



“Expleo Solutions Limited
Q3 FY '22 Earnings Conference Call”

February 04, 2022



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DIRECTOR**
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MR. DESIKAN NARAYANAN, CHIEF FINANCIAL OFFICER

MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN ADVISORY, INDIA**

Moderator: Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Q3 FY '22 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 would now like to hand the conference over to Ms. Asha Gupta from Christensen Advisory. Thank you and over to you, ma'am.

Asha Gupta: Thank you Faizan. Good afternoon to all participants in the call. Welcome to Q3 FY '22 Earnings Call of Expleo Solutions. The results and investor presentation have been already mailed to you and they are also available on the Company's website. In case, anyone does not have copy of press release or presentation, please do write to us and we will be happy to send it to you the same.

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

As usual, I would like to remind you that anything that is mentioned in this call which gives any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with risks 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 report which you can find it on our website.

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

Balaji Viswanathan: Thanks Asha. Thanks Faizan. Thank you everybody. Once again, welcome to the Investors call today. Thanks for your interest on Expleo Solutions and we appreciate you taking the time and dialing in for this call.

The Q3 FY '22 has been once again a robust demand and we have seen growth continuing for this quarter as well similar to how all the other technology companies. The industry as a whole is growing and we have been able to capitalize on the growth and the demand that is actually coming in from the market. We have had good wins, renewal and reasonably robust pipeline as well and we continue to have a sequential growth closer to double digit in this quarter. But considering that October to December quarter normally has lesser working days, we still manage to have more than 9% growth for this quarter and more than 30% growth over the 9-month period of this particular financial year.

The growth continues to be on overall tech services base, not only focused on testing, but mostly on specialized testing and digital capabilities which is what we have been investing over the last

3 to 3-1/2 years and that is what is actually helping us in capitalizing the growth or the demand in the market as well.

As similar to any other tech industry across the globe, we still have challenges around the hiring and attrition which is what we see across everybody in the industry at this particular point of time, but the investments that we did earlier in 2021 on campus hiring and training and making sure that we have skills and resources available for future opportunities actually helping us. After 370 odd people whom we hired last year from the campuses, all of them completed the training between December and January and all of them are actually on roles now and close to 30% to 40% of them are already deployed in projects and before end of February at least two thirds of them would be deployed on billable roles in projects and during the course of March and April, we will complete the full 100% of this particular graduate hired people on billable projects as well and we continue to do the same investment for this year as well. So, we are going ahead and going another round of graduate hiring from January onwards, so that we will start the specific training program starting from February onwards. So, that is primarily around the growth and the resourcing.

We added quite a few new customers considering the kind of base pipeline that we are seeing during the quarter, and we have also added leadership team around the digital capabilities and also leveraging on structure that the group has actually deployed on focusing on digital and engineering capabilities out of France, Germany and UK as well. So, once again to conclude about or give a summary about the Q3 results, we continue to see strong growth and we see good prospect for us to continue this particular growing trend in the coming quarters as well.

We had some challenges with the margin and EBITDA levels, but those are in line with the investments that we have been making to make sure that we are capitalizing on the market demand and also in this specific quarter, based on the partnerships that we signed with some of our product partners where we actually sold the licenses of our partners directly to our customers which actually comes at a much lower margins than what our services margins are because it is mostly passed through. That is the reason why there is a slight drag in the margins and the EBITDA levels, but we don't see any challenges with maintaining the profitability level of 18% to 19% EBITDA levels that we talked about in the past as well. So, that is quickly from me. I will pass it on to Desikan now to go through the numbers.

Desikan Narayanan:

Thanks Balaji. Good afternoon to all. I will start with talking about the quarter-on-quarter and 9-months period comparison. These are two things I will cover to start with.

On the quarter-on-quarter, the revenue growth was around 9% which ended up with Rs. 105 crores. This quarter we crossed the Rs. 100 crore, so that is one good thing and we expect to maintain it and our EBITDA ended at 17.7% as compared to 19.6%. Finally, the profit after tax valued was almost flat, it is Rs. 11.6 crores and one thing to talk about is the collection front. We did well during the quarter. We had some receivables coming in from the customers in Middle East, India and APAC which has contributed to a lower DSO of 60 days as compared to the 71 days and major reason for slight drop in the EBITDA is, one is that as Balaji was

mentioning that we had some project, some software, this we purchased during the quarter. That has contributed to a drop and also of course we had some increase in the salary and we also converted the trainees into the billable resource has impacted the overall increase in the cost.

