"eClerx Services Limited Q1 FY'17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to eClerx Services Limited Q1 FY'17 Earnings Conference Call. 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. If 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. I now hand the conference over to Mr. Rohitash Gupta -- CFO. Thank you and over to you sir.

Rohitash Gupta: Thank you, Aman. A very warm welcome to participants joining this eClerx earning call for the first fiscal quarter of FY17 ending 30th June. In Q1 FY17, our total revenues remain flat sequentially at Rs.350 crores while operating revenue in both USD and INR terms dropped by 1%. We foresee revenue to display similar pattern for Q2 FY17 as Legacy projects in Financial Services face pressure due to environmental uncertainty, automation and in-sourcing. Despite flatness in top line during last few quarters the INR operating revenue grew on Y-o-Y basis above BPM industry average at 14%. During the quarter, Cable business grew year-over-year at a very healthy cliff followed by Digital Services. The pricing has remained stable over last 12-months and we have seen moderate uptick year-over-year as normally expected during early part of each fiscal year. The operating margin and net profit growth for the quarter on Y-o-Y basis was 23% and 27% respectively through consistent efforts on improving operational efficiencies primarily through service delivery pyramid optimization. Our operating margin percentage was also very satisfactory at 33% while net profit was about INR 96 crores for the quarter.

As most of you would recall that we had distributed a very small dividend this time and had indicated our plans to explore alternate means to maintain overall capital allocation strategy. We have now completed the court approved process of merger of Agilyst Consulting Private Limited with eClerx effective 1st April 2015, and we now propose to take shareholder approval through a postal ballot for buy back size of INR 234 crores at maximum buy back price of Rs. 2,200 per share. We have also adopted IND-AS accounting standard from this quarter and have provided comparable IND-AS based unaudited financials for Q1 of last year. Any financials stated in release pertaining to FY16 - Q2, Q3, Q4 are based on management estimates and may change based on subsequent audit under IND-AS. The profit after tax impact of IND-AS adoption was a positive of Rs.4.5 crores as ESOP fair value related charges were reversed due to recognition of lapsed and forfeited options as at 1st April. However, remaining quarters as well as full FY17 is likely to see net negative impact on reported operating and net profit metrics on account of IND-AS adoption this year. We have given details of key items which have undergone changes in terms of treatment due to IND-AS adoption and it includes amortization of intangibles on CLX acquisition and minor items like gratuity, deferred taxes, fair valuation of mutual funds and ESOPs.

Other income for the quarter was Rs.10 crores Vs Rs.7.3 crores in last quarter. Our forward hedge book is at $132 million with an average strike rate of Rs 71.56/$ and this number has moved up by 83 paise to a dollar since Q4 FY16. Based on hedges booked till now we expect that $74 million worth of inflows will convert into operating revenues at the rate Rs.70.5/$ during remainder of FY17. The employee cost in Q1 increased by 320 bps quarter-on-quarter as a proportion of operating revenue mainly due to 10% wage hikes for India employees. The Q-o-

Q increase for employee cost appears slightly more than normal because we had seen reversals in gratuity in Q4 on account of actuarial valuations which depressed the employee cost during Q4. On the other hand G&A cost as proportion of operating revenue came out similar to last quarter at about 12.4%. We have now reclassified some of the sub-heads in G&A to reduce the accounts clubbed under others category and we will follow this classification going forward. The legal and professional costs have increased as we have invested in upgrading our sales and account mining process through newer techniques. The selling and distribution cost appeared to have decreased on reported basis due to significant reversal of cost on fair valuation of ESOPs pertaining to business development staff, otherwise this absolute cost of selling and distribution has remained largely flat. The depreciation has reduced quarter-on-quarter due to reset of written down values of fixed asset at the start of financial year which was partially offset by added charge of amortization of intangibles on account of CLX acquisition under IND-AS. We had about Rs.600 crores of cash and cash equivalent at the end of the quarter, our net operating cash flow was about Rs.55 crores during Q1, while CAPEX was at a low level of Rs.6 crores. We anticipate CAPEX to remain at this low level during next quarter as well and may pick up during H2 FY17. We have spent about Rs.55 lakhs on various CSR activities, which is lower than planned FY17 spend of Rs.6.5 crores and as and when we catch up in next few quarters it will have adverse impact on the operating margin.

