



Expleo Solutions Limited
(formerly known as SQS India BFSI Limited)
Q3 FY '21 Earnings Conference Call

February 8, 2021



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EXPLEO SOLUTIONS LIMITED
(FORMERLY KNOWN AS SQS INDIA BFSI LIMITED)
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MODERATOR: MS. ASHA GUPTA, CHRISTENSEN IR

Moderator: Ladies and Gentlemen, good day and welcome to the Expleo Solutions Limited Q3 FY '21 Earnings Conference Call. As a reminder, all 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Asha Gupta from Christensen IR. Thank you and over to you.

Asha Gupta: Thanks Stanford. Good evening to all participants in the call, welcome to the Q3 FY '21 Earnings conference call of Expleo Solutions Limited. 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 any 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. Balaji Viswanathan - Managing Director and CEO, Mr. Desikan Narayanan - Chief Financial Officer. Mr. Balaji will start the call with a 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 mentioned in this call which gives any outlook for the future or which can be construed as forward-looking statement, must be viewed in conjunction with risk and uncertainties that we face. This risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find it on our website. Having said that, I now hand over the floor to Mr. Balaji. Over to you, Sir.

Balaji Viswanathan: Thanks Asha, thanks Stanford. Thank you, everybody for joining the call once again. First time we are talking in this year, so very Happy New Year to each one of you and thanks for the continued interest in participating in our investor briefings.

For the Q3 or the calendar Q4 of '20, the business performance was more or less in line with what we were expecting. The COVID impact has started waning out so to say that many of the projects getting accelerated and the customers starting to see the demand coming back; however, it is a little muted because everybody is expecting to try and get the work done at a discounted price and also because we were actually closing down the calendar year, which is what the performance year for many of our customers. They wanted to actually square up on the discounts and what they wanted to actually see as part of us sharing some of the impact of COVID with them as well, so that is one of the reasons why we probably saw a slight dip in the quarter-on-quarter numbers. However, we have done reasonably well from overall nine months performance and we are quite positive on what we are likely to achieve in 2021. The demand or the pipeline seems to be quite robust at this particular point of time even though the timelines taken for the deals are slightly longer than what it used to be pre-COVID, which also we think should get sorted in this quarter or maximum by the next quarter and we should probably start seeing a lot more demand.

Our challenge seems to be now in trying and finding the right kind of talent to meet these demands because that is the standard challenge which we are seeing across the industry, not only for us in trying and finding the right kind of talent to match the demands that are coming out in the market, so we have been doing some robust hiring in the last quarter. Despite that, we saw some decline in the revenue, but I think is only a temporary affair and we have been doing quite well from a digital enablement and how we are doing it at a global digital business. It is all more than 100% growth from 2019 to 2020 in the digital business and we expect that trend should continue in 2021 for the coming quarters as well. The pandemic actually has given us a lot more opportunity with work from home model, which we do not think is going to sustain continuously, but this is actually now an opportunity for us to rethink how we are doing delivery to our customers and it gives us a lot more flexibility. We may not go back to 100% pre-COVID days, but it will probably be somewhere in between. The balance is something which we will probably get to know in the next couple of quarters.

Apart from that, we have been doing reasonably well from a cost management perspective as well. There are some sales and marketing expenses, which we had to incur in the last quarter, but apart from that all the other costs are in line. The sales and marketing expenses also is primarily because we wanted to square out some of the market campaigns that we have been trying to run in the Middle East and in Europe, and we probably wanted to make sure that we are able to capitalize on most of the digital initiatives in the last couple of quarters for which we went ahead with some of the initiatives and that is what is actually showing us some part of the results and this will help us in the future quarters as well.

When the COVID hit, we had actually announced some costs or austerity measures for our staff. Given the performance and we have actually grown a bit higher than the last calendar year, we had reversed that measure just to make sure that staff morale is not impacted. We did reasonably well, there in the staff survey as well. We jumped from almost 60% in the staffing survey to almost 75% this year, so overall reasonably good quarter and rather more than reasonable year for us and we think that this will actually help us in building a more sustainable growth model. Our objective is to try and get to a profile where some minor changes here and there will not impact our quarter-on-quarter performance because that actually limits our capability on investment as well, so that is what our objective is and hopefully 2021 will actually put us there in that particular position. Thank you so much.

