Expleo Solutions Limited
(formerly known as SQS India BFSI Limited)
Q1 FY'21 Earnings Conference Call

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MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN IR**

Moderator: Ladies and gentlemen, good day. And welcome to Expleo Solutions Q1 FY'21 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 Christensen IR. Thank you and over to you.

Asha Gupta: Thanks, Stanford. Good evening to all participants in the call. Welcome to the Q1 FY'21 Earnings Call of Expleo Solutions Limited. Representing the management today, we have Mr. Balaji Viswanathan – Managing Director and CEO, and Mr. Desikan Narayanan – Chief Financial Officer. Mr. Balaji will start the call with a brief update about the quarter gone by which would be followed by Mr. Desikan who will give a very brief details about the financials. After that, we will open the floor for Q&A session.

As usual, I would like to remind you that anything that has been 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 risk and uncertainties that we face. These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports which you can find on our website. Having said that, I now handover the floor to Mr. Balaji. Over to you, sir.

Balaji Viswanathan: Thanks Asha. Good evening everybody. Hope all of you are staying safe and doing good. In the current pandemic times, we have been able to show the resilience and our numbers also actually indicate that as well. We have done reasonably good over last couple of quarters, or I would say over last three, four quarters, to be more precise and hope this trend will continue. In the last five months, the kind of changes that we have seen in both our operating model and our client engagement, and the way we operate, kudos to the entire team that has actually been working, more than 1,200-plus people who are working with us, everybody has shown tremendous resilience, and that's the result which we are seeing right now. We have more than 98% of our people who were actually billed at a particular point of time on March 18th, who are currently billable. And more importantly, over the last two to three months, we have seen the business activity coming back closer to normal. We are seeing an uptick in demand which we are hoping that it will continue going forward as well as most of our clients want to move towards the digital journey and want to accelerate their digital journey as well.

We had some challenges in some of our geographies. While UK and US mostly stabilized rather than growing much, the Middle East, Asia and India also showed good progress in terms of showing some signs of growth. I think over the next couple of quarters, things should start moving towards the north, and we will start seeing more demand and the entire business activity should probably be closer to pre-Covid or even better than the pre-Covid times, is what our expectation is over the next two to three quarters.

We have been focusing specifically on digital services and specialized testing services, which is what our focus has been over the last four to six quarters. I am glad to say that from earlier times wherein, last year when we were talking about around 10% to 12% of our revenue is coming from specialized services offering, we are now close to 21%, 22%. So, this particular segment is growing much faster than the other segment. All the investments, hiring and other stuffs what we did in that particular area; has now started showing the results for us.

When the pandemic started, we were very cautious in terms of what our steps should be, and results reflect in Margin numbers. So, we had done some investments, but we were a little prudent in trying and making some of those investments as a temporary investment. We were able to suspend some of those engagements and some of those cost factors which actually helped us in saving some cost savings in the initial days. And now we are back to normal, both in terms of hiring and in terms of getting contractors or investing in tools and technology as well. So, overall, I think these five months has taught us a lot, more than what probably, at least, I have learnt in the last two years in this Company and in the business. It's been a resilient journey so far, and I hope that resilience will continue going forward as well.

Despite all these challenges, we had won four new clients in this quarter. We also won back one of our earlier customers from UK. We have seen increased offshoring, particularly from geographies which are not very prone to offshoring, particularly Middle East as a market. The customers are more amenable to remote working now than what they were earlier. While some of these trends may change when current running challenges around working space and other stuff goes off, but we don't think that it will go back to the pre-Covid bids. And that should be a good sign for all of us, considering that there will be more offshoring during this particular period. Because of the Covid related slowdown, we had some partial ramp-downs, some changes in the kind of people that we were working and there are some temporary work suspensions which the customers did. Also, some of the customers who came back and asked for discounts for them to continue with some of their existing projects because of the budgetary constraints that they had. Overall, we expect that during the course of this year, our revenue impact would be in the range of around 5% to 7% and there will be marginal impacts in margins as well.

And one of the other pieces which we are proud of is that we did not have any layoffs or salary cuts or any of those during this particular period, we were very conscious about our team members, because that's our biggest asset. And we did not do any of that kind of people related actions, except for which we started now after the performance reviews last month. Some performance related pieces, but there isn't really any resource related action at all, because we were very conscious about how we are managing our team and maintaining the motivation and morale.

So, that's a summary of what we went through in the last five months. I will pass it on to Desikan to provide more on the financial update. And then we can go on to questions. Thank you.

Desikan Narayanan: Thanks, Balaji. Good evening, everyone. I will just run through you on the financials how we have done this quarter. It has been a good quarter for us overall.

We had a revenue of Rs. 758 million compared to last quarter of Rs. 755 million, an increase of 0.4%. On a constant currency, it has reduced by 2.5%. EBITDA was at 25.5% compared to the last quarter of 20.8%. Our revenue numbers were impacted because of increase in offshoring ratio but we saw some margin increase due to that. Also had some cost reduction due to drop in travel cost because of travel restriction. That has contributed to the overall EBITDA increase. We ended up with a PAT margin of 18.3% compared to 17.6%. As always, we concentrate on cash considering the current situation, where the cash is king. So, collection was one of our main focus area and being a debt free company, we are in a comfortable position on the cash side. This quarter we ended up with Rs. 1,002 million, which is Rs. 100 crores of cash in hand.

