"eClerx Services Limited Earnings Conference Call"

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MODERATORS: MR. PD MUNDHRA – EXECUTIVE DIRECTOR
MR. ANJAN MALIK – DIRECTOR
MR. ROHITASH GUPTA – CHIEF FINANCIAL OFFICER

Moderator Ladies and gentlemen good evening and welcome to the Q1 FY12 earnings conference call of eClerx Services Limited. 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 for the duration of this conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. PD Mundhra, thank you and over to you sir.

PD Mundhra Thank you. Good evening and welcome to our Q1 earnings call. I suppose you would have all received a copy of the presentation. So without any further ado let us switch to that. As usual we would like to take about 5 or 10 minutes to walk through the slides and leave the rest of the time open for questions.

Moving on to the presentation on Slide #1, we have our summary of financial performance for the 1st Quarter. There are two or three things I would like to draw your attention to. We clocked revenue of about $22.3 million in the 1st Quarter which was up about 6% sequentially from the last quarter of FY11 and up about 33% year-over-year. We also had net profit of 35.2 crores for the 1st Quarter and at the operating margin level we had an operating margin of 37%. We are very pleased about that because seasonally this is usually the most challenged quarter for us in terms of margins because this is a quarter where our wage hikes in India take effect. So if you compare our margins in the 1st Quarter of this year versus the same quarter last year, our operating margins were up by about 200 basis points. So we feel that that was a good performance. At the net margins level obviously we had an impact because for this financial year we will now have to pay the MAT tax even on our SEZ operations as a result of which our effective tax rate has gone up to about 20% for FY12 and has obviously created a little bit of drag on net margins. The EPS for this quarter came in at about Rs. 12.20 on a basic level.

Slide #2 has a summary of our outstanding hedges across Dollars and Euros and using a combination of forwards and options, as of the quarter end we had an outstanding hedge of about $80 million in total at an average of about Rs. 47-47.50. So we feel that that gives us decent protection and covers for the next 12 to 18 months. We will, of course, be continuing to put on hedges consistently each quarter in line with our policy.

Slide #3 has a quick highlight on our balance sheet. We ended the quarter with nearly 200 crores in cash and in terms of utilization of the IPO proceeds we have used up all the remainder monies except for the 22 crores that we had raised for acquisition, which we continue to look out for. So when we find a good transaction will use that money. All the other investments have been made.

Slide #4 has a quick snapshot of our P&L for the 1st Quarter this year versus the same quarter last year. If you look at the employee cost line item, you will see that employee cost for the 1st Quarter this year was just under 45% compared to 46.5% for the same period last year. So, on that basis we have actually managed to achieve a slight reduction in employee cost as a percentage of revenues. G&A costs were flat at about 12.7% of revenues and operating margins were up by about 200 basis points year-over-year.

The next slide on Slide #5 has the same analysis in graphical terms in terms of an operating margins bridge between last year and this year. So I will not spend time on that because we have just talked about it.

Slide #6 has net margins slide. So as you can say we had uplift in the operating margin of about 2% but offsetting that was a much higher tax rate. So we had a 3.4% reduction in net margin on account of the higher tax rate.

Slide #7 has a few interesting crux of our revenue numbers. So if you look at currency concentration and geographic concentration we have remained roughly the same over time, this is about 75% of our revenues coming in Dollars and 60% coming from North America. DSO this quarter was slightly higher because we had a slight delay in payments from a couple of our larger clients which has since been sorted out since the end of the quarter and those monies have been realized so we expect that by the time we come to the 2nd Quarter we should again have DSOs closer to what our usual range has been. Client concentration of the top 5 was up at 88% for this quarter against 87% for the last financial year and we will talk a little bit about that on the last slide of the presentation. SEZ revenues now account for 66% of our total revenues because we now have substantial utilization of our facilities in Airoli with about 1.5 of the 2 floors being used. We are also now starting to think about adding fuller capacity in Bombay and Pune and again we have talked about that on the Outlook slide. We have started from this quarter onwards to disclose two or three additional data points which anyway we used to receive questions on. So that includes the number of new client additions for the quarter which this quarter was four and also the total number of clients that we built during the quarter which this quarter was 48. Interestingly about 97% of our revenues come from Fortune 500 or Financial Times 500 clients, so all large corporate brands which is a testimony to the blue-chip nature of our client base. And also we have included some details on utilization by saying that about 67% of all of our employees were billed in Q1. By way of content our historical average for that same metric is about 70%, the remainder being bench managers and shared services. So at the end of the last quarter we were at slightly lower utilization rates than normal, but we expect that to revert to the normal in the 2nd Quarter.

