Management Discussion

Asha Gupta - Investor Relations, ENY Investor Relations
Thank you, Anam. Good morning to all the participants in the call. Welcome to the Q2 FY27 earnings call of Expleo Solutions Limited. The results and press release have already been mailed to you, and you can also see the same on company's website. In case anyone does not have the copy of press release and presentation, please do write to us and we will be happy to share with you. Representing the management today We have Mr. Ralph Gilliton, Chairman and Non-Executive Director, Mr. Fanny Tangerila, Managing Director and CEO, Mr.

P. Palaniappan, CFO, to whom we will be referring to as Mani. Mr. Fanny will start the call with brief overview of the quarter and half year gone by, which will be then followed by Mani, who will be giving you the brief update on the financials. After that, we will open the floor for Q&A session. As usual, I would like to remind you that anything mentioned in the call which gives any outlook for the future or which can be construed as forward-looking statements must be viewed in conjunction with the risks and uncertainties that we face.

These risks and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports you can find on our website. Having said that, I will now hand over the floor to Mr. Pani. Over to you, sir.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Hey, thanks a lot, Aasha. A very good morning to one and all who have joined, and thanks for the continued support and trust in Expleo. And as you would have seen the numbers, we have, with an operating revenue growth of 3.5% year on year, And an operating, uh, the profit after tax, 10.1%. We can say we have done decently better on this, but let me be very candid on this case. Uh, these, uh, subpar our own calculations and expectations. Uh, we were all set for having a great quarter, but unfortunately the Middle East war has, uh, really caused us a serious dent in our projections, and we remained pretty much, I would say, flat with very marginal growth.

But I mean, having said that, the business is not gone. I would say that most of the Middle East customers, uh, we have either evacuated Riyadh with our teams coming in, which has had a direct impact on our revenue, but these projects are not gone out there. Some of them are pushed for the next quarter, and some of them a little bit put on hold for now until we hear back from the customers. So that has seriously dented our ambitions. But otherwise, uh, the rest I would confirm like what I did in the previous earnings calls, that the plan with which we are going on focusing on our existing customers, focusing on the selected industries like aerospace defense and BFSI That is definitely continuing.

So discounting the dent that we have got on the Middle East part, if you want to look at the 2 major industries that have really helped us, continues to be PFSI and aerospace defense. And some of the- as expected, we have not expecting too much of growth on automotive, which globally has been seeing downward trend, but there also we have, if not grown significantly, where there also we have registered some growth despite having the turbulent times. So this is, uh, this is a quick look at how we have fared on this.

But on the other aspects of it, like our DSO is still quite good and managed at optimal levels. And the SLS on the collections have been met, and our investments on AI and the digital transformation, transformation areas continue to be good. But having said that, I really want to also share something positive that would- will be going into upcoming quarters. Expleo Solutions Limited is happy to

announce that we have launched Expleo Forward as our A new service offering to the industry. Expleo Forward is created in line with our strategy to embrace AI to help our customers better.

So it will be a forward deployment- deployed engineers group that we are going to create, and that FDE lab, we will call it as Expleo Forward, which will assist business. On the outcome and where we are- we'll be working very close with our top 20 customers at this point of time, trying to identify a division or a process or a specific area within their organization and carve it out into outcome-based service showing a measurable impact and then showing the benefit out of it and thereafter scaling it.

That would be the Explore Forward vision. And as a part of that, we have tied with top-notch institutes on the edus side to get our solution architects get into the FDE training. The first batch of the training will come out by 31st December, 25 of them, and the second batch will be by 31st March, another 25. Put together, we'll have an army of 50 FDEs. Who will be deployed over 20 accounts, and then they will work very closely with the CXOs and then prove things on the fly because of the technology that, uh, and the accelerators that we already have in place, and prove them that there is an outcome.

And once that proof of concept is done, then that will be scaled into a major organization-level initiative in the banks. We don't want to spread ourselves thin on this. In all the industries because the forward-deployed engineers have- need to have a strong industry domain. And we have picked banking and financial services as our major area where we'll deploy all these FDs. And this is what we see it as, a non-timing material kind of a service which can improve the profitability of their organization because it is measured based on the outcome, measured based on the benefit for the organization, and it is not tagged to individual resource costs.

And that is the model what we are putting in. Very frankly, this is not something we are the first to do. The industry is slowly moving towards it, initiated by Palantir several years back, has now gained the momentum, and some standards have evolved within that. And we are definitely having a big hope on this because we as Expleo for the last 3 decades have been focusing only on domain and we are considered and seen as sector experienced people. And that's what makes this whole thing doable because under the FDE lab concept, what is required is primarily the knowledge on the industry.

So we are upbeat on this and we We'll, in the upcoming calls, we'll update on how we progress on that. And the last one before I pass it on to Mani is we have also made some headway on monetizing our assets that we have developed over AI, the kind of accelerators and differentiators we have developed on AI over the last 2 years. I have updated even in the previous call, they started to get monetized now. So we started seeing the revenue ticking in on that. And also the good place is- good part is we have put some of these products on the marketplace of our hyperscalers to start with, on Amazon and Azure, those kind of.

