"Expleo Solutions Limited Q1 FY'23 Earnings Conference Call"

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MODERATOR: **MS. ASHA GUPTA, EY LLP, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Q1 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from EY Investor Relations. Thank you and over to you ma'am.

Asha Gupta: Thank you Faizaan. Good afternoon to all participants in the call. Welcome to Q1 FY '23 Earnings Call of Expleo Solutions Limited. The results and investor presentations have been already mailed to you. And they are also available on the Company's website. In case anyone does not have a copy of press release and presentation, please do write to us and we will be happy to send them to you all.

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

As usual, I would like to remind you that anything that is mentioned in this call, which gives any outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with risks and uncertainties that we face. The risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find it on our website.

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

Balaji Viswanathan: Thank you Asha. Thank you so much. Thanks to all the shareholders and investors and analysts who are there on the call today and for the interest of Expleo. We have had another good quarter and sequentially going in double digits again and year-on-year at almost 45% growth primarily driven by the investments that we made a couple of years back on the digital transformation capabilities and software capabilities and also the recently added data management capabilities as well.

Last quarter, we actually had some one-time expenses, which we didn't incur because we had a higher EBITDA and this quarter we have slightly gone down, but it's still within the range that we have indicated earlier in terms of where we would be, and still above what our expectations are. And primarily because some of the expenses are, we are being a little watchful on where we are spending the money as well. We have had a reasonably good quarter both in terms of new customers, and also in terms of the people joining our Company. And we feel that now from where we are at this particular point of time, with the pipeline and the demand, we should continue to show good results, at least in the near term at this particular point of time.

The global volatility is something which we are watching out. But at this particular point of time, we don't see any major risks because of the inflation and the recessionary, pressures in the

Western countries. And I would like to thank all our shareholders for overwhelmingly voting for the merger on the shareholders meeting that was held on 2nd August, 2022. 99.99% shareholders approving the merger scheme and 100% of our unsecured creditors approving the scheme also.

We are looking forward to continued upward trajectory in the numbers. Last time, we were discussing about the unlisted companies and how we want to show some of those numbers. So, just wanted to give a quick indication on where we are with the unlisted companies for the same quarter. For the listed company, we did Rs. 127 crores of revenue and for the unlisted companies we did around Rs. 85.5 crores of revenue. And in the listed company, we did EBITDA of Rs. 26.7 crores and for the unlisted companies, we did an EBITDA of around Rs. 14.8 crores. The EBITDA percentage is 20.9% for the listed company and a little over 17% for the unlisted company, once again in line with what we had indicated earlier as well. The growth trajectory is good in both cases. In the listed company, we are looking at a year-on-year almost 44%, 45% growth is what's been running so far, and on unlisted companies upwards of 25% at this critical point of time.

So, going forward as well we'll probably try and include this as part of an annexure in our presentation till the merger is done. But we expect that the merger should get done before end of the year.

So, thank you so much and Desikan if you want to add anything more, please do otherwise we can go for question-and-answers.

Desikan Narayanan: Thanks, Balaji. Good afternoon to all. Another quarter continuing with revenue increasing by 12%. We do see a good performance but with the same set of challenges, which is prevalent across the industry is continuing.

I will just brief about quarter-on-quarter and year-on-year performance. Quarter-on-quarter revenue for the first quarter improved by almost 12% compared to last quarter ending on Rs. 27 crores. EBITDA percentage was 21% almost flat compared to the last quarter. Drop in PAT percentage due to the Forex loss during the quarter compared to forex gain in the previous quarter. The cash portion was at Rs. 148 crores, we did have increase in the DSO compared to the last quarter which is majorly due to one of the top clients who went for an internal software change. So, that really created a good amount of backlog from that customer, they are the top customer, We got subsequently paid during the month of July. So, that is the reason is the DSO went up, if I remove that it will come to around the range of 73 days. We are in line with the DSO also.

On the year-on-year, the revenue grew by 45% from Rs. 88 crores to Rs. 127 crores. EBITDA improved by almost 400 basis points ending at 21% compared to 17% in previous years. Basically, higher EBITDA has been contributed by the revenue increase. Our earnings per share also increased by around 34% ending at Rs. 16.74.