Our business concentration metrics like geographical and currency share of Americas and US dollar respectively have remained largely unchanged at 72% and 66%. The DSO was at a higher end of historical 70 to 80-days range at 80-days this quarter. Staff utilization improved marginally to 69%. The top 10 client concentration moved in the right direction to 74%. The $0.5 million to $1 million client count increased by 2 to total of 18 clients in Q1 primarily due to upward movements in some digital clients. On the other hand, we have added one banking client in $1 to $5 million bucket as well. In all, we have now 43 clients which give us more than half million of revenues in trailing 12-months. Top-10 clients demonstrated a modest year-over-year constant currency growth of 3% this quarter as some of the legacy work is coming to an end in Financial Services. We foresee some opportunity to expand our cross vertical services across our top-10 clients as currently only handful of such top-10 clients are availing our cross vertical services. On the other hand, emerging clients which now refers to non-top-10 clients have shown a constant currency organic growth of 28% which was reflective of broad-based demand across Banking and Digital spaces.

The overall company headcount remained largely flat on Y-o-Y as well as on sequential basis at about 8,827 employees. Our sales in business development staff count was 77 at the quarter end which is a slight decrease compared to highest ever point of 82 about 1-year back. The India attrition was 30.4% for the quarter, which is 70 bps lower than the same quarter of last year. Further, the sequential jump in attrition during Q1 was merely 180 bps this time Vs 440 bps seen in the same quarter of last year. As stated in the previous commentary, the employee training on robotics automation skills is in advanced stage with several pilot deployments underway across many of our $1 million plus client base.

Lastly, our effective tax rate for the quarter has been between 23% to 24% similar to what you have seen in FY16.

With this I will hand over the call back for Q&A.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-Answer Session. We have the first question from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: First question is on these legacy projects. So, first, P.D., if you could tell us what percentage of our BFSI revenue would be Legacy which is currently undergoing some pressure? Second, when we talk about automation reducing the overall revenue, is it the automation that eClerx is doing for the clients and therefore saving them some cost or is it that the client is employing some third-party automation tools which is why we are losing market share?

P.D. Mundhra: So let me take the second part of that question first. I would say it is both ends of Automation, on our side, Rohitash talked about our initiatives on things like Robotics and I would say in general the trend is that the amount of revenue we lose on account of the manual or FTE-driven part of the work going away or becoming obsolete is more than what we gain on account of implementing Robotics for the client. Of course that is also why these initiatives are attractive to the client because they reduce their overall spend, but obviously it means sort of more top line pressure for us in the short-term. In addition, there are initiatives the clients might be doing on their own side whether its utilities or its technology that they are building, which really is no different than what they have been doing in the past, but Automation comes in both variance and it does pose a near-term revenue challenge for us when clients implement it. Switching now to the first part of your question, I am struggling because I do not have a precise number that I can put and say very neatly that this part of our revenues is Legacy, but I would say that to some degree across not just in Financial Services but also in Cable and partly even in Digital, some of the work that we are doing is open to Automation, it is a question of what time scale you put to it, right, so some of the more complex work probably has longer life cycle, some of the less complex work is more open to Automation in the near-term, but that risk is there across large parts of our portfolio, which is why we think it is very important for us to proactively take the lead in this and be seen by clients as the ones really driving change and creating the next-generation of services.

Abhishek Kumar: Does that mean in the next quarter you already talked about will follow the similar trend, but is this pain likely to remain for a much longer time horizon?