So this is something going to become a revenue stream going forward. So having seen a mediocre quarter but having investing into a strong future, I'm pretty much upbeat on how we will take things forward. As the quarters roll on. That's it from my side. Mani will now cover on the financial summary part of it.

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Thanks, Sunny. So I want to first talk about the financial highlights quarter on quarter. Our operating revenue for the quarter ended September 26th is at Rs 2,926 million INR versus Rs 2,915 million INR in the previous quarter. There is a growth of 0.4%, primarily due to benefit from forex as rupee

depreciated against euro and US dollar. Total income grew by 1.4% to Rs 3,026 million in this quarter, primarily due to higher operating revenue and higher other income from forex gain. At constant currency, our operating revenue was flat at Rs 2,915 million In this quarter, and it is the same as in the previous quarter as well.

Adjusted EBITDA for the quarter is at 13.8% versus 14.5% in the previous quarter. This is mainly due to higher wage costs and one-time costs that we had this quarter, partially offset with operational efficiency and improvements. Profit after tax including other comprehensive income is at 13% versus 13.5% in the previous quarter. Versus 11.8% in the previous quarter, primarily due to higher mark-to-market forex gains. Now we will talk about the financial highlights year-on-year, which is September quarter of this year versus September quarter of last year.

Our operating revenue for quarter ended September 26th is at Rs 2,926 million versus Rs 2,827 million in the same quarter last year. And this is a growth of 3.5%, primarily due to higher on-site revenue growth from Europe and in the aero vertical. And there is also a benefit from forex due to rupee depreciation, primarily against euro and US dollar. Our total income grew by 2.4% to rupees 3,026 million in this quarter, primarily due to higher operating revenue, partially offset by lower income from forex.

At constant currency, our operating revenue decreased by 3.1% to Rs 2,740 million versus Rs 2,827 million in same quarter last year. Adjusted EBITDA for the quarter is at 13.8% versus 17.1% in the same quarter last year. This is primarily due to wage increments and one-time costs, partially offset with operational efficiency improvements. Profit after tax including other comprehensive income is up 13% versus 14.6% in the same quarter last year, primarily due to wage increments and one-time costs, partially offset with operational efficiency improvements and lower depreciation and amortization costs.

I will talk about the financial highlights for the year ended- sorry, half year ended September 26th compared to the same period last year. Operating revenue for H1 FY27 is at Rs 5,842 million versus Rs 5,423 million in FY26, which is a growth of 7.7%, primarily due to forex gain on account of rupee depreciation against euro and US dollar. Total income grew by 7.1% to Rs 6, 11 million, primarily due to higher operating revenue and higher interest income from higher cash balances. At constant currency, our operating revenue decreased by 0.2% to Rs 5,411 million versus Rs 5,423 million in the same period last year.

EBITDA for H1 FY27 is at 14.2% versus 15% in same period last year, primarily due to impact of wage increments and one-time costs, partially offset by operational efficiency improvements in our core delivery costs and optimized spends on non-essential and discretionary costs. Profit after tax including other comprehensive income in H1 FY27 is at 12.4% versus 12.1% in the same period last year due to higher other income from cash balance and higher other comprehensive income on the market for Expleans, partially offset by wage increments and one-time costs.

Earnings per share is at Rs 45.47 in H1 FY27 versus Rs 38.78 in the same period last year, and this is higher by 17.3%. Cash position stood at Rs 276 crores as of September 26th versus Rs 303 crores as of September 2025. And that's the end of the financial highlights. Thank you, and over to you. Ayesha, over to you, please.

Asha Gupta - Investor Relations, ENY Investor Relations
Yeah, ma'am, can you please start Q&A session?

Questions & Answers

Operator
Yes, ma'am. Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Faisal Hawa from HG Hawa Company. Please go ahead.

Faisal Hawa - Analyst, HG Hawa and Company
Uh, sir, with respect to this, uh, cash decreasing, is it because of the last dividend that we gave, or have we transferred some fund to the parent for, uh, the, uh, the liquid deployment? And secondly, sir, uh, you talked about an acquisition in the in the previous con call. So any progress on that as far as due diligence is concerned? And third is, sir, uh, we are still increasing the headcount. So in what exact domain are we increasing this headcount?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Okay, the first part on the cash is primarily because of, uh, the dividend being given. Money, you can confirm, right? Yeah,

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
That's right. So we gave a dividend of 170 crores. That's the total cash outflow for dividend, 170 crores. But if you look at the cash position as of now, it's 276 crores compared to 303 crores we had in the same period last year. So it's only a reduction of about 30 crores, but the dividend outflow was 170. So there has been net cash, uh, incremental that we have been able to operationally generate.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
So that is on the first one, Mr. Hawa. And the second one, on the acquisition, yes, uh, we have gone into the due Due diligence phase. Unfortunately, the asset we couldn't procure because the last minute they have gone with a private equity investor which has offered much higher. So we are back on the board, but we have a strategic- we have decided that instead of going for one big acquisition, we have now changed our strategy to multiple tuck-ins acquisitions which will Uh, spread the risk, and at the same time, uh, it can- even if one doesn't go through during the due diligence phase, at least the other would continue.