Moving on to the 9 months comparison, the growth was almost 31.3% growth compared to the 9 months comparison of last 9 months to this 9 months, ending with a revenue of around Rs. 293 crores. The EBITDA was 18% compared to 22.9% in the same period last 9 months and profit after tax was 12.3% as compared to 17.2%. Of course, the EBITDA is due to certain things like we have invested in training and recruitment and also we had higher third party consultant cost coming in this year which we did for the reason of making sure that we get the revenue which is on the table and also we had some FOREX swing, because last year, the same period we had exchange profit of almost Rs. 5 crores, now this time, it was like almost Rs. 1.6 crores loss, so that thing also has contributed to it. Last but not the least, the merger expenses which also had during the 9 months period which has been incurred, so, all put together has been a little bit of increase in the cost had created the EBITDA drop. Going forward, we see that some of the cost will go into a regular mode, one time it will go down and we will have some benefits coming from the salary side also. We will be doing well in coming quarters, so those are the brief about the result.

Now, some more thing about the merger, just wanted to give a brief update about where we are is currently we had got approval from SEBI. Now, it is pending with NCLT. Considering the fact that we are going through the third wave, so we are yet to get hearing from the court, so that is kind of delaying it, but we are expecting it to happen soon. So, we are waiting for the court to hear the case. That is the update about the merger. With this, I open up to the Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just had a couple of questions, number one thing is, if you could talk about the pro-forma revenue and EBITDA performance for the combined business which would include the company demerged? That is question number one. The second thing is, if you could talk about the new client acquisition that we received, if you could give us some sense as to what is the traction that you are getting from the parent side in terms of new customer acquisition, especially on the ER&D side?

Balaji Viswanathan: Just to give a quick summary on how the other unlisted company's businesses have been over the last 9 months, they continue to grow and actually the ER&D side of the business has grown much more than what was expected as well, so in calendar year 2021, the engineering business grew by almost 80% while the expectation was to grow by about 50% and thanks to primarily the automotive business and to some extent some of the businesses that were, one on the aerospace area even though that was marginally higher than what was expected. Similar to what we were talking about on the hiring and attrition related challenges because of which the cost are higher, that continues to be a challenge there as well. The profitability has been lower than what was expected, but that was primarily because of the investments that we had to make to

meet the demand from the customers. So, similar to what we talked about when we made the first presentation of the merger in July-August timeframe, we continued to trend in the direction that we mentioned at that particular point of time of the revenue numbers which we are expecting for the financial year for both the Pune or the Expleo Infosystems and the Expleo Technologies as well. So, both put together, we expect that the financial year will close around Rs. 250 to Rs. 260 crores.

Manik Taneja: For both the entities?

Balaji Viswanathan: Yes. Of both the entities put together.

Manik Taneja: If I recall correctly, last time and during the presentation, you had called out that at a composite level, the existing digital business plus the business that is being merged, we had seen a topline of about Rs. 345 crores, just wanted to confirm that?

Balaji Viswanathan: So, we were expecting that we will be at around Rs. 357 to Rs. 360 crores and the unlisted entity around Rs. 250 odd crores, so we were expecting around little over Rs. 600 crores. Right now, we are expecting it will probably be Rs. 625 to Rs 640 crores may be closed for.

Manik Taneja: That will be Rs. 700 crores plus, so, Rs 350 crores plus another Rs 250 or Rs 260 crores?

Balaji Viswanathan: Yes, because we did well in this quarter that is now we have crossed the Rs. 100 crores mark for the listed entity and because of that it will be closer to the Rs. 700 crores while we projected Rs. 620 to Rs. 624 crores when we talked about it in July-August.

Manik Taneja: And in the past you have given some direction about sequential growth rates that you see in the near term, does that kind of a confidence still hold through for the next 2-3 quarters?

Balaji Viswanathan: Absolutely, yes and this being, you are seeing it in the numbers, we don't see any reason for us to not feel confident about those growth rates.

Manik Taneja: So, about 7% to 8% sequential growth?