P.D. Mundhra: Again, I do not have a really good visibility to give projections out beyond a quarter or two. So based on what we know about Q2, I think Rohitash has already provided some context and color that we expect it to be similar trend wise to Q1. Beyond that all I would say is that our growth sales as in terms of new mandates that we are winning for clients continues to be reasonably strong. So to the degree we see some relief on the roll off size, then I think we will see stronger net numbers coming through. Certainly, I would hope so in the second half of the year.

Abhishek Kumar: Rohitash, most of the companies who reported this quarter have reported positive cross-currency impact, we had a negative cross-currency impact. So is there any difference in the way we bill maybe we bunch it up towards the end of the quarter. If you could just explain how we calculate cross-currency?

Rohitash Gupta: Most of the invoicing actually is monthly and obviously you invoice for a month only after that month has passed by. So I would not say any different trend than what most companies will be doing I believe.

Moderator: Thank you. We have the next question from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Could you perhaps elaborate like-for-like impact of RPA or Automation on your revenues, absolute profits and margins when you are asked to use this or when you use it yourself (a) and (b) what is the pricing model you use for RPA, how is it different from the traditional FTE-based pricing model?

P D Mundhra: May be I will take the first cut at that and then ask Anjan to jump in if he has any other thoughts. In terms of pricing models, I would say they are all varieties, so variety #1 is we charge on time and material basis for implementing RPA processes for our clients, and in return they get ongoing reduction with spend because they are able to dispense with certain amount of manual effort, that is model #1, model #2 could be that we agree with a client that we will basically charge or generate a part of the savings that we create for them by implementation of Robotics, model #3 might be that we offer to do Robotics for free provided they agree to a minimum level of spend with us, so basically we are exchanging the benefits of Automation in return for higher relationship sizes with certain clients. So it is really a function of each client's situation and what might be most appealing to them at that point in time. In terms of impact on revenue and margin I would say revenue in the near-term is definitely downwards as in the loss of revenue usually. In terms of margin it could very well be a positive effect on margins because to the extent we are using our own platform, we are able to realize some value also for the platform part of it or even if you are implementing Robotics typically that work might come at a slightly higher realization given the more complex type of work, the margin effect might be a slightly additive but the revenue impact will usually be downwards.

Anjan Malik: Actually I want to say that today as you probably notice from the various calls you will be having with other IT companies Robotics is the word of the season and I think there is a lot of focus on it. We look at it as one access of cost saving, right, so most of our clients especially in the banking space and actually across all our large enterprise clients' industries are looking at a three-pronged approach to reducing cost right, so they will be looking at large automation initiatives which is equivalent of the digital investments in the front end what we call straight through processing or front to back initiatives. That continues to be the #1 way to take out cost. That is continuing, right. The project work that I know when we talked about on this call actually alludes to our involvement in those initiatives providing change, support, testing support, subject matter expert support, to start those large change programs and they tend to be the largest banks. The second one is utility where effectively clients are looking for hat we would call 'Multi-Tenanted Solutions' to try and solve a common problem. We can indeed take up for those, whether it is KYC.com, whether it is the utility that used to setting up derivatives. Again, we are involved in those initiatives both as specialized guys and as BPOs in many instances. The third part of it which is effectively what is manual and what is effectively being robotized for the lack of a better word there, I think our involvement is two-fold -- one is we are acting both as implementers, designers actually identifying which processes should be automated through Robotics. We are implementing those in those instances. I think it is important to note a couple of things: First of all, the book that we run being the sort of provided that will be more complex, tends to be far fewer headcount and actually in some ways shape and form much less attractive from Robotics ROI perspective, where actually the opportunity for guys like us exist is providing our SME support again in actually implementing Robotics in functions that we may not own which are much larger in scale. So I think the outcome of Robotics is entirely unclear and I would say that it is very early days to figure out what the longer-term impact on a player like us will be. Suffice to say that I think we are investing in all avenues required to make sure that we can protect our business and obviously we are going to use this as a way to give into new streams of revenue which we are doing.

Ankur Rudra: In the interim, the impact that you are seeing at the moment, I understand margins might be going up but our absolute profits also declining just the new opportunity you might see in the future?