So the process is on, Mr. Hawa. The last is on headcount. Uh, I think our headcount has remained flat with a very marginal increase on, uh, the areas of the engineering in anticipation of our renewals coming in the next year. But I don't think so there is a significant rise in

Faisal Hawa - Analyst, HG Hawa and Company
So do you also concur to the theme that AI will overall, uh, lead to a lot of legacy systems being, uh, progressed and transitioned, and that itself can yield to a lot of business? So do you see anything on ground here, and why are we not being able to increase our million-dollar customers more than this? And, uh, will, uh, AI deployment also mean that our parent will be now not, uh, transferring, uh, quite a bit of work that we were previously- they were doing to our Uh, Indian subsidiary?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Okay, sir, let me answer. You are spot on on the first one. There are a few- most of our customers sit on very old legacy applications, and with the advent of AI, that is a huge opportunity. In fact, some of our incoming revenue coming from our AI assets are due to legacy modernization, where those systems developed in C, C++, or COBOL kind of old technology which otherwise used to take months and months to modernize them can be done at a faster pace. So, but, uh, uh, this is a long process which has already started and we are already the beneficial.

So you are spot on in identifying that as an opportunity. And we have one vertical within our digital team only focusing on legacy modernization and use of AI for that. That perfectly is, uh, the case. And the work coming from, uh, the group also, if I divide that into the digital revenue and the engineering revenue, engineering revenue has very little impact of AI. But with the global situation, Mr. Hawa, going in Europe, the, the plans on bigger customers like Airbus or Thales, they continue to spend more on India.

That is continuing. So we expecting only an increase in the engineering side work to come from there and from- to India from group. And when it comes to technology, uh, the digital business, it is already there. In fact, more than our direct customers, the group customers are contributing towards our AI revenue much more, with banks in Austria, Germany, and in Ireland embracing. And there, the revenue relation is much better. So I would say if you look at overall our numbers also, the contribution of group has significantly increased, uh, compared to our previous years, and so is the AI revenue coming out of it, Mr.

Khavan.

Faisal Hawa - Analyst, HG Hawa and Company
So would it be a right statement to make that most of our revenues from the old cost-plus model or the deployment of people model is, is actually declining, but it is being covered by this new revenue streams and That is why we are at least not showing some degrowth. And once this stabilizes and all the old, uh, kind of cost-plus business goes, goes out, we would actually start growing.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
No, I mean, I won't say, uh, that as a primary reason, Mr. Hawa, because, uh, while we- our cost model is a time and material, but we are always finally accountable for the managed services. And it so happens that our billing methodology is time and material. But when you say that once all these AI benefits come, I would say that that is still a long way away because while, while we can talk so much on AI and there is some very good use cases that are coming into picture to show the benefit of AI, with all what is happening on the AI and its security and the cyber rates that are increasing, I doubt whether the existing model will stop like overnight within a year or 2.

Is never going to happen. In fact, more and more people are turning back towards conventional method to be on a safer side until all this noise gets settled down on the AI front. So I am not seeing any of those reduction on the time and material billing coming to an end any sooner at this point of time, but it will taper down over a period of a long time until the stability comes. And what- that's where our infusion of our capabilities also is now higher on the cyber area, which is what probably everyone is worried about.

So I still see that as an opportunity. While AI and AI-influenced revenue is one, then the threats coming from AI and how we help organizations Data, these threads, is a big opportunity by itself, Mr. Hawa.

Faisal Hawa - Analyst, HG Hawa and Company
So will our revenue increase from our traditional testing business? And how much more have we now started spending on Claude and ChatGPT as a, as a percentage of revenue? And, uh, do we have enough supply of GPUs also from NVIDIA for, uh, as a group?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Okay, probably, uh, I will combine that into one answer and give others a chance also, Mr. Hawa. But, uh,

Faisal Hawa - Analyst, HG Hawa and Company
Yeah. Thank you so much.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
So I can't get the exact percentage of our spend on that, but your question on working with, uh, another vendor on the GPUs- they are NVIDIA chips, of course, but we are agnostic of what chip they use. But we are working with a third party who give us GPUs on cloud. So that's what we use, and we use it as the demand comes. If we have a demand for Today we are using 3 H100s, and we look at by end of quarter 4, it may go to 8 GPUs. So based on the demand, we have tied up with the cloud provider to provide us the infrastructure support for what we are doing.

Faisal Hawa - Analyst, HG Hawa and Company
Okay, thank you. I appreciate you answering my question so well, sir.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
For your support.

Operator
Thank you. The next question comes from the line of Pritesh Shera from Lucky Investments. Please go ahead.

Pritesh Shera - Analyst, Lucky Investments
So I have joined a call after a significant time gap. I used to not attend your call. So there's one broader question. If I see your company, your company has been fairly stagnant for the last 3-4 years now. And if I recall, you know, there has been continuous disappointments in the revenue performance And there was this whole captive business which was supposed to also flow through. If you could, you know, guide us a little bit more on the growth path, you know, what are we doing to grow the company?

