Fractal Q2 FY2027 Earnings Conference Call

November 4, 2026

Management: **Mr. Srikanth Velamakanni – Co-Founder & Group CEO**
Mr. Pranay Agrawal – Co-Founder & CEO
Ms. Shilpa Kedia – Chief Financial Officer
Mr. Satish Raman – Chief Strategy Officer
Ms. Svetlana Joshi – Investor Relations
Ms. Anjali Garg – Investor Relations

Moderator: Ladies and gentlemen, a very good morning. My name is Inba. I will be moderating today's session. Welcome to Fractal's Q2 FY2027 Earnings Conference Call. All participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the management's remarks. Please note the call is being recorded. I will now hand over the call to Ms. Svetlana Joshi from Fractal's Investor Relations team. Thank you, and over to you, Svetlana.

Svetlana Joshi: Thank you, Inba. Good morning, everyone, and thank you for joining us today. We will be discussing Fractal's performance for Q2 of FY2027, which ended on September 30, 2026. Our results, investor presentation, and fact sheet have been filed with the exchanges and are also available on our investor relations website. Joining me on the call today are Srikanth Velamakanni, Co-Founder and Group CEO, Pranay Agrawal, Co-Founder and CEO, Shilpa Kedia, Chief Financial Officer, and Satish Raman, Chief Strategy Officer. Before we begin, please note that certain statements made during this call may be forward looking in nature. These statements are based on our current expectations and are subject to risks and uncertainties that could cause actual results to differ materially. Such statements or comments are not guarantees of future performance, and Fractal undertakes no obligation to update them. Please refer to the cautionary statements in our investor presentation and regulatory filings. We will first hear from Srikanth on the business update and then from Shilpa on the detailed financial performance, post which we will take questions. With that, let me hand over the call to Srikanth.

Srikanth Velamakanni: Good morning, everyone. It has been 100 days since our last earnings call, and in the world of AI, that is a really long time. AI is now contributing to significant scientific breakthroughs, but the world of enterprises is still catching up. The enterprise AI floodgates have not opened yet. We stand ready to capitalize on that when it happens. Meanwhile, we had a great quarter. For the first time, our revenue crossed the $100 million threshold. Revenues grew 20%, adjusted EBITDA grew 30%, and net income grew 139%.

Let me walk you through the details. Revenue for quarter 2 was INR 957 crore, up 20% year-over-year and 5% quarter-over-quarter. In constant currency terms, revenue growth was 10% year-over-year and 4% quarter-over-quarter. Here is how this breaks down by industry.

Consumer packaged goods and retail (CPGR), our largest vertical, grew by 11% year-over-year, reflective of some of the challenges of inflation and consolidation in this sector. Our healthcare and life sciences (HLS) business continued to be the growth leader, growing at an exceptional 79% year-over-year. As I said in the last quarter, technology, media & telecom (TMT) has bottomed out. It grew sequentially by 6%, though it remains a sector going through a lot of change. Banking, financial services and insurance (BFSI) grew 30% year-

over-year. Our energy, travel, and industrial clients, which we report as "others", grew 47% year-over-year.

Now, let me walk you through in terms of geography. Americas led the revenue growth with 22%, while Europe was close behind with 20% growth. APAC grew by 7% year-over-year. That's the top line. Here are three numbers underneath that are very, very interesting.

- One, our Net Promoter Score was 76, which tells us that our clients are very satisfied with our work and want to work with us more.
- Second, they are also spending more with us. Our Net Revenue Retention was 115% in Q2, up from 112% last year, and new clients added another five points of growth.
- Third, we now have 58 clients with more than $1 million in annual revenue, and 20 of them are above $5 million. At the same time, our top 10 and top 20 clients make up a smaller share of revenue. That means we're growing without becoming more concentrated.

On profitability, Shilpa Kedia will go deeper, but here are some headlines. Gross margin was at 44%, down 225 basis points year-over-year, mainly because we invested in developing precious AI research and AI engineering talent ahead of growth.

Adjusted EBITDA grew 30%, and adjusted EBITDA margin reached 16%, up 123 basis points. Net income grew 139% to INR 79 crore, and net income margin rose from 4% to 8%. Excluding our share of Qure.ai losses, net income was at INR 102 crore. Overall, I'm very happy with how our profitability is shaping up. So, those are the numbers for this quarter.

Now, let me make a few qualitative comments. I'm excited about a few things.

Number one, products. Our products revenue is at INR 38 crore for the quarter, which is 4% of our overall revenue. Our products portfolio is now at a run rate of more than INR 150 crore a year, up 39% year-over-year. In addition, our remaining performance obligations, RPO, which is defined as contracted revenue yet to be delivered and recognized for products, stands at over INR 200 crore. So, product business is starting to become significant. Cogentiq, our agentic AI platform, is gaining traction globally and especially in India. Clients are using this platform directly and the products are built on it, such as Cogentiq Invoice to Cash and Cogentiq CX. Fractal Alpha, which holds Asper.ai and Analytics Vidhya (AV), grew 40% year-over-year to INR 34 crore. The Pricing One transaction that we closed yesterday gives Asper.ai a base in Europe, and AV is shifting now towards enterprise clients. So, this is the first point.

