Expleo Solutions Limited
(formerly known as SQS India BFSI Limited)
Q2 FY ’21 Earnings Conference Call

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MANAGEMENT: **MR. BALAJI VISWANATHAN – MD & CEO, EXPLEO SOLUTIONS LIMITED (FORMERLY KNOWN AS SQS INDIA BFSI LIMITED)**
MR. DESIKAN NARAYANAN – CFO, EXPLEO SOLUTIONS LIMITED (FORMERLY KNOWN AS SQS INDIA BFSI LIMITED)

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

Moderator: Ladies and gentlemen, good day and welcome to the Expleo Solutions Limited, Q2 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now handover the conference 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 Q2 FY '21 Earnings Conference Call of Expleo Solutions Limited. The results and investor presentation have been already mailed to you and they are also available on our website. In case anyone does not have a copy of press release and presentation, please do write to us, we will be happy to send the same to you.

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

As usual, I would like to remind you that anything said or that has been mentioned in this call which gives any outlook for the future or which can be construed as 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, thanks Stanford. Hello everybody, hope you are all safe in all these uncertain times. It is my pleasure to talk to you once again, through this investor call. The quarterly results have been published, we had some minor challenges in this quarter, but overall in-line with what our expectations are given for Q3 and Q4. Q4 is normally slightly slower compared to other quarters primarily because of lesser number of working days and Q3 would also see similar kind of impacts on some of the other geographies. However, the current decline is not related to this, most of the decline has been primarily around the COVID related headwinds, which we did not face in Q2 because most of the running projects were going on at that particular point of time. So, the Q3 results are primarily defined by some of these projects deferred and postponed but all of them are from what we see it all looks like temporary, we don't see this as an ongoing trend and hopefully in the next couple of quarters, most of the new transformation projects will also come in full force. There is a lot of interests based on our strategy on moving legacy into modernization, the Cloud, RPA and automation, which has seen a lot of interest from our customers and our partners. We also signed with two new partners during the course of this quarter, which will also help us in the future as well.

So, we are seeing demand coming back in many of the markets. Europe is still a little slow, but one of the good elements for this year for this quarter is that we managed to get back into one of our large customers in the US who reduced their footprint significantly earlier. So that is like probably start seeing some growth in that market starting from Q4 or most probably from Q1 onwards. We signed six different deals for this particular quarter and all of them, or four of them are actually within the services area primarily focused on automation and development combined with testing and we also had one customer from the group region who will be added during the course of this particular quarter. We have not lost any major engagements. As part of our normal process, there are some engagement which are going into temporary pause and those are the ones which you would actually see as customers being dropped during this particular quarter. We continue to manage our costs quite tightly and whatever temporary measures taken because of all of those, we are in-line with what we did last year or probably much better than last year, we had actually imposed certain salary restrictions and reduction and some other variable pay for managers in the second quarter of this year once the pandemic broke out. So, those measures are being reversed at this particular point of time to make sure that, we have a healthy and motivated workforce, as well getting ready for the future growth. We continue to invest in our training. We have started 3 new programs during this quarter, we actually have those also resulting in better growth for next quarters. So that is quickly about where we are and what we are focusing on. I will pass it on to Desikan to cover the financials and then we can get on with questions.

Desikan Narayanan: Thanks, Balaji. Good evening to all. I will cover quarter-to-quarter comparison and last year same quarter to current year same quarter comparison. Overall, if you look at last quarter to current quarter, we were lower by around 2.9% i.e. from a revenue of Rs.758 million to Rs.736 million. EBITDA percentage dropped slightly from 25.5% previous quarter to 24% in current quarter. PAT slide from Rs.141 million, to Rs.128 million in current quarter. That is the overall profit after tax, and on the EPS, we dropped from Rs. 13.9 to Rs 12.3. Our cash position improved from our last quarter i.e. from Rs.100 crore to Rs.107 crore. This is mainly due to improved collections. Our last quarter, collection was around Rs.75 crores, which increased to Rs.95 crores during current quarter. This has also contributed to the drop in the DSO from 93 to 80 days. We maintain a strong in the liquidity. We also had some savings from the travel pre-COVID to post COVID, we had a drop in the overall travel cost.

Going to the last year same quarter comparison with current year, we ended at Rs.736 million against Rs.657 million the previous year same quarter, we are up around 12.1% and our EBITDA margin, compared to the previous year same quarter, of 22% increased to 24% in current quarter. And our PAT margin was around 12.7% in Q2 FY '20 which has now improved to 17.2%. So that is the comparison of last year same quarter with the current quarter. Overall this is the financial update. Now we can take questions.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Manish Buxi an Individual Investor. Please go ahead.

Manish Buxi: So, my question is around the cash balance. We have been waiting for about nine months now about what the board is going to decide about this significant cash balance which is currently at about Rs.100 per share and we haven't heard any news on the dividend. So, what is the status on that?