Balaji Viswanathan: Perfect, in the last 3 quarters if we were to look at it, the first two quarters have been more than 10% and the last quarter has been around 9%, so we expect to continue in a similar trend.

Manik Taneja: And if you could give us some sense of the proportion of revenues that we are getting from the parent currently and how should we see that number move over the next 18 to 24 months?

Balaji Viswanathan: Like what we mentioned earlier as well, so as we are merging we are not looking at the business from us through what is coming from the parent directly to us or what is coming from parent indirectly to us because most of the engineering engagements that we are running at this particular point of time, whether it is in the automotive or aerospace. The customers are global customers, but we are engaging with them locally in India and these relationships have actually been nurtured only because of the global relationships that we have. So, in all way, if you have

to look at it traditionally, how we were presenting as part of the listed entity where we were only talking about the group's business which we run as a captive unit that continues to be in the same 20% range, but that is not the yardstick ideally we need to use to measure because it is the question of what the global customers are and how we are acquiring those customers.

Moderator: Thank you. The next question is from the line of Saurabh Shah from AUM Fund Advisors. Please go ahead.

Saurabh Shah: Question was really about margins, sir, you mentioned that you had invested a lot in the people this time and given the challenges in the industry, how do you see that going forward, do you think you will be able to pass that on to the customers to maintain your margins around 20% line or now with 1,700 people and growing, you think it could get worse?

Balaji Viswanathan: There is always a lag between when we hire and when we change the engagement billing rates and considering that most of the projects that we run even though the customer engagements are running for a long time, the projects are actually anywhere between 12 months to 24 months. As and when we get into renewal, as and when we go from one particular project and other project in the same customer, we are going ahead with rate changes, but many of these investments that we are talking about is not the core billing rate challenges, it is around the investment of what we did for hiring and training and keeping the future work force ready, not just the question of people who are deployed in the projects, so we think that we will still be able to maintain the same kind of pricing and the cost rates with a marginal increase because of inflation with the model that we have adopted where we are hiring and training as per the customer requirements. It is a combination of both.

Saurabh Shah: Sir, next question was new growths where do you see coming from, we are aware of that, June discussions and your projections, but 9 months later, how do you see this panning forward, test in US, any other large basis where we should expect growth in the next 2 or 3 years?

Balaji Viswanathan: Like what I mentioned earlier, we were trying to look at it only from testing perspective, but we are not looking at it now as a testing alone, because the customers have moved from the standard cycle of doing only testing, so we have specialized testing services, automation, combined along with testing, DevOps combined along with testing, agile method of testing, so that is the new generation quality assurance, then plus some amount of software development and the automation led project engagement is where we are seeing growth and that is what is driving our growth engine as well and it is actually across all regions. India is probably growing slower than other markets because of the pricing challenges and the rate pressure, but all the markets, whether it is Middle East or whether it is the other Asian markets or whether it is Europe or UK, all the markets are seeing traction right now. So, Europe has grown, Middle East has grown, Asia part has grown. US, like what I mentioned in the last 3-4 calls as well, US as of now is more tactical rather than strategic because we are not making big investments in that except that we have a sales team and an engagement team which is working on existing customers and winning smaller opportunity, so that we stay present in that particular market. Ralph, you want to add anything more?

Ralph Gillissen: No, I think as you said across all the industries, there is across a different segment that is how that we have identified one specific course that we see and the global demand is increasing across all the territories, across all the regions and we will definitely focus on the industries and on the reasons we are already today as we see that we can even accelerate our growth where before we even exploring new territories, new regions as we strongly believe that we can accelerate the growth even in the lower existing footprints. Even they are maintaining and I think there was a previous question, even the margin I think this year general trend and that cost are going up or at the same time and even rates are going up and I think we believe and then participate in industry developments and even the margin as the question was I think there was a little bit more about effacing, but definitely we see that we are even with the new engagement even participating even and then increase in rates or even as an increase in margin especially due to different mix of capabilities and services we provide besides the traditional testing integrities.

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

Srishti Jain: Sir, I had one question regarding the fact that we expect direct sales to grow as much as contribution from the group, so how are we gearing up from direct sales and what would be our strategy as the merged entity, what kind of projects would we look at, if you could provide some perspective on that?

