



Expleo Solutions Limited
(formerly known as SQS India BFSI Limited)
Q4 & Full Year FY 2020 Earnings Conference Call

May 29, 2020



MANAGEMENT: **MR. BALAJI VISWANATHAN – MD & CEO, EXPLEO SOLUTIONS LIMITED (FORMERLY KNOWN AS SQS INDIA BFSI LIMITED)**
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MODERATOR: **MR. DIWAKAR PINGLE - CHRISTENSEN IR**



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Moderator: Ladies and gentlemen, good day, and welcome to the Expleo Solutions Q4 and Full Year FY 2020 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle of Christensen IR. Thank you and over to you, Sir!

Diwakar Pingle: Thanks, Karuna. Good evening to all participants in the call. Welcome to the Q4 and full year FY2020 Earnings Call of Expleo Solutions Limited. Representing the management today, we have Balaji Viswanathan, Managing Director and CEO and Desikan Narayanan – Chief Financial Officer. Balaji will start the call with a brief update about the quarter and the full year gone by, which would be followed by Desikan who will give a very brief detail about the financials after which we will open the floor to the Q&A session.

As usual, I would like to remind that anything that has been mentioned in this call which gives any outlook for the future or which can be construed as a forward-looking statement, must be viewed in conjunction with risk and uncertainties that we face. These risk and uncertainties are included, but not limited to what we 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 Balaji, over to you, Balaji!

Balaji Viswanathan: Thanks, Diwakar. Everybody, thanks for your interest in joining this call. As you would have seen in our results that we published, we had a decent quarter in Q4 and in line with what we have been talking over the last two quarters, we certainly had a slightly dampened start in the beginning of the financial year. The first two quarters were not in line with what we were expecting or we were not showing the growth trajectory, but over the last two quarters, we have been doing reasonably well and in line with what our strategy has been, which is primarily investing in digital capabilities and also looking at our India, Asia, and Middle East market equally important to us what we are doing in Europe.



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Some of these are paying off at this particular point in time and that is the reason why we are seeing a reasonable growth in this quarter. While we have still done less than what we did during the last financial year, at least the last two quarters have seen steady growth in high single digit and approaching double digit growth.

We continue to invest in our new capabilities and digital capabilities even though the market is slightly uncertain with the current pandemic and the global tardiness that we see in the digital environment across the globe. We feel that it is going to be more temporary, however, the periods are uncertain so we really do not know how long we are going to carry on but we feel that it is going to be more temporary over the next one to two quarters at best and things are going to come back to normal and we will probably start back into the growth trajectory. However, the world might still not be the same as what we had in the pre-COVID situation. So, we are also gearing up to what we all would probably see the new trends in industry as well.

We continued our trend of signing new clients, we signed more clients business during the course of this year. We had almost 10 new clients that we signed and we have also won back some of our past clients and mostly it has been in the automation and digitization area focusing on largely legacy modernization for some of our customers and then deploying some of the newer platforms and building PA connector across the industry.

Overall, it has been a reasonably good quarter and we hope to continue the trend of this quarter in the coming quarters as well. The current market situation has been a little bit of roadblock or a bump so to say, but we assure that we should be able to cross this and get back to normalcy over the next two quarters. That is quickly on what we are and what we see as immediate future.

One thing which I certainly want to highlight is during the course of this last eight weeks or so, we have shown certainly good resilient and so is the whole IT industry per se, shown good resilient in trying and bouncing back despite getting into the situation of working from home, we managed to get with over 97% of our businesses through work from home and wherever we could not,

not because of the lot of constraints, but more because of constraints that we had in terms of our client's infrastructure. Even before the lockdown was announced, we were able start to work from home and we did not really have any major productivity related losses due to this. But we certainly had some setbacks in some other projects which were likely to start in March and April, 2020 but got pushed out and in some of the contracts, where the customers had to actually scale down because of their own business impact as well. However, the impact has not been very large, we feel that it would probably be in the range of anywhere between 7% and 10% over the next two quarters and over the full year which has not been more than 5% is what our expectations at this particular point of time but we really cannot say how long this spill is going to continue whether there is going to a repeated peak cycles of this pandemic, whether we will have more lockdowns, we do not know what the future holds for us, and the other global market as well. So, we are keeping our fingers crossed and we are all on our toes to make sure that we are able to react and respond to any situation that may come up. That is quickly on the business side.

I will pass it on to the Desikan to go through the financials.

Desikan Narayanan: Thanks Balaji. Good evening everyone. This quarter has been a reasonably good quarter compared to the last 4 - 5 quarters what we had. The overall revenue in this quarter ended up with Rs 757 million compared to the last quarter of around Rs 682 million and our EBITDA for the quarter was at Rs 158 million compared to Rs 117 million for the last quarter, there was an increase of around 35% and our EBITDA margin i.e. from 20.9% compared to 17.2% in the previous quarter. We ended up with a PAT margin of 17.6% compared to the PAT margin of 14.5% in the previous quarter, an increase of around 314 basis.

