"eClerx Services Limited Q1-FY13 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 eClerx Services Ltd 1st Quarter FY13 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 participants will be in the listen only mode and there would be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference call 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 for the introduction and good evening to all the participants on this call. Without further ado I would just like to take few minutes and walk you through the earnings presentation for the 1st Quarter and then we can take questions.

So moving on to Slide #1 which has the financial summary, our operating revenue for the quarter was just over $28 million which was up about 10% over Q4. Most of this growth was because of the consolidation effect of Agilyst which contributed about 9 of the 10% growth that we had. Our organic growth was about 1% in USD terms, 1.5% in constant currency terms. This was actually the net organic growth so in volume terms we had a slightly better growth but as we have indicated in the previous quarter we had some pricing adjustments that kicked in this quarter so net of that effect reported organic growth was about 1% in USD terms, 1.5% in constant currency terms. On the margin front, operating margins were at 36% which is near about the levels that we had in terms of longer term averages and our EPS for the quarter was at Rs.16.4 on a fully diluted basis.

On the next slide we provide a summary of our hedge positions as at the end of the quarter. So we have an outstanding hedge of about $85 million over the next 18 to 24 months at an average of just under Rs.50 to a dollar. This is slightly over than what our hedge has been in preceding quarters because this equates to about 3.3 times our quarterly run rates. This is primarily because as all of you might know the Reserve Bank has recently changed some of their rules and provisions regarding foreign currency assets and bank balances and therefore we are finding it operationally difficult to maintain the same degree of hedging because we need to make sure that there is a correct alignment between cash to receipts by bank account and hedges by banks. So there is a fair amount of difficulty in doing that so we have sort of somewhat reduced the quantum of hedges that we have been putting on until we can sort this out with our banking partners.

Slide #3 has our cash position and utilization of IPO proceeds. So now with the acquisition of Agilyst, we have completely utilized all the money that we have raised in the IPO and we will no longer provide this table from the next quarter onwards given that all the money has been used. Cash balances at the end of the quarter was around 190 crores which works at about Rs.64 a share.

Slide #4 has a snap shot of our P&L in Q1 versus the preceding quarter. As you can see we have maintained operating margins at about 35%. The main point that I would want to make on this slide is that our G&A expenses are slightly elevated but that is because at least partially due to the fact that we had about 4.5 crores of non-recurring expenses in Q1, which includes primarily the non compete fees that we paid as part of the Agilyst acquisition and also some of the other transactions fees such as banker cost etc which will not recur in the future quarters. By contrast the same number in Q4 was about 1.5 crores so in Q1 there was an additional 3 crores because total expenses were in Q1 were 4.5 crores that were non-recurring.

Slide #5 has the margin bridge, so Q1 was the quarter where our wage hikes take effect and in India our average wage hike was about 10%-10.5% which equated to a 3.3% reduction in operating margins for the quarter. The G&A impact of 2% is primarily due to the effect of one-time expenses I just spoke about but on the positive side we have tailwinds from the rupee depreciation of about 5.5%- 6% so the net effect of all these changes was that operating margin actually expanded to 36% for Q1.

Slide #6 has the traditional metrics we use to show various cuts of revenue for us. On the currency contribution, the dollar contribution moved up because (a) the Euro weakened during the quarter and also because all of Agilyst revenues are denominated in USD so on a consolidated basis the proportion of our revenues that are now invoiced in USD has increased to 83%. DSOs remain flat at last quarter’s level of about 29-30 days. Our top 5 client concentration did come down pretty substantially from 85%-87% level now down to about 80%. This also is primarily due to the impact of the Agilyst consolidation in our revenues because one of their clients now moved into our top five and one of our top five clients dropped out that list thereby reducing the concentration. The SEZ share also dropped from 72 to 62 because all of the Agilyst revenues are non SEZ revenues.

Slide #7 has the charts that we have been showing every quarter to show the traction in terms of revenue growth between top five and non top five accounts. So as you can see in Q1 there is a sharp increase in the year over year growth rates for our emerging accounts, again primarily due to the Agilyst effect where the non-top five share has increased now to about 18 to 20% of revenues. Our sales and client management teams are now up to about 59 to 60 people which we think is sort of the right size for the size of business that we have now.