Moving on to the year-on-year results details, we saw a good growth year-on-year basis. It was overall 24.6% growth. And on a constant currency, we had 16.3% growth, majorly coming from direct regions, which are Middle East, APAC and India region contributing to the increase in the revenue. On the EBITDA, we ended up with Rs. 194 million compared to Rs. 114 million last year same quarter. PAT margin was on 18.3% against the 10.8% last year same quarter. Our EPS was Rs. 13.91 compared to Rs. 6.2 last year same quarter. And this time, we moved into the new tax regime of 22% tax. So, that also has contributed to an EPS increase.

This is the overall summary about the financial performance. We can now take up the question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jatin K. from Alpha Capital. Please go ahead.

Jatin K.: Congrats for a very good set of numbers. Sir, we have won new clients also in this quarter. And this quarter was supposed to be the worst hit quarter for the Covid and still we have done quite well, even Q-o-Q as well as Y-o-Year, still we are guiding for 5% to 7% revenue impact for the full year. Would you please elaborate in this, why are we expecting a dip in Q1 which was supposed to be the worst quarter has done well?

Balaji Viswanathan: When I mentioned saying that we will be impacted by 5% to 7%, that was based on what we expected. So, these are signed contracts or signed engagement which have now ramped down. So, if we probably had these contracts, our numbers would have mean even better than this, that is what I meant when I said 5% to 7%. So, if we had those, then probably our growth rate would have been instead of 0.4% for this quarter, it would have probably been 5.5% or 6% rather than 0.4%. So, that's what I meant when we say that it will have an impact of 5% to 7%.

Jatin K.: And so, sir, what will be our kind of full year guidance? What kind of growth, etc., do we expect for this full year?

Balaji Viswanathan: We normally don't give a forward-looking statement, but it will certainly be better than what the last year numbers were.

Jatin K.: Sure, sir. And sir, our debtor days has gone up this quarter, it was higher last quarter also and now this quarter also it has gone up. So, any colour on that? And what kind of expectation do we have on that front?

Desikan Narayanan: An increase in the DSO is predominantly because of the delay in getting the payments. Actually, if you look at the last quarter, we had some group outstanding which came late. So, in the month of July, we collected around Rs. 400 million, which is Rs. 40 crore. So that delay has impacted the DSO for the last quarter. You can see those collections to be reflecting in the current quarter, which is Q2. We don't have any issues on the collection side. We have been doing good on that as our customers have been paying us and we do not see any liquidity issue.

Jatin K.: Sure, sir. And last question would be, we were considering buyback or dividend plans, and so any thoughts on that?

Desikan Narayanan: Again, in the current market situation, we are continuously monitoring the situation and the options are open, most probably within this quarter we may be able to get something decided. That's the current view of things.

Balaji Viswanathan: Also, there has been a management change at the group level as well. So, we also have our new Group CEO who will also join our Board from next month onwards. So, giving him time to settle down as well before we take a call on any of these.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: Congratulations for a good set of numbers. I had two questions. One is on the on the testing business as a whole. Due to this current pandemic and acceleration of may be some products, do you see intensity of testing changed or may be increased? Some thoughts into the testing business as a whole, that will be helpful.

Balaji Viswanathan: Sure. The pandemic situation really did not accelerate any testing per se. The testing actually can be split into two, three segments per se, one is testing for new products, new services, and new technologies; and the other one is to make sure that all the existing technologies and updates and other stuff are actually kept current and up to date as well. So, most of the engagements in the first four to six weeks started slowing down most of the activities. The banks call it as change the bank and run the bank. Most of the focus was on making sure that they run the bank rather than change the bank. And that's what impacted us initially in the first four weeks when people started rolling down some of the projects or slowing down some of the projects and ramping down some of the efforts. After sometime, people realized that this is not just a short-term impact, it's going to be long-term, and that's when some of these trends started reversing and people realized that there is no point in slowing down on any of the change in the bank and that's when many of these started coming back into the fold. And apart from that, many of the banks and insurance companies which were a little slower in the digital transformation, they wanted to get something out, up and running faster, and we played a role in that as well. And if you look at most of our growth has been on the digital area rather than in the traditional testing area. When I say 'Digital', it is around Automation, Robotics, DevOps, to some extent some part of niche software development as well to help in the testing and the assurance space. So, that's which has accelerated. If you look at what Gartner say on what Nelson Hall say in terms of what the future of the entire Quality Assurance industry is going to be, it is going to be primarily led by tools, technology, automation, apart from the traditional testing. The traditional testing component is likely to stay stagnant or probably slightly reduced while the new age way of testing is going to increase. We just saw a little bit of acceleration there, and probably some of our investments which we did late last year and beginning of the year helped us in making sure that we were able to capitalize that to some extent.

