



Expleo Solutions Limited
(Formerly known as SQS India BFSI Limited)
Q4 FY '19 Earnings Conference Call

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MODERATOR: MS. ASHA GUPTA, CHRISTENSEN, IR

Moderator: Good day ladies and gentlemen and a very warm welcome to the Q4 FY '19 Earnings Conference Call of Expleo Solutions Limited (Formally known as SQS India BFSI Limited). As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your 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 ma'am.

Asha Gupta: Thanks Ali. Good evening to all participants on the call. Welcome to the Q4 and full year FY '19 earnings call of Expleo Solutions Limited (formerly known as SQS India BFSI Limited).

To take us through the results today and to answer your questions we have with us the top management of the company represented by Mr. Balaji Viswanathan – Managing Director & CEO and Mr. Desikan Narayanan – Chief Financial Officer. Mr. Balaji will start the call with brief update about the quarter and full year gone by which would be followed by Mr. Desikan who will brief about the financials, post that, we will open the floor for Q&A session.

I would like to remind you that anything that is said in this call which gives any outlook for the future or which can be construed as forward-looking statement in nature must be viewed in conjunction with 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 SEBI and subsequent to annual report which you can find it on the website. With that said, I now hand over the floor to Mr. Balaji Viswanathan. Over to you sir.

Balaji Viswanathan: Thanks Asha. Good afternoon everybody. Before I start, I just want to tell you that for the last 9 to 12 months have been in the process of integrating and making a combined entity called Expleo Group and we renamed ourselves as Expleo Solutions Limited from SQS India BFSI Limited. It's been a long wait and an excellent journey so far in the rebranding effort and repositioning ourselves as somebody who can do beyond the software testing and QA. While the journey has just started at least with the branding and with the efforts that we are doing through the social media should give us some kind of visibility in the market. Apart from that talking about the current quarter performance and the financial performance FY '18-19, calendar Quarter 1 of 2019 or Q4 of the financial year was a little disappointing from what we thought it would be and mostly driven by some of the uncertainties that we saw in the Europe region which is our biggest contributor of revenue. While the decline from what we see at this particular point of time looks like a more of a delay rather than a decline and we are hopeful that during the course of the calendar year we should be able to recover from where we are and that our steps been taken to address that.

For year-on-year, we had a reasonably good run for the first three quarters of the financial year and this quarter because of the decline we probably show a very marginal increase of around 3.7%. Otherwise, we are running anywhere between 8% to 10% in the previous three quarters. So, if we had gone well probably we would have been closer to the same number for this year as well. Having said that, hopefully we should recover while we don't want to say what exactly

the number would be. Even though the revenue has declined if you look at the overall financial year performance the revenue increase is marginal. If you look at the financial performance based on our increase in high-value business from close to around 9% to 12% combined with improved cost management and overhead management despite the foreign exchange losses that we saw in the financial year compared to the previous year we still managed to improve our profitability significantly. We feel that we are probably closer to what would be the optimal profitability percentage and for us to drive growth there will be some amount of investments that we may have to make during the course of this year and next year. But we are also expecting that we should be maintaining or closer to this profitability level. So, that's quickly what our business update is. I will pass it on to Desikan to give a full rundown on the numbers in terms of where we are.

Desikan Narayanan:

Thanks Balaji. Good evening to everyone. Just to give you a perspective on the numbers, I'm going to start with the quarter-to-quarter number and financial year, year-to-year financial year '18 and '19. So, starting with quarter-to-quarter, Quarter 3 to Quarter 4; the current quarter revenue we ended up around Rs 670 million, which is a 6% drop compared to the last quarter. Our profit before tax was at Rs 126 million, which is around 61% increase compared to last quarter. Our profit after tax is at Rs 93.4 million from a profit after tax of Rs 47 million last quarter. So, we ended up with EBITDA percentage of 20.6% compared to 19% last time and our earnings per share was at Rs 8.7 compared to the last quarter Rs 4.5. We ended up with net cash portion of around Rs 987 million and we ended up with the DSO of 57 days during the year.

Now, giving a brief about the financial year comparison between FY '18 and FY '19; we had a revenue of around Rs 2,888 million, which is a 3.7% increase from the last year. Our Profit before tax was around Rs 535 million, which is 11.8% more than what we did last. Profit after tax was around Rs 360 million, which is 13% above the last year performance. Our EBITDA was at 19.6% compared to 14.9% last year. The EPS for the year ended at Rs 33.8 as against Rs 29.9 for the last year. So, that's the performance of the year, with that I will open up for the Q&A.

