



“Expleo Solutions Limited Q2 FY ’23
Earnings Conference Call”

November 11, 2022



**MANAGEMENT: MR. BALAJI VISWANATHAN – MANAGING DIRECTOR
& CEO**

**MR. DESIKAN NARAYANAN – CHIEF FINANCIAL
OFFICER**

**MR. RALPH GILLESSEN – CHAIRMAN &
NON-EXECUTIVE DIRECTOR**

MODERATOR: MS. ASHA GUPTA, E&Y LLP – INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Q2 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 E&Y Investor Relations. Thank you and over to you ma'am.

Asha Gupta: Thank you Rutuja. Good afternoon to all participants in the call. Welcome to Q2 FY '23 Earnings Call of Expleo Solutions Limited. The results and investor presentation have been mailed to you and they are also available on the Company's website. In case anyone does not have a copy of the press release and presentation, please do write to us and we will be happy to send it 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 then 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 on our website.

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

Balaji Viswanathan: Thanks Asha. Good afternoon everybody. Thank you so much, pardon us for a couple of minutes delay trying to get connected. Thank you so much, once again for your interest in Expleo Solutions and for participating in the call. We have had a reasonably good second quarter for this financial year as well. There has been growth across all segments, we still see a reasonably good pipeline of course the customers are getting a little more cautious in terms of what kind of opportunities are coming in the way and also how long term of the engagements are going to be. So, there's a little bit of caution, considering the kind of macroeconomic factors that we are facing. However, we don't really see that, or we are not ready to call that as a slowdown yet, we are still confident that the digital transformation journey which all the customers have embarked on is still going to continue and the opportunity that we have and the kind of capabilities that we have built, we'll still be having a really good traction from the business activity perspective.

We have been focusing on people, that's one of our biggest challenges in the entire IT industry, both in terms of attrition and in terms of recruitment. We are also looking at making a bigger investment in 2023 considering the kinds of opportunities that are likely to come by and probably some are similar to what we did in 2021, where we had more than +500 graduate hiring's that we did this year, 2023 we may probably do something similar, as well while the 2022 slowed down a little bit in terms of hiring because we had significant number of resources who were to

get billed. We also had some amount of attrition numbers. I'm sure that there'll be another question on that. The reason why the attrition numbers are higher, primarily because we were also looking at the cost and people who are not getting billed. We have more of an involuntary attrition where the capabilities are not matching what our requirements are. And apart from that we also had quite a bit of CSR activities, which we did in this quarter, focusing on both environment and education, the merger of the entities, there have been some progress with some of the NCLT getting and we still hope that we should be able to complete as per our rolls and schedule of December, 2022. That's all I have as an introduction, Desikan, over to you, for you to go through the detail financial.

Desikan Narayanan: Thanks Balaji. Good afternoon to all. Another good quarter with the revenue reaching Rs. 131 crore and EBITDA 22%. We take you through the quarter-on-quarter and half yearly performance. Quarter-on-quarter revenue for the quarter improved by 3.6% ending Rs. 132 crore against Rs. 127 crore last quarter. EBITDA percentage is 22% and which is an improvement of 117 basis points. PAT almost the same as the previous quarter ending at 13.9%. On our half yearly performance showed a growth of around 39% in revenue, EBITDA in value grew by almost 65% against previous quarter, majorly contributed by revenue growth it cost, majorly contributed revenue growth in the cost not being the same as what previous percentage on revenue is. The earning per share improved by 45%, ending at Rs. 33.9 and on the update on merger process currently for the unlisted companies it is the official liquidator of each state has to submit the report to their respective NCLT once that is over NCLT of those states will take into consideration before the pronouncement of the order. With respect to NCLT, Chennai, as a process they have sent it to the other regulatory authorities for the representation, if any. The next hearing is around 12th week of December. So, we expect it all to close by end of the year, we're keeping our fingers crossed.

And one major update is on the DSO, last time to this time, the DSOs was almost one day drop. The major reason is, as mentioned last time, we had one of the clients which had internal system change, due to which the payment got delayed. We do see the same spillover during the quarter. Other than that, couple of clients in India and Middle East we had some delay in payment which we expected to receive it by this month. So, overall, the target and expectation is to further reduce the DSO in this quarter. So, that is the overall update about the quarter. Now, we open the floor for questions. One thing is that, Ralph joined the call, is it true?

Moderator: Yes, he is connected.

Desikan Narayanan: Asha can you just introduce him please?