P.D. Mundhra: Ankur I think it is hard to quantify that. I would say one thing is true. Going back with 15-years of history in this business I think scale is really important. So to the degree we can build scale in any line of business I think profits tend to follow that. So I think to build on Anjan's point if we are able to become a successful player in this field in terms of robotics and new technologies and we are able to create some scale out of that, then I think both margins and total profits will benefit. Today it is too early to really sort of commit to that.

Ankur Rudra: An update on your FY17 margin expectations, you said last quarter that you are expecting margins to moderate given slower growth and investments; your first quarter has been quite strong on the margin front better than what we saw last year. So would you want to update what we should expect for the year?

Rohitash Gupta: So for the year it will be anchored around 30% as we can see now. Two or three impacts that we have already noted in the previous remarks -- one is that IND-AS reported impact will turn out to be negative in the next few quarters and for the full year. Second will be the CSR impact. So the current margin of 33% is slightly overstated in that sense because the expenditure was not much. So these two are the already known factors, because of which margins will drop from 33% from here on, everything else remaining constant. On the other things that effect margin like revenue etc., as P.D. mentioned beyond a quarter it is very hard to predict and put and number and hence impact on margin is also hard, but all said and done, anchored around 30% is our best estimate for the year.

Ankur Rudra: There was an interesting comment where you said you are seeing a significant amount of broad-based growth in new clients in Banking. Just curious to know what is the nature of that you are seeing there?

Anjan Malik: It is along the lines that we discussed just now, so there is an element of change, there is a fair amount of work, that is related to regulatory support, there are large data remediation programs that could be anywhere from 6 to 36-months and there are opportunities for us to win run rate offshore work and we have been winning those businesses in some cases from captives, in some cases some other 3rd party vendors and in some cases from mid-cost locations of our clients.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: What is riding growth in the Cable – is it under penetration in some of the accounts, could you give more clarity on that?

Anjan Malik: I think it is a continuation of the trend that we have seen in the past where the services that we have been providing have proven to be very resonant because of the high return on investment, nature of those services. So lot of the activities that we provide target two specific areas -- one is in the area of customer care and improving the quality of customer care. That is an area that has become of very high focus for our clients both because of regulatory oversight and also because our clients see it is actually the way to protect revenue in a market that is becoming incredibly competitive. So our focus on improving ROI for customer care improving, what I will call, customer approval rating for our clients has obviously been resonant. The other part of our activity both tends to be in field services which is sort of activities related to making sure that services are provisioned correctly, and when they are not our clients are supported either on the phone, online or by physical visits to our client. What we have been able to do over the last 3-years is show to our clients that we can systematically reduce that cost of those activities for our clients while improving customer satisfaction ratings. So I think those few trends that we have had more and more of different parts of our existing clients take on those services, and over the last 6 to 9-months we have also started seeing new clients who may not have considered offshoring in the past, look to leverage these services and look through the fact that these may be provided offshore and look more to the ROI and customer satisfaction improvements that these services are providing. P.D., I do not know if you wanted to add?

P.D. Mundhra: Yes, I think that is good, Anjan. One more small point I would add as a footnote is we are also seeing some opportunities for geographical expansion with some other new clients. So we are also trying to pursue that as another axis of growth.

Madhu Babu: Secondly on Digital, are the scale of engagements increasing and would Cable and Digital fill the loss of revenues from Banking and can we see a back-ended growth for the overall company as such for FY17?