Now, I will go through the year on year comparison. Our operating revenue in the financial year 2019-2020 ended with Rs 2,694 million (Rs 269 crore) as compared to Rs 2,828 million (Rs 282 crore) in the previous financial year and our EBITDA was at Rs 524 million compared to Rs 554 million. Although we had a drop in terms of net amount, but if you look at the margins %, our

EBITDA margin was almost flat of 19.5% compared to last year of 19.6% and our PAT margin % has been improved to 14.2% as compared to 12.5% in the previous year. With respect to EPS, we were at Rs 33.79 last year, this year, we ended up with Rs EPS of Rs 38.51 and with respect to the cash position, as of March 31, 2020 we are at Rs 872 million compared to Rs 987 million last financial year. The current year cash balance is post-buyback as we did a buyback of around Rs 254 million.

That is the quick update of quarter on quarter and year on year. We can take up the questions and answers.

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

Jatin K: Congrats for a good set of results. Sir, my first question is on the receivable jump, there has been some increase in the receivable days, and would you like to clarify on that please?

Desikan Narayanan: If you look at it, we ended up with cash of Rs 872 million with high DSO but in subsequent month i.e. April 2020 we received around Rs 300 million collection. So, it is more a delay, as we had subsequent collection. We do not have any issue in the collection. We are getting the money on time and also there were some clients, which were really hesitant in paying earlier, but now they also started paying on a weekly basis. So, that way our current collection is intact.

Jatin K: Sir, so no worries on the receivables and write-offs on that front, right?

Balaji Viswanathan: We do not have any situation on write-offs. Further to what Desikan mentioned, the challenge is that all our customers are also now trying to conserve cash to some extent. But most of the customers are paying as per the payment terms that we have. We had a challenge in the month of March because of the outset of the pandemic and many of them were trying to scramble how to make payment, how their other support functions will be

operational and all that, but most of them started paying their dues in April and starting from the month of May onwards things are actually falling in place and there are no untoward delays.

Jatin K: Sir, my second question would be we have been rewarding shareholders by dividend and buybacks over the last five years, but this year we have not announced anything, so any plans on that or we want to move past COVID and to think on that front?

Balaji Viswanathan: This has been a discussion point for a while. The only reason why we are holding back on this is like what you mentioned, in the current stage we are looking to conserve cash to the extent possible. Now, all the options are on table, whether it is dividend or buyback, all those options are in consideration. We would certainly take a decision on that during the course of the next Board meeting for sure, at this stage, given the current global scenario, there is no point in taking decision on the cash situation right now.

Jatin K: Sir, on pricing and volume pressure we are seeing from clients now and you were talking about 5%, 7% to 10% drops. So, within Q1 or H1 would there be around 10% drop from this Q4 numbers or how would those first half look like?

Balaji Viswanathan: The first half of this year, we had some projects that were expected to start in the last week of March and during the course of April which have got delayed to some extent. We feel that the impact will be felt in this quarter or next quarter for sure and that could be in the range of anywhere between 5% and 10% and overall, for the year, it should be in the range of around 5% to 6%. That is what our expectation is. So, we are seeing some pressures I would not say discounts per se but more in terms of delays in starting the projects. There are one or two discount requests as well but most of them are temporary, whereas nobody is asking for permanent discount or cutting down on the prices for the full term. There are some customers who are actually asking us to help tide over those current prices as well but most of them are temporary. So, we do not think that this is going to be a long term impact but we have certainly seen that the buying patterns will change going forward and also this is an

opportunity for us to sell more offshore because now remote working has become a reality and that would also help us in selling more offshore services as well.

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

Sachin Kasera: Good afternoon Sir and congrats for a good set of numbers. Sir, just one thing, one clarification on the query that you answered on the previous question. Sir, this 4%-5% impact when you say for the full year, that is what you see that is assuming the run rate of Q4 or that is on the full year number of FY 2020. What is the base that you are referring to when you say 4% to 5% for the full year?

Balaji Viswanathan: 4% to 5% of what we said was for the full financial year of 2020. That is what our expectation is, that also being a little conservative if the things start getting normalized by second quarter of this year then we may not really have an impact on the industrial growth but like what I said the question of how the market pans out and how long these effects are going to last.

Sachin Kasera: Yes, because if we go by around a 10% cut for the first quarter, then no further impact then we should be more or less flattish for the full year?

Balaji Viswanathan: But this is what we do not want to speculate as to how this is going to turnout.

Sachin Kasera: Secondly, if I see in the presentation while Q-o-Q we have seen good growth, the number of clients in the \$1 million to \$6 million bracket, if I can say it correctly, has gone down from 10 to 8. So, is it that some of the larger clients would have ramped down and the major growth came from new client accounts, is that the way to read it?

Balaji Viswanathan: Not really. We had new clients coming in and the new clients obviously will take some time to get to the \$1 million to \$6 million range. That is the way we look at it. Some of the largest clients had ramped down like what I mentioned in the first two quarters earnings call as well. If you look at the first two quarters of this financial year, we had some ramp downs in UK and then

Europe and we saw some slowness in the markets there and that was one of the reasons why we actually had some of the larger customers moved from that bracket. It is not that we lost those customers, but their sales certainly went down as well. So, that is the reason for this, but now, we are finding new customers and we are finding larger customers as well, so you will probably see more customers moving into the bracket in the coming quarters.