Desikan Narayanan:

Thanks Balaji, Good Evening to all. I will start with the quarter-on-quarter comparison on the performance and then talk about the year to date nine months comparison.

On quarter-on-quarter, the operating revenue had a slight fall of 2% and the total income had an increase of around 2.8%. The revenue drop was expected, as mentioned by Balaji, due to COVID discount and reduced billing days. The total income was up due to foreign exchange gain contributing around 5%. On the EBITDA, it dropped by 22% ending at Rs.13 crores compared to the previous quarter of Rs.17 crores. Other than the revenue drop, we had incurred some cost during the quarter such as we had some software purchase for project, which actually got reimbursed which is reflecting as a part of revenue. We saw some increase in travel expenses

due to visa for Middle East region and some recruitment expenses, and finally, as mentioned by Balaji, we had some investment in marketing expenses. With respect to the marketing expenses, we do not expect this to continue in the subsequent months but benefit of it will have an impact on 2021, which will come back to us. On PAT margin, a marginal drop during the quarter ended at 16.3% as compared to 17.2%. As mentioned before, exchange gains have contributed to reduce the gap. Finally, on the cash position continued to be positive with Rs.141 crores. We got a better than expected collection this quarter. This is the second consecutive quarter where we had a good collection. We did a collection of around Rs.96 crores during the quarter as compared to Rs.95 crores in the previous quarter. The effect of the drop is seen in DSO from 80 days to 61 days. We expect this to go up and maintain around 70 days, which is more ideal level. This is on the quarter-on-quarter.

If you look at 9 months ended December, 2020 performance compared to the last year same period, the operating revenue ended at around 13.8% higher than last year same period. Total income improved by 15% ending Rs.228 crores, the increase was majorly contributed by increase in revenue in Middle East and APAC regions, balance from Europe and UK. Profit after tax margin improved to 17.2% as compared to last year's 12.8%. The improvement contributed by revenue increase and also a reduction in the travel expenses due to COVID, this year we had lesser travel expense compared to last year. And on net cash position, I have already explained. Now, I am opening it for a Q&A session.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Thank you very much, my question, Sir, utilization of cash is in any inorganic acquisition is on card because if you distribute the dividend the matter will end, so any inorganic acquisition is on cards?

Balaji Viswanathan: We are actually exploring all opportunities and one of the opportunities is to look at is that we can do to build our competency, because we have like what I mentioned to you when I started out, we do have some skill gaps considering what is the kind of growth that is actually coming in the market and to bridge those gaps, the option is certainly which we are exploring, but if you are asking as to whether we have made a decision or whether we have any specific targets that we are looking at, nothing at this particular point of time, but yes that option is something which we are exploring as well.

Ravi Naredi: Because you see in this time market, every software company or service company, who are providing services like you, everyone is in crisis so much but in case of Expleo Solutions, it is a well-managed company, cash generating company, but all investors are afraid from this company, so my request you do inorganic acquisition so investor can have faith in the company. And secondly, why the margin is reduced because I just joined the call, so, if you told anything I have not listened, so, why the margin is reduced in Quarter-3?

Desikan Narayanan: As I explained earlier, there are two reasons for margin reduction. One is the revenue being a little lower than what the last quarter is, which is as per our expectation and the second reason is on the side of expense. We had some software purchase for the project which actually got reimbursed, which is reflecting in the revenue side of the books and some slight increase in the travel expenses and also some recruitment expenses, and finally, we also did some investment in the marketing where we had some lead generation, white paper, and branding purpose, which has been incurred during the quarter, so those are the items which has contributed to the overall drop in the EBITDA.

Ravi Naredi: So, anything you want to forecast for Quarter-4 margin wise, I am not talking top line or anything, just margin. If it is not possible it is okay, we are comfortable because I am shareholder since last five years and I have attended three AGM of your company in Chennai, so I am well acquainted about this company, SQS Group and Expleo Group and everything, so just I am asking if you want to predict, otherwise no problem?

