



Expleo Solutions Limited
Q4 FY '21 Earnings Conference Call

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MODERATOR: MS. ASHA GUPTA, CHRISTENSEN IR

Moderator: Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Q4 FY '21 Earnings Conference Call. As a reminder, all participant lines will be in 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 operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you Ms. Gupta.

Asha Gupta: Thanks Steve. Good morning to all participants in the call. Welcome to the Q4 and full year FY21 Earnings call of Expleo Solutions Limited. The results and investor presentation have been already mailed to you and they are also available on 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 you the same.

Representing the management today, we have Mr. Balaji Viswanathan - Managing Director and CEO, Mr. Desikan Narayanan – Chief Financial Officer. Mr. Balaji will start the call with a brief overview of the quarter and year 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 risk and uncertainties that we face. This risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find it on our website. Having said that, I now hand over the floor to Mr. Balaji. Over to you, Sir.

Balaji Viswanathan: Thanks Asha, thanks, Steve. Good morning, everybody. Thank you for joining the call. It's a pleasure to talk to you all once again after our Q4 and full financial year results declaration. The past quarter and overall last financial year have seen quite a few ups and downs. In the beginning of the year, we saw the outbreak of the pandemic and a little bit of a slowdown. And the last two quarters seen almost close to back to normalcy or even better than the normal

growth trajectory for the ITeS industry. And that's been probably the trend across the entire ITeS industry as well. The last quarter has been reasonably good, I wouldn't say blockbuster but slightly better than what our previous quarters have been. And we see quite a bit of business traction particularly in the Asia market, US market where we have recently started seeing a lot of traction as well. The European market is coming back to closer to normalcy. And we expect that this trend will continue going forward. However, with the second wave in India and in some other neighboring markets, we will see some minor impact in the next quarter. But, hopefully, it should be only a minor blip rather than an ongoing phenomenon.

We had some instances of COVID infections within the teams as well, considering that we have close to around 1400 people including our contract employees, employed with us now. And we have had our own share of challenges with the pandemic, between the team but most of it has been, I would say recovered or recovering at this particular point of time but we've also had one or two, unfortunate losses of life within the organization as well. And we are keeping a close track of this making sure that we are keeping our teams safe, which is very critical for us to make sure that we as an organization stay strong together.

The business results have been showing continuous growth over the last couple of quarters and we think that it will continue to grow in the coming quarters as well. Main shift in the business has been primarily the increase in the offshore business for people who have been tracking us for the last couple of years. We had the onsite revenue or the revenue that is coming from our resources deployed outside of India, contributing to almost 58% - 59% of the total revenue four, five quarters back and in this quarter, it has actually come down to 42%, and for the whole year also it's actually ranging around 45% odd. So, as you all know, reduction of the onsite revenue basically mean, reduction of resources onsite basically would mean a shrinking top line, but better bottom line because the margin of offshore business is much higher than what we get onsite. But we've been able to balance both these together without showing much drop in top line. We've been hiring, the market is seeing a significant hunt for talent. Every other IT company is going through a same phase and we

are also going to a similar phase of hunting for talent to meet our customer demands.

In the last year, during the period of COVID, attrition levels were much lower. With the increased demand in the market, we are also facing a slight increase in our attrition levels, but we have the plans in place. We have hire, train and deploy model which we started off in late 2019, helping us and making sure that we are able to fulfill most of the demand. Increased demand is certainly something which is a top focus for us for this quarter, next and next quarter as well.

It has been a great learning for us through the pandemic, particularly on how we manage the remote working, how do we manage our security and data integrity. And also, how do we manage our teams and how do we engage with our teams and their families as well. We had an excellent employee satisfaction survey results for last year, which we did around December of 2020, for which the results came out in around February end or early March. And we moved from around 60% to 74% in the employee satisfaction. And we have a very good CSAT rating as well, which was done between January and December of 2020 in January 2021.

The customer satisfaction rate is close to around 86% to 90%. And with almost all of our customers saying that they have really not seen any decline or any challenges during the COVID times which has been a good hallmark for us. We've also increased our digital presence and we've also been participating in webinars. We have been conducting webinars and industry events during the course of the last three, four quarters. With a significant amount of white papers and the point of views that we have published in the social media, that is actually getting us reasonably good traction and visibility as well. We have been receiving awards for the last couple of quarters, last quarter we received an award from FICCI for HR policies and HR leadership. We will continue to try and create our visibility better in this market as well.

