"Expleo Solutions Limited Q2 FY'22 Earnings Conference Call"

November 12, 2021

MANAGEMENT: **MR. RALPH GILLESSEN, CHAIRMAN & NON - EXECUTIVE DIRECTOR**
MR. RAJESH KRISHNAMURTHY, CEO OF EXPLEO GROUP & NON-EXECUTIVE DIRECTOR
MR. BALAJI VISWANATHAN, MANAGING DIRECTOR & CEO
MR. DESIKAN NARAYANAN, CHIEF FINANCIAL OFFICER

MODERATOR: **MS. ASHA GUPTA, CHRISTENSEN ADVISORY, INDIA**

Moderator: Ladies and gentleman, good day and welcome to Expleo Solutions Limited Q2 FY '22 earnings conference call. As a reminder, all the participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen Advisory. Thank you and over to you, ma'am.

Asha Gupta: Thank you Faizan. Good afternoon to all participants in the call. Welcome to the Q2 FY '22 earnings call of Expleo Solutions. The results and investor presentation have been already mailed to you and they are also available on the company's website. In case, anyone does not have a copy of press release or presentation, please do write to us and we will be happy to send you the same.

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

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

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

Balaji Viswanathan: Thank you Asha. Thanks Faizan. Good afternoon investors. Thank you so much for joining the call and your continued interest in Expleo Solutions, I really appreciate that. We had a reasonably good quarter once again in this Q2 of FY '22. This is the third consecutive quarter of double-digit growth that we have been seeing. The demand pipeline is good and it is in line with what the Indian IT industry is seeing and we are trying to tap into as much of the demand that we could. The challenges have been primarily around making sure that we are able to deliver to the demand that is coming in, primarily due to the talent crunch, but we have been able to consistently exceed that by having investments on Expleo Academy and hiring upfront. We have done quite a bit of upskilling and building our talent pool, which is helping us in catering to the customers' demand as well. We have had a significant number of people whom we have hired in the last 3 quarters and we continue to do the same thing going forward as well. The entire tech services' business is actually seeing a good upswing in terms of both demand and in terms of interest in transformation projects and that's what we have been tapping in. That also shows in some of our larger client sign-ups as well. We have had 2 clients where we had more than $1 million in terms of revenue in this financial year.

Our offshore footprint continues to grow while the onsite revenue share has been almost stagnant which basically looks like as if it is reducing. Our offshore footprint has now crossed 65% and we expect that this trend will continue, thanks to the current remote working model, but going forward, sometime in '22, it may probably stabilize at 60:40 from the current 66:34. We have had investments on our Coimbatore center which we launched last month, and along with that, we also had graduate hiring programs which will help us in catering to the future demands as well.

Our digital services and tech-enabled services growth has been seeing a significant upswing from close to around 30% in the last quarter; right now it contributes to almost 35% of our total revenue and it continues to see a robust demand pipeline in that particular segment. We are quite confident that the current demand pipeline is strong and we will continue to see this robust growth. We have had some challenges in our margins in this quarter, primarily due to some of the one-time expenses and also the merger-related expenses and others which we had included and also combined with forex loss. Forex loss is primarily notional. I am sure Desikan will cover it when you ask your questions. Apart from that, from a cash generation and from the business growth perspective, it has been robust and we are quite confident that this trend will continue as well. Thank you so much once again for your interest and now I will pass it on to Desikan to cover the financials.

Desikan Narayanan: Good afternoon all. Talking about the numbers, we ended our 2nd quarter of FY '21-22 with a revenue of around Rs 97 crores compared to Rs 88 crores in the previous quarter, a growth of around 10%. We maintained the double-digit growth percentage quarter on quarter and we have created ourselves another benchmark revenue number compared to any of the previous years. So, EBITDA ended at Rs 16 crores higher by 12.3% compared to the previous quarter. Earnings per share went down by 13.6% compared to the previous quarter. The lower earning is due to exchange loss during the quarter to an amount of around Rs 2.6 crores against an exchange gain in the previous quarter of Rs 2.6 crores. This is more a quarter-on-quarter comparison.