Just an update about the NCLT, the shareholders' approval has been received. Now, we are submitting all the data to the NCLT. And they will be doing couple of things like checking with the other agency like ROC to get no objection. From now, it will be more of a procedural thing which will be happening. But that will take its own time, the current expected timeline where we will be finishing it is round November end or December beginning. That's the timeline we are looking at. And once again, thank you everyone for voting in favor of Merger.

We can open up the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Srishti Jain from Monarch Networth Capital. Please go ahead.

Srishti Jain: Sir, could you please elaborate on the key driving factors behind this 12.2% sequential growth, what contribution did we have from Lucid Tech? And, do you think the start set up for a similar growth, like the growth we saw in FY '22?

Balaji Viswanathan: So, the primary drivers for the growth, one is like what we mentioned, the growth on the digital space. But this quarter we also saw a significant increase in our traditional testing requirements as well, so people who have started off their projects in the new calendar year and projects getting into the stage where we have to do some operational testing elements as well. And apart from that, the data management practice or the Lucid practice which we added also contributed to the growth. The revenue from Lucid for this quarter is in the range of around Rs. 8 crores or so, so that also contributed to the growth as well. And in terms of what the trajectory is going to be, like what I mentioned at least for this year, the data management as a practice is a new practice. So, it will show the additional growth elements but going forward our objective is to try and bring in the benefits of the merger. So, the non-BFSI segment and the technology segment and along with that, this data management capability as well. So, our expectation is that we would continue to grow by 25% to 30% range, at least for the next couple of years.

Srishti Jain: Sure sir. And a significant portion of the growth story is the intent from the parent to outsource. So, what was the parent contribution in FY '22 and how do we see that growing in the next two to three years?

Balaji Viswanathan: So, as far as the listed entity contribution from the Group, the percentage contribution still remains in the same range of around 20% odd. But however, just like how the other markets are growing at year-on-year (+40%) and quarter-on-quarter (+12%), this particular segment also is growing at the same rate so that it can be clear at 20% range, but as far as the other unlisted companies are concerned, a significant portion of their revenue or particularly the Pune revenue comes from the Group that's been growing in that same range of almost 7% to 8% quarter-on-quarter.

Moderator: Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted to get some details around the profitability of the unaudited arm. And also wanted to get your thoughts around the next two to three years wherein there have been some comments around looking to ramp up India delivery to about 10,000 people. What are the numbers currently, including both the listed and unlisted entity, and how do you see that ramp up over the next few years? Thank you.

Balaji Viswanathan: Sorry, I didn't get the first part of the question. Your question was on the profitability of the?

Manik Taneja: So, you called out the EBITDA profitability for the unlisted business, if you could also help us understand how that business would have done on a sequential basis and also call out the PAT numbers for the unlisted business.

Balaji Viswanathan: Okay, Desikan you want to take that?

Desikan Narayanan: Yes, with respect to the unlisted entity for the quarter, Rs. 85 crores is the revenue and the PAT is Rs. 9.1 crores which is around 10.7%. Sequentially, if I look at both the companies put together for the last couple of years, they were in the range of almost 17% to 20%, the EBITDA percentage. So, that's the trend for the combined entity for both Pune and Bengaluru.

Manik Taneja: Sir, I was actually not looking for the EBITDA margin for the listed arms, I was actually looking for how the unlisted business would have done on a sequential basis, just like we've grown almost like 12% for the listed business, how would the unlisted business have done on a sequential basis?

Balaji Viswanathan: Yes, so I will probably try and take that. So, on a sequential basis, the unlisted company grew at around 6% odd, quarter-on-quarter. And the EBITDA percentage is kind of already covered and from a PAT perspective, the PAT is approximately Rs.91 Million.

Desikan Narayanan: I think you called out that number to be Rs 91 million.

Balaji Viswanathan: Correct, that's the combined thing.

Manik Taneja: Thank you for that. And also if you could share some thoughts around the ramp up for India delivery because there have been some reports where you guys have suggested potential scale up to about 10,000 people in India?

Balaji Viswanathan: So, between the listed companies and unlisted companies be added closer on the 220 odd people in this quarter. And next quarter, along with some of these campus hires and others. We expect that number to go up and this year, we are still expecting that we should be able to add anywhere between 1000 to 1200 odd people during the course of this year. And by 2025 both organic and inorganic put together, we are quite confident that we should be able to get to 10,000 people. So, as of March 31st, we had around 4300, as of June we have a little over 4500 and we should close the financial year by +5000 is what our expectations.

