“eClerx Services Limited Q3 FY-2014 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Evening and Welcome to the eClerx Services Limited 3rd Quarter FY-'14 Earnings Conference Call. Joining us on the call today from eClerx are Mr. PD Mundhra – Executive Director; Mr. Anjan Malik – Director; and Mr. Rohitash Gupta – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. The call will begin with a presentation providing an overview of the business and then open for Q&A.

Before starting, the company would like to remind all participants that anything said on this call which reflects the company's outlook for the future or which would be construed as a forward-looking statement by the management must be reviewed in conjunction with the uncertainties and risks that eClerx faces and which may cause the actual results to differ materially from those expected. eClerx does not undertake any obligations to update the forward-looking statements to reflect the events or circumstances. The same is highlighted on the last page of the 'Investor Presentation' available on the eClerx website. I now hand the conference over to Mr. Rohitash Gupta. Thank you. And over to you sir.

Rohitash Gupta: Good Evening and I welcome all of you to this eClerx Conference Call. Let us begin with the quarter's results:

This quarter we clocked a revenue of Rs.220 crore in both total as well as operating revenue. The dollar revenues for this quarter stood at $35.7 million which is 4% up quarter-on-quarter in constant currency terms and slightly higher than that in dollar terms. We also had some preponement of volume of work from Q4 into Q3 which has resulted into the slightly higher sequential growth. The net profit for this quarter stood at Rs.62 crore. In terms of YTD performance we are at about 38% operating margin and 30% net profit. Roughly, half of the flux that you see between 4.7% and 4% dollar versus constant currency growth is contributed by Euro versus dollar and the remaining half roughly by GBP versus dollar.

Moving on to Slide #2 which gives an update on other income, – we have as usual divided it into three heads: the investment income largely remains flat at about 30 million for this as well as last quarter. On the hedging side we had relatively lesser loss this time at about Rs.5 crore V/S Rs.12.5 crore last quarter. This is largely due to better strike rates of the maturing hedges as well as slight appreciation in the currency. On the revaluation and realized gain side, we had one exceptional item due to closure of escrow account, which we were maintaining for payouts towards the Agilyst consideration. Now having paid the third tranche which is the final tranche, the balance amount has come back, and the gains realized on that due to currency rate changes have been booked in this quarter. If you remove that abnormal item, the revaluation and realized gain item would have been negative.

Moving on to Slide #3 – in terms of hedging status we have about $96 million worth of hedges outstanding as of quarter-end. The table gives you a detail of amounts and the strike rates of these hedges. So roughly for the remainder part of this year, the hedges will strike at Rs.59 next year will be Rs.63 and FY-'16 will be about Rs.70 to a dollar.

Moving on to Slide #4 – we had cash and cash balances of about Rs.315 crore as of quarter end. This translates to about Rs.105 a share worth of cash. The trailing 12-months basic EPS stood at Rs.80.

In terms of facility update – as you will recall, in the last quarter's update we have mentioned about signing up of an LOI for a facility expansion in the SEZ Unit in New Bombay. So now we have got SEZ approvals for that floor. That floor will roughly house 600 seats and it is likely to go into production in April this year. In addition to that as some of you might know we had several facilities in STPI in North Bombay, some of which are coming to term of their lease in next 1-2 years, hence we have also actively started to discuss possibility of consolidating those operations into New Bombay facility.

In terms of buy back update – there was no further action this quarter given the market price of the share versus the maximum price. So the total buy back that we have conducted till date remains at the Q2 level. For Agilyst, as I was mentioning, we have completed the payout of balance consideration. So the total payout till date stood at about US$21 million.

Slide #5 gives a little bit deeper view into the P&L for this quarter versus last quarter – The key things to note are that in terms of India employee cost as a percentage of operating revenue, it has largely remained flat at about 33%. If you look at it in the absolute increase, the India employee cost grew by 3%, which if you couple with slight improvement in utilization, which we will cover in the later slide, gives you roughly the 4% volume growth number.

Total G&A as a proportion of operating revenue remains largely at 11% level this quarter as well as last quarter. The key plus item for this quarter has been on the selling and distribution side, which we will cover in the subsequent slide.

The depreciation, interest and amortization item - at least a part which is related to Agilyst related goodwill amortization - that is now fairly frozen and we expect it to be around Rs.3 crores a quarter and to stabilize at that level.

So next Slide #7 gives the bridge in the operating margin percentage between this and last quarter. So as you can see there has been a dip of about 300 bps which is largely contributed by two main factors – the first one being sales and distribution expenses – and the second one being due to appreciation of rupee.

Coming to the sales and distribution expense item – it is further due to three different factors: The first one has been on account of salary increases for our onsite sales establishment. There has been a significant headcount increase this quarter and we will talk about it little later. The second item has been on the bonus provisions and the commission payouts again for the sales team. As you might recall we have now aligned our onsite pay structure more closely towards the quarter exit run rate and hence in a slightly better quarter these numbers are likely to go up which has happened this time. And the third element which is almost like annual event which happens in the December quarter where our onsite employees travel to India, that causes increase in travel. So these three items mainly contributed to about 180 bps of explanation for that 300 bps drop.

