on the headcount growth and how much will be organic and inorganic, it's very hard to say at this particular point of time as to how much will be inorganic, considering that we don't have a full project strategy on what it's going to come from inorganic.

But if you were to grow at the rate that we have been growing in the last 3 years, organically, we should be able to get to a close to 7,500 to 8,000 at least. But beyond that, inorganic is something which we don't really have a clear strategy or an idea at this particular point of time, but still in the works. Still we are in the design board rather than on the execution mode. So that's what it is.

Mithun Aswath: Yes, that's very helpful. Just one last one. You've done Q-on-Q revenue growth of close to 9%, but you consistently have been conservative in terms of your guidance. So even if we grow at 3%, are you looking at 3%, 4% Q-on-Q growth for the next 4 quarters? So or are we going to see very muted growth?

So, just want to get a sense, are you being very conservative because 9% quarter-on-quarter growth was quite large in this March quarter, whereas a lot of IT companies have seen a little bit of a slowdown. So just wanted to get a sense.

Balaji Viswanathan: Yes. So, we think that our quarter-on-quarter growth because last quarter, we did sign up some engagement. We also had some on-site engagements that we got signed as well. We expect that we'll do the mid- to high-teens for the year. So, considering this is good for the first quarter of this particular financial year, we would probably be in the range of 3%, 4% is what our expectation is, given the current sluggishness. But if things change, which we expect that something will change in the next couple of quarters, then it could be even higher than that.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Balaji Viswanathan: Yes. thank you. It's great to hear the kind of question and the interest that everybody has got in terms of how we are integrating, how we are progressing and how we are going to grow. Sincerely appreciate all the interest in Expleo.

Given that now that we have merged and there is a larger entity and a lot more stability till now we have been doing this quarterly investor calls. And going forward, we are looking at doing at constant 6 months and if we have anything more important for me, urgent update or any important update to be given to the markets and to the investors, we'll probably schedule a call for that. But otherwise, we're looking at doing it once every 6 months, H1 and H2 going forward. Looking forward to your continued interest, and I know your best wishes for continuing our growth trajectory. Thank you so much.

Desikan Narayanan: Thank you.



Expleo Solutions Limited
May 26, 2023

Ralph Gillesen: Thank you, good luck.

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