Slide #8 has an HR update so on a consolidated basis at the end of Q1 we are up to just over 5500 people including Agilyst. Attrition rates did slow down pretty dramatically so we experienced a 23% attrition rate in Q1. Some of this is the softness in the labor market, some of it is also fact that we pay annual bonuses in May and therefore attrition in Q1 historically does tend to be a little less. With that I will hand over to Anjan to talk through the outlook.

Anjan Malik So organic growth in Q4 was a lot better than what we saw in Q3, some of this growth was offset unfortunately by volume basis rate reduction which we have spoken in the last quarter. The good news in all of that is that a lot of pricing adjustments that we expect for the year seems to be largely done. We may get a little bit more as the year progresses again based on volume increases as opposed to the price cuts on the existing work. We feel pretty good about the onshore organization PD mentioned where almost 60 people as you know that is a big area of focus for us over the last 18 months. We feel very well scaled for the next leg of growth. We continue to be opportunistic about skill acquisition because the local customer markets continue to be weak in some sense and where we can find strong talent we would like to bring that on board because we continue to see that as a big differentiation between us and our competitors, something that our customers continue to tell us about. Agilyst obviously starts a new story for us – we are very excited about it. PD already mentioned that it has had a very positive impact on our existing metrics already most importantly the reduction of top five concentrations. We are much more excited by the fact that it really brings us into a new industry and with a very meaningful footprint and all the work that you see in the relationships meetings that we have seen, we feel very excited about the business model and feel that a lot of synergies which we can exploit over the next few years. There are going to be integration costs that we anticipate over the remainder of the year and I'm sure you'd have many questions about that as we look at integrating this entity through by the end of FY13, which leaves us to the medium-term outlook for the business. We continue to be very positive on the business. As you can imagine cost pressures on our customer business are very high, if there is one consistent theme in all the discussions that we have is customers looking for ways to cut costs. We're seeing customers that have never ever before considered off shoring let alone outsourcing, considering it for the first time. In fact this quarter we were probably physically most number of conversations/competitive positions or competitive situations that we have seen some time now which will give the indication that customers wants to do more. We did a quick survey amongst the top five clients and what was very apparent from all of this was most of them (not all of them) have interest in increasing their India footprint in various shapes and forms both through captives and vendors. That is certainly different from what we have been hearing from them for the last year so there is certainly more interest in doing more in low-cost locations. And we continue to feel that there is a lot of demand for the services that we provide today. As we said our service portfolio continues to increase and improve every year. We have been the most relevant that we have been ever to our clients. So we feel pretty optimistic that the work that we are doing and the investments that we are making and the differentiation that we have created for ourselves in the business will position us well for the next couple of years. With that I will hand over for questions. Thank you.

Moderator We have the first question from the line of Omkar Hadkar from Edelweiss Securities, please go ahead.

Sandeep This is Sandeep from Edelweiss**.** Just a question on the margin side, to my understanding Agilyst margins could have been slightly lower than the company average margins of eClerx and we do not see that reflecting in this quarter numbers basically we were expecting margins to be slightly down but the margins have been quite robust if you see most of the growth in this quarter has also come from Agilyst so will it be a fair conclusion that Agilyst margins are not diluted to the overall margins of the company or they are slightly diluted if you can throw some light on the margins of Agilyst it will be great?

PD Mundhra As you know we have two months of numbers from Agilyst in our Q1 performance. Agilyst margins has been I would say comparable to eClerx margins, may be slightly lower but not substantially so which is why it you do not see too much of an impact here so bear in mind that on a blended P&L Agilyst revenue contribution and margin contribution is about 10% of the mix, and you're right Agilyst margins have not been very different from eClerx margins. The other point to note is they have not sort of typically been hedging as a policy so they have enjoyed the full benefits of the the rupee depreciation that happened in the last quarter which is obviously flown through to bottom lines for them. Basically at these currency levels I would say that Agilyst margins and eClerx margins are in the same sort of ballpark with their margins being slightly lower.