Asha Gupta: Yes. So, we have also Mr. Ralph Gillessen, Chairman and Non-Executive Director of Expleo Solutions Limited and Global Executive Committee Member. So, we will now start the Q&A session. Thank you.

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

Abhishek Singhal: First question, there has been a sudden increase in loan which was of Rs. 19 crore in March and it becomes Rs. 61 crore in September. So, give details and also you have given loan to your group entity for how long and when you will take it back. And second question, is there any CAPEX plan for FY '23 and FY '24 and where do you use the cash you have. Thank you sir.

Desikan Narayanan: Thanks for the question. With respect to the loan what we talk about is that there is a group cash pool what is maintained in the group. So, from the subsidiary company we do, we do transfer the money into the cash pool. It is more from an investment perspective we move it to that cash pool, which gives us a better interest compared to what we are having it in the bank account. So, if you look at the bank account with respect to geography, we don't get much of interest out of it. So, that way we see that it's a good opportunity for us to earn a better interest, that's the thing which we have fulfilled and we have opted some of the cash excess surplus cash what we have in there, so that we get the better interest.

Abhishek Singhal: And for how long term?

Desikan Narayanan: This is a very short term, if you look at it, this cash I can get it in one day's time, actually the agreement is within three days we can get the cash back. So, there is no term for this transfer of cash, we can get it at any time. So, it is on demand kind of investment what we have, so that way we feel that it is safer and also interest is also good. And your second question I missed, about capital investment, right?

Abhishek Singhal: Yes.

Balaji Viswanathan: We do have plans of capital investment primarily from expanding our capacity, we are running short of capacity in Bangalore, we may also find requirements in 2023 in Chennai as well. So, we are making some investments, we are not going to buy anything, but it's primarily around leasing and some amount of investment for making a particular place. And the other investment that I talked about, which we mentioned earlier is on the people that we are planning to hire graduate trainees in a similar scale as what we did in 2021 around 500 to 600 people over the course of the year not in a one shot and there will be an investment for training them and up skilling them as well. So, these are the bigger investments that we see at this particular point of time.

Moderator: Thank you. The next question is from the line of Romil Jain from Electrum PMS. Please go ahead.

Romil Jain: Sir, I just want to understand how is the US business doing and what is the plan there, how can we scale up and some targets effect?

Balaji Viswanathan: So, on a talk though basis almost in all the investor call we have mentioned, US is of course an important geography but we are not looking at US at this particular point of time, because we have an opportunity to acquire significant amount of investment and we will plan our engagement in the US in line with that the group also looks at a larger acquisition and market

plan into the US. At this particular point of time, what we did a data management acquisition couple of quarters back and that is what is contributing to the growth. From the earlier single digits that we had in the last year. Now, we are close to around 13% of our business is coming from US and we expect that it will be 13% to 15%.

Romil Jain: Okay. And sir, if you can just help me with guiding on the consolidated margins post the merger is complete where do we stand, on a more sustainable basis and lastly, just on the digital part of the business if you can just explain how is it different from what you were doing earlier and for the entire digital aspect?

Balaji Viswanathan: Desikan you want to take the post-merger margin?

Desikan Narayanan: Post-merger margin we are expecting an EBITDA we are looking around 16% to 18% what we are looking at for now.

Romil Jain: Sorry sir, how much can you repeat that?

Desikan Narayanan: 16% to 18%.

Balaji Viswanathan: And from a digital transformation is from the earlier way of primarily focusing on functional and manual testing we have done a transformation over the last five years moving into DevOps automation. We also started with some of the software development as well primarily to see what we added and the legacy modernization because most of our customers who have legacy platforms moving from those platforms into the newer platform we are supporting them and both configuration, testing, installation moving in the cloud all those are the ones where we are focusing, that's what we classify as digital.

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

VP Rajesh: Balaji if you can share the numbers for the unlisted entities which are going to get merger how did they perform in this quarter?

Desikan Narayanan: I will take it up Rajesh. In quarter two, they had a revenue of around Rs. 95 crore, and an EBITDA of around Rs. 18 crore, which is around 19% EBITDA.

VP Rajesh: Okay, great. And then the second question is, since Ralph is also on the call, what is the group's plans for growth in calendar year 2023, given the macro condition in Europe is being described as very challenging, I'm just curious as to what kind of growth opportunities we are looking at the group level?

