



“Expleo Solutions Limited
Q4 and FY '25 Earnings Conference Call”
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Asha Gupta:

Ladies and gentlemen, good day, and welcome to Expleo Solutions Limited Q4 and FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from E&Y LLP, Investor Relations. Thank you, and over to you, ma'am.

Asha Gupta:

Thank you, Manav. Good morning to all participants in the call. Welcome to the Q4 FY '25 Earnings Call of Expleo Solutions Limited. The results and press release have already been mailed to you, and you can also see the same on company's website. In case if 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. Phani Tangirala, Managing Director and CEO; Mr. Periakaruppan Palaniappan, CFO, whom we will be referring to as Mani. Mr. Phani will start the call with a brief overview of the quarter and year gone by, which will be followed by Mr. Mani who will be giving you the brief update of the financials. After that, we will open the floor for Q&A session.

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

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

Phani Tangirala:

Thank you very much, Asha. And a very good morning to all the investors, and thanks a lot for continued trust in us. And as you would have seen the results published, we had a good year with a 7.1% year-on-year growth to INR1,041 crores, and the EBITDA margin improved by 80 basis points to 16.2%, the details of which Mani will cover during his presentation.

I would like to more focus on where I left last time in the earnings call, where we had 3 or 4 pronged approach, which I have talked about. And I want to start by picking from there and then seeing how this has contributed to it.

As you can recollect, we have these 4 major points that I have emphasized in the earlier earnings call.

The first is, this year, we are focusing heavily on our existing customers to grow and that was a plan at that point of time, and we have taken adequate actions towards that to see how we can grow our existing customers, improve the diversification of our services within the existing customers. And not spreading ourselves thin on our marketing expenses to all the regions and

everywhere, but a significant amount of that spend also can be put in account-based marketing on the existing customers is the first prong.

As a part of that initiative, after I spoke to you last time, we have now identified our top 20 accounts contributing to 70% to 80% of our revenues and have identified 7 key account managers who have been long in the system who are subject matter experts and very effective account managers to run these accounts and so that a very focused effort is put on each of these accounts. And they together with our marketing teams have been driving the account-based marketing initiatives so that these accounts are grown. The results are fruitful. At least 75% of those accounts have started to show significant difference with those interventions that we have planned, so we are working according to our plan.

The next prong which I have talked to you last time is focusing on go-to-market, focusing on the regions which have shown us good results in last year. I talked about U.S. and Middle East. They continue to promise us.

U.S., as we promised, we have channelized our spend in that particular region and also in the Middle East. Primarily U.S., we are focused heavily this year in the last one quarter, where I was there attending AI and data conferences making our visibility extremely high, and focusing on the QSR industry because one of our largest QSR customer is sitting out of U.S. So, they are a big advocate for the work what we are doing, and we are leveraging on it. And data, AI, specifically in quick service restaurant group is what we have done heavy campaigning on, one major roundtable initiative has already happened in New York City and the second one will happen in Chicago in September. And we continue to stay invested very heavily, and we are seeing a very good prospect on that.

On the Middle East front, we did say that we will expand our Middle East footprint into Saudi Arabia. And now I'm happy to say that we have our subsidiary created in the Kingdom of Saudi Arabia, and it is operational, and we will do a soft launch and then with a bit of fanfare in the months to come, and our marketing team is fully geared to tap the current growth so that we get benefited by having our own offices there. That is on Saudi. But having said that, Dubai is continuing to grow, where we have a good amount of presence, almost literally in every bank, and that is only improving. And we are proud to say that at this point of time, we have the highest number of people ever in Dubai, which we never had that kind of a number. So, the Middle East continues to promise.

While in my earnings call last time, I have said U.S. and Middle East are the 2 areas which we'll focus, but a new entrant to India is certainly, I'm not able to ignore it because as you all know, the advent of GCCs in its current shape and form has come very strong, and we don't want to be left in that particular game. So, we have pulled our cards, and we have gone into the industry to see where in our areas of strength, we can help these GCCs. As we speak, we are now working closely with 22 GCCs and these are at the initial stage, and I'm expecting some results to come with all these 22 from June end or July onwards. So that's a significant step and we have brought back India into our focus. And in the last 2 quarters, India has shown a significant promise in terms of both the revenue growth and in terms of the headcount growth.

So, the strategy has slightly been expanded beyond U.S. and Middle East now to India. So, that is the second prong.

The first being growing the existing accounts and the 7 account managers I talked about. Second is the emerging markets on U.S. and the Middle East, expanding it to India.

And the third is, if you remember, we talked about we want to do a huge diversification and want to make our presence right in the AI and data side. As a part of that, I have also mentioned last time that we have made significant investments in 2024 when it comes to having people hired and the solution architects who are specialized in artificial intelligence and GenAI and data capabilities. So, to a great extent, we have done extremely high investments without any revenue in 2024 because we know that this is going to be a platform creation investment, and that is done now, fortunately, with all these 60-plus associates whom we have hired for AI. We have now created expleo.ai as our platform based on which we will serve all our customers who don't have to really go and do all things by themselves. It's a platform where there is ready built accelerators made available using the LLMs and various other facilities, the copilots, whatever is related to AI, our tools and our accelerators have been loaded into the expleo.ai platform. And we have done close to 50 proofs of concepts globally, not just for our direct regions, but also a bulk of it have come from Europe. And that has all happened until January this year, and we started to taste some success out of which as we speak until April, we started getting revenue on the AI front at least on 4 different accounts. So, whatever efforts have been spent are now getting paid for, and we'll continue to focus. And the Group is also committed to be invested in our AI initiatives. So, we have set up the AI lab in Pune, and there is an execution team also that has been identified for this. So, the third prong which I talked about is well in control and shape.