Looking at the year-on-year comparison with the last year same quarter, we had a revenue growth of around 31% in the current quarter. EBITDA saw a dip from 24% EBITDA to 17%. PAT margin was at Rs 11 crores against Rs 12 crores in the previous year same quarter. We saw some increase in the cost compared to the previous quarter in some of the expenses. As mentioned by Balaji, we did have increase in the people cost. Also, we had some cost relating to the third party. Considering the current challenges of attrition, we went ahead with using third-party consultant to ensure our revenues. We also invested in the training under the hire-train-and-deploy initiative which we have taken in our Coimbatore center. Other than that, we did have cost on merger-related expenses and some sales and marketing expenses and recruitment cost. These are the major reasons for the increase in cost, and this is the overall brief about the result. Now, I open it for a Q&A session.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

Rohit Balakrishnan: I have a few questions. This quarter top line has been quite good, you are now coming to a run rate of Rs 100 crores a quarter. You mentioned that this is driven by the robust demand. Do you think that this is sustainable and probably we will continue to grow at 6% to 7% quarter on quarter even in the next year?

Balaji Viswanathan: Yes, Rohit. The current demand cycle I think will continue at least for another 3 to 4 quarters for sure and we think that we should be able to sustain the 7% to 10% growth numbers for the quarter. Like what I mentioned, most of the growth is around the digital and technical services capabilities and how we are able to combine that along with our domain capabilities and this demand is likely to continue and we are seeing this demand not just from one geography, this seems to be across all the geographies. It is just a question of how well we are able to tap into it.

Rohit Balakrishnan: Essentially if I look at our current entity – I am not talking about the merged entity yet because you don't have the numbers for that, this alone business can probably do close to Rs 450 to Rs 480 crores of revenues by next year, right? Probably more if you are saying this 7% to 10% quarterly growth can continue for the FY '23.

Balaji Viswanathan: It should be in the range of Rs 420 to Rs 450 crores, but as I mentioned, we don't really have a specific number that we want to commit to, but if we grow at this rate, that's what it's likely to be. Rajesh, do you want to add anything more based on what we see in global trends as well?

Rajesh Krishnamurthy: Globally the demand cycle across key geographies and our key industry sectors is looking very positive. In fact, at the group level also, we are targeting greater than double-digit growth for the next year. So, this is very much in line with what Balaji is saying, and of course, we also want to continue to leverage India more significantly for group activities and which is why we have been looking at scaling up our operations in India beyond our traditional locations and that's where Coimbatore will also play a significant part in helping us create the talent supply which we need in order to cater to the demand of the group.

Rohit Balakrishnan: Got it, it was very helpful. Actually, that brings me to my next question. Sir, at a group level, you mentioned that during the merger call that you are looking at 8% to 10% kind of growth and you were alluding to that also now. When I look at the combined entity, I am now looking at Rs 550 crores which you had stated at the time of merger, not next year, not the year after that, but after at least 3-4 years, can we probably get to about Rs 1,500 crores kind of revenue given what you had said at the time of merger that we will be doing it offshoring and we will be sort of 20% to 25% and the natural growth that we are seeing in listed entity at this point of time. Is that something that it is very feasible is what we are looking at? I am not looking for any guidance. I am just trying to understand what is the overall outlook that you are looking at, what is it that you are envisioning for your company over the next three to four years and how as shareholders we should probably look at it?

Balaji Viswanathan: Yes, Rohit, absolutely. From what we had actually provided during the merger announcement in terms of what we are looking at our numbers and what it is currently – not just in the Expleo Solutions, the current listed entity numbers which are also higher than what we mentioned when we announced the merger and we provided the outlook at that particular point of time. Expleo Solutions that is a listed entity is doing better than that number which was projected three months back and the same applies to the unlisted companies as well and the unlisted companies are also growing in high teens and we expect if we are able to capitalize this growth trajectory, and if we are able to fulfill the demands, which we are confident with whatever initiatives that we are taking in right now, we should be able to see the combined entity also growing year-on-year in high teens.

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

Ashis Dash: My question is on your revenue growth. You mentioned that sequentially you are expecting 7% to 10% growth for the coming quarter. Last quarter, you mentioned that there could be some impact in the Q3 because of the furloughs and lower billing days. So, how we are placed right now? And H1 growth if you look at, it's around 24% year on year. That run rate we will maintain for FY ’22?

Balaji Viswanathan: We do have a couple of customers where we may have a minor impact because of furlough, but from a revenue growth prospective, if not the current trend of 10.3% or 11% that we are seeing, we may probably see 7% to 8%, but we should still be able to see that 7% to 8% growth as what our current trajectory looks like for the next quarter as well.