Moderator:

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Sameer Shah from ValueQuest Capital.

Sameer Shah:

The number of clients has dropped from 71 at the beginning of the year to 51. Consequently, YoY headcount is also down by 5% I'm assuming both are interconnected. If you can tell us what is happening on this side?

Balaji Viswanathan:

What we are doing Sameer is when we say 71 customers, so if you were to look at the overall revenue per customer because I am sure you understand the effort that you take to manage the customers almost the same irrespective of the size. While we are not deliberately trying to get out of any customer, we are also looking at what kind of opportunities to pursue and which is actually going to give us the best benefit as well. So, as part of that particular process we are looking at the profitability by customer and also by geography by line of business so that we make the optimum mix.

- Sameer Shah:** So, then the growth becomes that much more difficult.
- Balaji Viswanathan:** 71 customers with Rs 203 crores revenue versus our 51 customers with Rs 285 crores revenue is certainly a slightly better option is what we feel. But there is no conscious effort of reducing the number of customers. We are only looking at where to and what kind of opportunities to pursue.
- Sameer Shah:** And the headcount is also down by 5%.
- Balaji Viswanathan:** So, the headcount being down is part of our effort in managing our reserved headcount. Looking at what is the best option for us to where we need to make then the reserve, last time when we were talking about the last call, one of the pieces which we were talking about was how do we reskill ourselves, how do we change our skill metrics and how do we make sure that we have the right skill which is going to enable us to look at our techno-functional kind of a role rather than just a functional role. And as part of that you would see the 2%-3% swing in one quarter and probably you will have a slightly increased number in subsequent quarters because we are also hiring in the market as well. But the only thing is that when attrition is from a pure non-technical side most of the hiring is actually being done in the quasi-technical mode. So, it's not a significant dip if you were to look at it. It's in line with what your revenue dropped this. So, the revenue drop is around 7% and your headcount drop is close to around 5%. We also want to move into the mode of a nonlinear growth, our growth should not be defined by the number of headcount. Every increase in revenue, it should not be linear growth with that account as well. So, our realization has also improved because of that.
- Sameer Shah:** But these developed markets that like you said Europe has been challenging and that has been a primary reason for revenues not being as per expectation and US is still to fire for us. So, if you can just give some color on what is happening in these two markets.
- Balaji Viswanathan:** Europe is not doing good on a macro-term and economic conditions. Also you would have seen, Europe growth is certainly not all that great. But while UK certainly have the lot of potential because of these uncertainties over Brexit there is some delay and some pushing from one quarter to another quarter and other stuff. But hopefully it will all stabilize during the course of this year. US has been an unconquered territory for us for a while now and we have been trying to figure out what is the best option. Last time also I talked about the same thing, so US is actually the largest market for anybody. If you were to compare any of our peers US probably is 60%-50%-80% also in some cases as well. And for us we are still in single digits at this particular point of time in terms of contribution. But US is a different market altogether. You need to pump in a lot of effort and money for you to gain market share in that market. So, what we are trying to do is as a group, the group is also looking at how to grow in the US market because if you look at the overall Expleo group, out of the €1.1 billion revenue that we do US is still just about 14% - 15%. So, there is a concerted effort and we want to actually tag along with the group or piggyback along with the group which is likely to happen closer to end of this year or beginning of next year rather than investing because every dollar that you invest there we need to actually see the return as well. So, there is no point in pumping in a lot of effort and money without being any

result there. So, we are being a little cautious but at the same time we are being opportunistic as well because there are existing customers of ours and we see some opportunities with those existing customers as part of their transformation journey. Having said that, we are not going big at least for the next 1-2 quarters in that market and we will piggyback along with the group.

Sameer Shah: Second question is with the use of cash, now end of the year we are ending with close to Rs 100 crores cash and we have opted for a buyback of Rs 25 crores. So, was there a restriction in terms of the amount of or what is this Rs 75 crores going to be used for? Because every year also we are adding more cash.

Balaji Viswanathan: Absolutely.

Desikan Narayanan: As far as our buyback is concerned, it is restricted to around Rs 25 crores based on the free reserve we have.

Sameer Shah: But we can give additional dividend, right?

Balaji Viswanathan: So, Sameer what we are looking at is like what we discussed even in the last quarter's call as well, one is to look at the buyback which will probably take off 25% of whatever we have in our reserve right now. And the remaining one we are trying to look at what is the effective use rather than looking at anyone specific option per se. What thought process that we are looking at is how is it going to help us in growing the business. Is there any way we can actually propel the business from where it is right now till we wanted to move to the Rs 500 crores club as early as possible. We are trying to see as to what is that will take us there. I'm not saying that no there is nothing that we are going to do in the dividend space or anything of that sort because we are not making any specific statements here. We are looking at all options available. Post the buyback, hopefully in the next 3 to 6 months we will have a very concrete plan in terms of how to use this cash.