And the last one, which I talked about is given the geopolitical situation, and the macroeconomic conditions in Europe, there is an extreme slowdown. But if you remember, I have talked about taking that as an advantage to reduce the cost for our Group customers by moving significant chunks of work to India has been our focus. This is exactly what we have gone to all our Group customers with the help of the Group. And we have made a pitch to them to see how they can reduce their costs, one by infusing artificial intelligence, two is by moving more and more work to India. So, that has already started paying off as a result that internal revenue that is coming from group has significantly grown beyond our budgets. That trend is something which I'm expecting to continue in the current quarter, and the future quarter, and that will have a significant positive impact towards the end. So, having said that, the markets in Europe continues to be dismal.

Auto is further spiraling down. Aero, though the supply chain issues are still not sorted out but nothing much is going on R&D primarily for the big giants like Airbus have order books for next 10 years. So, there is no motivation to invest in innovations and new products. So, that is what predominantly the engineering team of ours depend on, but there are significant maintenance upgrades of the aircraft, which is still going.

So, in a nutshell Aero and Auto are continuing to be the way they are last year. But with the kind of a war-like situation everywhere, the defense seems to be growing. And we are already seeing some tailwinds assisting us on this front, where coupled with the Make in India initiative on the

government office that are available for us, we are foreseeing the defense revenues to go up in this particular area.

So, that is on the industry-wise, banking and financial services continue to be promising, like because while we are talking on the artificial intelligence on one side, there is a significant modernization still not done for most of the countries, especially in APAC, India, and some Middle East countries. So, the digitization and then being ready for artificial intelligence, those are the things which are happening.

So, BFSI, I'm extremely confident. As a new thing, retail and QSR is a focused industry for us and we are doing campaigns all over and that is definitely promising. And from our front, some of the results, what you have seen are an outcome of our very stringent methods of pulling operational expenses into control in 2024, '25. That has really helped us to get those profits up by 80 basis points this year. And the same focus will continue.

We have set ourselves very stringent targets when it comes to our costs, and we don't expect to shoot them when it comes to OEX (Overhead expenses). At the same time, this year will be a special focus on our SG&A and then we will see how we can rationalize our expenses on the SG&A front and thereby translating into higher benefits. So, these are some of the initiatives that we are taking.

With this, I will hand over to Mani to cover on the financials before taking any specific questions that you may have. Once again, thanks a lot, everyone.

P. Palaniappan:

Yes. Thanks, Phani. Thanks to all the investors and analysts who have joined the call. I'll start my brief by starting with the comparison of quarter-on-quarter financials.

The operating revenue for the quarter ended March '25 is at INR 2,558 million compared to INR 2,576 million in the prior quarter, which is a 0.7% drop in revenue mainly due to a few project closures in our auto industry due to the headwinds the industry is facing at large. Total income, however, is flat at INR 2,603 million between the 2 quarters and the higher forex gain in this quarter is compensating for the reduction in operating revenue. EBITDA for the quarter is at 15.6% versus 16.9% in the prior quarter primarily due to the impact of wage increments that we gave in this quarter. EBIT stands at 12.5% versus 12.1% in the prior quarter and it is higher in this quarter mainly due to onetime depreciation costs that we had in the prior quarter. PAT is at 9.1% versus 7.4% in prior quarter and is higher by 1.7% due to higher forex gain of INR15 million in this quarter compared to the INR51 million loss that we had in the previous quarter.

I'll now move to the year-on-year comparison of the quarter performance. So, operating revenue for the current quarter is at INR 2,558 million compared to INR 2,554 million in the same period last year, this is a growth of 0.2%, mainly due to improvement of onsite opportunities out of Middle East and the U.S. region. Total income is at INR 2,603 million versus INR 2,572 million, which is higher by 1.2%, mainly due to forex gain of INR 15 million in this quarter compared to forex loss of INR 56 million in the same quarter last year. EBITDA remained flat at 15.6% between the 2 periods, mainly due to wage increments in the current quarter being fully offset

by savings we made in keeping our operational costs under check to protect our margins. EBIT stands at 12.5% versus 12% in the same period last year, mainly due to higher depreciation in the same period in the last year. Profit after tax is at 9.1% versus 5.7% in the same period last year. And this increase is primarily coming from forex gain of INR 15 million in this quarter compared to INR 56 million loss in the same period last year.