Second, growth levers. Our largest relationships are growing. Now, six clients bring in more than $20 million each, up from four a year ago. Our new client additions continue to be healthy at about one new client every 10 days. We are more dialed in than ever, and our win rates are moving in the right direction. We're also deliberately building the capability to win larger multi-year programs. Our M&A pipeline is healthy, and our balance sheet is strong. It's an opportune time to use the M&A lever to strengthen our right to win.

The third thing I am excited about is the leadership changes we are making. We are consciously raising the bar on our team, and we are finding exceptional people who want to build Fractal with us.

Now, speaking of game-changing talent joining us, I am delighted to welcome Shilpa Kedia, who joined us as Chief Financial Officer last month. She brings a wealth of experience from global giants like Johnson & Johnson and Unilever. Shilpa's charter is to accelerate our growth while improving profitability. She'll also help turn our research and product investments into one of our most important growth levers. Shilpa will now take you through the financials in greater depth. Over to you, Shilpa.

Shilpa Kedia: Thank you, Srikanth, for the warm welcome and for making me part of the team. Good morning, everyone. I'm delighted to join you all today. It's been an exciting two weeks so far. I have long admired Fractal, how it has been helping clients convert AI excitement into tangible outcomes. Having been on the other side of the table, I understand the challenges clients face, how they assess return on AI investment, and what they expect from a partner like Fractal. I look forward to bringing that perspective to help us deliver even greater value to our clients and drive the next phase of growth.

Turning now to the quarter, let me walk you through our financial results in detail and the key drivers of our performance. In Q2 FY 2027, our revenue from operations crossed $100 million for the first time, which makes this a milestone quarter for Fractal. Revenue was INR 957 crore, up 20% year-over-year and 5% quarter-over-quarter. In constant currency terms, growth was 10% year-over-year and 4% quarter-over-quarter.

As Srikanth mentioned, we continue to see robust growth in HLS and BFSI verticals. TMT recovered sequentially this quarter with 6% growth. HLS and BFSI have now delivered strong growth for three consecutive quarters. The quality of growth remains robust. 58% of our revenue came from input-based engagements, 42% from output and outcome-based engagements, including 4% from products. The entire revenue growth was organic. Top 10 client concentration fell from 53.2% to 51.7% of revenue, which reflects a broadening client base.

Moving on to profitability, adjusted EBITDA margin for Q2 FY 2027 was 16.2%, with expansion of 123 basis points versus Q2 FY 2026. We have invested ahead of the curve, which is reflected in the gross margin for the quarter, while operating leverage has continued in SG&A.

Let's take a closer look at each one of these. We define gross margin as revenue from operations minus direct costs, which include employee and other direct expenses. Gross margin was 44% for Q2 FY 2027, down 225 basis points year-over-year. There is a short-term impact as we have invested in AI engineering talent, which is both scarce and expensive today. This investment led to a negative impact of 279 basis points.

The other two components have opposing influences on the variance. Annual merit increases had a negative impact of 216 basis points, while the weaker rupee provided a benefit of 270 basis points. Operating leverage continued in SG&A. While in absolute, it grew by 5%, as a percentage of revenue, it fell from 27% in Q2 FY 2026 to 23.6% in Q2 FY 2027. These actions drove EBITDA expansion ahead of revenue, with overall adjusted EBITDA growing 30% year-over-year against 20% revenue growth.

Moving to R&D. R&D funds our AI research and turns it into our own IP, products, and platforms that set us apart and open new growth avenues. R&D investment rose 13% year-over-year to INR 60 crore in Q2 2027, which is 6.3% of our revenue. Of the INR 60 crore, INR 40 crore was expensed, the rest was capitalized. Most of this investment goes into building Cogentiq and Asper.ai.

Moving to Fractal Alpha. Fractal Alpha segment includes Asper.ai and Analytics Vidhya. Asper.ai has done a capital-light transaction this month with the European firm Pricing One. This transaction provides Asper.ai with a focused foothold in Europe.

Fractal Alpha's revenue from operations grew by 40% year-over-year and by 41% quarter-over-quarter to INR 34 crore.

On a constant currency basis, growth was 32% year-over-year and 41% quarter-over-quarter. The adjusted segment loss was INR 10 crore for Q2 2027, with a gross margin of 54%.

We have continued investment in building the B2B leg of Analytics Vidhya, and it has weighed on the margins for the quarter. The same is expected to normalize by the end of the year.

Moving over to net income. Net income for Q2 2027 grew by 139% to INR 79 crore, and margin expanded by 413 basis points year-over-year to 8.3% of revenue. Excluding the share of loss from associate, net income for Q2 2027 is INR 102 crore or 10.7% of revenue. ESOP

charges, including cash bonus linked to options and one-time retention bonus, declined to 0.5% of revenue in Q2 2027 versus 2.8% in Q2 2026.