Sachin Kasera: This reporting of revenue by client account is on the 12-month rolling basis or it is on a financial year basis, how do you exactly look at it?

Desikan Narayanan: It is 12-month basis.

Sachin Kasera: 12 month rolling basis, which means that which I am seeing if compare it with December quarter, so you said, that there was a ramp down in the first two quarters. So, if you look on the 12 month rolling basis, then I am not able to still comprehend the results from December if the first two quarters were off, it should have been reflected in the Q3 number, but there from Q3 to Q4 also we have almost two clients moving out from \$1 million to \$6 million bracket?

Balaji Viswanathan: That is what I am saying so the reason is that the customers who moved out at that particular point of time, still stays there, so, it is not that we have ramped up the same customers again. So, the customers who ramped down in the beginning of this financial year, still stay there, wherever we had ramped down both in the UK and one of the customers in the European region, those customers are still there in less than a million-dollar bracket. That has not changed much. The new customers whom we are adding will take a year or so to move into the \$1 million bracket.

Sachin Kasera: Sir, on this buyback versus dividend that you mentioned still on the table. So, when you think the Board will be in a position to take a call that will be somewhere around say July or you think September, October will be a better time to look at it?

Balaji Viswanathan: We want to bring it to the table for the next board meeting for sure. But depends on whether the problems get resolved by then, and if we see normalcy

coming back in the months, so the next board meeting is actually to be sometime in July or August. So, if the normalcy comes back, then we will probably take a call at that particular point of time. But if we do not see the normalcy coming back and if we see more outbreak of the pandemics and more lockdowns and slowness, it will probably get pushed still further.

Moderator: Thank you. We will move on to the next question that is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir, I wanted to understand that we were growing quite well before 2016 but since 2016 our turnover and operating profits both have been flat even though the rupee has depreciated from those levels. How and when do you think we can break out of this range that we have been stuck in for the past four years?

Balaji Viswanathan: I will tell you what we are trying to do now. So, the whole objective is to try and get back to the double digit growth regime and that is what our focus has been over the last four to five quarters. We had some setbacks when we started the beginning of the year and we think that hopefully the worst is over but before this pandemic started. So, we feel that we are probably in the right trajectory now except for this minor setback that we have for these two quarters and we should probably be in the same regime going forward as well. We were growing till 2016. Even though I was not there during that particular time but we were growing till 2016 primarily right after the SQS acquisition when the businesses were actually moving offshore of whatever SQS had at that particular point in time. So, that was primarily the reason why there is significant growth during that time. Once the initial set of migrations happened then after that it was primarily an organic growth and we had some setbacks during the last three to four years, but we feel that we are in the right trajectory with the right level of investments that we are making right now.

Keshav Garg: Sir, like you gave an idea about what to expect for the first year in terms of revenue and the margins will remain in the same range as in fourth quarter or you are expecting a dip from those levels?

Balaji Viswanathan: Upcoming two quarters we will have some challenges with the margins primarily because while there are some drop in revenues, we are conscious of not impacting profit significantly. Also, when the entire process of lockdowns and slowness started, we feel that we are still gearing up for the growth and what we wanted to see in terms of our future opportunities as well, those are getting delayed. So, to some extent we will probably see an impact in the first quarter of next financial year and maybe to some extent in the second quarter. But we are trying to normalize those and making sure that we are ready for this particular temporary impact. So, you will see a slight reduction but not a significant one.

Keshav Garg: Lastly Sir, our contingent liabilities in last financial year related to tax issues, they suddenly jumped to Rs 90 Crores from zero, a year before. So, do they still stand at Rs 90 Crores and are you contemplating on any resolution under Vivad Se Vishwas scheme?

Desikan Narayanan: See that relates to service tax and we have applied for tribunal, and it is still pending there. Generally, it takes some time, at least two to three years for petition to come for the hearing and we are yet to get any dates from Tribunal. It will take time, and this will continue this year and we need to wait and see that when hearing will start back, and the current situation is also pulling it further. Currently, it will be staying the same way.

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

Sachin Kasera: Since you mentioned that there could be some pressure on the revenues on the first half and we also had ramped up. I think the employee base in expression of the growth, so are we looking at any sort of a cost rationalization done on the manpower front or on the opex front to try and push some of the impact from the loss of revenue in the first half?

Balaji Viswanathan: Some part of it is anyway getting addressed because there is no travel and decrease in some of other expenses as well. We are trying to rationalize some of our expenses and you will see some impact of it. I would not say that it will

completely go, but actually some part of it will get compensated through some of these measures that we are taking. If you see what we have been doing over the last few years, we have been always focused on how we are able to manage that costs and that focus is still going to continue.

Sachin Kasera: Second question was that you have mentioned that there is certain new service offering that we have started, which are from the basket of the parent company. So, if you could give us some more insight on that as to how successful they have been, are we seeing some good traction, is there a good opportunity in a medium-term basis on some of the service offerings?

