

**Eclerx Services Limited
Q1FY22 Earnings Conference Call**

August 13, 2021

ECLERX MANAGEMENT:

PD MUNDHRA – COFOUNDER AND EXECUTIVE DIRECTOR

ANJAN MALIK – COFOUNDER AND DIRECTOR

ROHITASH GUPTA – CHIEF FINANCIAL OFFICER

MODERATOR:

DIWAKAR PINGLE – CHRISTENSEN ADVISORY, INDIA

CONFERENCE CALL PARTICIPANTS:

ASHISH AGGARWAL – PRINCIPAL MUTUAL FUND

AASHIESH AGARWAAL – PARETO CAPITAL

ABHIMANYU OLLA – INDIVIDUAL INVESTOR

DEBASHISH MAZUMDAR – B&K SECURITIES

HITESH ARORA - UNIFI CAPITAL

MANIK TANEJA - JM FINANCIAL

RUCHI BURDE – BOB CAPITAL

SANDEEP SHAH - EQUIRUS SECURITIES

V.P. RAJESH - BANYAN CAPITAL ADVISORS

Diwakar Pingle:

Good evening, good afternoon, good morning friends, based on the geography you are in. Welcome to the Q1FY22 earnings call of eClerx Services Limited. Please note that this webinar is being recorded. The transcript of the webinar will be made available in a week's time from the call.

Joining you today to give you an update about the quarter gone by and to answer your questions, we have with us the top management of eClerx. PD Mundhra, Co-Founder & Executive Director; Anjan Malik, Co-Founder & Director; and Rohitash Gupta, Chief Financial Officer. I will hand over the conference to Rohitash, he will make his opening remarks and then we will move to the Q&A. As far as the Q&A is concerned, I will let you know the rules as we start that particular session.

As usual, I would like to remind you that anything that is mentioned in this call which gives any outlook for the future or which can be construed as forward-looking statement, must be viewed in conjunction with risk and uncertainties that we face. This risk and uncertainties are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports, which you can find it on our website. Having said that, I now hand over the floor to Rohitash. Over to you, Rohitash

Rohitash Gupta:

Thank you, Diwakar. Very good evening, and welcome to the eClerx Q1 FY '22 Earnings Call for the quarter ended on 30th June of 2021.

Our operating revenue in the quarter was USD 64.7 million which is sequentially up by 1.4% in USD terms and 1.2% in constant currency terms. This quarter's total revenue was INR 4,944 million, which is up 3.7% sequentially and up 42% on a Y-o-Y basis. Our net profit for this quarter was INR 913 million. All the absolute margin metrics this quarter were up by much more than corresponding revenue increase on Y-o-Y basis due to inclusion of Personiv and last Q1 being severely impacted by COVID. However, we saw a sequential decrease in profitability this quarter because of wage hikes, hiring for ongoing ramp-ups and one-off Personiv acquisition accounting-related true-ups. The one-off acquisition costs are shown as other expenses in our press release financials and are considered below the EBIT line in our investor deck and investor sheet. Further, we expect to do Personiv acquisition earnout related true-ups at each future balance sheet date and reflect that appropriately in corresponding profit and loss statement. We had cash balance of INR 7,268 million at Q1 end, which has increased since the last quarter. The net cash flow reduction in this quarter versus previous quarter was due to the working capital changes related to relatively higher FY '21 bonuses, which was subsequently paid during this quarter. The CapEx is likely to remain volatile with the expected increase in depreciation due to the new assets taken to support the ongoing head count increase. Most of the key business metrics now include Personiv and have reached steady state after the full integration. Our DSOs have improved since the inclusion of Personiv and overall collection performance remains very good.

On the people side, we continue to work from home for 90% plus of our staff and have been able to get 76% of our India staff and some of their family members vaccinated with at least one dose. Overall demand environment and Personiv's revenue trajectory have remained encouraging in the last few quarters. Finally, Board has recommended a buyback of INR 303 crores at a maximum price of INR

3,200 subject to regulatory and shareholders' approval. With this, Diwakar, you can proceed for the Q&A.

Diwakar Pingle:

Thank you Rohitash. We will now start the Q&A session. Participants having questions will have to click on 'Raise Hands' button for asking questions. The first question comes from the line of Manik Taneja from JM Financial. Manik please go ahead.

Manik Taneja:

So just wanted to get your thoughts around the business outlook across the business segments for us. And also, some sense as to how we should be looking at the significant offshore employee addition that we have done in the current quarter?