Ralph Gillessen: First of all, good morning everyone. Hello, it's still good morning at my side here. And, growth opportunities on the one hand side of things, as we are generating significant revenue at the group level in Europe, there are certainly some challenges, energy crisis, war in the Ukraine, and

that is definitely creating a market environment that is challenging on the one hand side, but on the other hand side, we see in the industries we are in at a group level, and it's significant part is aero and defense. And even in the automotive sector, we don't really see a slowdown of customer investment in digitalization. We stay still in the automotive sector a strong shift into the software enabled cars. We see a lot of effort in terms of robotics, to even streamline and digitalize processes even in the Aero industry. So, from an investment perspective, and this is even confirmed by our customers, that we do not see a slowdown in their investments on all what is around digital. And we even see they are still going into their normal cycle even to develop new products, new cars, new aircraft, we can even see that there is still good demand and they're very cautious on the one hand side, decision cycles will be shorter even though sometimes some shifts even before even contract will be awarded. But overall despite the overall macroeconomic climate, we can see quite a lot of confidence with our customers that they will continue on their transformation strategy, even besides the banking and insurance segment that was already covered by Balaji.

VP Rajesh: Just a quick follow up, what kind of revenue growth are you expecting in calendar 2023 at the group level?

Ralph Gillessen: At the group level, this year a growth of around 25% and we are even expecting that we will outperform the market in 2023 so that we all can expect even there is a growth that is definitely closer to the 20% and the 10%.

Moderator: Thank you. The next question is from the line Dipen Shankar from Trustline PMS. Please go ahead.

Dipen Shankar: So, firstly wanted to understand, how has been the order book pipeline for us specially in Asian and European markets?

Balaji Viswanathan: So, Dipen the order book is not very different than what we had when we started 2022 as well. So, normally our customers actually give us orders for the maximum period of one year and then they keep renewing it as we go through the transformation, a few of them which were multiyear but mostly it's all in that six months to one year range and where to look at, where we are going to start our 2023 at least 70% to 75% of whatever we were doing in 2022. We'll have a confirmed outlook, we still need to add the growth that we are targeting to do in 2023 as well, but at least 70% of whatever we would be doing in 2022. We should be having an order book for that in 2023 and we need to keep adding the same thing, most of it would be renewals and then we need to add on top of the growth that we plan 2023.

Dipen Shankar: Okay. So, what are the reason specifically for digital revenue, which has dropped by around 3%, so are we seeing some slowdown in that segment specifically?

Balaji Viswanathan: No, we are not seeing any slowdown at all, it's just the base is growing. So, it's not the same base as what it was earlier. So, last year we could double from where we were obviously, the base has also grown in terms of actual numbers, the absolute numbers are growing and

significantly growing as well, much more than our normal growth percentages are. But in terms of percentage from last year or last quarter, is lower because the last quarter base has become bigger. So, in terms of absolute numbers, we are growing and that's where we see most of the actions as well.

Dipen Shankar: Okay. So, earlier we used to get for Q-on-Q growth of 7% to 10% so currently we are running lower at that level, so are we still maintaining that 7% to 10% Q-on-Q growth for the remaining quarter?

Balaji Viswanathan: Q-on-Q 7% was for what we did earlier, what we did last year so the same base effects, you have to look at absolute numbers, the numbers will be significant enough, but obviously the previous quarter numbers are higher. So, adding 7% to 10% quarter-on-quarter would basically mean that we will grow at almost 60% in the year. So, that's not the ambition at least at this particular point of time to grow. Our ambitions are in the range of 25% to 35%. So, for that the current growth rate at what we are projecting around 4% and that to some of it is because of also the Euro depreciating against the rupee or the dollar as well. So, that also is playing an effect because we have a larger Euro exposure as well. So, other than our target is to do anywhere between 4% to 5% quarter-on-quarter.

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

Anuj Sharma: I have two questions on capital allocation. One is we have given the loan to the parent, as per annual report at 4.4% plus LIBOR. However, when we see the interest from related parties, it's a 1% yield. So, just trying to understand where is the gap of actual yield versus the intended yield?

Desikan Naryanan: Maybe I just need to calculate because if you look at the interest rate what you have taken based on the current market condition what we are doing and whatever we have given it based on the LIBOR.

Balaji Viswanathan: Anuj we also need to look at when the loan was actually disbursed and what is the timeline as well so it is not that the entire quarter.

Anuj Sharma: No, I am not talking about the quarter. Balaji, I am actually talking about the year, so FY '21 opening balance was Rs. 19 crore and ending was Rs. 19 crore and the interest received is roughly Rs. 2 million sorry, so it's 1%.