Moving to Slide #8 it gives key metrics on the business quality – The currency contribution and the geographic concentration remains at the same level – 81% and 74% respectively. The debtors have remained largely in the same range of 30-40 days at about 33 days this quarter. The top 5 client contribution has been dropping slightly downwards over last 4 or 5 quarters and that has been the same story this time as well, so we are at 74% for top 5 clients' revenue contribution. The new client addition in terms of number of clients added has been softer this time at two this quarter. The staff utilization as I was mentioning earlier has nudged up very slightly from 65% to 66%.

Slide #9 gives the emerging as well as the strategic account Y-o-Y growth rate – So there are only two points to notice here primarily. One is that on the strategic side which is top 5 client, the growth rates in Y-o-Y terms have been at high single-digit, whereas for the emerging clients the non-top 5 segment - it has been at 35% give or take that level for last couple of quarters. This is I think a significant point to note because if you see the FY-'12 Q4 number, which was pre-Agilyst acquisition, stood at 18%. So from that low to 35% I feel is a significant jump which we are proud about.

Moving on to the last Slide #10 – this time we have also added the breakup of total employee count in terms of production or operations staff versus support services. Hopefully, this will give you a better color in terms of dissecting the utilization number to make it comparable to how other companies report it. The total headcount at least in the operation headcount strength has remained flattish between Q2 and Q3. The total headcount at the quarter end was 5620 people. The onsite headcount now at the quarter end stood at 72 people which is a significant jump from 62 of last quarter. This also includes certain account management roles that people from India are playing by being abroad. The attrition on the India side has dropped noticeably from Q2 to Q3 which is part of the regular trend because Q2 is when it peaks in a year.

With that the formal presentation is over, and we can open it to Q&A.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*' and '1' on their touchtone phone. The first question is from the line of Nitin Jain from Ambit Capital. Please go ahead.

Nitin Jain: My first question today is to sales and marketing spend. So you added around 10 employees this quarter. Is it because you are more optimistic about opportunities going ahead? What would be your target range for sales and marketing spend for medium term? In next 8 to 10 quarters how many employees are you trying to add there?

PD Mundhra: Hi, Nitin, let me take this, this is PD here. I think that number of 10 is a little artificial because to be honest we made a little bit of a change to how we report that number. So we have a few people who typically are out in the US on L1 visas working from our offices on a long-term basis in some kind of presales capacity or account management capacity typically. In the past we have not added those people into our onshore headcount but we feel that as we have more such cases it is more appropriate to reflect them in the onshore category because essentially they are playing a client facing role and they are part of the client management teams. So the real jump may not be 62 to 72, the real jump may be closer to 65-66 to 72 because we would have had 3 or 4 such people in the prior quarters as well. Regardless it is a jump, it is a sizeable jump. We have always felt that in our business it is very important to be close to clients. So to the extent we have managed to find the right profile of people, the preference has been to make that investment, and we believe it will pay off in the quarters to come. In terms of where the spend should stabilize, I would say, probably somewhere between where it has been in Q2 and Q3, so actually somewhere between 13% and 15% for selling and distribution is what my guess would be.

Nitin Jain: Just to follow up, are you seeing increasing better opportunities as you look forward? If I look at y-o-y growth rates, they have been declining from 1st quarter to 2nd quarter to 3rd quarter.

PD Mundhra: I think our expectation of growth rates has been somewhere in the… I would say 2-4% on a sequential basis, that is sort of the range that we have seen at least in the prior 5 or 6 quarters; some quarters have been at the top end of the range, others have been at the bottom end of that range. Frankly, from a qualitative perspective we do not see a material change in the environment. So I would think that at least for the medium term we will experience similar sort of growth rate, which would average out to be between I guess 10-15% in dollar terms on an annual basis.

Nitin Jain: Finally, on billing rates it seems to have gone up this quarter. So do you expect some more increases in fourth quarter or?

PD Mundhra: I do not think there has been any material increase in billing rates. Generally speaking you see a stable billing environment. So unless there is a very sharp and sustained currency move our expectations would be in calendar 2014 for billing rates to be flat to slightly up. At this point we expect pricing to be stable.

Nitin Jain: Finally last question, other expenses were up 90 basis points q-o-q. Any color on that, what led to this sharp move?

PD Mundhra: I am going to request Rohitash to provide that detail.

Rohitash Gupta: Nitin, other expenses have lot of sundry items; the key ones are basically security, housekeeping, AMC, computer-related expenses, etc. You will see fluctuations in this item off and on. So nothing much to read about it, really. But largely this time the driver was more on the AMC side, the software, etc.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Hi sir basically a number of questions. Firstly if you could talk about what you are seeing in terms of your key clients in the three segments that we focus on? That is point #1. Second thing is just wanted to know your thoughts on the possibility of inorganic growth in FY-'15? And the third question was for, Rohitash, just wanted to understand given the fact that we were amortizing some of the acquisition expenses through our P&L through the recent quarters. So given that payment now third tranche has already been paid out. How should we look at that cost going forward?

PD Mundhra: As Rohitash can take the last question first and then Anjan can talk about client environment in each of the businesses.