P.D. Mundhra: Let me first address the second part of your question, I think it is important to note that on our Banking business as well we have experienced significant growth over the last 3 or 4-years, and I think if you take a slightly more medium-term opportunity and look beyond the immediate quarter, we continue to see meaningful opportunities for growth in that business. I think structurally Cable has been our fastest growing business in the last 2-3-years, we have shared that commentary in our various earnings calls but it is also on a very low base, if you remember, Agilyst was only $15 million when we bought the company in 2012, so generating 20% or 25% growth rates on that basis is a very different proposition than generating the same 25% growth rate on $50 or $75 million business. As we go forward, I think we see growth opportunities in all of our three businesses -- Banking and Cable are more wholesale, so they are typically businesses which have fewer clients but larger relationship, Digital has a larger number of individual clients, but those relationships tend to be smaller. What is working for us on the Digital side to address the first part of our question now is with the addition of CLX we now have more things to sell effectively to each client. So in addition to the Digital operations and Analytics we also have Creative services that we can sell. This year in calendar 2016 we have been experimenting with taking CLX services to our US market and we are quite encouraged to see that the early response we are getting there. So I think there is increasing opportunity for us to grow some of our digital clients to the 500,000 to $2 million to $3 million range. I think very few of them will become $10 million clients like we have in Banking or Cable but I think we do have an opportunity to create a large number of $1-$2-$3 million client in the Digital space.

Madhu Babu: What would be the steady state depreciation from Q2 after taking the IND-AS because amortization will increase, right, this quarter there was an aberration you said?

Rohitash Gupta: Yes, that is right, so if you go to the second slide that gives the breakup of impact, amortization due to intangibles this quarter was around Rs.1.6 crores, so rest of that should be because of fixed asset-based depreciation.

Moderator: Thank you. We have the next question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: I have a couple of questions: One, on the Cable side, on the Digital side and related to Automation, do you see a Tectonic shift in the landscape where human interface has a possibility of going down the way businesses are being done, so what is your sense there? Secondly, one question on the book-keeping side from Rohitash. I guess you have given us two quarters numbers, that is this quarter and same quarter last year consolidated numbers in the way you used to report earlier, while you have given us some numbers in a different way you have given the breakdown for last 5-quarters in that number. So just wanted to understand going forward will you report the way you used to report the consolidated numbers in that way or you will use the new way which you have highlighted in the 'Investor Sheet' in yellow? So how do we reformat our model going forward?

Rohitash Gupta: Sandeep, I do not know if your comment is more about the G&A items, then we will adopt the new classification going forward, but we are open to report that way in the 'Investor Sheet' if that helps you. So we just wanted to make the PowerPoint presentation more crisp and meaningful, so we can discuss that offline, but we can present you both the numbers in the Investor sheet.

P.D. Mundhra: On your first question Sandeep, about I guess it is more a philosophical question around the application of automation and I think they are all points of you for example if you look at I think the last to last issue of 'The Economist' they looked at this and I think article came to the conclusion that the prospect for automation replacing human is vastly overestimated by most people today because lots of jobs are very complex with multiple human interaction touch points that robots or machines will find hard to replace. So really I think it is anybody's guess as to how fast that curve progresses. In the past I think human ingenuity has always meant that people find more interesting, more higher value add thing to do with their time as automation and machines take up some of the lower value work and I would hope that the future is similar. So I think our goal as an enterprise is to make sure that we are building proficiency in cutting edge technology and when we go to clients we make sure that we are trying to be seen as the most efficient and most technologically advanced provider of outsource services out there and we think that if we can sort of maintain that position, then in the more medium-to long-term we will work.

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

Manik Taneja: My first question was with regards to the performances in top customers. So while I understand some of this track within the large customers from top customer performance is because of some of the reduction in work in Banking and Financial Services. It would be great if you could highlight how are you doing in the larger customers in the other two sides of the business? That is question #1. The second question was with regards to the buyback that we intend to do. So the buyback essentially is higher than the typical 50% dividend payout that we have been used to. So should we mean that this is a new normalized return to shareholders that you are looking at?

