“Expleo Solutions Limited
Q2 FY ’27 Earnings Conference Call”
November 16, 2026

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Moderator: Ladies and gentlemen, good day, and welcome to Expleo Solutions Limited Q2 FY ’27 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 star, then zero on your touch-tone 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.

Asha Gupta: Thank you, Heena. Good morning to all the participants in the call. Welcome to the Q2 FY ’27 Earnings Call of Expleo Solutions Limited. The results and press release have already been mailed to you, and you can also see the same on Company's website. In case anyone does not have the copy of press release and presentation, please do write to us, and we will be happy to share them with you.

Representing the management today, we have Mr. Ralph Gillessen, Chairperson and Non-Executive Director, Mr. Phani Tangirala, Managing Director and CEO and Mr. Periakaruppan Palaniappan, CFO, to whom we will be referring to as Mani. Mr. Phani will start the call with brief overview of the quarter and half year gone by, which will be then followed by Mani, who will be giving you the brief update on the financials. After that, we will open the floor for Q&A session.

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

Having said that, I will now hand over the floor to Mr. Phani. Over to you, sir.

Phani Tangirala: Thanks a lot, Asha. A very good morning to everyone who have joined, and thanks for the continued support and trust in Expleo. And as you would have seen the numbers, with an operating revenue growth of 3.5% year-on-year and the profit after tax of 10.1%, we can say we have done decently better on this but let me be very candid on this case these subpar to our own calculations and expectations. We were all set for having a great quarter. But unfortunately, the Middle East war has really caused us a serious dent in our projections, and we remain pretty much, I would say, flat with a very marginal growth.

But having said that, the business is not gone. I would say that most of the Middle East customers, we have either evacuated Riyadh with our teams coming in, which has had a direct impact on our revenue. But these projects are not gone out. Some of them are pushed for the next quarter and some of them a little bit put on hold for now until we hear back from the customers. So, that has seriously dented our ambitions.

But otherwise, the rest I confirm like what I did in the previous earnings calls that the plan with which we are going on focusing on our existing customers, focusing on the selected industries like Aerospace, Defence and BFSI, that is definitely continuing.

So, discounting the dent that we have got on the Middle East part, if you want to look at the two major industries that have really helped us, continue to be BFSI, Aerospace and Defence. And as expected, we are not expecting too much of growth in Automotive, which globally has been seeing a downward trend.

But there also, if not grown significantly, there also we have registered some growth despite having the turbulent times. So, this is a quick look at how we have fared on this. But on the other aspects of it, like our DSO is still quite good and managed at optimal levels and the SLAs on the collections have been met. And our investments in AI and the digital transformation areas continue to be good.

But having said that, I really want to also share something positive that will be going into the upcoming quarters. Expleo Solutions Limited is happy to announce that we have launched Expleo Forward as our new service offering to the industry. Expleo Forward is created in line with our strategy to embrace AI to help our customers better. So, it will be a forward deployed engineers group that we are going to create, and that FDE lab, we will call it as Expleo Forward, which will assist business on the outcome and where we'll be working very closely with our top 20 customers. At this point of time, I'm trying to identify a division or a process or a specific area within their organization and carve it out into an outcome-based service showing a measurable impact and then showing the benefit out of it and thereafter scaling it. That would be the Expleo Forward's vision.

And as a part of that, we have tied up with top-notch institutes on the side to get our solution architects get into the FDE training. The first batch of the training will come out by 31st December, 25 of them and the second batch will be by 31st March, another 25. Put together, we'll have an army of 50 FDEs who will be deployed over 20 accounts, and then they will work very closely with the CXOs and then prove things on the fly because of the technology and the accelerators that we already have in place. And prove them that there is an outcome. And once that proof of concept is done, then that will be scaled into a major organization level initiative in the banks. We don't want to spread ourselves thin on this in all the industries because the forward deployed engineers need to have a strong industry domain and we have picked banking and financial services as our major area where we'll deploy all these FDEs. And this is what we see as a non-time and material kind of a service, which can improve the profitability of the organization because it is measured based on the outcome, measured based on the benefit for the organization and it is not tied to individual resource costs. And that is the model that we are putting in.

This is not something we are the first to do. The industry is slowly moving towards it, initiated by Palantir several years back, has now gained the momentum and some standards have evolved within that, and we are definitely having a big hope on this because we, as Expleo for the last three decades have been focusing only on domain, and we are considered and seen as sector-experienced people.