Sameer Shah: What would be the other options apart from inorganic?

Balaji Viswanathan: There are multiple options that are being explored Sameer. Inorganic is one option for sure. But in inorganic the biggest challenge that you typically have is that we are not a very large company and it's not that we have such a pile of cash that we able to go ahead and acquire something meaningful. We need to figure out as to whether in this particular budget what is the meaningful inorganic growth that we could see. The other option is to say that is there an option to look at a strategic customer, a strategic market and see if there is any option for us to invest where to grow our business rather than taking on something which is existing with any particular client looking at any other strategic opportunity in those particular markets or any partnership where we can invest. We don't want to go into a product rout for sure because we certainly don't want to invest in any product or go in the product rout because that's not our DNA anyways. But there are multiple options that are being explored.

Sameer Shah: We had this plan of not remaining a testing company and exploring other avenues and by the end of this quarter some strategic decisions were to be implemented, so any color on that?

Balaji Viswanathan: I want to correct this statement a little bit. We don't want to be a pure play only testing company. We will still continue to be because that's our bread and butter and there is really no way we can actually move out of that or think of something else. We will continue to be a testing company but we want to add more service lines to our testing faculty so that we have a slightly more broad-based offering rather than being just a testing company. So, in that range what we have done is when I started off we said that we have added the digital side of the business that is business in RPA which we are doing with some of our partners tools, the offering on data management as a service both for regulatory purposes and for other. So, those are growing at a faster rate, so from close to around €780,000, we are close to €1 million in that revenue line right now in terms of the data, RPA. So it's not a very large number. I would still say we are probably in the range of around overall from a business perspective we are still in the range of around 10%-12% of our total business but that's growing as well. And what we are looking at is that when we are adding service types it's once again around the testing now the quality assurance space. Whether it's around performance testing not just the functional testing or doing any performance engineering to improve the performance of payment platforms. Those are the kind of opportunities that we are adding to it.

Moderator: The next question is from the line of Zaki Abbas, an individual investor.

Zaki Abbas: The reduction in top-line, would we put it as it's been partially planned by you in view of reducing the number of customers?

Balaji Viswanathan: No, we are not doing anything like what I mentioned to Sameer as well, we are not doing anything consciously to move out of any customer. There is really no intention of reducing the customers as well. It's just that for new opportunities when we are bidding we are looking at some amount of size as well for bidding for those new opportunities.

Zaki Abbas: Or would this just be because of maybe the billing cycle going little bit, timeline of the billing cycle being changed that this drop has happened because it looks quite start in terms of if you compare it to March '18 over March '19.

Balaji Viswanathan: Some of it is actually if you look at it, last quarter to this quarter itself we have four customers. It will look like as the 55 customers have become 51 customers. But the nature of the business is such that particularly when you talk about performance testing, performance engineering, security testing, these are other new areas that we have added in the past as well. All these are typically a 60 day engagement, 90 day engagement, maximum going on for 5-6 months at best. So, there is no indication on the number customers per se. While what we are doing is we are probably having a slightly more organized qualification of an opportunity but there is really no effort on reducing any of our customer base at all.