Our cost management as usual has been reasonably good, we are keeping a close watch on where we are investing and how we are investing and where we are spending the money. And we did our salary increases after a six month

delay in January, 2021. And we are also making sure that we have a good pay for performance culture which basically have a reasonably good bonus and variable pay upside for the leadership team. We have been continuing our investment in learning and up skilling programs. Under our hire, train and deploy model, now we have two partners across two different locations where we are training and hiring anywhere between 50 to 100 people every quarter. And this should actually help us in addressing some of the future demands that is likely to come in Q3 and Q4 of this year.

Overall, this has been a reasonably good quarter and a reasonably good year. And we hope that we will continue to sustain this and probably grow faster than what we've done so far. Thank you so much once again for your interest, and I will pass it on to Desikan for covering the specifics on financial.

Desikan Narayanan: Thanks Balaji. Good morning to all. Since this is the end of the financial year, I will touch upon quarter-on-quarter and full year-on-year changes. Starting with the quarter-on-quarter, in current quarter the revenue grew by 10% compared to last quarter. We ended up with a revenue of Rs. 79 crores against Rs. 72 crores in the previous quarter. The growth in constant currency was also at 10%. On the EBITDA performance, we ended at 24% EBITDA as compared to 19% of last quarter. Previous quarter, we had lower revenue due to reduced working / billing days and with some one-time discount due to COVID. During the month, with increased revenue and close focus on cost has contributed to a higher margin.

Coming on the year-on-year FY21, the good news is that we reached Rs. 300 crores revenue during the year. The revenue saw a growth of around 11.4% compared to previous year. EBITDA improved by 352 basis points ending at Rs 49 crores. The better margin contributed by the change in offshore and onsite mix referred by Balaji and also benefits coming from travel and facility related expenses. EPS for the year was at Rs 49.20 compared to Rs 38.51 in the previous year, up by 28%. Our cash balance was at Rs 131 crores as compared to Rs 87 crores in the previous year.

On the usage of cash, the discussion is still on, to look at various options to utilize it. But Board is yet to finalize on this, considering the current COVID wave two situation, we wanted to move cautiously.

So, that's the brief about the financial performance. Now, I'm opening it up for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Balaji, congratulations to you to extend your appointment for a period of 3 years. We wish all the best to the company and you. Sir, I would like to know, so you are telling 250 employees you have hired in now and 250 you are going to hire so how many employees at present you are having?

Balaji Viswanathan: So, including contractors we have closer on 1300 employees at this particular point of time. Our employees on role is approximately 1100.

Ravi Naredi: And sir in IT industry every company has lower attrition this year why we are having more attrition?

Balaji Viswanathan: No, that's not true, because if you look at till December, 2020 our attrition rates have been in single digits. But if you look at all the IT companies, they are going through a similar kind of a challenge right now. Starting from last November-December onwards when the market opened up and there was a huge demand on experienced resources, particularly the mid-level resources who are in the 3 years to 10 years' experience range. There has been a significant demand in the market. So, our attrition is not way off the industry, but last year we had a very good performance, that is the calendar year of 2020 was very good compared to what even the industry has been. We were in single digit but this year it is increasing and moreover, the resource demand is also increasing because we see a lot of demand coming in from the market as well. So, the point on other companies that they don't have attrition is surprising to me because all the other analyst reports and industry reports shows that if you were to look at those. Everybody is going through a similar challenge.

Ravi Naredi: And we are hiring 250 more so, do we have some new project or more project can you highlight something about that?

Balaji Viswanathan: We are having reasonably good demand and most of these hiring is actually done at the entry level. So, most of the hiring is from 0-3 years' experience category and our model of hiring this particular level of employees have been in this hire, train and deploy model that I talked about, where we hire these resources, train them for a period of 90 days to 120 days and then start deploying them in our projects. And that's the model that we have been adopting since the last quarter of 2019 onwards. Earlier, we had only one partner doing it, now we have two partners doing it, earlier we were doing around 100 resources hiring just to make sure that we are able to backfill the attrition and also manage the new demand. But now, the demand has increased and that's the reason why he was talking about 250. And typically, during this first phase, they are considered as contract employees and then over a six-month period they become employees.

Ravi Naredi: Sir, my second question is that other income is down drastically in this quarter to Rs. 6.9 million, versus Rs. 46 million in quarter three and Rs. 33 million in quarter four. Any specific reason?

Desikan Narayanan: Actually, our PBT has gone down compared to last quarter majorly due to exchange loss during the quarter compared to earlier quarter where we had exchange gain. From gain of Rs. 3.7 crores it went down to a loss of Rs. 2.6 crores in the current quarter.

