"eClerx Services Limited First Quarter FY14 earnings conference call"

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Moderator Ladies and gentlemen, good evening and welcome to the eClerx Services Limited's first quarter FY14 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

The call will begin with a presentation providing an overview of the business and then it will be open for Q&A. Before starting, the company would like to remind all the participants that anything said on this call which reflects the company's outlook for the future or which will 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 would now like to hand the conference over to Mr. Rohitash Gupta. Thank you and over to you sir.

Rohitash Gupta Good evening and welcome all on the eClerx first quarter results call. As usual we will first run through the formal presentation and after that we will open it up for Q&A.

Moving to Slide #1 – We did revenue of $33 million in this quarter. In rupee terms the operating revenue stood at Rs. 190 crores which is 9% up sequentially. In terms of total revenue we did Rs. 200 crores which is up Rs. 17% sequentially. The operating profit for the quarter stood at Rs. 70 crores and the PAT stood at Rs. 61.7 crores. The PAT is 28% up quarter-on-quarter. In terms of USD revenue, the growth is 2.2% sequentially in dollar terms and 2.4% growth in constant currency terms. It equates to about 12% organic YoY growth. Just to take a minute to explain you on the YoY calculation. This compares the Q1FY13 Agilyst revenues, had we acquired Agilyst on April 1st 2012, to Q1FY14 actuals. The operating margin for the quarter is about 37% nearly in the same range as the previous quarter, 1% up. The effective tax for the quarter came out higher than what we earlier estimated. It is about 23% as a percentage of PBT and we expect that it will remain in the same range for the entire year as well. The EPS at basic level stood at 20.63, which is up 26% QoQ and 22% up YoY.

Moving onto Slide #2 which gives an update on the other income breakup: the income from other investments was Rs. 3 crores this quarter which is slightly up from Q4. The hedge losses are roughly about Rs. 6 crores very similar to last quarter. The major gain was on the revaluation and realized front where the number stood at Rs. 13.5 crores vs. 1 crore last quarter. This gave the major upside on the total revenue side. As you can understand the revaluation gain is largely driven by quarter end to quarter end rupee-dollar rate, which moved by around Rs. 5.5. So we expect that this revaluation gain may not be repeated unless currency further depreciates to that extent in future quarters too.

Moving onto Slide #3, which gives an update on the hedging quantum. Given the opportunities presented by the currency moves, we have increased our hedge book. Now the hedge book stands at about $102 million at an effective strike rate of Rs. 58.8. This in terms of revenue ratio stands at 3.1 times which is higher than what we have had lately. Moving onto Slide #4, our total cash position as of quarter end is Rs. 282 crores, which excludes the amount kept in escrow and the current book value per share is around Rs. 173 per share.

Slide #5 gives a detail of P&L at an operating level. I would not take too much time on this. Just to draw attention to a couple of points here. On the employee cost, you can see that the amount has moved from Rs. 60 crores to about Rs. 66 crores which is roughly 10% sequential up in cost, which largely reflects the hikes that we have given on the India side and also the increased number of employees that we had in the quarter. On the G&A and selling & distribution side we had very minor downward trend or slight increase respectively in absolute terms. On the depreciation and amortization side, the significant jump is primarily driven by the fact that we have started amortizing the second tranche of earnout that we paid in Q1 towards the Agilyst acquisition. So there is a onetime catch-up effect of about Rs. 2 crores baked in here.

Slide #6 gives you the bridge in terms of how the operating margins moved between the quarters. As we can expect, the largest contributor to the increase in the operating margin has been the exchange rate. On the downside, the employer cost of about 3% down is due to hikes that we have given. The depreciation and goodwill I already explained is primarily due to an increased amortization towards the Agilyst acquisition.

Moving onto Slide #7 – This gives the key metrics on the revenue side. The currency concentration as well as the geographic concentration has stood very similar to what it was previously at 81% and 74% respectively. The DSO metric is also largely in the same range of 30 to 40 days. We added about five new clients this quarter. The total number of clients which got accrued in this quarter was about 61, which is same as what we did in Q4. The staff utilization has slightly gone down – 66% this quarter.