Balaji Viswanathan: The parent company is primarily in the engineering space, and we are into niche software development. So, we are not going to be a system integrator, but we are doing niche software development. Which is an extension or capability that we are drawing from the parent is in terms of what they do, but it is not in the same industry. Our software development is different from what the parent does for the automotive and aerospace industry but that is the only overlap so as to say at this particular point of time. Apart from that, the other area which we are trying to coordinate with the parent companies is in the consulting unit that they have bought. I am trying to work with the consulting unit to build our capabilities, which is like an extension of the consulting unit. So, these are the two that we are trying to draw from the parent. But all the others are in line with what the industry trends are from a quality assurance, whether it is investing on the agile methodology or investing on the DevOps, that is what the new way of most of the customers who want to go to market faster and all the capabilities that we are building around automation and robotics, these all are in line with what the different trends are within the banking industry.

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

VP Rajesh: Thanks for the opportunity. Balaji, one question on the guidance you have given. Is the pricing pressure coming more from the European clients or from the Asian clients or is it from both sides? If you can just give little bit more colour on where you are seeing this revenue decline coming from?

Balaji Viswanathan: This is not a regional pattern. Rajesh at this particular point of time, and moreover it is not something which we have seen across all our clients. It also now depends on what segment of the industries that they operate in whether they are service provider themselves or they are the end users and mostly it is from the service providers who are also seeing pressure from their end customers also. It is not that from everybody. Out of the 70% odd that we got probably the total number of request is only 4 or 5 but more than the pricing pressure, the pressure is on scaling down on some of the current operations because some of them are put on hold, some of the transformation activities that they are doing and focusing on the running and maintaining their operations. But we feel that once this settles down, it will all be back to normal. So, we probably have an impact of anywhere around, I would say 5% is what our current estimation is. It can probably go up to 7% to 8% as well is what our estimation is. That is what we see as the impact and most of them have given whatever of required notice periods and other stuff as well, for the ramp down. It is not that they suddenly react, at least till now we have not had any customers to use even the force majeure clause or any of those. So, we feel that this is a temporary phenomenon because of that.

VP Rajesh: All right Sir. This is coming mostly from the European clients or is it across both the European as well as the Asian clients?

Balaji Viswanathan: Mostly from the European clients but we also have one of Asian clients as well, it is actually equally spread in terms of the size of the business.

VP Rajesh: I see and on the Gross margin side, we did have a very big jump in this Q4 compared to the previous nine months this year. Given that it is assumed that the revenue is down a little bit, are you expecting some decline in the gross margin also or do you think you will have enough flavours to maintain whatever margin we had for the year, gross margin?

Desikan Narayanan: Because of the current situation, where we have to keep some of the people on bench because of these ramp downs, and we know the fact that this is temporary. We may have some pressure in FY20-21 first quarter and to some

extent in the next quarter as well. But once things settle down, we do not see any reason why we need to compromise on the gross profits percentages.

VP Rajesh: Okay and what was the parent contribution in Q4 and for the entire year?

Desikan Narayanan: For Q4, it is close to 22%.

VP Rajesh: Right. So, it seems to be moving up so have there anything fundamentally changed in their thinking because I know you have talked about in the past, it was little bit lower last year and for the last year it was low, and this seems to be a very nice pickup?

Balaji Viswanathan: Yes. Mostly it depends on the markets where we are getting the deals from the group, because the markets which are amenable are more prominence of the offshore piece is UK, Ireland and primarily some of the more English speaking markets per se and some of those markets are picking up particularly Ireland is where the contributions have actually increased. UK after the first two quarters of drop, they are stabilizing at this particular point in time, so there is some amount of improvement, even though it is not up to the levels of previous year - 2019 April levels, at least there is some progress there in the UK markets as well and we are also expanding in the Benelux parts. There are some businesses that have actually grown in the Belgium region as well.

VP Rajesh: Right and is it fair to say that most of your new clients are being added in the cards and insurance verticals just looking at the revenue by practice? I was just asking that the new clients mainly are being added in the cards and payments verticals and insurance vertical that seems to be the case?

Balaji Viswanathan: It is in the banking and insurance vertical primarily. Banking vertical is growing faster, cards and payments also contributing, it is not declining. If we are to look at the retail banking side, that has grown by around 2% to 3% point and insurance has grown by another 1.5% to 2% points and cards and payments are still maintaining at the same level. We have to maintain cards because since we are growing this. There is some growth there to maintain at the same level as well.

VP Rajesh: Couple of questions for Desikan. On the cash side you said you collected Rs 30 Crores since the end of the quarter, so current cash balance would be north of Rs 115 Crores, is that the right assumption?

Desikan Narayanan: The current cash balance is around Rs 89 Crores, we had collection in the month of April around Rs 30 Crores, but we also had payments happening on the salary and other regular expenses. So, net to net, if you look at it the current balance is around Rs 89 Crores.

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

Ravi Naredi: Thank you for opportunity. Balaji, you have done a very good quarter. I would like to know this quarter debtor days are too much high. So, will you comment what is our plan to reduce the same?

Balaji Viswanathan: What I was saying is that the debtor days were higher primarily because of the current phenomenon of the pandemic where some of our customers were not able to make the payments because they were shutting down their offices, alternate systems were not up. So, that is what Desikan was confirming that most of the outstanding which we had beyond the 60-day period got realized in a month of April. So, now we are slowly coming back to normal and we feel that that it will be the trend going forward. Of course, some of our customers said that they will probably delay it by a few more days but it is not something which is alarming at this particular point in time and we should get back to the 60s and 70.

