



“Expleo Solutions Limited
Q2 FY '25 Earnings Conference Call”
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MODERATOR: **MS. ASHA GUPTA – INVESTOR RELATION, E&Y LLP**

Moderator: Ladies and gentlemen, good day, and welcome to Expleo Solutions Limited Q2 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 EY. Thank you, and over to you, ma'am.

Asha Gupta: Thank you, Manav. Good morning to all the participants in the call. Welcome to the Q2 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 a 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. Ralph Gillessen, Chairman and Non-Executive Director; Mr. Phani Tangirala, Managing Director and CEO; Mr. Periakaruppan Palaniappan, CFO, whom we will be referring to as Mani. Phani will start the call with a brief overview of the quarter and half year gone by, which will be followed by Mani who will be giving you the brief update on the financials. After that, we'll open the floor for Q&A session.

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

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

Phani Tangirala: Okay. Thanks, a lot Asha, and I welcome all the investors and analysts who joined this call. Since this is my first call, let me do a bit of introduction. My name is Phani Tangirala, and I've been in IT and services-related industries for the last 33 years and worked overseas in these 33 years for at least 14 years before joining Expleo in 2010. I've been in this organization, and this is my 15th year and grew up the ranks. I understand the organization dynamics, the cultural aspects, the people aspects and the group aspects. I worked extensively with Expleo Group under Ralph Gillessen for almost 8, 9 years and also worked extensively with its subsidiaries. And in the last 10 years played various roles, including Global Head of Insurance vertical, Head of Sales and Chief Operating Officer before taking up this new role in August this year. So, that's a bit about me and would like now to give quick business updates.

This quarter ending 30th September, you would have seen growth in operating revenue approximately 3% and approximately 7% in total income overall growth. And as mentioned in the previous investors' calls, the macroeconomic and geopolitical situation continues, the war like situation in the Middle East. Despite that, we managed to show some growth. And we don't really see this getting over any time soon and we realize that most of the customers and the prospects are exercising caution in general. However, having said that, if you see our regions, especially Middle East, U.S. have grown despite all these odds that we have and all the softness that we have seen in 2024.

We have also recognized and taken into cognizance the changing business dynamics, especially in services that we are providing. The demand for niche skills is increasing. Companies are going more agile with request for people with multiple skills than specialists in one area is one thing which we are realizing. And especially on the emerging technologies where artificial intelligence and generative AI, those are the things which are really growing in high demand. And then we have changed our course and aligned ourselves to have a much more leaner bench than what we used to have in the past. And we have tightened and strengthened our talent acquisition team so that the demands that are coming are just-in-time demands are being filled very effectively. So, this is a huge optimization exercise we have seen from the beginning of this year and the results of which I'm sure you would have seen that we have made significant improvements in our operating margins since Q4 FY '24. We will continue this. As a policy, we will continue to maintain lean bench and keep a very close look on our operating expenses.

But at the same time, we are, together with the Group investing in innovative solutions, especially on the solutions, which will result in cost cutting of our end customers using artificial intelligence and Gen AI. So, with that as a backdrop, we are entering the next 1 year with a different strategy, a 3-pronged strategy, which includes –

- The first one is, while we are getting a few a good number of customers in the last quarter itself, we have added 10 new logos. But the first prong of the strategy is to focus on existing business. Focus on the key accounts that we have already identified, which has got already a substantial revenue contribution, at the same time have a huge potential, and we will try to upsell and cross-sell the services that they have not been using otherwise. Now, that we have a larger spread of services that we can offer, so the focus will be going into an account-based marketing for the key accounts and ensure that they grow. And also the next group of accounts also have been identified, which we feel that they have the potential to graduate themselves into key accounts in the year 2025 and we are doing specific campaigns and initiatives to ensure that these accounts also become INR 10+ mn accounts in 2025. That is a prong one.
- Prong two is into our regional growth. As we have seen in FY '24-'25, from a regional perspective, we would like to focus on 3 major regions, United Arab Emirates, U.S.A., both have continued to show a good promise, and the third country will be Saudi Arabia. Saudi Arabia is a market which has really opened up and a lot of transformation we have seen in the last 1 year, and there is a very good pipeline emerging out of that, and that necessitated us to create our own subsidiary there, which I believe you would have seen the Board has already approved it. So, these are the 3 regions where we would put high focus on. I mean having said that, it is not the other regions will be ignored, but this will be the focus area for us on the growth point of view. That is the second prong of the strategy.
- The third prong of the strategy is how do we increase on our business coming from the Group, mostly the captive business. So, this is exactly where we have with all the other subsidiaries of actually a group, there are strategy discussions that have been lined up between November and mid of December to ensure that we are ready to catch up more of their business to be served from India. This, in a way, is propelled by the economic situation prevailing in Europe, especially in automotive industry, where we have seen a significant

decline, have made these organizations think and move their work to offshore centers, and that is what we would like to elaborate on.