I will talk about the full year highlights. Operating revenue for FY '25 is at INR 10,248 million versus INR 9,649 million in FY '24. This is a growth of 6.2% and this growth is primarily coming from improvement in our onsite revenue in Middle East and the U.S. region. Total income is at INR 10,410 million versus INR 9,724 million for FY '24 with a growth of 7.1% and the incremental growth beyond the operating revenue, primarily due to higher interest income from a higher cash balance. EBITDA for FY '25 is at 16.2% versus 15.4% in FY '24, an increase of 80 basis points, mainly due to higher revenues, improved utilization, and keeping our bench in control while we manage our discretionary spend effectively, offsetting some of the impact that came from our wage increments we gave this quarter. EBIT stands at 12.3% versus 11.9% in FY '24, higher by 0.4%, and this is due to the same reasons I mentioned earlier, partially offset by higher depreciation costs. Profit after tax was at 9.8% versus 9.1% in FY '24, higher by 0.8% again, due to the same reasons I mentioned earlier. EPS is at INR 66.52 versus INR 58.27 in FY '24, higher by 14.2%. Cash position stood at INR 2,294 million at the end of FY '25 versus INR 1,840 million at the end of FY '24.

And that's the end of my brief. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have a first question from line of Athreya Ramkumar from ithought PMS. Please go ahead.

Athreya Ramkumar: So, my first question is with respect to our engineering division. And if you take a look at the revenues over the past 3 years, from FY '23, it's actually declined by INR 10 crores. And the entire logic of merging the companies was to increase group revenues and maybe increase offshoring as well.

And even in the commentary, you had stated that there are a lot of talks going on. But if you take a look at the numbers that's not happened so far. So, what is exactly happening here? And what is the outlook for this? Because if you take a look at other companies operating in India, they have not been flat for the last few years. So that would be helpful. That's my first question.

Phani Tangirala: All right. So, if you look at the engineering business for Expleo Solutions Limited, it is still a small fraction of the total. So, primarily, this is non-engineering DigiTech and a minority coming from that. And if you look at the industries we are flying in there, so it is on auto, aero, defense and transport. These are the 4 major industries where we are. And in my initial comments, I've already told how the auto and aero business is really going down.

So, now with that, there is a cascading effect of a slowdown that is coming from Europe for us because bulk of our engineering business is internal revenue for us. And that is having a significant impact. But exactly the reverse is happening on the defense side, where because of the situations what I've mentioned earlier.

So, we have now seen a very good traction coming where those defense projects which otherwise was running in France and Germany, the clients themselves are pushing it to be done from India, one for cost purpose; and second is to take the benefit of offset and the Make in India benefits. So, these are the ones which are coupled and I'm seeing a good growth.

But you are right, if there is anything that can be done significantly, then engineering is one because it is on a decline phase primarily coming on to industries. But we have now made some investments in terms of even the transport side, expanding it to our direct markets in Asia where the metro lines and those are things which are heavily picking up in the APAC countries. And with our significant strength coming from group, those are the ones and defense. These 2 together should bring our engineering services back. I'm not promising significant growth, but probably we will be seeing the end of our decline very soon, I would say that.

Athreya Ramkumar:

Okay. But I mean, in your initial commentary, you were talking about good traction with the group customers to offshore business. Shouldn't that lead to at least some growth for the Indian business because we have been trying to do this for a while now. So, what's exactly happening on that front?

Phani Tangirala:

Yes. So, when I said there is a significant improvement in our internal revenue. We have to see that it is not limited only to but not excluding engineering, very frankly. It includes the other industries, which includes financial services, insurance, and retail, and so many other energy utilities and life sciences, pharma are also there. Apart from that, aero and auto. So, the outlook which I have given primarily on increase in the internal revenue is taking every other industry into consideration and which includes not just engineering but significant portion coming from digital again. So, those cannot be taken as a linear answer for engineering also. Engineering, the slope or the angle at which it is growing will be slightly lower than the DigiTech as we currently see. But overall, it is much better than 2024.

Athreya Ramkumar:

That's helpful. And another question on the number of clients itself. So, the number of clients has now declined to around 201, and it looks from the outside that you are probably reducing the tail. And if I am not mistaken, you had stated that you're adding around 10 to 12 clients to help them with their GCCs in India. So, could please talk about the client addition, especially with respect to the GCCs, are these like bigger companies where the quantum of deals or the quantum will be about \$1 million? Or anything on that would be helpful, sir.

Phani Tangirala:

So, one is I'm not very frankly, too much carried away with the number of clients because while we are adding clients, we are doing a massive exercise of compartmentalizing all our customers into 4 quadrants where the high revenue, high-margin accounts to low revenue, low-margin accounts and low revenue, high-margin and high revenue, low-margin. So, we are putting them into 4.

And as in many organizations, we generally have this long tail, which are falling under the low revenue, low margin. And with the demand and the resource crunch, which is prevalent in the market, we want to make the best use of our resources to be working in high revenue, high-margin accounts rather than being invested in low revenue.

So, to the extent of cannibalizing some of our LR, LM, low revenue, low-margin accounts, we don't mind doing that because to stay in business, we may have to take harsh decisions. So, at times, that number of additional new logos that we have added could have been offset with the number of customers that we are losing, or we want to exit.