Talking about Qure.ai, it is an associate company, and hence we only consolidate our share of loss or gain based on our 31.5% holding. That share of loss for us was INR 23 crore for Q2 2027. Qure.ai continues its growth momentum with revenue of INR 28 crore in Q2 2027, with 82% growth year-over-year.

Diluted EPS for Q2 2027 is at INR 4.48, which is 132% higher than Q2 2026. Diluted EPS without the share of loss from associate is at INR 5.76.

Moving on to cash. Our cash flow from operations was INR 407 crore on a trailing 12-month basis, which grew by 11% year-over-year. Overall, our H1 2027 cash flow from operations is negative INR 24 crore due to payout of variable compensation in Q1 2027. The H1 2027 cash flow is in line with our historical trend. Days sales outstanding (DSO) has increased by five days to 76 days in Q2 2027 versus 71 days in Q2 2026. This was mainly a timing effect of collections moving into the next quarter. We expect DSO to return to its historical range by the end of the year.

As of 30 September 2026, we had cash and cash equivalents, including mutual funds and fixed deposits, of INR 1,728 crore, including IPO proceeds of INR 608 crore. In line with the plan outlined in our IPO filings, we utilized INR 81 crore over the quarter, with the majority directed towards research and development.

Let me now summarize our H1 FY 2027 performance. Our revenue from operations was INR 1,869 crore, which grew by 20% year-over-year and 10% in constant currency. Adjusted EBITDA margin went up by 155 basis points to 16.5% from H1 FY 2026. Net income grew by 114% to INR 151 crore, and net income margin expanded by 356 basis points year-over-year to 8.1% of revenue. Excluding the share of loss from associate, net income for H1 FY 2027 is INR 198 crore or 10.6% of revenue.

Let me summarize the key takeaways. We delivered the quarter with 20% revenue growth, 30% adjusted EBITDA growth, and 139% net income growth.

Over our next few interactions, I am looking forward to hearing your perspectives as I start partnering with the team to drive our next phase of growth. With that, I will hand over the call back to Inba for the Q&A session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now move to the Q&A segment. To ensure we provide space for as many participants as possible, we request you to limit yourselves to two questions per turn. Anyone who wishes to ask a question may use the raise hand icon located

at the bottom toolbar on your screen. When called upon, you will receive a prompt to unmute. We will wait for a moment while the question queue assembles. We will take the first question from Gaurav Rateria of Morgan Stanley. Please go ahead.

Gaurav Rateria: Good morning, and, congrats on a good comeback on revenue performance. I actually have three questions. My first question is with respect to the differentiation in growth across our verticals that we are seeing. So, is it to do with the greater client acceptance of our solutions in one vertical versus other, or is it to do with our own solutions in much more advanced stage in healthcare versus other verticals? My second question is on the progress on Cogentiq. If you could share some highlights on pipeline and the kind of deals that we are winning? Is it more license-based revenue? Is it more short-term engagements right now? And the last question is on the investment that you highlighted, which is a pretty meaningful, one on the gross margin. Is it more like an investment on the people who are on the research side or the people who are eventually likely to be billed, but right now they are not utilized and hence that is a drag on the margins? Thank you.

Srikanth Velamakanni: Thank you, Gaurav. Firstly, on the performance vertical-wise, it's a mix of where the industry is, the adoption, complexity, and the macroeconomic situations in those industries. It's not as much to do with our execution as it is about some of the industry dynamics at play. Healthcare is an extremely complex industry that will benefit significantly from AI. Life sciences especially is a very profitable industry that is always investing in their growth. So those are very good segments because of which we are growing. CPG, on the other hand, has some of the large players who have had meaningful consolidation in the last year, and there's significant inflation-related concerns. So, it's a little muted relative to that. Secondly, I think to some extent, we also have very deep solutions in both CPG and healthcare.

Those are also helping us in growing overall in those sectors, with the macroeconomic factors taken care of. Coming to your second question on products, Cogentiq is doing really well, and all of this is licensed revenue. We are seeing traction not only on the platform, which essentially Cogentiq is an agentic AI platform that brings that context layer, knowledge layer, and ontology layer, and builds that harness, which is responsible for delivering results. Imagine great AI models, let us say the best frontier models. They are still exceptional at bringing world knowledge, but they have zero context of how to solve problems inside an organization. Whatever you build outside of the model is called the harness. That is what helps these models perform exceptionally well.

Fractal's Cogentiq builds that harness and dramatically accelerates performance, and we can see in many, many situations, competitive situations, that it beats all existing options out there, including building something on their own. That is what we are seeing as a platform. The second thing I have to say is that the deeper applications you build on it, for example,

when you build Cogentiq Invoice to Cash, we deeply understand the FP&A process, understand how to accelerate collections, and we really know how to distinguish which people are going to pay or not pay. We build those custom models and build the depth of understanding of the process on top of Cogentiq. Those are getting a lot of traction.

Similarly, Cogentiq CX really deeply understands the entire process of customer service and bringing in the voice API, etc., at very competitive rates, and that also is the reason, because of building of depth that we are winning in that space. All of that is licensed revenue. The additional factors that we are looking at is how can Cogentiq be the default way in which we deliver all our services? We are still early days of that, and as it becomes the norm of Fractal delivering on top of Cogentiq everything that we do, I think we will see meaningful improvement in the overall economics as well. But Cogentiq is overall now reaching a place where we feel like it becomes a very significant growth lever in the next few quarters and years.