Rohitash Gupta: Manik I think I covered that, but just to repeat, we expect that amortization-led cost per quarter would be around Rs.3 crore and it should be fairly steady from now on.

Manik Taneja: So it should reduce from here on by about Rs.3 crore, would that be the right understanding?

Rohitash Gupta: I think we are doing it on flat basis, so it will remain steady at this level.

Anjan Malik: Manik, other question was around client sentiment and industry trend. You would have noticed that obviously there is a lot of corporate activity going on in what is our client base. For example, something was just announced recently in the Cable industry. I would say micro events continue to affect us throughout our entire client base and so there is that activity going on. Another macro trend continues to be a focus on cost reduction which has been a constant theme for the last couple of years, but I think there is also focus right now on looking at how people can get more for their money, I think is it through automation, is it through outsourcing, is it through consolidating certain processes, larger restructures within internal organizations? So we are seeing that trend continue across our entire client base. If I take each industry in turn I would say in Cable business we continue to see a lot of demand for our services. As we mentioned in the past many of our functions such as the Avoidable Truck Roll business that we do are high return on investment services for our clients in high demand right now. We are entering into other service areas within that industry which has helped our growth rates in this year. The other interesting area for us continues to be obviously digital. Because as you will see from all the headlines, digital and digital marketing specifically which are the areas where we have a large footprint continue to have a lot of demand, so whether it is everything from online content management to whatever called more web operations to analytics there is demand across industries and we continue to see that. The banking space continues to be I would say a mixed bag. So where there is demand, where guys have made a decision to do something, they are doing it in size, continues to be some indecision. There is a lot of focus on what I would call utility. So I think there is more and more focus on the guys looking to see if they can combine demand across all the banks to try and build utilities. So we have seen lots of noise around that and actually we are in discussions with some of the entities about providing some of those utilities. Overall, we continue to see demand for our services. It is just a different type of demand, and there is also a lot of focus on I would say short term remediation work on the back of all the regulation focus which we had anticipated a while ago, we have seen that come through in Q3 for sure.

PD Mundhra: And Manik on your question about inorganic opportunities I would say we continue to look at opportunities on a continuing basis, I think in the last 3-months probably 3 or 4 opportunities have come our way that we have had a look at with varying degrees of interest. So at this point there is nothing that is imminent to close, but I would say transaction flow is pretty decent.

Manik Taneja: If I could prod you more on the demand from banking space, especially with regards to the kind of almost sort of warning from the US Central Bank to the financial institutions, are you continuing to see a lot of incremental work flowing to captives versus third-party players like us?

Anjan Malik: I do not know. Certainly in our discussions we have not had the intimation from our clients that the regulators are telling banks to go one way or the other when they go to captive versus third party. I think the BFSI sector or the banking sector is certainly a more sophisticated buyer when it comes to outsourced services, and I am sure you hear this from the IT services….. I think the buying decision is not as much driven by price, may be some other let us say Fortune 2000 companies. So I think their buying decision is much more driven by the unique alpha that you add or the unique whatever you call the USP which you add above and beyond the price point. So they will come to you because you are providing a service which their captive may not be able to provide or you could provide a cheaper or faster or quicker or whatever. Or you have some ability the captive may not have. There I think being a multiplayer provider, so for example, being a guy who is providing a similar service across multiple houses becomes a big selling point, because the most the captives can ever do is replicate its internal processes. The guys like us who have access to multiple clients hardly release their alpha because at any given point in time we will probably have much better sense of what is best practice, so we may be able to run clubs, some of the functions that we provide. And I think that has a lot of value to our clients. So I think they are sophisticated buyers. So the decision for determining whether they come to you or they go to a captive is more driven by your capability as opposed to regulator.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: First question is on sales and marketing. The incremental people that we are adding in the sales force, I just wanted to understand which areas are we deploying them to – are there any specific focus areas or are they sort of spread across the three segments that we have?

PD Mundhra: So they are spread across the three businesses, but I would say the focus is a little different. In our Banking business historically we have had good traction with our large clients but our emerging business specifically for banking has had its ups and downs. So the people that we have added there are more in the nature of sales people to help us try and push the emerging business and acquire new clients. On the other hand, in the Cable business and in SMS for that matter, I think the priority has been more in terms of acquiring domain expertise and account managers. The people brought into those businesses are more along those lines. We have added people on all three businesses but the mix of course is slightly different.

Abhishek Kumar: Do we have specific number in terms of sales force in mind – how many people you want to add and how long will this investment phase in this sales and marketing?

Anjan Malik: I think it is a work-in progress. So what we are doing is we are looking at our metrics, we are looking at, for example, what results we are getting with different types of profiles, and we do not have a number in mind, we have internal target of how much we are willing to spend, but we are looking at different models at the moment. So we do not anticipate a significant additional investment I would say we would like to see the numbers in proportion to our revenue currently is the number that we like to see going forward - maybe we will change the mix of skill sets.

Abhishek Kumar: One clarification, Rohitash, you mentioned some of the revenue we have pushed forward to 3Q. So could you quantify what that amount was?

Rohitash Gupta: It is hard to pull an exact number but largely one-fourth of the total growth could have been in that bucket.