Balaji Viswanathan: Okay, Mr. Buxi we are evaluating all the options, there are certain opportunities that we are exploring at this particular point of time, which will actually help us in driving faster growth. But, however having said that, the Board was not looking at the dividend distribution in this quarter primarily because of the current pandemic situation, and we are still not out of the woods. So, we will probably take a call, either during next quarter or maximum by the 2nd next quarter, once we are out of this particular uncertain situation, and once we know for sure how to go ahead and what kind of investment outlays we will actually look at. That is one of the reasons why the decision on what to do with cash has not been taken in this quarter. Desikan you want to add anything?

Desikan Narayanan: Pretty much that is the reason and now the concentration is more on getting the liquidity in place and also to speed up collection. Maybe in the next quarter or the subsequent quarter, we will be able to decide on utilizing the cash.

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

Ravi Naredi: Sir, when the travel starts and expenses rises to reasonable level in quarter three or quarter four, how do you maintain the margin?

Balaji Viswanathan: Sir, actually the travel expense contribution to overall expense pool is not a significant number, so we should still be in the range of what we were doing last year. Probably we will not be able to maintain the current 24% or 22% kind of margin but we will still be closer to the 20% margin numbers. So, while travel is contributing some benefit but that is not the only factor which is actually driving higher margins, is what I mentioned. We actually scaled down on some of our salary costs, we actually cut down on temporary resources to be hired and we are managing our bench very, very effectively right now. But when we are actually looking at a faster growth, then some of those elements will not be able to execute that much well, because if you want to grow then you need to have a bench as well. But as of now, we have managed it very well for the last two quarters. But considering the kind of opportunities that we see in our pipeline, we think that we may probably see a marginal dip, although it will not be a significant one in the coming quarters.

Ravi Naredi: Okay. Sir, any organic acquisition is on card in near future, what you have said is about utilization of cash?

Balaji Viswanathan: We are exploring all opportunities Mr. Naredi with Rajesh. I would say that acquisition is a much bigger decision to be taken. So, we are evaluating all kinds of options and the right decision on what we actually want to do, will probably be taken some time during the course of first quarter of next year. Because right now, given the current situation we are not evaluating any of those, because it is really premature to do any of those without knowing when we will be able to come out of the current pandemic situation.

Ravi Naredi: Right. Lastly, any employees, how many employees are we expecting to add in H2?

Balaji Viswanathan: For H2 in the December quarter, we are looking to add another close to 25 to 30 people more, and then 1st quarter of next calendar year we will probably may add another 20 to 25 more, headcounts. So, from the current levels we will probably may hire another 40 to 50 headcounts.

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

VP Rajesh: Balaji one quick question on the employee cost, I did not quite understand what you said about the fact that you had rolled back the salary cuts in this quarter or will that happen in the coming quarters?

Balaji Viswanathan: It will happen in the coming quarter Rajesh. So, we have done salary cuts for the managerial staff, we had actually taken a cut on all our salaries on some variable pay. For the first 3 levels of employees, we have not done any salary cuts, we did not touch any of the compensation, but for most of the managerial cadre took call of reducing the variable pay, that is the decision what we are reversing now, because we are doing better than numbers what we were expecting.

VP Rajesh: I see, so what is the potential margin impact because of that?

Balaji Viswanathan: Hardly any, we have been making the provision for those.

VP Rajesh: Okay, good. So, this is a fully loaded cost that we are looking that will be employee costs?

Balaji Viswanathan: That's right.

VP Rajesh: Another quick question and then I will get back in the queue, your DSOs are still higher than what we are used to see. So, what is the guidance of that?

Desikan Narayanan: Yes, that is true, our current DSO is little higher. Couple of things happening now. We have started vigorous following up with the clients on the collection. This is reflecting in the reduction of DSO from 93 days, to 80 days. Target is to reach around 70. The market average is around 65 to 70, which is the best we can reach. We are into it and we can see the progress happening. Due to COVID, there were some delay in some regions like APAC, but now due to constant follow up, we are getting the payments. It is a big positive happening. In the coming quarter, we definitely expect that it will reduce further.

VP Rajesh: Okay. And just ask one quick question on the cost side, aside from the travel costs, are there any other costs that you see going up in your other expenditure line over the next couple of quarters?

Balaji Viswanathan: That would be some investments Rajesh based on some of these new service lines that we are adding, we are looking at signing up with some partnerships for tools and technology. But apart from that, we don't see anything else.

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

Rahul Jain: Firstly, if you could tell us, what are the near term growth opportunity that you're looking into, because we are hearing much better qualitative remarks from the BFSI space and the modernization thought process on the landscape, how does it change or accelerate opportunity in service line, that is question number one. Question number two is that, we have also seen in many service companies the trend toward incremental offshoring from a delivery perspective. So, in that light, how you see the business could shift given that we have a lot of business volume that we are delivering in the Western geography where, the cost is relatively high and that could be more outsourced now, given that there is far better thought process on the remote environment about the outsourcing. So, with these two trends in mind, if you could give a view on it, demand scenario?