Balaji Viswanathan: While we do not really make a forward-looking statement, but we do not expect this margin drop to continue in next quarter.

Ravi Naredi: Margin drop?

Balaji Viswanathan: Whatever margin drop you saw in Q3 is not likely to continue in Q4 is what I am trying to say.

Moderator: Thank you. The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S. Narayanan: Thanks a lot for the opportunity and Good Evening everyone, first of all wanted to understand whether this discounts which we offered during current quarter, so is that process has been completed and are we expecting further discounts in Q4?

Balaji Viswanathan: No, not really, we do not expect the same quantum, in this quarter the amount was a little substantial. There will be some flow through, but it will be very, very marginal. It is not likely to be the same because of the calendar quarter, and basically this calendar quarter is end of most of our customer's financial year performance as well and that is the reason why we had to square up all those in the last quarter, but we do not expect this to continue and all the discounts are also not great discounts, these are all discounts which are given at a volume level rather than at a rate level, so it is not likely to continue.

Deepan S. Narayanan: Okay, also in the press release you have explained that we have won a reasonably large digital transformation project, so can you share more details about the project, business, size and margins kind of thing?

Balaji Viswanathan: I can share with you the type of the deal, this is for one of the large financial system company and what we are doing is to support them in modernizing their legacy platform across multiple geographies and our role is to look at the products, make some modifications or do security and

vulnerability checks and then to roll out that particular product after testing and integration. So, the deal is worth probably little over 100 to 120 people is what we are expecting for 2021. Margin and others. I think I would still leave it for now because what we budgeted and what we will actually be translating into is something which we are not sure of at this particular point of time, but it is a reasonably large deal. It is one of its kind, we have not done this in the past and there is a similar kind of an engagement that we are trying to do with another company as well which hopefully, we should get an response by sometime next month.

Deepan S. Narayanan: Okay, so on a base of \$100mn order book, can we say we have moved up to \$110-\$115mn something like that?

Balaji Viswanathan: Sorry, I did not get that question.

Deepan S. Narayanan: If you say on a base of \$100mn order book previous quarter, so during this quarter, this order book improvement could have increased that base to \$110-\$115mn kind of?

Balaji Viswanathan: I would say we are still not at the pre-COVID level in terms of our order book or the pipeline, but we are slowly getting there. Before end of this quarter, we should be able to get to the pre-COVID order book and deal pipeline. So, Q1 was good, Q2 was going down, Q3 actually is when we started seeing some improvement and by Q4, I think we should be back to the pre-COVID levels or even better than the pre-COVID levels.

Deepan S. Narayanan: Okay, finally what will be the contribution of revenues from the group during the quarter?

Balaji Viswanathan: It still continues to be around the same 21%-22% from directly coming from the group and close to around 35% more apart from the 22% coming through the group geographies which are supported by the group, so it will be anywhere in the region of 55% to 60%, but 21% is what is coming directly from the group.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Thank you for this opportunity, I have few questions, one it has been sometime that Mr. Rajesh Krishnamurthy has joined the Group as the CEO and he has spent some time and understood the business, so what are his key priorities? Also, any changes in business structure, would he like all subsidiaries to independently source client or any changes in delivery structure or client acquisition, any thoughts will be helpful?

Balaji Viswanathan: There are lot of changes that has been brought in including the Management change at the group level. India is the key focus, so February is month seven for him and he has already traveled to India twice despite the pandemic because he has a lot of interest in what we can do in India and what kind of capabilities we can build in India, so he has actually made quite a bit of changes in the org structure more in terms of integrating the companies, promoting the best shoring or off-shoring to offshore locations in India being the largest in that and we moved towards integrating

the engineering and the quality services being a more digital player both from a technology perspective and also from a quality assurance perspective, so there are multiple projects that he is running at this particular point of time and India is part of at least 75%-80% of all those projects that he is running. Of course, we have a bigger challenge in France with the impact that we saw during the pandemic particularly in the aerospace and auto industry because France has only aerospace and auto, but despite that there is a lot of focus on what we are trying to do. So, multiple organization changes that have been restructuring, lot more matrix organization at this point of time and the expectation is that we should grow or we should double the India business in the next two years, that is what kind of goal that we are setting for ourselves also.