Ravi Naredi: Okay. And you said as you are hiring 250 more employees, we can presume Balaji we have more orders in current year and more performance, better performance in current year?

Balaji Viswanathan: Yes sir, we do have reasonably good pipeline. And like what I said, the attrition rates are slightly increasing, so we are also making sure that we don't face that challenge as well. From the current scenario, we are quite positive about more growth coming during the course of the year.

Ravi Naredi: Nice. And sir last question, Rs. 131 crore cash, what is in your mind or in Board of Directors mind to deploy this amount?

Balaji Viswanathan: To be very honest, we haven't really discussed much about that in the board meeting so far, because all our focus is to make sure that we are able to sustain the growth and we are able to take care of both our clients and our teams at this particular point of time. Cash deployment is something which we will probably cover in the next quarter, once things are back to normalcy.

Moderator: The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S. Narayanan: Congratulations for good set of numbers. So, firstly, how has been the order book pipeline looking like, are we seeing better traction from European market?

Balaji Viswanathan: Yes, Deepan. Thanks' for the complements. We are seeing better traction across all geographies, particularly in Asia, APAC and Europe, some of the older projects which were slowed down or kept on hold are looking to revive and the investment or the focus that we were trying to go back to US is also showing some results with one or two opportunities in pipeline from that geography as well. The pipeline looks reasonably good at this particular point of time.

Deepan S. Narayanan: Okay. And also, can you give more details on this one new customer addition in terms of deal size, contract type, and which region kind of?

Balaji Viswanathan: Yes, in this quarter we had three customers whom we added, out of which one of them was in India, one from APAC, and one from Europe. And the APAC customer is the one which is actually signed with an annual revenue of approximately \$2.5 to \$3 million. And the other two at this particular point of time reasonably smaller.

Deepan S. Narayanan: Okay. So, when all these deals will be implemented?

Balaji Viswanathan: We have already started that with all these three customers, the engagements have already started.

Deepan S. Narayanan: Okay. And lastly, we have seen very strong gross margin expansion, so during the call you have also said that increase in the offshoring is contributing

majorly to this. So, are we seeing this 50% kind of gross margin is sustainable in coming quarter circle?

Balaji Viswanathan: Like we said, our biggest shift in the model has been the reduced onsite presence to increase offshore presence. So, we are not sure as to whether it is going to be particularly the Middle East market and the Asia market where traditionally we have found customers to be more comfortable with onsite presence. This is the current situation because of the pandemic but given the cost advantage we think that they may probably continue, but that's something which we are not 100% sure of, but our target has been always to have a gross margin in the range of anywhere between 38% to 40%.

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

VP Rajesh: Congratulations Balaji and Desikan for very good quarter. My first question is this \$2.5 million deal that you mentioned, what business segment it is coming from, is it an insurance or cards and payments?

Balaji Viswanathan: This is a cards and payments, Rajesh. And more on the digital services space, we are working on legacy modernization platform, that's the engagement that we have, it's actually about both security and legacy modernization.

VP Rajesh: That's great. What I was asking is, it looks like you're getting traction in this particular segment. So, may be Balaji if you can just comment on what you guys are doing differently to win against the competition and get such large kind of deals?

Balaji Viswanathan: Rajesh, the focus has always been at least building the right team in place. So, that's the investments what we've been talking about for the last couple of years. To get the right kind of leadership and the right kind of team members, and the thought process around investing in those technologies so that we can build the experience. And the other advantage that we have is that we are far more nimbler compared to many of the larger players. And that's something which is helping us, both in terms of engagement and also being flexible on how we deploy, how do we deliver and what we sign up for as well. So, the contracting model and earnings. So, the customers also see value and the

commitment that we have been able to show. Of course, it's not like that every other opportunity has been successful. So, from the earlier days, where we used to deal with probably 20-30 opportunities in a year now a days, we are actually dealing with almost 60-70 opportunities in a year because we are trying to go behind every other customer opportunity which we see it's in our own specific focus areas. So, the bid percentage is what is actually increasing. We are focusing on to make sure that we have our target our specific customers and more wins.

VP Rajesh: Got it. And my second question is, if you can just comment on the group's thinking because on last call you said that they are planning to double their headcount in India. So, what has been the progress on that particular initiative?