Moderator: Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead. Line for current participant has got disconnected, we'll move on to the next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: Congratulations on superb numbers. Just the first question, I missed the guidance for the revenue growth for this year, if you could just repeat that Balaji, please.

Balaji Viswanathan: So, Rajesh we don't have guidance as such. But our expectation is that last year, as of March 31st, all the three entities put together we did around Rs. 750 crores. And this year, we think that we will probably be closer to around Rs. 850 crores.

V.P. Rajesh: Rs. 850 crores okay. So, sequentially, do you expect this revenue growth to slow down a bit is it?

Balaji Viswanathan: So, the listed company is primarily because of the exposure to other markets. And also because of the addition of the data management capability is growing sequentially at close to +12%, but for the unlisted companies, the organic growth has been in the range of 5% to 6%. And we expect that both put together we would be in the range of around 20% odd.

V.P. Rajesh: And then can you share Balaji, what was the revenue growth for the parent company in this quarter sequentially?

Balaji Viswanathan: Yes, parent company, so we don't have, because this is actually a vacation time and plan. So, we don't have the finalized number. But in line with what Rajesh had mentioned in the previous this one, and also the guidance that they had published in the guidance with, we should be in that €1.205 to €1.21 Billion Euros is what our expectation was close to calendar year.

Ralph Gillessen: Hi, everyone. Ralph Gillessen speaking, I just want to confirm that even we see a healthy growth approx. 20% for the current fiscal year at the group level and going across all the different market segments.

V.P. Rajesh: That's very helpful. So, question Balaji, given what we are hearing about Europe, either being in recession or going into recession, and obviously the banking industry getting impacted. Where is this growth coming from for us? it seems like parent is doing very well. And so, are we especially on the BFSI side? So, if you can just share your thoughts on that, sort of counter-trend growth that we're seeing.

Balaji Viswanathan: We're still seeing the growth from our traditional client base only Rajesh. As of now at least, we haven't seen a big slowdown, because most of the digital spends or people who are trying to do the transformation they haven't really slowed down as yet. But we are keeping a close watch as of now we haven't seen any reduction or reduce spending or stopping of any projects at this particular point of time. It is coming from the traditional segment only. Like what I mentioned, the focus has been primarily on the software development, data and DevOps and automation and that's where we are seeing the growth as well.

Moderator: Thank you. The next question is from the line of Udit Bokaria from Catamaran. Please go ahead.

Udit Bokaria: Sir, if you can just highlight like I saw that the North American revenues have grown substantially quarter-on-quarter. So, if you can just tell, which was the client which helped you and what is the kind of project that you're doing?

Balaji Viswanathan: So, the North American growth is primarily driven by our newly acquired data management capability, which came from the Lucid Tech, because all their clients are actually in the US so it is close to around a million dollars, is what the revenue and that's the reason why you're seeing North America for the first time in double digits.

Udit Bokaria: Understood. So, it's primarily driven through inorganic is that right?

Balaji Viswanathan: Perfect.

Udit Bokaria: Okay. And sir, can you just repeat like you mentioned, what's the FY '23 total consolidated revenue target?

Balaji Viswanathan: So, we don't have a target or a forward-looking statement, but we expect that we should be in the range of around Rs. 840 crores to Rs. 850 crores.

Moderator: Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

Rohan Advant: Sir, in your press release you said that the margins are lower than the last quarter, but it is above our expected range of 18% due to timing of some of the expenses. So, can you elaborate on that, are margins higher this quarter because of timing, or they are lower because of timing of expenses and what is the timing of expenses pertaining to?

Balaji Viswanathan: So, two parts to this. Last quarter, our EBITDA is around 21.9%, primarily, because some of the expenses that we were to incur got pushed out. One is, of course some of the marketing spend, the other one was on the merger related expenses. And this quarter also, we didn't spend some of those and we expect that some kind of a marketing spend will actually hit us. Because we're doing some global campaigns, you might have seen us more active on LinkedIn and Facebook and others. So, there are some spends, but it's not a significant number, it will probably be around a couple of crores. We are being prudent on what we are spending now given the current inflationary trends. So, even at a global level as a Group, we are trying to relook at what we're spending on. And so that's the reason why the margins are slightly higher, but the selling expenses are lower than what we are expecting right now. As we start spending more for increasing the pipeline, it will go back to that range that I talked about.

