"Expleo Solutions Limited
Q4 FY '22 Earnings Conference Call"

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MANAGEMENT: **MR. RALPH GILLESSEN – CHAIRMAN & NON-EXECUTIVE DIRECTOR, EXPLEO SOLUTIONS LIMITED**
MR. BALAJI VISWANATHAN – MD & CEO, EXPLEO SOLUTIONS LIMITED
MR. DESIKAN NARAYANAN – CFO, EXPLEO SOLUTIONS LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '22 Earnings Conference Call of Expleo Solutions Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from EY LLP Investor Relations. Thank you, and over to you, Ms. Gupta.

Asha Gupta: Thank you, Margreth. Good morning to all participants in the call. Welcome to the Q4 and Full Year FY '22 Earnings Call of Expleo Solutions Limited. The results and investor presentations have been already mailed to you, and they are also available on the Company's website. In case anyone does not have a copy of Press release and Earning Presentation, please do write to us, and we will be happy to send it to you.

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

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

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

Balaji Viswanathan: Thanks, Asha. Thanks, Margreth. Thanks to all the investors and interested parties who are there in this call. Excited to announce our financial year '22 Results and also the Q4 Results. As I mentioned in the press release as well, we have had a good last 18 to 24 months, and we continue to see good traction from the business side. We also had a lot of exciting results from a people front and the technology front as well, signing more than 20-plus new customers in the financial year. The revenue growth has been robust over the last 6 quarters at least. And then we continue to see reasonably good demand. Of course, given the kind of macro situation that we are seeing with the war and the recession and a possible inflation and rate hikes, some other stuff, we're still being cautious in terms of what kind of investments we are making, but the situation looks or the market demand looks quite focused from where we are.

We have all reasonably good success with our automation-first approach and the concentrated approach that we have taken for the digital transformation, and that's what is driving or fueling our growth at this particular point of time. We're also glad that we are able to add 2 new larger customers with more than $5 million revenue category and with few more customers who have revenue above $1 million. If you recollect last year, we had only 1 customer with more than $5 million and just about 8 to 9 clients with over $1 million revenue.

There has been a lot of traction from people perspective. We had a very good great place to work survey where people actually rated us like close to 75% acceptance level and more than 85% in terms of great place to work, acknowledgment for the kind of response that we had given to the drive during the pandemic and how we have been able to support the team members considering that they are the primary assets.

And we have also focused a lot on employee engagement, diversity program. I'm happy to tell you that we have actually onboarded a few differently abled people on technical roles, who have been doing reasonably good as well. And we've seen increasing success on the online up-skilling program and also on the technical engagement of them.

Compared to last year, we haven't really gone full stream on the graduate hiring program because last year was our first experiment and this year, we are trying to take the learnings from that and making sure that we have a more broad-based rather than from 1 location per se. But that's something which we are committed to do for this year as well. So, that's all I have in the introduction. It's been a reasonably good quarter, reasonably good financial year, and we hope to continue with this positive momentum.

Desikan Narayanan: This is Desikan. I'll give a brief about what the performance is for the quarter. Good afternoon, everyone, and nice to have a good performance during the quarter. It is in line with the market trend and with the same set of challenges across the industry, we're also seeing hitting the same. We'll walk you through the year-on-year performance and the quarter-on-quarter.

The financial year ended with a revenue of Rs. 400 crores compared to Rs. 300 crores, around an increase of 34%. EBITDA closed at 19% compared to 23% in the previous year. The revenue majorly came from Asia, which did good during the year. On the cost side, of course, we had regular increase in the cost, specifically on the third party, we invested more on that because of the current scenario of resource. We had cost increase in training and recruitment. And last but not least, we had some expenses in merger. Those are the major change from last year to this year. Our earnings per share increased 7%, ended at Rs. 52.58.

On the quarter-on-quarter, the revenue grew by 7% to Rs. 113 crores. EBIT rose from 15.7% to 20%. Reason for EBITDA increase is, of course, revenue increase, plus we had a foreign exchange gain during the quarter of around Rs. 18 million compared to a loss of Rs. 16 million last quarter. And last quarter, we had some software purchase for the projects and some recruitment training costs. So, all put together, we had a better quarter. Profit after tax ended at 15% compared to last quarter of 11%.

One update on the merger activity, it is still pending with NCLT. The courts are in summer vacation. This is something which is future dragging. So, we are working with the consultant to make sure that our hearing come in. So, that is the current state of things for the NCLT merger. That's it from me, and we can open for the question and answer.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Srishti Jain from Monarch Networth Capital. Please go ahead.