The last one on the gross margin. This is part of our delivery expense, right? That is why it is part of the gross margin. These are not exactly research investments. These are meant to be billed. But what we are seeing is increased need for forward deployed engineering (FDE) talent and deep AI engineering talent, again, at the senior levels, right? We are building out a very strong team of various kinds of Forward Deployed Engineers, including what we call as Cogentiq Forward Deployed Engineers, as well as other platform Forward Deployed Engineers related to the platforms that we work with very closely. Those are the investments, which we think are very important for future revenue growth. And the gross margin that is meaningfully lower this quarter is going to come back up as early as next quarter, and then also the following quarter. Generally speaking, you know that our gross margins are lowest in quarter one.

This year, we shifted some of the wage hikes, etc., to June, which meant that most of the impact was felt in quarter two. Some of that is also going to sort itself out in the Q3 and Q4. Net-net, we think gross margins will recover quite significantly in Q3 and Q4, and some of these investments are very important investments for when enterprise AI really takes off in a very big way. The most important thing in getting enterprise AI right is to have these deep AI engineers who work as Forward Deployed Engineers, work with clients, and solve their problems, whiteboard it, solve it, deeply understand the platform, deeply understand the overall problem that we are solving. That, we think, will set us up well for future revenue growth and future profitability. I hope I answered all your questions, Gaurav.

Gaurav Rateria: Yes, really thank you for the detailed answer. I will fall back in queue for more questions.

Moderator: Thank you. Our next question is from Aditi Patil of ICICI Securities. Please go ahead.

Aditi Patil: Congratulations on a good quarter. My first question is on the sequential decline in the CPG vertical. You mentioned it is due to M&A and macro challenges, consolidation activity on the client side. Has there been any discontinuation of a project in this quarter, and will it also impact in the next couple of quarters? What are we doing to offset these macro challenges in this vertical? My second question is on the G&A cost outlook. Our G&A cost has ranged around 12% for the last two quarters. Should we expect to get the benefit of operating leverage on this cost going forward, or should it range around 12% of revenue?

Srikanth Velamakanni: Got it. Thank you, Aditi. Firstly, on the CPG sequential decline, part of this is seasonal. It is something that we experience every year, that April, May, June quarter is usually a very solid quarter. We call it a surge inside Fractal. We see some surge in AMJ, and then Q2 is post that. It is linked to some of the budgetary timelines that clients have. We have seen this throughout our history. So, part of that is that, which is a sequential one. But even our year-over-year growth has not been spectacular, and that is because of the things that we just mentioned, like high inflation and some consolidation that has happened in this industry. So, that has led to some of the contracts getting slightly delayed in signing, which led to some of the slightly lower growth that we see here.

We expect this to sort itself out, and sequentially, we will grow in the next quarter and the following quarter as well. But in terms of the overall growth, this is not as spectacular as we would like it to be, and we expect that by next fiscal, that growth will be much better. But in this quarter and in the coming quarter and the following quarter, we will see CPG grow sequentially.

Maybe to the second question, that is around the G&A outlook. Overall, our G&A outlook remains. We want to grow G&A at a slower rate than our revenue growth. That has been the model for Fractal, that as our sales growth happens, our G&A growth should be roughly half of that. That continues to be the kind of way in which we are building it out. We will continue to see some G&A efficiencies while we also make growth investments. So, G&A will certainly not increase at the same pace as revenue, but sales costs, we will ramp it as required to capitalize on the enormous opportunity ahead of us.

Aditi Patil: Okay. Got it. Thank you for answering my questions.

Moderator: Thank you. Our next question is from CA Shaishav Vora of Prudent Investments. Please go ahead. Shaishav, could you please unmute your microphone and go ahead with your question? There seems to be no response from this connection. We will therefore move to our next participant. It is a follow-up from Gaurav Rateria of Morgan Stanley. Please go ahead.

Gaurav Rateria: Thank you for taking my question again. I saw pretty interesting deal win announcements, which are partnership led in the current quarter across different verticals. I just wanted to

understand the nature of our go-to-market engagements and the kind of deals that you are winning? Also, you alluded to working on some initiatives to boost up our large deals, so if you could highlight what exactly we are doing to ensure that we kind of build a portfolio of the larger deals? And last question is on the G&A investment. So just curious that the S&M has given a lot of operating leverage to us in this year in the first half, but G&A looks like we have continued to invest in this year? So what kind of investments are these and at what point in time the operating leverage from the G&A should start coming in?