So, the objective for Rajesh is to double the India business, both from a capability and from a scale perspective, because he is looking at India to be the digital transformation hub for the group and whatever actions that he is taking at this particular point of time is towards that, and the other one which he is also doing is helping us in restarting our US business. Earlier, we were waiting for an acquisition from the Group to happen and given the current circumstances, that is getting pushed out, so, he is helping us in finding the right people and the right connects to restart the US business, which also is likely to start, we should have the team in place sometime in April.

Anuj Sharma: Alright, and just again, I missed it, the intent is to double the revenues in the next two years or did I get it wrong?

Balaji Viswanathan: It is basically the size of the team because mostly the offshore centers are measured with the size of the team rather than just the revenue, but obviously it will come with the revenues, may not be exactly double, but at least it will come with reasonably good growth from a revenue perspective as well.

Anuj Sharma: The second related question is we have a sister concern in the non-BFSI segment, what is the rationale of keeping that independent because lot of synergies and a more diverged set of clients and may be better sales management, so, any discussions on merger and may be integrated entity, from a legal point of view rather than just from a synergies point of view?

Balaji Viswanathan: As of now, the synergies are the ones which we have started working on after Rajesh has come on board, so, we have a renewed focus on trying and utilizing the resources and the capabilities across both the entities or both the setups, but from an legal entity merger perspective, it is still little early to say at this particular point of time, but hopefully may be in the next couple of quarters we should have some progress.

Anuj Sharma: One more if I could just chip in, our performance if we see has been volatile, we had some few good quarters and then subdued and then again, so, is that something to do with testing industry, is there some structural changes in testing or this volatility is entirely due to our own whatever we may call it, maybe structural client profiling or our just your thoughts on the testing market in the next two to three years?

Balaji Viswanathan: Testing industry is certainly undergoing a change for sure and we are adopting to that change and from that perspective, I do not think it is because of the testing industry or what we are doing, our biggest challenge is our scale, for our size and scale which is in the range of around US \$10 million per quarter, even a \$100 K here or there can actually swing the numbers and make it volatile and our objective is to try and see as to how we can get to a position where we are of reasonable size so that these \$100 K and \$150 K differences are not going to make so much of an impact and show it as if it is that volatile because if you look at the numbers as well. The volatility is, in one quarter you see a 10%-15% increase and the other quarter you would see a 2%-3% decline and all these are in that range of that \$10 million, so the difference is due to scale size and that actually shows in terms of when you translate into percentage terms it looks really large for our size. Our objective is to try and see what we can do to build our scale to an extent where these small changes here and there does not show as if it is volatile.

Anuj Sharma: So, our focus would be that more numerous number of smaller clients or scale the existing clients?

Balaji Viswanathan: No, we are looking at winning larger deals, that is the focus because that is what will actually help us in diversifying our risks as well. If you look at the last three years, the top 10 client contribution has come down from 61% to close to 53% now. If you add more clients in that \$1 million range, it will help us because our focus is not a very large client, but at the same time not small clients either.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: Thanks for the opportunity, Balaji question on this big deal you referred there, you are hiring or you are going to deploy 120 people, which geography region did it come from?

Balaji Viswanathan: This is find by us directly in the Asia-PAC region, but the client's geography is across the globe, so, this is a large global client and this 120 also is going to be over a period of next two quarters, it is not in one shot, but the client geography is actually US, India, APAC, and Australia as well.

VP Rajesh: I see and what is the duration of the project or this could run into multiple years?

Balaji Viswanathan: As of now two years is what we are expecting, but if we do this well then I am sure it will continue beyond that as well.

VP Rajesh: Congratulations. My second question is when you said Rajesh is looking to double the capacity here in terms of number of people, what is the timeframe for that?