Balaji Viswanathan: Yes, we have been adding sales team in our direct markets. We have added people in India focusing on APAC primarily to do lead generation and customer engagement and calling our part and we have also hired people in the Middle East. The objective is that as of now, the focus is on making sure that we sell all our services, not only for some banking and financial services alone, but having said that banking and financial services are our sweet spot and that is where our strength is. The other segments are not going to grow immediately, but the effort is to focus on other segments like healthcare, lifesciences, energy and utilities and also EdTech as a segment as well. So, the progress there would be slightly slower compared to what the banking and financial services is and we have now two people who are focusing on selling those services in the Middle East and APAC markets. We are confident that we should be able to show some progress during the course of the calendar year 2022, which will actually help us in making more investments on the other segments in 2023 onwards.

Srishti Jain: And sir, the other question was on the engineering business side in FY '21, it is found around 25% to 30% of the total revenue for the merged entity, where do we see that panning out let us say in the next 3 to 5 years?

Balaji Viswanathan: Like what I mentioned, the engineering services in the calendar year 2021 went up to almost Rs 155 crores from around Rs 85 - Rs 90 crores in calendar year 2020 to almost Rs 140 crores in 2021 and we expect that it will continue to grow, but not at 80% because the base has now grown, so we are expecting that it will probably be in the range of 25% to 30% going forward as well. So, as of now from a headcount perspective, engineering is almost one fourth of the

headcount and we expect that this year that is in 2022, it should become one third of the head count.

Moderator: Thank you. The next question is from the line of Ashish Dash from Sharekhan by BNP Paribas. Please go ahead.

Ashish Dash: Sir, just wanted to understand your view on the margin, so you mentioned that the employee cost impacted due to the addition of employees, now you have added around 600 to 700 employees in 9 months and what kind of employee addition you are planning in Q4 and in FY '23 because you also mentioned that graduate hiring will start in Jan, so with that information and also other expenses included the product expense, I believe, so that would continue in Q4 and subsequent quarters?

Balaji Viswanathan: Ashish, we have actually added more than 700 that you are referring to during the course of the year, but net addition could probably be in the 700 range, but the overall addition is much more than that primarily because of the industry related challenges. In the current quarter, alone we have added almost 360 people. Out of which, we have trainees whom we were actually moved into our roles in December, 2022 and another 57 we have added as of now. We think from a margin profile, we are still confident, but once it settles down which would happen probably either in the or the next quarter, we will still be back in the 18% to 19% EBITDA as what we have always talked about, 17.5% to 19% or 17.5% to 18.5%. That is something which we are quite confident that we should be able to maintain on an ongoing basis. So, I don't see that to be a challenge and once the integration happens, because the engineering business is slightly at a lower margin level, then for the integrated company that would probably have another 1% or 1.5% drop in the EBITDA level which goes closer to the 17% because we will be a tech plus and engineering company, not just a tech service company. So we don't see that to be a challenge, these are temporary ones and this quarter like what I mentioned apart from just the increase in the training cost and the hiring cost, we also had some of the software's that we sold to our customers through our partners, it was a software plus service is what how we sold it to our customers. The software element of the particular piece is all built in one shot and there is really not much of margin per se because mostly it is passed through with a very marginal markup for taxation purposes. Beyond that, we don't really have much of the mark up and that is the reason that particular segment of the business had a lower margin and that is one of the other factors which pull down the margin for us, but once this becomes a BAU, once it becomes the business as usual, it should not have so much of that.

Ashish Dash: Sir, this software purchase will continue in coming quarters or do we think it is one year, annually, we will just go for buy this software?

Balaji Viswanathan: It normally happens in that quarter where the renewal happens for the software that we bought, so our renewal happens to the customers, so it normally happens in one quarter, but the services are actually spread out throughout the year.