PD Mundhra:

I think in terms of outlook, we would say the demand environment continues to look encouraging, and that is also reflected in some of the hiring we've done. So the hiring increase is on 2 accounts. One is to cater to some of the late-stage discussions that we have and the ongoing ramps we have. And the other is to also give us some provision to handle any increase in attrition just sort of given tightening conditions in the labor market. So those are the 2 key reasons which are driving the increase in hiring and the employee additions offshore over the last 3 months. Demand environment, I think continues to be encouraging.

Segment wise, Manik, I would say that sort of tends to rotate quarter-on-quarter. So, I think last year was particularly strong for our Digital business and for our Customer ops business. More recently, we've seen more traction on the Financial markets side. Personiv has been reasonably steady for the entire period that they've been part of the eClerx family. So, I would say there is rotation across our 3 or 4 businesses and frankly, over a, let's say, forward 4 to 6 quarter period, it's hard to predict today which business would be the fastest growing.

Manik Taneja:

So just wanted to get a confirmation that when we've spoken in the recent past after your 4Q numbers, you suggested that the situation for us is much better than what it has been in the last few years in terms of some of the struggle like top customers, some of the in-sourcing-related challenge. So that very much holds true, and you continue to foresee an environment of organic growth continuing for us going forward.

PD Mundhra:

I think so, at least for the visibility that we have right now, I would say that's certainly true. And remember, you have to keep in mind as we painfully faced that for the last 4 years, we've been flat in revenues. So compared to that, I think certainly the picture looks substantially stronger.

Manik Taneja:

Would it be possible to call out the contribution of Personiv in the current quarter's revenue?

PD Mundhra:

Yes. So Manik, I think at the time, we disclosed that we were about \$30 million, give or take in revenues. And that is a fairly recent data point because we closed that deal only in the end of December. So that should give you some reasonable sense of what that split is.

Diwakar Pingle:

Thank you Manik. The next question comes to the line of Sandeep Shah from Equirus.

Sandeep Shah:

Just wanted to understand whether the growth of 1.4% in this quarter was in line with the management expectation or slightly lower versus last quarter's organic growth, which we are showing in the numbers as it is. And versus our comments that we ramp down in the business like FY '21 is likely to be lower in FY '22. Is it 1Q as planned out as per what your expectation was?

Rohitash Gupta:

Sandeep, that's a good observation. But if you recall from our past calls, PD has mentioned several times that our revenue trajectory in positive environment will remain to be volatile quarter-on-quarter. And just like you said, in some quarters, some vertical will show a higher momentum and higher revenue growth and in some quarters, some others. And there will be large deal impacts in making some quarters look better than others. So in that context, if you see our last 3, 4 quarters as a whole, and average it out, I think it has been very much in our expectation or rather more than our expectation, especially coming out of COVID. But yes, quarter-on-quarter, there will be volatility.

Sandeep Shah:

Okay. And Rohitash, just on margins, just wanted to understand, last time, we said the range of 28% to 32% at EBITDA level may continue. So, do you still stick to that? Or how would it? And secondly Personiv acquisition was closed last quarter, so why these acquisition-related costs are now coming in this quarter?

Rohitash Gupta:

Yes. So first, let me answer why it came in this quarter, and then we can talk about some future treatments also that will happen as per accounting standards. So basically, as part of the deal structure, there were certain months provided to close out the net working capital which was done on an estimated basis at the time of closing. So basically, there were several procedures required and we took slightly more time than what we expected initially to close them out. So ideally, it should have been closed by Q4, i.e. last quarter. But it took a little more time as a spillover. So yes, we closed that out in Q1, and that's why we are accounting it in Q1. Now as for the accounting standards, we have done our purchase price allocation as well as which requires estimation of deal value, including the earn-outs, right, which

are up to next 2 years. So, we have done that during Q4 itself. And those are based on estimates prevailing at that time. Now as the industry outlook remains positive to our commentary also and whatever you will be hearing elsewhere, we think that there is a possibility that our earn-outs estimates may turn out to be conservative in the sense that business may do a little better than what we estimated way back in December or January. So, if that happens, then we are supposed to do fair value re-estimation of those earlier earn-out estimates as done in Q4, again, at each subsequent balance sheet date. So those balance sheet dates will be September and March. And this doesn't mean that there will be a P&L charge positive or negative necessarily. We will do the evaluation, if the delta is material, then it will show up in the P&L.

Sandeep Shah:

This should be for balance sheet, right? Because this may be accounted to dividend and this performance is higher than what we anticipated?