Ravi Naredi: Sir, our US market is only 3%, so any idea to enhance this market or we will more focus on Europe only?

Balaji Viswanathan: The reason why we have not mentioned this now because US is actually a market which we would love to go to and build stronger footprints there because that is a largest market for banking and financial services and for technology as well and that is what you would see some of our peers in the industry as well but that going into the US market would require significant

amount of investment and effort and at this particular point of time we were thinking that we will tag along with the group and the group was supposed to make an investment. That particular thing has got a little pushed back because of the current situation and the entire market scenario but having said that, it is not that we have exhausted all the options in the European market which is another lucrative market as well. For our current size, I think even if we focused on the European market fully, we should still be able to see very good growth aspect.

Moderator: Thank you. The next question is from the line of Rajesh Chaudhary, an individual investor. Please go ahead.

Rajesh Chaudhary: Good evening. My question is like how much percentage of the work has been getting from the parent company and why are we only focused on BFSI sector? Are there any plans to focus on some other sector as well?

Balaji Viswanathan: From the parent, now that we have both the Group CEO and the Group COO on our board and we have also inducted one more person from the Group who actually heads our consulting practice as well. So, we have enough focus from the group and enough commitment as well in terms of what we want to do. I think the group business is actually growing in the right direction and it will still continue to grow from that perspective and in terms of looking at beyond BFSI, as of now we want to play to our strengths and from domain capability perspective our capability is primarily in the BFSI segment and that is what we want to focus on. But, however, the digital capabilities that what we talked about whether it is automation or whether it is DevOps, those are the capabilities that we are also looking at other clients as well so even within the group. We are working with an education forum and we also are working with another larger industry forum as well for showcasing our technical capabilities. But from a domain and quality assurance which is the core bread and butter of our business, we still want to focus on what our core strength is, which is the banking and financial services.

Rajesh Chaudhary: So, can we expect an increase of say 10% of the sales and 20% of the profit in times to come?

Balaji Viswanathan: I do not think we can expect for 10% growth on sale, 20% increase in margin is very unlikely but our objective is 10% growth in profits, I would say, we do not want to speculate in terms of how it will be given the current situation, but our expectation is that we will improve upon the situation.

Rajesh Chaudhary: That is being mindful that the rest of the industry as well as I understand?

Balaji Viswanathan: Yes. We expect that we will be at double-digit growth levels, so it is the question of how the things pan out as well.

Rajesh Chaudhary: Because world is moving towards more and more digital, I think that is the more of an opportunity for testing and quality assurance.

Balaji Viswanathan: Yes. The opportunities are plenty. Just a question of trying and getting out, how we will be able to capitalize.

Moderator: Thank you. We move to the next question from the line of Manish Jain, who is an individual investor. Please go ahead.

Manish Jain: Good afternoon. My question partly got answered in a few previous questions answers which you gave. My third question is that what is the segment which we address, in BFSI is Expleo addressing only testing or digitalization also and in digitalization are you working in niche segment or you have wide areas open for you because that will give you growth. So, if you can address that question, what is the market we are addressing that will be very helpful for me?

Balaji Viswanathan: Yes. So, our primary bread and butter focus have always been in testing and with the current changes in industry shifting towards digitalization our focus is on enabling our customers to go through the registration process. So, whatever digitalization our customers are doing, we are testing and assuring that and we are also working with them in defining what their services would be in, that is the consulting engagement and like what I mentioned the DevOps capability and the software development capability is to help them in building some of the connectors and niche tools that they would need for them to move into the digital transformation as well. It is not that we are not going to be a system integrator of any digital tools but we are building connectors and helping our

customers through the digitalization and that is a significant market as well. So, if we look at what Gartner and everybody else say, if you take the IT industry per se, the testing and the DevOps segment itself is close to 12% to 13% of their overall IT spend, so that is a significant number from where we are right now.

Manish Jain: Sir, you are saying testing part and whatever connector etc., you are doing; connectors are also linked to testing or it is different?

Balaji Viswanathan: It is basically enabling them to go through it, so it is not just a testing element.

Manish Jain: Okay and in digitization also, do you do only testing part?

Balaji Viswanathan: In the overall digitization journey, our role is to define the requirement and to test those requirements.

Manish Jain: Whatever market you address Gartner says like 15% of overall IT market, software development market?

Balaji Viswanathan: 12%.

Manish Jain: You can look for significant growth, the only thing which surprises me that with such a big partner Expleo why you are stuck at low level of growth?

Balaji Viswanathan: Absolutely yes, the opportunities are significant and there is a question of how we are able to open up the market as well. Every other company if we were to look at it every other technology company is also focusing on the same area, so it is just like how we say that, we want to move right towards the right and left of the technology industry, the bigger players are also doing the same thing.

Manish Jain: Yes, but our dominators are being small we should grow faster than other companies?

Balaji Viswanathan: Yes. We would love to see that but that is the effort.

