



“Expleo Solutions Limited  
Q4 FY '24 Earnings Conference Call”

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**MANAGEMENT: MR. BALAJI VISWANATHAN – MANAGING DIRECTOR  
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**MODERATOR: MS. ASHA GUPTA – INVESTOR RELATIONS, E&Y LLP**

**Moderator:** Ladies and gentlemen, good day and welcome to Expleo Solutions Limited Q4 FY '24 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 this conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from E&Y Investor Relations. Thank you and over to you, Ms. Gupta.

**Asha Gupta:** Thank you, Neerav. Good afternoon to all participants in the call. Welcome to the Q4 FY '24 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 the 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 with you.

Representing the Management today, we have Mr. Balaji Viswanathan, Managing Director and CEO; Mr. Periakaruppan Palaniappan, CFO whom we will be referring to as Mani. Balaji will start the call with a brief overview of the quarter and year gone by, which will be then followed by Mani, who will be giving you a brief update about the 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 the risk and uncertainties that we face. This risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual report, which you can find it on our website.

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

**Balaji Viswanathan:** Thanks, Asha. Thank you for the investors and analysts who joined the call.

For the quarter ended 31<sup>st</sup> of March, we have seen a marginal growth. If you recollect the last quarter, we had a one-time benefit. If we were to net out with that, we had a very marginal growth of around 3.6%-3.7%. And excluding that, we had growth of around 2.1%. The core markets are still showing weakness in terms of pipeline and demand. Some of the markets like Middle East and India are actually showing better pipeline and more opportunities, but the size of the opportunities obviously are relatively smaller.

One of the challenges has been around expectation of demand, based on which, we had built a certain amount of bench from calendar Q2 of 2023 onwards. And unfortunately, some of those opportunities are not really materialized, so we had a higher bench or the higher number of people than what we required when we started the calendar year. We have been acting on optimizing our bench and the talent pool based on what our demand is and the action started from the end of February, 2024. While part of the actions have actually showed in this quarter i.e., in Q1 of this financial year, but most of the actions will actually start to show from Q2

onwards, which will actually help us in getting to the target EBITDA margins of 16% to 18%, which is what we have been talking about for the last year and a half to 2 years or so.

Overall, we have been investing in AI and digital technology, which is what is showing in the growth opportunities as well. And we have been investing on both in terms of training and upskilling our team and also in terms of inducting some of the leadership from these domains. And over the last 6 months, most of our growth opportunities have been primarily in this and that's what we would actually show in our digital share of the business as well. We had not much traction with some of our smaller customers, that's why you would probably see a slight decline with some of the smaller customer But we have actually signed record number of new customers where the opportunity sizes have been relatively small which we hope that after demand picks up during the course of the next 2 quarters, we will see more number of customer As we go through the next couple of quarters, we will actually see more number of those customers moving beyond half a Million, getting closer to the Million and Million plus customer range. That's basically what I have as a summary. I would like Mani to provide more information about the financials.

**Periakaruppan Palaniappan:** Thanks, Balaji. I will talk about the Financial Results for the Quarter compared to the previous quarter.

So, it's a quarter-on-quarter comparison. Our operating revenue was at INR 2,554 Million compared to INR 2,502 Million in the last quarter, an increase of about 2.1%. Overall, total income was INR 2,572 Million, it's down by 1.6% compared to the previous quarter of INR 2,615 Million. Coming to profit, our EBITDA was at INR 398 Million which is 15.6% compared to INR 385 Million, which is 15.4% in the last quarter. Profit after tax was at INR 148 Million, which is 5.7% compared to INR 338 Million, which is 12.9% in the previous quarter. EPS stood at INR 10.12 in this quarter compared to INR 21.93 in the previous quarter. Overall cash position, we were at INR 1,840 Million net cash in this quarter compared to INR 2,117 Million in the previous quarter.

I will move on to the year-on-year comparison. Operating revenue, as I said, for this quarter was at INR 2,554 Million compared to INR 2,311 Million in the same quarter last year. So, this is an increase of about 10.5% year-on-year. Total income is at INR 2,572 Million this quarter compared to INR 2,349 Million same quarter last year. There was an increase of 9.5%. On profits EBITDA, we were at INR 398 Million this quarter compared to INR 431 Million in the comparable quarter last year. As a percentage, this is 15.6% versus 18.7% same period last year. On profit after tax, we were at INR 148 Million this quarter compared to INR 290 Million in the same quarter last year, which is 5.7% versus 12.3% comparable period. On EPS, we were at INR 10.12 this quarter versus INR 18.73 in the same period last year. On cash, we were at INR 1,840 Million this quarter compared to INR 1,557 Million same period last year.