Abhishek Kumar: So does that imply that next quarter by that amount when revenue could be lower than whatever you are estimating?

Rohitash Gupta: Directionally, I can say, yes, but exact amount it will be hard to discuss, it will also depend on what traction we get for this quarter, and some of the businesses have very short lead time, especially in the strategic space, so it is hard to say.

Abhishek Kumar: And last question actually is on cash management. Now that the last payment for Agilyst is over, we are sitting on almost $51 million of cash. So is the management deliberating on increasing the payout ratio, I know payout ratio is already very generous but on any one-time special dividend?

PD Mundhra: I think we have tried to target a payout ratio in the 50% of net income type range, and that is currently also the intention. I think the major caveat to that is inorganic activity. So to the extent something happens, either this year or next year it will sort of have first lien on the cash balance. But absent of that, the idea is to have a payout ratio in and around 50%, you might see a small deviation here and there, but broadly around 50%.

Moderator: Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir in Q1 FY-'13 we had this pricing cut showing to rupee depreciation. So do we see the similar situation coming in FY-'15 because it has been more than 2-years and again dollar and 10% from that level?

PD Mundhra: I think the last material adjustment that we had was just over a year ago or so. For now we see pricing remaining stable, so we do not foresee any cut in dollar prices unless of course there is another sustained depreciation on the rupee from here, but at these levels let us say 61-62 or thereabouts where the rupee is now, we think that our prices are compared very favorably with what our competition is doing. So we would anticipate pricing to remain stable.

Madhu Babu: You are saying we are guiding for stable pricing for FY-'15 also?

PD Mundhra: Yes, that is right. Again as I told the only caveat is further moves in the currency from here which are large and sustained.

Madhu Babu: Do we see any upshift in the growth trajectory sir, because I think most of the IT companies are talking of much better outlook for next year?

PD Mundhra: I think to be honest we see a similar sort of environment prevailing next year as was the case this year. I think our business has a slightly different dynamic than the IT companies. I think those guys benefit more from discretionary spend potentially than people like us for whom the majority of revenue comes from outsourcing core activity. So I think fluctuations in our revenue trajectory are less than the IT companies and therefore I do not think you will benefit as much may be next year as some of them might.

Madhu Babu: And sir margin trajectory do we expect it to be in the similar range or would we see further steep increase in sales and marketing?

PD Mundhra: I do not think so. We have always targeted operating margins in the low-to-mid-30s, this year we have been slightly above that, but I think that we should be able to maintain margins in the mid-30s, that is the hope at least.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: My question is just to understand a bit more on the sales and distribution cost increase. Three parts mentioned to it. I just want to understand the first part more clearly. You mentioned salary increase. Was it like hikes, or was it just for down to the more numerous recruits?

Rohitash Gupta: No, it is just more number of people now available in the onsite organization. Salary hikes are typically aligned to India financial year, so they have not happened as yet for this year.

Ankit Pandey: Bonus and commissions are all included in the direct cost, am I right?

Rohitash Gupta: That is in the selling and distribution cost head.

Ankit Pandey: Yeah, but they will be in the direct cost or they will be below that?

Rohitash Gupta: What do you mean by direct cost?

Ankit Pandey: The one that is reported in your format in the BSE release.

Rohitash Gupta: It will be under the employee benefit expenses.

Ankit Pandey: Just if I look at the top five accounts they have been pretty soft. Do you expect that by this time next year it would be higher than current rate of about 8% or will it be a little bit lower or will it continue in this range?

PD Mundhra: It is hard to tell. I think what is clear is our top five are growing much slower than our non-top five, whether it is 8%, 10% or 12%, it is hard for us to predict, but I would say similar sort of rates as where you have seen in the last 4-5 quarters, there is a pretty clear trend on that graph. What I hope we can also do is maintain the faster growth rates of the non-top five, because for us it is an important strategic goal to bring down the client concentration over time. So that is really what we are looking at.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Capital Markets. Please go ahead.

Pawan Kumar: Our utilization levels are around 66%. When we can see the peak utilization levels of 71-72%?

Rohitash Gupta: If you see the trend which is given in the backup, you will see that we used to have utilization of 70+ in the time when we had not acquired Agilyst. But since we have acquired Agilyst in Q1 of last year the utilization rate has been in the high 60s. So this is a fairly stable number. I do not think we can reach with the current business mix and dynamics to back to 70% level, that is unlikely, we should expect more like high 60s going forward also.

Pawan Kumar: We added only two clients in this quarter. Anything in particular to read into this because all previous quarters we added 5, 6, 7 like?

Anjan Malik: I think it is hard to read any kind of long-term trend in this right now. I think there is enough fluctuation in the marketplace. I think it is one data point. So we have to wait and see if this is the consistent same. I think this year we felt like the service life were shut quite early. So we will have to give into December holidays. I think we have to see how this quarter goes. We are not reading anything into this at this stage.

PD Mundhra: I would say for us more important in the absolute number of clients is the overall growth rate, #1, and #2, the non-top five mix because frankly, whether we have 61 clients or 62 clients is less material. What is important is total growth rate and also what part of that comes from top five versus non-top five.