Balaji Viswanathan: Yes, we are seeing demand like what I said earlier that the pipeline is looking strong. The only challenge that we have seen in the last, four to five months is that while there are opportunities coming into the pipeline, it is taking a little longer than expected, in terms of closure of the deal in current environment, or the kind of cycle time that it normally takes. And given that we are not able to travel and meet with customers to present value proposition and other stuff it is probably taking a little longer, particularly in case of new customers. So, to that extent it is taking longer than expected, but the pipeline looks stronger and we feel that most probably either by next quarter or 2nd next quarter, once things ease out, probably we will be able to capitalize on the growth of the pipeline. And, the areas that we have seen is in-line with what I have mentioned, mostly in the DevOps area and the automation space is where we are seeing the maximum amount of demand. And apart from that, we are also seeing, what we call it as the development a chip tester as a role which has seen demand in the market as well. And the demand, which we are seeing is mostly as of now, the demand is I would say almost close to the pre-COVID levels in India, and to some extent in the Middle East. But the other geographies are certainly not reached to same level of demand traction as yet and Europe and the UK are still a little uncertain, I would say, now with the second wave of the pandemic hitting them, they are still not sure whether when they will start doing larger transformation programs, while the BAU programs or business as usual programs are intact. And on your second question on offshoring, yes, we are getting big on that and that is one of the stated objectives with the group as well. And we are expecting that we will have more offshoring and if you look at our current numbers also our offering numbers have been increasing, quarter-on-quarter over the last few quarters, if you look at onsite contribution from around 54% odd now we are closer to the 50% mark. And we expect that it will probably get settle down somewhere in the 45% to 50% mark.

Rahul Jain: I find it a bit difficult from the perspective that we have not been able to grow to the expectation for last couple of years, and we are sitting on such a huge opportunity from an internal outsourcing perspective, which also aligns with customers expectation of cutting cost down, so despite that, this trend is not taking up the shape, and even our commentary in general looks a little conservative when I compared to many other peers that have reported the numbers so far. So, if you could give a little bit more clarity that why this trend could not be accelerated, is it that client is quite hesitant about this or is that an internal decision which we are not able to overcome faster. And secondly, why there is a mismatch between what we are talking in that range**?**

Balaji Viswanathan: No, there is no mismatch, if you look at it Rahul, our business which is primarily the testing and quality assurance space, comes normally either mid-way of transformation journey or almost at the end of the transformation journey of the customer, and given that, many of the projects which were running, people were taking it to a logical closure. So, if you compare it to the results of the larger system integrator, then obviously, it may not be the same because their engagement in the project starts much earlier. So, if they start seeing the demand, then we will start seeing the demand one quarter down the line or two quarters down the line. So, in my opinion, I don't think there is a mismatch in the demand cycle and on the question of, why there is not offshoring or why there is not much of business coming in from the group. If you look at the current structure of the group, almost 85% to 90% of the business comes from non-BFSI segments. So, we are getting, more growth on those elements primarily in the horizontals like automation and performance engineering, but not so much in the hardcore engagements that we are looking at. With the new management in the group level and with the kind of focus that we are trying to bring in. It should have ideally happened in this year. But given the current circumstances, we feel that probably it will get pushed to the next year, but we will definitely see more offshoring from the group starting from next year.

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

Vaibhav Badjatiya: So, just a question on the projects deferral. So, I am not sure that I am right or not. But some of the presentation, it looked like deferral and pause is in Asian banking segment, just wanted to understand that even there are more problems in Europe and Western World. And why this project is getting delayed and do you see that these projects are continuing to be paused in the current quarter as well, and what could be the reason for this slowdown in this particular area?

Balaji Viswanathan: No, actually the slowdown is not in Asia Vaibhav, the slowdown is primarily what you have seen in terms of ramp downs, or deferments of projects is actually primarily in UK, Ireland, and to some extent in Belgium. And that is why we have seen some of the declines of course, Asia is also another market, where we have seen a decline, Middle East has not got impacted, India has not impacted, the other markets are seeing some amount of impact because of that, but Asia has actually started now, demand is almost growing at the same level as what we had seen earlier. But of course, opportunity is not closing that easily but at least the demand and the pipeline is certainly big enough. And the reason for this is twofold, one is for them to get the right kind of talent to run the transformation programs. And the second element is, their software delivery which is something which they need to get from the original product manufacturers or BFSI are also getting delayed. We expected this and I had mentioned this in my last call also. So, all the BAU projects and the other projects running at that particular point of time where they had invested, which was actually in the process of getting tested and implemented, were all going through the ones which are coming up new, there seem some bit a pause and a delay, but we don't see this to be going on forever, because all these projects were approved by the client organization earlier, just a question update for them to get the right kind of talent and their application getting delivered, so that we also support them in the implementation process.

Vaibhav Badjatiya: Right. So actually, my conclusion of Asia slowdown was coming from the slide where you say the revenue by region and Europe revenue has gone up while Asia revenues have gone down on a Q-on-Q basis. So, I don't know whether there are some classification issues out there or I am misreading something?

Balaji Viswanathan: No, there is no classification issue. Asia market has dropped, but it is not because of the project slowing down but it is because of some of the projects coming to an end and the other projects did not start on time. So, that was the reason for the Asia business, but that is a temporary one, you will start seeing that going up next quarter as well. And the Europe and the UK are going up primarily because there are new customers whom we have added, from those markets and some other projects which they are earlier on part have started seeing some traction.