So, with these 3-pronged strategy, I'm extremely confident and with my own experience working with teams here and with the Group, we are very well placed to move into the next few quarters with a significant growth.

Now I would request Ralph, if you want to say a word or two before I pass it on to Mani for the financials.

Ralph Gillessen:

Good morning, everyone. Ralph Gillessen speaking. Thanks, Phani, for your introduction and already highlighting some of the elements of our strategy that we had discussed and agreed on. And before we do this, I would even like to in this round here say thank you to the former Chief Executive of this Company to Balaji who was, I think, key in our success in the past. I think you are all aware about the merger, the execution of the growth strategy.

And I think this is even an achievement that is going back to him and to the management team, where even Mani and Phani even played a pivotal role in this. And therefore, even it has then we decided to give the responsibility of the CEO and Managing Director of the Company to Phani, and Phani has already presented on top of this now, the priorities for the Company.

And I think even in the current market climate that we see, the strong focus on efficiency, a clear regional focus and even then, an acceleration of the Group business. I think you are all aware that at this part and especially in Europe, there are some macroeconomic uncertainties. There is a complete shift in the mindset of most of the customers towards really global delivery models, even different than they have seen it in the past, and it is not only in the automotive industry, what is still a very large and the second largest segment of the Group, representing even more than 20% of Expleo Group revenues.

And therefore, we even see that we not only position ourselves in the right way, even that we implement there and execute on a strategy where the activities that we have in India, especially in India, but even in the region with ease is at the heart of the strategy. And I would like to take this opportunity now to wish Phani and Mani, all the necessary success that we all need to implement and execute on the strategy that we have defined with all the support from the shareholders, from the investors and from everyone who is on this call and has even make us an investment and a significant commitment to the Company, its customers and employees.

Over to you, Mani.

P. Palaniappan:

Thanks, Ralph. Good morning, and thanks to the investors and analysts who have joined this call.

We had a good quarter for the quarter ended September '24. I'll now talk about the financials for this quarter compared to the previous quarter. Our operating revenue was at INR 2,593 million, compared to INR 2,522 million in the previous quarter, and it's a growth of about 2.8%. Our overall total income was at INR 2,719 million versus INR 2,544 million which is also a growth of about 6.9%. On our profits, our adjusted EBITDA stood at INR 423 million compared to

INR 397 million in the previous quarter, which is a growth of about 6.4%. On percentage terms, our adjusted EBITDA was at 16.3% in this quarter compared to 15.8% in the previous quarter. Profit after tax was at INR 357 million compared to INR 237 million in the previous quarter, which is a growth of about 50.5%. And in percentage terms, our profit after tax was at 13.1% in this quarter compared to 9.3% in the previous quarter. Our basic Earnings Per Share was at INR 22.86 in this quarter compared to INR 15.40 in the previous quarter, which also went up by almost 48.5%. Our net cash position as of 30th September '24 stood at INR 2,762 million compared to INR 2,606 million in the previous quarter.

I'll now talk about year-on-year comparison. As I said, our operating revenue was at INR 2,593 million in this quarter compared to INR 2,341 million in the previous year same quarter, and it's a growth of about 10.7% year-on-year. Our total income was at INR 2,719 million compared to INR 2,357 million in the same quarter last year, and this is a growth of about 15.4%. On profits, our adjusted EBITDA stood at about INR 423 million in this quarter compared to INR 354 million in the same quarter last year, and this is a growth of about 19.3%. Our adjusted EBITDA in percentage terms was at 16.3% compared to 15.1% in the same quarter last year. The profit after tax was at INR 357 million this quarter compared to INR 200 million in the same quarter last year, and this is a growth of about 78.1%. In percentage terms, our profit after tax was at 13.1% in this quarter compared to 8.5% in the same quarter last year. And our basic earnings per share was at INR 22.86 in this quarter compared to INR 13.22 in the same quarter of the last year, and this is a growth of about 73%. Our net cash position is at INR 2,762 million in this quarter compared to INR 1,294 million in the same quarter last year.

I'll now talk about our H1 results compared to the year-on-year comparison. And our operating revenue is at INR 5,114 million in this half year compared to INR 4,592 million in the same period last year and it's a growth of about 11.4%. Our total income was at INR 5,254 million compared to INR 4,625 million in the same period last year, and this was a growth of about 13.6%. On profits, our adjusted EBITDA stood at INR 820 million in this period compared to INR 700 million in the same period last year, and this is a growth of 17.2%. In percentage terms, our EBITDA is at 16.0% in this period compared to 15.2% in the same period last year. Profit after tax stood at INR 594 million in this period compared to INR 401 million from the same period last year, which is a growth of about 48.1%. Profit after tax margin is at 11.3% in this period compared to 8.7% in the same period last year. And our basic earnings per share is at INR 38.26 in this year, compared to INR 26.23 in the same period last year, which is a growth of about 45.9%. And our closing cash position is at INR 2,762 million in this period compared to INR 1,294 million in the same period last year.