Slide #8 gives you the trend of the YoY revenue moves on the top five as well as on the emerging client segment. As you can see the strategic client growth in YoY terms has been fairly stable at 10-15% over the last few quarters. The drop that you see on the emerging YoY growth trend is primarily because we have completed one year of Agilyst acquisition so the onetime inorganic addition effect has gone away. One other point to notice on this slide is that if you look at the bars, the absolute amount of contribution from emerging clients now is roughly around 8 million in a quarter, which translates to about $32 million annualized run rate. Directionally, we think that this is a good sign that our emerging YoY growth remains higher than our strategic client.

Coming to last slide, Slide #9 – Total number of employees globally were around 6400 as of end of Q1. We have seen softening of attrition throughout the last few quarters and this quarter is no exception. The attrition stood at about 25%. Having said that, Q2 has been our historically highest attrition quarter, so this number might go up the next quarter. That is all in terms of the formal presentation. Now we will open up for Q&A.

Moderator Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. Our first question is from Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra First question is based on your top-5 client growth; sequential growth at least seemed relatively weak this time. Noticed that your mix came down there. I know they have been weak generally over the last year-year and half, but is there any specific reason for this quarter?

PD Mundhra Our top 5 clients we did see some growth this quarter but as you pointed out it was softer and we saw in our emerging clients. I think more broadly if you look at the past three or four quarters, quarter-on-quarter growth has been somewhere between 1% and 4%. And from what we can see the environment seems to be similar for us going forward as well. So I would think that probably it will be a similar sort of trajectory and similar sort of growth rates in the future.

Ankur Rudra Do you see among your top 5 client's expectations of cost of living increases or better visibility in terms of volume growth going forward?

PD Mundhra On the pricing front I would say certainly we see pricing being flat to slightly up during the course of FY14 because with some of our clients we have pre-baked in inflation clauses which will kick in, or have kicked in. So I would say on the pricing front we definitely see some marginal uptrend throughout the year. On the volume front I would say it will be similar to what it has been in the past 2-3-4 quarters.

Ankur Rudra In terms of utilization if you could add some more color, is it just that you built in a larger bench and expect a stronger growth in the second half of the year right now?

PD Mundhra Well it is a couple of things. One is to the point that Rohitash made, we have always found Q2 to be our higher attrition quarter and some of the activities that we are in particularly on the cable side of the house have a longer lead time in terms of training employees. So we have made a conscious decision to basically increase, I think a little bit, in anticipation of potential attrition. The second is of course some of the hiring happened towards the later part of the quarter for projects that have more recently gone live or that will go live.

Ankur Rudra May be you could comment a bit more about the Agilyst business. It's been a year since you acquired it and when you acquired there was one large client that was scaling up very nicely. Any incremental successes there in terms of other scalable clients?

PD Mundhra Yes, I think the business has done reasonably well and it is in line with the forecast and projections that we had the time of closing the acquisition. So when we acquired the company it was about $15 million or so in run rate back in May last year. Since then it has grown substantially. Today we are at $20 million plus run rate for that business. And in terms of clients we now have four clients for that business and some of them are scaling fairly well and have contributed to this growth. So we think both in terms of total revenue growth as well as in terms of diversification it has worked out well for us.

Ankur Rudra Will it be able to maintain the kind of trajectory we saw last year?

PD Mundhra The good and bad things about lumpy opportunities are when you win then you get large uptakes and if you do not win then you have some periods of slackness as well. So it's hard to comment, but all I would say is that the pipeline continues to look good for that business. So I am quite hopeful that during the course of FY14 we should be able to continue to grow that business.

Ankur Rudra Sir couple of comments on margins if I can get, I mean I noticed the G&A expenses were actually down even on an absolute basis. Is it just a seasonality sort of come back to the levels we are used to?

PD Mundhra Yes I think some of it is a function also of provisions that were made in Q4, for things like annual bonuses and things like that, some of which got reversed during the course of Q1 as we came to know what the actual payouts were. So I think from a longer term perspective it would probably be more prudent to model G&A etc on where it has been on average for the last year.

Ankur Rudra And you are through with your wage hike cycle and promotions? Everything was through with this quarter?

PD Mundhra Yes, so that is all reflected in our Q1 numbers.

Ankur Rudra Just last question from my side on CAPEX, just want to get some clarity of how much did you incur, seems to have significantly gone up from March to June?