Pawan Kumar: Could you please give me geography wise growth for this quarter?

PD Mundhra: I think if you look at our 'Presentation' the geography mix has not really changed between last quarter and this quarter. While I do not have the numbers in front of me I would assume that the growth has been pretty much in proportion to revenue shares because between Q2 and Q3 the share of North America, Europe and Rest of the World has remained roughly constant.

Moderator: Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan: You mentioned that in the Banking business you had good traction in the top clients but you have not been able to repeat this kind of success with your emerging clients, and now you have obviously added few more sales people to try and get more business. But my question is can you share your thoughts on what were the challenges you faced earlier, and what you are going to try new to increase the broad client base as well as get more growth?

Anjan Malik: As I mentioned earlier, the BFSI sector has a specific bias**.** Over the last three years, I would say really after the great financial crisis, we have seen vendor consolidation, and that vendor consolidation ultimately hurt us in places where we were let us say small players, and it helped us tremendously where we were established players. That is why you have seen tremendous growth in our big footprint clients and we have had degrowth in some of the areas what I would call 'emerging.' Some of it of course is about relevance. So I think it is about being able to reestablish a set of services that have broad relevance to the marketplace where you can go and talk to them about. This year we have made some headway in that space. One of the clients that we signed up over the last couple of quarters is a large bank in a complete different jurisdiction for a new service here that I think is that, for example, is franchiseable or syndicatable. So I think it is a combination of having a different quality of sales guy and having a different quality of sales product, and I think we are making headway on both those fronts. But again, like I said, it is a challenging set of players to sell into simply because of the way they are covered, and simply because of the specification of the marketplace.

Pinku Pappan: Do you think it is easier to target probably growth in Europe compared to US? Do you think the US is a bit saturated as things stand today?

Anjan Malik: I do not think so. I do not think Europe is easier. I think ultimately a lot of the focus needs to be in the Tier-2 banks and other sell-side areas. So I think that is ultimately the other places guys like us need to focus in.

Pinku Pappan: You mentioned about one part of the growth that you got this quarter will probably come from Q4. Was this led by the top clients or was it from the emerging clients?

PD Mundhra: I think it was more from the top clients frankly.

Pinku Pappan: Is there any particular reason why? Does this usually happen, I am just curious as to..?

PD Mundhra: What happened was that I think in some areas they have end of year deadline for commencing. They might have two regulators or even internally. So they asked us to pull forward some work that might normally have been done in the first quarter of the next year and basically support additional volumes mainly in the areas of clean ups and things like that. Because we did a higher volume of that work in the third quarter we were able to recognize that revenue as well in that time period.

Moderator: Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon: Two questions. One is whether Agilyst turn out component, any of that been routable to P&L, either through employee cost, sales and marketing or any of that? And secondly you spoke about some of the work being pulled up from Q2 to this quarter, does that account for the slight bump up in utilization?

PD Mundhra: To the last question I would say broadly, yes, I would say 100 bps moving utilization for a company of our size is not statistically significant. You will see that kind of noise and moves up and down every quarter. But directionally you are right; the opportunity to do more short term work helped us to improve utilization. To your first question, not in this quarter. But of course, initially when the transaction closed, all the transaction-related expenses such as legal fees and banker fees, etc. were routed through the P&L, and also some other categories of expenses such as non-compete fees and so on were routed through the P&L, but any compensation paid for acquisition or shares was capitalized.

Ravi Menon: One more question from me on the sales and marketing bonuses. You said that you realigned it now to go based on a quarterly run rate. So can we see it about the normalized level or this is going to come down to the levels that we see in last quarter?

Rohitash Gupta: Ravi, there are two components to it. One is the bonus which is basically a provision; bonus pay outs are made to our sales staff only at the financial year end, so we have to provide for that. Current bonus plan that we have for our onsite which has started only this financial year is basically closely aligned to how we will exit the financial year. At the end of each quarter we have to take a relook at what our exit rate of full year will look like and make a provision; and to the extent that Q3 was slightly better obviously, the model will suggest a higher provision. That is part number one. Part number two is that commissions are actually paid out on a quarterly basis, which are for either new deals or increased volume sale or whatever. So that volume is very closely aligned to what happens in that quarter. On both these counts there will be a nudge in a quarter which is slightly better which the case is this time.

Ravi Menon: Third question from me on the sales and marketing services side. What sort of clients are you seeing traction with?

Anjan Malik: We have seen interesting case study. For example, we have been able to sell some digital marketing services into retail banks. We had traction from technology companies, from hi-tech manufacturers, from retail guys. It is pretty broad based actually.

Moderator: Thank you. The next question is from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

Pratik Gandhi: I have three questions. First, I think Rohitash did mention around 1% odd kind of revenue in the current quarter was due to the bump up or preponement of the work. Just to take Ravi's question forward assuming that next quarter we report say sub-3% kind of dollar growth rate how would we be providing for the bonuses? Because as you mentioned earlier that bonus component is also linked with the quarterly performance. So that is one. Secondly, how much of the S&D expense in the current quarter was non-recurring? And thirdly, I think you alluded that from April 2014 onwards we are likely to have around 600 additional seats. From rental expense perspective will it increase from Q1 onwards or we should include that from Q4 onwards?