Moderator: Thank you. The next question is from the line of Suraj from Prithvi Finmart. Please go ahead.

Suraj: Good evening Sir. Sir my question is relating to this work from home that is going on right now. So, what are your views on that? Do you think that is the new trend that is here to stay or it is just a temporary thing until this Corona thing stops out itself? Where do you say this thing going ahead?

Balaji Viswanathan: Corona is actually leading the digital transformation across the country. Work from home is there to stay but may not be at the same levels of where we are going right now. Right now, we have 100% working from home but I think we will have to strike an equilibrium between the two. One of the key elements at least in the banking and financial service industry, are the consumers concern is around the data security and the entire profitability measurement as well. So, working from home is currently a necessity and that is the reason why we are having 100% working from home but the next two to three quarters after this pandemic gets over and we are allowed to go back to our offices, I feel that we still have one thing that the particular situation, it is not something which is impossible to do and it is probably something good to do as well in some cases. So, we think that anywhere between 30% and 50% of the workforce can still continue to work from home and it would not impact any of our productivity and it also helps in getting the right kind of talent as well because some of the guys who were not able to travel all the way we can actually work from any part of the country as well.

Suraj: Sir, we have been scaling up our workforce in anticipation of our new contracts and more works but given the kind of situation that you are right now, are you planning to scale down employee workforce or are we trying to lay off people or anything like that?

Balaji Viswanathan: We do not have any plans of layoffs. We do not let go any people may be, we may have a bit of slowness in hiring new head counts, but we are not looking at any layoffs.

Suraj: Can this put some pressure on the margins given that our employee cost is on the higher side and the revenue might not grow in line with what we had anticipated earlier? Can this put some pressure on the margins?

Balaji Viswanathan: Yes. It may in the short term. But like what I said basically if the problem gets solved in the next two quarters then there is no need because hiring new talent is actually more expensive than retaining the existing talent. At this particular point of time, we do not see a reason why we need to do that right now. But if things actually do not stabilize or we do not see growth coming back or if the industry is still going to the same phase. At that particular point of time, we will have to take a call but right now we are not looking at as an option.

Moderator: Thank you. The next question is from the line of Ganpat Mehta from Suncity Advisors. Please go ahead.

Ganpat Mehta: Good afternoon Sir, I am first time attending this concall of the company. I have few queries. The first one is what I can see that the performance of the company is consistent and stable but when I compare with the five years from FY2016 to FY2020, the revenue and your profit after tax is almost the same. Can you highlight when the company go for the growth or can we visualize some growth in the coming future, in revenue and PAT?

Balaji Viswanathan: Yes, Sir, that is the focus as well. Our objective is to try and get to a double-digit growth and we have had some good quarters and some not so good quarters and our objective is to try and get back to the double digit growth and sustain it for prolonged period of time and we think that whatever investments and the focus that we are now putting in, is in the right market and right times. We should be able to get there sooner rather than later. I really do not want to go through the path of why and other stuff because that is the long conservation. But our expectation is that we should get back to the double-digit growth level sooner.

Ganpat Mehta: For that is there any roadmap or some strategy planned or just thinking or will be planned?

Balaji Viswanathan: The strategy is there and that is what we are executing. So, that is what we talked about in the last three to four quarters as well in terms of which market we will focus on and what services will focus on. In each of the cases, we have had some setbacks and some positives, and we think that the strategy is

working at this particular point in time. So, we will have to still wait and watch for another couple of more quarters.

Ganpat Mehta: Current working is even good, but if there is some growth, it maybe even be better. My second question is we have four subsidiaries, can you highlight about the revenues of the subsidiaries when can you have some revenues in these company?

Desikan Narayanan: One thing to understand with respect to our subsidiaries is the way that we have setup our subsidiaries. Even though they sign the contract with the end clients and we do have a back to back contract with every deal of them for whatever the amount involved with the client. So, net to net, subsidiaries revenue will be more of a cost-plus margin, that is the way the structure is. So, whatever the revenue what we show in the consolidated and standalone, will be the same as far as our revenue is concern. There will not be much change, so all the revenue gets consolidated into one revenue. To be clear on that is that the subsidiary revenue is purely a cost-plus which will not contribute to the overall revenue. Whatever the consolidated revenue, what you see in the books is the revenue of the whole company.

Moderator: Thank you. The next question is from the line of Saumil Shah who is an individual investor. Please go ahead.

Saumil Shah: Good afternoon, Balaji and Desikan. Congratulations on very good set of numbers. Just want to have an idea almost two months have passed for the current quarter so how is the business still now for the two months gone by?

Balaji Viswanathan: I would not say, it is not very different than what it was earlier. It is just that the initial four to five weeks we had some setbacks, customers getting used to the new way of working, some challenges of technical infrastructure of the clients not working and all those elements, but after that most of it is actually now working from home also has become new normal. The only challenge was that some of our new projects that we had to start in the last week of March and April got pushed out but they are starting because customers were waiting & thinking that things will get normal and to start by then but considering that it is

not getting to normal, they are also starting their projects. Some of our customers had actually to ramp down and start focusing on the running of the organization rather than transformation on a temporary basis. So, we will have some impact in this quarter and maybe to some extent in the next quarter but the question of how long this particular phase prolongs.