PD Mundhra In March to June there should not have been any large CAPEX. Where are you getting those numbers from Ankur?

Ankur Rudra I think I got something moving up from around the gross block from balance sheet for once. It could be a currency led thing as well.

PD Mundhra Yes because we did not have any material CAPEX. The two big facilities that we put live during the course of FY13 were an expansion in Pune and an expansion in Chandigarh, both of which happened towards the end of calendar 2012. So there really should not have been anything material that happened in the June quarter to my knowledge.

Moderator The next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja If the management team could comment about what they are seeing across the three segments of business and the second question was with regards to how should we be reading the strong employee addition that we see in the current quarter because that is significantly higher than what one has seen in the last several quarters. So is it in anticipation of some business opportunities that you are seeing and thirdly if you could talk about one of the large deal opportunities that you were chasing with one of your big customers and one last question was with regards to how should we see revenue go traction within some of your larger clients?

Anjan Malik So I will start with the first one about how we see these three businesses going. So I think we continue to see a lot of traction in Cable & Telco. I think PD spoke to the fact that one of the businesses has grown pretty substantially since we have bought it and integrated it. That business is now officially what we call Cable & Telco services within our organization. We see a lot of interest from two aspects. One is the kind of services that we provide have a large return on investment for our clients. So people actually see reduction in overall cost by going through our services and these are not just caused through wage arbitrage but actually by us changing the business demographics. Secondly I think there is a broader acceptance of offshoring in these organizations that may be has not been the case in the past because they are certainly not as advanced as the BFSI sector. So that I think there continues to be a lot of momentum in that space. In certain marketing services or what we call digital internally, our eCommerce services - again a lot of demand. That is the area where we are seeing a lot of growth in what I would call our emerging portfolio of clients, which is away from our top five clients. We have increased penetration of sales effort in that area and we are giving a fair amount of traction for the efforts that we are putting in by signing on new logos. So a lot of the new logo additions that we are getting or be it a small price addition points has been in that area. The banking space continues to be interesting. I think there is certainly a lot more budget for discretionary spend than what we have seen in 18 months. There is more desire for investing in new businesses and again our focus is on reengineering and cost. So we are seeing more traction for services in the banking sector as well. But again we remain cautious with that area simply because it is strewn with regulation, so the big risk is that the industry continues to be really driven by regulation and changes the overall industry patterns.

Manik Taneja Prodding you further with regards to BFSI, in our case our primary competition tends to be captive and in the recent past you guys have spoken about captives doing better than third party players like us. Do you see that changing in the near term?

Anjan Malik You know any large BFSI player that we have seen in the last couple of years has taken a triple play approach to low cost services, right. So they have had a captive, where they put in a lot of proprietary stuff. And I'd say it's the easiest place to shift to – where you do not really have to think about things like governance, service levels or KPI or any of those things. It is actually just that you move roles to your branch or a subsidiary of your own company. The second part of the triple play tends to be some large IT vendor that is doing IT development and they will take on some portion of BPO. And usually there will be a portfolio niche of high domain players and usually that is the thing that we have won before. I think that triple play continues to play out. I think what is happening is that more and more guys are becoming intelligent, more intelligent about how they think about sending business out to those three players. Whereas the knee jerk reaction may be last year that it was okay to send it to the captive, let us do it. I think people are now much more cognizant of things like cost. It was much more expensive to move business to the captive, especially over the longer term. I think guys are becoming much smarter about how they source services that they are looking for. So I would not necessarily say that one player is more favored than the other today.

PD Mundhra So Manik, picking up on other question about headcount addition, I think I will elude it to this in response to the previous question from Ankur but basically growth that you see is a function of three things. One is obviously we had almost 2.4-2.5% growth in constant currency terms so there is an increase in headcount to support them. Second component is we expect Q2 to be a higher attrition quarter is traditionally has been for us given it comes after our bonus payouts. So some of the starting is in anticipation of some of the attrition and the third is some of the projects that we have taken on that will go live early next quarter. So it is a combination of those 2 or 3 things. I do not think you should read too much into that as an early indicator of what happens next quarter.

Manik Taneja Okay, because attrition is most likely going to remain soft or at similar levels generally across the sector in the near term.