- Ashish Dash:** Sir, my second question is on, if you look at your number of one million plus revenue clients declined by 2 and what is the reason and your top 5 revenue also moderating due to that only?
- Desikan Narayanan:** Now looking at the increase in the revenue kind of million dollars we have of course done well, it is more of a flat right, if you look at last quarter to current quarter, the revenue above \$ 1 million is almost 11 and also between \$ 0.5 to \$ 1 million it has increased to 1 client, so I don't see anywhere the decrease you are looking at.
- Ashish Dash:** Because, I saw it is 9 for more than \$ 1 million clients.
- Balaji Viswanathan:** It was last year, the last quarter we still had 11 and this quarter also we still have 11 and the top 10 customer contribution is at 59% right now.
- Moderator:** Thank you. The next question is from the line Rohan Advant from Multi-Act. Please go ahead.
- Rohan Advant:** Sir, my first question is on the revenue number you gave for the unlisted entities in the presentation that you had given at the time of announcing the merger, the unlisted entities we still have Rs 360 crores of revenues and you are saying this year they are likely to grow as 27% - 28%, so they should do Rs 330-Rs 340 crores kind of revenues for FY '22, is that understanding correct?
- Balaji Viswanathan:** We had two segments of the business like what I mentioned, the engineering side of the business is what I have talked about as an 80% growth, but there is another, the Pune entity as well, so both put together is what we are talking about is that Rs 260 crores.
- Rohan Advant:** But sir, even last year, we did Rs 260 crores, right ending FY '21?
- Desikan Narayanan:** Last year, we did around Rs 250 crores, what you say is right, for 2021 we did. That will be above that.
- Rohan Advant:** So, if we are growing 27% - 28% above Rs 260 that should be like Rs 330 crores, right sir?
- Balaji Viswanathan:** We don't want to mention the actual, because we don't really have an audited result, but it should be in that line.
- Rohan Advant:** No, I won't hold you for Rs 330, but what I am saying is at the time of merger, we announced Rs 260 and we are growing at say whatever, 25% - 30%, it should be 25% - 30% over Rs 260, that is all.
- Balaji Viswanathan:** That is right.
- Rohan Advant:** And sir, secondly, if you could quantify the relicensing that we did that can lack the margins you said was the material number, sir?
- Desikan Narayanan:** It will be in the range of around Rs 2.1 crores.

- Rohan Advant:** And sir, this client wins that we had, very strong 10 new clients we have added, so this 10% clients have sequential growth that you are seeing, what is the visibility you have and for how many quarters you think this can last, that's all?
- Balaji Viswanathan:** Of course, we don't make any forward-looking statements, but we don't see the trend changing at least for the next 2 to 3 quarters for sure. Beyond that obviously we need to still see because the market is quite dynamic, so we can't really predict how it is going to be, but during the course of this calendar year, we think that the strength will still continue. The percentages will still be different because the 9% - 10% sequential growth is on the lower number of 2020. So, 2021 we have already seen that growth, so obviously during the course of this quarter, it will still not be 9% to 10%, it will probably slightly lower, but we continue to see strong growth.
- Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.
- Aman Vij:** My first question is, if you can talk about the total employee count as of now in all the entities combined and if you can roughly give the breakup and what is the target for FY '23, the addition next year?
- Balaji Viswanathan:** We have little over 4,000 employees across all entities as of December 31st, I think 4,027 or 4,020 something of that sort and what was your next question?
- Aman Vij:** The break-up as well as target for next year or where do you see this coming?
- Balaji Viswanathan:** So, we expect that we will be at least 5,000 employees before end of the calendar year 2022 and the break-up like what I mentioned, the listed entity is little over 2,100 employees, the Bangalore entity has around 900 in total and the Pune entity has another close to 1,100 employees.
- Aman Vij:** And continuing this, in the last concall, Rajesh sir had talked, the long-term target of even 10,000 employees in the Indian entity, so when do you see that number we can achieve?
- Balaji Viswanathan:** We expect that it will be 2025 is when we think that we should get to that 10,000 employees mark.
- Aman Vij:** Three years from today I think, right?
- Balaji Viswanathan:** That is right from this quarter onwards.
- Aman Vij:** And my second question is, we saw good growth in the number of customers above \$ 1 million, so if you can talk about what visibility are you seeing among the say 15 odd customer, we have less than \$ 1 million which can move above this \$1 which will move to the next category which is above \$ 1 million as well as the visibility which we see where customers can start contributing to this \$ 5 million USD number also?

Balaji Viswanathan: The way we are expecting is that we are actually focusing on larger customers or customers who have the potential of becoming a larger customer and that is how the traction from 9 customers, we have gone into 11 now and we expect that we will at least add another 2 or 3 more during the course of this particular year and get to a 13 or 14 billion plus customers with us and the focus is on looking at key account management as a key as one of our strategic element where we have identified close to around 17 to 18 accounts which we think have the potential and that is where the focus is on the account management element.