Srikanth Velamakanni: Yeah. So, I think the first question is about partnerships. Clearly, this is one of the things that we recognized earlier this year, that the partnership muscle needs to be strengthened at Fractal. Lately, we are seeing a lot of action on the partnership front, and Fractal has not capitalized on it as much in previous years. This year, we have made it a priority to get stronger alignment with partners, and we are seeing some of the benefits of that already play out. We are getting a lot of inbound leads from some of the frontier labs. So, for example, if you look at our Cogentiq CX, one of the frontier labs who has a very good voice solution, is bringing us in, saying for whatever places where they are not able to kind of cover with their flagship voice AI solution, they think Cogentiq CX will be a great complement to that or great substitute to that in places where the size of their solution may not fit the client requirements. They are bringing us in. Similarly, another frontier lab is seeing a lot of interest in helping people activate their products with us and also build out some harnesses that help them in solving interesting problems inside enterprises. They are bringing in a lot of inbound leads, which is helping really grow our business quite a bit.

And there are places, like, for example, we have been the Retail and CPG partner of the year with Microsoft. That partnership looks good. Our work with AWS is also expanding quite beautifully. Overall, we see a lot more joint partner activity, and they also recognize that Fractal is a special player, right? We are not an IT services player. We have very deep AI capabilities, and that is why they have seen Fractal as a critical part of their overall success. As we strengthen this joint go-to-market and overall partnership alignment, we think that the partnership-led revenues will become more meaningful part of our overall revenue growth. This is definitely one of the levers of growth that we think can go up.

Next, we go to the second question, which is around large deals. I will say that we are still in the early phases of completely figuring this out, and we think that large deals should play a more meaningful role in our overall growth equation. But we have begun the process of building out a team that can go and win larger deals. In general, deal sizes are becoming larger from a Fractal point of view. Again, you may see it from tech services point of view, where the opposite is true. But from a Fractal point of view, deal sizes are actually getting larger because the complexity of what enterprises are trying to solve and reimagine or redesign their workflows is a much larger scope than building out, let us say, set of models that power

decisions in one aspect, right? Decisions are one part of that. Building those actions, building those workflows become very critical, and therefore, the size of the deals is anyway going up.

We are setting up a large deals team, which is going after these much larger transactions out there, which involve building this enterprise knowledge layer and the context layer across the organization, building out a brain, right? Many companies that we work with, let us say, a large insurance company I can think of right now, one of the most prestigious insurance companies, is building out what is called as a digital brain, right? Which has every knowledge of everything that is happening in the business, can learn from every transaction, and suggest what to do for every person in the organization. That kind of enterprise brain, these are larger and more complex engagements. We are seeing interest in that.

We are looking at how to make sure that Fractal has a strong right to win, because traditionally, the way you bid for these is different from how we have bid for them in the past. That is why we are building out a special capability to make sure that our win rates are extremely high in this space. Expect more from this. It is not a meaningful part of our current revenue growth, but we think it will be a very meaningful part of our future revenue growth.

The last question from you, Gaurav, was about G&A. It is nothing spectacular, I will say, that we are making in terms of increasing our G&A expenses beyond what we have right now. We have continued to be very disciplined, and we expect that the rate of growth of G&A expenses will be much lower than the rate of growth of revenue overall, which means that the operating leverage will continue to play out for us across this fiscal and the next fiscal. We feel we are on track to improving profitability, not just these next two quarters, but all of next fiscal as well. We expect SG&A operating leverage to continue to play an important role in the overall profitability improvement. We will meet, like we had promised at the time of IPO, that we will continue to improve our profitability. We have delivered on that, and we will continue delivering on that profitability and get to the numbers that we had projected in our own minds about where our profitability should be. Those healthy profitability levels are kind of within arm's length right now. We are continuing to improve, and even by Q4 this year, we should have a decent improvement in overall profitability.

Gaurav Rateria: Just to clarify, Srikanth, when you say improvement in profitability for second half, you meant on a sequential basis, or you meant on a Y-o-Y basis?

Srikanth Velamakanni: Both. Absolutely both.

Gaurav Rateria: Okay, great. Thank you. Good to hear that.

Moderator: Thank you. Anyone who wishes to ask a question may click on the raise hand icon from the participant tab. We take the next question from Pritesh Thakkar of PL Capital. Please go ahead. Pritesh, could you please unmute your microphone? Pritesh, go ahead.

Pritesh Thakkar: So, congrats on the good set of numbers. So, I have a question on the TMT segment. It is good to see that we turned positive for this quarter after sequential decline over the last five quarters. So just wanted to check I mean this growth is sustainable for the next coming quarters and how are the pipeline and engagements there in TMT segment? The reason why I am asking is a lot of the high-tech side of the companies, especially the hyperscalers, have disproportionately taken their spends towards building the infrastructure versus opex side? So just wanted to check how it is falling for us?

Srikanth Velamakanni: Thank you, Pritesh. Our Q3 and Q4 will continue to see recovery, so we expect that the TMT sector will sequentially continue growing, number one. Number two is that, remember most of our TMT work is with the commercial organization of these TMT industries. So, these are very AI starved, right? So, Fractal's AI really helps them quite significantly. Though these TMT companies are extraordinary in terms of AI capabilities on their own right, but most of that is focused on their engineering side and most of these companies are structured half and half as engineering and commercial. So, we work with the commercial half, and we do some very interesting AI for their commercial business. So that is not seeing the similar kind of headwinds. So, I expect that Fractal will improve its overall performance on the TMT vertical over the next few quarters and this will remain a very important industry for Fractal in the future as well.