Anuj Sharma: Thank you, that's useful. The other question is, we have been trying for the US market for a long, long time, and it seems to be a difficult market. Now, if this pandemic was an opportunity for you, have you been able to make any headway or that remains a big challenging and not on your focus area? Just some thoughts on the challenges in US and doesn't this opportunity make a good opportunity for you to expand in the US? Thanks.

Balaji Viswanathan: US has always been a focus market. The only thing is that what is the level of investment that we are ready to make to grow in that particular market, because you can't do some small investments here and there and then expect the US customers to start listening to you, because there are well-entrenched players and people who have been there in the long-term, who are there in that particular market. So, if you want to grow in that market substantially, then the option is to make those investments upfront, which we are right now being tactical in the US market rather than very strategic. So, we have customer engagement and relationships which we have been continuing, and that engagements are growing or we are looking to grow those rather than trying and investing a lot of money or effort on building new customers and new pipeline, because the timeline that it takes through the procurement route and getting into that particular space is much, much larger. So, the option that we thought of last year is to wait for the group to grow in the US region, which will actually help us to grow as well. And that's the same that we are going to be doing now as well. So, we are doing tactically some opportunities in the US, but not so much from a strategic perspective.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Congratulations to the team on good execution in such times. To your one of the points which you said in your opening remarks that some of the market clients in the Middle East are actually looking for incremental outsourcing.

Balaji Viswanathan: It is not more outsourcing, whatever they are outsourcing they are ready to do offshoring as well, which they were not comfortable with earlier.

Rahul Jain: Sure. Understood. So, just wanted to understand how this thought process can possibly evolve opportunity size for us? Do you think this is more cost led? Or this is more about getting comfort in a remote delivery? Does it change growth opportunity for us? And at the same time, does it shrink the revenue size, given that some of it was delivered onsite and that way probably at least from a revenue perspective it will see some shrinkage from a trend perspective?

Balaji Viswanathan: I will probably start with your first question. The reason why the trend is changing is not because of cost, while cost is a factor but that's not the prime factor, at least in the Middle East markets. Because if you know primarily those regions work with people who are living there, including the expat population as well, because most of them actually have a significant amount of expat population working from there. So, it was not led only by cost, but cost is also a factor. And with the current scenario, with all the other global economic challenges, cost also has become a significant factor. And some of the Middle East markets are probably as expensive as European market as well. So, to that extent, it is certainly helping both our clients and us in that direction.

If you ask, whether it's a long-term trend or whether it's a short-term trend? I would say that we are cautiously observing it. In my opinion, it's a medium-term trend for sure, because nothing is going to change over the next two to three quarters at least. But beyond that, it depends on how those markets grow, how the economy changes, if it is an oil led economy or it is a natural gas led economy, depends on what each of those countries' economies are driven by and whether that is going to change in any way. I would say that, at least for the next two to three quarters that's not going to change much. And will it impact our revenues because of the difference in the billing rates between onsite and offshore? It will, but I don't think that is going to impact us significantly. Because the market size is much bigger. So, the way we look at it, if we have 70, 80 people in the Middle East region working onsite, the same thing will probably require around 200, 250 people working from India. But that doesn't mean that they are going to change the entire 70 and move everybody to offshore as well. So, even if we have a marginal 10%, 15% growth in each of the clients, that should offset any of those revenue related challenges. But it certainly improves our margin profile significantly.

Rahul Jain: Right. And just one question on the growth potential, I think you partially addressed in the previous gentleman's answer. But we have been stuck kind of in this revenue range of $10 million a quarter for quite some time. So, what is the real road ahead for us? What should be the real driver? I think you talked about US, it's a tough market in that respect. But really for us may be a much longer view, but how we become from this $40 million odd revenue company to, let's say, $80 million revenue company in whatever time frame you think it is achievable?

Balaji Viswanathan: Yes. So, there are two parts to this, one is that we are looking at how do we grow our direct region, and that's what I mentioned earlier as well. So, if you look at our regional distribution profile now, the Middle East, India and Asia market has actually grown significantly; while UK and Europe over the last six quarters or so, there has been a slight decline. Our biggest growth factor is going to be the European market, considering that we are not there in the US at this particular point of time or US will probably be a longer-term goal when the group also grows. Our focus is going to be primarily on how we make sure that we work with our group and grow in the UK and Europe, because that is where the maximum potential is. How much ever we grow within India, Asia, Middle East market, it can't really compensate, or it can't really be at the same levels of what the European markets will be, both in terms of revenue or in terms of margins for that matter. So, our focus is, work with our group, work with what the opportunities there are, and build that particular market through our group, to get the business.

And that was what will drive, if I look at $40 million to $80 million, at least the $70 million to $65 million will actually come from there, the remaining $10 million, $15 million is what will come from the India, Middle East and Asia market. And that's what our focus has been as well, whatever we are working with our group, we are investing in prime and putting some sales efforts from our side to sell, because banking and financial services is not a practice that the entire group follows because it's predominantly in engineering, and automotive and aerospace. So, we are making some of those investments from our side as well. While it slowed down because of the current scenario, but 2021, I think, those investments will start happening and that should probably put us in a better position to get to the $80 million, $100 million over the next three years or so.