Rohan Advant: Got it. Sir, and secondly on the unlisted subsidiaries, we've done Rs. 85 crores this quarter Q1 FY '23, FY '22 we were at roughly Rs. 350 crores. So, if you just look at a quarterly run rate for FY '22 that is upwards of Rs. 85 crores. So, this looks like some kind of a lower, so was it lumpy in the last year that when we had those big contracts in unlisted sub the revenues were very high and not so in Q4. So, we are calling out the 6% growth sequentially, but that is looking low if you look at an annualized number versus last year?

Desikan Narayanan: So, one aspect of it is that last year, if you see the growth compared to the previous year, and last year, we had a substantive growth because one of the project on the plastic which we got. It is a big contract what we had and also we had some expenses because of that, we invested in the capability. Now, that project has gone into a BAU mode, and also we are getting similar business in the same capability. But it is all smaller contract which has come in. So, we will definitely not having the same level of growth which we had in the previous two years to this year. So, that is kind of slowing down. So, the increase will not be to the extent but it will be in the range of double digit is the current view of the unlisted companies.

Rohan Advant: And that double digit is including the contract in the base right, like our base was Rs. 346 crores for unlisted subsidiaries.

Balaji Viswanathan: That's right.

Rohan Advant: And sir, lastly, can you just elaborate on what exactly do we do in data management, which is the new vertical, if you can elaborate on that, thank you and all the best.

Balaji Viswanathan: It's primarily what we do in the data management space is what we call it as data governance, data cleansing, or data quality verification, and some amount of augmented analytics. We don't do business analytics, we don't do customer insights, but primarily around, how the data is stored. How effective the data is, and helping our customers and governing their data, because there are leading global platforms on the space and we are partners with them to do this work.

Rohan Advant: Sir, in that case Lucid's capabilities, can it be extended to our client base, and there is a cross sell opportunity that exists for us?

Balaji Viswanathan: Yes, absolutely and even we have already started that, we already have one customer from our existing customer base who have been cross sold with a data management capability. And that's the primary leverage as well. It's not going to be standalone. That's why it's been integrated right from day one.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is on the listed entity, so, if we remove the Lucid portion, the quarter-on-quarter growth seems low single digit which will be lower than our expectation. Is my understanding correct and same for the customer edition? So, this quarter, we only added like four net customer 100 to 104. Last four, five quarters we were adding like 10 customers. If you can talk about these two points on listed entity?

Desikan Narayanan: With respect to the increase from the last quarter to the current quarter of course Lucid had made an impact on it. If I look at it, out of the 12%, it will be in the range of 6% to 7%. 6% to 7% will be the Lucid contribution and balance will be other than Lucid increase. Even though it generally starts slower, and we tend to grow in the subsequent quarters is the way our trend has been. On the other aspect of it is, what was the second question you asked?

Balaji Viswanathan: The number of customers, why is the number of customers is four is primarily because, as of now the Lucid customers are considered as just one because we are still innovating the customer contracts. So, not all the customers of Lucid are considered as new customers because they were existing in Lucid. So, that four customers are actually from the organic business growth, not because of the inorganic numbers.

Aman Vij: Yes, but even on organic side, last four, five customers for every quarter. So, four seems lower, let's remove Lucid, so that was my question.

Balaji Viswanathan: So, see it's a cycle. It's not that every quarter we would be able to add 10, 12 customers. Because, at the end of the day, we need to consolidate and make sure that we are growing with the customers as well, because it's always a cycle. Most of the new engagements start either in the first quarter or in the last quarter, because that's when most of the customer engagements, or the customers start new engagements within their profile as well. So, that's why you don't see a lot of new customers. Our target is to add anywhere between 12 to 15 new customers in a year. And we are well in target for that.

Aman Vij: And this number 12 to 15 customers per year addition is enough for that target you said we want to grow over the next couple of years at 25%, 30% CAGR?