Are there any levers? Because it's been fairly a long patch of no growth. So, uh, and what were the key reasons for not delivering on some of the, you know, guided growth? Uh, sometimes you could spend here, uh, would be very helpful.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Certainly. I mean, if you see, I wouldn't agree, uh, that we have been stagnant. And if you look from '21 to '22, we grew 23%. '22 to '23, we grew 16%.

Pritesh Shera - Analyst, Lucky Investments
Sir, my reference point is '23 to '26. Now we were 900 crores, then we are 1,100 crores there. So my reference point is that, uh, and maybe we can go ahead.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Yeah, even from '23 to '24 we have an 8%, and, uh, '24 to '25 is 5%. I agree there is, there is pressure coming. The kind of growth we have registered between '21 to '22 is not repeatable, the 23% kind of a growth. But 5% growth in the tested times, you know very well how the industry has been impacted in the last 2 years, uh, be it the Iran war or be it, uh, the US policies or whatever it is now, the Middle East war. Despite all these things, I think compared to our peers and others, from a growth point of view, we have not been stagnant.

I mean, the one part- but I totally agree with you from a sentiment and emotion part of it, saying we probably could have done a lot better. So the other part, whether the group is supporting- very frankly, that's what I told even, uh, Hawa's question also, that in the last 3 years, if you observe, the contribution coming from group is only increasing. Primarily for the reason that the macroeconomic situation in Europe is such a bad situation that they have to have the work moved. Those industries which they have been keeping very close to their chest and not offshoring until yesterday, they themselves are now coming and saying we have no other option to move things.

We have cut down our investments on the automotive side and we have been very careful. Careful in choosing our deals. So 2027, if you see our- compared to our own budget and our own forecast, even automotive, we are doing better. But to answer that question, the group is only trying its best, and we can see it in the numbers that that is growing. What has let down in the current quarters, as I mentioned, is our direct business with the Middle East and APAC, which have- APAC is almost to our expectation, but Middle East has a very bad impact because of the war.

But I mean, if you want to look at what are we doing to have- I mean, we definitely are not happy with this mediocre growth at this point of time. But as I told in the previous earning call, we are looking at multiple ways. One is, uh, to- we have now speeded up our method of hiring, the method of getting M&A done at a faster pace. And recently, with RALF also around in India, we have decided that we'll go with multiple tuck-ins to give a capability boost in the area where we are, especially on the cybersecurity and data area.

We will do that. And we also probably will consider looking at some senior high-impact players to be brought in as an equity hire kind of a process. Then on the servicer side, we are betting big on FDE, I mean on the forward deployed engineers, which I covered in my intro. And this is something which is some very sweet spot for Expleo, who has been depending on the industry expertise. And this FDE, forward FDE, or lab, or what we call it Expleo forward is something what we are putting. So a merger and acquisition, investments in capabilities, and then putting our already developed assets into this hyperscaler marketplace is what we are betting big in the next year, to answer your question.

Pritesh Shera - Analyst, Lucky Investments
Uh, my last- my- the other question is that at the- you know, we had a larger portion of revenue linked to testing service. So, uh, there, uh, on that portfolio, uh, the AI transition, is it a risk to the- to the offering that we have, or, uh, it is a beneficiary to the offerings that we have?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
At this point of time, sir, very frankly, it is only an opportunity because As I said before, the initial fears were the testing as a service will disappear from the face of earth is what everyone believed. But with so much of AI's misadventures that have happened, people spending huge amounts disproportionately and incurring huge token costs and then reverting back because the objectives

are not met or they have become more vulnerable for cybersecurity. Today we are in a much, much better position as a, as an organization carrying testing as its primary service.

We are back in the game yet. In fact, if you see our current year's revenue, though our digital revenue, non-testing revenue, has come down by 2 points, is primarily because our QA business is getting back into the shape. Because the, the biggest benefit of the generative AI happening on the dev space where a good amount of impact is on people having, uh, revenue coming purely from developers. That is getting replaced with the GenAI, but the outcome still has to be tested. And that, that is clear- clearly creating more vulnerabilities and more uncertainties and more issues regarding explainability of the AI and the responsible AI.

So that has put us definitely in a forward position That organizations and banks especially started looking as to play a bigger role in their AI initiatives to ensure that what they are getting out of AI is, uh, deployable in production. So I will see it only as an opportunity, sir.

Pritesh Shera - Analyst, Lucky Investments
Lastly, the double-digit revenue growth path, uh, what should be the buildup or the timeline for a double-digit revenue growth path?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
I wish, sir. I mean, when we very frankly around same time last year we had a clear blueprint done for this. And we- if not for this war, I would have definitely been in the double-digit growth path. The kind of impact the Middle East has given, literally getting every of the resources back from Saudi Arabia and Bahrain and every other place, was never foreseen even 6 months back, very frankly. And so to give the forward-looking statement is shooting myself on this. Our plans are very robust to ensure that we do this.