I will talk about the full year comparison:

On a full year basis, full year ending March 24, we were at INR 9,649 Million operational revenue compared to INR 9,033 Million in the previous year. This is the growth of about 6.8% on full year, year-on-year basis. Total income, we were at INR 9,724 Million compared to INR 9,194 Million in the last year. This is the growth of about 5.8%. On profits, EBITDA, we were at INR 1,483 Million which is 15.4% this year compared to INR 2,001 Million which is 22.2% in the last year. Profit after tax, we were at INR 887 Million this year, which is 9.1% compared to INR 1,357 Million which is 14.8% in the last year. EPS, we are at INR 58.27 this year compared to INR 86.27 in the last year. On net cash position, we were at INR 1,840 Million this year compared to INR 1,557 Million in the year ended March 23.

That's the overall highlight on the numbers. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit from ithought PMS. Please go ahead.

**Rohit:** So, Balaji just wanted to understand for this quarter our margins were about 13% and you attributed that there was a benefit etc. So, how do you look at the coming year FY '25? So, if you can just may be share your overall views on what kind of growth and how should we think about margins for this year?

**Balaji Viswanathan:** So, from an overall growth perspective, as you could see, we have done around 3% organically in this quarter and we expect that will probably be similar growth percentages over the next 3 quarters as well, which would basically make it up closer to the double-digit growth is what we are expecting for the year. Having said that, of course, each quarter comes with its own challenges depending upon how the core markets react, particularly UK, Germany and France, where most of our businesses usually come from. From a margin perspective, our EBITDA should be in a similar range as what we are at right now, which is at 15.6%, but we expect that we should be in the range of 16% to 17% over the next 3 quarters and start reducing our bench and our utilization rates going forward. Mani, you want to add anything more?

**Periakaruppan Palaniappan:** Yes, I think, you have covered most of it, Balaji. So, we are looking at similar growth rates and profitability should be in the range of 16% to 17% for the next 3 quarters.

**Rohit:** So, just few more questions on this, so one is our longer-term goal in terms of FY '25 goal was obviously much higher goal in terms of workforce and at the same time I think which you sort of deferred, so we had that 10,000 odd workforce goal and at the same time, at the time of the merger, we had this plan of increasing our outsourcing and offshoring to the Indian offices. So, in that context, how does that strategy play out because you're still sort of guiding for only 10%-11% kind of growth for this year. So, how should one look at it, maybe not this year, but like longer term, may be 2 years out. How does one look at the overall business from here on? Because I understand we had some one-off last year, but even adjusting for the base between 2-3 years of sort of flattish kind of growth, 2 years of flat kind of growth at least on the

profitability side. So, how should one think about the business let us say 2 years out from here in the context of the larger target and in terms of workforce and also the greater outsourcing that was supposed to happen at the group level, which should benefit Indian companies which are listed.

**Balaji Viswanathan:**

So, because of the softness in the European market, the growth whether it is from the Group also has been relatively lower. Having said that, the Group contribution to our revenue growth is higher than what we have been able to do directly from the other market as well and from a profitability perspective, I think we had a setback in the last 2-3 quarters because of some softness in demand and some of the onetime benefit which actually gave us a bigger push last year, but organically our expectation is that we will be in the 16% to 18% range, which is what we talked about earlier as well. And I don't see that changing significantly from where we are right now because we had a significant amount of cost because of some of the headcounts that we had in the last 2 quarters which we have started acting on and that's why we are still only inching towards the 16.5% and 17%, which is what we would expect over the next couple of quarters and we should be in the 16% to 18% range. And in terms of headcount growth, if the headcount growth was not just organic, but it was supposed to be a combination of both organic and inorganic. Given the current situation, the inorganic component has not kicked them at all and hopefully sometime next year when the markets become better and we are able to get little more access to cheaper funds, there is also an expectation that the group will do some acquisitions, and which will actually help us in growing the headcount numbers in India as well. But of course, but these are all expectations right now. There's nothing concrete at this particular point of time.

**Rohit:**

And we are opening a few branches and sort of opening new offices, in the context of this subdued demand, how should one see it? And then finally Balaji, cash balance is also getting activated and we were initially waiting for the merger to happen and which is done now. You talked about inorganic also, but if you can articulate the broader capital allocation strategy, how would you want to distribute the cash or use the cash rather? So, if you can may be talk about that?

**Balaji Viswanathan:**

So, the offices that we opened, which is actually expanding our capacity in Chennai and Bangalore is primarily in anticipation of some of these demand and also expecting people to come back to work because that is one of the important elements for us to have a more cohesive team and also whom we will be able to upskill lot more easier rather than having everybody working remote. So, right now we have the capacity that we have added both in Chennai and Bangalore. We will give us a little more headroom than what our current demands are and we are looking at opportunities to expand even beyond this provided we have a clearer outlook on demand and where it's going to come from. But we are still optimistic that we should be able to add more facilities because the outlook from 2025 onwards at this particular point of time looks even though not firmed up, but it certainly looks better. We expect that once the core market starts opening up and the inflation and other elements are actually stabilized in most of these markets, particularly in UK, Germany and France. So, once we start seeing some growth, we should be able to grow faster in India from those markets as well. And on capital allocation, we

are still similar to what we talked about earlier. We are still thinking that we will be able to decide on something, some inorganic opportunity even within India, even though small because of our cash component which will help us in adding better capability and which will help us attract more business from the Group as well. If we're not able to find anything over the next 1 or 2 quarters, then we will decide on how we allocate the cash accumulated.