Moderator: Thank you. The next question is from the line of Zaki Nasir an Individual Investor. Please go ahead.

Zaki Nasir: Decent set of numbers, in this difficult time. So, Mr. Balaji was mentioning in his opening comments something about the weakness percolating to the third quarter. So, would you say that the run rate of the second quarter would continue in the third quarter or you can see a slightly buoyant kind of thing, that is my question number one. Question number two is that, during the past 12 quarters, for some reason, we have not been able to break about that Rs.75 crore, Rs.76 crore per quarter billing. So, do you think it is a manpower kind of restriction or the kind of work we do, would this run-rate continue for some time? Thank you.

Balaji Viswanathan: So, as I was saying that, in this quarter we saw some slowness particularly in terms of projects which we were expecting to start, did not start and getting deferred, or not ramping up as per the expected timeline. Q4 in general is actually a slightly slower quarter because number of working days goes down significantly in Q4. So, we don't expect a big uptick in our Q3 for the financial year and Q4 of the calendar year, it is normally a slower quarter because of the number of working days primarily. But Q1 of next year should start seeing once again an uptick and normally Q2 and Q3 are our most busiest quarters. And I could not get your second question.

Zaki Nasir: Sir, in the past 12 quarters we have been stuck on that Rs.75 – Rs.76 crores on the best level in terms of billings, in the top line kind of stuff. So, when do you expect that to at least break above Rs.80 crore kind of mark, would you need to add more manpower, or maybe change the work mix kind of stuff?

Balaji Viswanathan: We thought that we will be able to do it in this year. But, we could not do it in this year based on whatever strategy that we actually put together on getting into the digital side of the business, apart from regular testing business, but we expect sometime during the course of next year, we should be able to break that glass level.

Zaki Nasir: Okay, next year mean you would say next calendar year?

Balaji Viswanathan: Next financial year.

Moderator: Thank you. The next question is from the line of Pavan Tourani from Citrus Advisors. Please go ahead.

Pavan Tourani: Congratulations on good set of numbers. Sir, can you give us some details on what your total order book stands at and also, if you could throw some light on the nature of the deal wins that we can expect in the coming quarters?

Balaji Viswanathan: So, our order book has always been consistent in the range of say anywhere between, when we start the year, that is when we actually look at the order book and then after that we do a mid-year check. But if you look at our order book, it has always been in the range of anywhere between 85% to 90% of whatever our numbers are. And the new customers getting added contribute to approximately 10% to 12% of our revenues in the year. And we are almost in the same range this year as well. We started off with this year, the new account revenue has been slightly higher than what it was last year, which is once again to our surprise as well given the circumstance but most of the new accounts added are in the Asia region, rather than in the Western markets. Between the last quarter and this quarter, we added close to 12 customers, and out of which 10 of them are actually in the Asia region and your second question was, what areas we have seen our growth prospects?

Pavan Tourani: Yes, basically the size of deal wins if you could throw some light into that, and the nature of those deal wins on what is the time span over which those projects are to be executed?

Balaji Viswanathan: Sure. So, most of our clients have been there with us for a long time. But the projects keep changing because it is the same customer who comes and gives us new projects. So, if we look at our client list at this particular point of time, we have almost 4 customers who have been there with us for more than 10 years, there are close to 16 customers who have been there with us for more than 5 years. So, we don't see that as a challenge, we actually measure that by customer rather than only by project even though our SOWs or work orders get signed based on each project. We actually measure it based on our customer engagement and the relationship rather than only by the work orders. The areas that we see that is currently growing are primarily like what I mentioned earlier, DevOps and automation are the two key areas, at least in the testing space which is growing much faster. And some of the Western markets are still going in the traditional space of testing or setting up of test center of excellence and others, but in our Asia and Middle East market, most of the growth has been in the digital space.

Moderator: Thank you. The next question is from the line of Gaurav Goyal, a Shareholder. Please go ahead.

Gaurav Goyal: Okay, the first question is to probably to Desikan. Just need an update on that contingent tax liability of about Rs. 90 crores that you had alluded to in a couple of conference calls, before the last one. What is some clarity on that and what is the update?

Balaji Viswanathan: Yes, that is still status quo, and due to COVID, not much of movement have happened between last quarter to this quarter. The current status is that it may get extend further. Generally, any case in Tribunal come for hearing around 1.5 to 2 years and due to COVID, we will see further delays even in hearing all these cases. We expect that to come in for hearing around in 1.5 years from now. This is the information which we have got from our consultants.

Gaurav Goyal: So, as a shareholder, it is a bit of a scary scenario where we have not provided for Rs.90 crores worth of liability, it has the potential to wipe off our entire cash balance in one go. If the order comes against us, right?

Desikan Narayanan: The question is what is the nature of the case and how much we are confident about ending it in our favor, is the criteria for us to create that contingent liability. If we would have had any doubt that this is not going to be in our favor, we would have not even taken that it under contingent liability. So, having looked at the case, and looked at the pros and cons of the case, we are confident that we will be getting in our favor, that is the reason we are still having it as a contingent liability. I can understand that it is a very big amount, but this is the case where we have the proper approach and we are seeing that it is more positive in our side.