Moderator: Thank you. The next question is on the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Congratulations for a good set of numbers in a challenging environment. First of all, one more clarification again on this 5% to 7% impact that you mentioned during the quarter. So, is that a permanent loss for the entire year or is it that because of the pandemic the goal post shifted by one or two quarter. So, Q2, Q3 onwards these contracts and this loss revenue starts to come back to us?

Desikan Narayanan: This is more a drop for the year. This 5% to 7%, are drop in signed contracts or signed engagement which have now ramped down. In the current situation is more a permanent loss unless the client come back with any ramp up plan.

Sachin Kasera: Sure. And how do you see going forward based on what are the trends that you have seen in Q2, because in the commentary in the presentation you have mentioned that you are starting to see encouraging signs of demand. So, do you think that maybe when we look at the full year, maybe June was like the worst quarter and from here onwards things should improve?

Desikan Narayanan: With respect to the pipeline, if you see, compared to the other industry, BFSI is in better position than others. Even though the banks have slow down the investment they have not stopped investing. We see it more a movement of investment to the next quarter. There are some temporary ramp-downs happening, but taking into consideration the current aspect of things, we see some positive sign. If you take up Middle East or APAC, we see business coming in. Considering all these, we don't expect the current revenue trend will be going down. at least for the next two quarters.

Sachin Kasera: Sure. Just one last question, you mentioned in our previous query that you have some aspiration to be between $80 million to $100 million over the next three to four years. So, just two sub-segments to that; one is that, is this more like an aspirational target that we have? Or is the management seriously working on a roadmap how to achieve that? And secondly, you think you can do this organically or for that to be achieved you will need to do some serious inorganic activity also?

Balaji Viswanathan: Yes. So, as of now, it's an aspirational target. I wouldn't say that actually we have a full roadmap of how we are going to get there. While we prepared a roadmap in the beginning of the year, many of those actually remain just in paper because of all the situation that unfolded in front of us. This is something which we are working on. And like what I mentioned, there is a significant amount of group engagement that is required to get that going. And that is what we want to do between now and end of the year so that we can actually firm up whether it's going to be $75 million or it is going to be $80 million or whether it's going to be $100 million, something which we need to firm up based on how that particular piece will work and what the investments that would be required for that.

Sachin Kasera: And would inorganic be probably part of that activity, sir?

Balaji Viswanathan: Yes, it will be both in organic and inorganic. But it all depends on how much we can afford as well.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: Congratulations Balaji and Desikan, very good set of numbers. My first question was regarding the client you won back, if you can give a little more colour around who we won against and was it impacted by group also? And what are the prospects from this particular client, meaning just from the initial bid do you see the business expanding with them?

Balaji Viswanathan: This is a client in UK, and it was won by the group, which actually got outsourced to us. And we see a reasonably good prospect because this customer is actually a technology company which works on the digital platforms, primarily mobile, telephone and internet. And it is on the customer contact business. And they have many end clients, they are also a B2B provider, they have many end clients. So, we think we have now signed up for two of their end client customers or the rollout that they are doing. And we think that will probably grow based on the good work that we are doing so far with many other customers who will also do similar changes in their digital platforms and their customer contact business.

VP Rajesh: Is this testing or something and also?

Balaji Viswanathan: It is primarily testing but led by automation.

VP Rajesh: I see. Okay. And in the new clients, the three that you have won, are they coming primarily from Middle East or Asia Pacific or something else is there from Europe or the UK market?

Balaji Viswanathan: These four actually are from the Middle East and Asia market. There are two customers in India, one in APAC and one in Middle East.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from ICICI Prudential Asset Management. Please go ahead.

Lakshmi Narayanan: So, in your annual report you had mentioned that you want to right-skill 50% of your workforce, and that you are actually working on RPA and AI and so on, right. And then, I also see that there is a decline in the headcount in the presentation. So, if you can just put these things together to understand what exactly the organization is going through from technology as well as people versus the actual offer?

Balaji Viswanathan: A very good question. Thanks Lakshmi. Actually, the decline in headcount is primarily because we had some of the freshers whom we hired in the beginning of this year, for some of the projects which were in the offering between April and May, which actually got held back and that was the reason why you see decline. And most of these freshers we hire through another agency. So, in the initial days, they were actually on a contract, so we suspended some of those contracts, because those engagements were not coming to us. But if you look at the current quarter, that is the Q1 to Q2, you will actually see the increase in numbers. Because we have started hiring, starting from June onwards, or rather reinstating some of those people who we had actually temporarily suspended during this particular period.

Lakshmi Narayanan: So, in 2020 you guided around 1,000 people in your workforce. So, that would remain by and large the same? I mean, of course, there is a 20% attrition, and it will be filled and towards the end of the year it will remaining at the same level?