**Rohit:** That is helpful. The question was not necessarily about Chennai and Bangalore, but we are also opening overseas offices?

**Balaji Viswanathan:** The overseas office in Dubai actually we are closing down our free zone entity in Dubai and opening an onsite office in Dubai primarily because the government regulations have changed there, which allows foreign entities to operate from mainland which is to cater to the local business within Dubai. So, till now we were actually having a local contractor or local human resource Company which was actually providing us a visa. We don't need that anymore because of this change in rules and that's the reason why we have opened a new office in Dubai.

**Moderator:** Thank you. Next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

**Mihir Manohar:** Sir, I wanted to get better understanding do we have testing as a service offering?

**Balaji Viswanathan:** Yes, that is the biggest component here because we started off as a testing Company while we have actually branched out beyond testing, testing is still our bread and butter. Only thing is earlier we used to have a significant amount of manual testing or functional testing element. Now that particular component does actually increase more in the automated testing space and DevOps rather than the functional testing element.

**Mihir Manohar:** Sure. So, what would be testing revenue for us in this financial year FY '24?

**Balaji Viswanathan:** So, the way the business has split here is that now we have 30% of the business comes from engineering and 70% of the business comes from technology services is what we call it as. Out of the 70% on the technology services, close to around 45% outsourced from the quality assurance or what we call it as the software testing and the remaining is automated testing, performance testing, security testing, multiple other elements including DevOps, software development and other things.

**Mihir Manohar:** So, 45% of the company level, right?

**Balaji Viswanathan:** No, 45% of the 70%. So, it's approximately one-third.

**Mihir Manohar:** So, Sir, how do you see this particular piece of pie in this specific, gen AI area, I mean there are talks that the manual testing and the part of the piece will get substantially impacted. So, your take on this will be quite helpful.

- Balaji Viswanathan:** Yes, it is going to get impacted. That's the reason why we are gearing up our own investments in AI as well and we have a couple of POCs and tools that we have created based on gen AI and what we call predictable quality assurance and risk based quality assurance as well which will primarily drive more of automated testing and test engineering part and that is the direction on which we are going as well. So, 10 years back probably quality assurance was 90% of the business.
- Mihir Manohar:** Sure, understood. That's, helpful. My second question was on the engineering outsourcing and we were looking at the engineering overall outsourcing, which was there from the Group for the corporate restructuring, which happened to take it from 5% to 20%-25%. Can you just mention what is the current status on this and to what level of penetration have you reached for the engineering outsourcing and what more kind of scope can be there? It should be quantified and that will be useful.
- Balaji Viswanathan:** So, engineering like what I mentioned is approximately one-third of the total business that we do at this particular point of time and the Group business that we do is approximately 33% to 34%. If I compare it with what it was when the merger happened, when the merger happened, the group business was approximately 27% of our total business, 25% to 27% of the total business; right now, it's close to 33%-34% of the total business and that is the pie which is growing and that pie is primarily from the engineering services.
- Mihir Manohar:** Sure, understood. Just last question on margins and you mentioned about 16% to 17% over the next 3 quarters. Should we see 16% reverting back immediately in the first quarter itself?
- Balaji Viswanathan:** Yes, we are at 15.6% and I think we should be able to get to 16%.
- Moderator:** Thank you very much. Next question is from the line of Faisal Hawa from H.G. Hawa and Company. Please go ahead.
- Faisal Hawa:** Sir, we always say that the outlook for IT services is still not very clear to us. But why are we not attempting to get more work out of our parent itself and I appreciate that we have increased our share with them also by around 7% to 8%, but the easiest way could do to get work from them and get a lot of outsourcing done.
- Balaji Viswanathan:** Yes, Mr. Hawa. So, that's what we have been trying to drive as well to recollect what we said is that by 2025 we should ideally have 45% of the business coming from the Group and 55% of the business coming through our direct markets. The challenge with the core markets which I said which is primarily UK and Europe continues for the Group as well. So, whatever challenges that we are facing, they also have the same challenge and the outsourcing which the Group does is primarily the new business that they are trying to acquire rather than the missing one because it's not easy to ramp down the existing headcount in Europe and start building the headcount here, it's only for the new businesses that the Group is winning where we have a significant portion of the business that comes to India and if there is a challenge with getting new businesses,

then obviously it will have impact. The Group is trying to do everything possible and that's the reason why our share from the Group business is continuously increasing.