Rohitash Gupta: I can take first and the third one, second one I did not fully get. The third one, on the rent front, for the lease for which we have got the approval this time, the rent will largely start from Q4 - probably middle of it, that is one. Second, the non-recurring - again you have look in two perspectives. If you talk about the travel part which is also significant increase this quarter, it is non-recurring but it is annual recurring event. It happens every time in Q3. So that, just to take a number probably it will be around Rs.1 crore addtional number which comes up in Q3 off and on. On your first question around bonus outlook for the next quarter for onsite organization I do not think there will be any provision next time, it will be the actual pay out based on the Q4 exit run rate. So whatever the number comes out it will be that. So there would not be any further provision or reversals on account of that.

Pratik Gandhi: Hypothetically assume that your target for the current year is around $140 million and eventually you end up making $138 million or $139 million. In that case how your onsite sales guys will be rewarded?

Rohitash Gupta: Pratik, it is largely mathematical and we have divided the business in terms of various business units which were aligned to verticals and clients. So it is not one total number, it is basically how each of those business units perform. How each one will turn out at core performance level, it is very hard to get at this point of time.

Pratik Gandhi: Just to clarify the rental expense, I think we have almost 6500 seats and now will be adding almost 600 seats from next quarter onwards. So can we expect incrementally 10% of increase in the rental expense?

Rohitash Gupta: It should be slightly lower than that because SEZ rent in Bombay is slightly lower than STPI rent which is also significant footprint. So probably slightly lesser than that will be a better number.

Moderator: Thank you. The next question is from the line of Rohit Gajare from UTI AMC. Please go ahead.

Rohit Gajare: Can you tell me the reason for quarter-on-quarter increase in depreciation charges; is it largely due to the Agilyst amortization?

Rohitash Gupta: It is largely due to that. There are two factors in this. One is that the amortization amount which is roughly around Rs.3 crores and the remaining is the depreciation on the fixed assets. So we have added a few seats as you can see from one of the slides for this quarter. So correspondingly, the CAPEX adds and it increases the depreciation.

Rohit Gajare: Another thing is the cash balance that you have reported around Rs.314 crore that is quarter-on-quarter increase of around Rs.83 crore. Of this how much is due to the amount which was earlier in escrow this one over here?

Rohitash Gupta: I can tell you qualitatively that the amount we have kept in escrow was for the maximum pay out and that range we have already disclosed.

Rohit Gajare: Originally, it was 9 million kept in escrow.

Rohitash Gupta: It was 9 million out of which some amount obviously has been paid in tranche-2 and tranche-3. The remaining have come back which will be around in the range of 4-5 million.

Rohit Gajare: This 83 crore quarter-on-quarter cannot simply be due to organic cash flows, it is basically also due to escrow amount coming in the quarter.

Rohitash Gupta: It has that number also.

Rohit Gajare: One final thing is I think may be PD mentioned earlier that on the growth outlook can you just repeat that for me if it is possible, do you have a growth outlook that you want to share with us on the revenue front?

PD Mundhra: This is PD here. I guess the point I was trying to make is we do not really see any material change in our client environment. So I would say that best guess for the next few quarters is an outcome similar to what the past few quarters have been. If you just look back I think our past 4-6 quarters on average, sequential growth rates are between 2% and 4% and annual growth rates are somewhere between 10% and 15% in dollar terms, and therefore sitting where we do right now, if you ask us to guess about the future, I would say probably a similar sort of outcome.

Rohit Gajare: If we go through the major services clients is it right to to put the cable vertical as the strongest followed by SMS and the BFSI would be the third in that order of revenue growth. Is it the right way to look at it or?

PD Mundhra: I think if you look at the limited time horizon of let us say calendar year 2013 the year that has just finished, certainly I think the Cable business grew the fastest but on the smallest base, and amongst our two older businesses I think Financial Services grew faster than our SMS business, but SMS business had a larger contribution in terms of emerging revenue growth.

Moderator: The next question is from the line of Ashish Kacholia from Lucky Investment Advisors. Please go ahead.

Ashish Kacholia: My question pertains to the acquisition of Agilyst that we have finished. Is it completely integrated into the system; I mean have we extracted the full value that we wanted to from that?

PD Mundhra: It is integrated I would say in an operational sense, Ashish, because both from a delivery process standpoint or HR processes or even from a client-facing perspective I think it follows the same methodology as our older businesses. From a legal entity standpoint it is not fully integrated because there are some dependencies on clients on tax to CDS etc. So some of the revenues have over time now started being booked into eClerx directly but many of the older contracts are still with Agilyst. From a legal perspective I would say it is a work-in progress, but from an operational perspective I think the integration is largely done. From an extraction of value perspective I would say we feel reasonably pleased with where things stand. When we acquired the company it was $15 million in revenue. And as we have disclosed total cost of acquisition was about $21 million, so roughly 1.5 times revenue. Today, it is a low $20 million run rate business with 25% - plus operating margin. So from that perspective we think that it is a good deal for us, it has helped us add a third business, it has helped us reduce our top 5 concentration, and it is a reasonably high quality sticky business, so we feel quite happy about that.