Slide #8 has a couple of quick data points on the staff side. We ended the quarter with just over 4,000 employees. Notably attrition for the quarter was down at just under 30% as compared to about 40% in FY11. So we clearly see a time of attrition moderating a little bit in FY12.

With that I will hand over to Anjan to talk about our outlook for the rest of the year.

Anjan Malik So this time our performance analysis and outlook is instead of talking in general about the economy is to focus on more eClerx specific outcomes and talk a little bit about things that we have done that we think will make a difference over the near future and also some of the initiatives that we have planned for the next couple of quarters. So I think the one thing that we feel pretty good about obviously is that business efficiencies have continued to remain high. So if you look at our year-on-year wage cost as a percentage of revenues, it has actually trended down from the same quarter last year. Obviously that is something which we feel pretty good about and it shows you something about how we have managed to manage pyramids and also the combination of growth and attrition.

Other costs, including onshore costs, and we will talk a little bit about that at the end has remained broadly flat year-on-year again as a percentage of revenues. So there has been some scaling as it has at least not gone against us. As we look out ahead over the rest of year and we think about growth, we have done a review on our space considerations and we have decided after some diligence to continue with the Bombay-Pune strategy as delivery hubs. We have taken a contiguous space in one of our central Mumbai locations and now what we are looking to do is add capacity in either or both of Mumbai and Pune as reach becomes advantageous to us, this could be both SEZ and non-SEZ.

We have also taken a look at performance pay for our senior managers. There has obviously been recognition all along that senior team members play a very key role to determining company outcomes. And while we have obviously been a very meritocratic company with a focus on performance pay, we continue to sort of ratchet that up. In the past as you know we have granted about 1-1.5% in equity in the form of ESOPs to our senior managers. But typically this was granted as, what I would call a 'time-only' vest condition. The new ESOP plan that we rolled out this year allows for larger vests a certain growth target from that and provides for less if those growth targets are not met. So the feedback that we have had from our management is that this is incredibly incentivizing to our folks. So it is one of the things that we are doing amongst the number of things that we plan over the next year to continue to incentivize the team and to align everybody's interests to get to successful outcome.

The last point is, of course, the point on business diversification and that continues to be a very important strategic priority to us. For those of you who have looked through the numbers you would have noticed that Q-on-Q that is sequential quarters, our non-top 5% revenues actually decreased in the 1st Quarter. Some of it is a function of a few large projects with our emerging clients, emerging clients, we mean everybody that is not top five, rolling off all at the same time which obviously was unfortunate. These were planned roll-offs and we anticipate that over the next few quarters this will be more than replenished. But if you look at it more holistically you could also read it as effectively the lag effect of the chronic under-investment in onshore which is our sales and account development, which you could trace back all the way to few years ago and not just few quarters.

Now as we have discussed, we have continued to invest in onshore organization. We made a big point of this in the last three quarters and we see business activity continue to increase as the new team on-boards. We look at our internal pipelines and dashboard we feel certainly we are optimistic that there is a lot of opportunity away from the top five. Obviously we cannot share those pipelines but we anticipate over the next few quarters those numbers will translate into accrued numbers that we will all be able to see.

The other thing, and this goes back to the first point about onshore costs or let us say sales and account management, client engagement as a percentage of revenue since they effectively stayed broadly flat what we would like to do is increase that percentage between 150 and 200 basis points of revenue over the next year and invest that again in plan engagement and sales with a view that we believe that this reactivity that we are seeing we can certainly look to accelerate our non-top five contribution over the medium term.

So with that we will hand over the mike to the audience for questions.

Moderator Thank you very much. We will now begin the question and answer session. The first question is from Kunal Sangoi from Edelweiss, please go ahead.

Kunal Sangoi My question is with regard to the current environment. Anjan, are you seeing specific opportunities emerging at this point in time which probably are very much driven by the current environment? Second question, you mentioned that you had some rolling off of some projects on non-top 5 clients. Any particular reason why those were being rolled off?