Balaji Viswanathan: Yes, like what I mentioned, initial focus for the group in India has been on the engineering business, the offshoring headcount has been very, very low. And that particular business has seen a significant amount of traction particularly in the automotive space. They have been signed a couple of large engagements in India, in the automotive space and also considering aerospace preference and the Indian defence investment, in the French defence manufacturers, has been helping the group as well. So, there has been reasonably good number of additions in the engineering side over the last two quarters. And we also have now specific focus on entering into France for the banking and financial services and fintech and others that we are focusing on under these spaces as well, which we hope that we should start seeing some progress in Q3 and Q4 of this year.

VP Rajesh: So, any plans of the group to merge those entities into this listed entity, the engineering part that you are talking about?

Balaji Viswanathan: Still early days Rajesh, we haven't really given a full thought on that as yet.

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

Anuj Sharma: My first question is going forward in the next two, three years what contribution do we expect from existing clients and new clients, and I'm just trying to read into what does this active client mean, because we are not able

to grow out of this 65 to 75 range so what's your thought and what is the annual target you're keeping for the sales guys, for the clients?

Balaji Viswanathan: Okay, so the active clients basically means that how many clients we have billed in that particular quarter. Probably next time onwards we will try to cut that out, because I don't think that adds any significant value or indication. Because, while our focus is to make sure that we do sign new clients but, we also want to make sure that we sign with reasonably good deal size as well. So, the number of clients alone is not the indicator of the revenue. So, our focus is to try and look at profitable customers, where we can add value, where we'll be able to add more capabilities for us, and also of some reasonable size, as well. So, I would actually look at what is the average ticket size per customer and what's the average revenue per employee and average profit for employee. That's a better indication than just the number of customers per se. So, if you look at it, that's what we are looking to grow and that's what our focus has been as well.

Anuj Sharma: Sure. So, in the same line could you also tell us as to what is the opportunity set in the existing clients, and how much do we want the new for our growth to materialize, what is the wallet share in the existing set of clients do we service?

Balaji Viswanathan: So, wallet share will vary by client Anuj, but what we are looking at is, so the best way to measure your new, new customers and what is the kind of pipeline or business that you get from existing customers. Normally, the best practices or the KPIs, which are considered good are the range of around 85% to 90% coming from existing customers and new customers delivering anywhere between 10% to 15% of your revenue for that particular year. If you look at our last four to five years, we've been in the range of around 4% to 5%, which we increased around 7% in 2019. Last year, it was around 9% or little lower than 9% through new customers, and this year, with some of these new customers whom we have signed up with, we should cross the 10%, 12% range. I would say that I'll be happy if you were to be in that range of 85% to 90% from the existing customers and 10% to 15% with new customers.

Anuj Sharma: Sure, that's helpful. My second question is, you spoke about non-BFSI and non-testing segments also, when could we expect some new client additions into these two spaces which we are actively working upon?

Balaji Viswanathan: So, we signed a customer last year in the Digital APAC space. Actually, we have already taken them into our top 10 customers list, that account has been growing reasonably well. And we have been working on other opportunities primarily on the digital space and some of the technology service providers as well as clients. And we are not getting into the areas where our group entities are already present because otherwise we'll end up competing with each other. But the other industries, like what I mentioned Supply chain, Logistics, E-commerce is something which we've been focusing on, and we have been seeing some traction in that space.

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

Zaki Nasar: Sir, my two questions are, since you have added 250, since you are planning to add 250 more employees to your 1,300 employees, do you think that during the current year sometimes we could touch that Rs. 100 crores per quarter, would the capacity be to accommodate Rs. 100 crores turnover per quarter. And my next question is sir, since the change in the hands of the parent company, has there have been some kind of a change in dividend distribution policy because last year also there was no distribution, this year also there has not been any dividend payment sir. Thank you.

Balaji Viswanathan: Thanks for your condolences, we'll certainly pass it on to the team as well. On the first question, the 250 headcount addition will cover both, the employees whom we lose and for the new opportunities as well. And that will not get us to move from the current Rs. 75 odd crores that we do to Rs. 100 crores for sure. And what we are looking at is, to make sure that we are able to meet all the demands that is coming in from our customers at this particular point of time. And I don't want to guess a number, but the 250 will basically cover anywhere between the current what we are talking about and the 10% is rate that we have been growing quarter-on-quarter at this particular point of time.

Zaki Nasar: So, there should be some growth from that Rs. 70, 79, 80 crore kind of stuff?

Balaji Viswanathan: That's right. We should see some modest growth for sure. And on the second question on dividend distribution to be, I'll have my colleague Desikan can cover more on that, but that's not been a topic of discussion so far, because right since the new management took over during the COVID times all the thought has been around conserving capital rather than trying and spacing.