Balaji Viswanathan: Absolutely, because it's the question of not just adding customers but also growing with them as well so.

Aman Vij: Sure, sir. Sir, second question is on the unlisted entities. Can you talk about the customer addition in the unlisted entity for Q1 as well as what is the total customers and maybe even a number of customers which are like above $1 million for us?

Desikan Narayanan: Currently, I don't have that data. Maybe, I can share with you on email or something. That I will do it.

Aman Vij: Sure, sir. Final two questions. First, if I look at the revenue per employee, for our Company versus the other IT companies, it seems a little lower at around Rs 2 million per employee versus some of the company will even do Rs 4 million. So, do you expect this number to go up over a period of time for our business as such, and maybe Rs 2 million and Rs 2.5 million is a good number for a business like ours, if you can talk about the same?

Balaji Viswanathan: From a services business perspective, anywhere between Rs 2 million to Rs 2.5 million is a reasonably good number. Unless you have products and IP and a whole lot of other high margin business that you do, as we start growing in our data and digital capabilities, the Rs 2 million probably can go up till the Rs 2.5 million. But what we are tracking is a combination of not just revenue per employee, but also profit per employee and also the EBITDA margins as well. So, we are in line with what the typical industry tracks, we are slightly above some of our peers if you look at who are focused on digital assurance and engineering services.

Ralph Gillessen: As we are even at a group level tracking even when revenue and even the net contract capability and region. And if you then see an increase in digital services that are typically coming with a higher average revenue per day. And revenues tend to be in Asia Pacific, Middle East and Europe, this is where we are planning to increase even then the revenue by capability and business, something that you can calculate backwards into the revenue.

Aman Vij: Sure, sir. On the e-R&D side, you have talked about once, most of the customers are in Europe only. And once we are able to sell the services directly to other regions, the margins can improve. So, has that process started or by which quarter do you expect that process to start?

Balaji Viswanathan: So, we have started the process, but it will take some time because the capability that we need to build in each of the markets, including the sales team's capability as well. But the process has started, we'll probably start seeing results in 2023 onwards. Sorry, Ralph, you want to add?

Ralph Gillessen: And even when you look at the unlisted company, I think we have had a significant contribution from the Group or even then especially from the European markets, and we see that we are onboarding and working more into global delivery. We have the six-to-nine-month sales cycle, and even then better transition period based on probably what we already have in the portfolio. We are definitely working even better on the execution but perhaps including sales cycle for new opportunities. And even when transitioning work is due, you will even see the impact and definitely always after a period between 9 and 12 to 13 months. When we look at the portfolio, I think we kind of share the figures. We are not starting from scratch. But there's definitely a strong push and a strong focus from the Group perspective, especially from the European countries and on the strategic lever.

Aman Vij: Sure Ralph. Balaji just final comments. So, when we talk about our long term aspiration of 25% to 30% CAGR on one side and then the other side last year we did Rs. 750 crores and you are talking about Rs. 840, Rs. 850 crores which is 19%, 20% so this kind of dual signal. So, for this year you think the growth will be lower than our long term average. If you can talk about the same because 25% to 30% on Rs. 750 crores is close to Rs. 900 crores plus so are we being conservative or do we think this year is a little tough so maybe even 20% is a good growth?

Balaji Viswanathan: Not really, actually what we have talked about even in the last three, four conference calls before the merger was announced that we were expecting the technology services business, which is the listed companies business to grow at around 25% odd year-on-year and that too it's been going at that rate only for the last close to around eight quarters or so, and prior to that we were actually in single digit. We were in the high growth orbit and we'll continue to do that and once the mergers happens as a larger entity, the base also gets large. So, obviously, that's the reason why the number goes down to 18%, 19%. But I think it is still above the industry average.

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

Rajesh: I just wanted to understand that you have mentioned about 10,000 employees, is it by FY '25? I just couldn't get that.

Balaji Viswanathan: Sorry, I didn't get you.

Rajesh: You mentioned that we are targeting about 10,000 employees. And this is by which year?

Balaji Viswanathan: By end of 2025, December 2025.

Rajesh: Okay. And what is the attrition rate at the moment?

Balaji Viswanathan: We are at around 28%.

Rajesh: That's pretty high even as per the industry standard so are we doing anything to take care of this attrition?