This is also something which we have been bold enough to take those calls because at the end of the day, we have to be profitable to our shareholders is the underlying message. So, whether it is 201 or 212, I mean, very frankly, that doesn't determine the actions what we do. Sometimes this number can be high, sometimes the other number can be high.

Now, coming to your GCC question, there also, with the help of the NASCOM information provided. We have got access to all the GCCs that are either already set up in India or planning to set up in the next 1 year or so. And we then have done a mapping with our global group to see how many of those which are already our customers is the first bucket. Second bucket is where they are looking at GCC components, which are in our sweet spot. I mean where we have a significant expertise in. And third is opportunistic. So, when we put it into these 3, obviously, they became our top priority. So we are working with our big customers from Europe, they are the #1 customers where we have MSAs already in place, and they are setting up their GCCs in India. So we don't need a separate MSA.

So, we are talking to them in order to see whether we can create a center of excellence for them in their GCCs in a build-operate-transfer model, which could be anything between 2 to 3 years. I mean, I don't want to go in quantifying that number, but when we offer a center of excellence and innovation center for them in India from a GCC point of view, for a period of 3 years, you can easily guess what would be the sizes.

So, those are the first targets what we are attending. And then the second are those where we are very strong in this industry. And through partners, we got introduced to several GCCs who are not looking for someone to be carpet bombing everywhere I can do anything. We are not going with that strategy. We have some capabilities on our side. We have been a quality organization for very long, and we are telling them that we don't want to go in every other -- right from their space requirements to sourcing requirements is not we are pitching. We are saying that quality is an integral part of any of the GCCs that you do, and we don't mind building a quality assurance practice for you running it for next 2 or 3 years. And the third year, we'll do a transition and then pass it on to you from third year in case they want. Otherwise, we don't mind continuing. So that is the pitch we are taking, and that has a significant response from most, because many of those countries are who have set it up here themselves are dark on how to take this up, though our biggies are helping on it. But at the same time, a focused effort on a specific service is always being welcomed.

Athreya Ramkumar: Sure, sir. Thank you for the detail commentary. That's helpful.

Moderator: We have our next question from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: So, Phani, my first question is regarding the revenue growth you expect in the next couple of years, given the commentary you gave on the various industries. Just trying to get a sense what

kind of growth we can expect given you said BFSI is going to be strong and certain industries are going to be weak?

Phani Tangirala:

So, to put it in actual numbers will be very, very difficult at this point of time. But let me confirm that as we are in the first quarter, I can guarantee that this is going to be a better quarter than the previous, and we are only looking at it. But at any point of time, 1 month before Operation Sindoor we never knew it is going to come. With that kind of volatility in the market, I don't want to commit myself a number, but it is extremely promising, both from revenue and EBITDA point of view. But I can specifically talk about some industries.

The industry that we see significant growth continues to be BFSI and retail, and then defense will add in the H2 of this year and life sciences and pharma is also growing. Insurance is going to remain flat. Auto is showing a slight decline. Aero is showing a slight decline. So, these are the indicators I can give but quantifying it at this point will be very difficult.

V.P. Rajesh:

My other question is on the margin side. Previously, we had guided around 16% to 18% range. And obviously, we have landed in that for this period. The question is that do you think that kind of yield can be continued for the next couple of years? Or are you investing more, which will potentially have a drop in this margin?

Phani Tangirala:

Yes. I mean as I mentioned in my opening remarks also that we have extensively worked to keep our operational expenses under control, and we have significantly brought that down over the last one year. And as I said, we will focus not only on SG&A this year, but we will maintain the lowest amount of OEX what we have recorded last. So, these 2 will only reflect in either maintaining or improving the current percentages.

At the end of the day, our whole game plan is to see that how much we can pass on the benefit back to the shareholders. And in a way, our group also is only looking at that as a primary thing. Margin point of view, I don't think so we will do anything to slip it down unless there are any unfortunate situations come. But Mani if you want to add a word or so?

P. Palaniappan:

Yes. So, mostly, I will echo your thoughts, Phani. So, we don't have a specific number, so to say. But as we have said in the past, it will be in the range of 16% to 18%. And we are currently at 16.2%. So, we are only striving to improve it further.

V.P. Rajesh:

That's very helpful. And in your commentary, you had also mentioned that you are thinking of AI as the foundational strategy. And I also noticed that your headcount is starting to come down. So, if you can just comment about that, how you're thinking about using more and more AI and how are you measuring is more importantly? And what impact would it have on your headcount?

Phani Tangirala:

So, at this point of time, I'll be lying if I say that our reduced headcount is anything to do with artificial intelligence. What will happen very soon. There are multiple areas where we are deploying AI. One is on all of our fixed bid projects we are trying to see where we can get the efficiency gains using artificial intelligence, thereby since it is a fixed bid contract, any saving there goes directly to the bottom line.

So, that is one thing we are putting. More importantly than anything else on our operations side, we are using AI is where this year, my biggest plan is to see whether the SG&A can be brought by use of AI, be it on recruitment side, be it on marketing side, be it on inside sales, lead generation and every of those where a mass of profiles have to be looked or information has to be looked, which is otherwise done manually.

Today, we are very proud to say that my sales enablement team has totally come out with an AI-based solution, which will enable our global sales team sitting at any location just to give verbal comments as prompts to our expleo.ai engine, and it gives whatever information, be it case studies or presentations. So, those are the kind of things.