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

Mithun Aswath: I just again, it may be a little bit of a reputation, in the presentation you made, I think in July last year, you mentioned the unlisted company had about revenues of about Rs 258 crores and profits of Rs 37 crores, I just wanted to get an understanding from Desikan, what would it be in terms of the current year, any targets on those revenues because you mentioned Rs 260-Rs 270 that would actually mean a flattish year for the unlisted business, so just wanted to get a sense on that and just looking at what Expleo globally does, a lot of work on the automotive and engineering side and whatever we hear from a lot of your other peers in the listed market, we are looking at a lot of growth in the auto and engineering businesses, so just wanted to understand from your side at the global level are you seeing those businesses ramp up quite quickly and you mentioned the unlisted business has lower margin, what is the reason for that especially if they are doing high-end work on the auto and engineering side and do you see a large opportunity there for the merged entity?

Desikan Narayanan: Yes, of course overall, last time when we presented on the other unlisted entity, we were around Rs 260 crores is the one which we are looking and we expect that to grow almost around Rs 300 plus crores. One thing is why we are more resistant **in giving details of unlisted companies** is that we are any way going to publish the abridged prospectus when we are going to issue the notice for the shareholder's meeting for the merger, so there you will have the latest financials which you can look at it and come back. Also that it is not audited, so we don't want to commit any number in that and come back with this. So, that is the reason we wanted to be very restrictive, not to tell anything on the unlisted company. That is the one reason, but as you mentioned that Rs 260 was included, we will be ending around Rs 300 crores plus in the revenue side of it. Of course, on the EBITDA side, we were around 14% to 15% was the combined entity of both the unlisted company. It will be slightly in the same range what it will be ending in this financial year also with the expectation. Since engineering has a lower kind of a margin, we expect that to continue and current situation, Balaji can add to that.

Balaji Viswanathan: On the engineering business, there are combinations in the engineering business as well, so there is a mechanical engineering business which actually runs at the lower margin and there is a digital and product engineering piece which actually runs at the higher margin. As of now, the India business is more on the mechanical side and the objective is to try and move more to digital so as we move into that, we will probably start tracking better margins, but the combination, right now the weightage is close to 60% to 70% on the mechanical engineering.

- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.
- Rohit Balakrishnan:** Balaji, I wanted to understand, now I think FY '22 you clarified that you probably chose closer to Rs 720 to Rs 740 crores, is that right, just to get that out first?
- Balaji Viswanathan:** Yes, it should be close to Rs 720 crores.
- Rohit Balakrishnan:** Balaji, again in the merger call and in the last call, I think it was also shared that as we combined there will be lot of scale benefits, I understand the margins in the last couple of quarters have been under pressure, but as we are now almost at the touching basis of \$ 100 million as a combined entity, do you think that we can probably even get some scale benefits and get a higher margin that what we had done even in the past given that we would not having those scale benefits and the kind of scale that we have now, that was my first question?
- Balaji Viswanathan:** Yes, absolutely, there is a synergy and scale benefit that we expect once the merger happens, but it is unfortunate that we are not able to get this done quickly because it is beyond our control at this particular point of time, it is still pending with NCLT, but once that happens, then there are significant amount of synergies. From a business perspective, we are already synergizing, going to customers jointly and cross selling to existing customers as well, but from a financial perspective, as soon as the merger happens, we are confident that the synergy in the scale benefits will kick in.
- Rohit Balakrishnan:** And just one request if possible, I understand you said that this might get delayed by a quarter or two, but if you can by the next results, if you can probably give a pro-forma number for the merged entity, I mean for the unlisted entity as well, that will really help us to get a sense, but I think by then you also will have an audited number for?
- Balaji Viswanathan:** We hope you would have to wait till the next quarter because as soon as NCLT gives us an approval which we expect during the course of the next couple of weeks, once they give us the approval, then we will anyway have to publish an abridged prospectus. In that abridged prospectus, we will publish the unlisted company and all the results and the limited review from the auditors itself. So hopefully that should happen during the course of this quarter rather than wait till the next quarter.
- Rohit Balakrishnan:** My second question was, you continued to be fairly confident about the growth over the next few quarters at least, given that we have overshoot the numbers of what we thought internally in terms of what you mentioned, you think probably you can as this combined entity FY '23, we can probably do Rs 1,000 odd crores or very close to that number, do you see like that can possibly happen?
- Balaji Viswanathan:** Rohit, the objective is to try and get closer to that, but obviously no one put a number or a commitment at this particular point of time because we don't make forward-looking statements,

but considering that we will probably touch the \$ 100 million dollar mark in this financial year, that is at the end of the next quarter, getting to total Rs 12,000 crores.

