



“Fidel Softech Limited Q2 FY-26 Earnings Conference Call”

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**MANAGEMENT: MR. SUNIL KULKARNI – CHIEF EXECUTIVE OFFICER,
WHOLE-TIME DIRECTOR & CHAIRMAN OF THE
BOARD, FIDEL SOFTECH LIMITED
MR. ANIL PATWARDHAN – ADVISOR TO THE BOARD**

Moderator: Ladies and gentlemen, good day and welcome to Fidel Softech Limited Q2 and H1-FY '25-'26 Investors Analyst Conference Call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Now, I hand the conference over to Mr. Sunil Kulkarni – CEO and Whole-Time Director and Chairman of the Board of Fidel Softech Ltd. Thank you and over to you, sir.

Sunil Kulkarni: Thanks. Welcome to the Q2 FY '25-'26 Investor Call for Fidel Softech Limited. My name is Sunil Kulkarni, and I am the CEO and Whole-Time Director of Fidel Softech Limited. I am pleased to present the Financial Performance of Q2 and overall H1 Results for FY '25-'26 for Fidel.

For those who are new to our company, Fidel is an IT Technology Services and Solutions Company. We assist clients in going global or local by delivering technology-driven solutions and services with the last-mile delivery in local languages.

Our services include IT and consulting services, language localization and engineering services. We have also started offering Japan-India consulting services, reflecting the growing interest between these 2 countries and leveraging our experience. This is our 14th quarter of delivering results. Though we are an SME, we do a regular quarterly release of results and half-yearly investor calls.

This quarter, Fidel has registered a sales of INR 23.15 crore, with a pivot of INR 3.59 crores and a PAT of INR 2.77 crores. Compared to Q1 of this year, this marks a top-line growth of 39% quarter-on-quarter growth while the PAT has decreased by 22%-23%. This is due to 2, 3 deferred project closures and conversion into revenue; some M&A expenses that incurred in Q2, due to the U.S. acquisition; the interest payment towards the foreign currency loan and its repayment that has started; and the yearly salary hike that kicks in Quarter 2. Two years back, we had changed our employee appraisal cycle to July-June cycle.

While comparing the Q2 of FY '25-'26 to FY '24-'25, there is a top line growth of 67% and a PAT growth of 16%. And on an H1 basis, the consolidated sales is INR 39.78 crores with a PBT of INR 8.43 crores and PAT of INR 6.41 crores.

Effectively, on a year-on-year basis, Fidel has registered a top line growth of 51%. And for the same period, PAT moved from INR 4.37 crores to INR 6.41 crores, registering a 43% growth. Just 3-3.5 years back, when we went public, our yearly revenues were INR 25 crores approximately. And today, we are almost clocking this much revenue in a single quarter.

Likewise, in the next 3-4 years, if we can redo this same cycle, it would be very exciting for our stakeholders and investors.

As a first-generation entrepreneur, a run rate of INR 20 to INR25 crores per quarter, leading to a yearly INR 80 to INR100 crores top line feels like a dream come true. That said, all these numbers serve just as a milestone and there are miles to go.

Now, let me cover some operational insights:

This quarter, we did the U.S. acquisition and would like to share some information around it. With the U.S. acquisition, we seek now some more revenues growth leveraging our local presence. The U.S. firm Techvine is into Tech Consulting and through this acquisition, we could enhance our footprint in the U.S., get access to the new U.S. clients, and shorten the time to achieve this top line growth by at least 1.5-2 years. The current U.S. team has more local citizens and high-end consulting work, and hence we see no major impact due to the recent geopolitical issues.

Since the current team focuses on consulting upstream activities, we also seek new opportunities for downstream offshoring activities. The local onsite opportunities will help us expand our top line, while in coming years, the offshoring would help us better our margins. Likewise, we are also trying similar approach in Japan.

With U.S.-Japan-India corridor established, we provide more value to our clients now with a combination of technology, language localization and people consulting. At the start of the year, Fidel has set the outlook of 30%-40% growth in top line. And in H1, we continue to sustain the growth through M&A as well as retention of existing clients. I am happy for our team who helped me to deliver the target performance.