Balaji Viswanathan: Absolutely, yes that's our top priority as well. So, it was around 30% odd last quarter. From that it has come down to 28%. so it's the question of how you calculate it. We calculate everybody who is coming and who is exiting the company. Each company does it in a different way. But for us, we want to be absolutely clear on where we are losing money, or where we are losing our people. And all efforts are on to try and figure out how do we retain our people.

Rajesh: And are we also working on artificial intelligence and electric vehicles platform per se in any of the subsidiaries, do we have that kind of work either through development or through….

Balaji Viswanathan: Of course, AI is part of whatever we do, both in the data management practice and also in the digital assurance practice as well, and electronic vehicles is something that we work with most of our customers, Ralph you want to add anything more?

Ralph Gillessen: I could probably add a few words on this. And we've seen it on different levels. One is definitely that we are even developing our traditional quality assurance, quality engineering services into a more cognitive or predictive and quality engineering approach. And there, we even see where and how we can inject machine learning, AI components, especially when we even and how we can even introduce many activities as much as possible in digital business. In addition to business quality mentioned, we are doing it and even then especially based on the new and recent capabilities for everything we are trying to understand with our customers and even then coming up with business with this rule based and even predictive approaches there. And the third is we are having in the central R&D department that we're even having in our headquarters. We have it there especially at the IoT side for both avionics and aero, some R&D projects together with our main customers in both of the industries, where we are even working in the R&D spaces on some concepts firstly, you all know our large customer base and the top customers, the top car manufacturers and aero companies. We are working there jointly on some of the R&D project. So, we are covering both from the more traditional services approach and even really going straight into new technologies.

Moderator: Thank you. We'll take the next question from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

Rohit Balakrishnan: Sir, I've just had one clarification, and previous call also asked it, so just wanted to confirm. So, earlier in the call, and even earlier in AGM as well you mentioned that we probably grew at a much faster rate around 25%, 30%. The next couple of years, and just by using simple arithmetic, that will make us cross Rs. 900 crores on the base of Rs. 750 crores, if you take a 20% kind of growth. So, I just wanted to sort of get that clarity if that's, am I doing something wrong or am I reading something incorrectly or if I heard something wrong so just wanted that clarification first. And then I have just one more small question.

Balaji Viswanathan: No, Rohit what I mentioned this in the past as well. So, what we were expecting is that the listed entity, which has been the Rs. 400 odd crores range last year will grow at around 25% odd close to crossing the Rs. 500 crores mark. But the unlisted companies last year they had an unprecedented growth, because one of the last projects that came in, and this year there was because of the unprecedented growth obviously it looked like as a growth of around 50%, 60% only last year, but they will continue to grow in high double digit. And that's why the combined number is going to be around Rs. 800 crores, Rs. 850 odd crores. So, that's what we mentioned. That's the reason why we talked about the rate and figures number. So, we are obviously looking at seeing whether we will be able to exceed that number. But that's what we are working as our internal guidance. It's not a forward looking statement or commitment. But that's what we are looking at and that's the reason why we talked about the Rs. 750 crores.

Ralph Gillessen: We are not guiding the market at the moment over the period of several years with this percentage growth rates. We see the market overall, with the larger players probably growing at 12% to 15%, our guidance is definitely that we are doing better than the benchmark but not even than the one-time effect that was explained by Balaji.

Rohit Balakrishnan: Sure. So, just as a follow up on this, on the engineering services side, given the low offshoring from the parent. And given that as a low hanging fruit, would that not one would assume that the growth there would be continuously strong, given the low base, and as I said, that we have a very strong overall parent at Euro 700, Euro 800 million engineering business, and if they can just increase their offering itself that we make our entity here grow. So, is that the right understanding or is that very simplistic and probably not that right?

Ralph Gillessen: From an internal perspective definitely an important aspect of the strategy and from a group perspective definitely the priority on India, that we even having several other delivery centers, and especially even in Romania when we are delivering with a very large team, and engineering services, especially for automotive customers, and especially the French market and activities only been to one country, given the size and even the capability mix that we have in Romania. India will definitely even now, remain the top priority and even see that we have a strong focus even in on the offshoring or condition of activities through India and especially three large engineering markets in the UK, France and Germany.