And then for our talent acquisition teams in flux of AI to see whether the best match of profiles are given once the job description is uploaded. So, same goes with finance, same goes with reporting. Everywhere on the non-delivery side and within the delivery side, where there are fixed bid contracts, where how can we bring automation and bring down the efforts is something what is going to happen.

We want to be AI ready at our own operations, first even before going and preaching to others on how, what we can do to bring their costs down. So, that is one. But at the same time, under 9 yards of the software development cycle, right, from the requirement phase then into the design phase to development to testing to production and post-implementation support, at every point of the SDLC life cycle, be it agile or waterfall.

We have accelerators that have been added into the expleo.ai platform, which will accelerate whatever it is done today manually, including code generation through GenAI and copilots. All those accelerators are put in, which this benefit will, of course, reduce the number of people going forward, but the value that we get out of the same reduced number of people will be much higher.

But I mean, again, I will repeat the current dip in the number. I don't want to take the credit or give that credit to AI. That is purely because we have been very strict on our bench, and we have cut down our bench to a very low number, that's where the overall headcount is coming down, though the revenue is growing at 7%, what you have seen.

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| V.P. Rajesh: | Got it. And just one quick question. Why did our depreciation number come down? |
| P. Palaniappan: | So, we had made some investments like a couple of years ago, all of these have come to an end. So, that's the reason why our depreciation is going down. |
| Moderator: | We have our next question from the line of Anuj Sharma from M3 Investments. |
| Anuj Sharma: | A few questions. One is on the exercise which we have done on the top 20, 30 customers. What has been the assessment on that? What is our existing wallet share in those customers? And what is the potential scope for us to mine these accounts? Some insights into that, please? |
| Phani Tangirala: | Okay. So, today fortunately, our risk concentration on these accounts is not as bad because the top 20 customers are contributing to around 60% of our revenue. So, one is we are not at a very |

high risk on the risk concentration. Second, in terms of wallet share, in the current context, that is a very difficult answer to give because earlier when we were only a QA player, equalisations player, we used to enjoy anything between 70% to 80% of wallet share because there are very few independent software testing companies at that point of time.

And for this organization, quality services are the only services that we provide. Now, for the last 10 years, and we have expanded ourselves beyond quality, we are now into business analysis. We are into software development, then we are into DevOps, DevSecOps, data, data management, data governance and then quality assurance, quality engineering, production support, application management. When you spread yourself into that, then we'll definitely not be in the position to say that our wallet share is anymore by 60%.

But having said that, that is what exactly I see it as an opportunity than a negative thing. Because if I am enjoying 80% wallet share and I have one service to provide then my ability to grow in my existing account is only limited to the balance 20%, which is not with us. Now, we lay low at anything between 15% to 25% wallet share. That means any piece of innovation we bring in or the differentiation we bring in, then that piece of work can come to us from a different vendor.

That's a huge possibility. That is exactly what is happening now that we are able to make inroads into the AI space at a very initial stage because we started our AI journey in 2023 when many are even contemplating what to do on that. So that first mover advantage in a way helped us to get some of those things. So, I'm not too much worried about having on a lower wallet share. I'm only seeing it as an opportunity.

Anuj Sharma:

That's interesting, your way of thinking of converting scenarios into opportunity. Second point is you did talk about cost management. Can we assume that the bulk of the cost takeout is done or the low hanging is done or that there is a way to go in the cost? You talked about SG&A and other areas. How much more do you think you can take out costs?

Phani Tangirala:

Yes. See, we are in people business, and OEX is where the bulk of the cost sits in, which we have optimized and we want to keep it at that level. But the situations won't remain the same. And so based on the situation, see the whole point here is not about the quantum of the cost, but on our agility to identify, based on the situation, if there is a lull period coming in, we have to act now then act after 2 months will make a lot of difference. So that agility has been brought into the organization.

So, now our focus has been so much significant on the predictability and forecasting that if we see that there is a trend going down, God forbid, I mean we are not seeing that in the last several months. But if there is a prediction of a dip in the future, then we will act on the resourcing now rather than waiting for it to happen and then it is a little too late.

So, from an OEX point of view, we brought it to a very decent and we don't want to go below that. But from SG&A point of view, I see a huge scope, but unlike OEX, SG&A has only some limitations below which you can go. But net-net, we being agile to the situation will make us more prudent than a fixed plan here.

Anuj Sharma: And you guys have been receptive on the dividend thoughts, so I appreciate that. Is this a onetime event? Or you guys are putting into place a policy which may be possibly communicated to the shareholders?

Phani Tangirala: Yes, as an organization though we have a dividend policy, our primary outlook is to invest it more into acquiring a part of business which can complement us growth. That is our top priority. And like what we have done last time, when we run short of that, and when we don't see any M&A kind of an opportunity coming in the next few months that's when dividend becomes our second priority.

But even as I speak to you, if you ask me with so much happening on the outside, it is always better than the cash being put to use in a most optimum way by acquiring the skill, or the skill base that can only complement in delivering better because that value, which it adds is a significant multiplier than just paying off dividend, my thoughts.