P.D. Mundhra: Manik, let me attempt the second question first around the size of the buy back. I would say that you should see this more like a one-off event, it is not an annual event necessarily like the dividend and you should see the size of that buy back in the context of the cash balances currently available with the company Rs. 600 crores as Rohitash shared with you. The investment avenues that we see for deploying that money and the fact that today it seems the most optimal way of allocating capital and returning cash back to shareholders. So it is not necessary that we will repeat the same size of the same instrument next year. In the long-term we remain committed to our policy of trying to return 50% of net income back to shareholders, it may not hold period-to-period, some periods we may do more like this period, other period we may have acquisition opportunities and do less, but generally speaking I think our desire and intent would be to retain something like 50% payout over the long-term to shareholders. To your first question was about large clients in Cable and Digital, I would say the basic dynamics affecting large clients are not dissimilar across our three businesses and I will draw to a three characteristics -- one is focus on efficiency. Once you become a large spend item for any client they look at you differently, they scrutinize the spend more closely and they expect more from you in terms of Automation and things like that. So I think the robotics conversations for example are not limited to Banking. We are having similar conversations in Digital and in Cable also, point #1; point #2 is also examination versus in-sourcing opportunities. Clearly if you only have 5 or 10 FTEs working for a client there is really no rationale for them to even consider in-sourcing it, but if you have 100 or 200 or 500 FTEs working for a client, then regardless of industry vertical, I think that constant benchmarking versus available in-sourcing tends to happen periodically. So that also is common across all three businesses. The last point I will make is around pricing. Again, if you have a small relationship with a Fortune 500 company, they are less sensitive to price. With large portfolios, we are reconciled to the fact that every 18 to 24-months there is a benchmarking exercise that they do to ensure that they are getting good value for their spends with all their vendors including us. So in many senses I would say you should look at the differences across accounts not based on vertical but based on size. So there is a similar dynamic affecting large accounts across all three businesses and there is another dynamics affecting small accounts across all three businesses. I think that is a more important classification than perhaps by industry line.

Manik Taneja: You guys have talked about the intent to essentially establish more local delivery centers to mine customers better and that is also a part of the focus with regards to cross sell and multiple service ailing to customers. If you could talk about the progress on that front? Second question was for Rohitash on the CAPEX spending and future expansions if you could help us understand your FY17 expansion plans?

Anjan Malik: We set ourselves internal targets of what percentage of our book we like to see being delivered outside India over the next 3 to 4-years. We have already made some headway because of the Consulting/Digital Analytics businesses that we set up that has primarily client location delivery today and lot of it is being done out of the US and Europe. So that is continuing and that is growing. We have invested in senior leaderships to try and drive that further. So we should expect that will start paying dividends over the next 18-months. The second aspect of it is actual physical delivery in let us say low to mid cost location that is not necessarily in a client location, so obviously CLX gave us a footprint because of low cost within Europe, which we will consider for revenue and also Thailand, it has been the two places, of course, we have got about 300 to 350 people providing delivery upward in there and we are in the process of looking at what options are in mid cost to low cost in United States. So that is something that we are actively working on right now to support number of our businesses potentially leading with our larger institution clients in Cable and maybe Financial Services. We will have more on that again over the next 12-months.

Rohitash Gupta: Manik, on the CAPEX, we do not foresee any new build-ups coming up in next one to two quarters. But having said that towards the year end as the plans for next financial year become little more clear, we will probably expand or make some more seats in already leased spaces to cater to that near-term demand at that point. As of this time, I think Q3, Q4 you can expect a slightly more CAPEX than Rs.6 crores per quarter level.

Moderator: Thank you. I guess the line drops for Manik. We will move to the next question that is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: You talked about some clients looking at in-sourcing. Is it for cost reason, because they want more control on their processes?

P.D. Mundhra: Let me take that and I will ask Anjan to supplement. It is really a client specific decision, some of it is driven by the fact that some clients may have built up capacities in their captive which they are underutilizing, so they are looking for things to bring back in-house to fill up that capacity, point #1. Point #2 could be driven by regulatory pressures where they may feel that having certain types of work internally helps them, justify the stance they want to take with regulators about the degree of control they have over those processes. Having said that, I would like to obviously emphasize that it is only affecting the small part of our portfolio right, as you can see from the overall numbers, it is not like a broad trend that we see across the board but it is something that clients keep evaluating from time to time particularly where we have large relationships. With that said, Anjan, I do not know if you want to add something?