Saumil Shah: We are seeing a minor degrowth in maybe single digit for this quarter?

Balaji Viswanathan: That is right.

Saumil Shah: Last question, looking at the current share price, do you feel it is a right time for buyback and increased promoter shareholding and what is the management thinking beyond this?

Balaji Viswanathan: Like what I mentioned all of the options are certainly there, it is quite attractive to do the buyback at this particular point of time, but the focus is to try and conserve cash to the extent possible, we are not sure as to how things are going to pan out and we do not want to take a call at this particular point in time. So, hopefully, during or after this quarter or before the next board meeting there will be some decision on that.

Moderator: Thank you. Next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Good evening Sir and congratulations for the great set of numbers. My question is when you are targeting a double-digit growth, so which segment in BFSI you are confident of?

Balaji Viswanathan: We are confident of insurance, we are confident of retail banking under the payments space because that's where the growth is and given the current situation where digital is seeing a growth, these are the three areas which probably see more growth than the others. It is not that the others will not grow. It is not that we are preferring from one to another, but these are the areas which will probably see a faster growth.

Dhiral Shah: Sir, what is the percentage of digital revenue in overall business?

Balaji Viswanathan: We are trying to get our financial systems aligned to start tracking it but as of now it is in the range of around 14%.

Moderator: Thank you. The next question is from the line of Jagdishwar Toppo from Japa Investment. Please go ahead.

Jagdishwar Toppo: Thank you so much Sir. In running time, you have done very well and you also answered the question about buyback. My question is in this COVID-19 have you done anything or have you contributed anything in terms of safety kits or monetary contribution outside of the company to our society or any other organization or any NGOs?

Balaji Viswanathan: Very good question. Thanks for asking that. We have been doing lot of work both in Chennai as well as in Mumbai. We contributed close to around 500 kits in Chennai for both PPE kits and masks and we also did something similar in Mumbai as well, as those are the territories of our primary operation areas and we also had one day salary of most of our employee who voluntarily contributed for the PM Cares fund as well and we have a set of team members who are very passionate about the CSR work and there are people who are working on the field as well to support some of the government initiatives in Chennai. So, we are quite proud of that you may have more details if you start following us in Facebook or in LinkedIn. We have been posting this COVID warriors from our team as well who have been working on the ground to support the government efforts.

Jagdishwar Toppo: That is great Sir. I have a question on your employee hiring. I have seen it getting ramped up quite well. From attrition point of view do you see that attrition level coming down and because employees would be scared of their job, the same productivity level will go up and therefore some marginal efficiency gain in the next six to nine month or a year or so and how do you see this, two aspect one is attrition level coming down and productivity level because there is pressure of not getting job outside. So, these two how do you see in terms of margin impacting?

Balaji Viswanathan: Sure. So, attrition level is going down. Yes, we saw the attrition level is going down even last year compared to the industry levels of 20% to 23%, we were at around 18% last year and this year also we should probably be in the same range 18% to 20% that is what our range will be. Productivity improvement is not just the question of not finding opportunities outside, it is a question of how they enjoy their job and what is the kind of engagement that we are able to provide as an employee. We treat them as our assets and we are working in making sure that we are all connected with them, we have more levels of engagement at this stage to try and connect with them and to their family as well. So, productivity improvement will certainly see, we are seeing and we do see as well. Whether that will contribute to the margin will depend on what kind of contracts we are going to be running so, it may not really have a significant impact there but with retention level going higher will certainly reduce our hiring costs to some extent. So, that is where we see an impact because already the productivity levels are high and we are actually trying to make sure that people do not find too much of burnout because during this phase of not seeing anybody and working mostly at home can also have an impact on their mental health as well. So, we are trying to focus on that element as well. We are focusing on all those aspects and if we are able to retain our comment and reduce our hiring costs through that that would certainly see an impact on our margins.

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

Anil Jain: Thank you Sir for the opportunity. We have good growth in rupee terms in the current quarter, and for the whole year you have degrowth of 5% in rupee terms. So, what has been the comparable figure in constant currency, can you just elaborate on that?

Desikan Narayanan: On the quarter to quarter growth in the constant currency is around 9.5% from last quarter to this quarter and for the year compared to last year to this year, on the constant currency the degrowth has been around 4.5% compared to the 5.6% in the overall revenue.

Anil Jain: Okay. You are saying that you got a revenue decline of 5% to 10% in the current year, so because rupee has depreciated in the current year, so that is comparable figure in rupee or in foreign exchange terms?

Balaji Viswanathan: We are not expecting of 5% to 10% decline for the full year. What you said is that we are expecting the decline for the first two quarters? We really do not know how the rest of the quarters are going to pan out. What we are looking at is only the next quarter at best because we do not really know in the current situation how long this is going to continue. So, we do not want to really look at whether it is going to last that for the long or not.

Moderator: Thank you. The next question is from the line of Jatin K from Alpha Capital. Please go ahead.

Jatin K: Sir, in terms of we have been only in testing while lot of IT companies trying to do everything, they are trying to be one stop shop. So, is that a disadvantage for us for in terms of growth that we are only in testing?