**Faisal Hawa:** But in most conversations on LinkedIn etc., Expleo Global is always saying that they are going at 20%-25% and they have almost I think if I am correctly informed, they've reached like €1.7 Billion revenue. So, at the very least, we should be growing commensurate to that, and you should enjoy better margins also because that involves zero marketing cost?

**Balaji Viswanathan:** Not really. I'm not sure where you saw the €1.7 Billion. Last year, we closed at around €1.49 Billion and currently, we are at a little lower on the expectation that we will probably be in the range of around €1.5 to €1.6 Billion this year. We have not touched €1.7 Billion as yet and the Group is growing at anywhere between 12% to 14% at the group level.

**Faisal Hawa:** €0.15 Million, but this same entity used to be €1 Billion around €1.5 Billion 2 years back?

**Balaji Viswanathan:** So, when the Assystem and SQS acquisition happened, we were at close to around €1.1 Billion, and when the COVID hit, the revenue went below €1 Billion. And then in 2021, we crossed the €1 Billion mark again. Last year we closed at around €1.2 Billion and then this year we closed at around €1.4 Billion. And the expectation is that we will close anywhere between €1.6 Billion, €1.55 to €1.6 Billion this year is what our expectation. We will be growing at an average of around 12% to 14% at the group level and Group is actually currently at EBITDA percentage of little less than 9% and the expectation of the Group also will be at around 10% this year.

**Faisal Hawa:** So, when we pitch for new business, why are we losing out, which vertical or which capability is absent in our Company due to which we lose out on business?

**Balaji Viswanathan:** So, losing out on business is primarily if I were to look at from a capability perspective, we only pitch for where we have the capability rather than trying and that's why I'm saying that now we are trying to invest in terms of even the smaller acquisitions that we are doing in terms of what capability we don't have, which we can actually pitch. And on losing out, either it's because of the price or it's because of some of the size of the engagements because the customers look for larger companies that are larger engagement. We are not losing out primarily because of capability because we only choose the areas where we have capability and it's only in smaller engagements where we try and do the experiments because that's what the customer also will be okay with experimenting or trying out with somebody new.

**Faisal Hawa:** So, the most recent acquisition that we made around 1.5 years back, what is the revenue of that Company now?

**Balaji Viswanathan:** When we made the acquisition, they were at around \$3.5 Million. Last year, we closed at a little over \$5 Million from that particular acquisition.

**Faisal Hawa:** But they are helping us with the capabilities at least?

**Balaji Viswanathan:** That's right, yes.



**Moderator:** Thank you very much. Next question is from the line of Jagdishwar from Japa Investments. Please go ahead.

**Jagdishwar:** So, this is regarding the receivable days. If I see the slide, the receivables day is showing at 104 and I presume it is based on standalone numbers. But if I take the consolidated number, receivable days are quite less. So, why did that we are showing our receivables day on standalone numbers and why not on consolidated numbers. This is my first question.

**Periakaruppan Palaniappan:** Jagdish, this number is actually a consolidated financial number. I'm not sure why you are saying this is standalone, so 104 days is basically a consolidated.

**Jagdishwar:** I guess INR 950 crore is the topline. And if you divide let us say INR 250 crore/950 crore, it is coming at 94 days. Standalone receivables are much higher than consolidated receivables.

**Periakaruppan Palaniappan:** You are only looking at, I think consolidated receivable. I think this DSO includes unbilled as well.

**Jagdishwar:** So, how do you calculate? My calculation was showing that I was using all the consolidated numbers. And consolidated receivables is 94 and in your presentation say 104 days of receivables. So, your calculation methodology you can explain?

**Periakaruppan Palaniappan:** Yes, I can probably provide that explanation separately. But what I would like to confirm with all of you, it's on the consolidated financials and the reason why the DSO has gone up compared to the previous quarter is because one of the collection from our Group has been a little lower in this quarter and also from one of our key clients, it's low in this quarter and we have been able to collect from both Group as well as from this key client and our cash balance has substantially improved in the month of April and the DSO has gone down from 104 to 98 days.

**Jagdishwar:** No, it has gone down, so your basis of calculation is consolidated balance sheet receivable at the end of this year receivables divided by total revenue for that particular year, that's right, is it?

**Periakaruppan Palaniappan:** That is right.

**Jagdishwar:** Receivables don't have anything other than that?

**Periakaruppan Palaniappan:** Yes, correct. It is receivables including unbilled, it's the sum of the two divided by revenue.

**Jagdishwar:** That is your internal figure?

**Periakaruppan Palaniappan:** That's right.

**Jagdishwar:** And second question is we had missed dividend again this year. Last year, we get some dividends and given the size of the acquisition proposed or planned or caught out, isn't it prudent to maintain some kind of dividend payout policy to ensure stability in signaling shareholder interest

in financial year. It is a reasonable number given the tough environment and we are still sitting on a sizable cash. So, Balaji can explain your thoughts on this?