Ashis Dash: On the margin front, we mentioned that the guidance would be 18% to 19% for FY 2022 and in H1 it is 16.7% though I understand you mentioned the headwinds, just wanted to know what is the revised guidance or we will stick to this guidance of 18% to 19% of EBITDA margin in FY 2022. Second thing is, the merger-related expenses have been happening for the last two quarters. Would it continue for the remaining two quarters of FY ’22?

Balaji Viswanathan: Yeah, we are confident that we will be in that 18% range in terms of EBITDA and like what I mentioned, this quarter one of the major impactors are around the Rs 5 crores impact due to forex which is once again notional, it is not real loss because we have not really booked those forex losses or we have not really converted the forex into currency. It is only a booking loss at this particular point of time. And going forward, while we don't want to comment about the forex rates, but our operating margins and our operating EBITDA should be closer to that 18% mark. On the merger expenses, most of the expenses are related to the consultants, and whatever work that we had to do was primarily between the last quarter and this quarter, i.e., the first quarter and the second quarter. This quarter, i.e., Q3 we may not see too much of merger expenses but we are looking at trying and provisioning some of the expenses that we may have to do for the actual merger as well. So, we are trying to apportion it equally. So, we may probably see some part of those expenses in Q3 as well but not going to be significant in this quarter because this quarter is primarily around filing with NCLT and waiting for their first nod. The filing has already been done, but now we are waiting for them to give a confirmation that it is ok so that we can do physical filing and then wait for their first nod for us to convene the shareholder meeting for shareholder approval.

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

Rohan Advant: I have two questions for Rajesh. My first question is on the Engineering R&D (ER&D) side of the parent business. If you look at Assystem, historically it has been an engineering company with Europe focused and focused on aero-automotives, and even after SQS acquisition, more than 70% of its business was ER&D, but if you look at the India business of Expleo and merging all the entities, the ER&D piece is just Rs 150 crores or less than 20 million euros or less than 4% of the global ER&D sales of the parent. Against that, if you look at testing, it is 18% to 20% of the global testing sales. So, my question is that if Expleo Group's ER&D revenues are roughly 600 million euros, over the next three years, how much do you expect India to contribute to these revenues adjusted for wage differential, etc.? Can the merged entity expect to give €50 million to €100 million euros on ER&D, and if not, what are the challenges you foresee? Are they language related, customer unwillingness, talent shortage, or group's preference to other offshore centers like Romania?

Rajesh Krishnamurthy: Today if you look at the split between engineering and quality services, we are roughly at 65:35, 65% is engineering services and 35% is from quality and IT services. Of course, we are also making a big foray in digital which is actually something which cuts across both engineering and the quality IT services as well and that is also growing much faster than the other service lines. Today, as a strategy, we have said that India is our real offshore setup, but as you rightly pointed out, we also have centers in Romania, we have centers in Egypt and Morocco and we leverage these centers based on customer proximity, based on skills, based on de-risking, and of course based on language-related requirements. But we do believe that more than 50% of all growth which we create outside of the core markets will actually happen in India. So, from a headcount perspective, India is already about 4,000 head count now, and we easily expect to touch 5,000+ in the coming 12 months. So, India will become the number 1 workforce for the group in the not so distant future. Today, the challenge is more on our speed at which we are able to scale our operations in India and to be able to ensure that we are able to execute those projects as per the right quality requirements of the customer, etc., which is the reason why we doubled on, on India with our One India project where we are merging all the entities and creating a single operating entity to make it easy for us to operate with India. So, we are very bullish on how this will translate into growth for India entity.

Rohan Advant: My second question again on ER&D. If you could just talk about within ER&D, what we specialize in? If you look at the Indian ER&D companies like LTTS or Tata Elxsi, and if you look at their outlook, it is 18%, 20%, 25% kind of USD growth rate, and they are already about pre-Covid numbers, but when we look at the global ER&D companies like say ourselves in Expleo or say ATA Technologies, they seem to be much below December 2019 numbers, i.e., pre-Covid, and also their margins are much lower. The divergence between the Indian ER&D players and the global ER&D players, what's causing this divergence? Is it mechanical ER&D versus digital ER&D? From your perspective, could you just help us understand this if it is true?