Balaji Viswanathan: Yes, we should be at the same number as what we were, or rather, we should be slightly higher than what we were in January, before end of the year. And the work type also is changing significantly, Lakshmi. If you look at the trend, most of the work is not based on just headcount, the work is based on how much of automation we were able to do. So, if you look at our realization rates, even at that lower headcount is still the same. So, that basically goes to say that if you change your work force profile more towards technology and automation, while your overall revenue might not change much, but your earnings or your returns, or your revenue per headcount, that profile will change for sure over the next three to four quarters. And that's what our expectation is.

And on the other piece on up-skilling, we are well on track on the 50% piece, before end of the year we should actually be more than the 50% as well. And this pandemic situation has actually helped us, because during the course of the last five months, there are more than 600 people who got certified themselves. Of course, certification alone is not good enough. And out of those, almost 30% of them have also got some hands-on experience as well. And we expect that, that number will actually help us in crossing the 500-plus people who are certified on some of these digital technologies.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir, my first question is on the group. Sir, just wanted to understand what kind of work the group doesn't keep it with them and share to us? And what are the technologies or IPs that the group develop and that too they share with us?

Balaji Viswanathan: Okay. So, it doesn't depend on the work type, specifically it depends on who the client is, and whether the client is ready to offshore or move the work to India as well. While the English speaking countries like UK is not a challenge, there is always a language constraint when you go into other Nordic countries and the other European regions. So, it's not only dependent on the work type. And actually, if you look at most of our engagements, the engagements range from anywhere between 30% offshoring to 70% offshoring. That's the way the group contracts are constructed. So, everything is not offshore, we have some people from the group who are sitting there from the respective countries and some of the work gets offshored as well. Our expectation is that as we push through and as we actually have our people sitting there in those respective countries, in helping them in selling and part of solutioning and making sure that we are able to sell offshore. That current trend of 25%, 30% should go to 50% or 70%. And that's what will help us in growing the offshore business much bigger.

Siddharth Rajpurohit: Okay. And my second question is, I just wanted to understand something over the last five years, what were the hindrances that we faced over the last five years which has stopped us from growing? And what were our efforts towards them, which is now enabled and makes you confident on guiding for a double-digit growth which you guided for in the last quarter? And how much are you confident on that growth?

Balaji Viswanathan: So, the double-digit growth what we have seen in the last quarter and this quarter, if you look at it, the Q2 and Q3 normally, Q3 actually as a normal trend it goes down because the number of working days is less, there are more number of holidays and other stuff. Q2 I think will probably be, I don't think that it will be a growth from where we are right now, but we will be happy if we are able to at least hold to the current trend. But, year-on-year, there will be growth, but quarter-on-quarter there may not be a significant amount of growth in Q2, because this is the time when most of the customers actually consolidate and start looking at what their budgeting for next year is rather than trying and spending too much of the current year.

And on the hindrances that we faced in the past, and have we been able to address all of them, we have taken a lot of learnings. One of the pieces what I told you about make sure that we focus on our group and try and grow that particular business rather than trying and spending too much of time only on selling for ourselves. So, while last year, we set our sales engine running for the direct markets, which have started showing us results now. And this year, our objective is to try and get our sales engine up and running for group as well before the end of this year, so that we can start delivering for group markets as well for next year onwards. So, if we are able to do that, I think that's what will actually drive our future growth.

Moderator: Thank you. The next question is from the line of Rishabh Garg from Counter Cyclical. Please go ahead.

Rishabh Garg: Sir, I wanted to understand that in your annual report it is mentioned that we got export incentives of Rs. 80 lakhs in FY'20 versus Rs. 3.4 crores a year before. So, why have export incentives collapsed?

Desikan Narayanan: The way it works is, we accrue for incentive in our books post we get the notification from the government on the export incentive. This notification come in generally around last quarter of the year. We received the notifications up to 2018-2019, which we claimed in books. For 2019-2020 there was no notification given for the export incentive. That's the reason for the year 2019-2020 we didn't accrue for export incentive. Whatever the amount you see in 2019-2020 is related to 2018-19 true up post considering yearly collection. So, the reason you see a lower number.

Rishabh Garg: Okay, sir. And also wanted to understand, first of all, basically we won't get any export incentives going forward, is that correct?

Desikan Narayanan: It depends upon the government notification. Once they give the notification then we will be applying for it and getting it, that's the way it works.

Rishabh Garg: Okay, sir. And also, if you could just tell us that what is the receivable figure and net cash figure with the company as on date?

Desikan Narayanan: Cash figure is around Rs. 100 crores what we have in our books. And with respect to the receivable amount, the current receivable as of the 30th June is around Rs. 80 crores.

Moderator: Thank you. The next question is from the line of Harshal Vora from Amideep Investments. Please go ahead.

Harshal Vora: I wanted to ask you about the marginal impact on the margins. So, you said revenues will be 5% to 7% down, but the margins will only have a marginal impact. Is that compared to the expectations for this year or is it compared to the last quarter or the last year?

Balaji Viswanathan: It is more an expectation for the year. If you look at the overall 5% to 7% or 8%, the impact on the margin would be not much to that extent. Considering the last two quarters how we have done, based on that we expect that there will be some impact which will be there on the margin side also. That's the reason we have put in there as a marginal impact.