Zaki Nasar: Yes, sir. But you have Rs. 133 crores on your books, there has been cash generation and previous years there has been a definitive even distribution policy broadly. But, since the new group has taken over, the company has not passed on anything. So, is there some kind of a change in mindset, the new group gets in and if it is there, what is it sir. Thank you.

Desikan Narayanan: See with respect to the dividend distribution policy generally top 1000 companies is only required to have it. Starting this year it is mandatory for us. We will be coming out with the dividend distribution policy during this year. On the dividend declaration, it is something which has been looked at. There are better ways to utilize cash. All the avenues are being looked at. In the current situation, we are thinking that conservation of cash which is something very important for us to look at in the COVID wave two which is happening. So, may be in the next quarter board meeting this may be taken up for discussion and we may have something coming out in that discussion.

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

Sachin Kasera: Congratulations for good set of numbers. I have two, three queries and one comment. The first was regarding this offshoring, you mentioned that offshoring has been along the key drivers for the margin improvement. So, are we now at the optimum mix or how do we see this mix going ahead, will it remain same again improve further in favor of offshoring, how should we look at that?

Balaji Viswanathan: So, if you recollect from three, four quarters back, we were actually talking about something very similar. And, I said that at that particular point of time, 45%, 55%, or 50%-50% would ideally be what our targets will be. So, considering that we are in the right mix of onsite versus offshore. However, the current mix is driven not by anything else apart from the COVID situation

and remote working across the group. So, I feel that this is sustainable and we have probably reached a right kind of a mix between onsite and offshore, where, we have approximately 10% to 15% of our workforce deployed outside of India and generating close to around 40% of our revenue. We have reached a point where it is optimum, but whether it will stay here or not is something which we will get to know in the next couple of quarters once things start easing out and the customers start demanding people to go back to onsite, but I'm also confident that with the kind of traction that we are seeing right now, our offshore numbers will increase significantly to compensate even if we were to add another 20, 25 more onsite.

Sachin Kasera: Sure. And just one clarification one of the previous callers you mentioned that this current 250 people you recruited will be sufficient for 8% to 10% year-on-year growth you mentioned or it is quarter-on-quarter that you mentioned, I got a little confused?

Balaji Viswanathan: Year-on-year.

Sachin Kasera: Got it. Second question is on the America part of the business, we had been talking that either will keep investing, at some point of time we'll take a different call. It's been a while, any progress any thoughts on that what is happening?

Balaji Viswanathan: Yes, we had actually taken the call in the last quarter of 2020. Because of the pandemic and the situation that the group was going through, they had deferred any acquisition that they wanted to do in the US or many other geographies for that matter. So, because of which we took a decision in December, 2020 that we will invest in our own sales team and then pipeline generation in the US. So, we have hired one new sales person, and we are also piggybacking on some of the group entities there with some of our pre sales team sitting out of the US now to generate more demand. So, we signed two customers in US between December and April. And one was a re-entry and other one was a fresh new customer as well. And with the new sales guy whom we have hired, who has been with us for the last four, five weeks, we think that we should be able to get more traction in the US market as well. But our objective is to now try and get to at least an optimal size or a minimum size in the US during the course

of this fiscal. So, that whenever the group is ready for the larger acquisition, we also have a reasonable amount of business and sales team in the market to capitalize on that.

Moderator: The next question is from the line of Ashish Das from Sharekhan. Please go ahead.

Ashish Das: So, my first question is on revenue. So, you mentioned that revenue growth would be around 15% to 20% in FY'21-22. As you are hiring new 250 people in next two quarters, also you are winning deal, added clients. So, just wanted to know the revenue growth would be on the higher side of the range in FY'22. And what is your expectation the momentum would continue in FY'23?

Balaji Viswanathan: I am not sure and I don't recollect talking about this 15% to 20% growth in 2022. The current traction shows that we will be able to get double digit growth, the current double-digit numbers or slightly more than the 10% mark for FY'22 for sure. But, of course, we all know the situation is quite unprecedented and we don't know which way the tide will turn depending upon, who is going to hit the third wave first or who is going to hit the second wave, who's going to come out of the second wave. So, I would say, we are quite positive based on our current traction and our current pipeline that we have in hand, and 2023 we are even more confident with the kind of investments that we have made in the digital space. We should be able to see the continuing momentum in 2023 as well.

Ashish Das: Okay, great. On margin front, in our last concall you highlighted that the margin would be impacted, and it would be in the range of 17% to 18% due to your investments on people, technology and also expansion to USA. So, won't you see the margins would start recovering from that level, if it impacts in next few quarters and at what level the margin can be stabilized once the investments are done?