Desikan Narayanan: Whatever the loan what we have given, that will remain till end of last quarter. So, prior to that, it was more an FD interest which was laying in Indian bank which you have been getting to term loan, short term kind of a fixed deposit what we kept. Now if you look at it, the surplus amount what we had in the subsidiary bank accounts which never used to get any interest. Whatever the surplus now we are putting it in the cash pool for the group which is now getting this LIBOR rate. So, it's only two to three months old kind of a thing. So, that way you can't compare it with

a year number with the three months, if you look at our interest income compared to, that has increased from last quarter to this quarter. But again, that is the thing which we can see it has been comparing with the whole year. I don't think that we can do that in a yearly thing. we are going to continue it further down the line, then it makes sense. Otherwise, this is a very short-term kind of timeline to check on that.

Anuj Sharma:

Okay. Balaji, Desikan sorry I'll reiterate the interest is 1% for FY 2021-22, for the whole year, but we'll come back on that. My second question is, look we have been reluctant to give dividends for the past three years FY '19, FY '20, FY '21, in fact four years, and we have prioritized our loans to related parties over dividend to shareholders. So, what's the thought process over here, the loans are now 20% of net worth yielding just 1% and how is the independent directors really comfortable with this?

Desikan Narayanan:

One thing is, technically it is because they are putting it as a loan, actually I'm not seeing this as a loan. And seeing this as a parking of Company's surplus cash in a place where I get better interest than what I did it in, that's why I look at it, maybe since because the way it is mentioned it as a loan, it is not actually loan, it is more for my side, it is more a parking of Company's surplus cash. So, that way even the independent directors looked at it. We are not, I don't want to compare it with the dividend what you're talking about, because currently if I look at it, I have the surplus cash, because any time in three days' time I can get back the money. So, that way, I can't compare this as a usage of Company's cash for a loan, I see that as a usage of Company's cash, the surplus cash on better interest. So, that way, I don't take that as your comparative as a loan is not something which I am looking at it, we are looking at it from a perspective of using the surplus cash for a better interest, rather than using it for a loan, for a M&A or paying dividend, that comes with, even currently I have that money. So, there are two visions that are completely different from each other. So, that's something which I want to tell you.

Anuj Sharma:

Alright, and just one follow up Desikan. So, why aren't we getting money back to India and deploying it at a higher interest over here? So, again it's basically a capital allocation decision, which I'm not really sure how the management and the board is thinking about it. But really, it's a sub optimal capital allocation decisions, the capital of the surplus cash has been deployed.

Balaji Viswanathan:

Not really Anuj, because like what I mentioned earlier our exposure is not on US Dollar, US Dollar is the only one whether it is pound or whether it is euros. If I were to actually bring that money back from countries into India, in the last six months, we would only ended up losing rather than and we keep it there for a better time it will only help, if we were to do an M&A at a later point of time, similar to what we did six months back and if we have to make the payment in Euro or any other currency it's a better option for us rather than bring the money back to India. That option always exists, but these are decisions that are taken after considering those factors.

Anuj Sharma:

So, Balaji do I conclude the capital which is overseas, we will find it difficult to find its way back in domestic accounts?

- Balaji Viswanathan:** It will come back, if those currencies appreciate and if we find a better return, we'll bring it back like what Desikan mentioned these are all on demand. If you need the money, all we need to do is give 24 hours' notice and within 32 hours, we will have the cash available for us.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from ithought PMS. Please go ahead.
- Rohit Balakrishnan:** So, I have a few questions. One, just one on bookkeeping. So, you mentioned the revenue and EBITDA, can you also mention the PAT for listed entity, just you mentioned it last time, for the sake of completeness, if you can just mention that as well.
- Desikan Narayanan:** Sorry, could not get your question.
- Rohit Balakrishnan:** I was asking basically the profit after tax for the unlisted entities, you have given the EBITDA and the way, we will also give the PAT for the unlisted entities profit after tax.
- Desikan Narayanan:** Profit after tax for the unlisted entity is around Rs. 11 crore.
- Rohit Balakrishnan:** Okay, understood. And at the combined level?
- Desikan Narayanan:** Just to be clear that this is an unaudited figure just wanted to confirm.
- Rohit Balakrishnan:** Just also wanted to understand, we've been talking about coming out with a dividend policy for a while, but not been able to, just wanted to understand what is our thought process as the previous participant also asked, we have not been on the dividend paying this for a while now. And, just as a shareholder while I understand your thought process from optimizing your earnings on these in the short term, but from an overall perspective we've generated close to Rs. 90 crore EBITDA this first half on a combined basis but just generally trying to understand, what is our thought process in terms of we distributing cash, utilizing cash, you can you share some thoughts around that?
- Desikan Narayanan:** So, if I look at it one thing, because we do discuss about it, one aspect is also to be considered is that to get the merger done, that is the one major thing that is happening now by December that gets closed, then we have the combined entity coming in and by the next quarter, we will see that how the overall performance for the year is. So, maybe that is one thing which always is the priority for now for the group and also, that is one of the reason that the decision of how to get the dividend done is something which is been a little postponed for now. Other thing is of course the group is also looking at the M&A activity, to see how we can use the cash better. So, these are the things which is currently going on, but the first priority is get it merged and we are almost in the last leg of things. Hopefully, I'm just keeping my fingers crossed that we would get it done by this year, and we will start the new year with the combined entity. So, that's the current thought process, which I feel maybe Balaji or Ralph can add to that.