You take this part out and see the dent out, then we are already into that. But unfortunately, these are beyond us, and nothing tells me or gives me comfort that something like this is not going to happen in the next 6 months. So you just- we just are going with our playbook at this point of time, ensuring that what I've just said on the capabilities, on the investments, we'll continue to do that. And then we'll just have to Do our job and wait for the outcome, sir. At this point of time,

Pritesh Shera - Analyst, Lucky Investments
You want to give any color on the order book? Because your presentation doesn't cover anything.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
One minute. Money, you have anything handy? Okay, so currently we- our order book is strong at this point of time. It is hovering between 75 and 80, which is extremely strong. But the- so is the same strength, uh, sir, when we started this year. Order book has been strong, but the orders have been deferred. All the Middle East orders have been deferred by at least 1 to 1 quarter to 2 quarters. So the order book point of view, I think our backlog and shadow backlogs are extremely strong going into the next financial year also, into the '28.

Naser Shah - Analyst, AMPL Asset Management Private Limited
Okay, sir. Thank you.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Thanks.

Operator
Thank you. The next question comes from the line of Swesha Jain from ANS Wealth. Please go ahead.

Swesha Jain - Analyst, ANS Wealth
Hi sir, uh, thanks for giving me this opportunity. So first of all, just a follow-up, sir, could you repeat the order book number? I could not hear that correctly.

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
No, we said it is around 75% when we get into a quarter. So when we get into a quarter, typically we have 75 to 80% in the order book, and then the rest comes through the quarter as we progress. This is what we have typically seen, and that's the current situation as well.

Swesha Jain - Analyst, ANS Wealth
Okay, okay. And so, uh, could you give us the revenue split business segment-wise if it's possible? You know,

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
When you talk about business segment like BFSI and insurance and aero and auto- No,

Swesha Jain - Analyst, ANS Wealth
The kind of work that we do, like, you know, how much have we got from the AI-related work, how much have we got from the testing side of the work, that kind of business segment.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Our AI-related revenues, uh, very difficult because we get into a service-based. So if we are, say, developing a mobile app for them, a percentage of it is influenced by AI and a percentage is directly using AI, right? So what we count at this point of time, like most of the industry players are doing, is what is the revenue influenced by AI. And today we are at anywhere between 14 to 15% of our total revenues influenced by AI, which means had we not invested in the last 3 years in AI, we wouldn't have got that 15% revenue.

That's how the definition is. And in terms of the digital revenue, if you take it as 100 units of work, today we are looking at testing-related revenue coming- 50% of that is testing-related, and the remaining 50% is coming from the non-testing, which includes the DevOps, cyber and data, data management, data security, all those aspects put together, the 9 yards of software development. And a small part at this point of time, a very minimal part, is coming from the subscription, which, which I can't even put it to a percent at this point of time.

But this is what will grow going forward, where we deploy our assets onto the marketplace and people take it on a subscription base or whatever, at that point of time, that is one. So by and large, to answer your broader question, the testing business continues to be- and that's what I was also telling the previous, uh, caller- that we, we have increased the testing part by 2 points compared to the last year, where things are slowly going back on the need for testing being highlighted much more than ever

Swesha Jain - Analyst, ANS Wealth
Okay, okay. And sir, uh, uh, can you help me understand, uh, how much revenue in H1 have we got from repeat business?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Pretty much. I mean, uh, our core strength has been our top accounts running with us for more than 2 decades, and those top 20 accounts, if you count on that They contribute to around 80-85%. So if you look at our revenue coming from existing accounts, which contributes to more than 95% at this point of time.

Swesha Jain - Analyst, ANS Wealth
Okay, okay. And so have we added any new clients in this quarter?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Yeah, can I- can you- I think

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
We have added close to about, um,

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Just give me one second. We have added about 8 new customers being added in the quarter.

Swesha Jain - Analyst, ANS Wealth
Okay, okay, okay. And so regarding the employee expenses, you know, they've gone up a little bit, and I think you did mention it's gone up regarding, uh, I think, uh, on the engineering part of the business. I think, you know, we are expecting some increase on that side, but how do you see the employee expenses going forward? Uh, you know, do we, uh, do we, uh, assume that, uh, this is going to be the base, or, uh, do we see any more incremental hiring going forward?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Yeah, employee expense going up, what Mani has mentioned, is primarily coming from wages because wages form the bulk of our costs. And India, you are very well aware, this is a market where, uh, with the inflation factor coming in, you can't shy from anything less than 6 or 7% of wage cost going up. On top of it, in this year we have the new labor code which has got its own implication. The new PF rules that government has brought overnight has also got its implications. And then our own investments on people and people, high-skilled people being recruited and trainings on our existing teams.

These are all the contributions, and I don't really see that coming down. Don't want it to come down. If not anything, we'll only invest more on this. But we just have to find ways and means, like what I have said, like the carve-outs or the, uh, the outcome-based pricing that we have to go so that these people's knowledge is best put to use and not measured against the hours that they spend, but more on the outcome they bring into the organization. So that is the only way to go. So mere headcount growth means actually nothing for us going forward.