While we worked hard, I think it's God's grace and luck also that has helped us. In H2, we will continue to retain these numbers, while trying to expand the top line as well as margins to ensure double-digit PAT and EPS, looking to expand our onsite presence in Japan and U.S.

Fidel is sharply focused on exports, marking 90% of the business coming from exports and 10% from domestic market. With our U.S. acquisition, now the geography coverage is also more balanced with around 25% coming from U.S., 25% from Europe, and 50% from Asia-Pacific, including Japan India. IT and Consulting Services revenue is 60% and Language Engineering Localization Service is 40%. This balance changes from time to time. While revenues are growing, we continue to focus on bettering on operating margins and PAT as well.

Regarding customers, Fidel has built an active strategic client base of 25 plus customers and top 10 clients contribute roughly around 70%-75% of the revenues. This quarter too, we have added 10 to 12 more clients. We continue to work closely with them, moving few of them into the strategic customer bucket.

The Hyderabad operations continue to give stable revenues, while the U.S. office together has helped us ramp up the overseas operations. We also continue to invest in digital marketing initiatives, and our AI initiatives have started showing some small results.

This quarter, we saw some services such as AI engine evolution, data pipeline services, including data collection and cleaning. We have put together a small team that focuses on AI-enabled services.

AI is vast and daily there are changes happening in it. We are mapping our clients and see how they could benefit from any particular use case, where we leverage AI. It could be AI-enabled bug fixing or AI-enabled development and so on. Besides this, we are also trying to develop vertical competencies in areas like capital markets, manufacturing.

From a cash flow perspective, we continue to monitor, and we see a steady cash flow generation. We have taken a debt of INR 16 crores, based on our accrued cash as collateral and continue to generate positive cash flow, which gives us an edge to further invest in any new growth opportunities. We also continue to monitor our receivables.

All our efforts and energies are now consolidated towards driving H2 numbers better than H1, sustaining the margin profile of H1 and maybe slightly improving as well.

From an outlook perspective, we are aspiring to deliver double digit number as EPS. In this H1, we see an improvement in EPS from 3.26 to 4.66 for half year, and we endeavor to take it to the double digit.

At our miniscule scale, we believe that the global volatility and such macro factors should be looked upon from a study perspective, but we should continue to chart our growth of 30% to 40% growth through organic and inorganic growth.

Our differentiation and niche continue to be focused on Japan, current AI rush, balanced strategic growth with a focus on International as well as India growth, and SMEs trying to go for digital transformation. With these few things together and with our overall plan, we believe we can continue with our growth plans for 30% to 40%.

From today's call, we also want to highlight that we plan and try to chart out the path to go there. We are trying to preempt the customer needs and understand the market dynamics by planning our actions. We continue to build Fidel competencies and strengthen our abilities.

We are continuing to drive revenue growth. We are also monitoring our cash flows and continue to generate positive cash flow.

Thank you for continued support and belief in us. We will continue to focus on strategies, outlined by us for driving accelerated growth of the company. We will keep balancing the

investment required to drive this growth versus profitability with a clear focus on generating cash flows.

Thanks a lot, and I look forward to your questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Agastya Dave from COA Capital. Please go ahead.

Agastya Dave: Thank you very much for the opportunity. Sir, the question is on margins. So, you mentioned that there are M&A related charges on the P&L. So, I am excluding the interest payment that's below the EBITDA line, but can you call out the actual amount which is associated with these M&A-related costs and where have you booked it?

A related question is that if I look at the cost of services, so my assumption here is that these are direct costs. So, if I just look at the increase in cost of services, that is a substantial increase. And on the basis of the revenues that we have booked, there is, I believe, on a Y-o-Y basis, a 15-percentage point fall in the margins, if I just look at the cost of services as a cost item. So, what exactly has led to this?

And you have mentioned in the past that margins are subject to the kind of projects you are working on, and they are subject to fluctuations. So, this doesn't seem like a fluctuation. This is like a rather large drop. So, again, sir, if there is a one-off M&A related charge, can you just call it out and show it as a probably one-off or an extraordinary line item, so that the underlying business economics is much more clear?