And that's the summary of the financials. Thank you. Over to you, Asha.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Keshav Garg from Chemin Controls and Instrumentation.

Keshav Garg:

So, my question is that sir, if you see year-on-year, our employee expense has roughly gone up by 10%, even though our employee strength has gone down by roughly 10%. So, basically, effectively, there seems to be a 20% increase in the employee expense, which is totally not in line with the average salary hikes in IT sector, which is in single digits now?

Phani Tangirala:

This is Phani here. If I understood you right, why the payroll costs are increasing not in the proportion of the revenue, right, if that is the question. There are a couple of reasons.

One is, we have moved a lot of our Dubai-based resources, who are under contract so far, under our own payroll with our Dubai entity being created. So, that is one significant reason.

The second major reason is, if you see the nature of business, as I told you in my initial address as well that our Middle East is showing a promising growth, and the nature of business in Middle East always is having people on site at least in the first 1 or 2 years before moving them into offshore. That also can significantly increase the payroll cost.

The third and the most important area, which also contributes to it, as I said, we are now planning into niche skills, and niche skills especially on the emerging technologies that are not coming cheap either. And also, the increments that we have given.

All these 3 put together is causing towards the payroll costs, which are not in line with the revenue. I hope that answers your question.

Keshav Garg:

Sir, also, if you see our receivables, which were anywhere quite high, have further increased to 119 days versus industry average of, let's say, between 60 to 75 days, so it is significantly higher. And whereas our operating margin is significantly lower than industry average of around 20% to 25% as against 15% for us. So, it seems that even after extending higher credit, we are able to get lower margins. So, I'm not able to understand that why is this so?

P. Palaniappan:

This is Mani here. I'll talk about the accounts receivable position that you mentioned. So, yes, our receivables have increased considerably in this quarter, and that's primarily because there were some delays in collections from some of our key accounts. And those payments have come through in the month of October. So, our DSOs have substantially reduced, and our receivables have also substantially reduced. Having said, it's still slightly higher compared to the level that we had in the previous quarter. And some of those payments are expected in this month. Some have already come, and some more are expected in this month. And by end of this quarter, meaning the quarter ending December, we are hopeful that our DSO levels and our receivable positions will come back to the previous quarter levels, and it shouldn't be significantly out of sync. I hope that answers the receivables question.

Keshav Garg:

Sir, so I'm trying to understand that in your judgment, what is the steady state better days barring the aberrations that might arise due to the lumpiness that might happen?

P. Palaniappan:

We have most of our credit terms average out in the range of about 90 days. So, we should be around this range. That's our long-term steady state expectation on the DSO.

Keshav Garg:

Right, sir. And sir why our margins are lower than the industry average?

P. Palaniappan:

Yes. I'm not fully sure that our margins are that lower compared to the industry. But if I look at our EBITDA numbers, we are not definitely way off from where the industry is. So, operating margin is a measure, which is not exactly comparable across all different companies because

there are different components that goes into operating and non-operating expenses. So, I would look at EBITDA as a better measure to look at it.

And if you look at our EBITDA in this quarter, it's gone up compared to the last quarter by 0.5%. I'm talking about adjusted EBITDA, excluding all the interest income or forex gains or losses, those kind of stuff. On a real reflection of our operational margin, I would look at EBITDA as a better measure. And there, we are not very low compared to the industry average.

Keshav Garg:

Sir, if we compare the industry leader, which is TCS, they are doing roughly 27% margin, Infosys is doing 23% margin. And sir, we ourselves, we used to do around 30% margin till December '22 quarters. And now the margins are halved, even though the revenues have remained flat at around INR 12 crores to INR 14 crores then to INR 252 crores whereas our EBITDA has fallen basically half, and margin has fallen around 30% to 15%, even though there has been a merger of a few group companies. So, I mean, neither have our revenues gone up and instead the margins have halved?

Phani Tangirala:

This is Phani here. I think when you talk about 30% and others, I think you're mixing the operating margin versus EBITDA. I mean, EBITDA is after your sales and general expense being taken away. So, even if you compare with the industry peers from an EBITDA point of view, I don't think so we are any lower. In fact, on contrary, on the EBITDA terms, we have improved while many of our peers have slid down on this. Probably the 30% number, I'm sure you must be referring to operating margin and not EBITDA.

P. Palaniappan:

Also just to add, our long-term guidance has always been in the range of about 16% to 17%. So, we are definitely within that range that we had talked about all the time. And I don't think we are way off from the targets that we want to get to.