Harshal Vora: So, the last two quarters, the margins for profit before taxes are around 25% and 23%, last year was 20%. So, can we expect it to continue at 23% to 25%?

Desikan Narayanan: One aspect unique on this quarter is that there were some travel expenses which got reduced compared to what we used to incur in the first quarter. So, that has contributed to the margin impact. If this continued and the revenue tend to be in this range we will be making around about 20%, 23% range, which we think that it will be there. This is again an expectation, we don't give any guidance on this.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: So, post this change in management, I mean, our company is very clear that whatever is direct sales that we will do, it will be just in Middle East, Asia, India. And then for UK, US, it will be dependent on our parent and US is more or less, as of now, a third priority, both in terms of front-end and back-end is concerned. So, are we not constrained because of these policies of the group that practically the management can drive revenue only in Middle East, India and Asia, by their own capability and rest is just basically offshoring kind of potential for us, depending on what group can do?

Desikan Narayanan: I don't see that as an aspect of worry for us, because if you look at the direct market, which is our India, APAC and Middle East, it has been with us for quite some time and we are well versed with the market and we have our sales team deployed there and have a good understanding of those markets. And if you see, the same way, the group market, which is Europe and UK, those places the group has a bigger presence and also, they have their sales people there, which gives us an advantage for us. Because one of the things which we see as an advantage for us is that our group already being there, completely settled there and have a good amount of view of the market rather than we going there and putting our own people and starting it from the beginning. We see this model has its advantage.

Vaibhav Badjatya: Got it. And lastly, because as you said biggest growth will come from UK and Europe region under our aspirational target. In terms of revenue growth, it can come, but given the fact that it would be more of an offshoring revenue for us, do you think these kinds of margins that we currently earn is what we can do just on the offshoring piece of the work? Because as of now the margin seems to be pretty high as compared to what only offshore focused guys earn currently.

Balaji Viswanathan: If you look at the Euro market with the offshoring hand, you get a very good margin compared to even our direct region. So, we see that as a potential and also the top-line also increases on there. So, we see that, that will improve our top-line as well as our margins, we are going there into those markets. That is the opportunity which will really drive us to the projections what we are looking for now.

Moderator: Thank you. The next question is from the line of Rajesh Chaudhary from Zenith. Please go ahead.

Rajesh Chaudhary: What is the percentage of revenue that we are getting from USA market at the moment?

Desikan Narayanan: Currently, we are less than 5% what we are getting from the US.

Rajesh Chaudhary: In say about three years' time…

Desikan Narayanan: 2% to 3%.

Rajesh Chaudhary: Say about two years from now, what would be that percent?

Desikan Narayanan: That's a million dollar question you are asking for. See, if I wish for it then I will have more than 25% to 30% coming from US. The US market is high price and high margin market where you get the best rate. Currently we are not there, but our expectation is always high on the US market. As Balaji was mentioning, US market requires huge investment with long waiting period, which really stop us from entering. Maybe, once the group goes in there and we will piggy back in to that market.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand the seasonality in the business. So, is there any kind of seasonality that we kind of see in our business? And any thought process on sequentially we would like to grow or not?

Balaji Viswanathan: See, seasonality is part of the business. And typically, the Q3 is probably the most lean period because that's when most of them have system freezes and don't implement any big changes and other stuff, because they want to maintain what is running. Some of those might change in the future with everybody moving into agile and lower cycle time for implementation and stuff. But as of now, we don't see that changing. And normally by Q2 or beginning of Q3, most of the engagements try to get into a BAU mode rather than the project delivery mode. And then once again it starts picking up in Q4 around February onwards. And typically, Q1 is the peak, rather a month from March till July or early August is the peak for most of the customers. And end of September, early October onwards that starts going down a little. It also changes by region, Middle East you normally have some of the slowdowns around the Eid times. So, seasonality is part of the business and we know based on our experience which market, what seasonality, and based on that we plan how we want to utilize our resources.

Deepak Poddar: You mentioned that in next three to four years aspirationally, we want to be at $80 million to $100 million kind of a revenue. So, that effectively means 20%, 25% kind of medium-term growth CAGR. Is that what you are looking at?

Balaji Viswanathan: There's nothing wrong in aspiring, right? But what we will probably be realistic at is something which we need to plan, like what I mentioned before the end of the year we need to prepare our roadmap. Because we created a roadmap sometime in December, January of this year, December of 2019 to January 2020. But many of those couldn't be implemented because of many challenges. Hopefully, we should with all the new management changes in the group, we want to try and figure out as to how we can increase our focus, what additional investments we may have to make in the UK and European region for us to drive the growth. Because that's the growth which we are sure of, and that's the market which we know very well, or at least the group knows very well as well.

Moderator: Thank you. The next question is on the line of Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Congrats for good set of numbers. On the practice front, we have seen insurance segment has grown well, are we seeing more growth coming from this segment? And also, cards and payment has been down for quite some period of time, so any particular reason for that?