Gaurav Goyal: Okay, second question is for Balaji. So, post our takeover by Austria, there were some comments on the global website in February, 2019. They alluded to an aggressive growth happening in India, and possibly doubling in the next couple of years the size, but are they talking about our company, the listed company or are they also including the unlisted Expleo companies in India. I understand that there are a couple of companies and one of them has substantial operations?

Balaji Viswanathan: Yes, so it is actually across both. So, if you look at when Olivier made the statement, even in the AGM of 2019, the objective was to double the India headcount not so much in terms of revenue, but the India head count, from close to around 2,200 or so at that particular point of time to 4,000 to 4,500 is what he actually set as the target. And it is not only for us, it is actually combining both, and if you had to do it in the same ratio of the business because we manage the banking and financial services business and the other units in Pune and Bangalore manage the engineering side of the business across automotive, aerospace and transportation industry. But unfortunately, while last year saw some marginal growth across both, so from the 2,200 now we are close to around 2,550 between both entities put together, but we could not really see a significant push and both the auto and the aero sectors are now struggling to try and find roles for people who are there in those respective countries. So, the target has now got pushed by another one more year, because initially it was supposed to be by 2023. Now, the target has been now pushed to 2024, but it will be across both.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from ICICI Mutual Fund. Please go ahead.

Lakshmi Narayanan: A couple of questions, your travel expenses are close to around Rs.17 crores a year. Now, what kind of savings you have actually got for the first half and how much you think will be sustainable going forward in terms of any changes you have actually done on the ground. The second question is pertaining to your sales force. So, how many people are there in the organization who handles direct client related sales, both hunting and farming?

Balaji Viswanathan: Yes, so, we have seen significant reduction in the travel cost and not all of them are SG&A the project travel is attributable to the respective projects don't come in as part of general expenses. It is only the sales travel, some of the non-billable travel which comes in sales the SG&A component. So, I will probably have basically to give you approximate ranges on that particular piece and on the Salesforce, we currently have five people for our direct markets, which is India, Middle East and Asia and we are likely to have another one more getting added before end of the year, for primarily hunting not so much in farming and sort of managing some of the key accounts which are around four or five accounts. But for the rest of them, the farming is managed by the respective delivery teams which are aligned on the particular account.

Lakshmi Narayanan: Got it. Just to add there. You talked about DevOps and also automation, what are your key service lines and what has changed in the last couple of years given that you have talked in the annual report about RPA, etc., and how are you scaling your workforce and realigning the service lines?

Balaji Viswanathan: So, till last year, our digital services is what we call it, and which covers DevOps, automation as a service. And software development as a service and RPA, were less than 10% of our business. If we look at last year, we were at around 9% and when we started this year, we were at around 11%. Currently we are 21%, in terms of our total revenue, the service can contribute approximately 21% in this particular quarter.

Lakshmi Narayanan: Sir, as such what is 21%?

Balaji Viswanathan: The digital services revenue.

Desikan Narayanan: On travel, if you look at our travel cost, it is predominantly project travel. On the overall revenue it was around 5% to 6% pre-COVID travel, that has almost reduced by one third. We are now incurring around two percent. That is the drop which we are incurring post this pandemic.

Moderator: Thank you. The next question is from the line of Shalu Hasija from NVS Research. Please go ahead.

Shalu Hasija: My question is in the presentation, it is mentioned that five clients have been left out. So, I just want to know whether they were repetitive customers or they were one-time customers?

Balaji Viswanathan: So, Shalu we have not dropped any customer, the way we actually report our customer numbers are if we had billing in this particular quarter, and the given the nature of our business, typically what happens is, there are some projects which may not be active and it will get active in the next quarter kind off. So, we have not dropped any customer it is just that out of the customers whom we had last quarter, we did not bill five of them.

Shalu Hasija: Okay, so there is no exit of any customer?

Balaji Viswanathan: No, we have not terminated any contracts.

Shalu Hasija: Okay. And I just want to know, the percentage segregation between the repetitive clients and onetime client.

Balaji Viswanathan: Normally we don't really have a onetime project per se Shalu, because most of our customer engagement, we sign a master services agreement and then we execute each and every project under that particular master services agreement. So, there may be customers where we may do only one project in a year. But, there is not really anything which is like a one time and the contract gets terminated after that.

Moderator: Thank you. The next question is from the line of Mayur Damani an Individual Investor. Please go ahead.

Mayur Damani: My question has been partially answered in few of the other questions raised by the other. But I just want to know ours is a dicey situation now and on one side, I can read that annual raise is pending in January 2021 and this is after the six months delay as well. So, employee morale and retention are very important. And on the other hand, we are adding 40 to 45 people in the current and next quarter, as per this thing what you have shared in the previous question, which was answered and we are also aware that the current quarter and the next quarter are little lean in terms of working days. So, my question is, how will we be able to maintain the margin of Rs 20 crores, do we have any substantial projects or will we be getting any value-added projects where the margins will be more and this will be mitigated, how are we planning to set up the traditional cost?