And that's what makes this whole thing doable because under the FDE Lab concept, what is required is primarily the knowledge of the industry. So, we are upbeat on this, and in the upcoming calls, we'll update on how we progress on that.

And the last one before I pass it on to Mani is that we have also made some headway on monetizing our assets that we have developed over AI, the kind of accelerators and differentiators we have developed on AI over the last two years. I have updated even in the previous call, they have started to get monetized now. So, we started seeing the revenue kicking in on that.

And also, the good part is we have put some of these products on the marketplace of our hyperscalers, to start with, on Amazon and those kind of. So, this is something that is going to become a revenue stream going forward. So, having seen a mediocre quarter, but having invested in a strong future, I'm pretty much upbeat on how we will take things as the quarters roll on. That's it from my side.

Mani will now cover the financial summary part of it.

P. Palaniappan: Thanks, Phani. I want to first talk about the financial highlights quarter-on-quarter.

Our operating revenue for the quarter ended September '26 is at INR 2,926 million versus INR 2,915 million in the previous quarter with a growth of 0.4%, primarily due to benefit from forex as rupee depreciated against euro and U.S. dollar.

Total income grew by 1.4% to INR 3,026 million in this quarter, primarily due to higher operating revenue and higher other income from forex gain. At constant currency, our operating revenue was flat at INR 2,915 million in this quarter, and it was the same in the previous quarter as well.

Adjusted EBITDA for the quarter was at 13.8% versus 14.5% in the previous quarter. It is mainly due to higher wage costs and one-time costs that we had this quarter, partially offset with operational efficiency and improvements. Profit after tax, including other comprehensive income, is at 13.0% versus 11.8% in the previous quarter, primarily due to higher mark-to-market forex gains.

Now, I'll talk about the financial highlights year-on-year, which is September quarter of this year versus September quarter of last year. Our operating revenue for quarter ended September '26 is at INR 2,926 million versus INR 2,827 million in the same quarter last year. And this is a growth of 3.5%, primarily due to higher on-site revenue growth from Europe and in the Aero vertical. And there was also a benefit from forex due to rupee depreciation primarily against euro and U.S. dollar.

Our total income grew by 2.4% to INR 3,026 million in this quarter, primarily due to higher operating revenue, partially offset by lower income from forex gain. At constant currency, our operating revenue decreased by 3.1% to INR 2,740 million versus INR 2,827 million in same quarter last year.

Adjusted EBITDA for the quarter is at 13.8% versus 17.1% in the same quarter last year. This is primarily due to wage increments and one-time costs, partially offset with operational efficiency improvements.

Profit after tax, including other comprehensive income, is at 13.0% versus 14.6% in the same quarter last year, primarily due to wage increments and one-time costs, partially offset with operational efficiency improvements and lower depreciation and amortization costs.

I'll talk about the financial highlights for the half year ended September '26 compared to the same period last year. Our operating revenue for H1 FY ’27 is at INR 5,842 million versus INR 5,423 million in FY ’26, which is a growth of 7.7%, primarily due to forex gain on account of Rupee depreciation against Euro and U.S. dollar.

Total income grew by 7.1% to INR 6,011 million, primarily due to higher operating revenue and higher interest income from higher cash balances. At constant currency, our operating revenue decreased by 0.2% to INR 5,411 million versus INR 5,423 million in the same period last year.

EBITDA for H1 FY ’27 is at 14.2% versus 15.0% in same period last year, primarily due to impact of wage increments and one-time costs, partially offset by operational efficiency improvements in our core delivery costs and optimized spend on non-essential and discretionary costs.

Profit after tax, including other comprehensive income in H1 FY ’27 is at 12.4% versus 12.1% in the same period last year due to higher other income from cash balance and higher other comprehensive income on mark-to-market forex gains, partially offset by wage increments and one-time costs.

Earnings per share is at INR 45.47 in H1 FY ’27 versus INR 38.78 in the same period last year, and this is higher by 17.3%. Cash position stood at INR 276 crores as of September '26 versus INR 303 crores as of September ’25.

And that's the end of the financial highlights. Thank you

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Faisal Hawa from HG Hawa Company.