Rohitash Gupta:

So, we did the purchase price allocation, which includes the goodwill and that's locked as of Q4. We cannot change it because the financial year has closed. So now the earn-out being a long-term liability as per accounting standards, we have to fair value them at each balance sheet date. And based on the materiality, we will pass it through P&L if there is a plus or minus.

Sandeep Shah:

And your comment on margins. I have a follow-up, will come back in que.

Rohitash Gupta:

Yes. So basically, excluding Personiv related, which are unpredictable at this time, I think that range is a very, very reasonable for near term.

Diwakar Pingle:

The next question is from the line of Hitesh Arora from Unifi Capital

Hitesh Arora:

So if I understand correctly, Personiv revenue is around \$8.7 million for the quarter. Would that understanding be correct?

Rohitash Gupta:

What we have mentioned earlier that we have acquired the business roughly at slightly below \$30 million annualized mark. And in last quarter, we mentioned in our call and interaction that it has crossed \$30 million annualized. So, by that logic, at that point of time, it crossed \$7.5 million a quarter. And Q1 is slightly better than Q4 mark for them.

Hitesh Arora:

Did you disclose for last quarter, what was the Personiv's revenue number?

Rohitash Gupta:

No, we don't disclose segmental revenues.

Hitesh Arora:

Okay. And if you have any commentary on historically, it's been the revenue fall off from existing projects maturing was similar to new deals being added and hence, you were at roughly the same run rate over the last 4, 5 years. But that seemed to have changed last quarter. So, what is the visibility on revenues from existing clients continuing, not falling off a cliff sharply any visibility there?

Rohitash Gupta:

Hitesh, I think there are 2 types of events, if you are talking about last 4, 5 years. One is basically large client level roll off and the second one is the regular end of projects or expected roll-offs at a project level. Now the large client roll offs, we have no visibility at this point of time, which is a positive thing. However, regular roll-offs at project level do keep happening. Having said that, what we have seen for last 3, 4 quarters, especially since October onwards of last year, that the amount of new sales we are adding is substantially higher than the amount of regular leakage that we are seeing. And even at this point of time, we are seeing similar trends and that's why the overall net demand environment looks positive for us.

Hitesh Arora:

If I can ask one last question. So, you said financial services is doing better for you this quarter, can you be a little more specific? Which subsegment of that? If you could give a little more color there?

Anjan Malik:

I wouldn't say it's doing better or worse. If you look at all of our last year, I would say financial services is very stable with the sort of upward trajectory. And I'd say that, that's continued. I think we saw demand increase towards the second half of last year. Some of that got booked in the first quarter of this year. So that would reflect in sort of the high numbers that we're seeing. So, I don't think that there's been a dramatic change in sentiment. I think what has changed, however, in general, is that a lot of our banking clients have large captives that are up in India and in other low-cost jurisdictions. I think there's generally been the shortage of talent for them both in those local markets and also, obviously, in their home markets because of their government initiatives further, which has broadly meant a larger demand for third-party services. I think that's been the one thing that we've noticed in the last 9 months that has been a tailwind. But I'd say that's a small but a positive small effect. Broadly, I would say the business has been on a modest upward trajectory for about now 12 months.

Diwakar Pingle:

Thanks Hitesh. The next question comes from the line of Aashiesh Agarwal.

Aashiesh Agarwaal:

Congratulations on a good of numbers. I had a couple of quick small observations and queries. One, sir, I see your seat count has come down sequentially from about 11,273 to 11,039, where we have seen a headcount actually go up. How should I be reading this data point?

Rohitash Gupta:

So this is a very, very small change, and this happens when we do either rationalization in some areas to carve out a special space for a particular client or otherwise. And time to time, we also review our lease portfolio to see because in any facility, it's not a single lease that we have. It is made up of 3 to 5 different leases within a premises. So we do rationalize from time to time, 1 or 2 of those leases and move to some other space if need be. So, these are minor adjustments. We have not given up any material space in last 3 months.

Aashiesh Agarwaal:

Should I read that along with the a statement that said that our offshore bench count has actually gone up in anticipation of the higher demand. But however, we see that your seat count is down about 2%. I mean, so do you expect that to come back pretty soon and whether that will have an impact on your cost structure as well?

Rohitash Gupta:

So Aashiesh, I think you are asking a very, very broad question, which industry is also grappling with currently, which is about this work from home versus return to office. And I think the seat count angle is relevant only when we return to office in full force. However, as we know very clearly that although percentages may vary from company to company, businesses to businesses and client to client, it won't be 100% return to office for anybody. So basically, our employee count, which will return to office will not be 100%. And that's why there is no direct one-to-one correlation of headcount and seats left anymore in my view.