Anjan Malik The answer to your first question is Kunal, I do not know how much of it is to do with the current environment because I think we have stopped trying to guess what is happening in the environment. We continue to see a fair amount of demand for outsourcing services in general. It is certainly very competitive out there because there are cost pressures on our clients and therefore people are looking for cost goodness wherever they can find it, obviously outsourcing is a good way to get there. As I mentioned, we have increased outreach campaign pretty dramatically over the last six months and we are seeing a lot of early indicators that there is a lot of interest in our services. But as I mentioned this whole campaign is probably six to nine months old. So we are still to see some of that translate. We will see that translate, we think over the next 9 to 12 months. So there is definitely demand out there and we are seeing specific opportunities and very specific discussions. Amongst our top five clients we continue to see chunky opportunities. In fact even away from our top five clients we continue to see chunky opportunities. So we feel good about that. On the roll-off specifically as you know if you look at our business, you can broadly breakdown our business into, what we call, run the business outsourcing type services, you can call it KPO or BPO, call them bandwidth augmentation, call them whatever you want. Then you have got sort of project type functions which include some element of consulting that it may have some element of offshore arrangements happening. And these contracts tend to have fixed durations. It could be anything from six months to three years in many instances and it so happens that in this quarter we have a few of them bunched up that happen to come for, they just basically ended because the work that they were supposed to be doing was over. And I think it has taken some time for us to just replenish that cycle. Again, we see a lot of that on pipeline. I am not sure there is that much to read into it except that it happened all at the same time in the quarter and I think it is more important to look at what results we get to at the end of the year.

PD Mundhra If I would add some add some numbers to that, I think if you look at our revenues from the non-top five they were about $2.9 million in Q4 and about $2.7 million in Q1. So in absolute Dollar terms we are talking about the $200,000 reduction which was largely a contribution of two engagements that ended. So the issue is that the base is small so any reduction or any increase was very large in percentage terms.

Kunal Sangoi But the only question is that right now we have seen it from some of the non-top five clients. Do you see any potential from any of the top five clients? Maybe it could be in very small areas?

Anjan Malik You mean the non-top five or you mean the top five clients?

Kunal Sangoi I mean top five, do you see any kind of project roll backs from top five clients?

Anjan Malik With top five clients it tends to be different because people do not look at us as project providers in those instances. So you have a constant stream of stuff rolling off and new stuff rolling on. One way interesting is to make a distinction between the top five and non-top five. I think the top five look at us as providing a generic set of capabilities. So for example, if I have a 20% staple of work providing some remediation activities to top five clients, when that function looks like it is coming to an end, there will already be very serious discussions over repurposing that bandwidth to something else in the same area because they are already considering us more as a capabilities provider oppose to provider for very specific set of services against specific SLAs. So those relationships can be very fluid. So the concept of a roll off or a concept of a contract termination does not really exist in that same sense. Where if you are dealing with an emerging client in many instances they may be talking to you specifically about one particular type of service which is very clearly SLA and when that need finishes then that contract also finishes and I guess that is ultimately the inflection point between being a strategic customer and non-strategic customers. In the former case they really look through that particular specific service which you are providing and more as a provider of generic services in that particular capability set.

Kunal Sangoi Lastly, with regards to ESOP for senior managers, how many of them would be covered through this plan now? Whether you are extending the gamut of earlier covered or it is just with whom you have been giving ESOPs, you changed the way you issue ESOPs?

PD Mundhra It is more the latter. So the coverage group has not changed. I think this year our plan covered about 90 people on a base of about 3,600 or so employees, so just about say 2.5-3% of the total employee base. As you said what has changed in the past is we have given between 1 and 1.5% of the firm's equity in a non-contingent manner, only linked with passage of time. Now what we have done is we have created a structure where that non-contingent portion is much smaller, let us say, 0.75% or whatever. But if targets get hit then that number could go up to as high as maybe 2%. So there is more conditionality attached to the vesting of those options and the conditionality is basically linked to revenue outcomes.

Kunal Sangoi Thanks and all the best.

Moderator Thank you. The next question is from Anand Bhaskaran from Spark Capital, please go ahead.

Anand Bhaskaran Just wanted to know what your plans are on the onshore strategy. You were mentioning that we plan to increase investment in the onshore organization. So just wanted to get some color on what are your plans on that?