And then you also mentioned in the opening remarks that you expect H1 margins to be maintained. So, H1 margins at the EBITDA level comes to around 19%. So, I just wanted to confirm that you will be at least at 19% during the year or would you be higher than that? Because again, the M&A charges should not be recurring in nature, right? So, if you can just provide some clarity there, that would be of great help.

Sunil Kulkarni: So I have some team members here, Jayant and members who have worked in finance. But at a broad level, our typical margins, EBITDA or EBIT overall was always around 19%, 20%. And then PAT would be around 17.5% or 17%, 16.8% kind of percentage. That was kind of journey. And this year also, we hope, or we are planning to retain that.

Now, that said, with U.S. and Japan margins coming together, costs coming together, we are also looking at certain costs that might have occurred, some events or some marketing expenses that incurred in this Q2.

Since early Q1, we are trying to be more cautious, we tried to avoid any such costs, the entire year is in front of us, and so on. But true to our words typical we try to spend. This M&A

particular line expense and some other, I will ask my team members also to see if they can put down.

But other than that, one other point that we had highlighted in our last year's call as well, mentioned, is that the margins in U.S. and Japan are slightly less or different than the margins that we are from our India standalone operations. So that impact or how much that is also trying to evaluate.

So, yes, I understand there is a drop. But from our perspective, in these next 2 quarters, we should be able to retain our traditional levels of EBITDA or EBIT margin.

Agastya Dave: Okay, great. And sir, whoever gives the answer, if they can clarify if there was one one-off expense item or a non-recurring item, which we should not consider going forward. That is the key part of the question.

Management: Hello, Namaskar. So, in continuation with your question, if there is one recurring cost amounting to the professional fee and legal expenses, which is related to mergers and acquisitions that are not recurring, and this is shown in other expenses.

Agastya Dave: Where is it shown, sir?

Management: Other expenses.

Management: Other expenses. It's a legal professional charges and other charges for the mergers, valuation charges and other charges. These are the non-recurring costs, and it is a one-time cost, that it is around INR 30 lakhs that we have incurred for this H1. Other one is minor.

Agastya Dave: Okay. That's minor. Okay, okay. That's minor. So, basically, the drop that I see in the cost of services as a percentage of sales has gone through the roof. It's up like 15 percentage points. That's a huge, huge change. So, I guess that is what you are saying is the function of the Japan and the U.S. part of the business now coming inside our fold, right?

Sunil Kulkarni: Yes.

Agastya Dave: Okay. Thank you very much, sir. Thank you. All the best.

Sunil Kulkarni: Thanks.

Moderator: Thank you. The next question comes from the line of Rohit Bahirwani from Vijit Global Securities Private Limited. Please go ahead.

Rohit Bahirwani: Yes, thank you for the opportunity, and congratulations to the Management for such good numbers, my question is on the U.S. acquisition side, you acquired the business on 1 August

2025. So how much revenue was contributed from this acquisition in this quarter? And what is the expectation for H2 of FY '26 from the U.S. acquisition? That is my first question.

Sunil Kulkarni: The typical size of this business that U.S. is around \$3 million, roughly at the yearly numbers. For H1, I think around 5 to 5.5 years is something that we were able to get. H2, based on this annual numbers around \$1.5 to \$2 million is something that we expect.

Rohit Bahirwani: \$1.5 to \$2 million?

Sunil Kulkarni: Meaning yearly. Now, we are also trying to understand in the sense that the U.S. business cycle is January to December. So, now we are trying to map it to our April to March cycle. So, at the annual level, it is around \$3 million. We are continuing to see extension of certain contracts in next year, because those extensions happen around November, December. And hence, by and large, so we are looking at \$1.5 to \$2 million.

Rohit Bahirwani: Got it. Understood. And my second question is, you have mentioned that revenue from the company's AI services was INR 1.2 crores in this quarter. So, just wanted to understand how much is the potential from this division going forward, let's say 2 years down the line, how much can this division alone contribute to your top lines?

Sunil Kulkarni: I think the way AI is being projected in the IT world is like, meaning like billions of dollars of business will come is the way. But to be honest, at an actual ground level, especially when we are reaching out to our Japanese customers and so on, everybody just shows interest. And then we end up doing some POCs or small work, A.