**Balaji Viswanathan:** Yes, sure. So, there was a similar question from Rohit as well when we started the call. So, what we are doing is that we are looking at what kind of acquisition that we can do locally here in India, while the Group is having its own plan and we are looking at we will be able to do during this quarter and if we are not able to close anything during this particular quarter, then we will go back to the Board and ask for suggestions on how we can do the capital allocation and cash allocation. So, the plan is to see if there is anything that we can do as an acquisition, which will be more accretive for everybody. And if we are not able to do it, then we will relook at what we need to do from the dividend perspective.

**Moderator:** Thank you. Next question is from the line of Krunal Shah from ENAM Investment Managers. Please go ahead.

**Krunal Shah:** So, my first question is on the rationalization that we are looking at in the headcount. Is there a number in mind where you want this to settle?

**Balaji Viswanathan:** Yes. So, it will be based on what we have the demand. So, right now, I think most of the action has been already taken. We are not expecting any big changes, but what we would do typically takes three months for headcount to actually exit from the system and that's reason why there are some numbers which are already there in the system as well. So, we don't expect that billing headcount to reduce significantly from here at this particular point of time. And currently, we were running at approximately in the mid-teens in terms of our bench percentages which we are looking at trying and getting it to 10% or so, which should happen during the course of this quarter.

**Krunal Shah:** Perfect. And second question, the business that we are generating on our own, so the parent business is going well. What are the steps we are taking to grow our business faster because we are still a small Company and at this stage our growth can be much faster because we have a lot of good tech on our books in our facilities which we have, so what are the steps we are taking to utilize that better?

**Balaji Viswanathan:** So, even though the Group is not big in the US, are not focusing on the US, we did that an investment around a year and a half back of buying a data management, data quality Company in the US and that particular business is growing quite fast and it's growing at almost 40% to 50% year-on-year. And the other markets like Middle East and India, India of course, we all know, the profitability is a challenge. So, we are focusing on where we will be able to do a balance between both profitability and the growth. So, we are looking at what is it that we can do in growing both Middle East and Indian market.

**Krunal Shah:** So, you get 50% of our revenue approximately from Europe, which is a key market for us. Despite if you take out the Group decision as well. So, how can we grow that business? Middle

East and India, I understand, but Europe is a very competitive market because a lot of Indian companies are present there, how do you plan to grow that part of the business?

**Balaji Viswanathan:** So, that's what we are trying to focus through the Group from specific domains. Particularly in the technology and digital space, India is the most preferred location for the Group to outsource as well from Europe. So, as the demand goes up in Europe, we will get more business from the Group. And like somebody else also mentioned, one of the other gentlemen mentioned the opportunity to grow to the Group basically would mean that our margins are more or less secured because it is a cost plus model and we really don't incur too much on our sales expenses.

**Krunal Shah:** And this subsidiary that you're opening in Thailand. Now, what is the idea behind that?

**Balaji Viswanathan:** It's for one particular customer with whom we are trying to engage in this particular market where they want to grow that particular geography. And there is an opportunity to add some 40-50 headcount during the course of this year if we are able to do it. Of course, it's not finalized as yet, but we just wanted the Board to approve setting up the process. We will open the office once we are clear about the opportunity and it is only in-principle approval that we have taken.

**Krunal Shah:** And in terms of our business development team of own business, not the Group business, whatever the strength like and how that has changed over the last 4-5 years?

**Balaji Viswanathan:** When I joined 6 years back, we had around 6 people who are doing business development. Right now, we have 14 of them between India, Middle East and in the Southeast Asia market. Recently, we also hired sales manager in US as well that was around end of last year. So, we have around 14 people right now. And we also have another close to around 18-20 people who are part of pre-sales, who are also focused on these geographies.

**Moderator:** Thank you. Next question is from the line of Priyankar Sarkar from Square 64 Capital Advisors. Please go ahead.

**Priyankar Sarkar:** Sir, one quick clarification rather. Sir, if you can split how much we get from the Group for engineering as well as for the technology segment?

**Balaji Viswanathan:** I can probably try and give you a rough order of magnitude. So, approximately \$34 to \$35 Million is what we did with the group, out of which around \$11 to \$12 Million is from the technology business and the remaining close to around \$21 to \$22 Million is from the engineering business.

**Priyankar Sarkar:** \$11 to \$12 Million is from tech and the rest is from engineering. And sir, which segments, I'm only talking from the Group, which segment is going faster, engineering, right?