Faisal Hawa: Sir, with respect to this cash decreasing, is it because of the large dividend that we gave? Or have we transferred some fund to the parent for the liquid deployment? And second is, you talked about an acquisition in the previous concall. So, any progress on that as far as due diligence is concerned? And third is, we are still increasing the headcount. So, in what exact domain are we increasing this headcount?

Phani Tangirala: Okay. The first part on the cash is primarily because of the dividend being given. Mani, if you can confirm that?

P. Palaniappan: Yes, that's right. So, we gave a dividend of INR 170 crores. That's a total cash outflow for dividend, INR 170 crores. But if you look at the cash position as of now, it's INR 276 crores compared to INR 303 crores we had in the same period last year. So, it's only a reduction of about INR 30 crores, but the dividend outflow was INR 170 crores. So, there has been a net cash increment that we have been able to operationally generate.

Phani Tangirala: So, that is on the first one, Mr. Hawa. And the second one on the acquisition, yes, we have gone into the due diligence phase. Unfortunately, the asset we couldn't procure because at the last minute, they have gone with a private equity investor, which has offered much higher. So, we are back on the board, but we have decided that instead of going for one big acquisition, we have now changed our strategy to do multiple tuck-in acquisitions, which will spread the risk.

And at the same time, even if one doesn't go through during the due diligence phase, at least the other would continue. So, the process is on, Mr. Hawa.

The last is on headcount. I think our headcount has remained flat with a very marginal increase on the areas of the engineering in anticipation of our renewals coming in the next year. But I don't think there is a significant rise in headcount.

Faisal Hawa: Do you also concur to the theme that AI will overall lead to a lot of legacy systems being progressed and transitioned, and that itself can yield to a lot of business. So, do you see anything on ground here? And why are we not being able to increase our million-dollar customers more than this? And will AI deployment also mean that our parent will be now not transferring quite a bit of work that previously they were doing to our Indian subsidiary?

Phani Tangirala: Okay. Sir, let me answer. You are spot on, on the first one. Most of our customers sit on very old legacy applications. And with the advent of AI, that is a huge opportunity. In fact, some of our incoming revenue coming from our AI assets are due to legacy modernization where those systems developed in C, C++, or COBOL, kind of, old technology, which otherwise used to take months and months to modernize them, can be done at a faster pace.

But we believe it’s a long process, which has already started and we are already beneficial. So, you’re spot on in identifying that as an opportunity. And we have one vertical within our digital team only focusing on legacy modernization and use of AI for that. That perfectly is the case.

And the work coming from the Group also, if I divide that into the digital revenue and the engineering revenue, engineering revenue has very little impact of AI, but with the global situation, Mr. Hawa, going in the Europe, the plans on bigger customers like the Airbus or Thales, they continue to spend more on India, that is continuing. So, we are expecting only an increase in the engineering side work to come from there to India from the Group.

And when it comes to technology, the digital business, it is already there. In fact, more than our direct customers, the Group customers are contributing towards our AI revenue much more with banks in Austria, Germany and in Ireland embracing and there, the revenue realization is much better. So, I would say, if you look at our overall numbers also, the contribution of the Group

has significantly increased compared to our previous years. And so is the AI revenue coming out of it, Mr. Hawa.

Faisal Hawa: So, would it be a right statement to make that most of our revenues from the old cost-plus model or the deployment of people model is actually declining, but it is being covered by these new revenue streams and that is why we are at least not showing some degrowth? And once this stabilizes and all the old kind of cost-plus business goes out, you would actually start growing?

Phani Tangirala: No. I mean I won't say that as a primary reason, Mr. Hawa, because while our cost model is time and material, but we are always finally accountable for the managed services. And it so happens that our billing methodology is time and material. But when you say that once all these AI benefits come, I would say that, that is still a long way away because while we can talk so much on AI and there is some very good use cases that are coming into picture to show the benefit of AI with all what is happening on the AI and its security and the cyber threats that are increasing, I doubt whether the existing model will stop like overnight within a year or two is never going to happen.

In fact, more and more people are turning back towards a conventional method to be on a safer side until all this noise gets settled down on the AI front. So, I am not seeing any of those reduction on the time and material billing coming to an end any sooner at this point of time. But it will taper down over a period of a long time until the stability comes and that's where our infusion of our capabilities also is now higher on the cyber area, which is what probably everyone is worried about. So, I still see that as an opportunity. While AI and AI influenced revenue is one, then the threats coming from AI and how we help organizations deter these threats is a big opportunity by itself.