Srishti Jain: Sir, I actually wanted to understand a little bit on the demand environment, like you elaborated in your opening remarks that we are facing some geopolitical issues in our dominant geographies. How do we see the demand environment panning out? And in that same line, how do you see growth for us, the listed as well as the unlisted companies doing and even for the parent, for the next few quarters also and for the next couple of years, may be FY ’24, FY ’25?

Balaji Viswanathan: So, we are closely monitoring the geopolitical situation, but at least based on the war and the political situation, we don't see too much of an impact for us because we don't really have too much exposure in the Eastern European or in Russia or Ukraine for this matter. But from an economic situation, we’re still trying to see how this will pan out. The higher inflation rates in U.K. and the U.S. and we have seen inflation in India as well going up. So, we need to still figure out as to how the demand is going to get impacted because of that.

But as of now, there are no signs of any slowing down or any kind of impact at this particular point of time, at least for the next 2 to 3 quarters. And what will happen over the next 2 to 3 quarters is what is going to be the indication for the next couple of years as well. So, we are closely monitoring the situation, and that is also one of the reasons why the third party or the contracts and the costs are slightly higher as well for us. So, we're trying to meet the demand that is currently there in the market, which is quite robust. And for the group, Ralph, it would be good if you could probably highlight.

Ralph Gillessen: I think overall, I want to confirm this even at least with the performance of the management team and with the accelerated growth that we have seen in this business segment here, we even see a good growth momentum across all the different industry segments, across all our regions and geographies certainly impacted by some of the macro risks, from a macro perspective some of the risks that we are facing and certainly some of the uncertainties, even then with the war in Ukraine, but as an organization, we don't have any operations in the Ukraine, but even then put on hold and terminated business activities even with Russian organizations.

And especially more on the engineering side of our business, still a little bit the uncertain situation with the pandemic in China and an impact even there of the global supply chain. But overall, as the majority of our activities are in the transportation and energy segment is more in the R&D segment and what we do in the other industries is even more in digital transformation. We are still expecting to continue with a good growth momentum as we can see that all our customers are investing in the change of their own business model even to implement new business models. And therefore, we are even foreseeing quite a good growth momentum over the next couple of quarters. And this is even underpinned I think by the performance of the first quarter this year. And that's what even in outlook a little bit more from a Group perspective.

Srishti Jain: Sir, and the second question was on the attrition rate, where is it currently? And would we be expecting higher-than-normal wage hikes in FY '23 over CY '22? And what kind of margin levels would we anticipate to negate that impact?

Balaji Viswanathan: The attrition rate continues to be higher. Our target has always been 20%. We are currently running at close to 30% attrition rates. And the attrition is certainly impacting, that is the objective of trying and getting contractors and the other models. We have to make sure that we are not losing the business from a customer perspective.

And in terms of wage hikes, I would say that it'll probably be still around the same as what we had last year in year between 14% to 15% overall wage hikes is what is likely to be, and the lower level will have a significant 25% to 35% and the higher levels will probably see a slightly lower increase. But overall, it's going to be simply similar to what it was last year. We don't really see this impacting the EBITDA levels significantly because we are trying to control our other costs including we had given up one of our sites and moved to Coimbatore at a likely cheaper rate. So, we're trying to look at all the other parts and how we'll optimize. But at the gross margin level, we may probably see a 1 or 2 percentage drop because of that. At the EBITDA level, we'll continue to be focusing on that anywhere between 17% to 18%.

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

Aman Vij: My first set of questions are on the unlisted entity. If you can talk about the unaudited numbers like you have been talking for both Pune as well as the Bengaluru entity?

Desikan Narayanan: The one thing I can tell you, since it's unaudited as you mentioned, we want to make sure that it is audited and we can publish it. That's the current thing. I can tell you one thing on the overall if I look at the other unlisted entity, on the revenue side, they are doing better than what we expected. And on the EBITDA side, they will be coming lower than what we projected for. That's again in line with what we are also facing. So, I can tell you as a current update about the unlisted company. Once that are audited, then it will be easy because when we do the shareholders' meeting, we'll be sending a notice in which we'll be publishing the data there, which will be an audited data, and that will be more in line with what it is.

Aman Vij: If you can talk about was the revenue growth more than the listed entity? Or was it less than the listed entity?

Desikan Narayanan: It was both combined together with the unlisted entities, it would be less than the listed entity, we are expecting above Rs. 300 crores. That's the way we are looking at it.

Balaji Viswanathan: It's been in the range of around 25% to 28% is what the growth rate is while the listed entity growth rate is around 35%.