Aashiesh Agarwaal:

Got it. And sir, I noticed that your headcount has gone up dramatically sequentially. So, do you expect the same pace to continue for the rest of the year? Can you throw some light on that?

PD Mundhra:

Aashiesh, as I mentioned earlier, you should sort of attribute the increase in headcount to 2 things. One is, of course, staffing for demand, but the other is also taking up the bench a little bit. The latter factor, I would say is more likely to be a onetime thing and in fact, over the course of the year, if attrition tempers and reduces, we may again look to optimize our benches a little bit. And the former factor, which is about sort of demand trends, that's only timed it there. But I would certainly say that Q1, we added a lot of headcount. I would be very, very surprised if that same number was repeated over the future quarters. I would expect it to moderate somewhat.

Aashiesh Agarwaal:

Great. Just one last question from my side, if I may squeeze it in. So, your DSO has obviously come down and then it went up a bit in the last quarter. So where do you see that stabilizing over the next, say, 1 or 2 quarters or 3 quarters, for some light on that?

Rohitash Gupta:

Yes, Aashiesh, actually, the DSOs have come down in last 2 quarters, primarily because of Personiv integration. Personiv has a different collection cycle and credit terms agreed with their material clients. And they have slightly lesser DSOs than our native business, and that's why, overall, it came down. So basically, for both the businesses, Personiv as well as eClerx excluding Personiv, the DSOs have remained almost similar in the last 3 quarters or so. And we think, at least from the current visibility that we should aim to remain here, barring a couple of days of variability here or there.

Diwakar Pingle:

The next question comes from the line of Abhimanyu Olla. Please go ahead Abhimanyu.

Abhimanyu Olla:

Actually, my question is regarding the pricing in your top 10 clients. I believe that in the top 10 clients, you would help them increase in their bottom line. So, in case you guys stop having opportunities where you cannot increase that bottom line anymore. What happens in those cases?

Anjan Malik:

I think, look, ultimately, prices get set to some extent by competition and also to what our clients vital alternatives are. So, as you can see, most of our clients have global footprint, especially large customers. And across this global footprint, our clients are suffering right now from supply shortages for people in talent. So, they're all facing increase in pricing everywhere. So, we anticipate in the medium term for them not to be substantial pricing pressure on the work that we do. And instead, our focus to continue to be on volume reduction through automation and speed through processing, which is a journey that we have been specializing on in our partnerships with clients. So, in summary, I would say our focus and our clients' focus continues to be on reducing volume of work versus pricing of work.

Abhimanyu Olla:

Okay. And I had another question. I don't know if you can make me understand, how exactly does Personiv benefit from your clients? I believe that they have an advantage of getting clients in the financial market as you guys have more exposure in there?

PD Mundhra:

Abhimanyu, I think it's more about trying to enable cross-sell across each other's portfolio. So, as we've shared in prior calls, there are already a few situations where the sales teams in both companies have worked together on specific opportunities. So, in that sense, I think they would certainly benefit from the inclusion in the eClerx group. Because they not only have their native opportunities, which they

were chasing anyway, but they also have access to incremental new opportunities with some of our clients. In fact, the one deal that we closed last quarter with one of the eClerx clients where Personiv is being involved in the delivery. So there is a tangible benefit to them.

Abhimanyu Olla:

So, prior to the acquisition, has eClerx worked with Personiv before as well?

Rohitash Gupta:

No.

Abhimanyu Olla:

Okay. And just if you could allow me for 1 last question. Going forward, would you guys be looking for acquisition more in the KPO space? Or you would be looking at other spaces as well because Personiv seems to be coming from KPO space. And is your strategy more based on cross-selling? Or what exactly is your business strategy?

Rohitash Gupta:

So, I will leave the last part of question to PD. In terms of our approach to acquisition, we look for 2 kinds of situations, and we have done both in the past. One is the acquisitions like CLX or Personiv where you acquire a company for its clients, its business, its relationships and its people and its capability. And second is more in tuck-in, which is basically to bulk up or maybe to address a specific client situation or to obtain a very, very niche capability in a small size. And we have done both of that. And Personiv group has also done previously 1 or 2 of those tuck-in deals. So, we continue to look for both these types of opportunities. And just to correct your assumption - Personiv is a little more on the traditional BPO side as opposed to what market understand from KPO, which is more on the analytics or things like that. So, we continue to be open to spaces in digital, in traditional BPO, provided they service, some niche client segment, which, for example, in case of Personiv it does target 0.5 billion to 5 billion kind of SME client base as opposed to Fortune 500. So, we are open to a broad spectrum, but tuck-ins and full acquisitions, both are on the radar.