Moderator:

We have our next question from the line of Rohit from Ithought PMS.

Rohit:

I just wanted to understand, so this quarter, we had good sequential growth, which we have not been displaying for the last few quarters. So, just wanted to understand what is your reading and what is the outlook for the coming 2 quarters and probably also for the next year, if you can please share?

Phani Tangirala:

As I said, we are gung-ho about the quarters to come, primarily from the new services and the proof of concepts we are doing on emerging services. So, we have built a healthy pipeline, and we expect to grow in similar lines. And I have also outlaid the strategy, which is totally supported by the group, the 3-pronged strategy, which I've said. So, from that point of view, the outlook certainly looks promising. And the only thing which can make it even better is, if the new government in U.S., eases off the war tensions and if any of those macroeconomic conditions improve, that will be icing on the cake. I mean that's how I see it.

Rohit:

Sir, I mean, just on that then, while our margins have been in the band that we've guided for, but it's in lower end, historically, whenever top line usually comes, then the margins also expand due to some kind of operating leverage. So, just wanted to understand if the demand outlook which you're talking about, you were quite gung-ho about it, as you said, so do you think the margins also will probably see an uptick going forward?

Phani Tangirala:

As you can see from the beginning of the Q3 or Q4 of '24, the margin has always been uptick. And thanks to two dimensions, which I've said. One is, we have done a heavy cost optimization in terms of maintaining a lean bench and then selling those services which are falling under niche areas, which demand premium. If the same trend continues, which we expect that only to continue, I'm very confident that there will be an uptick in the margins as well.

Rohit:

That could be so. Then the third question I had was, in terms of cash balance, so I think that has been steadily growing. And in the past calls also, the management has been sort of on the fence on what to do with the cash. I mean, that keeps on accumulating. We used to do a lot of dividend, good payout in terms of our dividend. So, I'm not sure what is the plan there? So, if we can just lay out that well.

And lastly, sir, one more question in the public domain, you've talked about reaching a certain workforce level in India. So, where are we on that? Because we had rolled back that target by the year that we had mentioned, which is FY '25. So, given whatever headwinds or whatever slowness that we are seeing in the demand, so if you can also talk a bit about that?

Phani Tangirala:

Sure. On the cash position, the merger and acquisition is one route, which we are taking. And we have made some good progress on this. So, that will be more better put to use the money is what the philosophy is. Probably after this, Ralph can add a word or two on the cash question.

And on the other one, I believe you are talking about the public domain of the 10,000 people. So, I think the situations when this was said and now, there is so much of water that has flown under. I personally am not a believer that FTE though it is one of the growth measuring parameter. I don't want to become a slave to that commitment just for the sake of it because we have to align ourselves from the changing market dynamics, and that is exactly in the last 2 years that has happened where much, much more is expected out of one individual when he is complemented with emerging technologies like AI and Gen AI.

So, that holds more prevalent than measuring the success by, throwing more number of bodies at work, probably we have moved away from that. And even if that means that we have to stand corrected on that, I don't mind doing it because this is beneficial for the organization that will go into higher revenue per employee and higher margins and higher top line growth than merely looking into FTE.

So, from that point of view, I would rather want to let everyone know that we don't chase that target anymore as we go. So, on the cash situation, maybe I will also request Ralph to say a word or two.

Ralph Gilleszen:

Thank you, Phani. And I think, yes, we count even there on the continued commitment from our shareholders, we have a clear priority on the M&A side. And we do not want even to really focus from this activity. I think, quite important for us really as part of the growth story and the strategy outlined by Phani to really focus especially on the regions and the area that were mentioned by him in addition to all what we see on the AI-led initiatives to find there the right fit.

And we must even see that over the period, we did 1 or 2 small transactions. And I think even now the position we are in, I think we are geared up and ready even to do a slightly bigger acquisition so that we even then see how can we bring in complementary expertise into the game.

And even as mentioned by Phani, it's not only then even these number games on headcount. I think we definitely see even their productivity gains, we see the shift from pure headcount into what is generating the value for the customers. How do we even bring things that were delivered by as a service by people in the past, how could we probably even see software as a kind of a service going forward with all the new elements that the AI-led initiatives are giving us.

And I think to prepare ourselves on this, we are monitoring the market. We are working on several of these opportunities, there not be just even an extension again in capacity to fulfill this headcount target, I think it's much more important for us. We need to find the right fit in terms of geographical fit, but even probably a different way really to complement our strong service offering as we have it today by technology so that we can really leverage on this.

And this is the highest priority. As I said, this is what we are focusing on. We even understand that there are even other vehicles, but we can only support that we continue there with the priority on the M&A part.

Phani Tangirala: Thank you, Ralph.

Moderator: We have our next question from the line of Rajesh Chaudhari from Zenith Capital Partners.