Anjan Malik I think our intention is to plow back between 150 and 200 basis points of margins to hire more client engagement mangers and more sales people.

Anand Bhaskaran Thanks.

Moderator Thank you. The next question is from Himanshu Nayyar from Quant Capital, please go ahead.

Himanshu Nayyar Firstly, on headcount I see that this quarter we have increased our headcount by 10% while revenues have grown 4% in Rupee terms and 6% in Dollar terms. So do we see there is a pressure on realization per billable resource or this has just do with the fact that we have hired people at the end of the quarter and do we see this trend reversing at all?

PD Mundhra I do not think that there is a pressure on realizations per se. The reason why you see 10% increase in headcount for effectively 6% increase in revenues is twofold. The first part of that answer is that we had some projects that went live closer towards the end of the quarter, so those headcount numbers show up in the quarter end numbers but obviously we did not accrue the revenue for the whole quarter. And secondly, utilization went down, as I said, from 70% which has been average traditionally, to about 67% because we built some extra headcount in a couple of areas where we have strong pipelines and we expect projects to go live with very short lead times. So we rigorously beefed up our capacity in a couple of areas where we see those strong pipelines.

Himanshu Nayyar But going forward we see the revenue growth in line with the headcount growth or the trend is expected to change?

PD Mundhra I think our expectations on realizations are that they will be flattish with small marginal upticks. So I think clients obviously in this environment want to ensure that they are getting good value for money and they are continually benchmarking all service providers. We are no different but given the experience of the last 2-3 years we feel that we are very competitively priced in line with the market. So we do not see too much downward pressure but again I think chances to increase prices also will be limited in size. Unless of course, there are large currency moves.

Himanshu Nayyar Another thing – what is our current capacity as of now?

PD Mundhra Across all of our facilities including this new space that we have taken in Ghatkopar, we can seat roughly about 5000 people of which today have about 4000. So we can accommodate roughly a 1000 people before they are out of capacity completely.

Himanshu Nayyar Lastly I think, Rohitash, if you could answer that, how do you calculate these ForEx gains? You have done about 4 crores of ForEx gains in this quarter. So is this just a gain on the put options or on the hedge receivables as well? You add it up to revenues because you have hedged those receivables or you show that as a separate line item under ForEx gains?

Rohitash Gupta This is only for the all the hedges both forwards and puts.

Himanshu Nayyar So this is both combined together?

Rohitash Gupta Yeah, both combined and it also has an element of revaluation of reserves, etc.

Himanshu Nayyar Thanks, that is all from my side, I will come back if I have anything else. Thanks.

Moderator Thank you. The next question is from Girish Pai from Centrum Broking, please go ahead.

Girish Pai My first question is regarding revenue growth, you mentioned that Dollar revenue growth was 6%. What would that number have been on a constant currency basis because I suppose you would have some kind of cross currency gains this particular quarter?

PD Mundhra I do not think it would be very different because if you look at our currency mix it is about 75% Dollar, 20% Euro, and 3% or 4% Sterling and Australian Dollar, etc., put together. The big non-Dollar currency in our book is Euros, it is about 20% of the revenue and I do not think it moved that much during the quarter. It was more or less around 1.4 give or take. So I do not have exact numbers but my perception is that is that it will not be too different.

Rohitash Gupta You can actually look at slide no. 4, the footnote. What is says is that Dollar depreciated Rs.1 and Euro appreciated by about Rs. 6 and given that 80:20 mix, it almost neutralizes the impact in Rupee terms. So I will agree with PD that the impact of currency movement was not there on Y-o-Y basis.

Girish Pai There was a positive impact of 160 bps on a year-on-year basis on your operating margin, OPM. How has that happened?

PD Mundhra To give some context the 1st Quarter of any financial year is probably the quarter where we have the highest proportion of revenues allocated to employee cost because that is the quarter where the wage hike takes effect. Now if you look at what has happened during the course of FY11, attrition was elevated because our attrition was 40% last year as compared to more long-term average of 30-32% and also we had pretty strong growth. So when we came into this financial year, a very large part of our population was new and many were recently hired in the second half of the last financial year and, therefore, were not eligible for wage hike. So the impact of the wage hike was more muted this year as compared to the previous year because attrition was high and growth was strong the preceding year. That is why if you look at employee cost as a percentage of revenues, this quarter versus the same quarter last year it was lower by about 170-180 basis points.