Anjan Malik: No, I think you got it right which is that it is very client-specific where we see in-sourcing tends to be because of a falloff in customers business demand, so if their revenue performance is declining in a precipitous way, then many instances what they may choose to do is cut vendor spend and allocate work towards current employees where there is a lot of bandwidth at that stage. So, that is probably the most likely outcome. Elsewhere we do not really see that there is a cost reason, in fact, we know a number of clients who have looked at this exercise and done a benchmark of third-party versus captive. So I think they find it hard to justify to in-source on the basis of cost or quality. It tends to be as I said because there is idle work force and by definition they may choose not let go off that workforce, they want to use that bandwidth first and foremost.

Sagar Rastogi: One quick accounting question. In your GAAP analysis from IND-AS to IND GAAP you said that ESOP expenses were revised lower and in the commentary you said that it is because of forfeiture of options. Could you just explain that a little bit because I would have thought that when options are forfeited, even in Indian GAAP you would have taken a lower amount?

Rohitash Gupta: No, in the earlier accounting method we were only doing intrinsic value based options accounting; however, we were reporting in annual reports both the method cost. So if you can compare, probably you will find Rs.6 to 8 crores cost based on fair value method even in the annual report that we have published till now. So, to your next point about why this forfeiture or lapsing happens, I think that is because some of the options maybe performance–based and by performance I mean company performance and to the extent our growth, etc., is not crossing that benchmark, some of those options will not vest at all, and to that extent you will have reversal and this typically happens annually because every year based on the vesting period something will come up for vesting or for lapsing based on that conditionality.

Sagar Rastogi: Rohitash, what I meant was I see that when you move from intrinsic value to fair value, you have got a boost in your PAT which means that first under fair value was lower than ESOP for intrinsic value?

Rohitash Gupta: Correct, I can give you a little bit of hypothetical number, I do not know the accurate one, but just to make an example out of it, so let us say our fair value cost for options in the last annual report is Rs.8 crores, so ideally you will have Rs.2-2-2-2 crores worth of charge on account of that every quarter on equated basis, right roughly; however, you have to overlay the fact that certain options will not vest and lapse at the year start because the performance for that year is not meeting certain criteria and that will create a reverse entry and that entry maybe more than Rs.2 crores, so you will have a different direction of impact in that quarter only, but for the remaining quarter in my example the charge will be again Rs.(-2) crores.

Moderator: Thank you. We have the next question from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah: Sir, I just had a query or a clarification regarding your margin outlook, I do not know if I missed anything. So if you have mentioned that it will be somewhere equated in the region of around 30% or so, this quarter we have done 20.5% of EBIT margin. So are we therefore to assume or does this then imply that maybe in the next 2-3-quarters you will see maybe 300-400 basis points decline, is that the way to look at it and is that a result of maybe the revenue headwinds that you are facing for the reasons that you have mentioned or is there another way of looking at it?

Rohitash Gupta: This quarter we have operating margin of 33% and two of the known factors which will depress operating margin are definitely the ESOP thing that we just talked about and the second one is CSR impact which will create additional Rs.1-1.5 crores charge compared to this quarter; rest of it is largely unknown to the extent revenue does not grow, I think that will create either neutral or negative impact on the margins going forward. So if you club all these three factors, two being known and one unknown together, I think our best guess at this point is that overall year margin will be closer to 30% or thereabouts.

Harit Shah: The only reason I am asking is that the CSR is relatively a small portion, about 0.4-0.5% of your revenue if you see in the last 1 or 2-years. So I was just wondering whether the ESOPs impact and the other impact, the possible revenue degrowth that is something will have such a substantial impact?

Rohitash Gupta: Yes, so the ESOP thing will be substantial, you are right, CSR is very small as I told Rs.1 to 2 crores per quarter, but the ESOP impact will be quite substantial when you compare Q1 with Q2, the reason being that in Q1 we had a positive impact of Rs.4-5 crores on account of that, whereas in the remaining quarters it maybe a negative impact of Rs.(-2) crores, so the flux will be almost Rs.6-7 crores on that account alone.