Rajesh Chaudhari: My question is regarding the attrition rate. What is the attrition rate at the moment? And what is the head count at the moment?

Phani Tangirala: 4,306 if I'm precise on that. That is the current headcount.

Rajesh Chaudhari: Okay. And what is the attrition rate at the moment?

Phani Tangirala: The annualized attrition rate is around 14.8%. And that is well below our benchmark at 16%, 17% as our target. So, I'm talking about the voluntary attrition. So, that's where we stand.

Rajesh Chaudhari: Okay. And now with the new focus and with the new 3-pronged strategy, can we foresee revenue growth of, say, 10% and 20% in the profit in times to come?

Phani Tangirala: I wish I would be able to say in as much certainty, but the aim is towards that, but I can't commit anything on that.

Rajesh Chaudhari: I understand, but that should be the vision and focus on times to come.

Phani Tangirala: Absolutely. The biggest growth lever is what we target every year and all the steps are taken towards that. In all probability, we'll definitely aim for large.

Ralph Gillessen: Definitely nothing wrong with this ambition, but I think even in this call, I think we already confirmed the guidance, and that was not exactly on this amount, but I think it was already mentioned, the guidance that we have given. But there's nothing wrong with the ambition.

- Moderator:** We have our next question from the line of Anuj Sharma from M3 Investments Private Limited.
- Anuj Sharma:** Thank you for the opening brief. Some questions on strategy. You see, if you look at Expleo India, there seem to be a lot of opportunities, but the opportunities have not really materialized, if I may say so. So, Phani, what's your observation on the strength and weakness of this Company? Could you just highlight that?
- Phani Tangirala:** First of all, I may not want to agree. I mean if I have to see our conversion ratios on the opportunities converting into business, we have probably done the best this year, and we want to increase that by a few notches as we go. So, losing few opportunities I don't think so that is what is in reality.
- Anuj Sharma:** But my question is not on the quarter-on-quarter, but let's say for the last 3 years -- last 5 years, that's my question. But yes, if you could just enumerate the strengths and weaknesses, which you have observed for the Company?
- Phani Tangirala:** So, the primary strength is, we are highly industry oriented. Even to your earlier question also, on the growth part of it, we have recorded a CAGR of 15% over the last -- from 2020 onwards. So, I will put that to rest since you have moved on to our strength and weakness. The strength is inherently, we are not spread too thin on industry.
- Our biggest strength, what most of our customers who are more than 50% of them, we are serving them for the last 10 years, is our industry knowledge and the capability we bring on to the table, which is coupled by earlier quality assurance, then on development services, now on emerging. So, this is a very unique combination where we don't want to spread ourselves thin.
- And even in the strategy going forward, we don't want to go into everything and anything that comes our way, so be it banking financial services, auto, aero and life sciences, pharma are very few industries which we focus, and that's where we invested heavily on industry experts, coupled with the digital expertise is what our huge strength is.
- Weakness, if you ask me, inherent weakness of many of the organizations of our scale in this country, be it on the attrition, those are the things, and the market prevailing conditions are the ones which hamper us. But I now just take a minute to say that we are ideally positioned because we are neither too small to be ignored, nor too large to the arrogant, I would say.
- We are rightly positioned. We are rightly focused on the services that we want to offer and the industry. That is where we stand our way out is I think. I mean I hope that answers.
- Anuj Sharma:** Sure, sir. Appreciate that. And the second point is, if you look from a parent's point of view, what kind of flexibility the parent is offering Expleo India in terms of having its own independent channel? So, the independent channel, other than outsourcing, has not really shown the kind of strength. So, how are you building on that? You've said about geographies. But really what flexibility the parent is giving to this Company, the subsidiary?
- Ralph Gillessen:** Probably, this is more question for me. I'm not fully sure what you mean with flexibility. I think we have a clear priority for the Company to have a direct business, direct access, even then to

the market, as mentioned by Phani in Asia Pacific, in the Middle East, and even direct access to the U.S. market. So, there is a full commitment even that the Company, even under Phani's leadership can execute on this.

When it comes to the more complex markets that we have in Europe, it's a different level of complexity in terms of countries, languages, business characteristics. We have a very strong presence of the Group in these countries. And there we have seen it is that even the Company is benefiting even there from a very close and strong collaboration. It's not necessarily then even for the Company to set up even there and own a direct and independent go-to-market strategy and activity.

And there, we have seen that we are really yielding the results by a strong collaboration with the group. So, it's a combination, the direct access to the market in the U.S., Asia Pacific and Middle East what is, I think, covering a significant part even of the growth geographies that we see.

And we see even with a very strong presence of Expleo group in Europe that the Company is benefiting even there from the strength of the Group. So, therefore, I think that is the situation we are in, and we do not compromise the growth of this entity by even then keeping them away from some of the growth segments that we are seeing. We would like to support as much as we can from this.