- Rohit Balakrishnan:** Got it. No, I think that was helpful. The other question that I had was that Balaji, you're still in the previous call you mentioned 6%, 7% quarterly growth now you are saying 4%-5%, which is still decent, this slight moderation is on account of the macro concerns you see or just, is that the reason one to think for slight moderation, I know it's pretty good but just to, I'm talking about the listed entity right now.
- Balaji Viswanathan:** It's because of the base effects, the base keeps changing quarter-on-quarter and that's the reason why we are talking about it. Look what we talked about in the last two years, we have been growing year-on-year in the range of around 35% and we still continue to have that as our target to anywhere between 25% to 35% that is what our objective is. So, we are not sure whether we like what I mentioned we will have two quarters at a time. That's the kind of certain visibility that we have. And I also mentioned when we started off, that there is some amount of caution in terms of the decision-making process and the investments that the customers are willing to make, but 4% to 5% in my opinion is it still add to that same 25% to 30%.
- Rohit Balakrishnan:** Okay, understood. And in terms of the unlisted entities of this quarter, we've seen very strong growth. So, will this kind of momentum is going on a higher pace, will continue like we are now almost Rs. 100 crore kind of quarterly run rate Rs. 95 crore this quarter. So, on this higher base also do you see those entity also growing at the similar range or they could probably grow at higher rate given what Ralph earlier mentioned that there are areas which are, the overall market is also expanding from a software point of view?
- Balaji Viswanathan:** The way we see Rohit is, we are seeing growth the only thing is that, the engagements are actually shorter term in terms of six months scenario so we have to look at where we will be, because we don't really see any reason for us to have any doubts on that.
- 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 employee strength, what is it today and how much addition are we planning for this year as well as next year?
- Balaji Viswanathan:** So, the combined entity we are at around 4,200 people right now and our expectation is that this year we did not have too many trainees, compared to what we did in 2021, 2023 we are also looking to add a significant amount of trainees around 500 to 600. Our target is to get to a piece of 5,500 next year.
- Aman Vij:** And any target for next year?
- Balaji Viswanathan:** 5,500.
- Aman Vij:** Target for next year, not this year?
- Balaji Viswanathan:** No, not for this year.

- Aman Vij:** So, this it will be around what number sir?
- Balaji Viswanathan:** 4,500 to 4,700. Slightly lower than what we expect, but that was because we had to take a call on cutting down on some of our cost. And that's why you see a bigger number on involuntary attrition or managed attrition.
- Aman Vij:** Sure sir. The second question is mostly to Ralph, there was a news of our parent, ideally looking for selling the Expleo Group, if you can update on that, and what are the thoughts on that part?
- Ralph Gillessen:** First of all, this is the call for Expleo Solutions, I can certainly give them some insights. But understand that it is not an Expleo Group and investor call what I can confirm is that we are having a good relationship with our shareholders. We even saw some news in the market that we were even surprised. Even for the shareholder, what was probably even the speculation in the market what would happen, we know that we're having a very strong support from our shareholder in 2022. And we all can expect the same support from our majority shareholder even in 2023. We are aware that there were some of M&A platforms, some speculations, but there is nothing that we can confirm as an affect.
- Moderator:** Thank you. The next question is from the line of Sugandhi Sud from Incred Asset Management. Please go ahead.
- Sugandhi Sud:** I start off with the performance of the listed entity. If I just look at the geographical trends, what will be the quarter-and-quarter, year-on-year basis. It's very tepid, and I understand that there is just currency impact. So, just at minus 2% sort of number, am I right in calculating that, the constant currency growth would have been in the range of 8% to 10% and as you mentioned that US we've had better traction so I'm just trying to understand 50% of the business is from Europe. So, at the group level, at the combined level our growth is coming more from mining our existing clients or is it what 20%, 25% target we have is it predicated on just adding new clients. And, how's the pipeline looking with regards to that?
- Desikan Narayanan:** On the constant currency, it is quarter-on-quarter the growth is around 1% but, if I look at year-on-year for the same quarter, the growth is around 47%, PAT is 35%.
- Sugandhi Sud:** Constant currency growth in Europe is 1% quarter-on-quarter.
- Desikan Narayanan:** Yes, quarter-on-quarter it is 1%, year-on-year its 47%.
- Sugandhi Sud:** In Europe?
- Desikan Narayanan:** Sorry, you're talking about Europe, I am talking about the overall number.
- Sugandhi Sud:** So, you're saying that.
- Desikan Narayanan:** So, that can be taken under that.