Balaji Viswanathan: So, if you look at it, even though we have been projecting that with our investments the margin will decline, we haven't really seen that margin decline at this particular point of time as of now, because our realization rates have been reasonably good. And most of our investments, we have actually tried to make it as a revenue investment or as a capital investment so that it actually

gets exhausted over a period of time, rather than spending everything upfront. So, it's more on pay-per-use model. So, we haven't seen any significant investment so far, but given where we are and the kind of talent requirement that we have and the investment that we need to make, we expect that we will be in that 18% to 20% range. But we have always been lucky in the last three quarters thanks to the reduced operating expenses due to COVID, lesser travel and lesser office expenses and other stuff, we have a better margin profile at this particular point of time. But even if it were to change, we'll still be in that 18% to 20% range. I don't see that going below that. Desikan, you want to add anything more?

Desikan Narayanan: You've covered it well. Last year, as I mentioned in the beginning of the call there were some of upside on the margin side due to the offshore heavy business where we have less of travel that has contributed to it and also some facility related cost is not hitting us. So, all of these have actually contributed the incremental EBITDA. For future period, we need to look at how things will perceive, investing a little bit on the operating expenses such as, marketing is something we are looking at. So, in the current set of things, we are expecting the margins will be in the range of 18% to 20%.

Moderator: The next question is from the line of Somil Shah from Paras Investments. Please go ahead.

Somil Shah: In previous concall, you did mention that we are in talks with one more large customer and details will be known in next one month. So, any updates on the same, have we won that customer and what will be the revenue from that customer?

Balaji Viswanathan: So, the last quarter like what I mentioned, we have won one customer that is in the Jan to March, out of the three customers one of them is a large customer. One, which we talked about close around \$2 to \$2.5 million per year revenue is what we expect from that customer. There are couple of other customers as well who are in the \$1 to \$2 billion range in the pipeline for this quarter and possibly next quarter as well.

Somil Shah: Okay. So, just that one large customer if we calculate that \$2.5 million mark, that can contribute to 5% to 6% of our revenue growth, is it correct?

- Balaji Viswanathan:** Yes, but our existing customers also have to sustain at the same level.
- Somil Shah:** Ok. And almost two months are gone for this quarter. So, how's it shaping like, is it in-line with the previous quarter or are we seeing any uptick in demand and sales?
- Balaji Viswanathan:** Yes, there is an uptick in demand and sales as you could see in the last two quarters and that trend is still continuing. So, we have like what I mentioned, we have a reasonably good pipeline.
- Moderator:** Thank you. The next question is from the line of Priyank Chheda from Standard Chartered securities. Please go ahead.
- Priyank Chheda:** So, sir, just wanted to understand any broader change you find in software testing industry, which opens a big opportunity and faster sales growth for Expleo?
- Balaji Viswanathan:** The software testing industry itself has changed significantly in the last three years or so with everybody moving into Agile, there is more focus on DevOps, there is more focus on automation. That is what we have been adapting and trying to stay ahead as well over the last two, three quarters. And that investment is what we have been doing over the last year and a half or so. And we are quite confident with where we are and in terms of trying and patching the trend, specifically on the testing space. And the other areas which is the shifting left and shifting right of the testing is what is the other strategy that we have been adopting. And that particular area also is helping us to be a more design, testing and deployment provider.
- Priyank Chheda:** Okay, thanks. So, sir, any strategic shift that we want to highlight to us with respect to the plan for India entity, after the new CEO that was hired in the group and you did highlight in last couple of calls, but then anything that has changed in last three months or after we met last quarter?
- Balaji Viswanathan:** No, so the new CEO, published his vision and what he wants to do in September, October of last year and we've had to move into that new model starting from the beginning of this year and which we have already done and so we are now organized by service lines with global leadership. So, we are

able to tap into our talent and investments and research that is being done across the group in different geographies. So, now we have service lines engagements across the group and we also have business engagements across the group, customers who are being tapped from the global organizations and setting up of global client management. All those structures are there, instead of each one of the countries running as a separate entity now it's more a global organization and that's the module that he published in the last quarter of last year starting from this year onwards. We are in the process of transition, but at least India as an entity and India across all the three entities within India, we are the first one to adopt that. And that's going as per the plan.

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

Vaibhav Badjatia: Sir, on the employees front you just mentioned about your hiring plan. Can you help us with the net number of employees, including the contract employees at the end of Q3 and basically at the end of Q4 and what you expect after this 250 additional people that you are have? So, I want the numbers on net basis after this?