Sandeep And a follow-up question, we see the utilization levels to be at around 68% as shown in the presentation, so where do you see number one, utilization going forward and secondly the BFSI part basically we are seeing a lot of pressure on the investment banking part of the business particularly. Do you see more pressure in coming days? I'm trying to understand that okay Agilyst is doing very well that is said looks like a $15 million run rate but how is the organic part of the business doing and if there is a pressure which is expected in BFSI vertical how much, what kind of pressure we can foresee and thirdly it has been mentioned in the presentation that you are seeing redoubling of offshore initiatives, will you see it anytime soon or do you think that would come with a pause, what is your view?

PD Mundhra I will take some part of the questions and I will ask Anjan to talk about the BFSI side specifically, soon your question on utilization levels as you noted we were at 68% in Q1. One thing I would say that utilization levels for Agilyst tend to be lower than eClerx utilization levels simply because of how they have structured their client contracts. So the number of hours they commit to a client per FTE is higher than what it is for eClerx which means that they have to maintain higher bench levels to provide the same capacity to clients and therefore the utilization rates are lower so I would expect on a go forward basis earlier we used to targets 71-72% of utilization levels, probably a more realistic expectation on a blended basis now it is somewhere between 67 to 68% as we have this quarter. So that is the response I guess to your question on utilization. On your other question around near-term outlook for the organic business, as you would have seen in Q1 we grew 1.5% constant currency basis, again that is some net of some pricing adjustments so if you strip that out and if you look at volume growth I would say the quarter was probably somewhere between 3 and 4% volume growth for us. I would say that the near-term still looks soft'ish, though I think we are going to see more work coming from clients, but it is going to take some time for some of those deals to convert and reflect in accrued revenues. With that I will hand over to Anjan to talk specifically and shed some light on the banking side of the business.

Anjan Malik I think across the business as I've said we continue to see a lot of demand from the BFSI sector clearly there is a lot of question marks I think at the moment, around which business people want to keep and which businesses people want to exit. So until that basic uncertainty is taken care of, it is hard for our stakeholders to make large-scale decisions on outsourcing or off shoring for that matter. I think people are making plans, what we're finding is people are not fully figured because people have nervousness around making sort of longer-term commitments in the absence of clearly knowing what is happening in the industry. I think so we expect movement but think it is probably still I would say still delayed by a couple of quarters.

Sandeep And a last question as mentioned on the call by PD that the G&A was slightly high around 4.5 crores in this quarter was primarily was kind of a one off but in the presentation it is also mentioned that going forward there will be some more integration costs throughout the year so just wanted you to throw some light on how should we foresee the overhaul SG&A expense for this year and next year, will it have an upward bias or what is your view? Secondly also the F&M part of the expense has come down in this quarter so what is the reason, is it more driven by currency or there is something which we are missing?

PD Mundhra On the F&M side I think what had happened was in Q4 there was a catch up provision for year-end bonuses and that would have happened for the sales team and so therefore we might have had a slightly elevated number in Q4 and Q1 is sort of more back to the regular run rate in terms of F&M costs. On your SG&A side I would like to draw a distinction between one-time costs and integration costs. The one-time costs are non-compete and other transaction related costs that hit our P&L in Q4 and Q1 and that is sort of done with. The integration cost I do not know whether it would be correct to categorize them as one time because the biggest element of integration costs would be potentially incremental costs on aligning pay, benefits and title structures between the eClerx structure and the Agilyst existing structure and obviously as you do that you have to make sure that each employee is affected only positively as a result of that integration so therefore it will impose some cost on the company. To be completely honest we are not yet clear as to how much that extra cost will be, we are still going through the modeling exercise and figuring out what will be the best way to do this that would impose the least amount of cost on the company. But whatever those costs are I would presume that they will then be ongoing costs because once we move people over to our new pay and benefit structure that will then sort of continue, it is not going to be a one-time impact. So those integration costs we probably will have more clarity on by the time we have our Q2 call. We really do not have a good fix on it right now but we try and make sure that we are judicious about how we incur those costs.