Pritesh Thakkar: Thank you so much. Secondly, on the Fractal Alpha side of the segment, I mean, this quarter we grew 40% sequentially, but if I look at the segment, the loss is recovering but still on a negative, I would say, trajectory. So, when can we expect this to turn break-even, if at all? Do you have any internal targets?

Srikanth Velamakanni: Now, that is a great question. We are going to see profitability improvements in the Alpha sector, and we will be approaching breakeven as early as end of this year, right? So, it is trending well. Growth rate is up, and we also see a lot of interest in the products of Fractal. So sequentially, we expect growth to be robust and at higher margin and so the overall profitability is trending in the right direction for the next two quarters, and by the end of this year, we will be approaching breakeven. Certainly, next year we will break even on the products on the Alpha segment. So overall, it is moving in really good direction.

Pritesh Thakkar: Thank you so much and lastly, on the investments that we made on the FDE side. I mean, correct me if I am wrong, last quarter we reported billable per employee and it was a little

elevated stage, but I think this time reported a decline in terms of overall billable FTE, so when can we expect this FDE to get deployed in the coming quarters and start billing clients?

Srikanth Velamakanni: Yes. No, this is an important metric that we do look at the revenue per employee metric, and while in rupee terms it's marginally up, dollar terms it's a little lower. This is not to do with our pricing. It's to do with some of the capacity that we have increased, because what we are seeing is an enormous appetite for enterprise AI. It is not yet fully played out, and we want to make sure that we have game-changing talent available to increase the revenue. We are also looking, even when we do some of the M&A, some acqui-hire type M&A as well as some deep engineering type of AI engineering type of M&A, we are building out for that. We expect that there will be significant scale-up of enterprise AI in the next year, because two things are happening.

- AI is getting more capable by the day. Therefore, it is able to solve many more complex problems, do long horizon tasks, and get even deterministic accuracy with probabilistic models. We are getting to that place with a higher quality of harness. I think we can see that we can get deterministic accuracy on probabilistic models, which is perfectly the right thing that enterprise AI needs, number one.
- The costs of running this AI are continuously going down. So, there is a 48% reduction in cost of fixed intelligence quarter-over-quarter, which means that in a year, there is a 93% decrease in the cost of intelligence coming from a foundation model. So, when these foundation models become capable of longer horizon tasks and are much, much cheaper, we will reach a threshold where it will become quite irresponsible for somebody to not fully deploy AI in a significant way. That is the time that we are building this company for.

This is all in preparation for that, and we expect that that will play out as early as FY 2028 in a very meaningful way. This will, I think it will sort itself out in our revenue per employee and other metrics like those will meaningfully improve in that fiscal.

Moderator: Pritesh, may we request you to return to the queue, please, as there are several participants waiting for their turn. We will take the next question from Suyash Kela of Singularity Asset Management. Please go ahead.

Suyash Kela: Thank you for taking my question. Srikanth, this is a hypothetical question. If you were a private company, as you were previously, and you had Rs.1700 crores in cash, what would you have done to grow, like on constant currency basis at 30% Y-o-Y instead of 10% where we are at? I know I think as analysts we ask you to balance both growth and profitability, but if you were given a little bit of a freer hand to grow and capture the market share in the accounts that we are already at, how your strategy would have changed or how would your

approach would have changed? And same on the M&A question is the strategy to build up capabilities for higher growth or more profitability, I think on both those points?

Srikanth Velamakanni: Suyash, thanks for that great question. You are absolutely right that at any point of time, we have to balance based on what we have agreed with a set of investors. It could be public investors, or it could be private investors. We always work with a certain framework of how we want to grow and how we want to balance profitability with that. Throughout the history of Fractal, we have had that implicit or explicit emotional contract, so to speak, with our investors that this is how we are going to build it. Right now, that construct is that increase revenue growth as much as possible while taking EBITDA to a 22% level. That is the thing, that is how we are thinking of it.

Get Fractal.ai's EBITDA as close to 22% while maximizing revenue growth is how we have currently set up that equation with our public investors. At least that is what we have in mind. This would have been somewhat different if we were a privately held company right now, because we could have gone and with a private set of investors, we would have said, "Hey, this is an amazing time in the world of AI, and we might want to change this equation a little bit towards greater AI R&D investments, building out Cogentiq even further, and deploying the FDE talent a lot more around the world and keeping ready so that let's not worry about GM for the next couple of quarters, let us not worry about things like utilization and things like that. Just let's worry about how do we stay ready to maximize enterprise AI growth. That is what we would have done, and that would have resulted in much higher growth than otherwise.

Not to say that we are not doing that right now. We are making most of those investments, but there is a certain agreement that we have in terms of significantly improving profitability, so we are keeping that in mind. That profitability constraint we may have removed from ourselves for the next, let's say, three, four quarters if we were a privately held company. Given that we are not, we want to continue respecting that implicit agreement that we have about trending the profitability to the 22% kind of a number while maximizing the growth rate.