Anuj Sharma: Sure, sure. And lastly, given the size of Company, this is to the CFO, historically, the impact of forex fluctuation has been disruption to the financials. Do we intend to really reduce this volatility and how?

P. Palaniappan: Yes, sure, I'll talk about that. So, this volatility is something that we have seen in the last couple of quarters. And I've also talked about it in the previous earnings call that we will look at starting a hedging program, which we have started, and that's actually helped us avoid some of the risks that we otherwise would have had.

So, this quarter, we had a forex change, thanks to the hedging program, I would say that we have avoided the forex risk, which we would have otherwise had. And we are only going to further strengthen from the current position. We have a hedging program that's clearly chalked out. And we will stick to that and ensure that this volatility is significantly reduced.

Anuj Sharma: Okay. And one just observation or reference which an earlier participant made. Our capital allocation policy has really been poor since 2018. Now, if we keep cash for a potential acquisition, historically, that has not done well to many companies because when a company gets complacent on how it wants to operate, so I would just urge the management to rethink on their capital allocation, and holding cash as I said earlier, not proven well for many companies. So that's my point out there.

P. Palaniappan: Thanks a lot.

Moderator: We have our next question from the line of Shumil Shah from Paras Investment.

- Shumil Shah:** Sir, in terms of revenue, we have done about 12% growth in first half of this year, whereas PAT is up by 48%. I suppose it's mainly due to forex gains. So, what can we expect for the full year of this financial year?
- P. Palaniappan:** See, we have talked about this in the long term, our EBITDA is going to be in the similar range of 16%, 17%. This is what our position has been consistently from the past. So, that's the level that we are looking at. That's our long-term average as well. And that's the same level that we are looking at. But as Phani said, of course, we are aspiring to improve it. But yes, of course, we don't have a crystal ball to say where we will land in the future. But that's where we stand currently.
- Shumil Shah:** And sir, in terms of revenue?
- P. Palaniappan:** In this quarter, our operating revenue has grown by 2.8%, and we are not way off from our peers. Our growth is going to be strongly linked to a couple of initiatives that Phani talked about and also the external factors, the market challenges and headwinds that we have. And again, it's going to be pretty much similar to how our peers have also kind of forecasted, so that's where it's going to be. I wouldn't put a number to that. But yes, we are not way off from how our industry is growing.
- Shumil Shah:** Okay. So, basically, in the first half, we have done 12% revenue growth. So, we can expect 10% to 12% in the remaining half?
- P. Palaniappan:** Maybe. As I said, I don't want to put a specific number because we're not giving a guidance currently how we will end for the year. So, I would say that, yes, that's where our aspiration is, so we would like to get there.
- Shumil Shah:** Okay. And sir, in aerospace division, our revenues are still at 11% of the total revenue. So, just needed your views on this. I mean how do we see this space in next 1 or 2 years?
- Phani Tangirala:** As a part of our go-to-market strategy, we are moving towards diversification of clientele within aerospace, which is our key, this thing. But you know, post-COVID, the big players like the Airbus and Boeing, it is all there in the public domain what they are going through in terms of. So, that effect, though the travel and demand for aircrafts have increased, the major organizations have not totally come out of that.
- But the forecast at least from there, I'm not talking about how that grew, from the way they are, Boeing continues to go down and Airbus will remain steady. So, that's the reason why our go-to-market strategy is now trying to provide engineering services to customers beyond and spread, so that our risk concentration is low. That's the direction where we are getting in hands of new aero logos for the following year.
- Shumil Shah:** Okay. And sir, my final question. On the cash front, how much interest are we earning on that?
- P. Palaniappan:** Our interest currently, it's in the average range of about 7% to 8%. That's what we have had in this quarter. And that's how the market is also currently if you look at it. So, that's the range. And what we also do is, we keep looking at what are the best investment avenue. If you look at

market-linked interest rates, not just only the fixed deposits, we do have fixed deposits, but we are also looking at ways to earn better interest other than what the FDs will provide.

Shumil Shah: Okay. So basically, all the cash is in India account only?

P. Palaniappan: Yes, of course.

Shumil Shah: Okay. That's it from my side.

Moderator: We have our next question from the line of Faisal Hawa from H. G. Hawa & Co.

Faisal Hawa: One thing which I would like to ask is, whom do we consider in Indian IT industry as our peers? Can you give us some names so that we know whom to benchmark you against?

Phani Tangirala: So, a very difficult, first, to answer the question for the reason that we have transformed ourselves in the last five years, if you have seen. Had you asked this question five years back, we would have said QualityKiosk or a Maverick or someone is our competitor. But now, we are a combined entity and with 3 units in Pune, Chennai and Bangalore being put into 1 with significant engineering and devops, and software services being added.