- Sugandhi Sud:** You had a net benefit of currency movements, on your reported numbers?
- Desikan Narayanan:** Actually, it's another way, if you look at the Euro conversion, INR has strengthened against Euro, so that actually has reduced our growth.
- Sugandhi Sud:** So, I'm just trying to reconcile the reported 2.8% growth to the 1% constant currency growth.
- Desikan Narayanan:** On the quarter-on-quarter basis, there are not much of a movement if you see that, I'm looking at a year-on-year same quarter that does make a huge difference. Because if you look at the INR growth is around 35%, if I would look at Euro, it is around 47%. That is the one which I was comparing too.
- Balaji Viswanathan:** So, Sugandhi, if you had to look at it just to clarify, your question is that are we seeing a slowdown in Europe and are we looking at a tepid growth in Europe. No, that is not the case, because as a company we are growing in the range of around +20% year-on-year, of quarter-on-quarter around 4%. If you take the currency effect off, it's probably been around 2.8% or so. But the Europe business which is coming in from the group, and some part of the business that we signed directly with our European customers are also growing at a similar rate. So, we are seeing the same 4% to 5% quarter-on-quarter and close to 20% to 25% year-on-year growth from the European market as well. We haven't seen any slowdown at this particular point of time. But at the same time, like what Ralph mentioned there are customers who are re-looking at some of their projects. And that's why we are looking at it on a quarter-on-quarter basis in terms of how the situation is going to be for the next quarter or two quarters from now, rather than looking at a very long term, because things might change quite quickly.
- Sugandhi Sud:** Sir. And just with regard to your unlisted entities and also, first of all, the headcount numbers. I do understand that there's an element of caution that you're building in terms of headcount addition, but honestly at March call you had mentioned the number of close to 4,300 and the target at that time was for the financial year was higher.
- Balaji Viswanathan:** They want to get to 5,000 this year, which we are not doing right now.
- Sugandhi Sud:** Right. So, I'm just trying to reconcile again with the 25% growth that Expleo Group has reported and the outlook they have, and also the potential for outsourcing that, our Indian entities have from the group itself. So, there's so much growth happening, why are we not trying to capture that and why is the headcount addition did not expect this year?
- Balaji Viswanathan:** The reason why there was a significant amount of, I mentioned earlier as well so last year, around end of the second quarter, early third quarter we hired close to around 500 trainees who all became billable this year. So, that is the reason why the revenue growth is not translating exactly into headcount growth because all those team members were actually getting billed starting from this year. And that was an investment when we did last year, and it will translate and that's why I said, next year we are going to look at once again, hiring another bigger tranche, than what we did this year, and the digital growth also is actually not exactly directly proportionate to the

headcount growth as well. While for any services company, the growth will also have to result in some amount of headcount growth, it may not be directly proportional, we will see headcount growth in 2023 but this year we are a little cautious on how much we want to invest, because we want to make sure that the team whom we hired last year gets billable. Did I answer your question?

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: A little bit confusing when you say constant currency growth of only 1% Q-on-Q, so that is definitely lower than your expectations of 4% right?

Desikan Narayanan: For this quarter, it is lower we have been trying to talk the base. If you look at the base from last quarter to this quarter, last quarter we had a € 15 million revenue. Now it's got to be made of € 16 million revenue. So, if you look at the base for the last three years, two years before we are at the range of around € 8 million to € 8.5 million and then we raised to around € 9 million to € 9.5 million. In the last year, we went up to € 9 million to € 11 million. Now, we are at the range of around € 13 million to € 15 million. So, that way, the growth has phenomenally happened over the last three years. So, now between the quarters, the growth has been lower because of the base what Balaji was mentioning. So, that is something which is really making a big difference to look at.

Hiten Jain: So, then if this base is here to stay, then your expectation of 25%, 30% is quite high right, on this base then you should ideally expect a 5% to 10% growth given what you've done this quarters. So, where is this confidence coming from, this base is here to stay now.