B, there are some U.S. customers where we are providing service in terms of data collection or data for around this AI. This year onwards, we started saying that since we are investing in this practice, let's also try to mark the revenues as much as possible and try to see it from a different perspective, so that we can map ourselves.

So, currently while it is INR 1.2 crores, but our idea is if we have like 3 to 4 verticals where one vertical is AI and each of these verticals would bring say INR 20 to INR 25 crores of revenues. So, that's where we are trying to look at, while it is 1. It could go easily to \$2 to \$3 million. Only thing is finding the right use case. One thing is clear, we are trying to avoid creating products by ourselves, because that would be a huge endeavor for a company like us. While delivering services, if we can try to create some framework or some IP around that, that would be of course great. But there we need to partner with certain clients, and that's what we are looking for.

Rohit Bahirwani: Understood, understood. Okay sir, I will join back the queue. Thank you.

Moderator: The next question comes from the line of Rohit Bahirwani from Vijit Global Securities Private Limited. Please go ahead.

Rohit Bahirwani: Yes. Thanks again. Any loan repayment schedule, based on what you have taken for the acquisition which is around INR 16 crores?

Anil Patwardhan: So, this is Anil Patwardhan. I have been an Advisor to the Board, and I was deeply involved in this borrowing transaction. So, we have raised a foreign currency loan in JPY. It is for a period of 5 years. And our repayment schedule is over 5 years. So, it is a monthly repayment. And servicing of debt is also happening, based on monthly interest payouts.

And we have JPY inflows coming based on our business in Japan. So, I see this as a natural hedge available to the company. And I think we are well protected there as well. So, this entire INR 16 crores worth, which is denominated in JPY is repayable over 5 years.

Rohit Bahirwani: Okay. Sir, any guidance from your end for H2 FY '26 as we have both the acquisitions as well? And then looking at FY '27, what is your internal target in terms of top line and the EBITDA which you have mentioned 19% to 20%?

Anil Patwardhan: As a policy of the company and the guidance from the Board, we have not released any guidance as such. Okay. But in the initial comments of our CEO and Whole-Time Director, Mr. Sunil Kulkarni, he mentioned the outlook for the H2, which is we would like to better the numbers compared with the H1. Overall, 30% to 40% growth is what we have set an aspiration for us.

We believe we are on track for achieving that level of growth. And H2 numbers will be better than H1 numbers, because of one reason is consolidation of numbers coming from Techvine U.S., which is the U.S. acquisition, and then consolidation of revenues for Japan companies, which is technology, KK.

So, based on that itself, the revenues will be higher, plus we are driving the growth. So, we have reasonable visibility as of now for H2. And we are absolutely on track to achieve 30% to 40% growth for the year as a whole.

Sunil Kulkarni: Just to add that, Rohit, that basically, our first idea is always to hold on to current numbers as a bit conservative from a perspective also. If we did roughly, say for example, INR 40 crores, the idea is if we can do at least similar. So if we can hold to these numbers, which is like, INR 22 – INR 23 crores per quarter, that is one.

Traditionally what we have seen is, let's say even if we look at our last year's number, a year before that, typically, if we are doing say 100, 40% to 45% of our sales revenues happen in H1, and then 50% to 55% kind of happens in the H2. That's the typical way it is.

So, in that sense, if we did say, even if we do double, it's 50%-50% that we have and then how we can better ourselves in the H2 is something that we have been trying so far. And by this quarter, again, we have a better handle on the U.S. services.

And we are not trying to rush into changing anything in the U.S. or Japan, so that the current team, the current founder and CEO, they don't feel sudden changes or anything. The customer also don't see any changes. We are trying to see how we can smoothly drive more optimized operations.

Rohit Bahirwani: Perfect. Perfect sir. Thank you so much.

Sunil Kulkarni: One more insight.

Rohit Bahirwani: Yes, sir. Please.

Sunil Kulkarni: Hello. One more insight we can give to all of you is, typically, last year also if you have seen, in the first 3 quarters, we have been able to achieve better revenues than the entire year of last year. Something similar we are expecting this year as well. So, we would sort of cross that mark end of Quarter 3.