In fact, we want to do at least twice as much with half as many people. I mean, that would be the generic direction we want to see.

Swesha Jain - Analyst, ANS Wealth
Okay, okay. Thank you, sir. That helps a lot. Thanks.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
A pleasure.

Operator
Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants in the conference, Please limit your questions to 2 per participant. The next question comes from the line of Nesar Shah from AMPL Asset Management Private Limited. Please go ahead.

Naser Shah - Analyst, AMPL Asset Management Private Limited
Hi, sir. You briefly, you know, talked about digital revenues. Can you just help me understand the share of digital revenue has been falling for a few quarters, and how do you define digital revenues?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Okay, so our definition of the- if you take a typical software development cycle, 9 years of those services. It starts from the app developments, web app developments, mobile app developments. Then you will have a quality which includes quality engineering and quality assurance. Then you have DevOps, DevSecOps, data, data management, and cybersecurity, and L1, L2 support on the post-production. If you cover all these things and if you take the QA part of it which purely on the testing part of it, which has been our core competency for decades, which we have diversified now.

That we are calling it out as QA services or a digital assurance revenue. And the other aspects what I have mentioned are clubbed under our digital. So in these 2, please don't include any of our engineering services, which are totally into the engineering bucket.

Naser Shah - Analyst, AMPL Asset Management Private Limited
So, so can you maybe give, uh, revenue breakup between, let's say, quality assurance, your cybersecurity, DevOps, operations, engineering? Can you give the mix that- I mean, that segment-wise or the business-wise?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Total revenue of it, if you look at, then engineering revenue forms anything between 18 to 20% of our total revenue, right? The remaining is all coming from digital and the Within the Digitech business, as I said, 50% of it today is coming from the digital assurance side, which is the testing part of it, which can be an AI-enabled testing, but that is under the digital assurance. And the remaining 50% comes under the cybersecurity mobile, and which may not have it handy to read out for that, but that is a bigger list of the services that forms the part of the remaining 50% of our digital.

So technology, Digitech, is 80%, engineering is 20%. Within Digitech, digital assurance is 50% of the Digitech, and another 50% is on the digital engineering and consulting services.

Naser Shah - Analyst, AMPL Asset Management Private Limited
So when do you see, uh, digital-

Operator
I'm sorry to interrupt, sir. We may request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. The next question comes from the line of Soumil Shah from Paras Investments. Please go ahead.

Soumil Shah - Analyst, Paras Investments
Yeah, hi, thanks for the opportunity. Uh, so on our EBITDA margins, uh, for this quarter they were at

13.8%, whereas last year same quarter it was at 17%. So as you mentioned, there were a couple of reasons for the EBITDA drop- one-time cost, employee expenses, and so on. So what kind of EBITDA margins can we expect in the remaining half of this year?

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
So, you know, we are looking at- so again, this is not a guidance, but this is more of what we are, you know, at high level expecting. So it's going to be in the range of about 15%. This is what we have been saying for quite some time as a long-range number that we are aiming for. So that's what we are looking at this year as well. Well, of course, there are 1 or 2 quarters that are exceptions, um, you know, because of the muted top-line growth that's had a significant impact on our bottom line as well.

But at a high level, this is the range that we are looking at, around 15 to 16%.

Soumil Shah - Analyst, Paras Investments
Okay, okay. And what was the reason for such high one-time dividend last quarter? I mean, is it that there was some payment obligations on the parent side, or Uh, do we have any distribution, dividend distribution policy?

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Yeah, we do have a dividend distribution policy. Um, see, I think we were looking at what we have been doing in the past, and about 6-7 years ago, every year there has been an increment of final dividend that's been given. Okay, but in the last 4-5 years, it has not been that consistent, and There was growing demand from investors and different blocks of people who had asked this question multiple times. So our policy was to look at, first of all, to apply that cash internally to grow our capabilities or to do an M&A.

And we were evaluating multiple options. So it's basically capital deployment, right, how do we effectively make use of it. So we had, uh, many years we had not given dividends and we had stopped it with the aim to, you know, pull that money and put it to better use internally. But at some point of time, you know, when we looked at this, M&As have not been done for quite some time and the opportunity to do one more was getting limited in that period. So we were continuing to do evaluations on M&A, we're not stopping there, but we had sufficient cash to give a dividend that will basically catch up for all the past years that we have not given any.

So that's why we took this call to give this dividend this year.

Soumil Shah - Analyst, Paras Investments
Yeah, okay. So from here on, there should be a consistency in dividend every year?

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Hopefully,

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Yeah.

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
That's what he's hoping for. Yeah.

Soumil Shah - Analyst, Paras Investments
Okay, okay. Uh, that's it from my side. Thank you and all the best.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Thank you.

Operator
Thank you. The next question comes from the line of Gunneet Singh from Counter Cyclical PMS. Please go ahead.