**Balaji Viswanathan:** Engineering, yes.

**Priyankar Sarkar:** And sir, in terms of competition in the engineering space, who would be our competitor?

- Balaji Viswanathan:** It depends on sector. So, if you were to take the automotive sector, it's primarily people like KPIT and Altran, which is part of Cap Gemini now. And if you take the Avionics of the aero sector, it's primarily the OEM, so they have their own captive centers here. Whether it's Boeings and all of them have their own centers there and apart from that, Cap Gemini, Altran from a digital perspective also companies like AxisCades and Accord and others are also competition for us in the aero structure and Avionics.
- Priyankar Sarkar:** So, in this engineering space which is approximately 33% of our business that one together. So, how would this split be in terms of auto and the some of the other major segments?
- Balaji Viswanathan:** Almost 50% is aero and approximately 40% is auto. And another 8%-10% is other manufacturing industries.
- Priyankar Sarkar:** So, 40% is auto and 50% is aero. So, sir, we would be also bumping into our likes of Tata Elxsi and L&T Tech also in auto?
- Balaji Viswanathan:** Yes. L&T is also a customer of ours, but they are also competitor in some cases.
- Priyankar Sarkar:** And sir, in this auto and aero, this bulk of the revenue, do we work with the captive or let's say for example Boeing captive in India or do we work Boeing directly with the US counterpart?
- Balaji Viswanathan:** So, we work with both, so there the Group outsources to us. They also have Airbus & Dassault and other customers. So, we do work through the Group for those customers, and we also work with the local companies. When we are calling out the local Airbus or Renault or Stellantis or any of those, those are part of our external revenue. Those are not part of the Group numbers that we are talking about.
- Moderator:** Thank you. The next question is from the line of Rajesh Choudhary from Zenith. Please go ahead.
- Rajesh Choudhary:** My question would be like see, our revenues have increased by I think close to 6% from the last year's quarter to this year, but our expenses and only mainly the employee expenses have gone by I think close to 16.5%. So, will this trend continue in time to come on and there will be a check on that?
- Balaji Viswanathan:** The reason why we had our employee expenses going up is primarily similar to what I mentioned. We have a higher bench at this particular point of time which we hired last year from the calendar quarter of Q3 onwards in anticipation of opportunities and growth which we were expecting from the end of last year onwards, which didn't materialize. So, we have started working on how to optimize this and that's why I said that we will probably have a better utilization rate and that is a bench ratio for next quarter onwards.
- Rajesh Choudhary:** Because 12% is a lot of difference?

- Balaji Viswanathan:** We are acting on it and that's the optimization effort that's going on, which started from February onwards. And we should start seeing the results from this quarter. But most of the results will be seen from next quarter onwards.
- Rajesh Choudhary:** Did you have any Forex loss this quarter? My understanding, I think there is loss of INR 5.6 Crore in the presentation that you have given. Is there any Forex loss?
- Periakaruppan Palaniappan:** Yes, there is a Forex loss in this quarter. So, we have a Forex loss of almost about INR 56 Million in this quarter compared to previous quarter. In the previous quarter we had almost INR 94 Million Forex gain.
- Rajesh Choudhary:** So, it is primarily because we don't hedge our currency?
- Periakaruppan Palaniappan:** So, yes, so far we have not done any hedging, but we are looking at starting a hedging program going forward. We have also gotten principle approval from the Board recently, so we will be starting the hedging program.
- Rajesh Choudhary:** So, we can expect that loss to be minimized or low loss in time to come?
- Periakaruppan Palaniappan:** Yes, we should see some minimization in the coming quarters and the hedging program will address it over a period of time. It's not going to immediately change the picture significantly, but we should definitely see some minimization in the risk.
- Rajesh Choudhary:** Because every year in one or two quarters, we have been facing this issue so I'm not sure why this has not been addressed earlier.
- Periakaruppan Palaniappan:** That's because the Forex movements are unpredictable, right? It's based on market.
- Rajesh Choudhary:** That is true. That's why we have the policy of purchasing.
- Balaji Viswanathan:** And just to clarify here, many of these losses are what we call, almost 80% of these are notional because it's not converted as yet. But we have to do the mark to market every quarter and that's the reason why this shows. Right now, it is not that all these money has converted into Indian rupees and we have incurred this.
- Periakaruppan Palaniappan:** That's right. So, again, just for perspective here, I want to clarify. So, last year we had INR 107 Million of Forex gains. And even in the last year same quarter, we had INR 12 Million of Forex gain, previous quarter we had INR 93 Million of Forex gain. It is only this quarter we had incurred a substantial loss of INR 56 Million. So, this is the first quarter where we had a substantial loss otherwise we have always been in the gain. So, when we talk about why this action has not been taken? The impact of that has been felt only in this quarter. So, now we have acted, and we have started the program. So, you should see the benefit is coming in the future quarters.