And naturally, Quarter 4, we would like to see as the best performing quarter and therefore set the, should I say, runway based on Quarter 4. And we are absolutely aspiring to be INR 100 crores company, based on that run rate of Quarter 4.

Rohit Bahirwani: Perfect, sir. Perfect. Thank you so much and all the very best.

Sunil Kulkarni: Thanks a lot.

Moderator: Thank you. The next question comes from the line of Agastya Dave from COA Capital. Please go ahead.

Agastya Dave: Thank you very much for the follow-up. Sir, it's just a clarification. The previous participant, when he followed my question, he asked you about the U.S. revenues that you could book in H1. I just want to repeat those numbers that you have given, just for clarity. You said you could book only INR 5 crores in H1 and then you mentioned \$1.5 to \$2 million. So, that's an annual number which you will get assuming no growth, let's say, next year or that is the number you are expecting in H2?

Sunil Kulkarni: So, in H1...

Anil Patwardhan: See basically, as Sunil Kulkarni explained, Techvine U.S. is a \$3 million company, which is acquired by us. And we have been able to consolidate the revenues for 2 months, that is August and September, which is a little over \$0.5 million. So, it was around INR 5 to INR 5.6 crores. That is what got consolidated in the H1 numbers or Q2 numbers to be precise. And on similar lines...

Agastya Dave: Okay. So, \$1.5 will come in... Yes. Okay.

Anil Patwardhan: Yes, correct. \$1.5 million plus.

Agastya Dave: Understood.

Anil Patwardhan: I think one more insight Sunil Kulkarni gave all of you is most of the budgets will come up for discussion and renewal end of November or December, and then January onwards, we will see some new proposals coming our way. So, it will help us to drive certain growth.

Agastya Dave: Understood, sir. Thanks for the clarification, sir. And sir, you also mentioned that historically, you have been at 19%-20% and that is something that you will maintain at least for this year and then try to grow on top of it, depending on how things pan out in H2, right? Am I right in my understanding?

Anil Patwardhan: Yes. We will maintain the current level of performance, that is what is the minimum which we would like to deliver, correct? And while doing that, based on these acquisitions and the numbers which we explained, we see certain growth coming our way in H2, which will help us drive that overall top 30 performance.

Agastya Dave: Understood. No, sir. So, the question here is that when you say maintain, so maintain the H1 numbers or maintain the FY '25 numbers? So, FY '25 numbers were at 21% and H1 numbers are at 19.5%. So, which one should be the base?

Anil Patwardhan: Are you referring to the margin or top line?

Agastya Dave: I am referring to the EBITDA margin, sir.

Anil Patwardhan: EBITDA margin, EBITDA margin. So, EBITDA margin for H1, you have seen that it is under stress, 2 reasons.

Sunil Kulkarni: H1 is around I think, 19% that is the EBIT margin for H1, current H1.

Agastya Dave: Right. It's at 19.5%, so Q2 was at 13%, and then last year was at 21% for the entire year. So I am just wondering what's the base that you have, like, you are very comfortable with that we will be able to maintain that much?

Anil Patwardhan: I would say, comparable to the last year, we will be slightly on lower side during current year from margin perspective, because of 2 reasons. The U.S., onsite business will have lower margins than offsite margins, which will get consolidated. Something similar is happening in Japan. Okay? But then H2 profile would be better than H1 is what we have been saying.

Agastya Dave: Perfect, sir. I understood the reason, sir. I just wanted to get a quantification the base of the margin itself. That was the question. Thank you very much, sir. And, and all the best, sir, for the next quarter. Thank you, sir.

Sir, I also appreciate the fact that you are doing this quarterly. Not many companies are doing it, and you have done it voluntarily. Sir, it's a very good thing, sir, and it's very helpful for us as investors. Thank you, sir. All the best.

Sunil Kulkarni: Thanks a lot. Really appreciate it.

Anil Patwardhan: Thank you. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sunil Kulkarni for closing comments. Over to you, sir.

Sunil Kulkarni: So, thanks a lot. Please continue to follow us, guide us whenever necessary. Thank you for continued support and belief. We are also available through email, and please feel free to reach out to us for any specific questions. Through these interactions, we also get to learn a lot. And we will continue to share our journey. Thanks a lot again for joining this call.

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