Gunneet Singh - Analyst, Counter Cyclical PMS
Hi sir, thank you for this opportunity. So I would like to understand the margins in this quarter, 14%, because of some, uh, wage hike. So are we- have we revised our contract upwards, or have we taken any measures, uh, because of which we are guiding 15% margins for the rest of the year? That's my first question.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
So as Mani has said, that wouldn't have been a situation if our top line erosion has not happened. Very frankly, because this is not something- wage revision is not coming out of blue. It is a known thing, and we have all geared up for it, and our order books are sufficiently strong enough to support that kind of margin. And so we definitely don't want it to be judged only with 1 or 2 quarters of uncertain times. But, and also, let me also tell you that there is no order that has lost because of that.

They mostly- they are- they have been deferred for future times. So we will continue on pursuing this. We are trying to work with customers to see how we can make some of these work from India if situation doesn't improve over there in the near future. So there are multiple things that are happening. So in the interim, we have to sit on the cost, and that is what Mani is trying to explain. But in our larger scheme of things, we look at that 15%, uh, taking into consideration, uh, all these costs being deployed in available resource.

But unfortunately, they- today's situation is different and it can't be a benchmark for future.

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Yeah, if I can add, our H1 numbers, if I look at the EBITDA, is at 14.2%, right? And we are talking about 15% for the full year, which means we have to do a little bit better in the next 2 quarters so that at the full year end we can be at 15%. So again, as I said, this is not a guidance. This is just our high-level estimate at this point of time. And, you know, it depends on multiple external factors and of course, uh, things that's beyond our control as well. So, uh, while, you know, it's definitely not a very stretched target, it's It's not really that aspirational, but it is doable.

That's what we hope and we aim for.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Got it.

Gunneet Singh - Analyst, Counter Cyclical PMS
So

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Based on

Gunneet Singh - Analyst, Counter Cyclical PMS
Our current order book and pipeline, uh, are we expecting any growth, uh, for the next financial year, for H2? Because I think we had guided a double-digit, uh, growth rate, but in H1 growth has been in, in mid-single digits. So can you help me understand what, uh, I mean, have we revised any, uh, the outlook based on our current Order pipeline?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
H2, I will not comment because, uh, the war clouds are not cleared yet. So we have lowered our expectations on H2, but I doubt whether this situation will go beyond 31st March into April of next year's Q1. So at this point of time, the growth what we have registered in H1 is very unlikely in H2 until things significantly improve in the last one Or 2 months, because we are already into, uh, Q3 and we are just quarter left. So while we try our best, I think to peg it as a comparison against H1 will be a little ambitious given the situation.

Gunneet Singh - Analyst, Counter Cyclical PMS
But if we compare with H2 last year, uh, would we be maintaining the revenues or are we looking at some degrowth

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Compared to H2 last year?

Gunneet Singh - Analyst, Counter Cyclical PMS
Yeah.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
1 minute, huh?

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
I think we did, uh,

Gunneet Singh - Analyst, Counter Cyclical PMS
72, 86. I think we did around 560 CR in H2 last year, 560, 570.

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Yeah, I think we will be doing something similar. I don't think it will be going to be higher than that, but that's where the expectation is. We should be doing something similar. It's not going to be significantly higher than what we did last year. That's what you wanted.

Gunneet Singh - Analyst, Counter Cyclical PMS
Got it. And,

Naser Shah - Analyst, AMPL Asset Management Private Limited
Uh, based- what is the capital allocation policy?

Gunneet Singh - Analyst, Counter Cyclical PMS
Do we have any acquisitions in the pipeline? And if so, by when do we expect to do that?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
So as mentioned, that has become a top priority now, and we will continue to put that. It is just unfortunate that during the due Intelligent space, uh, one thing has fizzled out. Otherwise we would have had a nice asset added to our portfolio by now. But having said that, as I said in the earlier questions also, we are continuing it and we have now slightly changed our strategy to break that into multiple smaller acquisitions rather than spending big time on a larger and it falling through the cracks in the last minute.

So multiple tuck-in acquisitions is will be taken and has been taken already, and we are working on it.

Gunneet Singh - Analyst, Counter Cyclical PMS
My last question regarding our acquisition policy. So are we looking at EPS-accretive acquisitions, or do we have any benchmark, EV/EBITDA, or any benchmarks with which we weigh in the acquisitions?

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
So yeah, so yes, obviously we are looking at some- an acquisition that will be EPS-accretive, no doubt about that. We're also, you know, putting in some criteria which will help us, you know, identify the potential targets for acquisition. So the criteria have to be- it has to be complementary to our capabilities, it has to be in a geography that can expand our presence, it has to be in the technology stack. So all of those is what we are putting in, right? So

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
3 major drivers that will define that is one is we definitely are relative to our competitors or the similar organizations, we are weaker on the US market. So the criteria will be to get additional logos in the market where we are not so strong, which is US. Second criteria is we are looking at the kind of a service which can be industry agnostic to the max possible. That means it has to go into an AI or a data or a cyber, those areas where we we don't have to limit our acquisition capabilities only to one industry.

And of course, uh, it should certainly add value which we don't have, uh, or which would significantly strengthen the area what we have. And we're not really going into getting into a sectorial kind of a capability that we don't have because our strategy has been to limit to the sectors that we are already in. And that, uh, so it won't be anything beyond the current sectors what we do.