Aman Vij: On the employee count, so if you can talk about what the current number is and also if you can divide among the 3 entities. And just wanted some clarification. So, the numbers we have mentioned in the presentation is around 1,700, but my understanding is the number should be around 2,100. So, is the 400 people still on bench, not currently in project? So, if you can talk about these 2 things, the current employee number across the 3 entities, if you can segregate and why the difference between 1,700 and 2,100-odd.

Desikan Narayanan: The 1,700, generally, we put only the delivery folks, not including the subcontractors. So, if you put together that, it will be around 2,000 is the number what we have in the listed entity. It's only employees and that too in delivery, so we don't have the third-party consultant added in that.

Aman Vij: Sir, the number mentioned in the last call was 4,000 or 2,100 in Chennai and then 900 in Pune and 1,100 in Bengaluru. If you can give the updated number for Q4?

Balaji Viswanathan: Yes, we have around 4,600 people in total, and out of that, the billed apart from the support headcount, it would probably be around 4,300. And the split is somewhat similar, close to 2,000 employees or 1,950 in Chennai and a little over 1,000 in the Bengaluru space and close to 1,000 in Pune as well.

Aman Vij: And the addition, sir, we are targeting for this year?

Balaji Viswanathan: We should be having a net addition of at least 400 to 500 people.

Aman Vij: Because earlier, if I remember correctly, we were targeting like 1,000 employees addition. So, any reason for this a little lower guidance?

Balaji Viswanathan: No, that includes the trainees as well. The 1,000 that we were targeting was including the trainees as well. So, on the trainee head count, not all of them will be billable right from day 1.

Aman Vij: But if we talk about like-to-like numbers, we are still maintaining that 1,000 employees?

Balaji Viswanathan: Yes.

Aman Vij: And if you can talk about the quarter-on-quarter growth we are expecting for next 2, 3 quarters. Is it still 7%, 8%? Or should we expect a little lower given little headwinds in the economy?

Balaji Viswanathan: We don't see any reason why it should be lower than where it is right now. But yes, it should be anywhere between that 6% to 7% is what our expectation. But of course, quarter-on-quarter, we are closely monitoring of the demand situation.

Moderator: The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: I broadly had a question regarding the combined entity. So, right now you are broadly at a run rate of Rs. 700 crores, so at a 20% to 25% growth rate, you would broadly be doing about Rs. 1,000 crores revenue by FY ’24 and a PAT of broadly Rs. 130 crores to Rs. 150 crores.

Is that a fair assumption to have given the order wins or the demand environment that you've been witnessing, considering the situation that you think might be a little bumpy in the near to midterm given the situation overall?

Balaji Viswanathan: Yes, that's our target as well. So, our objective is that we should cross the Rs. 1,000 crores mark during the next financial year.

Vinayak Mohta: Next as in FY ’24, right?

Balaji Viswanathan: That's right.

Vinayak Mohta: So, my second question would be, I just wanted to understand how would the ER&D grow out here? Because broadly, if I remember correctly, it’s at Rs. 150 crores run rate or something. How do you see the margin trajectory going forward? Because ER&D automatically is a higher-margin business? So, how would the margins move in the next 1 to 2 years? Because right now, we're at 17%, 18% as you have guided for. So, I just wanted to understand that trajectory and the growth in that business over the long term, where do you see as the business mix be standing at?

Balaji Viswanathan: So, the unlisted company saw a good growth in the ER&D business in the last financial year, close to around 45%, 50% and all the other businesses put together was in that range of around 25% to 38% is what the unlisted companies growth rate was in terms of revenue. The challenge in terms of talent is actually even more higher in that segment of the business. And so that's obviously impacting the margin as well. What we used to consider as a higher margin business also comes with a higher cost nowadays. So, the margins are still around the same as what the traditional tech businesses as of now at least. And we think while the demand was quite robust, right now, we're also looking at how it’s going to pan out, particularly in the manufacturing industry and then the automobile industry over the near term because there is more demand on the digital side, even in the ER&D business as well.

So, we expect that it will continue to grow at 25% year-on-year. The margins are likely to be around the same as what our normal tech services business is at least in the near term. But in the longer term, it should certainly get better.

Vinayak Mohta: Is the 25% right? Or will you see a higher number?

Balaji Viswanathan: 25%, yes.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: Desikan, one question on the numbers, audited numbers for the unlisted company. When do you think they will be available? And does it hinges on getting the approval from NCLT or is it a separate process?

Desikan Narayanan: Sorry, Rajesh, I could not hear it. You were talking about NCLT approval you're talking about?

V.P. Rajesh: I'm asking about the audited numbers for the unlisted entities. By when will they be available? And is it related to the NCLT process? Or is it separately that you can actually share that number with the investors?