Rajesh Krishnamurthy: The divergence which you are talking about comes from two perspectives. First one is that the European R&D players and including Expleo for that matter, we have a much larger exposure to the automotive and aerospace industries which were the ones which were much more impacted during the Covid crisis whereas the traditional Indian players who operate in this space, they have been relatively less penetrated in these sectors. They are doing more work on telecom and product development kind of work which have not really been too much impacted by the Covid. In fact, it has got accelerated in that period. That is probably the first comment I would like to make. The second is that the traditional engineering R&D players in Europe have done a lot of work around mechanical, around structures, around electrical, and so on, and this is the kind of work which is increasingly under pressure and which is where even if you look at the large automotive players, etc., they are moving a lot of this kind of work away from the high-cost European centers towards lower cost locations in eastern Europe or India, etc., and that is the trend we are seeing. The other trend is how increasingly there is a lot more spends being done on software, on systems, and embedded software and embedded electronics, and this is an area of strength for Expleo and we are therefore looking at how we can leverage India to be able to scale in this space. So, those are the two specific comments I would make in terms of why there is such a divergence between both the profitability and the impact which has happened because of the Covid situation.

Moderator: The next question is from the line of Srishti Jain from Monarch Networth Capital. Please go ahead.

Srishti Jain: Sir, I had a basic question that why would our clients prefer Expleo Solutions over our peers? What is the differentiation in our delivery or offerings of the listed company?

Balaji Viswanathan: The value proposition that we go with our customers is our expertise in the domain or the understanding of the client's business along with the technical capability that we bring in. I have been mentioning this in the past as well. Our core objective is to try and be a techno-functional and a consulting-led engagement with our customers, and that's what has been our primary differentiator and that's what has been helping us in winning customer opportunities as well and what we position to our customers and the successful delivery which is what are also leading us to meeting our numbers.

Srishti Jain: Sir, the other question was, we plan to hire around 700 more employees as per the presentation on the headcounts side. This is across the listed and unlisted companies or only for the listed companies?

Balaji Viswanathan: This is across listed and unlisted companies. It's primarily for 2022.

Srishti Jain: Sir, this hiring would be skewed towards the engineering business, right? Because we expect more growth on the ER&D space and more outsourcing also from the group in the ER&D space. So, would that be skewed towards the engineering end?

Balaji Viswanathan: Like what Rajesh mentioned, the hiring is actually across three different segments. The first one is around the quality or the tech services space, the second one is on the digital capabilities, and the third one is on the engineering and ER&D space. So, it will be across all the three and as of now expected to be almost similar in terms of numbers, not going to be too different from one to another because the demand is quite robust and this is something which will help us in catering to both our challenges towards attrition and also to cater to the future growth that we are expecting in the business. Ralph, do you want to add anything more?

Ralph Gillessen: I think it's a good summary. I think on the one end side, there is definitely enough potential on the R&D side, in engineering especially even now after the merger, but overall, we see a solid growth in all the three segments so that we can today at least confirm that the three segments will at least grow at equal pace.

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

Aman Vij: My first question is on the digital revenue as a percentage of our revenue. What kind of run rate do we think we can exit in FY ’22 and for FY ’23 any target – the digital revenue as a mix?

Balaji Viswanathan: For us, compared to the traditional services to the digital services, digital services is probably growing at an average of at least double of what the traditional services are growing or even more than that. If you look at our trajectory of what we classify as our digital services, we have grown from close to around 9% two years back to where we are right now which is 35% which is almost four times from where we were two years back. Obviously, it won't continue the same way because the denominator is becoming larger as well, but we expect that it will be a reasonably good mid-teens to high-teens number quarter on quarter going forward as well, and it will probably stabilize or probably hit more single digit number once we get our 45% to 50% of our revenue coming from that segment.

Aman Vij: The final question is on, we had discussed about that as of now, the outsourcing from the global parent to the rest of the world entities including India is in single digits, and over the next couple of years, we plan to make it as 25% to 30% also, and a chunk of it I believe will come to Indian entity as well. When do we see actually these things happening on ground?

Balaji Viswanathan: I don't think the numbers that you quoted are right because currently if we were to look at the listed entity alone, the listed entity's contribution only from the group is around 21% to 22% and the contribution – I had mentioned this in one of my previous calls as well – we also have European customers which are directly signed by Expleo Solutions in the past which is now being serviced through the group. If you include that segment of the revenue as well, it will probably be in the range of around 40% to 45% and the remaining 55% is what is actually coming from our own direct markets. If you look at our presentation that we had done when we announced the merger, our expectation is that our direct business will probably be in the range of around 60% and our group business will be in the range of around 40% to 45%.

Aman Vij: Let me clarify once again. I was thinking in terms of now, India is said around $100 million to $150 million, I am talking about global parent outsourcing from Indian entity, the reverse way, not…. I understand India for us listed entity as well as unlisted, the global parent contribution is higher, but I am talking in reverse way.