Sandeep You mentioned that in this quarter some of the pricing pressure was taken care by the volume discounts so will it be a fair assumption that although you have mentioned that most of the pricing pressures have been taken into account but going by the volatile environment and uncertainty prevailing will it be a fair assumption that future there could be more volume discounts to accommodate pricing cuts, will it be fair to assume that?

PD Mundhra Yes I think I hope we're not conveying the message that for sure there will not be any more adjustment in pricing for the rest of this year. All we are trying to say is we think that the majority of discounts that were to kick in, the majority of them have happened during this quarter and for the rest of the year over the remaining three quarters any impact that we see will be much lesser than what we have seen in Q1, that is our expectation at this time.

Moderator The next question is from the line of Manik Taneja from Emkay Global, please go ahead.

Manik Taneja Just wanted to get a sense on our revenue traction between top five clients and the emerging clients Ex of the Agilyst contribution given that Agilyst essentially changes client concentration mix sharply, that is one thing and also could you talk about what the progress on the sourcing review that we were seeing in at least a couple of top five clients?

PD Mundhra On our organic business this quarter as we shared with you initially, we saw a tepid growth net-to-net 1.5% in constant currency term. Within that our non-top five did grow faster this quarter than the top five although the differences are not dramatic as you can tell by the overall growth numbers. So traction is not that different between the two but I think, generally speaking we continue to make progress in building out our emerging business albeit slowly. In terms of your other question for sourcing review, I think the impact of that sourcing review was more likely to be pronounced around pricing effects because as we said many times in the past we think that the low cost to low-cost displacement of one vendor by another is not a really frequent or credible occurrence. On the pricing front as we have shared, we think that a large part of what had to happen has happened this quarter and we will see a little bit more that flows rest of the year but not dramatically slow.

Manik Taneja Could you talk about the margin trajectory at Agilyst and is the improvement in the margins Ex of the currency benefit that we have seen, is that ahead of initial expectations?

PD Mundhra On the margin front, we never had a very strong expectation from Agilyst because we have always maintained that we would like to see a couple of quarters of performance before we sort of set longer-term expectations for that business. I think this quarter we have benefited unexpectedly from the sharp depreciation in the rupee because they don't hedge as a policy and therefore that benefit has flown through to the bottom line. I do think from an integration perspective there will be some incremental cost on that business, as I said as we align pay and benefit and as we collectively add people in certain areas to sort to create some redundancy and spare capacity in the organization. Having said that we remain pretty confident that business should continue to generate operating margins in the mid to high 20s that is what our best guess would be at this point in time.

Manik Taneja Finally a couple of bookkeeping questions both on your CAPEX outlook for the year as well as the tax rate, given that tax rate for this quarter is lower than the MAT rate?

PD Mundhra So let me take the tax rate question first. It is lower this quarter because on the Agilyst side we basically had some deferred tax credit etc that came into play. However, that business is a 33% tax rate business because there is a US parent and even the India entity does not enjoy SEZ benefits so on a blended basis I would expect our tax rates to be sort of somewhere around 22%-23% or thereabouts assuming MAT on our side and 33% on their side. On your other question around CAPEX requirements, we are in the process of setting up a facility in Pune as communicated earlier, a lot of that CAPEX has already happened. We may take some more space in Chandigarh for Agilyst but again the CAPEX requirement for that will be modest. So I would not anticipate a very high degree of CAPEX in the back half of this year.

Moderator The next question is from the line of Srivatsan Ramachandran from Spark Capital, please go ahead.

S Ramachandran Just wanted to get some details for the pricing softness you are seeing, would it be possible for you to give us slightly more detail as it is more in the SMS or the banking side and what is typically the major is it more of a rate cut or is it more like fixed-price total cost outsourcing issue on the radius?

PD Mundhra It is more client specific because again to provide some context what we had done with a number of our clients a while ago, we have created structures where we had committed to them discounts provided they reach certain thresholds in terms of total amount of business coming to us and as some of those thresholds got triggered, there were rate resets that have happened for some of those clients so it is primarily driven by that and it also reflects to some degree what's happened on the currency front. So it is basically a cut that happened at an FTA rate level more than anything else given that clients have substantially increased the amount of business that they have been giving to us over a two year period.