Faisal Hawa: So, will our revenue increase from our traditional testing business? And how much more have we now started spending on Claude and ChatGPT as a percentage of revenue? And do we have enough supply of GPUs also from NVIDIA as a group?

Phani Tangirala: Okay. So, I can't get the exact percentage of our spend on that. But your question on working with another vendor on the GPUs, they are NVIDIA chips, of course, but we are agnostic of what chip they use, but we are working with a third party who give us GPUs on cloud.

So, that's what we use and we'll use it as the demand comes. If we have a demand for today, we are using 3 H100 and we look at by end of quarter 4, it may go to 8 GPUs. So, based on the demand, we have tied up with the cloud provider to provide us the infrastructure support for what we are doing.

Moderator: The next question comes from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: So, just one broader question. If I see your company has been stagnant for the last 3-4 years now. And if I recall, there has been continuous disappointments in the revenue performance and there was the whole captive business, which was supposed to flow through.

If you could guide us a little bit more on the growth part, what are we doing to grow the company? Are there any levers because it's been fairly a long patch of no growth so and what are the key reasons for not delivering on some of the guided growth? Sometime If you could spend here would be very helpful, sir.

Phani Tangirala: Certainly. I mean if you see I wouldn't agree that we have been stagnant. And if you look from FY '21 to FY '22 we grew 23% and from FY '22 to FY '23, we grew 16%.

Pritesh Chheda: Sir, my reference point is FY '23 to FY '26 now, we were INR 900 crores, then we are INR 1,100 crores there. So, my reference point is that and maybe we can go ahead, sir.

Phani Tangirala: Even from FY '23 to FY '24, we have grown 8% and FY '24 to FY '25 growth was 5%. I agree there is pressure coming. The kind of growth we have registered between FY '21 to FY '22 is not repeatable, the 23% kind of a growth. But 5% growth in the tested times, you know very well how the industry has been impacted in the last 2 years, be it the Iran war or be it the U.S. policies or whatever it is, now the Middle East war. Despite all these things, I think compared to our peers and others, from a growth point of view, we have not been stagnant. I mean, one part.

But I totally agree with you from a sentiment and emotion part of it saying we probably could have done a lot better. So, the other part, whether the group is supporting, that's what I told even Hawa's question also that in the last 3 years, if you observe, the contribution coming from group is only increasing, primarily for the reason that the macroeconomic situation in Europe is such a bad situation that they have to have the work moved. Those industries which they have been keeping very close to their chest and not offshoring until yesterday, they themselves are now coming and saying we have no other option to move things.

We have cut down our investments on the automotive side, and we have been very careful in choosing our deals. So, 2027, if you see, compared to our own budget and our own forecast, even automotive, we are doing better. But to answer that question, the group is only trying its best and we can see it in the numbers that is growing.

What has led down in the current quarters, as I mentioned, is our direct business with the Middle East and APAC. APAC is almost to our expectation, but Middle East has a very bad impact because of the war. But we definitely are not happy with this mediocre growth at this point of time. But as I told in the previous earnings call, we are looking at multiple ways.

One is, we have speed up our method of hiring the method of getting M&As done at a faster pace. And recently, with Ralph also around in India, we have decided that we'll go with multiple tuck-in to give a capability boost in the area where we are, especially on the cybersecurity and data area, we will do that.

And we also probably will consider looking at some senior high impact players to be brought in as an acqui-hire kind of a process. Then on the services side, we are betting big on FDE, on the forward deployed engineers, which I covered in my intro. And this is something which is very sweet spot for Expleo who has been depending on the industry expertise. And this FDE or lab

or what we call it as Expleo Forward is something what we are putting. So, merger and acquisition investments in capabilities and then putting our already developed assets into the hyperscaler marketplace is what we are betting in the next year to answer your question.

Pritesh Chheda: My other question is we had a larger portion of revenue linked to testing service. So, there on that portfolio, the AI transition, is it a risk to the offering that we have or it is a beneficiary to the offerings that we have?

Phani Tangirala: At this point of time, sir, it is only an opportunity because as I said before, the initial peers where the testing as service will disappear from the face of earth is what everyone believed. But with so much of AI's misadventures that have happened, people spending huge amounts disproportionately and incurring huge token costs and then reverting back because the objectives are not met or they have become more vulnerable for cybersecurity.