PD Mundhra I mean for us Q2 has always been a highest attrition quarter, at least in the last 2-3 years.

Manik Taneja I had one more question. This was with regards to one of the large deals that you are pursuing with more of an onsite deal that you are pursuing with one of your bigger clients. Could you update us on the progress on that front?

PD Mundhra I guess you are referring to opportunities to set up deliveries outside India, right? So on that front we continue to have conversations with 2 or 3 clients. I think we have made some progress in terms of solidifying demand but I do not think we are at that point where we can pull the trigger. As we have said in the past for us the litmus test is having an anchor client who can give us a 100-plus heads so that you have that fear to build out and invest in a facility. Moment that happens we will do it and you guys will be the first to hear of it. But so far we have not yet reached that check point.

Moderator Our next question is from Pankaj Kapoor of Standard Chartered Securities. Please go ahead.

Pankaj Kapoor I think first on pricing I believe we have got some realization jump up in this quarter after the decline that we saw in the last year, so I was just trying to understand how do you see this moving on over the next 2-3 quarters especially given the rupee depreciation. Do you think that these next 2-3 quarters we may actually see pricing again, at least the realization going down as the client asks for rupee gains to be shared?

PD Mundhra I think based on a rupee of let us say between 58 and 60 which is where it has been for the past few weeks, we still think that pricing for us will be flat to marginally up during the course of FY14. I will caveat and say that as you guys know the pricing for our cable business is different than pricing for our other two businesses. So to the extent you see a shift in our mix and if the cable business becomes a larger proportion of total revenue then obviously blended realizations across the whole book will get pulled down a little bit because of that effect. But on a like-for-like basis in all our three businesses we think pricing should be flat to marginally up.

Pankaj Kapoor And now looking on the volume side, I guess given that you spoke of a $20 million run rate in the cable business, I believe our organic business, the ex-Agilyst business would be probably flat or marginally down quarter-on-quarter. Of course we have seen the top five accounts also flat to marginally down the quarter - I was wondering if you can give me some sense over here that is this volume slowdown that we are seeing in terms of especially the financial services business, got to do more with the Dodd Frank impact coming into play and if you can quantify how much of the volume to the client could be attributed to that.

PD Mundhra Actually our native business is also marginally up on a quarter over quarter basis. So I do not know from where you are getting the numbers that our native business is down, it is up, but the Agilyst business is up more. With that I let Anjan talk more about specific impacts of Dodd Frank and on the financial services side.

Anjan Malik As we have talked about in the past, directives by Dodd Frank and EMIR which is the European version of the Dodd Frank Act, they are pretty large acts and they have many different implications and what exactly happens is that those acts lead to 300 may be different work streams that affect different aspect of trade life cycles, customer behavior, pact behavior, etc. So we are very early in that process of understanding what the implications in the industry are going to be because of these changes. What is happening though is that as a result of these regulatory initiatives we are seeing a lot of what I would call remediation type of activities and actually a lot of additional work that has come our way. So as we had said on past calls, when you have this amount of regulatory oversight typically large books of work gets created or remediation takes times to entities. Those entities are not like tomorrow, they are over 3-5 years, five year timeframes. So I think it is inaccurate to say that volumes have reduced because of Dodd Frank. I think actually creating volumes have increased tremendously and certainly that is the intention of these acts because they are trying to make things more transparent, more liquid. But that path to these new infrastructures, the new business models means a lot more work for companies like us and I think we have certainly seen some part of that book and obviously some of the other companies which we have talked to would have seen a part of that book and that is reflecting in their results this quarter.

Pankaj Kapoor I was referring to the volume to us, so is it fair to assume that we have actually been a net gainer so far from the Dodd Frank Act, at least in the last 2-3 quarters?

Anjan Malik Well I think all I would say to you is the banking business is not smaller, it is bigger than it was 2 or 3 quarters ago. So certainly we have more work than we had in the past. So there has been net new work created by Dodd Frank as opposed to work taken away. But I think that is the fair characterization. I think some of it also goes back to what we have talked about may be a year ago because I think we all know that if we want to see derivatives to become more liquid, as they become more like listed products and some capitals are more expensive to trade spots. All those things are definitely happening. So even if you look at a book of business, if you were to compare a book of business five years ago to today, it is a bigger business. But the sheet maps services that we today provide is completely different from what we provided five years ago and that is the natural evolution of the kind of work that we do.