Desikan Narayanan: Technically, we don't need to. It is my view that we don't need to share the numbers of the unlisted company. But once the audit is over and it goes to the ROC, generally we file with the ROC, then it will be more a public thing. But prior to that, we expect that once the shareholders' meeting approval is given by NCLT, the notice will have the unlisted numbers financial. So, that way, we are expecting somewhere around in timeframe to publish it.

Balaji Viswanathan: So, Rajesh, the NCLT and the audited results don't have anything to do with each other. It's going on right now and audited well should be available sometime in June because there isn't really any time pressure like the listed companies to complete the audit. And that will be filed with ROC as per the normal process. And depending upon how soon we get the NCLT approval, it will be included in the shareholders meeting notification as well.

V.P. Rajesh: And Desikan, you mentioned that there were merger costs in this year. So, can you quantify that number, please?

Desikan Narayanan: Which cost? Sorry, Rajesh, the telephone line is little late. Which cost you said?

V.P. Rajesh: Merger-related costs, you mentioned there were merger-related costs, which were there in this financial year.

Desikan Narayanan: Yes. That's relating to the professional fees what we pay for the consultants who involve the banker and the auditor and the legal fees. Those are the costs which I was mentioning about during the year.

V.P. Rajesh: I was just asking what is the number? What was the total number for the year?

Desikan Narayanan: Around whatever reached Rs. 41 million.

V.P. Rajesh: Rs. 41 million, okay. And do you expect more costs like this to accrue in fiscal year '23 or majority of this is done in the last financial year?

Desikan Narayanan: The majority is done in the last financial year. We will have only some incremental cost would be coming not much. One thing will be there will be some stamp duty which will come, which may be coming once we do the merger. That's the time the stamp cost will be coming. That is one major cost that will come.

V.P. Rajesh: And then my last question is just about the dividend. So, we have talked about coming up with the policy, etc. So, any update on that side would be helpful.

Balaji Viswanathan: So, we have published a dividend distribution policy, Rajesh, and we are looking at like what I mentioned in the last couple of our quarter results is we're looking at how do we utilize the cash. We did the small acquisition recently, and there is one more which is likely to come up as well. But between now and the quarter 1 AGM, we will decide on what's the quantum and how we are going to distribute cash as well.

Moderator: The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.

Rahul Picha: Sir, I wanted to understand that right now, roughly around 45% of our revenue comes from the Asia region. So, just wanted to understand our currency exposures in that market. Are our billings done in USD? Or is it like in some other currency?

Desikan Narayanan: You were talking about Asia, right?

Rahul Picha: Yes.

Desikan Narayanan: Asia is majorly Middle East, Singapore and India, not much. The one thing is that if you look at we do billing in dollars for Middle East. And majorly, it will be dollar in the Middle East and India it is INR. So, that way, we do have EFC accounts where we have the dollar what we receive from the client. And if you look at the ways we are maintaining our bank accounts, whatever the proceeds come from the client, we keep it in the EFC account and try to pay all the expenses related to the respective currency in that currency so that we don't have any Forex impact. Something if the local expenses comes in, we pay in that currency itself. So, that way, the exposure is minimum. Since the U.S. dollar is weakening against INR, I see only a positive trend coming in this Asia market, India, INR, so there is no exchange rate impact.

Rahul Picha: And sir, my second question was on the acquisition that we did. So, can you just speak about that, like what capabilities have we got through that? And what is the purchase consideration that we have paid for it? And any quantification of revenues that, that entity might have?

Balaji Viswanathan: Lucid, a tech solution that we acquired, are actually specialist in data governance and analytics, and their primary business is actually in the US. So, last year, they did a revenue of close to $3 million. And this year, they're likely to do close to around $3.2 million to $3.5 million is what our expectation is. And this will actually give us a real good hold on our own data practice as well because we have been focusing on healthcare, banking and other industries on how we could support the implementation, testing and the application integrations or the API integrations, particularly from a data perspective, and that's what is going to give us a capability for us. We are already seeing some traction with our existing customers as well. And the partnership of Lucid Tech with the global platform also gives us an opportunity to cross the large services to some of these large customers as well. So, that's the basis on which we went ahead with those transaction. Desikan, you want to add anything more?

Desikan Narayanan: So, I think that's one of the things which we have majorly bought is that the IP and the know-how what they have. They are selling it as a license to the client. That will be our entry point for any new clients, and that's the way they have been doing their business. That will have good amount of clientele which will be coming in. So, those are the things which we feel that we have an added capability for us from Lucid.

Ralph Gillessen: As it was mentioned by Balaji, I think when you look at the R&D initiatives and you look at the transformation initiatives in our target markets, I think it is over to the main specific part. But the 2 most significant enablers are over data and security. And therefore, it was even important for us even to make an investment into this data led capabilities.