Girish Pai The investments in sales and marketing of about 150 to 200 bps, will that start kicking in from Q2 or will that be somewhere later down the road?

PD Mundhra I think it will kick in in phases because this is an additional budget that we made available to our two business leagues and there is a lead time to hiring people and bringing them on board. So, I think it will kick in at points over the next, let us say, six months or so but honestly the reason that we are allocating this money is because we feel that there are opportunities and this is not the right time to invest more aggressively in the business to capitalize on those opportunities. So, hopefully over time those investments should more than pay for themselves, at least that's what we believe.

Girish Pai Just wanted to spend some time on your top five clients. It's about 88% but is it like evenly spread out across those five clients? In terms of growth for the last few quarters has it been even across these or has each and every client grown across the last couple of quarters or has it been uneven?

PD Mundhra I would like to start by saying that I really would not want to get into client by client specifics but broadly what I could say is that each of those top five clients is a very large and significant account for us. So they are all very meaningful numbers. They are not perfectly equal but they are all individually large for us. In terms of growth rates again obviously if you look at any quarter in isolation there are differential growth rates but if you look across the larger period of time most of those are - if you take for example at three years CAGR then most of those accounts have grown fairly strongly over that period.

Girish Pai Just one last question, in these five accounts when new projects come up for bidding or the new contracts come up, is it a sole bid situation or it is the competitive bid situation?

PD Mundhra What tends to happen is that clients will run an exercise where they pick maybe two or three strategic partners they want to work with for certain types of work. That will be a very expensive exercise taking maybe 6 to 10 months, their clients visit India maybe two or three different times, we go and visit them five or seven times there, extensive negotiations and procurement with legal and so on and so forth, we agree terms and conditions of doing business, we agree rate card and then clients include us in that in that list of strategic vendor. After that exercise is finished then I think what happens is future opportunities are typically opened up to that shortlist of selected vendors. In certain cases if the client believes that an opportunity is more appropriate for one vendor, they may talk bilaterally only with that vendor. In other instances where they feel that this is something that maybe any of the guys could do, they will talk to all the two or three people for that opportunity. So it really depends but I would say it is never a monopoly and you will never get even a seat at that table without the client undertaking a fairly extensive benchmarking process.

Girish Pai So are you saying that for the kind of work you are doing you do not find as much competition or do you think the competitive intensity has increased say in the last six months or last three months?

PD Mundhra I think competitive intensity is high and has always been so, what I am trying to say is that a lot of that competition happens upfront at the time the client is choosing strategic partners because at that point they will look at the full landscape of 10 or 15 companies and then short that down to two or three. Once that is done then, I think, the competitive intensity declines a little bit because the client has also made their choices, they have agreed rate cards, so it is just a matter of them deciding which opportunity to send to which vendor. Most of the competition happens upfront at the vendor selection stage.

Girish Pai Thank you.

Moderator Thank you. The next question is from Ankur Rudra from Ambit Capital, please, go ahead.

Ankur Rudra Could you maybe elaborate a bit more on the margin leverage in the quarter particularly on the G&A line, I noticed there were a few reductions on certain line items. Could you elaborate on probably the reasons for that and the sustainability of the leverage from there?

PD Mundhra Well, I think if you look at G&A, our G&A was 12.7% of operating revenues for the quarter which was identical as the same quarter last year. To be honest, I do not think that there is too much scope for us to create further operating leverage because for our kind of business we are already at scale. So when you look at operating margins you may have slight dips and troughs depending upon where we are in the capacity utilization cycle. So whenever we add large new capacities, margins may take a little bit of dip and whenever we are sort of hectic utilizations margins will look better but I think margins from that perspective will stay within a narrow band. Most of our cost has stayed within a fairly narrow band for the past whatever, 13 or 14 quarters that we have been reporting results. So I think the choice for us as a business was that given that we have some financial flexibility on our P&L, where we want to invest that money and we have made this decision after some thinking that given the maturity of our organization, given the leadership we now have in place onshore and given the demand environment that exists and the cost pressures on our clients, this is the right time for us to invest in sales which is why we have chosen to make that investment.