Balaji Viswanathan: So, we had already estimated some of these costs. So, even though we delayed the raises for this particular year, we had already estimated what is the raise that was going to be in the month of July, which is when we normally do our annual increases. So, the increase for the next two quarters, because even the increase that we are going to do now is only from January onwards, so it is not going to be a substantial one for this, there is not going to be much of an impact for this quarter. And there will be very minimal in the next quarter as well. And in terms of the skills that we are hiring, and do we have a pipeline? Yes, all the hiring that we are doing is against the pipeline, we are not adding any new staff who are not going to be billed in the next 30 days. So, to that extent, we should not have any challenges. As I mentioned earlier as well, we may have some impact on the margins, but it is not going to be a substantial one.

Mayur Damani: Okay. So, I can assume that Q3 and Q4 that is the current quarter and the next quarter will be almost on par with the last year's quarters?

Balaji Viswanathan: Yes, with a slight dip in the margins, but not a significant one.

Mayur Damani: Okay. Thank you, and my just last question is are we falling short on talented people at the sales team, where one of the other members also asked, people I don't want to name but few companies are there, they may or may not be system integrators but Ramco Systems or Intellect Design or Mastek or Majesco whatever the companies might be there we are not competing with anyone. But they are able to win good number of projects in this digital transformation which the whole world is going through. But why our company is not able to get substantial orders from the emerging markets or whatever our areas of specialization in terms of markets. So, are we falling short of talented marketing team in the front end who are not able to close the deals or travel restriction is playing a role there, can you please throw some light on that?

Balaji Viswanathan: So, the comparisons with Ramco, Mastek, Majesco might not be the right one for us, because we are primarily dealing in the quality assurance base. So, we have only started now with more of software as a development service and automation as a service and other stuff. So, I don't think the comparison is similar.

Mayur Damani: I wanted to know that this digital transformation, all other mid-Tier software companies are able to generate or procure some orders, but why not we?

Balaji Viswanathan: Our role primarily in digital transformation comes in the quality assurance space, to make sure that the project is implemented, and if the system integrators or the development companies start the project our role comes either in between the particular project or at the end of the project. So now our objective is that if people are winning these projects, then we will get a role on those projects when the projects are likely to come to an end, or when the projects are mid-way, so that we can test and make sure that we implement those projects.

Moderator: Thank you. The next question is from the line of Saumil Shah an Individual Investor. Please go ahead.

Saumil Shah: Just a follow up on one of the previous participants. You said Q3, that is October to December quarter is normally slow due to holidays. But at least can we expect lower double-digit growth if we compare it Y-o-Y?

Balaji Viswanathan: Yes, it should be. We don't commit on anything, but yes, I don't see a big difference between where we are right now to what it is going to be.

Saumil Shah: Okay. And what is our outlook on your geographies. Can we expand it to reach 10% to 15% of total sales by maybe next year or the later year?

Balaji Viswanathan: We have added two customers in this quarter in the US, so next year we expect that they will contribute at least should get too close to the 10% mark.

Saumil Shah: Yes, because currently is hardly 2% of the total sales.

Balaji Viswanathan: Yes.

Saumil Shah: Okay. And lastly, Balaji and Desikan I would like to congratulate you both because I still remember some quarters back there were hardly any participants in concall, it hardly ended in 30 minutes. And today, I had to wait almost one hour to ask the question, so that is a significant achievement.

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

Mithun Aswath: All my question has been answered. Thanks.

Moderator: Thank you. The next question is from the line of Deepak Mehta an Individual Investor. Please go ahead.

Deepak Mehta: So, my question is around the new deal pipeline. So, are we seeing deals consolidation for a small player such as our company and what is the outlook for new deals, winning bids and all, if you can throw some light?

Balaji Viswanathan: So, the pipeline is, I would say if not at the pre-COVID level, at least closer to where we were at the pre-COVID level. Our challenge right now seems to be in closing the deal, because of various challenges and trying and doing everything digitally, rather than meeting with the customer. So, we feel that once some of these challenges get addressed, which will happen over the next one or two quarters, we don't see any challenge with the demand at this particular point of time, just the question of the timing of when it gets closed and when the project gets started. And what was your second question?

Deepak Mehta: Second question is deal consolidation, what is it trends? Is small firm such as ours is losing business or gaining traction?

Balaji Viswanathan: I don't see of losing business and to be honest with you, I don't think we are a small company. Maybe the listed entity is small, but since we are part of the larger group, whenever we go to any deals we go as a $1.2 billion company rather than $35 million company or $40 million company. So, I don't think the size is impacting us so much. But our challenge has been primarily in terms of what areas we play and how do we make sure that we capitalize on the changing quality assurance landscape of trying and being a more of an end-to-end player.

Deepak Mehta: Okay, thank you sir. And my last question is around where we are positioned in a traditional services, how new automation and DevOps is affecting our testing services and all this business. If you can throw some light and what we are improving, how our company is working to gain more business in new digital technologies or DevOps, agile testing and this one in long term sir, in 3, 5 years?