S Ramachandran The review is done by most of the top 10 clients or is it on an ongoing basis this will keep happening?

PD Mundhra It is more event-based so the review happens either when the volume of business have changed very substantially or economics have changed very substantially because the currency has moved very sharply in a short span of time so typically there has to be some trigger that causes the economics to become out of line with what they might be seeing in terms of their alternative sources of supply be it captive or third-party so it is typically some trigger-based event.

S Ramachandran If my understanding is correct Agilyst has a bit of an earn out consideration that is going to be paid or so could you just kind of just possibly share what kind of earn out numbers if the current when run rate is kind of maintained at Agilyst what kind of earn out numbers and when these pay outs would be due for?

PD Mundhra There are two earn-out components one which will be payable in approximately May or June next year 2013 and the final component would be payable in November or December 2013. Those earn outs are triggered over some combination of revenue performance in FY13, margin performance in FY13 and an exit run rate at the point of when those earn outs get determined. So it is a multifaceted payout formula so it is not just linked to revenue run rates today but there is a cap of about 12 million on the earn out payment. If we continue on the trajectory where we are my guess is that the earn-out payment would be somewhere in the region of probably $8-10 million.

Participant Both tranches put together?

PD Mundhra Yes.

Participant My last question is given that Agilyst brings in a slightly more other different business, any thoughts of starting to disclose revenue breakup by may be SMS, banking, Telecom, and media. Any thoughts there when can we look out for that?

PD Mundhra We have to take that under consideration, our view is that while these businesses have different end customers but they are all very similar and they all operate in the same broad space of knowledge process outsourcing. So at this point it is not our intention to take up segmental reporting based on end industry verticals especially considering our online business cuts across multiple industry verticals. So we can always share some approximate color of what share of revenue each of those three businesses are but at this point we don't want to get into disclosing or considering these as active segments.

Moderator The next question is from the line of VP Rajesh from Banyan Capital, please go ahead.

VP Rajesh Did you have any major client adds on the Agilyst side?

PD Mundhra They have added one new client in Q1 and I think that client they feel has good potential to become meaningful in terms of revenue contribution over the next two-three quarters.

VP Rajesh As you are answering the earn out question, I was wondering that are you starting to accrue for this earn out or this will be something that would just show up in I guess Q1 next fiscal year?

PD Mundhra I don't know if there is a concept of accruing for the earn out because it is a capital payment so it will not go through our P&L so it is not something that we would accrue for but what we have done is, we have deposited $9 million in Escrow against that earn out payment so from a funding perspective that earn out is pretty much funded, there may be a top-up payment required if the sellers exceeds or hit the top end of the performance numbers but by and large that earn out is funded. Again I don't think there is requirement to accrue any expense against it because it is a capital payment.

VP Rajesh So as you are learning about their business and it sounded like their earn-out is currently lower than what you were expecting when the deal was signed. Could you just share like what have been the few surprises there?

PD Mundhra I would not characterize the earn-out as being lower. If you recall when we announced the transaction we said that there is an upfront of about $16 million of there about which we have gained and there was an earn out component between 0 and 12 million based on actual performance over the period. So based on where they are now as I said earlier and I said it is not unlikely that the earn out ends up being somewhere around $8 or $10 million, which I think represents good success for the sellers and capturing the bulk of money that was available under the earn outs and great for us as buyers because we are a much happier buying a larger business that is more diversified and more stable. So I think that if they hit the numbers and they actually end up getting paid $8 or $10 million under the earn-out, both parties of the transaction would be very happy. In terms of surprises I would say no real surprises. We have been talking with them for about a year before we signed the deal. The first conversation we had with them was back in May last year and we signed April this year. So we had a reasonable sense of the business over that period in time and in the two months that have occurred in Q1, I don't think that there has been any material surprise either to the upside or to the downside.

VP Rajesh On the attrition side, you were seeing earlier that it is 23% because bonuses were paid in this quarter. Could you talk about what you are targeting if at all the attrition level and related to that if you are seeing any attrition in your senior employees sort of VP and higher-level if those are the guys that you consider as seniors?