Desikan Narayanan: If you see from quarter one to quarter three, if I look at that it is around from € 13 million, we have increased to around € 16 million. So, that gives us almost 20% growth from the first quarter to the third quarter. The overall for the year, if you see the increase will be almost 30% to 40% will be the growth year-on-year, from the last year number to the current year number.

Hiten Jain: Yes. But I'm saying it's a sequential which will built up your full year number, these are the initial slowdown that is being seen because of base because of whatever challenges you're seeing in the environment. So, I am just trying to reconcile because at one point you are saying that 4% is sustainable, but the delivery is not there. And so which is where I was trying to reconcile the two things.

Balaji Viswanathan: So, we grew by close to 30%, 40% in the first half compared to what we did last year and the expectation is that we would close the year from compared to what we did last financial year to this year, we will be in the range of around 35%. And that's what we are talking about so far in terms of what our expected growth rate is from what we did in 2022 to what we will do in the financial year 2023. And probably I am not able to exactly make up what the question is in terms of? The question is to how you are confident that we will grow by 25%, 35% or are you saying that the sequential growth is not adding up to the particular number I am not able to exactly understand what the question is?

- Hiten Jain:** No, the question is that when you have your expectations of around 25% to 35% growth, then obviously sequentially and you also said that sequentially we expect a 4% kind of a growth.
- Balaji Viswanathan:** 4% to 5%.
- Hiten Jain:** Correct, 4% to 5% and this quarter it was just a 1% growth. So, which is where I was trying to reconcile the two or there is something which has happened this quarter, which you think is not going to be there in the next quarter?
- Balaji Viswanathan:** The only expectation is the currency to be doing better, but there isn't really anything that we are doing. Q4 normally gets a little or rather gets a little slower because of the number of working days and other stuff typical to any other services industry, but we don't really see anything unusual.
- Hiten Jain:** Okay. Maybe I'll take that offline. So, another question was that your unlisted entities obviously there you're seeing a high growth, there also if we can just give us some constant currency and one suggestion would be to give us constant currency metric because that's what all the IT companies do. That makes it easier because currency will not be in your hand it's externally driven, so constant currency is something which the business is delivering. So, if you can give that number constantly it will be useful and the same if we can give for unlisted entities this quarter. And at the same time, what is the group contribution both at the listed entity and the unlisted entity. The last quarter I have which you had given was close to 21% for the listed entity and 45% for unlisted entity, what it is today?
- Desikan Narayanan :** As far as performance is concerned, I don't have a constant currency working on the unlisted company. The total revenue for the quarter is around Rs. 95 crore and the EBITDA is around Rs. 18 crore, maybe I will come back to the constant currency.
- Hiten Jain:** And the revenue share from the group for the listed and the unlisted?
- Desikan Narayanan :** Listed entity the percentage revenue group is around 18% for the quarter, or even for the year if you look at it 18% of the revenue is a group revenue, which actually we directly sign with the group.
- Hiten Jain:** And unlisted entities?
- Desikan Narayanan :** Unlisted with respect to the Pune entity, it is around 85% to 90% is the group revenue and with respect to the Bengaluru entity, it will be around 10% to 15% is the group revenue, that's the combination of it.
- Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.
- Rohan Advant:** My first question is on the margin guidance of the merged entity at 16% to 18%. If you look at it today, the listed entities upwards of 20% and in Q2 the unlisted subs have done 19%. So, we

are already about 18% and with the merger happening shouldn't there be some synergies so why is the guidance at 16% to 18% are we expecting, some more expenses post the merger that should bring it lower?

Balaji Viswanathan: This is only a guidance so I don't want to dwell deep on saying that and we have always mentioned saying that we don't make forward looking statements, this is only the guidance based on what we think will be the first one year of how we are going to integrate, what kind of invest and what kind of engagement we need to have for the first one yet, but of course logically what you're asking is right that we would still like to stick to what we mentioned saying that, that's what our objective is because we see once we merge we could not start generating synergies right from day one.

Rohan Advant: Okay, got it. And the second question is on the unlisted entities Q2 did it Rs. 95 crores, what was it in Q1?

Desikan Narayanan : Q1 was Rs. 85 crore.

Rohan Advant: Okay. And just the last question, to get it right what we are saying is that at the listed company overall level, our constant currency growth, this quarter was 1%, against the reported currency or against a reported growth of 2.8% in INR terms is that correct understanding?

Balaji Viswanathan: Yes.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H G Hawa & Company. Please go ahead.