Suyash Kela: And Srikanth, on the M&A, what will be the priorities with the M&A?

Srikanth Velamakanni: As far as M&A is concerned, Suyash, we are quite active. We have a very decent pipeline, and our Board is very keen also to explore this dimension. So, expect that we will be extremely active in this space and come out with some things. For example, we just did Pricing One thing, which is more of an acqui-hire, but we expect that more deals will come through. There are an amazing number of deals in the market, especially deep AI engineering talent with strong local presence in various geographies. They are looking very interesting to

us. We are also seeing excitement in industry specific deep expertise because that also helps us tremendously in building out more complex solutions deeply inside an industrial vertical. So, we are seeing those kinds of deals. Nothing is stopping us now because we have plenty of cash in hand and very exciting deals out there. We just have to make sure that we are doing them in order to increase our overall right to win and that is most important.

We do not look at inorganic as just a growth lever. We think of it as improving our right to win, so it has to significantly increase our chances of future growth, not just one plus one equal to two, but what is a much more multiplicative impact on Fractal's overall growth potential. We are looking at a lot of these deals right now, and we expect to do some stuff very, very soon.

Suyash Kela: Thank you, Sir.

Moderator: Thank you. We will move to our next question that is from Anil Nahata of Parami Financial. Please go ahead.

Anil Nahata: Srikanth I understand that you had read out a roadmap that you want to reach 20% of your revenue for licensing and everything around products. Now, if you look at the current scenario, this calls for a tall order of around 78% CAGR and as each quarter we do not hit that CAGR number, the order becomes even taller. So how do you think about that? That is the first question.

Srikanth Velamakanni: Oh, thank you so much, Anil. You're absolutely right that we aim to do roughly a $100 million run rate by the time, in about 12 quarters from now, right? That's the tall order that we have set for ourselves in terms of product revenue. This is going to be a hockey stick because it is non-linear by design. I think the most important thing to look at is, are the products being received well? Do we have a strong right to win? When we are in a competitive situation- what is our win rate and what is the feedback from the clients? Once we have deployed it, how is it being received?

How is it being used, and how fast are we able to grow that base from, let's say, one geography to all the geographies of a large company, or one division of a company to all the divisions of the company? How do we see that growth happening of product usage across the company? Once we start seeing those positive indications, we know that this non-linearity will kick in as soon as we have a solid product which is being received very well. I would call them as the first moment of truth and second moment of truth. The first moment of truth is, in a sales situation, how do clients respond to the products? Do they see the magic? Do they appreciate the magic? Two is, once we deploy it, do they love it? How well they're using it.

We are seeing very good feedback on both these moments of truth as far as our products are concerned. That makes me feel pretty good about how this hockey stick or this J-curve will play itself out. It is not an easy one, no question about that, but I feel pretty good about the traction that we are seeing. As we see the next few quarters, Anil, it will be useful to look at how this product revenue is shaping up and what fraction of the revenue. As long as it is that 4% is going to five and then six and seven, and it is trending in that direction, it does not have to be necessarily. The CAGR will take care of itself as long as it is meaningfully increasing in the next few quarters sequentially and as a part of overall revenue. The first two moments of truth are trending in the right direction. I feel pretty good about that.

Anil Nahata: Thanks, Srikanth. We would love to hear more on this in the coming quarters, as well as more metrics on this kind of business. My second question is on Qure.ai. Can you just give us a better understanding of the Qure.ai business in terms of how the business is shaping up, why there are so many fluctuations on a quarterly basis, and overall, how does Qure.ai look to you, and what are the investments we are making further in Qure.ai?

Srikanth Velamakanni: Thank you, Anil. That is a wonderful question. Qure.ai is an amazing business. Very fortunate that we set it up, incubated it, and spun it out in 2020. It has been one of the most important AI companies on the planet, recognized in the TIME 100 most influential companies of 2025. It is working in areas like lung cancer and tuberculosis. For example, in lung cancer, we work very closely with AstraZeneca. We have a way to diagnose lung cancer from a chest X-ray, and this really dramatically improves the odds of patient survival from 10% if it is detected late to 70% if detected early. There is a 7x improvement in overall survival if we detect early. Because AstraZeneca has a wonderful lung cancer drug, it becomes a really good way for the drug to reach a lot of the population that needs it.

Qure is enabling something like that. Similarly, in tuberculosis, it is now present in more than 105 countries. It has touched more than 50 million lives and detecting tuberculosis from an X-ray. Beyond that, Qure has a number of other very interesting AI solutions, including being able to capture the doctor-patient conversation and suggesting the right questions as well as the right tests and treatment to the doctor while the doctor is having a conversation with the patient. There are some very interesting things that Qure is doing. It is a very meaningful company. What happened last year was that as soon as the Trump administration took charge, and the DOGE program was created, they completely shut down USAID, and that created what we did not realize as well was how much of the TB programs on the world are directly or indirectly funded by USAID.