Balaji Viswanathan: See it is the question of what you see as perspective. So, we are specialized in testing. There are always specialized service providers in the market as well and everybody needs to exist in the market provide what they are best suited. So, I do not think that the big disadvantage to us. So to say, if you start doing everything would be an advantage, yes, maybe, but at that particular point in time the customers might not see you as an independent quality assurance provider because the moment you start doing everything, then testing your own services might not really be something which the customer will be comfortable with. You still want somebody to independently validate what you have done. I do not think it is a big disadvantage. It is just a question of trying to get to the scale, so being only a testing service provider obviously you cannot be a billion dollar testing company but in our current levels I do not think that is a challenge at all.

Moderator: Thank you. Next question is from the line of Keshav Garg from Counter Cyclical Investments. Please go ahead.

Keshav Garg: Sir, you mentioned that our receivables have reduced after the quarter ending by Rs 30 Crores but then you said that the cash level is the same as was on March 31, 2020. Sir, that means the receivables after decline again have gone up subsequently to around Rs 75 Crores level?

Desikan Narayanan: Actually, what I was mentioning that we had Rs 87 Crores outstanding at the time of March 31, 2020 and we received from the clients around Rs 30 Crores in the month of April, 2020. After that, the current position is around Rs 89 Crores after two months of working capital usage.

Keshav Garg: So, as of today, what will be the outstanding receivable amount?

Desikan Narayanan: Outstanding receivable amount will be in the same range of what we had in the month of March little bit higher because two months of revenue also being added to that.

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

Sachin Kasera: Thanks for the opportunity once again. Sir, one question especially for the parent, and I know you may not be the right person, but we are not able to interact with them on a regular basis so if you can maybe just give this from our side. Last year, there were two corporate developments that happened one was the buyback and second was the open offer by the parent, and both were substantially higher priced and in both even in the buyback, the parent did not participate so considering such a deep value in the stock, it is very baffling that when the rate of interest is like 0% and 1% and dividend yield or the buyback yield itself is 7% to 8% in the company, why are they not looking in terms of hiking their stake from 55% to 75% if you are in a position to comment that will be really great or if you could put these views forward to them and we do not get some feedback so that will be really helpful.

Desikan Narayanan: Maybe I will answer the question. Yes, of course we do agree with what you say and we also had this discussion in the board meeting. We do have people representing in the group in the board meeting where we have put in various

options to them like buyback, dividends and other options. Maybe in the next board meeting we will do it again and we will see how things go. In the current situation you must also need to look at the liquidity. In a month or two in the next quarter board meeting we will re-look at how things are and decide based on that.

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

VP Rajesh: Desikan, one more question on the tax rate side, this Q4 was around 20% and the full year was around 26%. So, could you give some guidance for the next year, what would the tax rate likely going to be?

Desikan Narayanan: We have adopted from this year i.e. FY 2019-20 lower tax rate of 22% (effectively 25% after surcharge & cess) as the tax.

Moderator: Thank you. The next question is from the line of Suraj from Prithvi Finmart. Please go ahead.

Suraj: Sir, in earlier questions you said that there is a tax liability of Rs 90 Crores which is contingent liability, so, have we made provisions against it to be conservative?

Desikan Narayanan: This is regarding the service tax and we have consultant, a leading lawyer in Chennai who we are working with, they have given an opinion that this is a case where we can win, so, based on that we have not made any provision for that. We are waiting for the case to come for hearing in the tribunal. Once the case comes in then we have to argue and we need to know how things are shaping up then only we can decide on that. For now, we have a good case as per the opinion of the leading lawyer.

Suraj: Sir, any guideline that when can happen, the hearing on the case?

Desikan Narayanan: In fact, if we look at the way for any tribunal cases comes in it takes at least one to three year's timeframe for posting it for hearing and adding to that this

two and a half months of lockdown. We need to wait and watch, we do not have any say on that.

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

Rajesh Chaudhary: Like are we also doing some kind of software rating work in case not, do we plan to do that?

Balaji Viswanathan: Are you referring to code validation or software code validation?

Rajesh Chaudhary: Software rating just like the pricing rating for the companies for example say if two companies are preparing same kind of software then there is nowhere in the book that how do we rate those software?

Balaji Viswanathan: No. We are not doing that. We only do code validation just to see whatever applications that are being developed. That is part of our security assessment as well to see whether there is malicious content or there are any other flaws to see whether it is fully working fine. But we do not do any software rating as such and we do not have any plan to do that right now.

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

Balaji Viswanathan: Thanks, Karuna. Thank you so much. Thank you so much for your interests and I sincerely apologise for the network. I had got dropped thrice. It is quite embarrassing. Thanks for your patience to wait for the answers. Like I mentioned when we started off, it is quite uncertain in terms of how things are going to pan out over the next few quarters but we are confident that this may not be a long-term phenomenon and basically we should get out of this crisis and get back to growth in terms like what we did in this Q4. Thank you so much once again and looking forward to hearing you in the next call.

Moderator: Thank you very much for the members of the management. Ladies and gentlemen, on behalf of Expleo Solutions this concludes this conference. Thank you for joining us. You may disconnect your lines.