- Zaki Abbas:** Because when you say 6% you are talking from December to March. But actually if you compare it from March to March which I think is usually the way to do it, it's almost like 20% fall in topline.
- Balaji Viswanathan:** You are talking about Q4 2018 to Q4 2019.
- Zaki Abbas:** Q4 2018, March '18 and March '19 comparison. That looks quite stark that is one...
- Balaji Viswanathan:** So, some part of it is also related to FX Mr. Abbas, though if you look at it in this year our FX actually had a really big effect as well. So, some part of it is because of FX.
- Zaki Abbas:** FX this foreign-exchange?
- Balaji Viswanathan:** That's right, foreign exchange, yes. So, if you look at Q4 of 2018 there was a profit of around Rs 28.1 million while what we had in this quarter is the loss of Rs 10 million. So, close to around Rs 40 million or Rs 4 crores is because of that.
- Zaki Abbas:** Then it remains around 10%-11%, may be because of timeline change and that stuff like that.
- Balaji Viswanathan:** Absolutely.
- Zaki Abbas:** You were mentioning that it should be your optimum top line on profitability or what will be your maximum capacity? You have a headcount of 900 right now approximately. At current investment would you be able to ramp it up to 950 to 1000 or you will have to make additional investments for that?
- Balaji Viswanathan:** No, there is no need for an additional investment. What I meant is that we have actually managed our cost so well that any additional opportunity to manage your overheads is limited. I'm not saying that we don't have the investment capacity or we don't have the capacity to increase our top-line. Our top-line from where we are right now to move to even of Rs. 500 crores we really don't need to much of an additional investment because we have space here in Chennai and we have a second office in Chennai as well that there is some space. And if you look at our mix close to 30% of our headcount it's in client location outside the country. So, the reason really what I mentioned was not an indication of what our current capacity to grow. We really don't have any limitation to grow.
- Zaki Abbas:** There is no fundamental disturbance in terms of the drop on the top line.
- Balaji Viswanathan:** Absolutely.
- Zaki Abbas:** March '18 to March '19 looks disturbing. So, just wanted to clarify that things are okay kind of?
- Balaji Viswanathan:** Absolutely. So, if you look at 31st March, 2019 our number is close to Rs 66 crores. If you add the Forex gain and Forex loss we will probably be in the range of around Rs 70 crores.

- Zaki Abbas:** Then there is not much of...
- Balaji Viswanathan:** So, the drop is around 5% - 6%.
- Moderator:** The next question is from the line of Manish Jain, an individual investor.
- Manish Jain:** My question is to Balaji. What I wanted to know is that after the company has been taken over by like SQS has been taken over by Expleo, how does see Expleo India in terms of is it a strategic part of Expleo, they want to grow in India or they want to grow a IT company in India or it happens to be just one exhibition. Does Expleo India sees lot of management time or attention from parent company or promoter so that it can grow at a faster rate or it keeps growing the way CEO in India Mr. Balaji you can grow at. So, my question is that what do you get from Expleo, the parent company in terms of faster growth and next part of it is what is the long-term view of promoter parent company in terms of owning this company, do they want to increase their stake, do they want to do further buyback, do they want to de-list, make it a part of the parent company? So, is there any such thing because such thing was discussed when Expleo had taken over SQS.
- Balaji Viswanathan:** There are two parts to your question. One is what is the involvement of the erstwhile assistance senior management which is now the Expleo Group Management to grow India. So, one of the important ones, I would also request Manish if you could follow us in LinkedIn and Facebook as Expleo. That would also give you a lot of insight in terms of what the plans are. Our global CEO Olivier, who incidentally also now on the board of this company and he makes it a point that he comes here at least once a quarter. He has already visited us thrice in last five months or so. So, his focus is that how do we grow India. Of course, when he says grow India it doesn't mean that it's only our unit. We also have other subsidiaries within India. His expectation is that he wants to grow India big time and he is a very big proponent of off shoring as a service. So, we have very ambitious plans on what we want to do or what the group wants to do in India and we are fully committed to making that happen. If you look at the three companies of Expleo Group in India, we are probably the largest in terms both size, revenue, profitability all of them put together. So, there isn't really any dearth of focus or attention to grow India per se. The second part of it is that who is going to be responsible for or how is the group going to play a role in growing India. Is it going to give you more business or is it just going to say that Balaji you grow the business I will support you. I would say it's a combination of both but the first one in terms of trying and pushing each of the regions and moving work from those regions in the India is also one of the areas as well. So, it's not that it will all happen immediately because for the kind of businesses that are being run and from the country which are being run, they are typically not a very matured offshorer per se. It's a whole UK which is large offshore and to some extent some of the countries in Europe. But most of the countries in Europe like the bigger ones like France and Germany; they are not the ones who are big off shoring company. So, there is an effort that it started and that's on but there is a concerted effort to do that as well. And apart from that we are also looking at how do we grow some of the markets where we are present directly without the group being there which is Middle East, Asia, India. Over the next few quarters you will probably see those...so, if you look at the spread of the business between the regions even in this quarter, the Asia business has grown while the Europe business has slightly

reduced and the North America is what our unconquered territory is and that's what I mentioned earlier in my call as well. So, we are trying to piggyback along with the group and the group is going to make this investment rather than we spending a lot of money on that market. But our focus is going to be primarily in the UK region and in the Asia region to start with. So, UK will be driven by the group and Asia will be driven by us directly.

Manish Jain: The last part of my question was relating to any possible like more buy back or seek the stake in this company promoters or maybe at some point of time think of de-listing? And this question I had asked because this was discussed earlier, maybe a year back.