Balaji Viswanathan: Two years is what he has set for himself.

VP Rajesh: So, then could we assume that the revenues will at least go up by 50%-60% even if it does not go in proportion?

- Balaji Viswanathan:** It should.
- VP Rajesh:** Okay, and then as you were talking about some scale, why not acquire something smaller in the US which we see the capability because we have seen other software companies doing like that so any constraints or what is your thought around that?
- Balaji Viswanathan:** So, we had actually based on the Group's performance and some of the constraints, we had actually put on hold any inorganic growth opportunities till the beginning of this year, but we hope to restart some of those at least thought processes starting from this quarter and that is certainly one of the options in our mind, but we also need to figure out based on what we have as cash without the Group infusing cash, because if the Group were to buy it, it may not get integrated with this entity alone per se, so we are trying to figure out what is the best way to use our cash as well.
- VP Rajesh:** I see. Desikan, one question on the increase in the other expenses, you called out three things, one is the purchase of software and the one-time marketing expenses, can you just quantify those two things?
- Desikan Narayanan:** The increase in software expenses as compared to what we had in the last quarter, this quarter, we had an increase of around Rs.6 million and with respect to the marketing expenses that from the last year thing, it has increased most by around Rs.20 million that is the range we are talking about.
- VP Rajesh:** Okay, so Rs.6 million and Rs.20 million, that is what you are saying?
- Desikan Narayanan:** Yes, Rs.6 million and around Rs.20 million.
- VP Rajesh:** Okay, so that explains majority of the difference. In terms of margin, do you think you know in the next financial year, you guys assuming there is a revenue growth, therefore you can sustain margins over 20% EBITDA margin?
- Balaji Viswanathan:** We are targeting approximately 18%, Rajesh that is what we are targeting because given that we have to hire and mostly the new deal that which we have won and the deals that are there in the pipeline are in capabilities which we do not really have straight away because we do not really have it in that kind of scale, so there will be some amount of expenses that we need to incur in acquiring that particular talent, so, we expect that we should be in the range of anywhere between 17% to 18%.
- VP Rajesh:** So, the thought process is that let us go for the revenue growth at the cost of near term margin diminution, is that?
- Balaji Viswanathan:** Yes, because all these variations will be for a quarter at best and if we continue to sustain the growth then may be over the next three or four quarters, it should get normalized automatically.

Moderator: Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Thank you, Balaji you spoke about the US market and incidentally we saw some traction in US market in this quarter, was it just one-off or you are actually seeing the efforts building up? Second, when we are planning to enter, what segment are we trying to focus for the first door opening in the US market?

Balaji Viswanathan: Anuj, we actually had a couple of clients in the US always, so, it did not really ramp down. The challenge was that in the calendar year Q2 when the pandemic hit, one of our customers actually ramp down or went to zero almost from close to clocking around US\$150 K per quarter and they have come back in Q4 of calendar year. Once things settle down, they started again in Q4 and apart from that, we also won another insurance customer primarily on automation which is based on a partnership that we have with one of the RPA vendors as well. So, it was basically based on those two is what you see a traction in the US market not in this quarter but rather the last quarter and the new focus that we are looking at in once we have the new sales team while it will be based on our capability on BFSI, but the person or the Group or the team that we are hiring are not just BFSI, we will be looking at QA as a business, but may not be just BFSI, although I would say predominantly BFSI.

Anuj Sharma: Sure, and the second thing is you are talking about building capabilities in our business, so are we limited to testing and BFSI for looking at adjacencies and capacity building or we are exploring beyond BFSI as a category and beyond testing as a segment?