Rahul Picha: Sir, just if you can specify the purchase consideration for this acquisition?

Balaji Viswanathan: So, the purchase consideration consists of payment based on what their current revenue is and the future revenue is. So, we have the payout considerations around for at least another 15 more months. And it's still looking one time of their revenue at this particular point of time around $3 million to $3.2 million.

Rahul Picha: And sir, my last question is on the salary hike. Like in the past, you have stated that normally, our hikes happened in the month of January. So, have you taken any hikes in the last quarter?

Balaji Viswanathan: Yes.

Rahul Picha: And can you quantify how much that would be?

Desikan Narayanan: It's more sort of a market trend, that's something which we ensure that it is in line with the benchmarking and how the market is. If you ask me, it is in line with the market trend is the one what we have done.

Moderator: The next question is from the line of Tushar from Ratnabali Securities.

Tushar: Sir, my first question is regarding like COVID is receding now and the traveling is opening back up. So, can you just explain how our margins can be affected in the near future?

And my second question is regarding our employee workforce. So, the data that I have shown that our employee base has almost doubled in the last 18 months. So, could you please explain whether this is based on anticipatory demand? And what kind of pressure can it have on our margins going forward.

Balaji Viswanathan: I didn't get your first question. What was the first question?

Tushar: Right now, as other IT companies are also saying that traveling is opening back up. So, travel expenses, which was being saved in the last 2 financial years that should start coming back on our PL, right? So, can you just give an estimate on how our future quarters might be showing in terms of other expenses?

Balaji Viswanathan: Yes, it is likely to open up, but it's not that it's going to go back to what it used to be in 2019 or first quarter of 2020. We don't see the travel expenses impacting our margins at least in this quarter or next quarter. It's not going to be that significant at this particular point of time. Because the travel is opening up, some of the on-site deployments are also increasing. And so our on-site contribution of revenue has gone up from 32% to 36% in this quarter. In terms of margin impact, I don't see anything that is happening at least in the next couple of quarters. We'll keep a close watch on our selling expenses, which is what is primarily going to be driven by this particular travel. And on the employee count, we've almost doubled in the last 18 months, and out of which close to around 350 to 400 are through the trainee route and out of which a significant number of people have already been deployed in some projects further. It was in anticipation of both future demand and also the attrition that was picking up at that particular point of time. And we will do something similar but may not be to the same quantum during the course of this year. But we are trying to do it across all the entities rather than doing that quantity only with the listed entity.

The margins, I had mentioned earlier that our expectation is that we will continue to be in the EBITDA range of around 17% to 18%. And we don't see any reason why we should think of anything lesser than that at this particular point of time. So, it's not a guidance but we don't see any reason why we should think of anything less than that right now.

Moderator: The next question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

Rohit Balakrishnan: So, Balaji, most of the questions have been answered. Just I could not hear a couple of things probably. So, first was on just the bookkeeping numbers. On the unlisted entity you said that we have crossed Rs. 700 crores. I mean, I could not hear that number. And what would be the cash at consolidated level today? I mean listed versus unlisted?

Desikan Narayanan: Listed I can say it's around Rs. 155 crores. Unlisted I need to get you. I don't have it right in front of me.

Rohit Balakrishnan: I remember it was close to Rs. 300 crores at the time of an announced merger. So, okay, sure. I'll probably get in touch with you to get that number separately.

So, in terms of outlook, Balaji, for FY '23, on the listed entity, you mentioned that we still can see 6%, 7% kind of quarter-on-quarter growth that you have alluded to in the past. What about the unlisted entities? Are we seeing similar kind of growth there? And what is the kind of outlook that you are looking at? Because I remember in one of the calls, you've mentioned that probably the unlisted entities can grow much faster given the plan of the group and the overall offshoring goals that we have as a group. So, if you can just shed some light there.

Ralph Gillessen: So, probably, Balaji, let me answer this question. And I certainly do appreciate all the interest in all the other business segments that we even have. From today's perspective, there's no reason why even the other business segments should even have a lower growth rate than what we have even here in scope of this call and the discussion and the numbers that are in front of you. It is certainly supported even then by the growth in the, from our perspective, so-called engineering segments and transportation. Even then supported by a strong shift even into our centers and our activities in India. So, I can certainly confirm that we don't see any indicators why even the other business segments should grow at a slower pace than the numbers that you have in front of you here.

Rohit Balakrishnan: And Balaji, one question on the listed company that we have. We've added a lot of clients and also increased the $1 million and $5 million client count. Can you just share, you've been sharing in the past as well, but just maybe a bit more on what is really driving this growth? We have been really growing very well and we continue to be very excited about it. So, I mean, is this largely driven by our own outreach in terms of organically finding clients versus support from the group? I'm talking only about the listed entity at this point of time.