Balaji Viswanathan: That is not something which we could measure in our current business model because that's probably not the right way to look at it. We are not one of those. If you are comparing us with TCS or Infosys, then certainly that's not the right comparison. May be, Rajesh, if you want to provide your inputs on this.

Rajesh Krishnamurthy: I am not very sure I understood the question.

Balaji Viswanathan: The question was, Rajesh, if you look at the global business, we are at 1 billion euros or probably $1.1 billion, but the Indian entity is doing around less than $100 million which is less than 10% of the total group's business. So, the question was that where we see this going in the future. And I was saying that the comparison is not probably the right comparison to do.

Rajesh Krishnamurthy: Our Indian business of course as you have understood has got two components – it has got a direct business, the business which is sourced directly either in India or in Asia Pacific markets where the group is not present and the other business is of course the business which the group leverages to deliver out of India. And like Balaji said, today the larger percentage of work which is happening through our Indian entity is the direct business, but as the group is continuing to accelerate, for example, this year the group will probably do a double-digit growth after a long time and the next year we are actually looking at significantly accelerating that growth, and as part of that, India will become a much more significant component in that growth story. So, we are currently looking at maybe 20% plus growth for next year for the group and a lot of that growth will also percolate down to India. Today, we are not exactly giving out specific details of that, but overall if the group is growing at 20%, we expect a significant chunk of that growth will also drive India growth.

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

V P Rajesh: It's very heartening to have Ralph and Rajesh on the call and I really hope that this will be an ongoing process for the coming quarterly calls as well. Balaji, I have 2 questions. One is on the growth that we saw in this quarter. How much came from the group's revenue versus our direct markets? Do you see that contribution changing in fiscal year 2023 when we are one entity both listed and unlisted?

Balaji Viswanathan: The group's revenue contribution continues to be around 21% to 22%. It basically means that whatever growth that we are seeing in the direct markets, it is the similar growth that we are seeing in the group markets as well. The overall numbers are increasing, but the contribution percentage is almost in similar lines as to what we are seeing in the direct markets as well. Going forward, like what Rajesh also mentioned, our way forward is that once we build the scale, once we have combined the entities, the expectation is that we will actually have a significant amount of the group's business which will move and some of the growth that the group is seeing will move towards India and the other base-shoring centers of the group.

V P Rajesh: My second question then is, as Rajesh was saying that the group will grow 20% and the contribution from the group to the Indian entities will only go up. Then, aren't you being a little too conservative in giving your guidance for fiscal year 2023 or at least giving an indication? I would think that you will be growing easily 20% to 25% given what Rajesh has said a few minutes ago.

Balaji Viswanathan: The group's expectation for this year is to grow at double digits. It's not 20%.

V P Rajesh: That's for calendar 2022, right? And if I heard Rajesh right, he was saying that calendar 2023, we are expecting to grow 20% at the group level.

Balaji Viswanathan: Absolutely. We haven't really gone to providing the guidance for '23, but whatever growth that the group is going to see, we will have a significant contribution coming towards India as well.

V P Rajesh: Desikan, just a quick housekeeping question. What was the one-off cost in the 6 months' period like your M&A cost and some other one-offs?

Desikan Narayanan: That is the one-off cost there. And also some of the training expenses what we have incurred, and actually recruitment cost also has some one-off cost which was incurred during the quarter.

V P Rajesh: What is the total amount for the first six months for Q1 and Q2 put together?

Desikan Narayanan: I don't have it in hand; I will get back to you on that.

Moderator: The next question is from the line of Rajesh from Zenith. Please go ahead.

Rajesh: My question is, I can see the trade receivables on the consolidated basis at Rs. 23 crores. It seems to be pretty high. Any thoughts on that please?

Desikan Narayanan: If we look at the trade receivables and also the growing revenue, that is bound to increase, but you need to see the DSO part of it, because it reduced from what it was in the last quarter to the current quarter. That makes us more resilient from 76 days of last quarter it dropped to 71 days. Basically, in the last few quarters, we had the highest revenues. That's the reason the trade receivables is increasing, but with the DSO dropping out, we do the collections in a better way. That thing I can say as a positive side of it.

Rajesh: Can we expect net profit margin of say 15% to 16% on the consolidated basis in time to come?

Desikan Narayanan: Yeah, the expectation is around 17% to 18% EBITDA margin what we are looking at.

Rajesh: No, I am talking about the net profit margin.