Ashish Kacholia: Do you see the margins equalizing with our older businesses at some point of time?

PD Mundhra: We do not because the price points for that business are very different, and we have to recognize it is a different business. So although we have a lower price point we also have the benefit of quicker scalability. So the average deal size tends to be bigger in that area. I think it would be unrealistic to expect 35% or 32% margin on that business. Even if it stays in between 25% and 28% range I think we would be quite happy.

Ashish Kacholia: Are we now ready or are we geared up to do yet another acquisition?

PD Mundhra: Yes, we have been looking for the last 6-8 months. I mentioned in response to an earlier question also that deal flow is also picking up. In the last 2-3 months I would say we have looked at 3 or 4 assets – some in a very cursory fashion, some with more interest. So certainly I think there are more deal flows. So if we find something compelling, if the stars align, then yes.

Moderator: Thank you. The next question is from the line of Shubham Gupta from Equirus Securities. Please go ahead.

Shubham Gupta: What was the revenue run rate for Agilyst this quarter?

PD Mundhra: We do not actually split out the exact numbers by line of business, but as I have disclosed earlier, we are in the low $20 million run rate for the Cable business as a whole – some of which is booked into Agilyst, some of which is booked into eClerx.

Shubham Gupta: Next question is a bit on strategy. The sales that for the company let us say over the next 2-3 years, the growth focus of the company, do you think it is more going to come through the acquisitions that we are looking at? Or you will be focusing towards properly growing your existing client accounts, selling more services to them? Or third that you would be going after getting more clients in the same service line, I am trying to see how focused or we are helping acquisition growth further?

PD Mundhra: I would respond by saying the strategy is all of the above. Having said that I would say what is most controllable by us is trying to capture more share of wallet from existing clients. So that is clearly a top area of focus and with the increased enhanced focus on the emerging clients in particular. So that is #1. #2 is sales and business development activity to acquire new clients in the same verticals in which we operate today. Inorganic growth by its very nature is somewhat opportunistic. It depends on the right deal coming along – on the numbers being agreed, on chemistry working out between buyer and seller. So it is not something that we control on our own. It is something we keep looking at, but again as I said I think we have less control over that outcome.

Shubham Gupta: The last question would be a bit on your clients. You have added two clients this quarter. Could you share like which service lines these belong to?

PD Mundhra: I think Rohitash can probably give you some color offline, but again I would say that these typically new client acquisitions are not in large dollar revenue terms. Typically, new clients come with small engagements initially. It is not material from a financial perspective.

Moderator: The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: Just a couple of book-keeping questions. With some of these facilities going out of the STPI what would be the tax rate that we can assume for FY15?

Rohitash Gupta: Abhishek, STPI is at full tax rate, the income tax benefit is long over. So to the extent some of this business goes to SEZ, we will still be under the MAT rate which will be around 21% as per the current rate. And when you do consol with our onshore subsidiaries which are obviously at higher tax rate the current year effective tax looks to be around 23%, and that is what we can anticipate for coming year as well.

Abhishek Kumar: Apart from these 600 seats, are there further CAPEX that we are planning for FY15, any run rate that you can share?

Rohitash Gupta: Abhishek, that is largely dependent on our consolidation plans. I think we are still at the early stages of discussion in conceptualizing how it will look like. Having said that for the current floor for which we have got the SEZ approval that amount I think we disclosed last time – it was around 15 crores I believe. So that expenditure will happen in Q4 and may be a part of it will happen in early Q1. So that much visibility we have. If we end up having consolidation plan going through then obviously there will be some more CAPEX but currently there is no clarity on the amount per se.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Firstly, what you said should be the ideal effective tax rate for FY15?

Rohitash Gupta: Rahul, for the nine months we are at about 23% effective rate on consol. For this full year also you can anticipate similar. And if nothing changes the next year can be also there on the same rate. We do not see a material change in that. A large portion of business will remain India business and largely run out of SEZ. So nothing changes unless the laws change.

Rahul Jain: Further, in the commentary wherein we said we see all the business little different from the point of view that other businesses are more discretionary-driven and based on the similar commentary from management of some of the larger IT companies we are seeing more demand for newer set of technologies which in some way are also replacing some of the traditional set of business. So how you see that kind of trend impacting even the current run rate for the traditional set of business?

Anjan Malik: I think the definition of traditional changes pretty regularly. I think your point is exactly right. There are large automation curbs going on all the time, and we are seeing whole businesses or whole things at this revenue if we get extinct over a period of time. There are a couple of things in that. I guess the most important thing is to be close to customer. Many times you will ask us what is the one thing that we focus on the most as an organization? I would say it is about service relevance, and you will notice that we talk about product and service a lot, we talk about relevance a lot. I think being close to the customer, being involved in their projects, and their decision making upfront helps us be focused in the things that we think are important over the next three years, and those are the things that are very important over the last three years. So I think we always try to invest into areas that we see as future growth areas because we know that some of the things that we did in the past will get automated away, and that has been the case over the last 10 years for us.