- Rajesh Choudhary:** And there is one more last question is like we had an aspiration of doubling our workforce by FY '25. So, are we still on track for that? And secondly, will that convert into doubling of revenues as well or no?
- Balaji Viswanathan:** It is not likely to happen because we anticipated a substantial amount of business growth and we also anticipated some inorganic growth as well, which we thought was likely to happen in the last financial year and this financial year which we don't see that happening at this particular point of time. But headcount to revenue perspective, ideally the headcount growth should double the revenue, but the significant amount of the growth is going to come from the Group which is on the fixed markup. It may not exactly be that, but approximately it will be double the headcount, the revenue should also double. Almost double, not exactly double, but almost.
- Rajesh Choudhary:** So, this is on hold at the moment, or this can be taken care in later part?
- Balaji Viswanathan:** No, I don't see we talked about March 2026 should be 10,000 headcount, but given where we are right now, unless otherwise there is some significant market correction and growth that's going to come, I don't think we will be able to achieve what we have set as our goal.
- Moderator:** Thank you very much. Next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.
- Gunit Singh:** I want to understand the quarter-on-quarter headcount has gone down but still the employee expenses have gone up by 6% to 7%. So, what's the reason for that?
- Periakaruppan Palaniappan:** Yes, so one of the reasons is because we also have some wage increments coming in this quarter. So, that's kind of taken our costs higher though the headcount has not grown that much. The second reason is the proportion of onsite employees have gone up. So, that's also kind of taken our costs higher comparatively. So, on a headcount basis, it's not that significant growth but costs have gone up.
- Gunit Singh:** Onsite as in have a movement from work from home to onsite.
- Balaji Viswanathan:** Offshore.
- Gunit Singh:** Then and you mentioned that the demand scenario is likely to pick up, but right now it is still under pressure. But you also mentioned that you would not be significantly reducing the headcount and that you will reduce the bench from about mid-teens to 10%. So, without significant demand, how do we see the bench reducing without any reduction in headcount? Can you throw some light on that?
- Balaji Viswanathan:** We will reduce the headcount. That's what I mentioned. So, bench will reduce, the reduction in headcount, but most of the actions have already been taken. Right now, with the numbers that you see are people who are on notice as well. And as you know in India, you need to have the three months minimum from the time you start taking action for the headcount to not showing

in books. So, most of the action has been taken, but the numbers will actually show only going forward.

**Gunit Singh:** And lastly, you mentioned that we would be continuing with the current growth trends. So, we saw about an 8% to 10% increase in revenues in FY '24. So, in terms of FY '25, do we expect the revenues to be stable or do we expect to maintain these levels and on top of this, do we also expect similar kind of growth of about 8% to 10%?

**Balaji Viswanathan:** We expect that we should be closer to double digit for this financial year. While the initial target was much higher than that, we expect that we should be able to closer to double digit growth for FY '25.

**Gunit Singh:** So, double digit growth with an improvement in EBITDA margins to 16%-17%.

**Moderator:** Thank you. Next question is from the line of Rahil Shah from Crown Capital Partners. Please go ahead.

**Rahil Shah:** I was just going to ask the similar growth thing. So, what is stopping us at the moment from growing in mid-teens at least and by when do you see us getting there and what will be required to get us there. So, you could just speak on that please?

**Balaji Viswanathan:** So, originally our plan was that we will probably be able to grow at 20%-25% and that's the basis with which we had the headcount when we started the year as well. However, the demand wasn't in line with that and that's the reason why we are acting on optimizing our headcount as well. This year, we expect to be in that double digit like what I mentioned. Hopefully by end of this year, once demand starts picking up from the core market, we should be in the teens or even better than that closer to 20% range, which hopefully should be seen in the next financial year.

**Rahil Shah:** So, by first quarter next financial, you think you will be able to start with the teens and 20% growth.

**Balaji Viswanathan:** Absolutely.

**Rahil Shah:** And when you say EBITDA should be in the range of 16%-17% over next 3 quarters, why do you just mention next 3 quarters or do you expect for the full year or quarter four, it can be different, higher or lower?

**Balaji Viswanathan:** So, once the demand picks up in the first two quarters, we may have to invest in getting headcount and making sure that we are ready to capture that growth. So, that's why we are watching every quarter and the quarter where we see the demand picking up, we may probably have a little bit higher cost, but over a period of time, it should go back to the 16% or 17%.