Ralph Gillessen:

Balaji, there is a clear strategy we are executing on this strategy, the financial KPIs, are going exactly in this direction and there are still some uncertainties that there is still a global pandemic that is even making it more difficult to make any forward-looking statement. On the other hand side, we see in all our business statements including even a few questions on engineering and I think there, we talk about software related R&D engineering services we do see very healthy growth rate and we believe and see that even the business that is in scope of this call here will participate on this growth as it is in R&D and it is in software but even know that in the automotive and aerospace industry, the product is today not 100% software, there are significant amount of mechanical components still in the aircraft, in the car and this is even in the market perceive even as an important activity, but definitely even coming with lower margin, we see that we are well positioned that even people you mentioned as a peer group in the field of electronic and embedded. So all the software related activities and there we even see that we will probably continue even the similar growth rates and this should bring us pretty close to the mark probably even above whereas Balaji said that we execute on the strategy, but we didn't make any forward-looking commitments and that account a new understanding.

Moderator:

Thank you. We will take the next question from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain:

My line wasn't clear earlier, so I just wanted to make sure I have understood the margin's impact sequential this quarter, I heard you saying about the software charges pass through element which impacted the margin, may be if you can quantify that and if that happened, then it would have also boosted the revenue, so then perhaps the revenue has come lower than what you would have initially expected because of that and also last quarter you had said that there were few merger related expense which were there in first half of this financial year which wouldn't be there in this third quarter, so that was a tailwind to margins, so if you can just help me understand how the margins are below your expectations despite having these tailwinds?

Desikan Narayanan:

One thing on the software side is the whole software amount was around Rs 21 million, it is around Rs 2.1 crores and it is more pass-through kind of a thing where we don't put any big margin into that, it is mere like a trend of reimbursement which gets into the revenue, so that is the reason your margin go down because of this, so we don't get much margin on that. That is one reason where the dip in the EBITDA happened. Of course, in this quarter, honestly not much or almost nil amount was spent on any of the merger activity, so that didn't happen this quarter even though in the previous half yearly we had it. The major component what I was mentioning is a project software which has been sold and also some of the increase in the salary cost are the two major reason which has impacted the EBITDA for the quarter.

Hiten Jain:

So, then perhaps, the supply side challenges are more than you would have initially expected, from a commentary it looks like, so how is the attrition and then this becomes kind of uncertain

for us to maintain that kind of margin, 18% because things are only difficult right going forward and what keeps you maintain that 18% kind of an EBITDA margin guidance?

Desikan Narayanan: One aspect of it is if you look at in this current quarter also we have converted the trainees into a regular billable kind of account, so, that has also had impact on the cost, once these people gets into the billed role in the next 2 quarters, that will add to the topline which will have an impact on the margin. That is the way we were looking at. That is the whole point we got into this Hire-Train and Deploy model (HTD), which will be a margin improver in the long term, that is the idea behind it. So, that is the whole purpose of this investment to get that confident of maintaining the EBITDA in the future.

Hiten Jain: And also, can you help me understand the timelines that you are expecting for this merger and what are the milestones that we have to go through to get the complete merger done in terms of timelines?

Desikan Narayanan: With respect to the timeline as mentioned before, we have got the SEBI approval, now it is with NCLT and you know NCLT is equivalent to the High Court. They take up the case based on there timeline. With respect to Maharashtra, two times we had the hearing coming in, but they didn't took up the case because there were other priority which came in and adding to that this third wave has also created some amount of delay. We are pushing out for this, but honestly we cannot do much on it because it is a court which we don't have any influence on that, but we try to see that how we can get this thing done, but honestly if I look at it April to June was the timeline which we had initially. Now, we may fill over to July is the way we look at it in the current state of things.