Rahul Jain: Based on the current revenue run rate of say $140-150 million, if one is to draw a strategy for the company to say $500 million kind of organization or whatever, 3, 4, 5 year kind of a period, what do you see could be the driver for that apart from the closeness to client or incremental wallet share from the existing client base which you think should drive in that direction?

Anjan Malik: The truth of it is that we are not really focused in the 500 million dollar problem because we feel that is a problem too far. I think we have set ourselves small modest objectives, and I think our focus to the point that PD was making earlier like what are the different levers that we are in control of, and I think those levers that we are focussed on. So one is customer acquisition. We care about that because it gives us diversification, so we are focused on that. The second I think the more important part of our business portfolio is look at the customer profile and the 60 odd customers that we have, what are the set of services and products that help us get maximum wallet share. That is the second problem that we are trying to solve. The third problem that we are trying to solve ultimately is for a company like us which is in bracket of the more specialized service provider in business services, what are the additional business lines, customers, products that we can buy that provide augmentation and I would add sort of 1+1=3 equation as opposed to just adding revenue for the sake of adding revenues. If those three strategic levers that we are focused on for growth, and we believe that the investments that we are making ultimately will make us a larger and more successful and more diversified company. I do not know if that brings us $500 million.

Rahul Jain: Forget about the number, and in a way if I have to sum it up it is more about winning more business from existing, and at the same time acquiring more clients. So acquiring more client kind of a proposition is not very good as far as the nine months performance is concerned. So are you concerned about that particular aspect or you think more client mining would be the bigger factor for us compared to getting more?

Anjan Malik: If you look at our history and our business and I think if you look at our type of services, I think growing within existing customers or growing within the set of customers that we have has much larger opportunity for us than just adding new logos because we are not the kind of business where we can go out and sell our services to 1000 logos. That has not as much value for us. The value is in being able to position ourselves as partners with let us say we have got top 5 customers set. It is the next 5 and the next 5 after that in a much more meaningful way that will drive growth over the longer term.

Rahul Jain: And the kind of demand we are seeing in the market, we have most of the capabilities which is required to drive the revenue for this next 5 and subsequent 5?

Anjan Malik: I do not know the answer to that question. We believe that we have much of the capability. I am not sure we have all of the capabilities.

Moderator: The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim: During the quarter, revenue growth from top 5 clients in a dollar term is 80.3%. How do you see the revenue from the top 5 clients in the next couple of quarters? And are there any major context with your top 5 clients coming up in the next 2-3 quarters?

PD Mundhra: I think, Anjan, the question was about anticipated growth rates for the top 5 clients over the next couple of quarters or three quarters and also if there are any big ticket renewals coming up over that time period.

Anjan Malik: Growth rates are always hard to predict. I think to PD's point we do not anticipate any substantial go-down in what we have seen over the last few quarters in the top 5 customers. There are no cliff jump renewals in our book of business. As you know, our relationships are made up of lots of SOWs or statements of work as opposed to single SOW governing a whole relationship given our diversified footprints within the top 5. So we see a regular roll off and regular renewals at any given point in time. But there is rarely what I would call a 'cliff jump.' We do not anticipate anything like that coming up anytime soon.

Moderator: Thank you. The next question is from the line of Aishwarya K from Spark Capital. Please go ahead.

Aishwarya K: Is it possible for you to quantify the movement of employees from last quarter's closing to this quarter's onsite? And I just wanted to know whether it is just an increase in the definition of onsite or is it possible that we can see this movement going ahead also?

Rohitash Gupta: I think PD partly answered this question. So the jump from 62 to 72 is made up of two things; one is the actual sales people that we have hired typically for our Financial Services emerging client growth. And the second set of people is probably more for sales and marketing and Cable business for more in account management type of role; some people of which have been shifted from India. So it is a mix of both. And in terms of future outlook I think these numbers will go up, but it is hard to quantify where we will end up after a year or so. I think we have to see one or two more quarters of performance out of this strategy of having increased account coverage, and then we will probably take a better call.

Moderator: The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon: You said you wanted to mine the next five and the next five. So do you have dedicated account managers? How far do you have them to be on the top 5?

Anjan Malik: If the question was, do we have account managers dedicated to clients, the answer is 'yes.' We certainly have them for our top 5. We have them beyond our top 5. We have an internal threshold for where we can set a relationship to be of a size and scale or as an inflection point where it is worthwhile dedicating coverage to that account.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: As we said that we expect Agilyst kind of business to grow little better as it happened in this year. So just assuming for like-to-like basis do we expect our business to be little dilutive compared to this year?

PD Mundhra: Is your question around margins for the next year if the cable business increases share in our revenues?

Rahul Jain: Yes.

PD Mundhra: Little bit. To be honest we do not think that there is going to be that much of a shift in revenue. As we discussed earlier even that business has a reasonable operating margin profile and hopefully we would not see too much of an impact on margin. So we remain reasonably confident that we should be able to maintain margins in the low-to-mid 30s operating margin range.

Moderator As there are no further questions I now hand the floor back to Mr. PD Mundhra for closing comments.

PD Mundhra: Thank you all for joining our call and we look forward to talking with you again with the full year results for FY14.

Moderator Thank you. On behalf of eClerx Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.