Pankaj Kapoor And just looking at those top-5 movement quarter-on-quarter and specially the last 2-3 quarters as well, is it I believe concentrated in 2-3 names or you think it is basically all the top-5 accounts not growing high, or is it a little off sided in terms of a couple of accounts we actually are seeing a degrowth, whereas the others the growth rates have held up?

PD Mundhra Well I think there is an uneven trajectory. Any given quarter or year couple of accounts of the top 5 tend to do well and the others are taking a breather or some might be degrow as well. But I think generally speaking growth rates in our emerging business have been better for us than growth rates in the top five. And to your point I would say yeah, more recently I think one or two of the top 5, I think have had their own challenges. So clearly we have seen softer growth for them.

Pankaj Kapoor So PD just to sum up the whole outlook for the full year, I mean not getting to a specific guidance but if I just look at this quarter – and you spoke earlier of the demand will continue to be on overall basis a bit soft. So is it fair to assume that the sequential rate what we saw is where probably could be base at which we should expect the growth at least in the next 2-3 quarters?

PD Mundhra Yeah, I guess if you look at the first slide of our presentation today we did that calculation of organic growth rate Q1 last year versus Q1 this year and it came out to be about 12%. If you look at our quarter-on-quarter growth rates for the past 2-3-4 quarters they have also averaged somewhere in that 2-4% range. So I would say the environment does not feel qualitatively any different for us now than it has been over the past 6 or 9 months, so if I had to guess right now I would say similar sort of growth outcome for FY14 as what has been happening in the last 2-3-4 quarters.

Pankaj Kapoor So there is no broadly risk to this 12% number, or you see any downside risk itself to this 12%?

PD Mundhra There is always an event risk but there is also opportunity. I am telling you what I think is the best guess at this point in time.

Pankaj Kapoor And in terms of the margin outlook for the full year given the currency shift that has been happening, how do you plan to look at that from an overall perspective? Do you think that this will all probably reflect in either the margin number or are there any headwinds which can dilute the impact of the rupee given that we have already done with our wage hikes?

PD Mundhra We have always targeted low-to mid-30s operating margin for our business and this quarter we were above that. I guess we were at about 37%. I think for this year if the Rupee stays at 59-60 level then we should comfortably be able to come in at the top end of that range, may be even slightly above that, so I do not see too much margin pressure right now from where things are. I think the bigger challenge for us is accelerating growth.

Pankaj Kapoor And just lastly Rohitash, a few items on the balance sheet side, the early portion which was alluding to the jump in the net block rather. So I believe that is also capturing the goodwill which is there. So if you can give the breakup of that in terms of net block and goodwill?

Rohitash Gupta Can we take that offline after the call?

Pankaj Kapoor Sure.

Moderator Our next question is from V P Rajesh of Banyan Capital. Please go ahead.

V P Rajesh Looks like Agilyst has been a successful transaction for you. Could you just comment on how much of the earn-out is remaining which is I believe expected to be paid out at the end of the year and secondly what about the team? Are they continuing to be part of eClerx or has there been any movement on that side?

PD Mundhra Okay so on the payments for the transaction, as you might recall we had paid just under 16 million in the upfront payment, we have now paid the next tranche and as we have disclosed in our notes to accounts that was about 2 million, so total payment made so far is about 18 million. And we have a third tranche that will get paid in the last quarter of this calendar year which has a cap of 4 million, so somewhere between 0 and 4 million will be that last payment. So the total payment for the company will end up being somewhere between 18 and 22 million, right, depending on what happens with that third tranche. In terms of management, the erstwhile management team at Agilyst, two of the key founders are still engaged with us at least until the end of the third earn out and after that I think it is a matter of sort of mutual agreement as to how things proceed from there. In the mean time of course as we have disclosed in prior calls we made a big effort, an investment in ramping up the management team at Agilyst so the client engagement team which used to be roughly 4 or 5 people at the time of acquiring the company is now up to about 12 or 13 people, so I think that we have sort of broad based that engagement model quite a bit.