Hiten Jain: So, once you get the NCLT approval, what will be the next step?

Desikan Narayanan: The next step, once we get it, then after the share swap is done and we will do the consolidated financial starting April because our data of merger what we have taken as on 1st of April, our books will be starting on 1st of April which we will be doing the consolidation.

Balaji Viswanathan: I think the next step after the NCLT approval is that we will have to call for a shareholder meeting where the shareholders will have to give an approval.

Desikan Narayanan: May be this NCLT hearing is for giving them going ahead with the shareholder's meeting and also the secured creditor's meeting, it is creditor's meeting rather, so once that we get it from this and we will be sending a notice to the shareholders which will have the abridged prospectus, which you will have the other unlisted company financials and we hold the shareholder's meeting and get their approval and go back to the NCLT and submit this approval from the shareholder and from there they will give the approval for the merger. That is the process.

Hiten Jain: So, after NCLT court hearing, roughly 6 months would be the timelines and there, it should just flow through, right that should be the expectations?

Desikan Narayanan: The first NCLT is for the shareholder's meeting, shareholders and creditors meeting which will be around one day. Once they give the approval then it will, at least 12 days we will get the order and then by 31 days, we will have the meeting happening for the shareholders later and we go back and give it. They will come back, that will take almost one month for them to finalize it, is the timeline what they have given. So, all put together we see that around July is the timeframe where we will finally complete this whole merger process. The issue of shares will happen around July.

Moderator: Thank you. Ladies and gentlemen, we will take one last question from the line of Faisal Hawa from H. G. Hawa and Company. Please go ahead.

Faisal Hawa: To me, I think rather than anything else more than numbers or anything else, this is looking like the pure game of how soon we are able to hire people and how soon we are able to train them and get them onto the job and this will straight away reflect in revenue, so my pointed question is, is there any best practices that we have incorporated or we have learned from the parent and done it in the last 3-4 months to really accelerate training and would be putting on people on the job and what is the growth in our digital revenues?

Balaji Viswanathan: I will go ahead and answer the first part of the question on the hiring, so if you look at what we are trying to do from a training and deployment people, hire, training and deploying people that is only for the execution level roles, so it is not just a question of hiring people at that level because that is normally 30% to 40% of your work force. You also need lateral hires because you need people with experience in relevant technologies and then relevant companies as well, so it is not just a question of meeting the supply chain of getting people trained and then go ahead and deploy, so it is a combination of multiple factor. That's what our focus has been, we have the hiring engine, we have actually doubled the hiring engine over the last 6 months, we are deploying all kinds of global best practices in terms of getting tools, what our global team is using both in terms of evaluation, in terms of digital assessment, we all move it from a physical world of doing interviews and assessments and others stepping to a digital world, so that is something which we have adopted what the group has been doing as well and also something which we had to do locally given the kind of scale that we hire in India which is not the case in many other geographies. It is a challenge, but it is not something which is impossible, and we have done reasonably good job from a fulfillment rate, even if I look at it from an industry perspective, we are certainly above the industry standards in terms of fulfillment. So, it is not just a question of hiring and training the people. On the second element on digital revenues, that is the focus area for us over the last 3 years. All our technology leadership that we hired in 2020 and even in the early part of 2021, focusing on specialized searching, automation, intelligent process automation, and software development, it embedded as part of our offering to the customer, the agile practice investments that we have done. All those are actually contributing to the digital revenue on growth. We expect that from 9% two years back to now we are at close to 35% overall. We think that during this course of this year, once again that segments will grow much faster for the traditional testing services element, and we think that should get us closer to the 50% mark during the course of the calendar year 2022.

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

Balaji Viswanathan: Thank you so much. It is really good to see so much of interest and the kind of questions that were asked. Thanks once again for your interest and attention towards Expleo as a business. I sincerely appreciate the efforts to join the call and ask us the relevant questions, looking forward to your continue support. Stay safe, stay healthy. Ralph, do you want to add anything more?

Ralph Gillessen: I echo what you already said things and for your interest in us, for your support, for your questions, even this is always variable input for us to reflect what we are doing to communicate you to success that we are having and even taking with the questions and just statements even as advice for all that we will consider and even then see that we even implement this and this even when it comes to the execution of our strategy. Thank you again.

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