**Rahil Shah:** But sir still on an average, we can assume 16% for the year?

**Balaji Viswanathan:** That's right.

- Moderator:** Thank you very much. Next follow up question from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.
- VP Rajesh:** One question was just to understand what was the growth in this quarter for the Group business versus the non-Group business?
- Balaji Viswanathan:** So, this quarter, the non-Group business grew by around 3% and the Group business grew by a little over 5%.
- VP Rajesh:** And in terms of the wage hike that Mani talked about, have we been always giving the wage hike in Q4 fiscal year or there was something special which is why we did it in this particular quarter?
- Balaji Viswanathan:** We actually postponed our wage increment by a quarter. Normally, it happens from January 1st onwards. This year, primarily because of the slowness and demand and also we want to align with our budgeting process, we postponed it by a quarter.
- VP Rajesh:** So, the number we are looking at is INR 156 crore of employee cost. This is without a wage hike, is it?
- Balaji Viswanathan:** So, part of the wage hikes were done in January where we had already promised. Part of the wage hikes are actually from effective from April 1<sup>st</sup> onwards.
- VP Rajesh:** So, this INR 156 crores of employee cost in the June quarter, do you think it will stay like here or will it go down because of the actions you have taken on the reduction of the workforce?
- Periakaruppan Palaniappan:** So, yes, we expect this to slightly go down because in this quarter, there's a partial wage hike and then there is also while we have taken action, the people still have about approximately 3 months' notice, so the headcount has come down towards the end of the quarter. So, that's why you see a headcount reduction. But for the cost perspective, the costs have been mostly there in this entire quarter. So, you will see that going down this in the subsequent quarters as well as you mentioned, but the other part of the wage hike will also come in. So, that will kind of to some extent compensate, but overall we still expect that we will continue to take action. So, we should continue to see some reduction in this cost though it might not be substantial, there should be a margin reduction to this cost. It shouldn't go up.
- VP Rajesh:** Got it and just last question on the revenue by industry. Our engineering business seems to be coming down. So, anything in particular that you want to call out there?
- Balaji Viswanathan:** So, we have some challenges with the automotive industry, particularly the reason was that if you recollect last quarter we had one time revenue which came from one of the customers and last year also it was from the same customer where it was for work which was done there back in 2021 where we were billing the change requests leads to increase.... So, that's the reason why there's a slight dip that you would see in the automotive specifically, but other than that, that's it's not coming down, organically it's not coming down.



- Moderator:** Thank you very much. Next question is from the line of Rohit from iThought PMS. Please go ahead.
- Rohit:** Yes. Well, the most questions have been answered. I was just trying to sort of further understand beyond CY '24, how does one look at growth? I mean that's the only question that I have, you're saying 10% this year and as you said that CY '25, 10,000 is not happening. Have we sort of revised our internal targets to something which is more achievable now so CY '25 or something and if you are willing to share that.
- Balaji Viswanathan:** We haven't reworked on the numbers in terms of headcount, primarily because we are trying to also stabilize on make sure that we have a clearer view on what is going to come from the Group and what is going to be done from the direct market. But like what I mentioned, the expectation even in this year, we thought that once the core market picks up, we should probably be in the high teens or so that is not something which we are seeing at this particular point of time, but hopefully before the Q4 calendar year, we should start seeing some growth and that's why I think that next year our ambition or our endeavor is to be in the mid-teens to 20% plus range, which is what we did in FY'21 and FY'22 to go back to those growth rates.
- Rohit:** And just related to this, it was asked earlier as well in the call base is so low. Ideally, we shouldn't really be too much impacted by the market. I'm sure, the market is definitely impact the demand environment and etc. But given the base itself is so low, especially if you look at our direct business, is there something that we can do more to get at least better than the market growth given that size is like not very high. So, is there something which is lacking or so?
- Balaji Viswanathan:** We can find different reasons, but see the challenge is also that when the market itself is slow, the bigger players are ready to throw in anything to get even smaller engagements because normally you don't find the bigger players battling for \$1 Million and \$2 Million deals. But nowadays, everybody is there in the race for everything. So, it is a question of how large the pie is and who's ready to take what part of that particular pie. So, I agree with you that no and when we are small, we should be able to technically what you're saying is right. But that's not what we are seeing in the market at this particular point of time. One is the customers discretion to spend itself is lower. And wherever there is a spend, irrespective of the size of the deal, we are actually seeing bigger players playing in those opportunities as well. So, it's a combination of multiple things. But having said that, that's the reason why we are at least seeing some amount of marginal growth from where we are.
- Rohit:** And just last question on this. So, let's say if growth picks up, whenever it picks up, whether it is direct, or you book business. As you scale right now, we are at about \$100 odd Million, more than \$100 Million, around \$120 odd Million. But let's say as you sort of get to more close to \$200 Million, is there any leverage or operating leverage benefits that you will have and can the margins go beyond what you have indicated or it is not going to be the case? How should one think about that?

**Balaji Viswanathan:** I would say that the margins depending upon the mix, engineering business grows more and the engineering margins are not as much as what the technology services now being are currently. Given the range as 16% to 18%, I don't think it's going to change way beyond that.

**Rohit:** Thank you very much and I would really appreciate if you can have a clear thought process on the payout because capital allocation, because markets typically would not like cash being, I mean at least the thought process is very appreciated and we have been waiting for a very long time, Balaji. And you waited for the merger to happen, and after merger also, there's no clear thought process. So, you must please have at least some clarity, I would really appreciate it, something in the coming quarter.

**Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.

**Balaji Viswanathan:** Thank you. Thank you for all the participants and the questions. Appreciate all your interests with us. And hopefully we should be back with better results for next quarter. Looking forward to the same level of support. Mani, you want to add anything more?

**Periakaruppan Palaniappan:** Nothing, we covered it Balaji. So, yes, we are expecting to definitely have better sales next quarter. So, we will come back with better numbers. Thank you.

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

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