Balaji Viswanathan: Absolutely yes, so, it is beyond testing for sure because now that the customers are also in agile mode, so you need to be have the capability of software development and testing together, it is not going to be just testing. And beyond BFSI for sure because we actually have now two customers who are non-BFSI customers as well and most of the non-BFSI engagement that we are winning are the performance engineering, performance testing, security and vulnerability piece and the other one which we are exploring is also the RPA element as well and now with the new focus of combining the strength of the other entities within India, we will be looking at outside of BFSI for even the normal testing as well.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Good Afternoon gentlemen, my question was basically related to some of the previous questions when there have been questions regarding the cash as well as you know we have been talking about US strategy, now what is happening is that we have been hearing for a while that our US strategy is dependent on the parent, but it has been a while since we had not done, so how long we should take one decision, either we look in terms of distributing the cash to the shareholder or we should do something about it because you know we are not getting either or there, nor is the cash coming back to the shareholders nor are we using it for growth because it is dependent on the parent and parent may have its own priority, so since we are an independent company and

independent Board, internally has the Board given a timeline to the Management, okay in the next one quarter or two quarters you decide what you want to do and then at this moment take at least one decision either way?

Balaji Viswanathan: The US strategy like what I mentioned to Mr. Kasera as a response to even Mr. Anuj's question and the previous question as well, while it was dependent on the Board, it was dependent on the Group till last quarter, but given the current circumstances and the Group is not able to invest or do any inorganic growth in the current situation, we are going ahead with our own plan and that is what I was telling the team as well saying that we are likely to have our team focus on US sales onboard by April and we should start seeing some traction with them during the course of next quarter or latest by Q2 of the next financial year.

In terms of cash distribution, yes, it has been discussed in the Board as well and the discussions are being primarily around how we are going to utilize the cash, they have not given a deadline as yet, but they also want us to come back with what the plan is, which hopefully we should be able to present in the next Board meeting, but there have not been any fixed timelines per se.

Sachin Kasera: Because we would appreciate, at least I would for myself, I would be very happy as an investor if you decide that okay the cash payout is going to be much lower, but then the cash is going to be used for growth but if you can as a Management can come out with some clarity in the next may be one quarter, over the next two or three years this is the game plan, we will use the cash either for growth or for payout, even today it is neither here nor there, so we are left confused as a shareholder what to do?

Balaji Viswanathan: Point taken, we will do that.

Sachin Kasera: This doubling of head count that you mentioned, so does it mean that basically more off-shoring work will come from the parent that is because you were mentioning that the US they are not looking very aggressive growth by acquisition or is it that they are looking at using the off-shoring capabilities to get some more deals in Europe and off-shoring them to India, how is it?

Balaji Viswanathan: Yes, it is to build the capabilities here, which will actually help us to grow in Europe.

Sachin Kasera: Okay so, may be then the parent can get a little more aggressive and they can increase their share of business in Europe and then eventually come?

Balaji Viswanathan: That is right.

Sachin Kasera: Okay, is it going to be like proportionate for all the three entities they have in India or if you could give some sense?

Balaji Viswanathan: We have seen that between Chennai and Pune will probably have the maximum impact because that is where most of the QA work is being done right now. And to some extent, I would say that it will not be equal but at least one-fourth of it or one-third of it should ideally come to the

Chennai team as well. We are actually having our own aggressive moves, if you look at the market spread in our numbers, our direct market which is India, Asia, Middle East has also been growing in healthy double digits, and we expect to double this business as well as in the next three years as well, so, if you look at what we were in 2019 from these markets to what we are in 2020, there is almost more than 20% growth in these markets as well, so we continue to grow that market and increase the Group's footprint.

Moderator: Thank you. The next question is from the line of Rajesh Chaudhary, an Individual Investor. Please go ahead.

Rajesh Chaudhary: My question is regarding the dividend and the buyback, are there any plans for any dividend to or buy back in time to come?

Balaji Viswanathan: We have been discussing this for awhile now, we do not have a decision on whether it is going to be dividend or buyback or what we are going to do, but hopefully like what I told Mr. Kasera as well, we will come out with what our plan is before the next investor call.

Moderator: Thank you. The next question is from the line of Manish Jain, an Individual Investor. Please go ahead.

Manish Jain: My question was same as last question, so I got the answer, for dividend we will have to wait whether it is coming or not till next Board Meeting, so, that is what I understood?

Balaji Viswanathan: That is right.