Balaji Viswanathan: Buyback whatever is regulatorily available for us we would continue to do that. so we are allowed to do up to 25% of our free reserve which is what we are doing now and we are allowed to go-come back to the market for a buyback once a year or after 12 months after the closer of this particular buyback. So, if the market conditions are good and if we have the same level of reserves and stuff then we will probably come back with similar kind of options but we really don't know, we can't really foresee what is going to happen there. But in terms of group increasing their stake I really don't have that answer right now. May or may not but at this particular point of time that's not an option that is there on the table.

Manish Jain: They don't talk about de-listing also right now, 100% and de-list.

Balaji Viswanathan: Not right now Manish, at this particular point of time no. That's not something which is being discussed in those lines. To some extent like what I was telling earlier to Sameer and Mr. Abbas as well, one of the opportunities that we have is to try and see how we can use our funds to grow our business as well.

Manish Jain: People who don't want to participate in buyback they have long-term commitment to Expleo, for them there will be dividend this year like it has been there earlier. I mean, buyback is useful for people who want to sell off their shares. I want to hold for long term.

Desikan Narayanan: Buyback actually one way of using the fund. We are not looking at any dividend as of now so what we think is that how we can invest or reinvest in the business and we are looking on how we can add value to the business. This is the current focus. For the dividend, we don't have any change on this now.

Manish Jain: You are saying this year there may not be dividend since buyback is there?

Balaji Viswanathan: That's right.

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

V. P. Rajesh: What percentage of the revenues were influenced or bought through the parent company?

Balaji Viswanathan: Rajesh the way we are structured is that we have something called parent company contracts which are being outsourced to us and there are other contracts which are in the region where the

parent companies are there which is primarily Europe at particular point of time and it is being serviced by the group company but it's actually done by us directly. So, if you look at the combination of both it's in the range of around 50%. If you take only the contract which are outsourced to us by the group, it's around 18%.

V. P. Rajesh:

Second question is, just in terms of your revenue by region. You were talking about Asia being your focus and UK being the focus from the parent side. I just missed the part where you perhaps addressed the North American market as well.

Balaji Viswanathan:

Yes, so North American market if you look at it in the last 2-3 years, we have made some investments but has not really grown us the desired results per se. What we want to do is, we have a couple of good customers, loyal customers whom we have been working with for many years now. We will continue to service them; we will continue to grow them. We have people on the ground taking care of that but at this particular point of time we are not looking at making a huge investment in terms of sales offices or any of those right now in the North American region. What you do is, the group also is looking at North America as a strategic market apart from BFSI or even Automotive and Aeronautics and Aerospace and other stuff. So, there will be at some point of time during the course of this year, by end of this year or latest by beginning of next year. There will be a group effort to go into the market whether organically or inorganically. There will be an investment which will be major in the US market and we are looking at a piggybacking along with that rather than making a big investment at this particular point of time. We will be in the range of around same 5% to 7% kind of range, give or take a few months and typically these opportunities... any project you do with any customer has a peak period and a lean period and for Q1 is normally a lean period for US.

V. P. Rajesh:

In terms of the client details, last year in March you exited 68 clients and now it is 51. Is there a majority of the client that got dropped are they being in the US or in Europe or how is that distribution?

Balaji Viswanathan:

If you have to look at it, we have not really dropped any customer at all. Typically, it depends on the billing cycle and the kind of work that we do with each of these customers. Some of the engagements like security testing, vulnerability and assessment, specific consulting engagements, pieces around penetration and performance engineering, all these are normally your 30, 60, 90 day to a 4 month or 5-month project. So, there isn't really any customer whom we have dropped per se and we don't want to drop as well because all customers are important for us and we are not going to be dropping any customer at this particular point of time. Only thing which we are doing now is, we are being a little prudent when we are giving the sales cycle, when we are approaching a new customer. We are looking at the size as well rather than just seeing brand. There is no really any big drop per se and the drop is across all the regions so there are some customers in India primarily so if you have to look at the biggest loss our biggest drop in terms of active customers would probably be India. Starting with India then because that's where the sizes are very small and then there are few in Europe who are not active in this quarter but probably would be active in next quarter and there are 2 or 3 of them in the US as well which we can inactive. I wouldn't say drop, it's more inactive.