PD Mundhra So senior employee attrition is also fairly low, it is under 10% to 12% range that we have seen as historically. On an overall attrition we don't really target a number but if I looked back at a five-year history, I would say the year with the lowest attrition was FY09 where we had about 25% to 27% attrition levels and that was in the wake of the Lehman crisis and everything else that was happening at that time. So my expectation would be we probably end up somewhere between 25% and 30% for the year as a whole because I don't think things are as bad as yet.

VP Rajesh My last question, you are talking about how the captives are deciding between giving the business to a third-party like yourself versus doing it in-house. What are the trends if at all you are seeing in your top 5 clients as I am assuming everyone has a captive here in India. So are you seeing any trends or there are no trends or it is becoming more to the third-party, I will be curious about your thoughts?

Anjan Malik Finance is driven by industry and part of its driven by the class of the client that you are working with. One thing is that you can imagine that most of our really large clients they have the scale and the press of operation to have in their captives any way for the banks and the non-banks will have some India presence which they perform and they also have vendor relationships, they will have vendor relationships in IT, and BPO / KPO like ourselves so I think guys are looking at balancing work across these entities where possible. We do not see any outcome why guys who are completely captive or completely non-captive. So even in the discussions that we are seeing right now, we are seeing guys taking a view that okay certain activities will end up going into captives and certain activities will end up going into third party vendor relationships and where we are in a third-party vendor relationships guys want to try and maintain some balance between a couple of vendors as opposed to just giving it to one guy because nobody wants to be wedded to one person. In the banking space particularly right now we have seen the trends over the last six months where guys have been focused much more on captives because what they feel is regulatory pressures, there have been some belief that regulators are more comfortable with banks running these services through captives. The outcome on the recent scrutiny we have noticed in the last couple of months we have seen a change because what is also being required by the regulators is that these entities are a set of captives, also they are independently and separately capitalized, which now a lot of banks asked the question, why cannot we continue to use third parties? And we are certainly not seeing that regulatory pressures being borne out the same way in different banks. We have seen certain banks would read it in particular way as we have seen other banks sort of being much aggressive by the outsourcing at the same time. So I'll say that there is no clear trend, I'll say is that there should not be much pressure to move towards outlook of locations. One of the trends I would say that we have been seeing is that guys have been questioning their India footprint. A lot of guys in the last six months looked at India risk given all the things that have been in the press about India, so guys have been looking at Eastern Europe, we know a couple of banks that have increased their footprints in Eastern Europe, where we have seen people look at Manila, Philippines, but we've also seen some banks that after having done that review have re-doubled their foot print in India for the set of second or third city in India. So at the moment I would say that there is no real trend especially the fact that guys want to move to low-cost.

Moderator The next question is from the line of Ankur Rudra from Ambit Capital, please go ahead.

Ankur Rudra Can you elaborate on how prevalent your price corrections have been across your client base, particularly your top 5, top 6 clients and is that what you're looking at more clients also going down that path in terms of performance for the full year?

PD Mundhra I would prefer not to comment on a client by client basis but if you look at our portfolio as I said on the majority of the revenue base we think that the adjustments that we needed to make or that were likely to happen this year have happened, and we expect a smaller effect in the remainder of the quarter, and that is reflective also if you take a cut by non-top 5 versus non-top 5. And I rather not sort of get into more client by client specifics on this topic.

Ankur Rudra If I can get a flavor of you from the vertical prospective limited to banking, as opposed to non-banking clients?

PD Mundhra Not really because the two triggers that sort of affect this, one is increase in volume of business that we are doing with that client, which is common across both businesses and the other is sort of sharp moves in the currency which might make alternative sources of supply, such as captives more or less attractive which again is similar across both sets of clients, so that the triggers driving this are not really industry specific, they are more macro than that.

Ankur Rudra I think I missed out the comments, you were making about the integration cost because of Agilyst through the year. Was it because of difference in pay structure between eClerx and Agilyst?