Today, we are in a much better position as an organization carrying testing as its primary service. We are back in the game yet. In fact, if you see our current year's revenue, though our digital revenue, non-testing revenue has come down by 2 points is primarily because our QA business is getting back into the shape because the biggest benefit of the generative AI is happening on the dev space, where a good amount of impact is on people having revenue coming purely from developers that is getting replaced with the GenAI, but the outcome still has to be tested.

And that is clearly creating more vulnerabilities and more uncertainties and more issues regarding explainability of the AI and the responsible AI. So, that has put us definitely in a forward position that organizations and banks especially started looking to play a bigger role in their AI initiatives to ensure that what they are getting out of AI is deployable in production. So, I will see it only as an opportunity.

Pritesh Chheda: Lastly, that double-digit revenue growth path, what should be the buildup for the timeline for a double-digit revenue growth path?

Phani Tangirala: Around same time last year, we had a clear blueprint done for this. And if not for this war, I would have definitely been in the double-digit growth path. The kind of impact the Middle East has given literally getting every of the resources back from Saudi Arabia and Bahrain and every other place was never foreseen even 6 months back. And so to give the forward-looking statement is shooting myself on this.

Our plans are very robust to ensure that we do this. You take this part out and see the dent out, then we are already into that. But unfortunately, these are beyond us and nothing tells me or gives me comfort that something like this is not going to happen in the next 6 months. So, we are just going with our playbook at this point of time, ensuring that what I've just said on the capabilities, on the investments, we'll continue to do that. And then we will just have to do our job and wait for the outcome, at this point of time.

Pritesh Chheda: Do you want to give any color on the order book because your presentation doesn't cover anything?

Phani Tangirala: So, currently, our order book is strong at this point of time, it is hovering between 75% and 80%, which is extremely strong. But so is the same strength, when we started this year, the order book has been strong, but the orders have been deferred. All the Middle East orders have been deferred by at least 1 quarter to 2 quarters. So, the order book point of view, I think our backlog and shadow backlogs are extremely strong going into the next financial year also into the FY '28.

Moderator: The next question comes from the line of Swechha Jain from ANS Wealth.

Swechha Jain: Sir, first of all, just a follow-up. Could you repeat the order book number? I could not hear that correctly.

P.Palaniappan: So, we have said it is around 75%. So, when we get into a quarter, typically, we have 75% to 80% in the order book and then the rest comes through the quarter as we progress. This is what we have typically seen and that's the current situation as well.

Swechha Jain: Okay. And sir, could you give us the revenue split business segment-wise, if it's possible?

P.Palaniappan: Can you talk about the business segment like BFSI and insurance and aero and auto?

Swechha Jain: No, the kind of work that we do, like how much have we got from the AI-related work? How much have we got from the testing side of the work, that kind of business segment?

Phani Tangirala: Our AI-related revenues, very difficult because we get into a service based. So, if we are developing a mobile app for them percentage of it is influenced by AI and the percentage is directly using AI. So, what we count at this point of time, like most of the industry players are doing is what is the revenue influenced by AI. And today, we are at anywhere between 14% to 15% of our total revenues are influenced by AI, which means had we not invested in the last 3 years in AI, we wouldn't have got that 15% revenue. That's how the definition is.

And in terms of the digital revenue, if you take it as 100 units of work, today, we are looking at testing-related revenue coming, 50% of that is testing related and the remaining 50% is coming from the non-testing, which includes the DevOps, cyber and data, data management, data security, all those aspects put together, the 9 yards of software development. And a small part at this point of time, a very minimal part is coming from the subscription, which I can't even put it to a percent at this point of time.

But this is what will grow going forward where we deploy our assets onto the marketplace and people take it on a subscription base or whatever. At that point of time, that is what. So, by and large, to answer your broader question, the testing business continues to be, and that's what I was also telling the previous caller that we have increased the testing part by two points compared to the last year, where things are slowly going back on the need for testing being highlighted much more than ever before.

Swechha Jain: Okay. And sir, can you help me understand how much revenue in H1 have we got from repeat business?

Phani Tangirala: Our core strength has been our top accounts running with us for more than two decades. And those top 20 accounts, if you count on that, they contribute to around 80%-85%. So, if you look at our revenue coming from existing accounts, which contributes to more than 95% at this point of time.