Balaji Viswanathan: Yes, so as of December 2020, we had approximately 1,200 employees, and as of March 2021, we have a little over 1,300 employees, and because we also need to accommodate for the attrition as well. And we expect that by the end of this financial year, that is the end of this fiscal March 2022, we should be in the range of approximately 1,500 to 1,600 employees, 1,500 at least.

Vaibhav Badjatia: Okay, got it. And secondly, on the US sales initiative, so it has been really, really tough for any small player to really crack the US market, whatever investment that has been done by a lot of other companies, they were not able to grow there just because of their scale. And on top of it, apart from scale, we have a very specialized focus on BFSI and traditionally known only for testing. So, what we think that to what extent you can really succeed in this US sales as strategy, unless until you go really, really serious about it and hire really high grade sales person to drive it, which doesn't seem to be the case because your cost are not showing that kind of traction which indicates that you had the sales entity?

Balaji Viswanathan: We are hiring senior sales people, I am not sure as to whether high cost sales people or not because end of the day they have to deliver the numbers, and there are two people whom we have hired, one of them have joined and the other one has not joined. And that's probably one of the reasons why you're not seeing full costs in the books at this particular point of time. But like what I mentioned, we have a presales team and there is an engagement that is actually going on there right now to do the market tapping and analysis and research to make sure that we have the right demand generation engine in place when the new person comes on board. So, the new person, the senior guy is likely to come sometime in July.

And on your question on, whether testing is a big market in the US or not. Yes, everywhere testing is reasonably sized market. And US is no exception and there are quite a few demands in that particular market, question of having the right kind of people on the ground and tracking the gains, the opportunities, that we see in that particular market.

Moderator: Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota: First question is on the digital services. Now you have mentioned that 26% of the total business. So, what exactly you classify the digital services, that how much you got directly from the group and how much is there from the outside and what is the roadmap for the digital services? What kind of margins that is there in the part of the business? Whether it is much higher than what the company have reached currently. And what is the roadmap, could you elaborate on that?

Balaji Viswanathan: Yes, what we mean by digital services is that automation related services, legacy modernization, cyber security, performance engineering and performance testing. Then, we also have RPA, as a service, robotics process automation that we have been offering to customers, we have a low code, no code practice, to help customers in building their digital front ends. And along with that small piece of software development as well, because, some of these DevOps and software development comes hand in hand. So, these five or six elements is what we call as our digital services. At this particular point of time,

we have a clearly defined service lines on what we call as digital services, the margin profile while the gross margin profiles are being good because of the investments that we had to make both in terms of attracting the right talent and doing the right invest in tools and technology. The overall net margin might not be the same as what should have been for the other businesses but going forward it should be better than the standard margins that we get for testing services for sure.

Sanjeev Hota: And the roadmap for next two, three years, how much it should execute?

Balaji Viswanathan: We are expecting that, we will probably balance it out at anywhere between 30%, 35% or so 26% is where we are at right now. We started at around 9%, we went up to 15% and now we're at 26%. And we think that we will probably stabilize somewhere between 35% to 40%.

Moderator: Thank you. The next question is from the line of Gaurav Chopra, an Individual Investor. Please go ahead.

Gaurav Chopra: So, I was a bit confused just a while back you told that employees as on March 31st was 1,300 employees approx., but your investor presentation says 1,028, so is the difference like some contractual employees which you don't account for?

Balaji Viswanathan: That's right. So, I had mentioned that when we started off as well, these 250 employees that we are hiring or the hired ones who are trainees are not actually in our roles. They are hired as a contract employee for a period of six months and then after that once they do the full hiring engagement and then they get actually deployed regular, full time employees. So, the 1,300 is including the contract employees.

Gaurav Chopra: Okay, thank you. And the second question if you look at your consolidated results, other expenses jumped from Rs. 200 million to Rs. 230 million year-on-year. So, can you throw some light what is it and how do you foresee it going forward this year?

Balaji Viswanathan: So, the reason is that the classification of expenses is where the challenge is till last quarter, we were classifying the contractual employees or the employees

on contract the salaries for them as part of our regular direct and indirect cost. Now, this time we have actually classified them as other expenses and that's the reason why you're seeing a significant jump in that particular cost, there is no other reason.

Moderator: Thank you. The next question is from the line of Rajeev Rupani, an Individual Investor. Please go ahead.