PD Mundhra I would say integration cost factors typically arises because of two or three things, the biggest contributors would that cost will be when we align pay, benefits and title structures between Agilyst and eClerx because that will happen. That will be done in such a manner that affected employees are affected positively, so that is the first trigger for cost; the second one is from a process or infrastructure perspective, there might be some additional investments that we may need to make to sort of again make sure that infrastructure and process of both companies are similar which may entail some cost; and thirdly, in certain areas we may want to perhaps hire a few additional people, selected managers or domain experts wherever it is required to either provide redundancies or to add capacity and capabilities to that business which again therefore has some price tag attached to it. But we are also very mindful that it is an operating business that has operated very successfully, so whatever we do, we want to be judicious and phase it over time and we think we will have a better handle on these costs probably by the time we meet again for our Q2 results.

Ankur Rudra That time you will be able to give us a better in the sense of the numbers either absolute or percentage of margins?

PD Mundhra We hope so.

Moderator The next question is from the line of Ashish Kacholia from Lucky Securities, please go ahead.

Ashish Kacholia Just wanted to understand if there is any volume pressure or any volume reduction from the top five clients?

PD Mundhra Not really as I said earlier, for our native business, we grew 1.5% constant currency and actually volume growth was higher than that because we had some pricing headwinds as well. So I would say that all said and done from a volumes prospective business was pretty good this quarter.

Ashish Kacholia Ramp ups on the non-top 5 standalone eClerx clients?

PD Mundhra Were faster, if you break down our organic growth rates our non-top 5 growth rates this quarter was faster than the top-5 growth rates. It does not really show up on that chart that we have later on in the earnings presentation because everything is formed by the effect of the inclusion of Agilyst in terms of that split between top-5 and non-top 5.

Ashish Kacholia So all in all the non-top 5 ramp up continues to be as per your expectations?

PD Mundhra I would not say as per our expectation because we all would have hoped and expected that the ramp up would be quicker but at least it is going in the right direction.

Ashish Kacholia But given the fact that there is a lot of cost pressure on all the clients to kind of cut costs, do you anticipate that this is going to come to us with a lag maybe 2-3 quarters down the line but it could come in a good kind of volume ramp up at that point of time?

PD Mundhra That is what we are hoping for because as Anjan mentioned earlier, we continue to have conversations with clients for reasonably large opportunities but what we are seeing is that those conversations are not converting quickly, so the sales cycle is very elongated. But we do hope and we think that over some period of time, 2 quarters, 3 quarters some of those things should start flowing through.

Ashish Kacholia Is it not flowing through to any of the vendors or is it that we are losing out on some grounds of size, scale whatever?

PD Mundhra I would say it is probably not flowing through to anyone except TCS if you see this.

Ashish Kacholia Are you also experiencing the same thing where we are kind of losing out to TCS in some of our negotiations?

PD Mundhra Not really, I would not say it is specific to any one competitor but I am just saying to your question if you are asking broadly about the industry from whatever I see, big guys have all also indicated some degree of softness in the near-term outlook.

Moderator The next question is from the line of Veena Patel from I Wealth Management. Please go ahead.

Veena Patel I have a couple of queries related to the Agilyst. First of all I just wanted to know in this particular quarterly numbers what has been the contribution of Agilyst?

PD Mundhra Agilyst would have been in top-line terms about $2.4 million or thereabouts.

Veena Patel What about the bottom-line?

PD Mundhra Bottom-line would have been I think roughly similar to our margin numbers. So you can safely assume about one-third of that $2.4 million, let say 800,000 or thereabouts.

Veena Patel What has been the annual revenue numbers of Agilyst?

PD Mundhra For FY12 it was $9.5 million.

Veena Patel Roughly what would be our acquisition cost?

PD Mundhra As we disclosed previously, we paid about $16 million as the upfront amount and then there is an earn-out consideration that will get paid over the next 18 months which could be a low of zero and a high of $12 million.

Moderator The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan As you mentioned that the price incurred was triggered by volume growth so can we expect volume growth to get stronger from here as the pricing negotiation is behind us?

PD Mundhra Again I would say we are a very small business, so it is difficult for us to predict quarter-on-quarter outcomes whether they get slightly better, slightly worse. What I would say is as we have shared earlier that in the near term we think that organic growth will remain somewhat tepid but we do think in the medium-term it should pick up, now is that six months away, nine months away, three months away, your guess is as good as mine.