Faisal Hawa: So, sir this quarter has been the first quarter that our digital revenues have actually de-grown. I'm referring to the presentation made by yourself, it's page number #7. So, we've been actually having super growth in digital revenues whereas this can be the first time you have de-grown so what is the reason behind it. And secondly sir our clients which are above \$ 1 million have fallen from 13 to 11 quarter-on-quarter, and clients from \$ 0.5 to \$ 1 million have also fallen from 17 to 14. So, is this a worrying factor and what is the kind of reason that there could be for this? Second is sir, how many new customer visits that we have had in this quarter for new contracts, et cetera and our parent Expleo is it listed and what is the kind of ER&D revenue that we have on the parent level as a percentage of total revenue. And how much, once the entities are merged how much more outsourcing can we expect, it's 20%, is it possible that it could go to 27%, 28%?

Desikan Narayanan: So, on the customer profile compared to the last quarter and the current quarter we are almost flat because if you look at 17 is same for \$ 0.5 to \$ 1 million and \$ 1 million above 17 and 13, I don't see that as a change and the second thing is the addition of client is around 10.

Faisal Hawa: I'm sorry, I've read it wrong.

Desikan Narayanan: And the client addition is around 10 in the quarter, which has contributed over. On the other questions, Balaji or Ralph.

Balaji Viswanathan: On digital revenue, I mentioned this for another question earlier in the call, digital revenue has actually grown in terms of absolute numbers. If I were to compare it with the last quarter, and because the total revenue has also grown, it shows a 39%, but we still have the same target of crossing 40% this year and getting close to 50% next year. That's not changing and in fact we are not seeing that to be de-growing in any way.

Faisal Hawa: And if you could say something about the customer visits, and also what are the new kind of M&A activities, is it to do more with cyber security which most global CEOs are sighting as a big problem. And how is the company that we acquired, is it leading to many more client expansion or new client additions for us?

Balaji Viswanathan: So, we have multiple customer visits. If I were to look at how many customer visits, I would probably say that we are hosting customer almost every two weeks. So, I don't know the exact number across all our centers. And in terms of what our areas of focus are, it's primarily in the digital space around Automation, Data and also, in terms of what will give us a legacy modernization capabilities as well. Ralph do you want to add anything more?

Ralph Gillessen: From M&A perspective, when you look at the priorities it must have an impact even on our existing markets and not only markets we are not in. We will not consider even on M&A activity in South America or Latin America as we don't have a footprint there. So, it's always a priority on markets, regions we already in. It has a priority on industries and we have diversified with the lifestyle sector at the beginning of it and so now the priority is definitely to leverage within the industries we are automotive certainly banking insurance, life science, and then see from an M&A perspective but it comes with a strong capability around digital what is software engineering, what is cloud, what is data and not only security, it is very special player is really more on how to leverage to support digital activities with our customers, where it even then has an impact on our global delivery capabilities. And we confirmed several times that our focus is and will be in the India on this. So, it is definitely more likely that this will, even that we have a strong impact even then on our business in India. But it must even mean that it brings some leverage in the region and in our existing industries, even beyond banking financial service as you know we are having other business activities and especially after the merger.

Faisal Hawa: What is our total ER&D revenue as a percentage of our total global revenues, engineering and research and development?

Ralph Gillessen: Sorry, can you repeat the question?

Faisal Hawa: What is our engineering, research and development revenues as a percentage of our total global revenues for the Expleo Group that is one. Second, are we a listed entity and third, do we plan to raise outsourcing to India from the current 20%, 21% to at least 26%, 27% once the merger is complete?

Ralph Gillessen: Okay, so don't get me wrong I understood there are only two questions, I'm happy to answer three now but. So, overall, the engineering part is roughly two third of the group business. We are not a listed entity, and we are owned by PE fund, that's a minority shareholder and the minority shareholders still has to stay more as an engineering firm listed at the stock market. And yes, we are certainly considered to bring more of the customer related activity that we are having today and even what we expect in that growth, this will then include delivery from India. So, with the growth, even in the engineering segment, we are expecting there more accelerated growth even in India, as more of the new initiatives will be in a distributed way including delivery from India than the traditional engineering services that were more customer led and more outward. Thanks a lot.

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

Balaji Viswanathan: Okay, thank you so much. Thanks for once again joining the call and asking questions. Hope we were able to answer most of the questions and thanks for your continued interest in Expleo Solutions. Thank you so much and take care and stay safe.

Desikan Narayanan: Thank you.

Ralph Gillessen: Thank you.

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