Desikan Narayanan: Net profit margin, yeah, that will be in that range.

Rajesh: That should be in the 15% to 16%?

Desikan Narayanan: Yes.

Rajesh: And once the merger is done, how much is the revenue that we are targeting say in a couple of years?

Desikan Narayanan: It's more getting into guidance kind of a thing, but with the current push, we think that we will be having an equivalent amount of what we will be getting there. In the sense, whatever we have in ESL which is around Rs 360 crores is the current kind of a projection. With merged entity, we will be ending up around Rs 600 to 700 crores.

Rajesh: But that is on an employee strength of say 4,000 people at the moment?

Balaji Viswanathan: That's right, a little over 4,000.

Rajesh: And then we intend to make it to 5,000. In that case, can we expect a little higher revenue once the employee strength is close to 5,000.

Balaji Viswanathan: We are not linking the headcount to the revenue, but of course, yeah, when you have an increased productive headcount, your revenue will also increase, but it's not 1:1.

Desikan Narayanan: And one more thing, the profit after tax what you are talking about will be around 14% to 15%, that's the range what we are currently informed, that will be continuing in the current expectation?

Moderator: The next question is from the line of Suhas Naik from Kridha Capital. Please go ahead.

Suhas Naik: I have got a couple of questions. One is, as the group is focusing incrementally on the offshoring, is there going to be a formal arrangement between the offshoring entities and the group in terms of the pricing which in turn will decide the margins for the company?

Balaji Viswanathan: We already have that, sir, because we have been doing this for the last eight years now and we already have an arrangement with the group on how we will price and it is as per the transfer pricing guidelines of the income tax department as well and it has been advised and approved by a leading consultant and tax advisors as well. We already have that arrangement and that is the basis on which our current group work is also happening.

Desikan Narayanan: Just to add to what Balaji said is that we do have yearly benchmarking study, and based on that, we ensure that we are within the range of the regulatory authority in the arm's length prices.

Suhas Naik: I asked this question because you are insisting on 18% EBITDA margin. As we are going to go up in scale, 20% to 25% per year, the benefit of scale should lead to a margin expansion. Are we likely to see margin expansion happening because of the scale improvement?

Balaji Viswanathan: The margin expansion will primarily be around how we are able to do productivity improvement and how we are able to grow our digital business which is not linked to just the per-headcount pricing, but not purely because of just the headcount growth because the pricing arrangements are quite straightforward in terms of the margin that we would be able to charge. So, that's not going to change much even if the business were to grow. As we grow and scale, obviously the productivity will be better because of which there will be some improvement in the margin, but that's not directly linked to anything to do with the pricing.

Moderator: The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: I just wanted to get a sense on how is the growth been in the unlisted companies? As a merged entity as well, would you be looking at similar margins or are the margins of the unlisted company higher? Also, I just wanted to know from when would you be starting to report both consolidated sort of numbers so it is easier for us to track the company?

Balaji Viswanathan: From a revenue growth perspective, the unlisted companies are growing at a faster rate than what we even published a couple of months back when we announced the merger, and we expect that continued robust growth from a revenue number. Margins are a little lower than what was projected a couple of months back, but that's primarily because of the increased demand and the increased growth that we are seeing, but we don't think that it's going to be significantly different from what we had projected a couple of months back when we actually announced the merger and we had actually given a view on where was that going to be. On your second question on when we will publish the consolidated ones. The next step is for us to get an NCLT nod for us to call for the shareholders' meeting. At that particular point of time, we will anyway have to publish an abridged prospectus along with the financial results of September 30th for the unlisted companies as well. That would be the first step where you would see a more audited or near-audited financial statements of the unlisted companies, but the combined financials will be only after the final approval from NCLT and once we actually have the mergers completed as well. Desikan, you want to add anything more?

Desikan Narayanan: No, that you have covered it; because as a part of notice to the shareholders, we also need to issue the abridged prospectus where we will be publishing the limited-review audit report of both the unlisted companies. That will be as of September which you will be looking at it, but in case, if you want to do a combined thing, it will happen only post-merger.

Mithun Aswath: What is the timeline for this?

Desikan Narayanan: Considering the current state of things, we are looking at anywhere around second quarter we will be finishing with merger. That's the current estimate.

Mithun Aswath: Second quarter FY '23?

Desikan Narayanan: Second quarter in the sense, I was referring to calendar year. It will be first quarter of next financial year.

Mithun Aswath: Would it be possible for you to on a quarterly basis at least show pro-forma numbers of the unlisted company as well so that we can get a sense of how holistically the company is growing?