If you ask how we see our competitors, I mean most of the RFPs we only come across with the Accentures, and those are the big, HCLs and Wipros of the world. So, from that point of view, it is slightly difficult to say. If you take the size out of the equation, then most often or not, we are with either Infy or HCL or Accenture, who are our bidders, co-bidders, for any opportunity that we run across.

Faisal Hawa: Sir, just moving on from what you are saying, should we not have a very big edge on these companies because our overheads are much lesser. We are much more agile. Our decision-making should be much quicker, but I have been an investor with your company for almost now 3 years. And every time, on any parameter that I compare you with even large companies or small companies, our growth on revenues is always anemic. And many a times, what happens is that when questions are asked, you say, I mean, we did not grow because the other people were not having enough growth. Now even the biggies are growing well. So, at least our growth should be double their growth.

And even within the con call, we don't see a concrete plan as to how these revenues will grow. I mean what we would like to know from the presentation is that where our incremental capital allocations will go to, how we will grow the digital business. There should be some kind of case studies as to how we have helped our customers in achieving their goals. Even if you don't name the customer, that's okay, but at least we will understand that what the Company is doing.

And even the relationship with the parent is not very clear to us. If the parent is almost EUR 1.5 billion revenue company, the good thing to do would be that we should actually let our ambitions grow and just outsource work from them and maybe that would be also enough, but this is like even after a merger, there is continuously for 1 or 2 years, we gave the thing that in 1 quarter, we had some very good revenue.

That is why now the revenues are anemic, but the thing just goes on and on without a concrete plan coming through. And if you see, the stock has also underperformed, and our revenues are also continuously underperforming?

P. Palaniappan:

Okay. So, this is Mani here. Perhaps, I'll answer some of these questions. I know there are quite a few that you had asked. I'll try to answer as much as I can. So, first of all, thanks for being invested with us for quite some time. I'll talk about the revenue growth, that was your first question. Phani talked about, we look at competition, some of the big companies, Infosys and Accenture and Wipro and all, right? So, if you look at what these companies have given us guidance, right? Accenture has given a guidance of about 2% to 6% revenue growth. HCL has given a 3.5% to 5% revenue growth. Wipro has given 2% to 0% revenue growth. And I'm not sure how you are saying that we are not growing because our growth for this quarter, operating revenue has grown by 2.8%. Our overall total income has grown by almost 7%, much better than all the guidance that these companies have given.

Faisal Hawa:

This is the first quarter we have grown, whereas all the other quarters before this were anemic and that is another thing which I would like to point out is that it is now I know that we have to compare you with Infosys, Wipro and HCL Tech. So, at least we will now benchmark you against that because so far that itself was a moving goalpost?

P. Palaniappan:

See, again, as Phani pointed out, we have evolved over a period of time, right? So, our type of services has changed over a period of time. As we mentioned, 5 years before, what we were doing is very different from what we are doing today. That's one of the reasons why it's been a moving goalpost, right?

So, if I have to look at what we are doing today, again, in some areas, we are very unique. It's not thatlike for example, if you take Infosys, do they have the same level of engineering services of concentration the way we have? I'm not sure, right? So, these all pretty much have been traditional IT companies, doing managed solutions and services, whereas our service has been very different.

So, even today, we stand unique from that position. It may not be an apple-to-apple comparison to some of these companies because our constitution of services that we provide is very different to what these companies do. But having said, for lack of any other better comparison, we are looking at these companies because these are the ones that we keep seeing in some of our RFPs of competition, hence the answer.

I hope I have answered this revenue comparison question. Is there any other question that you have that I would like to answer? Because you asked quite a few, and I might have missed it, hence I am requesting.

Faisal Hawa:

Have some case studies as what the company is actually doing. What I can gauge from your statement is that we are doing something, which is mission critical. So, at least have the presentation say what is the mission-critical things that we are doing. Even the annual report, that is not at all mentioning those things.

I asked various questions at the AGMs and those questions are also not answered in depth. So, I think you need to explain it that how we are pitted right against Accenture or Infosys. So, the least we can do is have very, in depth presentation, and you need not look beyond the annual report of Infosys or Wipro, and you will get your answers that what you have to explain, I feel that.

And my second question was about relationship with the parent. Why cannot we, at least in the short term, gave a guidance to investors that we will raise ourselves to 10,000 employees. That was reiterated in almost 5 to 6 calls by your predecessor. And at one time, then you finally gave up on that target. So, at least, at the very least, we should try to get to even 75% of that target by getting some work outsourced from our parent because the entire merger has taken place, and the cash still lies on our books. And even the revenues have also not shown up as well as the stock price has also not performed. The stock price is definitely not under your control, but at least there has to be some more engagement with the parent for work.