Balaji Viswanathan: Actually if you look at the trend, of course, in case of Q4 to Q1 , for cards and payments we had one project which happened in the Middle East, which was an implementation project we did in the first quarter, which has come to a close, that is the reason you see a drop and now it is in the BAU mode. Additionally, one of the UK customer also has ramped down due to the Covid situation, that is the reason for a drop in the cards and payment thing. As far as insurance is concerned, actually more than insurance we had treasury and capital which we had new projects, which has grown compared to the last quarter. And this is more a mix. Even the revenue changes you can see the change. If we look at banking, banking has actually not changed much. But because of the mix, it looks like it has increased. So, we don't see anything dropping, but of course, cards and payments we had some temporary drop, probably we will be getting back, ones we get some new projects it will be going there.

Deepan Shankar: Okay. Also, when do we expect this European market to improve? And also, expectation from business from existing customers and any update from new customer additions?

Balaji Viswanathan: See, as far as the European market is concerned, we did have in 2019 a drop, particularly in UK, but we see European market, other than UK we see business coming in and we can see a good amount of client also coming in. We don't see there as a big issue, that will be. That will not go down, but we see more the direct line improving much. The bulk in the European market will get back to the normal by the coming quarters. That's a thing which we see. The macro economic situation in Europe has been in the decline for a while, even more after Covid situation. We think that once that situation improves, which probably we are expecting that probably 2021 that should improve. And now with the current situation of remote working being a possibility, many customers are now opening up their ideas of offshoring even from those markets as well. So, we think that this will actually help us in capitalize some of those businesses from there. And offshore margins are any way much higher than what we would typically get by deploying our resources on site. So, with customers getting this comfort, I think, the European market, the way I look at it is, sometime in 2021, we should start seeing more positive growth. Even now from what it was in the beginning of March, April, they have stabilized but not growing at this particular point of time, they are being a little cautious. And in the next two, three quarters, it should start seeing growing towards the north.

Moderator: Thank you. The next question is from the line of Zakir Nasar, an investor. Please go ahead.

Zakir Nasar: Sir, congrats on a healthy set of numbers in a slow time. Mr. Balaji, you mentioned that you are looking at a 5% to 7% dip in your revenue for the year. But from whatever you have spoken and the first quarter, it looks like no more there will be a growth of 5% to 7%. So, what is your opinion on that? And have you been extremely cautious while giving that 5%, 7% drop? And my next question is, what is your manpower number right now over what it was in the year end and what you expect to close the year on, sir? Thank you.

Balaji Viswanathan: Okay. So, when I say 5% to 7%, that will be our revenue which we have lost so far. What I mean by that is, we had existing engagements and contracts which ramp-down during this particular period. If we did not lose those, then our numbers would have been up by that 5% to 7% or the differential would have been that additional 5% to 7%, close to around $1.4 million, $1.5 million is what is the estimated loss of opportunity because of the current situation where people have ramped down or asked for discounts. Compared to last year, we will certainly be better than last year for sure. How much it will be is something which I don't want to make a guess right now, but it will certainly be better than the last year number for sure. So, the comparison of 5% to 7% is on where the customers have ramped down at this particular point of time. So, it's not a comparison with anything else. For the year, we will certainly be better off than 2019 numbers. And our employee headcount, we have around 1,070 head count as of now, we may have close to around 1,120 or 1,125 in the beginning of the next year.

Desikan Narayanan: This includes the third-party consultant, as far as the employees are concerned, currently is around 941.

Balaji Viswanathan: And want to add that the numbers have gone down this quarter, but it will start going up from next quarter onwards.

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

Ravi Naredi: Thank you very much to give this fantastic result. Sir, what is the change in management? Who will join I can't understand, because I late started the concall. So, will you elaborate on this matter.

Balaji Viswanathan: Yes. We have a new CEO who has joined us at the group level, not here. We have a new CEO who has joined at the group level, earlier we had a gentleman by name of Mr. Olivier Aldrin, who was part of our board as well, who was the global CEO. Mr. Rajesh Krishnamurthy, who is an ex-Infosys and he was with CGS, CMA till July, he has joined us as our group CEO based out of France. He is a gentleman who has been living in France for the last 16 years. So, he will be joining our Board from next month onwards.

Ravi Naredi: Okay. And sir, we grow business in banking and insurance, but down in card and payments. So, any reason why the card and payments business has been down when our main business of card is also there?

Desikan Narayanan: Actually, it is more due to a project coming to a close in Middle East during the quarter. We had an implementation project which is now in BAU mode, is the reason you see it lower mix of revenue in Cards and Payments.

Balaji Viswanathan: So, this is only cyclical, it's not systemic. It will be in the range of anywhere between 35% to 40% always.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: My question is on the globally new management. While it's been too early, they have just settled in. But what's the broader direction which we are coming to? And secondly, on the same lines you have said that you are looking for support from the parent. Now, one is, they are very limited, as you said, they have limited presence in the finance segment. So, you are looking for an infrastructure support from them or a new client additions support, what exactly, what kind of support you are looking from the parent from now on? Thank you.