Shashi Bhushan But when the pricing negotiation we were having, is it with some volume commitments from the clients?

PD Mundhra Yes, so the pricing to be completely honest most of these rate resets were predetermined because we had done deals with clients where we had said that, look over a 2 or 3-year period for example if you double the amount of work you are doing with us, we will give you a discount of 'x' percent. So a lot of cuts that have happened were an outcome of deals like that and there were other cases where we had specific conversations with clients.

Moderator The next question is from the line of Sumit Jain from ASK Investment Managers. Please go ahead.

Sumit Jain Just wanted to know are we sharing our revenues within BFSI clients and non-BFSI clients?

PD Mundhra We do not formally report that but for our organic business both those divisions have been roughly equal contributors to the revenue, roughly 50:50.

Moderator The next question is from the line of Ashi Anand from Kotak. Please go ahead.

Ashi Anand The question I had is you mentioned that some of your clients are looking at other low costs destinations. Are we looking at setting up any facilities at these other low cost destinations to actually take advantage of that?

PD Mundhra That is a great question. It is something that we have looked at from time-to-time. I think our preference on this topic is to try and structure a deal where basically we can get some kind of commitment from an anchor client before we set up a facility in a different country because setting up that capacity will impose both cost and complexity on our management structure. So it would be nice to have some anchor client who has committed us some off take from that facility before we go down that path. So we continue to remain in discussions with clients. I think if we hit the growth trajectory and aspirations that we have for ourselves, sometime in the next couple of years, we would have to think very seriously about having multi-country capability. But again we would like to have some visibility and comfort around end demand before we do that.

Ashi Anand This is slightly a forward-looking statement, if at some point we do actually get this type of client and we do decide to go to some other location, how easily transplantable are the skills that we have here? The skills and processes is it reasonably easy to move them overseas or is there actually a new challenge from an operational standpoint?

PD Mundhra Again that is a great question. I think one of the philosophies that we have had when we take on any work for a client in India is not to try and replicate what they were doing in the US or in Europe for that matter but to try and use our local environment and the local ingredients we have here in terms of IT skills, etc., to construct a solution that is more suited to the Indian delivery environment. So by extension if were to set up a center in Dalian or Poland or Buffalo of whatever, I think it would serve us well if we re-looked at the components of our delivery strategy and localize them for the environment that we found ourselves in, so if you are in the West you may have the benefit of finding talent that has relevant work experience. So maybe you use more of that and you rely less on hiring freshers and training as we do in India. So I think to some degree it is a "horses for courses" type thing, so you have to localize your delivery strategy based upon the inputs available to you wherever you go. So I do not think you could end-total transplant the Indian model to China or the US or Poland for that matter.

Moderator The next question is from the line of Rohit Gajre from UTI Portfolio Management. Please go ahead.

Rohit Gajre Tell me within the other income that you have reported, what are the translation gains and losses and also hedging gains and losses that we would have realized in the quarter?

Rohitash Gupta We had about 4.5 crores of other income. The rough breakup of that was at about 2.5 crores came from our investment related interest and dividend and the remaining 2 crores came from FOREX related items. Again just to breakup that 2 crores, 11 crores was related to revaluation gain whereas 9 crores were hedge related losses. So 11 minus 9 is equal to basically 2 crores and 2 plus 2.5 gives you 4.5 crores of other income.

Rohit Gajre One thing I wanted to just clarify is in the exchange format for reporting the financials, we have shown 2.12 crores as non-compete fees paid for Agilyst. However, in the presentation that we have provided we mentioned about 4.5 crores of one-time expenses in G&A, is there a duplication over there? So whatever the 2.2 in the reported in the exchange format?

Rohitash Gupta Right, so basically that 45 number that you seeing in the deck is inclusive of that exceptional item in the press release.

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

PD Mundhra Thank you everyone for joining this call and we look forward to talking with you with at Q2 results.

Moderator On behalf of eClerx Services Limited that concludes this conference.