Balaji Viswanathan: That is the focus area for us. We see that as the growth focus areas for us, it is not that the traditional testing is going down. But if you look at any of the analyst reports, the traditional testing is growing at 1%, 2% year-on-year while the new age testing services like DevOps, and automation-based testing, all these are growing at close to around 7% to 8% year-on-year, which is almost five, six times more than what the traditional testing services are and that is what we are focusing on as well. We have been consistently doing investment on both cloud based DevOps tools, and also setting up DevOps as a practice. Now, we have been close to 40 people in that particular practice, we have more than five clients and we think, that is what is going to help us and grow in the future as well. Like, what I mentioned in one of the responses for previous question, some close to around 9% of our business last year to currently we are at around 20%, 21% of our business is new age services, we expect that it will probably go to a 25% to 27% next year as well.

Moderator: Thank you. The next question is from the line of N K Dujari an Investor. Please go ahead.

N K Dujari: I just want to ask, why can't this company have a dividend policy? So that, there is some policy for the investor who are taking stake in the company.

Desikan Narayanan: It is possible but as a regulatory requirement we don't need to have.

N K Dujari: There is no requirement, I agree with you but it is a good practice to have a policy.

Desikan Narayanan: True. We will definitely look into that.

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

VP Rajesh: So, Balaji on the revenue side, what was the percentage of revenue coming from the group this quarter and secondly, what is the uptrend offshoring from the group itself. So, what is the current procedure and what do you see over let say in the next 12 to 13 months?

Balaji Viswanathan: Yes, so group business since stands at almost the same level what we were last quarter as well Rajesh, so, if I take two parts to this, one is directly coming from the group and the other one is where it is our customers but managed by the group. If I put together these two, it is the range of around 56% to 60% is what the group revenues out of which directly coming from the group, where we are only a delivery center is approximately 20%. And in terms of offshoring, the objective is that right now, we have 51% of our revenue coming from the onsite services and 49% of our revenue coming from offshore services. But that is 51% of the revenue comes with close to 30% of our resources. So, our expectation is that we should probably have anywhere between 45% to 50% of our revenues coming from the onsite services wherever we are doing end-to-end service delivery. So, we are at 51%, it will probably go down to 45%.

VP Rajesh: And this will be primarily the direct offshoring business coming from the group moving from 20% to let's say 25% or 30%, where do you see that 20% moving to?

Balaji Viswanathan: We don't have a committed number as yet, but we expect that it will probably grow at a rate of anywhere between 10% to 15% year-on-year. Because our traditional customers are actually doing more offshoring it is just that it is not coming in through the group, but it is managed by the group because we don't have our sales teams.

VP Rajesh: So, I was just saying that to extend the deliveries happening out of India, that will be more revenues for us, that is the way to think about this.

Balaji Viswanathan: That is a top line, but more bottom line.

VP Rajesh: Okay. And then secondly,

Balaji Viswanathan: Range of around $70,000 a year, and the offshore billing is closer $25,000.

VP Rajesh: Secondly, on your order book, growth over the last 12 months, your order book at the end of this quarter versus what it was, at the end of last year same time, what has been the growth?

Balaji Viswanathan: For past three quarters of this calendar year, we have seen anywhere between 5% to 7% growth in the order book. And we are expecting a larger deal to sign and once it gets signed then actually, we will see a double-digit growth for either this quarter or Q1 CY '21.

VP Rajesh: I see. So, should we think about this revenue decline quarter-over-quarter as a bump in the road and structurally you believe that there are more opportunities and you will continue to grow, maybe next quarter or the quarter thereafter?

Balaji Viswanathan: Yes, actually this quarter also, the revenue decline is primarily like what I mentioned, some of the discounts that we had to give and some other deferments that we had to do. But if that did not happen then we would have actually seen at least a double digit growth.

Moderator: Thank you. We take the follow up from the line of Rahul Jain from Dolat Capital. Please go ahead. As there is no response, we take the next question, a follow-up from the line of Pavan Tourani from Citrus Advisors. Please go ahead.

Pavan Tourani: Sir just continuing with the last question, if you can give some insight as to what growth can we expect in the coming years FY '22 -FY '23 and with you saying that, you could see higher revenues coming from your parent company. So, on a blended basis what is the growth that we can expect, while it might be difficult to put a number but can we expect a double-digit growth say in FY '22 and even in the year going ahead?

Balaji Viswanathan: Yes, that is what we have stated as our objective. So, our objective is to show minimum of a double digit. But I don't want to put a number on whether it is going to come from the group or whether it comes from the direct market or whether it will come from the segment of customers where we have direct engagement with manage as a group but our overall objective is to show minimum growth at double digits.

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

Ravi Naredi: Sir, if in Europe, more countries, will go to lock down, which type of impact can come to our company?

Balaji Viswanathan: I don't think there will be a big impact right now, Mr. Naredi, because they are all used to the lock downs now, it is not that this is going to come for the first time. In the first time there was an impact. But now, everybody has started bracing themselves for what is going to come. So, it may not have a significant impact once again there, maybe the similar kind of stuff where it may get postponed by a week or a month. Some other projects might get postponed by a week or a month, but it may not be a significant difference, because they are all used to it now, it is not that lock down is a big phenomenal.