V P Rajesh The next question is are you looking to acquire more businesses given how successful Agilyst has been in opening a new business line and if the pricing is more interesting from your perspective given just the fact that you have a large cash balance and I am sure you are getting a lot of inbounds?

PD Mundhra We keep looking at potential targets in conjunction with our banking partners but by way of perspective I would say that we probably looked at somewhere between 30 and 40 companies before we closed the transaction with Agilyst. So M&A as I am sure you know is a sort of low hit rate activity and I would expect the future to be no different. And I think for us, we are also cognizant of the fact that while this transaction was successful, in general if you look at

M&As, they have a high failure rate, so we have a set of filters and selection criteria in our mind which we would not like to dilute too much as we look at potential targets.

V P Rajesh Are there any major contracts with your top-five clients coming up for renewal in the next 2-3 quarters?

PD Mundhra Nothing extraordinary that comes to mind, given our broad scope of engagement with those clients, there are always SOWs that are reaching the end of their life and are being renewed, so that is an ongoing process. But there is no large bunched up set of renewals waiting to happen.

Moderator Our next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu Sir what is the onsite sales headcount currently and would we intend to hire more sales people in the coming period?

Rohitash Gupta Yes, so we have about 62 odd people in the sales organization as of date and we will consider adding staff towards the later part of the financial year.

Madhu Babu And typically what is the average team size in the emerging client segment?

Rohitash Gupta Typically new entry points are fairly small. In general, they tend to be 3 to 4 headcounts on average for the new clients that we acquire.

Madhu Babu And can you just give the client breakup within the verticals if that is possible? 61 clients as we have mentioned, so how many are in the sales and marketing because that is the area where we are seeing new client addition is strong?

Rohitash Gupta Yeah so sales and marketing clients are roughly in the 35 to 40 range. We have single digit clients in the cable business and rest 15 or 20 odd clients will be in the financial services space.

Moderator Our next question is from Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra I have a follow up question on sales and marketing, seems to have come off sequentially this quarter at least in proportion of revenues. I was expecting to actually add sales staff, is that sort of more backend loaded for the year?

PD Mundhra Sorry Ankur, you are talking about the expenditure on selling and distribution as a percentage of revenue?

Ankur Rudra Yes.

PD Mundhra So I think as we made the point in our investor presentation we had a few reversals of expenses in this quarter relating to provisions that we made in the prior quarter, primarily in terms of performance bonuses and things like that. So I would say on a normalized basis if you are building a model for the business you should probably assume that that cost selling and distribution will remain more in line with where it has been for FY13 as a whole. This quarter was slightly lower.

Ankur Rudra Second part was in terms of sales staff addition I was expecting something over the course of this year because the number you mentioned for total sales staff seems somewhat similar to what you ended FY13 with, so are you looking to that over the course of the remaining year?

PD Mundhra I think we feel that the team is fairly right sized for the volume of business that we are supporting, so I would anticipate that our investment in selling and distribution from this point onwards remains fairly constant as a percentage of revenues.

Ankur Rudra No, I was wondering especially given the benefits you will see from the currency, will you be investing that either as more sales staff or something else?

PD Mundhra I think we will have to see. At this point there is no specific plan. I think we feel that we already increased that organization a fair amount over the last 18 to 24 months. We want to first sort of see what the impact of that is.

Moderator Our next question is from Hitesh Shah of IDFC Securities. Please go ahead.

Hitesh Shah We have done very strong hiring in Q1. So is it in anticipation of some client ramp up or what is it really? And also what is our sitting capacity at this point of time and any CAPEX done for the rest of this year?

PD Mundhra Basically the employee additions are on account of three components. One is as you will see this quarter we had roughly 2-2.4-2.5% growth in constant currency terms so there is an addition of headcount to support that. The second point is that Q2 is historically our highest attrition quarter, so we have also deliberately done some hiring in terms of beefing up our benches to mitigate the impact of that attrition as it happens. And the third thing is that we did have some project that went live towards the end of this quarter and early in the next quarter, so some of the hiring is for that. In terms of your question around utilization basically we are running at about 90% utilization across all of our facilities put together. So I expect that if we continue to grow then towards the backend of this financial year we will probably have to add capacity either in Bombay or Pune in all likelihood because we just did Chandigarh a few months ago. So that is yet to be done but when we sign a lease then we will certainly disclose that.