Gunneet Singh - Analyst, Counter Cyclical PMS
Got it. Thank you very much, and I wish you all the best.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Thank you. Thank you.

Operator
Thank you. The next question comes from the line of Siddhartha Matthew, an individual investor. Please go ahead.

Siddhartha Matthew - Individual Investor
Yep. Um, thank you for taking my question. Um, I just wanted to know, you, um, can you quantify the amount of revenue that's been lost from the Middle East because of this conflict?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Around, uh, around $5 million, I would say. I don't know, I won't use the word loss with that, uh, yet. Deferred, I would say,

Soumil Shah - Analyst, Paras Investments
That has moved away from the

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Current

Siddhartha Matthew - Individual Investor
Uh, sorry, can you, can you repeat that? I didn't quite catch that.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
So sorry, I mean, it is €5 million is what is the current impact because of the war on the top line.

Siddhartha Matthew - Individual Investor
Okay, okay. And, um, do you expect, uh, I mean, if this conflict, um, were to sort of resolve itself, uh, do you expect, uh, that to come back and then accelerate going forward?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Absolutely. The- see, one thing is the business that got deferred is- no customer has said that they will not do it and it is only deferred, so it will come back. What will come back with probably a bit positive after this is they have lost time, so everyone wants to catch up. Second is, so far Middle East has been very agnostic to defense spend, and we are now seeing that, be it our, our current customers in Abu Dhabi or in Tel Aviv, Israel, the Middle East is spending on defense much, much more than what they have been doing in the past.

So one is the current revenue which has been deferred will come back, and probably on a totally different area, on the defense side, there will be an uptick is what we see. How that cascades into our revenue is something which we have to wait and watch, but there has been an uptick in their defense spend already. We can see feelers coming, especially on the helicopter side. And the defense helicopters, it is, it is already, uh, there is a movement upwards.

Siddhartha Matthew - Individual Investor
Okay, okay, that's helpful. Uh, and my final question is, uh, regarding, uh, this M&A. Have you, um, sort of given yourself any, uh, time frame by which to evaluate, uh, potential deals?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Yes, the time frame, very frankly, the commitment given to our board is long over, very frankly. So it is just unfortunate that we are not able to close that, but, uh, we are looking forward to do something by March, uh, should things, uh, fall in place according to our plan. Because as much as you are all asking the question, it is me who am, uh, wanting this to happen at any cost because the That's the fastest way that we can add capability, and that can be scaled to all our existing customers also, right?

So I can't get a better lever than this. So there is a sense of urgency right from the management till the- from the group, Ralph, and also our board, who have been very closely monitoring. And hopefully you should have something done by at least March 27th.

Siddhartha Matthew - Individual Investor
Okay, okay, thank you.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Thank you.

Operator
Thank you. The next question comes from the line of Naser Shah from AMPL Asset Management Private Limited. Please go ahead.

Naser Shah - Analyst, AMPL Asset Management Private Limited
Hi sir, you said the reason for weak performance was, you know, decline in Middle East revenues, but your PPT shows the share of North America business has declined, whereas Asia and, uh, You know, Europe has grown. So can you just help me understand that?

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Sorry, one minute. You said-

P. Palaniappan - Chief Financial Officer, Expleo Solutions Limited
Okay, so North America is a, is a reduction for one customer whose contract has ended, and, uh, you know, that's, that's why this, that particular region is showing a reduction. Uh, that will most probably come back in the next quarter. So there's an in-between lull, but the one that we are seeing is Asia includes Middle East as well. But there has been, you know, growth in Asia but not in Middle East region. So it's not- So within Asia, we have

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
3 regions. One is APAC, second is India, and third is Middle East. So fortunately, India and APAC have not been impacted at all by the war, and, uh, that have remained, and some of them have grown. But, uh, Middle East has been the worst hit.

Naser Shah - Analyst, AMPL Asset Management Private Limited
So basically North America and Middle East has declined, whereas India, uh, other APAC and Europe has grown, right? That is the conclusion,

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Correct? Europe continues to be the most promising region for us, uh, so far this year.

Naser Shah - Analyst, AMPL Asset Management Private Limited
Okay, thank you.

Operator
Thank you. Ladies and gentlemen, we will take this as the last question for today. I now hand over to the management for closing comments. Over to you, sir.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
All right, so I think, uh, it was an interesting and interactive session, and thanks a lot for those questions. And I We'll definitely take all those inputs and suggestions also into our consideration and in our future strategy. But trust on us that we have an aggressive plan of growth, and pray that we don't get another war-like situation and we are good to meet our goals. Thank you so much for your

time and inputs. Thanks everyone.

Operator
Thank you.

Fanny Tangerila - Managing Director and CEO, Expleo Solutions Limited
Thank you.

Gunneet Singh - Analyst, Counter Cyclical PMS
Thank you. On

Operator
Behalf of Expleo Solutions Limited, That concludes this conference. Thank you for joining us, and you may now disconnect your lines.