Anuj Sharma: All right. All right. If I can put in one more. You talked about transitioning from QA to a lot of other offerings. What has been the success ratio out there, especially in the existing top clients?

Phani Tangirala: So significant. I mean if I don't take count the engineering and I count my typical quality assurance services against the digital services, which we have expanded into now the digital services from 48% of our total services and 52% are the quality assurance service. I mean that is where we have reached in 10 years. So I would say that the acceptability is high because primarily our digital services, we started just like how I did mention for AI, we are starting with our existing client base.

These top 20 customers whom I am talking about, some of them are as old as 25 years. So we enjoy very good trust levels with each other that if we introduce a new service, they will consider that. That is the confidence with which we are going with our existing base. So to answer your question, the diversification is extremely worked well for us.

Moderator: We have our next question from the line of Bhavik Mehta from Roots Venture.

Bhavik Mehta: My question was around the Agentic AI base since you mentioned that a lot of the new transformation work is around AI. So at first, if you could share like what percentage of the digital transformation currently would form AI services?

And as an add-on to that, I wanted to understand that since primarily Expleo is focused on BFSI given 70% or more is coming from that sector and Agentic AI is a big trend globally around BFSI, where very large corporates are moving to develop a lot of solutions around that. So are you doing anything around that? Or are you seeing any requests from your customers around that?

Phani Tangirala: So, as I said, the AI is a combination of AI and data. If I have to put it that way. Yes, because it becomes very difficult to separate AI and data together. That forms close to 7% to 9% of our total revenues coming out of it. Within that, the bulk of it comes more from data, which is the underlying need for moving into the AI-related services.

At this point of time, most of our customers on a revenue-generating side are extremely cautious at implementing AI and so I won't say that Agentic AI is something which at least we have seen coming in any of our existing customers.

But having said that, there is an important area where we want to position ourselves. Because as I speak here today, we are looking at 6,000 independent software service providers across the globe who are providing AI-related services, purely on AI-related services because this is what is the trend. There are so many platforms, so many tools that have come.

This very soon is going to become an overcrowded market where there is unlimited number of people wanting to enter this area. So this is exactly what made us think last year, and we want to position ourselves differently. And in a quarter from now, I'll make a major announcement wherein when it comes to AI, how Expleo will position itself totally differently.

Because we don't want to let go our legacy of being a quality assurance partner. And AI is like what Internet was in 1983 and electricity in 1878. When it came, everyone want to use it, but nobody really knows how to use it. And more importantly, nobody knows the perils of it. As you can see, as the data size is increasing the number of cybersecurity attacks, this data is also increasing.

And then you are blindly believing into a black box and ask them generate me a code, give me a requirement document, or whatever if you ask it gives you and you tend to believe that it is true. So, this madness will come to some reality check very soon. So, I won't go into too much detail, but the positioning where we will be in the future is less on service provider and more on AI assurance.

That's where if you see our biggest pitch what we have made in U.S. where we tested this into the responsible AI space and the biggest QSR company in the world has really gone with us in those services is what we want to be in.

We want to be alongside the customer regardless of who they will go with as their AI provider, but we want to be their assurance partner. For that, we need to have that kind of an ammunition what our labs are today providing and the kind of the know-how and the skill set and the skill base with the people point of view is what we are building.

Bhavik Mehta:

Is expleo.ai a step in that direction to create a platform sort of showcasing what your capabilities are? Or it's more to keep up speed with what's happening around?

Phani Tangirala:

There are 2 things. I mean we can't totally say that we will apply in the area of assurance without proving that we are in the space of AI and can do things ourselves, right? So, to start with expleo.ai is an accelerator, repository, which is a platform where all our repository of differentiators and accelerators are kept in one place, which will speed up the current development, which is like a service providing. At this stage, expleo.ai is limited to speeding up and transferring the benefits back to the customer using a platform. So that is where it is stopping.

What I'm talking, which will make a major announcement in the next quarter is the future direction where Expleo will position ourselves slightly differently to be an assurance partner.

These two are 2 different things. So, I just gave heads up, but be rest assured, this will be made public very soon where our positioning will be significantly different, and that will be a huge differentiator and not too many players are trying in that particular area, Bhavik.

Bhavik Mehta: Sure. So, there is a related party loan of INR 115 crores. So, can you just comment on that?

Phani Tangirala: So, it is very much within the limits that the Board has already approved, and shareholders also have approved, yes.

Bhavik Mehta: So, will this be available to us when we require it, say, for an acquisition or something around that or it's a long-term?

Phani Tangirala: These are time-bound loans at arm's length pricing. So, when the cash is required, definitely it will be made available for our disposal.

Moderator: We have our next question from the line of Rohit from ithought PMS.

Rohit: Sir, one question I had was, sir, in your commentary, you have spoken about U.S. and as that being a focus area for you and you've given a very positive commentary in North America. However, when I look at the revenue, it seems it's still flat. So, can you just help me understand why is that? And also FY '26 this coming year, what kind of growth are you seeing? And given the slowdown that you're seeing in Europe, will you see a decline in the Europe revenue that's my first question, and I have one more question.