Moderator Our next question is from Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain If you could share some perspective on the S&M business wherein the latest trends are to the digital spend side and there are new ways like Omni channel and all coming up. Are we putting our efforts towards that as well?

PD Mundhra Yeah, I think the focus for our sales and marketing services business deal is basically digital marketing and online operations and I think while some of our larger clients in the technology space have had some challenges, but away from that I would say more broadly we have had good adoption and most of our new client additions have tended to come in that space. So we do see consistent investment by clients in the digital space and we hope that we can benefit from some of that.

Rahul Jain Any specific success or cases which you could share in terms of understanding where the demand could come from?

PD Mundhra Yeah I would say there are three or four broad areas where we have had success. One is in the area of content and commerce primarily around content migration when clients re-platform or create sort of new websites. The second area is around marketing automation so helping clients automate the setup and execution of marketing campaigns and then tracking the performance of those campaigns. The third area I would broadly say is around analytics, so both web analytics and another marketing analytics, so those would be sort of the three big areas where I would say we have collected pools of demand.

Moderator We have follow up question from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu Sir the new clients we are adding in sales and marketing, we have said that 3 to 4 kind of team size in the projects, so is there a churn rate in the clients or is it like they are scaling up to an annuity business or there is a frequent churn?

PD Mundhra I think in the long tail of our sort of small client, there is a fair amount of churn. So every quarter while we may acquire four or five clients I think it is also true that every quarter we lose a reasonable number of clients, three or four clients but I think what is important is that when we acquire clients, some of them, not all, but some of them do graduate to become larger accounts. So we do track how many million dollar accounts we have, how many half million dollar accounts we have and that number has been trending up quarter after quarter, which is ultimately I think very encouraging for us as a management team.

Madhu Babu And in this particular area under sales and marketing side, who were the major competitors?

PD Mundhra It tends to be varying. Some of the competition comes from digital agencies, which is basically the digital arms of PR agencies, who are also trying to do some of this work. Occasionally we will also come up against the larger BPO companies like Accenture Interactive or Capgemini or somebody else for that matter. But it is fairly fragmented, because as you can see it is a big space, many potential clients, many potential providers, so it is hard to predict whom you will see in any given opportunity.

Moderator Our next question is from Pratik Gandhi of IDBI Capital. Please go ahead.

Pratik Gandhi Two questions – one, I think as per my calculation it indicates that organic revenue grew by 1.6% on a QoQ basis that is basically on native business. So how was this vis-à-vis your expectation at the beginning of the quarter and even I think how one should look at this during the next three quarters? And secondly you have already thrown some light in terms of lower S&D expenses but I think it has been running low I think in the last two consecutive quarters entirely as a percentage of revenue. How should one look at that?

PD Mundhra I think from an outlook perspective I do not know what additional color I can give beyond the comment that we have made previously. So I would say that broadly speaking if you had to ask us to raise our expectations of growth I think in near term we feel the cable business will offer the most opportunity for us for growth and our native businesses will be growing slower than that. Hopefully, towards the back half of this year we can see more momentum in our native businesses but that is a hope rather than a data based belief right now. So that is sort of what we see.

Pratik Gandhi Yeah, so I think does that mean you are less confident to grow your organic business than that of the last year?

PD Mundhra No, I do not think so because last year also if you look at our organic business we grew somewhere around 8% to 9% in FY13 in organic terms. So this year also I think we will end up somewhere in a similar range. Again I do not want to throw out a specific number but on a quarter-on-quarter basis we have been growing somewhere between 2% and 4%. So I would expect hopefully the same thing to continue for the rest of the year.

Pratik Gandhi And secondly, just a clarification on lower S&D cost for the last consecutive quarters?

PD Mundhra Well last quarter as I just mentioned which is Q1 there was an impact of reversal but on a more sustainable basis I think it should be similar to where it has been in FY13, about 13% or so of revenue.

Moderator As there are no further questions I would now like to hand over the floor back to Mr. Rohitash Gupta for closing comments.

Rohitash Gupta Thank you everyone once again for joining this call and hope to see you again next quarter.

Moderator Thank you very much, members of the management team. Ladies and gentlemen, on behalf of eClerx Services Limited, that concludes this conference.