Moderator: Thank you. The next question is from the line of Zaki Nasar, an Investor. Please go ahead.

Zaki Nasar: Sir, regarding the synergies with your sister organization that is one based in Pune, do you think it will be only a distant synergy or do you think there is a possibility of a merger going forward?

Balaji Viswanathan: The business synergies is what we are looking at right now, so that is what we have started working from last quarter onwards and that is something which we are working along with all the three entities, both in terms of utilizational space and utilization of resources across the three entities and, of course, you may already know the arm's length regulation requirements. From an merger or legal entity, I would say it is a little too early for me to comment, but hopefully we would know based on how this works we will get to know in the next quarter or so.

Zaki Nasar: Okay, because Sir I think before SQS become Expleo, then it was called SQS there was a very clear strategy that you are only into BFSI, now since you are out of it....

Balaji Viswanathan: No, we are not going to get out of BFSI Sir, that is certainly not there as part of the plan at all.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatia from HNI Investment. Please go ahead.

- Vaibhav Badjatia:** Sir, thanks for providing the opportunity, you have indicated quite contrary to our earlier stance that US will be primarily driven by the growth, but now we have kind of taken over in that market and now we will be doing our independent job in the US, is my understanding correct?
- Balaji Viswanathan:** Yes.
- Vaibhav Badjatia:** In the US what kind of investments are you looking for, any number that you can give us to build the sales and marketing team there?
- Balaji Viswanathan:** We are looking at getting two resources, two experienced sales resources who have worked in that particular market who has proven themselves in that particular market, that is what we are trying to do before April and, apart from that there is a marketing budget that has been allocated for lead generation and some kind of brand building there in that market as well, so we already have the Group's brand, but it is in a different name, so, we are trying to ride along with that particular branding name as well.
- Vaibhav Badjatia:** So, on an annual basis, what would be these investments will amount to, a broad number that you can give us?
- Balaji Viswanathan:** If you had to look at it, it is in a typical sales scenario most of it is going to be linked to what the outcome is, so the actual investment could probably be in the range of half a million dollars, but the returns will be based on what is the kind of numbers that we are able to generate. It is mostly based on deals that are signed and that is what it is like to be.
- Vaibhav Badjatia:** And you will be just looking for organic growth there or inorganic US-based acquisition is also on the card and also colour on the kind of segments we are going to focus on whether it will be BFSI side or it would be something else?
- Balaji Viswanathan:** The people whom we are hiring are not just BFSI, but they have BFSI experience as well, we are not going to be restricting ourselves with just BFSI, but it will also depend on what is the capability we can showcase to them, so we are not going to be focusing only on BFSI, but at the same time, I would say that if you had to go by what we can showcase to the customers, it will be predominantly that in the BFSI segment. In terms of numbers, it is too early to say right now, I would say that we need to wait for a quarter or so before we can actually commit, before we can talk about numbers.
- Moderator:** Thank you. The next question is from the line of Ritesh P. from Girik Capital. Please go ahead.
- Ritesh P.:** Thanks for the opportunity, Sir just to clarify doubling the head count in say two or three years, it is only for this listed entity or for the India business as a whole?
- Balaji Viswanathan:** It is for the India business as a whole, right now we are almost 50:50 between what we do and what the other entities do, so, even the growth will probably be almost the same.