That was a huge blow to the overall, let us say, health of the globe, and certainly it also had an impact on Qure.ai's revenue. It declined quite precipitously when that move was announced. Qure.ai had to build back the business by building a much stronger U.S. business,

much stronger Europe business, and we are seeing some very good results out there, and they have a fantastic pipeline and a backlog in the rest of the year. We expect Qure.ai to do phenomenally well. It will be a great company. It has an incredibly rich valuation. It is a very, very good company. We do not invest any further because it is a 31% company.

It is an associate company, so it can only be hugely positive to us in terms of the overall value of Fractal, though I think the market is pretty much treating it as giving us potentially negative valuation because we are getting multiplied by the profitability, where Qure is a drag on that. That is the unfortunate calculations of the way the market works, but it is a fantastic asset. It will perform exceedingly well, and I am not only very excited about how that will do as a business, but also the impact it has on the world. Overall, its prospects are very good. There are some fluctuations because of the change of business, but we remain very optimistic about its future success and the impact on the world that Qure will have.

Moderator: Mr. Nahata, may we request you to please return to the queue? Thank you. We will take our next question from Mohit Bhalla of Indium Investment Advisors. Please go ahead. Mr. Mohit Bhalla.

Mohit Bhalla: Good morning, Srikanth and team, and congratulations on reaching the quarterly milestone of $100 million revenue. My question is on the service offerings and capabilities of the services business, so could you please know if you would have got a revenue breakup by service lines or capabilities? In the prospectus, we have mentioned AI, engineering, design, and functional as different capabilities. If you could provide some color on the breakup, that would help us understand the operations of the company in a better manner. Thank you.

Srikanth Velamakanni: Thank you, Mohit. It's a great question, and I would think of this as the kinds of problems we solve for companies. If you look at that, the most important thing that we do for companies is to help them grow faster or grow better, understand customers better, understand their sales better, personalize their products to the customers, and so on. That is the part that we work most on, improving the overall growth rate of any company that we serve, including doing commercial analytics for them and so on. That part of that is about roughly 40% of our revenue comes from enabling growth and enabling the transformation that leads to higher growth, number one.

Number two is we look at their operational effectiveness. How do we make companies more profitable? How do we reduce their inefficiencies? How do we make them more productive? Things that have a direct bottom line impact on the company. That is roughly 30% of our revenue. Whether it is supply chain, whether it is forecasting, whether it is improving revenue per employee in the company, managing their risks better, understanding their credit risks,

these are all part of that. So that's 30% of our revenue. Roughly 10%-15% of our revenue comes from helping them on their R&D innovation product development side.

Wherever companies are saying, "I have to discover a new drug," or, "I have to build a new consumer product, I have to understand what the world is saying, how my competition is performing, what are the gaps, white spaces in the market, and therefore, what products should I build in my R&D pipeline and how should I commercialize them?" That's the part which is the third part of our business, which is about 10%-15% of our revenue.

A fourth part of our revenue, which is about, again, 10%-15% of our revenue, is on managing their day-to-day performance, right? How do I manage, something has happened in the business today, how do I respond to that? How do I make decisions, tactical day-to-day decisions driven with AI? How do I do that? That is about 10%-15% of our revenues.

And roughly under 5% of our revenue comes from managing long-term growth and sustainability, ESG, and AI that enables some of that as well. So those are how we think of as the problems that we are solving. This is one way to understand Fractal's business and the work that we do in helping them out.

Second way to look at it is the themes that are playing out in terms of how companies are thinking of it. There are three key themes as AI expands and becomes more capable. One is, how can I use AI to redesign my decisions? How do I redesign workflows? How do I transform my business and workflows with AI? That is one part of the business. A large majority of our revenues come from that aspect of it, whether it is revenue growth, whether it's profitability, all that is there.

Second, companies are also thinking of building their enterprise knowledge layer and their context layer that enables them. So, some of the performance work, et cetera, that we talked about earlier, that all is part of that. That is the second vertical. And the third part is, how do I redesign work? In a world of AI, I may have to redesign how incentives work. I may have to redesign how people are trained, how they work with agents.

These are the things that we do, which in terms of redesigning the work itself. So that's another way of sort of slicing our revenues. And so that is I don't have a full breakup of that in terms of revenue concentration or revenue breakup between these three, but think of it as roughly 60, 35, and 5. Like, AI transformation, roughly 60%. 35% comes from more of the knowledge creation and context layer creation and so on. And 5% comes from, let us say, helping them redesign their work. So, these are two kind of different lenses on the revenue breakup in terms of the work that we do on a daily basis.

Mohit Bhalla: Thanks a lot, Srikanth, for the detailed answer. All the best.

Moderator: Thank you, everyone. That concludes the question-and-answer session. I will now hand the conference over to Anjali Garg from Fractal's Investor Relations team.

Anjali Garg: Thank you everyone for joining us today. If you have any further questions, including any that we were unable to address during the call today, feel free to reach out to us at investorrelations@fractal.ai. We look forward to seeing you again next quarter. Thank you once again, and wish you a good day.

Moderator: Thank you. Ladies and gentlemen, thank you for joining us today. You may now click on the leave button to exit the meeting. Goodbye.

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