Rohit Balakrishnan: Okay. And last question on Lucid. So, can you just maybe share what's driving the growth there, is that some niche area that they're in or if you can just maybe spend a bit time explaining that and how do you see that growing, you mentioned that part of the business should grow very well this year?

Balaji Viswanathan: So, as of now, this is only the first quarter and from a growth perspective, it's been sequentially in single digits, but the objective is to try and see what the synergies are and how we are able to cross sell the services to our existing customers, it will help us in growing faster. So, I will say that, give us another quarter or so for us to assess what's the kind of potential and then there we will grow, but as of now from whatever we expected in terms of the numbers that this business has to deliver. They are certainly above that. So, from last year, what the business that they did, what are they going to do this year, there's at least 25% more.

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

Mithun Aswath: Obviously listed companies have been. I just wanted to understand from that unlisted company viewpoint, once the merger is true, do you see a lot of opportunity for you to go to market together and get clients directly as well, apart from the outsourcing opportunity from the parent and do you see that happening maybe in this year or would that be more in FY '24 and would that then help you propel your growth much higher in FY '24 then compared to FY '23, because Rs. 850 crores or Rs. 750 crores is not even 20%, it's 13%. So, if you could just highlight that?

Balaji Viswanathan: Yes, so the whole synergy of the merger is to try and sell the non-BFSI related segments to other customers in the direct market it is India, Asia, Pacific, and Middle East. However, as you understand, these are knowledge industries, you need to understand the industry, you need to understand the customers better for that you need investment as well. So, that's why we're waiting for the integration to happen for us too, we are already planning for it. We have done some steps towards it. But most of the engagement would actually start only in the calendar year 2023. And that is obviously expected to propel the growth higher than what it is.

Moderator: Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted to pick your brain around the fact that, the parent entity has considerable business on the ER&D side and more so on the auto and the aerospace. If you could help us understand where are we in terms of capabilities in taking up more work for the parent, from India in these segments. Thank you.

Balaji Viswanathan: So, the Group has been outsourcing this work to India for many years now. So, from a capability perspective, we certainly have the capability but the requirement is to scale the capability first. And that's what we are looking at in terms of planning on what kind of work will come and how do we scale that particular capability. There are some niche capabilities like what we talked about on the project that we got last year, which is primarily around a niche plastic technology. There are some core avionics technology and products which the group has got in UK and in Germany. That can kind of scale and capability in India. But that will depend on when we will actually be able to, when the particular work can move. And when we need to build the capability but at least 85% to 90% of whatever the group does. We have the capability but we need to only build the scale.

Manik Taneja: Sure. Sorry for prodding you on this. But if I have to think about this scale up to about 10,000 people by March, 2025.

Balaji Viswanathan: December 2025.

Manik Taneja: December, 2025. So, even if you have to probably scale up to from about 4300 as of March 31, 2022, to about almost like a two and a half times jump by end of calendar year 2025. How much of this growth do you think will come in from the ER&D versus the revenue assurance or the testing piece that is currently bigger than ER&D piece right now.

Balaji Viswanathan: So, right now, the business mix is 70:30, 70% of the business is on the technology services space. And we expect that this probably be 60:40 or 65:35 if we were to continue the growth trajectory across board, expecting that the Group's our business in the engineering segment will grow prior scaling. So, that's what I had mentioned in the last couple of quarterly investor calls. That's what our expectation is, as we scale the business mix is likely to be 60:40 or 65:35 over the next two to three years' time.

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

Srishti Jain: Sir, I just wanted to understand that earlier when we were talking about the merger, you expected the engineering business to grow faster than the listed entity. And that was pre-acquisition, actually pre-acquisition of Lucid Tech. So, now what's actually changed? Are we seeing some slowdown, I understand the base effect coming into play. But other than that, as anything changed in the German and France because we are still expecting to grow at a faster pace?