- V. P. Rajesh:** On the debtors' days, there is a significant improvement compared to last year so is there your run-rate for Expleo or is there something not normal which happened in the current financial year? Is that a significant improvement in debtors' days?
- Desikan Narayanan:** That is there but if you look at it the look at generally the market trend is around 65 to 70 is the normal trend and 60 to 65 good and 55 to 60 is the best and since we had some good amount of collection coming in this quarter we could do well in this quarter. If you look at it in year before last year, we had 57, so this is more of a one quarter we had this drop. Generally, we hover around 65 to 70 that is the normal market range.
- V. P. Rajesh:** On the employees' side you are at 900. So, I have two questions what was the utilization this quarter and what is your total capacity in terms of number of seats that you have?
- Balaji Viswanathan:** Our utilization is around 101% for this quarter. When you say 101% it's including what we call it as our training days and our holidays and other stuff. So, if you have to look at it purely from and working day utilization perspective, you are close to around 78%, 77%-78% and in terms of capacity I don't think we have any challenge in terms of capacity. We probably have anywhere between 200 to 230 between the two offices in Chennai.
- V. P. Rajesh:** In addition to 900, that's what you are saying.
- Balaji Viswanathan:** Yes, that's right. So, just to clarify that 900 is the head count and we also have some other contractual employees on top of it as well whom we wait for seasonal requirements. Out of this, close to 200 people are in client locations on site, outside of India. So, what we need in terms of number of seats is probably in the range of around 700-750 and we still have another close to 250 to 300 which we can grow. Space is never a constraint so that is not a challenge for us.
- V. P. Rajesh:** Just on your slide #9 of your presentation, the other expenditure number has fallen dramatically post year-over-year and quite nicely in quarter-over-quarter so is this Rs 9.6 crores or let's say Rs 10 crores, is that the run rate for your other expenditures or is there some one-time items which are there?
- Desikan Narayanan:** The one reason for it to drop from last quarter to this quarter is that in last quarter we had some training and marketing events where we participated that has not happened during the quarter, and also it has some sales commission which has dropped compared to the last quarter so those are the items which has made decreased compared last quarter to current quarter. With respect to the last year to current year, because last year we did have some amount of investment in the US which we have not done much during this year which has contributed to the drop there.
- Balaji Viswanathan:** So the normal would be in 110 to 120 range.
- V. P. Rajesh:** 110 to what..?
- Balaji Viswanathan:** 110 to 120 range is what it would be. So that's the normal one, so, this quarter is an exception.

- Moderator:** The next question is from the line of Sachin Kasera from Lucky Investment Managers.
- Sachin Kasera:** You did mention and gave clarity that as far the business plan is concerned you will continue to drive the Asia business and a parent endeavor will drive the Europe business you. US obviously said will be driven by the parent entity as and when it happens. So, based on whatever business plans that you have if you could give us some sense what is the type of growth aspirations we have may be immediately for FY '20 and may be from a more medium some terms say 3 to 4 years perspective for listed entity?
- Balaji Viswanathan:** I will probably clarify again so when I said that group, we will drive through the group the growth in Europe and UK. It is not that it will happen on its own so we have our relationship managers who are actually going to be doing that as well. So, it's just that front ending is going to be done by the group because they have relationship with customers. There is obviously going to be an effort. It's not going to come without that and for Asia since we have our own sales team which is actually going to do it so we are going to be directly pushing for Asia. In terms of percentage or in terms of numbers, really don't have a specific number that I want actually give at this particular point of time but if you look at our peer group, if you look at how the market is trending and if you look at what is being projected by the likes of NelsonHall and Gartner, we have of course relatively small compared to many of the bigger peers. Everybody is talking about our CAGR just in the software testing space of anywhere between 5% to 7%. So, that's the global growth rate that is expected. We and probably there is only one other entity which is listed, some amount of information that we could gather on how the growth is. We are not expecting to be way different from what the market is.
- Sachin Kasera:** Basically, between 5 to 7 is where we have to see ourselves at?
- Balaji Viswanathan:** I don't really want to give a number much there is no real reason why we should be lower than what the market is.
- Sachin Kasera:** Is there any plan, you said that parent entity has multiple entities in India so we have in between seen certain other multinationals, they look at consolidating all the entities into one so is there any thought process on that front to consolidate all the business of the parent entity into a single entity or they will all remain independent entities?
- Balaji Viswanathan:** Our entity will remain independent at this particular point of time since we are listed that we don't have the same kind of management structure or the business structure that we have for the other two companies in India. The legal entities will continue. What the group has already done is there are synergies, there has been a common management team which has been set up between Bengaluru and Pune which is where the other two entities are. But we will still remain independent and separate but even for the Bangalore and the Pune entity the legal entities will continue. There is no plan, consolidating the legal entities but the management structure is being already consolidated so that they can get benefit of sale.
- Moderator:** The next question is from the line of Rohit Balakrishnan from Vrddhi Capital.