- Ritesh P.:** What kind of investments you need to do to accommodate this kind of a growth?
- Balaji Viswanathan:** It will primarily be in the way of resources and skills that we need to build or the competencies that we need to build, which is what we are looking at this particular point of time.
- Ritesh P.:** Nothing in terms of physical infrastructure is needed?
- Balaji Viswanathan:** Not required at this particular point of time, so we have physical infrastructure and with this work from home model which has proven reasonably well, we have seen that we should be able to manage this growth with our current infrastructure.
- Moderator:** Thank you. The next question is from the line of Bhavik Mehta from Root Ventures. Please go ahead.
- Bhavik Mehta:** Good Afternoon, I joined late, sorry if this question has been asked, I wanted to understand if you track constant currency numbers for our revenue and EBITDA?
- Desikan Narayanan:** On a constant currency, on a quarter-on-quarter basis, the revenue growth was (-)3.5%.
- Bhavik Mehta:** Okay, so the degrowth is primarily for what particular region or any particular geography which we list budget or is that the case or it is uniform or any particular region?
- Desikan Narayanan:** Actually, not any particular region, its on all regions, if you take this period of time i.e. October, November, December, there are holidays which has contributed to the overall drop in the revenue. This was an expected trend, more seasonal trend we call it as and also we have the discount which has been shared because of COVID that both has contributed to the degrowth in this quarter.
- Bhavik Mehta:** Sure, and EBITDA on a constant currency would be down by how much?
- Desikan Narayanan:** We do not calculate EBITDA on constant currency but calculate only at the revenue level.
- Bhavik Mehta:** Okay, but I think from next presentation onwards I think it would be helpful for all investors because most of our revenues are exports and if we could get some constant currency update, I think if it is possible?
- Desikan Narayanan:** Yes will do.
- Bhavik Mehta:** My second question was around margin, the entire dip in margin is only primarily driven by the sales degrowth or there any other specific expenses which led to this EBITDA margin fall?
- Desikan Narayanan:** The drop is only on what we have mentioned on the call, nothing other than that have contributed to the drop in the EBITDA.

- Bhavik Mehta:** My second question is that since in our BFSI part, we do mention cards and payments as a stream and I think we have also gone to the parent trend report, so I just wanted to understand that when you all say cards and payments, are there any new age disruptions that you are working with or is it the traditional businesses within that as well because cards and payments are a macro thing as disruptive, quite a bit and the companies being in India definitely an Indian entity known for its fintech expertise, so are we delivering somewhat in the disruptive technologies within that or it will still remain the traditional cards and payments?
- Balaji Viswanathan:** The work that we do is in line with what the market is because that is the reason why the cards and payments of this segment is going as well and we are supporting digital payments, more online payments, more realtime payment project, and we are working with some of the product vendors as well so even the one which I talked about of large deal that we signed in the last quarter which is around the legacy modernization of one of the large fintech platforms.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Thanks again, so Balaji can you give a split of our non-testing versus testing revenue or that is not an important metric to think about?
- Balaji Viswanathan:** We are tracking what we call it as a digital revenue which includes development, automation, and specialized testing, and the regular testing Automation - automated testing is actually now part of the regular testing is how we consider in the market, so if you have to look at between those two, it is approximately 75% in the traditional testing plus automation and the specialized testing and digital services is approximately 22% to 25%, this is what was 9% in 2019 and which became 24% at this year.
- VP Rajesh:** My second question was when you said 18% margin, were you talking about just the next quarter or were you also referring to next financial year?
- Balaji Viswanathan:** Yes, I was looking at more from a calendar year, it will be more or less in that same range is what we expect. We feel that the next three to five quarters is what is going to be our investment heavy quarter so to say for building the capability, it is not that we are building any infrastructure or anything of that sort, but building the capability particularly to make sure that we are playing the digital world, it is going to be critical and so we will have some amount of leadership hiring and capability hiring which we may have to do during this period.
- VP Rajesh:** I see, therefore in terms of revenue growth one would assume because you are investing then there should be a higher revenue growth in the current calendar year, I mean I think last two years we are finishing around Rs.280 crores or thereabouts and one can expect let us say 20% growth in this calendar year over that?
- Balaji Viswanathan:** Yes, 15% to 20% is what our expectation is, but of course we do not really mention a specific number. If we get to 20%, it will be great, but the minimum should be at least 15%.

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

Balaji Viswanathan: Thanks Stanford. Once again thanks for all the interesting question and the interest shown on us, really appreciate each one of you for taking time, and hopefully, we should have better conversation during the next investor call and some of the action points which I have taken which is primarily the decision on what we are going to do with cash during the course of the next investor call, so thank you once again and have a good day and stay safe and stay out of Corona, hopefully everybody should get vaccinated before our next investor call, thank you so much and all the best.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Expleo Solutions Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.