Ralph Gillessen: It was Balaji and I appreciate all the questions even at the engineering side, we are in the earnings calls for Q1, I understand that you all talking and asking questions for three years, especially even to get a better understanding on the engineering business, we have the activities, we have even this significant growth that was mentioned by Balaji, some of the initiative we generally seem to be in order to slow down in our engineering activities, we see a shift of the mechanical engineering completely away from Europe, especially into Romania from our perspective and into EMEA, and this will definitely continue even due to a significant cost pressure in the market, in addition to the second growth for us is all our aero and automotive around electronic and embedded and very specialized activity is significant on site integration. And other customers and the large, especially auto customers are doing this. In the time in Europe full of uncertainties, pandemic picking up, war in Europe, and even a significant energy today, no one knows what will be the impact in winter. And that will definitely be especially for the large from the production side, and probably even partly from production pricing or get delivery from Russia. So, we don't see today slowdown in activities. But we see that the customers on one hand side are little bit cautious on even making the long term commitments given the short term challenges that we see in this part of the world, and as we progress significantly and biggest growth segment, especially in electronic and embedded, but even there we see all over the different customer engagements that we are doing this was our Indian. So, probably I just mentioned so we don't see a slowdown in the demand today. There is a shift due to the cost pressure in the mechanical engineering definitely into offshore, significant investments embedded in electronics which require adequate skills. In the delivery centers in India, You know this is still a little bit European. That's what is happening there today when it comes to embedded engineering and there we even see when we can synchronize even there the skill mix even have the chances to grow. But as I said customers at the moment as especially in aero and automotive still investing. But even looking very carefully on what is happening even with the short term challenges. As I mentioned this is specially the energy crisis, this is going to have a huge impact on supply chain and production. And even then on the cash that these companies will generate. And even the pandemic is definitely picking up again in Europe during the winter time.

Srishti Jain: Sure, sir. And sir we've actually won two big contracts would you like to elaborate, throw some light on that, the tenure, the timeline, the kinds of services that we providing?

Balaji Viswanathan: Sorry Srishti, didn't get the point, what is it, big contracts?

Srishti Jain: We won two new contracts in the $1 million to $6 million segment. Is there anything material that we would actually be doing there?

Balaji Viswanathan: So, one of them is actually an existing customer who moved into the +1 million activity and in other words that we are doing, like what I mentioned so this quarter we also got a couple of traditional quality assurance work as well, some significantly larger numbers for one of the customers who are actually moving into core banking transformation pieces. So, that's the reason why this is the increase in the $1mn to $5mn range. And, our objective is to try and create more customers in the $1mn to $5mn on to $2mn range, which will actually become the $2mn to $5mn over the next year or so, that's what our expectation.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Sir, on the digital revenue front. So, we have done quite well over the last couple of quarters. We had an aspiration to take it maybe even at 45%, 50%. So, is there, maybe this quarter, you got more traditional customer, but is the trend towards that, by the end of this year, we'll move to 40%, 45% digital, or if can talk about the same?

Balaji Viswanathan: Yes, we expect it to be around 40% by the end of the year, what we are seeing and that's the segment which is growing faster than the other segments as well. So, that's where we see customer demand, not just from our own customers, but also from the group as well.

Aman Vij: And the aspiration is still towards may be in next couple of years to take it to 45%, 50%?

Balaji Viswanathan: That's right. So, this year, we should get closer to the 40% range. And the expectation is to get closer to the 50% range or 45% to 50% range in the next couple of years.

Aman Vij: Sure, sir and on the Europe front, if I see this quarter was little soft. So, was it just one off or are we seeing some impact of recession because the other geographies - Asia and North America did quite well, I'm talking about quarter-on-quarter but Europe seems to be going down a little bit. So, was it one off this quarter, even next quarter you are seeing some slowdown in the Europe part?

Desikan Narayanan: So, it is more from an overall change in mix, so if the mix change even though value wise it has grown but because of the mix change, you see that percentage changing.

Aman Vij: And value wise also it has gone down quarter-on -quarter, from RS 57 crore to almost Rs 56 crore for the quarter so?

Desikan Narayanan: I am not seeing any value, we don't see that because we only display percentage in the presentation, the revenue by region that is more a percentage mix what we give.

Aman Vij: But if you calculate the actual numbers, they seem to be slow down but you are not seeing any slowdown in Europe that is the question**?**

Desikan Narayanan: No, as of now we don't see any slowdown.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to the management for closing comments.

Balaji Viswanathan: Thank you so much. Thanks once again for all the interest and the questions. And I hope we were able to answer most of your questions. And hope to see you all in the next investor call. I wish you all a very Happy Independence Day and stay safe.

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