Ralph Gillesen:

As you are probably asking again the same questions in a similar way, let me probably try to give an answer from my perspective. First of all, stock prices, as you rightly said, is not under our control. We are doing our best to see that all our actions and results are supporting it, but it is not in our control.

You even rightfully said that Balaji was mentioning the 10,000, and you rightfully said that he has given up on this, and you even heard Phani's statement about this. You have confirmed this, and even said with your own words that Balaji has given up on this, I don't want to comment on this, and in the next second, you're referring then again to the 10,000 or 75% of this.

I think even in this call, we made a very clear statement about this, and adjust headcount growth for the sake of the headcount growth is not the strategy we are following. And therefore, we even see that at the moment, we are keeping the cash to be more proactive than we have been in the past with M&A activities to complement our strong services with technology, with AI-led initiatives that should help us to grow even faster and better going forward as part of the strategy and described by Phani.

And in addition to this, you were asking for the benchmark. And Phani mentioned at the beginning, probably 5, 6 years ago, the Company was a niche player in software quality in one industry. Now, we are no longer a niche player in one industry. After the merger, we are focusing on 4 key industries from the Aero to Auto, BFSI are the 3 core industries, and we have moved the service portfolio from pure software quality into other areas where I think we get a very good understanding about the references, the offers, even when you look at the website of Expleo Group, where I think this is there described in detail.

And I think that is probably then going to your question of the benchmark. You know the size of the Company, and you cannot compare the size of the Company in pure revenues and profits with some of the big top system integrators, as you mentioned, the Infosys and the Accenture. When you simply compare the size and it is, I think, even then up to you to see what is the right benchmark. And I think in terms of size, this is not the benchmark, but what we can clearly see is that even when it comes to value proposition from kind of services we can offer, we are even

competing with these large corporates at an Expleo Group level, and even at the level of this industry. So, benchmark in terms of capabilities and portfolio is certainly these organizations, but I think when you even look at the size, I think you will draw your own conclusions what is even then the right benchmark. And there, we are not benchmarking with these organizations as they are 20 to 50 times or even bigger in size.

When it comes to the parent company, we see a strong collaboration, especially in the segments of automotive and aero, where we see that we are moving more of the work packages, more work units especially from our European customer base in automotive and aero to India, so that we then see that we really benefit in the interest of our end customers in Europe from the strong expertise and skills that we have and that we have especially created after the merger that we have successfully implemented.

And based on the macroeconomic uncertainties and the cost pressure that we see in Europe, we are expecting now that there'll be much stronger commitments from our end customers to work with our teams and, with our centers in India going forward and this is then the part of the contribution that is coming from Expleo Group. I hope that I could answer some of your questions probably with some similar or different words, but probably provide some clarity for you on this.

Moderator: Ladies and gentlemen, we have our last question for today from the line of Rajesh Chaudhari from Zenith Capital Partners.

Rajesh Chaudhari: As you mentioned that we are now focused on very niche skills, but do we foresee that we will have a very uptick in the margin since we are working in that niche group?

Phani Tangirala: Yes, definitely, sir. I mean, in fact, these are the skills which are related to artificial intelligence, data and Gen AI that I was referring to where significant investments have gone on this year in order to acquire those skills or nurture those skills within the existing teams. And we hope that the benefit of it is seen immediately in the following year, 2025.

Rajesh Chaudhari: Yes, because in that case, there should be at least 20% of EBITDA margins, I'm not comparing like apple to oranges, but even if we compare apple-to-apple for the similar company, they are doing a margin of 20%. And I think we should be aiming for that particular target if we are working in the niche fields.

Phani Tangirala: Hopefully, I mean, that is what we all will aim at, but like I reiterate what Mani has said that we are not too far from the number that we have given, at 16.5% and all efforts are put in place only to make that even better. And that adds to our optimization exercises, which we have talked about by maintaining a lean bench and things of that sort. So, those are the things which should help us to go there. But as we reiterated earlier, these are all the positives, in fact, activities that we are planning to do. But how the macroeconomic conditions turn out is beyond our hands, so that's why we are not able to put exact number in front of you. But trust us, we are going towards that.

Rajesh Chaudhari: Okay. And secondly, can I request you for quarterly calls because now we are doing, I think, half yearly analyst calls. So, is it somehow possible to have quarterly calls because we need to have an update from the management on quarterly basis? That would be very helpful.

Phani Tangirala: We will consider and get back to you on this.

Moderator: Ladies and gentlemen, that would be the last question for today. And I now hand over the call to the management for closing comments.

Phani Tangirala: Thanks, everyone, and for the very interactive session, and those probing questions. These are the things which keep us moving, and trust us, whatever plans we have outlined is something which we are taking with utmost commitment and total support from the Group as well. And hopefully, next call, when we meet, we'll have more good things to share. Thank you, everyone.

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

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