Balaji Viswanathan: It has all been primarily around the sales effort and the account management effort, so both with existing customers and with the new customers. And like what I mentioned in the last 3, 4 quarters as well, our objective is to try and look at where the opportunity is and try and grab that opportunity even if it means we have to stretch or we have to make an investment and that's what is actually driving most of the growth at this particular point of time. And it started showing results over the last 4, 5 quarters, and we hope that it will continue to be in the same trend.

Rohit Balakrishnan: And just one last question before I go back to the queue. This acquisition that you did, did you mention how much did you pay for it? I sort of missed that.

Balaji Viswanathan: So, the total consideration between the IP, the assets, the people and the businesses that they were answering is around a little over the 1-year revenue, let's say of around $3.2 million, but that's to be paid over a period of 18 months or so.

Rohit Balakrishnan: Got it. You've not yet paid it out, but it's about $3.2 million, $3.5 million roughly?

Balaji Viswanathan: That's it.

Moderator: The next question is from the line of Ashis Dash from Sharekhan by BNP Paribas. Please go ahead.

Ashis Dash: I will again ask you on the cost side. So, employee costs has increased. That is one reason you mentioned in that wage hike. Is there any other thing that's involved in that increase of employee cost? That is one. Second question on cost side is the other expenses as a percentage of revenue declined substantially. And I know there is absence of software purchase consideration. But will this level sustain in FY '23, this other expenses to revenue, total revenue? And our exist margin is strong. Why we are guiding 17% to 18%. What is the major headwinds you see in the equation?

Desikan Narayanan: Just one because the first one I could not hear it properly. Can you repeat the first question you asked?

Ashis Dash: The employee cost, it has increased 12% around quarter-on-quarter. One is due to the high wage hike. So, what other components are there for the increase in the employee cost? Is there any other thing there?

Desikan Narayanan: Not much. Majorly, one is the increment and also the number of people increased from last quarter to this quarter also has contributed to that increase. Other than that, I don't see any big increase. And with respect to the other costs, yes, last quarter, we had some cost, which was not there in this quarter. But looking at the trend of the cost, there are certain costs which comes in. If you look at the retention of employee, training and other activities, which we do, these are the things which may have an impact on the overall margin. So, that is very difficult to kind of predict in the current market. If you look at our subcontract costs from last year to this year, a substantial increase, because the market demand has completely changed.

Now, if you look at the current market requirement is that we need to look at how to retain people and also do the recruitment. So, these things are aspects which we can't define a certain cost as a cost which will be there. So, this keeps on fluctuating. We must not give guidance, but just we are looking at the trend and saying that it will be in the range of the EBITDA, it will be in the range of 17% to 19%. So, that's the only thing. Other than that major cost is it's the employee costs, that having a little bit of fluctuation due to the market change. That is something which we are putting it in our what we see as a trend in the future.

Ashis Dash: My second question is on your guidance, earlier you have given the guidance of EBITDA margin for the combined entity to remain in the 15% to 17% post the merger. Now, your listed entity has done better than your aspiration of 18% in FY ’22. And now you're saying that your unlisted entity has some impact on the EBITDA margin. So, would you like to maintain that guidance or what is the outlook on your margin guidance for the combined entity?

Desikan Narayanan: Technically, that is not a guidance because we are not supposed to. We are just more talking about probable kind of numbers.

Balaji Viswanathan: We don't expect any big change in that I should say at this particular point of time. It would continue to be the same. It's not a guidance like what Desikan said, we don't really give any guidance, but that's what our expectations are.

Ashis Dash: Your aspiration. This last question, any large deals you have won during this quarter, because you mentioned that there were some large deals in Q3 and Q4. So, any large deals you have won or anything in the pipeline?

Balaji Viswanathan: So, we don't really discuss our client list because there are confidentiality reasons, but we haven't really won done anything in the last quarter. But last year, of course, we won 2 major customers, 1$ million plus and one $5 million plus. And we have a couple of them in the pipeline as well. But normally, we don't really discuss our client lists.

Moderator: The next question is from the line of Deepan Shanker from Trustline PMS.

Deepan Shanker: So, firstly, can you throw some light on these 2 new customers added during this quarter?

Desikan Narayanan: I think you are asking about 2 customers above $5 million, right?

Deepan Shanker: So, major customers added during the quarter is 2, right?

Balaji Viswanathan: Deepan, that was during the year. Two customers, one was more than $5 million and one was more than $1 million, was rather during the year, not during this quarter. We had actually covered the $5 million plus customers in the past as well. It's one of tech companies and it's a global client and whom we are servicing across multiple geographies as well. And that account continues to grow with the kind of capabilities and the services that we are offering at this particular point of time.