- Rohit Balakrishnan:** Can you share what was the reason for the drop in the revenue this quarter?
- Balaji Viswanathan:** The drop in the revenue in this quarter is primarily driven by some amount of lag or delay in the UK and Europe region and most of it looks like at this particular point of time the delay rather than a loss per se. Most of this is because of that. All the other regions have done as per their numbers or slightly ahead of their numbers as well.
- Rohit Balakrishnan:** In a sense you expect the next quarter to see this lag also in addition to the normal quarter that it should be?
- Balaji Viswanathan:** Over the calendar year which we are expecting it to correct. May not be in just one quarter but over the calendar year it will and some of it is also because of the uncertainty over how the Brexit is going to play, where we are going to be located, what kind of investments that the customers have to make as well.
- Rohit Balakrishnan:** Other question I had in term of, two questions actually so one was on the US part, we have been trying for the US for the last (+3) years now and now is it what we are saying that we are now saying that we are not going to invest a lot. We will just see how it comes and the group will invest and we will get what we get, is that what you are saying on the US?
- Balaji Viswanathan:** Partly yes. I am not saying that we are not going to invest in the US. What I am saying is what we say that we will be practical in terms of our approaches. So, if there are good opportunities, if there are good clients where we can invest because there are some like what I said we need to look at how we are going to use our free cash as well. So, part of that if there is a good investment opportunity, we will certainly look at it but we are not going to be looking at investing now and waiting for the results to come later. So, in the past, there were investments that were made on building team and building locations and other stuff in the US, waiting for the business to come. So, we may not go down that path at this particular point of time but if there is an opportunity, if there is opportunity where we can actually start seeing the revenues flowing in immediately, we would certainly invest.
- Rohit Balakrishnan:** The other part of the question was on the growth so you mentioned that the general market growth was about 5%-7% and we have another listed company in the same space so if you look at then the last 3-4 years they have been growing there revenue in dollar terms at respectable double digits so given 4-5 years back probably both of us were in a similar size, they are slightly bigger but they have become even more bigger. So, just from that perspective given that we are still very small in the overall context of the market size. Shouldn't our aspirations be to claim, to grow at a faster rate than the market?
- Balaji Viswanathan:** Absolutely.
- Rohit Balakrishnan:** So, the question is then what is inhibiting that growth because it's not been there for the last 2-3 years so what is that is needed for us to get that growth because the others are growing?

Balaji Viswanathan: So, if you look at it, I mentioned that earlier as well to Sameer and Mr. Jain as well. What I was saying is that if you look at our structure, most of our businesses actually coming in from Europe and as a matter of condition if you have to look at its Europe is not the fastest growing economy and probably there is some lag there. US is being darling for everybody and if you look at any of our peer groups including the other listed companies that have talked about. 80% to 85% of the business comes from the US itself. So, US as a market is certainly most important if you want to get to a 20%-25%-30% kind of a growth numbers that we need to look at. The other option available is like what we said, is there an option for looking at an inorganic option where we can gain market share through the cash that we have got as well. So, the option available is that one is to drive through the group, which is what we are doing but whatever you do within the Europe market space your growth rate would probably being there 10%-12% range so that is what it is. So, UK is what we are waiting and watching now how the Brexit is going to play, perhaps there is a real immediate opportunity where we could get our really big number if you have to push UK but there is some amount of uncertainty hopefully should get addressed in this quarter. That's our biggest bet if you were to look at apart from looking at any other opportunity for investment which will help us grow the business.

Rohit Balakrishnan: In terms of margins, like this year have done quite well on those margins and we have improved almost every quarter so in a sense that and in the past our margins have been volatile and this is even apart from currency, just from a trend perspective do you see these margins to be more sustainable or say for currency do you see these are more normalized margins or its in more from a cost saving perspective that you have done and may be worse at some point of time?

Desikan Narayanan: One thing, I can say that when we also mentioned that before that this is more optimum level of the overhead what we are looking for and also currently if you look at the margins, I can't say that this will be sustained for the coming period but this is more an one-time.

Balaji Viswanathan: If we go back to our investments cycles Rohit and if you have to go back to our growth path there will be some amount of investment but having said that it's not that we are expecting it to be way different so if we are saying that our EBITDA margin is around 20.6%, that's how, 20.6% is certainly difficult if you want to sustain if you go back into the investment cycle and start doing, start driving growth because that will be some investments that we may have to make there but we are not expecting it to pull us down drastically. We are not expecting us to go back to single digits or it's not that we are expecting that amount of volatility certainly.