Swechha Jain: Okay. And sir, have you added any new clients in this quarter?

Phani Tangirala: Yes, we added about 8 new customers in the quarter.

Swechha Jain: Okay. And sir, regarding the employee expenses, they've gone up a little bit, and I think you did mention it's gone up regarding the engineering part of the business, I think we are expecting some increase on that side. But how do you see the employee expenses going forward? Do we assume that this is going to be the base? Or do we see any more incremental hiring going forward?

Phani Tangirala: Yes. Employee expense going up, what Mani has mentioned is primarily coming from wages because wages form the bulk of our cost. And India, you are very well aware, this is a market where with the inflation factor coming in, you can't shy away from anything less than 6% or 7% of wage cost going up. On top of it, in this year, we have the new Labor Code, which has got its own implication. The new PF rules that government has brought overnight has also got its implications.

And then our own investments on people and high-skill people being recruited and training on our existing teams, these are all the contribution. And I don't really see that coming down. I don't want it to come down, if not anything, we'll only invest more on this. But we just have to find ways and means like I have said the carve-outs or the outcome-based pricing that we have to go so that these people's knowledge is best put to use and not measured against the hours that they spend, but more on the outcome they bring into the organization.

So, that is the only way to go. So, near headcount growth means actually nothing for us going forward. In fact, we want to do at least twice as much with half as many people. I mean that would be the generic direction we want to see.

Moderator: The next question comes from the line of Naysar Shah from AMPL Asset Management Private Limited.

Naysar Shah: You briefly talked about digital revenues. Can you just help me understand the share of digital revenue has been falling for a few quarters? And how do you define digital revenues?

Phani Tangirala: Okay. So, if you take a typical software development cycle, 9 yards of those services, it starts from the app development, web development, mobile app developments, then you will have quality, which includes quality engineering and quality assurance, then you have DevOps, DevSecOps, data, data management and cybersecurity and L1, L2 support on the post production.

If you cover all these things and if you take the QA part of it, which is purely on the testing part of it, which has been our core competency for decades, which we have diversified now, that we are calling it out as QA services or a digital assurance revenue. And the other aspects, what I have mentioned are clubbed under our digital. So, in these two, please don't include any of our engineering services, which are totally into the engineering bucket.

Naysar Shah: Can you maybe give revenue break-up between quality assurance, your cybersecurity, DevOps operations, engineering, can you give the mix business segment-wise or revenue-wise?

Phani Tangirala: Total revenue of it, if you look at, then engineering revenue forms anything between 18% to 20% of our total revenue. The remaining is all coming from digital. And within the digital business, as I said, 50% of it today is coming from the digital assurance side, which is the testing part of it, which can be AI-enabled testing, but that is under the digital assurance and the remaining 50% comes under the cybersecurity mobile and which may not have it handy to read out for that. But that's a bigger list of the services that forms the part of the remaining 50% of our digital. So, technology, digitech is 80%, engineering is 20% within digitech, digital assurance is 50% of the digitech and another 50% is on the digital engineering and consulting services.

Moderator: The next question comes from the line of Saumil Shah from Paras Investments.

Saumil Shah: Sir, on our EBITDA margins for this quarter, they were at 13.8%, whereas last year same quarter, it was at 17%. So, as you mentioned, there were a couple of reasons for the EBITDA drop one-time cost, employee expenses and so on. So, what kind of EBITDA margins can we expect in the remaining half of this year?

P. Palaniappan: So we are looking at, so again, this is not a guidance, but this is more of what we are at a high level expecting. So it's going to be in the range of about 15%. This is what we have been saying for quite some time as a long-range number that we are aiming for. So that's what we are looking at this year as well. Of course, there are 1 or 2 quarters that are exceptional because of the muted top line growth that had a significant impact on our bottom line as well. But at a high level, this is the range that we are looking at around 15% to 16%.

Saumil Shah: Okay. And what was the reason for such high one-time dividend last quarter? I mean is it that there was some payment obligations on the parent side? Or do we have any dividend distribution policy?

P. Palaniappan: Yes. We do have a dividend distribution policy. I think we were looking at what we have been doing in the past. And about 6-7 years ago, every year, there has been an interim and a final dividend that's been given. But in the last 4-5 years, it has not been that consistent.