Deepan Shanker: And what is the reason specifically for this digital slowing down Q-on-Q to 4% growth versus company growth of 7% Q-on-Q?

Desikan Narayanan: The digital is not much drop. It has decreased, but the percentage, if you look at it, it's a very small, some 38.6% to 37.7%. We are talking about a 1% fluctuation in the quarter-to-quarter. And on value wise as it has increased. So, we don't see anything dropping there.

Deepan Shanker: But the trend is not reversing, right? So, that's what we wanted to make it clear.

Desikan Narayanan: Generally, for the digital, if you look at it, the trend has been raised from 26% to now we are in a 38% range.

Balaji Viswanathan: The trend is not reversing, Deepan. It is likely to only go northwards. I don't see any reason why the trend should reverse, but the demand is still there in the market.

Deepan Shanker: And lastly, what is the kind of direct contribution from the Group for full year?

Desikan Narayanan: That's in the range of 20%, again, a little bit of the direct contribution of the Group, what I mentioned here is the Group as a client the revenue is around 20%, but contribution as such is more than 45% because there are regions where the Group is contending the client, and we also signed with them directly. So, that way, we have support coming from the group, all the European clients. So, that all put together, it will be in the range of around 45% to 50%.

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

Hiten Jain: So, I have a few questions. So, first is, when we look at your revenue growth trajectory, just looking at the fourth quarter of last financial year, fourth quarter FY '21, first quarter of this financial year, second quarter of this financial year, you were reporting a 10% sequential growth. Now you come down to 6% to 7% kind of a growth. And even when we look at headcount CAGR, so obviously, in 2 years, you've kind of doubled, but your revenue CAGR is lagging your headcount growth. And even quarterly outcomes, we are seeing the slowdown from 10% to 6% to 7%. So, what is exactly happening here? And is this that 10% was unsustainable, 6% to 7% discount? So, that's a slowdown from what you've been doing, but your headcount growth was quite strong. But in fact, in this quarter, your headcount is also just 2% up Q-o-Q. So, is there a slowdown from if you look at quarterly trends?

Balaji Viswanathan: There is no slowdown. The thing is that when you look at it last 4 quarters back, the base was lower as well. If you look at the quantum of growth, it has always been more than that. So, 10% Q-on-Q between Q4 of 2020 to the Q1 of 2021, if you look at the quantum, it's probably higher now. But since the base is higher, obviously, the percentage is lower. So, we don't see any slowdown at all. And obviously, when the base becomes bigger, then growth percentage also is likely to be in that range. From the employee count versus revenue, we had mentioned that last time as well, the reason is that we had actually hired close to around 350 to 400 trainees last year in anticipation of growth and which is what we will see those utilization of those resources and driving revenue over the next few quarters as those trainees become billable and they start generating revenue as well.

So, it was an anticipation and that was an investment that was made primarily because anyway our other costs are not in the same line as what it used to be earlier during COVID times, and we thought we'll use that money to make sure that we are investing for our future. So, while there is really no reversing of trend or slowing down of any of those trends.

Hiten Jain: And this business from group. So, last year also, it was 21% of your total revenue from group direct. And this year also, you've spelled out that number is 20%. And then you talk about this indirect exposure where group facilitates business in Europe. But Europe is your slowest growing geography today, it just grew 19%. Even if I look at mix of Europe, in fact, 2 years back, it was 59% of revenue, today it is 51% of revenue. So, isn't -- shouldn't this group be driving higher traction in your business?

Balaji Viswanathan: It is one. So, the biggest thing is that when all the other markets are growing at 35%, even to sustain in the same percentage the Group also have grown 35%. So, that's what has happened around the last year as well. So, despite being a slow growth market last year and right now, Europe is actually seeing phenomenal amount of demand. If you look at U.K., Ireland, Germany, the demand is picking up significantly. And if you look at where we are growing at the 35%, Europe market itself is significant. Ralph, do you want to add anything more?

Ralph Gillessen: When you look at the relative performance, I think we are picking pace as you all described and confirmed it. On the other hand side, we see across the European markets definitely a good growth momentum, but we even see there not only in the financial service and the insurance and banking industry, but even in other segments, still even now quite a tendency even to keep activities within the European Union. This is even something that should not be underestimated when we even look at our growth trajectory. And therefore, we are happy even that we can even continue with the same contribution to the growth that we can see in this entity.

Hiten Jain: Yes, Balaji. But even this year, like it just grew 19% year-on-year, Europe versus 34% for the total company.