Rohit Balakrishnan: From an overall perspective, in terms of the overall, how do we sit in the overall group? We are perhaps the only other listed entity or the only listed entity perhaps of the group so and we are very focused on one vertical which is BFSI versus others who are in automotive and engineering services etc. so it's kind of an odd structure to be honest so how does, when the group is creating its own strategy where do we fit exactly?

Balaji Viswanathan: So, we are part of the overall BFSI as a business entity within the group. So, BFSI as a business within the group is around 12% to 13% and we have a person who is actually the head of BFSI within the group as well who also sits in our board. So, any strategy that is being made is being

made considering this vertical which is contributing to 12% - 13% we are now expecting it to go to the 15% odd as well and as part of that one of the biggest elements that the group is looking at is pushing, off shoring as a strategy. So, that is something which will play a big role and we are not going to be left to fend for ourselves so there is substantial backing in terms of trying and helping us grow other business unit. And having said that BFSI as a vertical, I mentioned this in my first call as well. So, there are very lines now between other industries and what BFSI does. Whether it's in e-commerce or whether it's in payments or whether it is Connected Car and monetizing Connected Car along with insurance, so we are seeing some of those synergies so we are also doing work with Volkswagen as one of our customers for this year. How do we bundle, a least function along with a Connected Car model as well. So, those industry lines will be very clear and some of the lines of businesses or many of these will get little blurred. So, we are not restricting ourselves to look at saying that we will look at only the banks or we will look at only the insurance companies.

Rohit Balakrishnan: Just last two questions, one is more from a data point of view so for the entire year and also for this quarter what was the offshore versus onshore split?

Desikan Narayanan: The offshore and onshore is around it has a 55% on-site and 45% offshore.

Rohit Balakrishnan: This is for the entire year?

Desikan Narayanan: Yes.

Rohit Balakrishnan: 45% was offshore and 55% was onside.

Balaji Viswanathan: Yes, in terms of revenue.

Rohit Balakrishnan: How do you see this mix evolving in the next may be 2-3 years?

Balaji Viswanathan: See, typically in every project, if you were to start a new project, particularly in our kind of industry where the lifecycle of a project is a maximum of 2 years, most of them would start with more onshore and then slowly moving towards offshore. We don't expect it to be very different from where it is right now even in the best in the industry would probably be in the range of 50-50. That is the maximum I think which you will probably be able to get to in terms of revenue not in number headcount.

Rohit Balakrishnan: Just another related question up to this point and then I will ask my last question. You said that large part of the strategy for the group for even the BFSI is to increase the off-shoring part of the revenue so if that were to happen then wouldn't our share of revenues from the optional part go up or do you think that 50% gap is including that?

Balaji Viswanathan: Yes, it will go up for sure but the way you look at it is that you have to add new projects and some of the existing projects will go up. We are not any one of those annuity businesses where you will have a steady flow from the same customer to do the same kind of business as well. Most of it will be as you move out from your offshore to onshore you will have projects starting

up offshore first, onsite first and then over a period of time the off-shoring will increase. It won't make too much of a difference.

Rohit Balakrishnan: In the last call you have mentioned about the new lines of business also contributing as a vector for growth so I don't know if you have said something on that, if you would like to say anything in terms of commentary on what was the revenue contribution this year and any thoughts on the next one year also on that?

Balaji Viswanathan: We started tracking this for the last 2 quarters now so we have moved to 12% of our total business coming in from the high value services is what we would call it as which is RPA, Data Management and the technology enabled digital services and we expect this particular business to grow comparatively faster may be 40-50 whatever that percentage would be compared to our regular line of businesses and that's what we are making the investment as well.

Rohit Balakrishnan: The margins are better there or how do you?

Balaji Viswanathan: As of now we are not focusing so much on that Rohit at this particular point of time because the moment we start looking at that then you will start forming an opinion for ourselves so we don't want to look at unless it becomes of some size and scale we don't want to get down to tracking profitability. They are profitable and in line with what our current profitability rates are for sure, certainly not less than that but we don't want to focus so much on that because if we start focusing on that then the trust on growing that era will have its own will get opinions.

Rohit Balakrishnan: What is the timeline for the buyback?

Desikan Narayanan: Time line is waiting for the SEBI approval to come in and we will be sending the letter of offer by this week or next week will be the one where we are looking at opening the buyback.

Moderator: That was the last question, so over to you all for the closing comments.

Balaji Viswanathan: Thank you so much for joining the call today. We tried answering most of the questions, I guess. Looking forward for your continued support and hopefully we will come back with better numbers for next quarter. Thank you.

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