And there was a growing demand from investors and different blocks of people who have asked this question multiple times. Our policy was to look at, first of all, to apply that cash internally to grow our capabilities or to do an M&A. And we were evaluating multiple options. So, it's basically capital deployment. How do we effectively make use of it?

So, many years, we had not given dividends, and we had stopped it with the aim to pull that money and put it better use internally. But at some point of time, when we looked at the M&As have not been done for quite some time and the opportunity to do one more was getting limited in the period. So, we were continuing to do evaluations on M&A. We're not stopping there. But we have sufficient cash to give a dividend that will basically catch up for all the past years that we have not given any. So, that's why we took this call to give this dividend this year.

Saumil Shah: Okay. So, from here on, there should be a consistency in dividend every year?

P. Palaniappan: Hopefully. Yes. That's what we're hoping for.

Moderator: The next question comes from the line of Gunit Singh from Counter Cyclical PMS.

Gunit Singh: I would like to understand the margins in this quarter were 14% because of some wage hike. So, have we revised our contract upwards or have we taken any measures because of which we are guiding 15% margin for the rest of the year? That's my first question.

Phani Tangirala: So, as Mani has said, that wouldn't have been a situation if our top line erosion has not happened because this wage revision is not coming out of blue. It is a known thing, and we have all geared up for it and our order books are sufficiently strong enough to support that kind of margin. And so, we definitely don't want it to be judged only with 1 or 2 quarters of uncertain times. And also, let me also tell you that there is no order that has been lost because of that. Mostly, they have been deferred for future times. So, we will continue on pursuing this.

We are trying to work with customers to see how we can make some of these work from India if situation doesn't improve over there in the near future. So, there are multiple things that are happening. So, in the interim, we have to sit on the cost, and that is what Mani is trying to explain. But in our larger scheme of things, we look at that 15% taking into consideration all these costs being deployed in available resource. But unfortunately, today the situation is different, and we can't be a benchmark for future.

P. Palaniappan: Yes. If I can add our H1 numbers, if you look at the EBITDA, it's at 14.2%. And we are talking about 15% for the full year, which means we have to do a little bit better in the next two quarters so that at the full year end, we can be at 15%. So, again, as I said, this is not a guidance. We will just have a high-level estimate at this point of time.

And it depends on multiple external factors and of course, things that are beyond our control as well. So, it's definitely not a very stretched target. It's not really that aspiration, but it is doable. That's what we aim for.

Gunit Singh: Got it. So, based on our current order book and pipeline, are we expecting any growth for the next financial year for H2? Because I think we had guided a double-digit growth rate, but in H1 growth has been in mid-single digits. So, can you help me understand if we have revised the outlook based on our current order pipeline?

Phani Tangirala: So, H2, I will not comment because the war clouds are not cleared yet. So, we have lowered our expectations on H2. But I doubt whether this situation will go beyond 31st March into April of next year's Q1, so, at this point of time, the growth what we have registered in H1 is very unlikely in H2 until things significantly improve in the last 1 or 2 months because we are already into the Q3 and this quarter left. So, while we try our best, I think to peg it as a comparison against H1 will be a little ambitious given the situation.

Gunit Singh: But if we compare with H2 last year, would we be maintaining the revenues? Or are we looking at some degrowth? I think we did around INR 560 crores in H2 last year.

P. Palaniappan: Yes, I think we will be doing something similar. I don't think it will be going to be higher than that, but that's why our expectation is we should be doing something similar. It's not going to be significantly higher than what we did last year.

Gunit Singh: Got it. And what is the capital allocation policy? Do we have any acquisitions in the pipeline? And if so, by when do we expect to do that?

Phani Tangirala: As mentioned, that has become a top priority now, and we will continue to put that. It is just unfortunate that during our due diligence phase, one thing has fizzled out. Otherwise, we would have had a nice asset added to our portfolio by now.

But having said that, as I said in the earlier questions also, we are continuing it, and we have now slightly changed our strategy to break that into multiple smaller acquisitions rather than spending big time on a larger and it is falling through the cracks in the last minute. So multiple tuck-in acquisitions is what will be taken and has been taken already, and we are working on it.

Gunit Singh: Got it. And my last question is regarding our acquisition policy. So, are we looking at EPS accretive acquisition? Or do we have any benchmark EV/EBITDA or any benchmarks with which we weigh in the acquisitions?