Moderator: Thank you. We have the next question from the line of Rohit Gupta, as an individual investor. Please go ahead.

Rohit Gupta: So you used to have 10-12% organic growth kind of a thing. So barring the next quarter, do you see something structurally that will you be able to like maintain that, improve on that, or how is that like?

P.D. Mundhra: We have indicated in the past for low double digit growth and I would hope that once we get past the near-term headroom, there is no reason why we cannot achieve that. Again, I think you will see fluctuations on a quarter-on-quarter basis in terms of performance, but yes, over more two-to-three year time period, I will be disappointed if we cannot do at least 10% growth.

Rohit Gupta: You have been in a sort of sequential decline over the past two-three quarters but in terms of the pipeline are you more positive now like compared to maybe 1 or 2 quarters back?

P.D. Mundhra: As Rohitash may have indicated in his opening remarks that from a pipeline and new sales perspective things have not deteriorated too much and it looks about the same even now as we look at it. The challenge you had more is on account of roll-offs of some work because of a various of reasons, whether it is automation, whether it is sourcing, whatever would be the root cause or end of projects. So we think and we hope that as that headwind slows down, then the underlying momentum of new sales should again help us return to a path of very stronger growth.

Rohit Gupta: Will you be able to share what kind of growth you have seen in CLX since the acquisition maybe this quarter compared to Q1 last year or something in that year?

P.D. Mundhra: I do not know about this quarter's numbers but when we acquired the business, the projections, the management had shared with us, prior to the transaction getting done was about 10% growth in revenue terms and we have been seeing growth rates that are consistent with that. So I would say it has been growing in line with our overall business.

Moderator: Thank you. We have the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Sir, I just wanted to clarify, when you said 10% growth, did you mean for FY17, you are looking at that, because that implies a very strong uptick for the second half of the year?

P.D. Mundhra: I am sorry if I created that impression, the question I was answering was more about a medium term outlook that, I thought the previous question asked was about whether do we see a structural change in the environment that would lead us to sort of feel that we cannot grow in the future at 10% or 12% and my response to that was that once we get through this near-term softness, one would hope that we can revert closer back to our longer-term growth rate.

Moderator: Thank you. We have the next question from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Just a question on the macro comment at the beginning. Are you seeing this manifest itself in terms of cancellations or ramp downs or delays, push outs, poor conversions besides the roll-offs you spoke about?

Anjan Malik: I do not think we are seeing like in our business, we are already seeing push outs as much but I think there is generally a very large focus on cost, I think things have not necessarily considered for cost reduction they are looking at, so I think obviously we have seen Robotics as an example of investments, we are seeing some of our clients join industry consortiums, there is a lot of focus on things like block chain, there is a focus on which business will sustain, which business will not sustain. All of that impact is not entirely clear on providers like ourselves. The only thing I would say at the moment is that there is a fair amount of assessment and reassessment of businesses that stay in businesses that grow. Cost is paramount as is customer loyalty. So any elements of work that you provide which are focused on cost reduction or on effectively regaining or improving revenue for our customers is of great value.

Ankur Rudra: There was a comment about the pricing for the year. Should we understand there were not any pricing increases this year because of the macroeconomic weakness your clients are seeing and the large focus on costs?

P.D. Mundhra: Ankur, my comment was that price hikes in this quarter versus one year back has followed a very normal trend of nominal uptick that we normally see across many large clients where we have contractual clauses for price increase.

Ankur Rudra: So basically it has been same as last year?

P.D. Mundhra: Pricing has not seen any untoward change.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Rohitash Gupta for closing comments. Thank you and over to you sir.

Rohitash Gupta: Thank you, everyone and talk to you next quarter.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of eClerx that concludes this conference. Thank you for joining us and you may now disconnect your lines.