Rajeev Rupani: This is my first call, sir, I have a follow up question on the dividend. Sir, your shareholders were used to opt high dividend of Rs.24 a share. Now you gave in the year 2014, 2015, 2016 and 2017. So, since last three years, that is 2018, 2019 and 2020 there has been no dividend. So, it's actually disappointing for your shareholders to be used to such a high dividend and getting no dividend for three years. So, are you suggesting that going forward, this Rs.24 dividend per year is a thing of the past, and we won't get the same in future? And a follow up question on cash, now the cash what we have on books, will it be used for giving dividend or buyback, because there's was a buyback in 2019 or an acquisition, please guide us, thank you.

Balaji Viswanathan: Mr. Rupani, we don't have a dividend distribution policy and till now we were not obligated to have a dividend distribution policy but now, we are in the top 1000 listed companies within BSE and NSE, and we are obligated to have a dividend distribution policy, which we are likely to come up with over the next three to six months period. On whether we are going to do the dividend distribution right now or whether we are going to do it later, is something which we have to take a call, at this particular point of time, that is 2020 and till now the last five quarters our focus has been to try and make sure that we conserve the cash. What we will do with the cash is something which hopefully you should hear from us after the next board meeting. And whether it is going to be a buyback or an acquisition, we are open for every other opportunity that we are evaluating at this particular point of time, whether, which one will be the best use of the cash for both the company and the shareholders for the long term due as well. But please bear with us for another one or at least two more quarters. Hopefully, you should get an absolute answer.

Rajeev Rupani: And, I have a last follow up question on number of employees, just now you had said that in by March, 2022 you would be having 1,500 employees. So, would all those 1,500 employees would be permanent employees?

Balaji Viswanathan: No, we have been having the same model that we have been practicing close to 10% or a maximum of 15% of our employees are on contract. And normally we do that for the short term demands and over a period of time, if the employee has been with us for a reasonable amount of time in contract, then we make them permanent.

Moderator: Thank you. The next question is from the line of Shanti Kumar Saraogi, an Individual Investor. Please go ahead.

Shanti Kumar Saraogi: Like, most of the questions have been answered. Just one thing I would like to just suggest because I've been shareholder since long time, I've been listening to the concall. Most of the time, what I've seen is regard to the dividend policy, it has been told that we will take up in the next board meeting, but till now I haven't heard on that next board meeting when it will arrive. I just want to make a suggestion, like at least what we are saying, we try to come up to that, because I've at least heard twice or thrice this thing that we will take this matter on next board meeting, but I don't think it has ever come up. So, I just request at least this matter you sort it out, at least as a shareholder we know what the policies like.

Balaji Viswanathan: Yes, we will do that because now we are obligated to come out of that dividend distribution policy based on the new regulations as well, we will come out with that. And, I would certainly appreciate if you also look at what our current situation has been over the last four or five quarters. Our focus has not been on the dividend distribution, our focus has been primarily to make sure that we are able to conserve the cash. So, that's probably the reason why we have been pushing it because nobody could expect when we will come out of this particular situation.

Moderator: Thank you. We take the last question for the day from the line of Mr. Devang N an Individual Investor. Please go ahead.

Devang N: I just wanted very brief about how we're looking at this Expleo as a company in the next 5 years or 10-year perspective, what is the vision and how are we looking at, how the company would be unfolding, right now we are doing where we are talking about some Rs. 70 crore to may be Rs. 100 crore or may be Rs. 150 crore in the next three years. But then, how would the opportunity that are going to be unfolding and what are we looking at, from a 5-year or a 10-year perspective as Expleo, considering now we have a really good behemoth as a parent since last three years, correct. So, would be really our pleasure to understand that front?

Balaji Viswanathan: Yes. So, the vision is that, now we are an engineering and quality end-to-end service provider. And that's what our focus has been. India is no exception to that. The global parent is looking at growing at a double digit at least from a euro number perspective and we are looking and growing that anywhere between 12% to 15% on year-on-year basis in India across all the entities put together. Our objective is to try and tap into the engineering quality and digital space particularly for the sectors that we have been working on which is banking and financial services which we specialize on and the automotive, aerospace and transportation segments which the group focuses on and we are also getting into other segments like logistics and supply chain, which is also another area which the group is focusing on. So, that's what our plan is, we don't really have a 10 year view but, the three-to-five-year view is that from wherever we are at this particular point of time to be at least 50% more than that at a group level and double our business in the next three to five years in India, that's what the focus is.

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

Balaji Viswanathan: Thank you. Thanks for the interesting questions and the interest in the company. Really appreciate each one of you for logging in. Sorry, if I have not been able to answer all the questions. Keep tracking us, keep supporting us and we'll come back to you during our next investor call. Thank you so much.



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