Ankur Rudra Can you just scratch below the surface a bit more particularly, for example, the legal and professional fees which had come down quite a bit, is that any indication of the deal activity in the quarter being a bit lower than what it was in Q4 and should we expect that to go up?

PD Mundhra Not really, I think that is more a function of when our lawyers, etc., or consultants might submit their invoices. Again our P&L is a really very small so on that basis 0.2% of revenues or whatever is not a very meaningful number. So I would not extrapolate or construe any trends on that. I think the expectation I would set is that our G&A and SMS and selling and distribution expenses will stay in the same sort of range that they have been in as percentages of revenue.

Ankur Rudra The investments you have alluded to so far in the call, will this be over the course of the year or is that something we should expect more accelerated investment?

PD Mundhra I think you will see most of this starting to hit beginning Q3, between Q3 and Q4 I think is when that thing should run.

Ankur Rudra Thanks and best of luck.

Moderator Thank you. The next question is from Madhu Babu from Systematix, please go ahead.

Madhu Babu Could you talk about your hiring guidance for this year?

PD Mundhra We do not really set a hiring target because for us the hiring happens after we close a new sales opportunity, so the hiring follows contract signing and not the other way around. So, we do not really set a hiring target. We do have internal targets around revenue numbers that we want to go hit but we do not issue guidance on that.

Madhu Babu How do you see the sequential growth trajectory because there was a bit of slowdown this quarter?

PD Mundhra I think you will always see quarter-on-quarter volatility in our business. Again as I said we are still a very small company at $22 million quarterly run rate but I think if you look on a year-on-year basis over the past couple of years we have been growing at about 30-35% or thereabouts and our hope and endeavor is to try and maintain similar growth momentum as we look forward. If you look at a year-on-year basis we have been up again about 33% year-over-year and the endeavor is to try and stay in that sort of a range.

Madhu Babu Could you disclose the top-client revenue?

PD Mundhra We do not.

Madhu Babu What is the quantum of wages hikes given?

PD Mundhra Our wage hikes were about 14% in India and in lower single digits abroad.

Madhu Babu What is the tax rate for FY13?

PD Mundhra About 20%

Madhu Babu So it will be flat?

PD Mundhra Yeah, it will be flat.

Madhu Babu Okay, thanks a lot.

Moderator Thank you. The next question is from Girish Pai from Centrum Broking, please go ahead.

Girish Pai Just want to go back to the earlier question I had asked regarding how this whole process of selecting vendors happen and whether it is competitive bid situation. You mentioned that you have an initial round of kind of short listing done of vendors by the customer and then the comparative intensity kind of reduces a bit. Suppose the other vendors actually build up capabilities in say the settlement area for instance and they come back to the customer and ask that they be looked at again for the new set of skills that they have developed, does that happen?

Anjan Malik It is very rare but that happens. It is more like buying a house, we can go and put in a better price for them, hope that the seller will sell it to you or vice versa. I do not think that capabilities can be developed in the time that it takes for a client to make a decision during an RFP. So in reality in the markets that we play in I think people pretty much know who the credible players are and they are few, so it is not just we are the only ones and I think people know what we are good at and people know what they not good at. So by definition the RFPs or the opportunities that we would be competing for are the ones where we have already have been pre-selected as the guys who are considered to be one of the competent providers. Now, when you win something it may be because it is rarely just price, it is much more the combination of price process improvements, other case studies, customer references which you can provide and it is a combination of those things that ultimately determines who wins a particular piece of work. So just changing one attribute and going back to a client typically makes you look worse than better. So I think that is probably a short answer to the question.

PD Mundhra I think the other thing to consider is that for the kind of business that we are in, typically there is high friction to a client, when they decide to switch vendors because there is a lot of integration between the client and the vendor for many of these processes. So it is rare for us to be able to displace another vendor from some activity that they are doing for a client and conversely it is difficult for other vendors to displace us from activity that we are already executing. So the real choice that the client has of picking vendors is when they are avoiding a new piece of business and that is when the benchmarking or competitive intensity is high. Now I would not want you to construe my remarks by saying that the clients won the RFP only once in their life. So what tends to happen is the client will pick a set of strategic vendors to whom they are giving work, after 18 months or 24 months if they feel that the environment is changed or the new players have developed they may run another benchmarking process, they may pick another two or three guys at that point in time and incremental work may go to those two or three guys but they may typically not take away work from existing vendors to give to those guys because it is a lot of headache and high cost and lot of friction for the clients to do that. So that is usually how it operates but again different organizations have different ways of doing these things.