Phani Tangirala: Okay. So, when it comes to U.S., one is U.S. is a market where the initial trust levels to build up is something which will take a bit of time. So, that is where we are staying invested in. As I said, we have seen growth, and I don't know where you are referring - ok, from 16% to 12.9%. Yes, there is a traction, and we are extremely upbeat about it.

And even the Expleo from a group side, we have agreed now to synergize because our aero, auto and transportation business running from group in Canada and North America and the Expleo Solutions are now working together to increase.

And we have decided to invest, as I mentioned before, on the QSR space, data and partly a good combination of engineering and digital area is on the product life cycle management where being a partner of Siemens Teamcenter for the last 25 years. We have some good credibility in U.S. region, and that is where we are leveraging on some of the partnerships to build this whole thing.

So, these are all the investments in fact, what I have talked about some of the marketing initiatives that we have done are also all the sowing the seeds. And these are all future you will realize that when it shoots like a bamboo, it takes time for it to grow. But U.S. is a market when the trust is established, then you can see the offshoots outside the ground very quickly.

Rohit: No, sure, sir. I mean it's really quite encouraging to hear your commentary today. So, you are positive next year that North America will grow from whatever base it is. Is my understanding correct?

Phani Tangirala: Absolutely. We are putting most of our efforts in the U.S. because unlike many of the software companies that fly out of India, where 60% to 70% of their revenues come from U.S. Ours is exactly the opposite. I mean, we have very little share from that. And that has historic reasons, but we want to break that this time and that's where we are investing heavily, and our Group is supporting big time on that. So, with these things, that's the whole reason why I'm able to be very confident that will make a significant inroads and with all our investments going right.

Rohit: Right. Sir, my second question is in terms of putting everything together or the 3 prongs that you had said and notwithstanding the slowdown, whether it is the Middle East, whether it is India, whether it is U.S. or whether it is the focus on GCC all putting together, so you expect FY '26 to be a better year than FY '25, both in terms of revenue and margins. Of course, uncertainty is very high in today's time.

But I mean given whatever you've been doing and some of these initiatives you've been working on for more than 3, 4 quarters now. So, would it be a fair assessment given today and given what we know today, FY '26 will be a better year than FY '25. And sir, just one more comment just before I join back was sir on this payout and capital allocation.

First of all, I would thank the Board for taking our feedback, which we've been giving to pay out dividends. Sir, my point is across what you said makes absolute sense that the first priority is to invest in the business. However, if you see, sir, we already have about INR 250 crores cash and you've also given a loan.

So, if you add that the business has about INR 350 crores of cash intrinsically. And we are going to generate another INR 80 crores, INR 100 crores we are already generating in terms of cash. So, I mean, of course, if you have an opportunity, then I completely agree on that. But till then, I think if we can be more consistent and liberal, that is really helpful, sir.

Phani Tangirala: Even the direction from the independent directors have been not to sit on cash. And that is not something which we also enjoy doing it. But as the months rolling, we'll for sure say that either we go for an acquisition, if not probably a dividend is an option. But the intention is never to sit on a pile of cash. That at least ever since I've taken over, I've made it very clear that the cash has to be put to best use, if failing which it is to go back to the shareholders.

So, to answer your first question on that kind of an outlook what you have asked on 2026 is something not what I can't do. But if we have to maintain the way it is in 2025, definitely, I don't have a job, right? I mean so I only have to make it better than what it is and trust me, that is where it is. But directionally, a single-digit growth is where we are heading to. But with all these efforts, I'll be more than happy to be surprised with the double digit.

Moderator: We have our next question from the line of Athreya Ramkumar from ithought PMS.

Athreya Ramkumar: Sir, just on your response to one of the previous questions. So, what is your commentary for the European market and European region in FY '26, sir? Like are we expecting it to decline given the subdued outlook there?

Phani Tangirala:

So yes, as I said, there also, I'm seeing it from 2 angles, Athreya. One is these 2 industries, especially auto, I don't see any hope for recovery at least in FY'26 because with all the Chinese cars already running on roads and Europe was almost taken aback waking up a little late to notice the change coming through.

They were hitting them very hard. So auto, I'm not. Aero is a supply chain issue, which once it gets sorted I think we'll be bouncing back in 2026, and that's the directions which I'm getting, both from Airbus and Boeing now with the Spirit being split and bought 1/2 by Airbus and another, a huge amount of supply chain issues there are addressed.

And then there are some remaining which they are also fighting very hard. So if that happens, then I think these 2 markets will come certainly. And now coming to other industries, our same industry is the other positive thing is if Europe is failing, then the costs are under pressure and when the cost pressure comes in, offshoring is the medicine, right?

So, from that point of view, there is a significant talk going on where the bulk of the work which is currently being done in Europe, be it France or Germany, the clients themselves are mandating it to be pushed to offshore. So, that is the positive for Expleo Solutions on these 2 industries.

On the other industries like banking, financial services and, say, life sciences, pharma, the outlook is promising primarily from artificial intelligence because life sciences is the industry which is the biggest beneficial and health care also is the biggest beneficial of artificial intelligence, be it from the medical image scanning or predicting based on the medical images or in the preparation of medicine or in robotic-assisted surgeries.