Balaji Viswanathan: Other geographies are growing faster. I don't see any reason why 19% is certainly a reasonably good percentage of growth as well.

Ralph Gillessen: Probably, let me try to clarify this again. We see the same growth rates when you look at it from a European perspective. But all the growth in Europe is even when translated even in the same way, even into the growth even of this entity. As I said, yes, we even then see that we see a significant growth even in our centers that we even have within the European Union, in Eastern Europe. And this is even where even when these centers are in contributing to our growth trajectory. So, not all the growth that we are generating and there is no one correlation between the growth rate that we see in Europe and the increase of business activities for this entity.

Hiten Jain: And another clarification, I just wanted to understand when I look at your numbers, so the number of active customers has gone up from 68 to 100 year-on-year. But whereas your $1 million to $6 million is up just 10 to 11. And on the other hand, $0.5 million to $1 million is down from 17 to 16. So, does this data tell that perhaps your client mining is not very active as compared to client hunting?

Balaji Viswanathan: Actually once again, if you look at any benchmark, the benchmark that we track on is what is the revenue that's coming from existing customers. And what's the revenue is coming from new customers. If you look at what our trend has been in the past, we have been in the range of around 5% from new customers. And that's the trend that we wanted to get to at least to 10%, which is what we have been able to do this year. So, it's not that the focus is not on the existing customers. Otherwise, you can't make a $5 million customer in 1 year. So, that's the reason why you have two $5 million customers who have been mined and grown. There is a special focus on what the strategic accounts are and where we are growing.

So, there is a focus on both. And our objective was that we wanted to reverse the trend of new account growth from new account revenue from trend of around 4%, 5% a couple of years back to at least 10%, which is something which we have been able to achieve this year.

And also, in terms of how the top customers contribution are and how we are able to spread it. So, the 9 customers of more than $1 million last year to 11 this year, is actually an indication of how we have been able to mine the accounts and grow. Having said that, you'll think that have we done everything right, may not be and that's the focus on how we can get everything going for us with our existing customers as well.

Hiten Jain: Sir, your top 5 customers last 2 quarters has been very weak. In fact, this quarter, your top 5 customers are down 8% Q-o-Q. Last quarter, they were up just 3% Q-o-Q. So, is there some slowdown in your top 5 clients? And would it be fair to assume that the group is one of those top 5 clients or how do your account for that?

Balaji Viswanathan: No, we don't account for the Group in those client list. And some of this could be seasonal, but we don't see any slowing down with any of our customers. And whatever we set as our target for the year, we are actually in line with that, and we are trending in the right direction with all our customers at this particular point.

Moderator: We'll take one last question which is from the line of Anuj Sharma from M3 Investments. Please go ahead.

Anuj Sharma: I had 1 question about the Group. So, the Group has done some acquisitions, one is Assystem Care. So, what implications would it have on our Indian operations, both the listed and the unlisted? And generally, what will be the strategy in terms of group acquisition and our benefits through it?

Ralph Gillessen: We had the acquisition of Assystem Care or even this business or life science business even then became part of our business activities in our portfolio at the beginning of the year. We see that with this acquisition we continue to diversify even our engineering activities in addition to transportation, automotive and aero. So, that we will then continue on the one hand side with the current portfolio, and we will even bring our technology portfolio that is what is even represented by this Indian entity closer to the life science clients, and it is not only then the acquisition that we have made with Assystem Care. In the Life Science business, we even see that with the acquisition that we have done with ESL with the stated governance organization, we will see that we continue to generate synergies between all the different capabilities that we had in our portfolio. As we even see a significant part of the Life Science business will be data driven going forward.

Anuj Sharma: And just one small extension on that. So, how long would you think it will take for the acquisition and the synergies to flow to the Indian entities or the Indian group?

Ralph Gillessen: At the moment, we are integrating this life science business. It has to date business activities in France, Switzerland and in Belgium. So, first wave is definitely within the first half of this year to integrate it with our French customers. And then from the second half, we will even then see how we can even bring our existing Expleo portfolio to the life science customers. And then from 2023, we will even then see on how we even then explore new opportunities in the market. And with these 3 ways that we have defined there or between 6 and 9 months, we will even see the synergies probably more in 2023, but we will already start to see them probably in the last quarter of this year.

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

Balaji Viswanathan: Thanks, Margreth. Thank you so much for all the questions. It is quite interesting and thanks for all your interest shown in us and our results. I'm looking forward to seeing you all in the next investor call or before that, hopefully, if we get the NCLT clearance and the call for the merger discussion as well. Thank you so much once again, and stay safe, take care.

Desikan Narayanan: Thank you.

Ralph Gillessen: Thank you. Bye-bye.

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.