Desikan Narayanan: The only aspect of it is the other two unlisted companies don't come under quarterly audit; they don't go through that. Since they are private limited companies, they don't do the audit. They do the audit only on the yearly basis. That's the reason it will be more an unaudited numbers which we don't want to publish it until and otherwise it gets audited. Maybe to start with, we will do the September reviewed numbers from the auditors and then we will see how that can be done.

Moderator: The next question is from the line of Pavan Tourani from Citrus Advisors. Please go ahead.

Pavan Tourani: Congratulations on growth that you have clocked over the last six months. My question is, if you could just give some color on the new businesses that you have won over the last six months, especially in cards and payments and insurance vertical because that is where you have seen higher growth vis-a-vis the other verticals; also, the margin profile of the new businesses that you have won vis-a-vis your listed entities average.

Balaji Viswanathan: The two new customers we have won in the last year, i.e., in the last two to three quarters, particularly in the cards and payments space is one of the largest financial services or cards and payments technology provider. They provide platform and technology to the companies who issue cards and also manage their network. We have won a project with them to support that digital transformation journey and they have also done some acquisitions in multiple other markets and helping them in integrating the systems and platforms across multiple geographies. This is a 12 to 24 month project is what we have won with them and the margin profiles are well in line with what we have been doing with other clients as well, anywhere in the range of EBITDA of around 15% to 18%. The other larger insurance company is actually an Asia Pacific Insurance giant. It's a very large insurance company which has spread across Singapore, Malaysia, Indonesia, and multiple other geographies and with an American parentage; and what we are doing is, once again, they are migrating into a digital platform and we are supporting them in some part of integration, testing, and API building for them in all these three geographies as well; and margins are well in line with what we sign up in a normal basis as well.

Moderator: The next question is from the line of Zaki Nasser from Nasser Investment. Please go ahead.

Zaki Nasser: Congratulations on a decent set of numbers for the quarter. Although I hope that the current quarter, you will cross that magic Rs 100 crores mark which we have been waiting for. Sir, my question is about the forex loss. You mentioned that it was Rs 5 crores. I think in the results it is given Rs 2.6. Excuse me if I am missing something. Can you just clarify on that please?

Desikan Narayanan: Actually, what is there is Rs 2.6 crores is the forex loss but comparing it to the last quarter, there was a gain of Rs 2.6 crores. That is the reason.

Zaki Nasser: Sir, would it be possible, the current listed entity has done around Rs 187 crores. So, approximately at least can you give a ballpark figure on what the unlisted entity at least the top line is for the half year, sir?

Balaji Viswanathan: It is approximately Rs 160 crores.

Zaki Nasser: Sir, this year again the full year we would be skipping the dividend and looking at it after the merger or how does that part of it work? Because, we have a decent amount of cash on the balance sheet.

Balaji Viswanathan: We have not made a decision as yet. Like what I had mentioned in the last quarter's investor call as well, the expectation is that when we meet in the next board meeting. We are in the process of finalizing our dividend distribution policy which is in line with what SEBI has mandated us to do which is something we will finalize before our next board meeting which is scheduled in the month of February 2022, and once that gets done, in line with that, we will take the decision either in that quarter or the latest by the quarter after that.

Zaki Nasser: I hope in the next 2 quarters, we will see that Rs 100-crore plus mark.

Balaji Viswanathan: Keeping our fingers crossed for sure.

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

Rahul Picha: Sir, firstly, I wanted to understand given that we have done significant hiring over the last couple of quarters, we would be having some extra cost on our books right now which might not be contributing to our revenues. Is there any way you can quantify this like what could be the extra cost or what could be the percentage of our workforce that is still not yielding any revenues?

Balaji Viswanathan: We don't have any workforce not yielding revenue per se, but like what I mentioned, we have hired a significant number of trainees whom we are training. They will all be coming out their training program starting from the end of this month onwards. We have hired close to around 350 trainees. If I were to look at what our bench or our percentage of cost related to bench or unproductive headcount, it will probably be in the range of around 5% to 6% of our costs right now. But like what I said, most of it is primarily for the investment for the future because that's what will be required for us to capitalize on what the growth and demand that we are seeing.

Rahul Picha: Sir, these 350 trainees that you are saying is not included in the 1,276 employee number, right?

Balaji Viswanathan: That's right, they are not included in the 1,276.

Rahul Picha: Sir, what is the size of our subcontracting workforce? Last quarter, you said it was around 330 odd. How much is it now?