AI is playing already a bigger role, and then this will come to a greater speed in life sciences, pharma. When it comes to banking financial services, the biggest area will be on the credit scoring and then fraud, fraud detection and automated Agentic underwriting.

These are the ones which are totally those jobs, which are otherwise done by professionals will be replaced. And as I speak, it is already happening. So, the first 2 industries because of the pressure will get benefited. The second 2 industries on the financial services and the life sciences, pharma is by virtue of adopting emerging technologies on AI is where we are betting big on that. So, either way, 2026, the outlook on all the 4 industries, major industries other than defense, which anyway is growing will see a positive outlook, not just for Expleo as an industry, these 4 in India will show a significant growth.

Athreya Ramkumar:

Great. And in the press release, you have mentioned that we are looking to broaden our service offerings and broaden our service offerings. So could you please highlight what exactly we're looking at and maybe acquisitions should be targeted towards those areas. And what is the headcount visibility that you have for the coming year? These 2 would be useful.

Phani Tangirala:

So, the broadening the services is something we have already done, and I don't think so that anything beyond will be added. We have moved from a quality assurance to quality engineering now to 9 years of software development and then plus engineering services. So, I don't think so there will be anything beyond that.

The only broadening which I meant at that point of time without going too much into detail in my commentary was on the AI assurance, which I said that in the next quarter, we'll have a major announcement coming our way where that is an area where we want to embark very big, and that will be a huge differentiator. That's what the underlying point, which I meant by expanding our services.

And your second question on the headcount, so very frankly, I stopped looking at the headcount and more looking at the revenue and the profit at this point of time. So, the revenue and the headcount will follow the same 6% to 7%. You may see that the headcount has dropped that is primarily because of the initiatives on the bench management that we have taken, it has come down.

Now, it has been brought under control. Now, going forward, most likely the revenue and the headcount line will be parallel to each other. Otherwise, the entire last year, you would have seen that the revenue is growing up and then the headcount is coming down, right? That may not happen in this year because we have cut it to the skin now. So, it will follow the same path of revenue.

Athreya Ramkumar: Sure, sir. I would just like to echo what the previous speakers had to say about capital allocation. So, we have close to INR 300 crores on the balance sheet. And even so without touching that we make around INR 100 crores a year. So, if we pay out at least 80% of that, you can add another INR 20 crores to the cash balance on the books. I would feel that should be for any M&A because we've been searching for a target for close to 2 years now, and we haven't found anything. So, any clarity on the payout structure would be very helpful, sir.

Phani Tangirala: Certainly, as I said before, not just the investors. We have also a pressure from the independent directors to consume and put the cash to best use, and we will let you know if any of these things in the coming days for sure. But the direction is only towards that, not to sit on pile of cash.

Moderator: We have our last question from the line of Rohit from ithought PMS.

Rohit: So, one question I had tangential to what you've been talking about in the automotive side. So given a lot of our customers are European auto majors and this whole transition towards EV has taken them -- I mean, the Chinese have really impacted them. So are we as a group or as Expleo India, are we looking at penetrating any of these Chinese OEs or that is too difficult. Any thoughts on that?

Phani Tangirala: You almost answered it by putting that word that is difficult. Very frankly to get into Chinese OEMs is not easy because they keep cards extremely close to their chest and bulk of their R&D and those what we can do, they already do it in the regions which are much more cost effective for them. Having said that, there is some synergy. There are some companies, OEMs who have outlets in India, which we are trying to work with.

But we never know with the kind of geopolitical situation if something breaks between India and China, then what will be the situation. So, we are extremely cautious on that. And very frankly, there is enough and more outside the auto for us to focus than going into the country, which is extremely self-sufficient in terms of these needs. So, we are not going all out and

remaining our scope only to an opportunistic level when it comes to working with Chinese OEMs.

Rohit: Got it. And sir, on the aero side, so you mentioned that aero will see a recovery very soon. But I wanted to understand so with one of our big customers, Airbus, I'm seeing a lot of other Indian sales are actually winning deals. And we have sort of not been able to announce anything. So just wanted to understand, have we lost any market share or what is happening there, if you can share anything?

Phani Tangirala: In fact, compared to 2024, our revenues in Airbus have improved and it has significantly improved. But our area of contribution to Airbus has been mostly on the design phase. So that's where I was talking about those are the years, 5, 7 years back, be it 380 or 330, any of these aircrafts every 5 years, you get one right?

So, with the demand after 380 and after improvising the long range of 330, I don't think so there is any new model even in the minds of Airbus at this point of time because their order book is already full with the existing aircraft. So, when their investment is less on the new products, obviously, will have an impact.

Having said that, we are also playing very tactfully and where the refurbishing of the aircraft and those kinds of things are happening. We are entrenching into it. And as probably we come close to the end of the year, you will see that we have grown in aero business.

Rohit: Got it. All the very best for this year. Thank you.

Phani Tangirala: Thanks, everyone. It has been a very good set of questions, and thank you so much for being trusting us and staying in. Please stay invested in us.

P. Palaniappan: Thank you, everyone. Thank you for joining the call and for the great questions.

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

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