P. Palaniappan: So, yes. Obviously, we are looking at an acquisition that will be EPS accretive, no doubt about that. We are also putting in some criteria, which will help us identify the potential target for acquisition. So, the criteria have to be complementary to our capabilities. It has to be in a geography that can expand our presence. It has to be in the technology stack. So, all of those is what we are putting in.

Phani Tangirala: So, three major drivers that will define that, one is we definitely are relative to our competitors or the similar organizations, we are weaker on the U.S. market. So, the criteria will be to get additional logos in the market where we are not so strong, which is U.S. Second criteria is we are looking at the kind of a service, which can be industry agnostic to the max possible. That means it has to go into an AI or a data or a cyber, those areas where we don't have to limit our acquisition capabilities only to one industry.

And of course, it should certainly add value which we don't have or which would significantly strengthen the area what we have. And we're not really going into getting into a sectorial kind

of a capability that we don't have because our strategy has been to limit to the sectors that we are already in and so it won't be anything beyond the current sectors what we do.

Moderator: The next question comes from the line of Siddhartha Matthew, an Individual Investor.

Siddhartha Matthew: Can you quantify the amount of revenue that's been lost from the Middle East because of this conflict?

Phani Tangirala: Around EUR 5 million, I would say. I won't use the word lost, Siddhartha, yet. Deferred I would say.

Siddhartha Matthew: Okay. And if this conflict were to sort of resolve itself, do you expect that to come back and then accelerate going forward?

Phani Tangirala: Absolutely. See, one thing is the business that got deferred is no customer has said that they will not do it, and it is only deferred, so, it will come back. What will come back with probably a bit of positive after this is they have lost time, so everyone want to catch up. Second is so far, Middle East has been very agnostic to defense spend. And we are now seeing that be it our current customers in Abu Dhabi or in Tel Aviv, Israel, the Middle East is spending on defense much more than what they have been doing in the past. So, one is the current revenue, which has been deferred will come back. And probably on a totally different area on the defense side, there will be an uptick is what we see. How that cascades into our revenue is something which we have to wait and watch, but there has been an uptick in their defense spend. Already, we can see feelers coming, especially on the helicopter side and the defense helicopter side. there is already a movement upwards.

Siddhartha Matthew: Okay. That's helpful. And my final question is regarding this M&A. Have you sort of given yourself any timeframe by which to evaluate potential deals?

Phani Tangirala: Yes. The timeframe, the commitment given to our Board is long over. So, it is just unfortunate that we are not able to close that. But we are looking forward to do something by March should things fall in place according to our plan because as much as you're all asking the question, it is me who am wanting this to happen at any cost because that's the fastest way that we can add capability and that can be scaled to all our existing customers also. So, I can't get a better lever than this.

So, there is a sense of urgency right from the management, from the group, Ralph and also our Board who have been very closely monitoring and hopefully, we should have something done by at least March '27.

Moderator: The next question comes from the line of Naysar Shah from AMPL Asset Management Private Limited.

Naysar Shah: You said the reason for weak performance was decline in Middle East revenue, but your PPT shows the share of North America business has declined, whereas Asia and Europe has grown. So, can you just help me understand that?

P. Palaniappan: Okay. So, North America is a reduction for one customer whose contract has ended. And that's why that particular region is showing a reduction. That will most probably come back in the next quarter. So, there's an in between level. But the one that we are seeing as Asia includes Middle East as well, but there has been growth in Asia, but not in Middle East region.

Phani Tangirala: So, within Asia, we have three regions. One is APAC, second is India and third is Middle East. So, fortunately, India and APAC have not been impacted at all by the war and that have remained and some of them have grown, but Middle East has been the worst hit.

Naysar Shah: So, basically North America and Middle East has declined, whereas India other APAC and Europe has grown. That is the conclusion.

Phani Tangirala: Correct. Europe continues to be the most promising region for us so far this year.

Moderator: Ladies and gentlemen, we will take this as the last question for today. I now hand over to the management for closing comments. Over to you, sir.

Phani Tangirala: All right. So, I think it was an interesting and interactive session and thanks a lot for those questions. And we'll definitely take all those inputs and suggestions also into our consideration and in our future strategy. But trust on us that we have an aggressive plan of growth and pray that we don't get another war like a situation, and we are good to meet our goals. Thank you so much for your time and inputs.

P. Palaniappan: Thanks, everyone.

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

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.