Desikan Narayanan: It has not increased; it is in the same range.

Rahul Picha: Sir, like you have said, we have already hired 350 freshers and you are training them right now. So, for the next calendar year, you have said in the press release that you intend to hire another 700 freshers or this 700 includes the 350 that have already been hired?

Balaji Viswanathan: No, it's an additional 700.

Rahul Picha: Sir, what was the attrition rate in this quarter?

Balaji Viswanathan: It was around 23% to 24%.

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

Faisal Hawa: Sir, my question is regarding overall digitization of banks and fintech services in Europe. So, Europe remains behind all the countries; some say even behind India on digitalization. Do you think that could be a very big tailwind for us going forward where European banks really going for a big digitization projects and this could lead to the kind of turnaround or a very good inflection point for our company? Secondly, is Expleo Solutions a group which is a private equity group which generally acquires software companies and build it into a big company and then ultimately sells off the company?

Balaji Viswanathan: The second part I will probably have Ralph and Rajesh answer that question. The first part, yeah, we are seeing an opportunity across the globe, not just in Europe per se, but the increase in digital banking, neo banking, or pure digital banks, fintechs across all the continents and our objective is to try and tap into that based on our domain expertise and the kind of assets and accelerators that we have built and we have a go-to-market strategy for each of those markets where we are working along with our group as well and where we are present on our own. That's one of the reasons why we are seeing a healthy pipeline as well. On the second question on the group's structure, I will probably have Rajesh and Ralph answer the question.

Ralph Gillessen: I think the structure of the group will remain unchanged. I think we have done Expleo Technology Germany, even the part of the Expleo Group. We have disclosed already even their majority of knowledge share of Expleo group and we do not expect any changes in that service. Expleo Group on the one end side and even from the shareholders of Expleo group.

Faisal Hawa: The line was not clear, so could not hear. Can you please repeat the answer?

Balaji Viswanathan: What he was saying is that the group's structure is not changing with the disclosures on who the ultimate owners has already been done, and that structure is not changing, and then there is adequate support from the group to drive the growth for the Expleo Solutions team is what Ralph mentioned.

Faisal Hawa: As a strategy, what is the discussion between you and the headquarters? Will almost like 80% to 85% of outsourcing work which the group needs as headcount go to India over Romania and Egypt and Morocco? Because these countries don't have the population itself.

Ralph Gillessen: I think there was a clear commitment from the Expleo Group. It was already confirmed by Rajesh that a significant demand seen will also translate into the growth in India due to the capabilities that we see; the skills, the knowledge, the expertise, and even the size of the market and also the number of talents we can attract for our business and then retain in the organization, but that will be for specific areas even then strong support for our growth strategy even then from the centers in Romania, in Egypt and Morocco, but I think I can confirm that it was already confirmed that the significant growth that we are expecting at a group level even that will also translate into growth here in India.

Faisal Hawa: What is the kind of urgency that we are showing to the Indian companies here to really get this executed? Because a lot of now execution work depends on our Indian companies really getting their acts together and growing really fast to be able to deliver to your global clients also? Have you incentivized the Indian management to that extent?

Balaji Viswanathan: That is the reason why we are making these investments on hiring and training and setting up new delivery centers and making sure that we are able to tap the growth potential. And adding to what Ralph mentioned, there is no percentage commitment on this, percentage of growth is going to come to India and this percentage will go to somebody else because the group has multiple business units and multiple industries which it caters to and depending upon which segment and which kind of work requires what kind of talent, it will go to, but significant amount of work is expected to come to India, primarily because of the scale.

Faisal Hawa: In five to six years, is it possible that we actually reach 35,000 to 40,000 employees?

Balaji Viswanathan: We would rather try and look at taking smaller steps rather than trying and looking at five to seven years down the line. I would say in the next two to three years, we are expecting to get to at least 10,000. That's the ambition that Rajesh had actually said to us even last month when he was here as well. So, the expectation is for us to get to 10,000 at least. Let us take smaller steps together rather than trying and talking about 40,000 or 50,000 employees.

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

Balaji Viswanathan: Thank you for all the participants once again. I really appreciate all your interest and excitement and hearing from us and looking forward to your continued support going forward as well. Thanks once again.

Ralph Gillessen: Thank you for all the questions and we are even looking forward already to the next call and I think even there it will be even supported by both Rajesh and by me. Thanks again for all the commitment in our business and for your questions today. Thank you.

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