Girish Pai Thanks a lot.

Moderator Thank you. The next question is from Pinku Pappan from Nomura, please go ahead.

Pinku Pappan I was just a bit interested in knowing what was the real trigger behind your decision to invest more in onshore. Was it because some of the clients that are in non-top five categories, those clients did not ramp up according to your expectations or was it because you are really seeing a lot of deal activity and you want to invest further to capture some of that deal activity. Could you just elaborate on that?

Anjan Malik Well I think if the question is, are we being offensive versus being defensive, I think this move is definitely not defensive because we feel that if there is no benefit to spending the money then there is no point spending the money. I think, the reason we are spending the money is because based on the activity that we have seen with the investments that have made in the last year, we feel pretty confident that investing more money in the right kind of people can yield in substantial results in our non-top five. Because you have to remember that traditionally or at least historically, even if you look back by 12 months, we really have our onshore presence face off against our top five traditionally, so it's almost been proportionate. So, for example, if the top five have been 80% of our revenue and 80% of onshore team has been facing off against the top five which obviously is part of the reason why we have seen this proportionate growth in the top five over the past 4-5 years. We try to obviously reverse the trend by disproportionately investing away from the top five and this is a continuation of that trend.

Pinku Pappan Does that mean progressively on your top five you can afford to get some more leverage in terms of SG&A as in invest less going forward, as in keep the absolute levels probably stable?

Anjan Malik No, I do not think it means we will keep the absolute level stable, but they do scale better because by definition if you are not having a sign up in the new MSA with a client, that is a lot less work and if you are a known quantity then your “sales process” with an existing client does not start with eClerx one-on-one and your discussions are typically very warm discussions because a lot of the discussions which you have with different stakeholders tend to be referrals. A lot of hardware that enables a relationship is already in place whether it is an agreement, a rate card, connectivity, accesses, etc. that makes a big difference.

Pinku Pappan Much of the sales effort is it going to be in different geographies or is it more or less going to be US again?

Anjan Malik No, I think it's across. If you look at our sales presence today we have people in California, we have got folks in Illinois, we have bunch in New York, and we have an office in New York, London and in Singapore. So it is going to be distributed across the regions wherever we feel for particular services we have high resonance.

Pinku Pappan But do you see some new geographies opening up suddenly in the market? Do you think you can probably give a shot there?

Anjan Malik Well, I think in this business there is no point of showing off and just giving it a shot. I think you have to be convinced and committed down a particular path and we think high probability outcome geographies continue to be the US number one, Western Europe number two and Asia number three. We had discussions with people that would like to see us in Latin America and they would like to see us in other parts of the world and at the moment we feel that the market is big enough for what we do in the market that we are in and the best return in investment is probably to invest in the market as opposed to going for new markets.

Pinku Pappan Thank you very much.

Moderator Thank you. The next question is from Ankur Rudra from Ambit Capital, please go ahead.

Ankur Rudra Follow up to your comments you just made that still about 80% of your on-site onshore presence is focused towards the top five clients. I think one of the aspirational statements made….?

Anjan Malik That is inaccurate. What I said was that is a historical fact that in the past, the percentage of revenue of top five was correlated with the percentage of the sales force the account management force was facing at the top five. What we are saying is over the last year, we have tried to make it disproportionate. Today about 40 to 50% of our onshore team will be facing non-top five.

Ankur Rudra That is where I was coming to, basically I think one of the aspirational statements earlier was you will do that, so it is begun to happen already?

Anjan Malik That is correct, and that is the reason that we want to invest more. I guess that is really the crux of our discussion so far.

Ankur Rudra Could you also remind us how the quality or the penetration in non-top five is now in terms of maybe number of statements of work you have in the non-top five, maybe 5 to 20 accounts in compared to top five now?

Anjan Malik I think Rohitash has that data so he can come back off-line on that.

Ankur Rudra Thanks.

Moderator Thank you and since there are no further questions from the participants, I would now like to hand over the floor back to Mr. PD Mundhra for closing comments.

PD Mundhra Thank you guys for attending this call and we look forward to talking with you with our Q2 numbers in October. Thank you.

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