Balaji Viswanathan: It's actually multi-folded. One is the parent, even though if you were to look at the overall banking and financial services at the group level, it's closer on $125 million is the total business that we do in the banking and financial services. Out of which, we probably do only one-third of it at this particular point of time. So, there is scope for expanding even within the existing business. And apart from that, the main focus is to try and help by having our people support the sales team in the respective markets to sell offshoring, because if you look at the people who are selling right now, they all have existing relationships. But selling offshoring requires a different kind of a skill and support, so that is the biggest support that we are looking at.

And the other one is the R&D. So, while we do some amount of R&D ourselves in Chennai, the group also has an R&D center both in the UK and in Ireland, and we are looking at getting help on whatever tools and assets and other stuff which the group is developing as well. So, the sales support, the R&D support and help in selling more offshoring. So, that's the support that we are looking for.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Sir, on this debtor thing. So, we have seen a consecutive increase in two quarters. Is this a new normal or once thing stabilize then it should go back to the normal of 65, 70 days?

Desikan Narayanan: As I mentioned in my opening comments, this is due to group payment came a little late i.e. in the month of July. So, it's more of a timing issue which has contributed to increase in the debtor days. This quarter you will see a reduction compared to what we had in the last time. So, generally, we maintain around the 75 to 80, for the last two quarters it has gone up and came down.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: Just a quick clarification. Desikan, when we were talking about the margins, I missed your point about what you expected for this year. You shared some number and I missed that, so I just wanted to see if you can just share it again.

Desikan Narayanan: Actually, we don't share the future projections, but if you look at the current quarter, we reached around 25%, there are some benefits coming through forex and less travel, actually no travel compared to what we had in the last quarter. We expect this to maintain somewhere in the range of around 22% to 23% in the next two quarters, subject to no change in revenue and the no impact on travel cost due to opening up of lock down.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from ICICI Prudential Asset Management. Please go ahead.

Lakshmi Narayanan: Sir, the booked revenues and the billed revenues are different this quarter.

Desikan Narayanan: What do you mean by that? Because I don't see any difference in there.

Lakshmi Narayanan: Because there is a significant jump in the revenues for this quarter, while you actually guided a tepid growth for the full year. So, anything that has actually lost out from the last quarter got booked as revenue this quarter? I am just trying to understand that divergence.

Desikan Narayanan: No, we don't do it, because we follow the accounting rule of accrual. So we don't have anything like what we missed out in the last quarter and booked in this quarter.

Balaji Viswanathan: And Lakshmi, we are not forecasting tepid growth for this year. So far, the first two quarters of the calendar year and this Q1 of this financial year has been reasonably good. We will certainly see growth, but it is just that we don't know whether it will be double-digit, triple-digit, all those are stuff which we are not sure, or we don't want to be commenting on that.

Moderator: Thank you. Next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir, what is the opportunity landscape as well as the competitive intensity in the software testing space? And particularly for pure play software testing companies? And what are our edge?

Balaji Viswanathan: The testing as a process, like what I mentioned earlier as well, there are traditional testing methods and there is new age testing methods, which is primarily led by specialists testing and automation testing and AI led testing. And those segments are probably growing. If you look at what Gartner says, they said that specialized testing or the new age testing servicing is growing at almost 13% CAGR, while the traditional testing is growing at around 1.5% to 2% CAGR. And our focus is, while we already have good capability on the traditional testing space in the banking and financial services segment, our focus over the last couple of years have been on the new age testing and automation led testing and AI led testing. I would also recommend if you guys are following some of these analysts, there is a latest Nelsen Hall report which got published yesterday, which is also there in our LinkedIn page as well, where we have been rated as one of the pioneers in the AI led testing as well, which is once again, some of the R&D work which we have done along with our group. So, that's the focus which we think will actually set the trend for the coming years.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Jagdishwar Toppo from Japa Investment Advisers. Please go ahead.

Jagdishwar Toppo: Congratulations on good set of numbers in this difficult time. I have only one question, it is related to existing situation in Europe and your group change of management. Obviously, group is majorly into automotive space and is unlikely to do well in the foreseeable future or even may be in few years. So, will the focus shift to BFSI, significantly for the group as a business strategy? And also, will the group look forward to increasing offshoring as well as investment in India as far as the number of employees are concerned? What is the thought process, if you could share?

Desikan Narayanan: See, one of the aspects to be looked at is, in the current scenario of automobile not being in a great shape and BFSI has not got affected much due to COVID, group attention will be on BFSI. Also at the group level, with QMC margin are better, we expect focus on QMC, in particularly BFSI will be there. And as far as the management change and offshoring, both the new CEO as well as the earlier CEO, the focus was and is, always been grow India, considering the high offshore capability. We don't see any change in that, and we believe that it will be continuing.

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

Balaji Viswanathan: Thank you so much. Thanks for so much of interest and the participation. It is overwhelming that we had so many people. And I still remember three quarters back we did not have anybody participating in a call, or probably we had just three or four people there on the call and we finished in 35, 40 minutes. Compared to that, I am really glad that there is a lot of interest in us. Thank you so much for that. And going forward, we hope that we continue to do well, and we have sufficient support and encouragement from each one of you. Thank you so much for being there and have a very good weekend and very happy Ganpati for whoever is going to celebrate tomorrow.

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