Ravi Naredi: Right Balaji, I understand it. And who is main competitor of our company in India?

Balaji Viswanathan: In India, we have a lot of companies. So, there are some who are only pure testing company, but we also have competition from the larger technology players as well. So, it is not one so in each engagement we see different, different competition. Right from TCS, to Cognizant, to Infosys to some other local players like Quality Kiosk and others, so there are quite a few of them. So, I can probably take one full session on who our competition could be.

Moderator: Thank you. The next question is a follow up from the line of Gaurav Goyal, a Shareholder. Please go ahead.

Gaurav Goyal: Just wondering, what is the capital allocation policy of our company?

Desikan Narayanan: I will come back to you on this.

Moderator: Thank you. The next follow up is from the line of Vaibhav Badjatiya from HNI Investments. Please go ahead.

Vaibhav Badjatiya: So, just wanted to understand what is the overall group revenue from BFSI in absolute terms, in percentage of total group revenue, just wanted to understand the BFSI vertical for the group as a whole?

Balaji Viswanathan: It is around 130 odd million out of the 1.2 billion, so it is a little over 12%.

Moderator: Thank you. The next follow up is from the line of Deepak Mehta an Individual Investor. Please go ahead.

Deepak Mehta: So, in the investor presentation it is mentioned revenue by practices, so this is revenue by industry verticals right sir?

Desikan Narayanan: Yes. That is the segment under the industry vertical of BFSI.

Moderator: Thank you. The next question is from the line of Sethu Subramanian an Individual Investor. Please go ahead.

Sethu Subramanian: My questions have been largely asked by the participants who called in before me, I only want to thank the management for coming out with solid results during tough times, that demonstrates good resilience within the fundamentals of the company. But also, a small closing remark from my side, I share the concerns that most of the other participants have put out that the company needs to demonstrate a more aggressive growth mindset, particularly when it comes to top line growth, because if you lay out your quarterly results for the last 12...

Moderator: Mr. Subramanian we cannot hear you. As there is no response. We take the next question from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: I have two questions. One is, post joining of Mr. Rajesh Krishnamurthy, who was veteran Infosys, what has been the key thought process for him regarding taking Expleo India ahead.

Balaji Viswanathan: Rajesh Krishnamurthy, so it has been 3 months now that he has been there, and he has just come out with his first thought process of what we need to do as a group and what we need to do in India. He visited us last month in the beginning of October as well, to talk about what we want to do within India and to understand what our capabilities are across, what we do in Chennai with the listed company and also in the other entities as well. More details will emerge, during this quarter when he finalizes on the strategy and how he wants to execute it.

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

Mithun Aswath: Just wanted to understand the thought process of the parent, since they do have feasible operations in India, apart from the listed company, is there any thought of consolidating operations under one company and also wanted to know, globally apart from the group are there any listed companies or would this be the only listed vehicle the group has?

Balaji Viswanathan: Yes, we are the only listed entity right now within the group. And consolidation at least as of now is not there in list, but the thought was there earlier, sometime last year. But as of now, no because they are all dealing with the challenges related to pandemic, particularly in the aerospace and automotive, the two segments. So, this is not there in the priority list at least as of now.

Mithun Aswath: The second question was also, since you are in a specific area of services, does the lack of travel, meeting the clients face-to-face, also embed your growth, in the morning I was on another call of non IT company and it seem to be the reason that they are also not been able to grow, and just the existing relationships that they are just mining. I just wanted to understand that is that also something a factor for a smaller company, in a niche area or is that contrary to the case?

Balaji Viswanathan: It is certainly impacting us for sure. Otherwise, for me my target is to spend at least 50% of my time with customers, which I have not been able to do in the last two quarters, except for some conference calls and video conferences and other stuff. So, it is certainly impacting us. But, I would not say that it is impacting us so much, primarily because we have our sales team, the direct market, we have our sales team in Middle East and in some of the Asian market, Middle East have almost opened up. Asia, they are still doing it over video conference so going with existing customers has been a little more easier than signing with new customers. But despite that, we signed six new customers during the course of this quarter. There was a question of most of the customers start very small come, and if you are able to go and demonstrate in person, then the engagement is much more stronger, which we are missing at this particular point of time. But given the current situation, we are making the best out of it.

Moderator: Thank you.

Balaji Viswanathan: I need to drop now, I have another call.

Moderator: Yes, sir. Ladies and gentlemen, that was the last question for the day. I now hand the conference.

Desikan Narayanan: Just one thing, I will connect with the investor about the capital allocation policy. Just for the information, Capital Allocation Policy is mandatory only for top 500 companies by market capital. And it is not mandatory for us. I will respond to them separately on that. Thank you.

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

Balaji Viswanathan: Thank you. It is very overwhelming and thank you so much for the interest and the kind of questions that everybody asked. Looking forward to your continued support and stay safe, stay healthy and hopefully we will be able to get to see each other at least in 2021.

Desikan Narayanan: Thank you.

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