Diwakar Pingle:

Thank you, Abhimanyu. We'll take the next question from the line of V.P. Rajesh of Banyan Capital.

V.P. Rajesh:

Rohitash, one question from your comments, it seems like our organic revenue was almost flat as sort of the right conclusion sequentially?

Rohitash Gupta:

No, both Personiv and eClerx native revenues increased sequentially.

V.P. Rajesh:

Okay. All right. And any color on CLX, how is that business coming back? Because I think last quarter, it was a little soft. So, I'm just trying to recollect if that was the case. And how was it in the June quarter?

PD Mundhra:

Well, actually, I think CLX has been seeing good demand for their services in the aftermath of COVID. So, from a very, very soft Q1 FY '21 last year, which was sort of the low point for CLX. Things have come back nicely. And both Q1 and Q4 have been reasonably strong for the business, both in terms of top line and margin. I think the luxury brands are seeing strong demand for their products, and they are moving to sort of faster marketing cycles, which means that there is more need for creative support and digital assets to support that strategy and CLX is a beneficiary of that trend. So, net-net I would say, last 6 months have been fortunately quite good for CLX.

V.P. Rajesh:

I see. Okay. Just a quick follow-up on that then, given the growth that we are showing sequentially. Do you expect this to accelerate in the coming quarters? Or do you think for the year, we would be in a, let's say, mid-single-digit kind of growth?

PD Mundhra:

Well, I think that's hard to say. Certainly, I would say, from a very near-term perspective, we have visibility to some ramps that are ongoing and some very late-stage discussions, which is why you also see the increase in the headcount between Q4 and Q1. So, I would say from a 3- to 6-month time frame, there is reasonably good visibility of incremental business that we expect to win. Beyond that, honestly, I can't answer your question in any kind of data-driven manner because our pipeline, whatever it is today will either convert or die in that time frame. So, the only real visibility we have at any point in time is 3 to 6 months visibility. And at least for that time horizon, things look good.

Diwakar Pingle:

Thank you, VP. We have the next question from the line of Sandeep Shah. Please go ahead Sandeep.

Sandeep Shah:

Just a question on the buyback. So, I have been surprised that generally when tender offer buyback happens at a premium of 15% to 20% to CMP, indicating almost like a 47% premium to the CMP. So, this actually reduces the optimality of the reduction in the equity shares. So, what is actually your basic purpose of such a huge premium on tender offer. And what I understand leading to price increase, there would be a buyback committee. So, if they don't approve this buyback price, then the price will be revised downward or maybe higher, based on the company's discretion.

PD Mundhra:

Sandeep, I think our understanding of the SEBI rules is that the committee can only revise the price downwards, not upwards. So effectively, whatever price is announced today, is a cap and the final price

at which the buyback tender will be conducted, will be determined by the committee subsequently post post-postal ballot, and that can only be revised downwards. If memory serves me correctly, the past 3 tender offers that we have done have also had premiums of between 40% and 55% from the date of intimation of the Board meeting. So, the decision of the board today is in that range. I think the Board is also cognizant that there is a fair amount of volatility in the equity markets. So, they wanted to sort of keep a broad range with the intention of fixing a more fine price when the committee meets post the completion of the postal ballot. So, I think if you look at our past 3 buybacks, you'll find that what has been decided today is not inconsistent with that.

Sandeep Shah:

Fair enough. And just last two questions. In terms of the roll-off, last time, we have said that FY '21 was a good year because of roll-off and you expect the same thing in FY '22. So, any change or status update on that? And second, can you give a color in terms of segment-wise demand in all the 3 segments of capital markets as well as digital operations and cable and wireless? So that will help us.

Anjan Malik:

Yes, I couldn't hear the first question. I heard the second question about segment demand.

Sandeep Shah:

Yes. So, the first question, which I asked is in terms of the comments on the roll-offs, which we said last time that FY '21, the roll-offs were lower than last tenure years. and that may be true even for FY '22. So, any change in status of that?

Anjan Malik:

I think this is related to the answer that I've given to the question of the gentleman had asked me earlier about financial markets in general. I think part of the reason for the reduction in roll-offs is a reduction in supply or talent for our customers in general. So, both onshore because of government initiatives around furloughs and work from home and the sort of benefits that are being extended in Western markets or let's say, in developed markets or customer markets. And also the shortage of this demand/supply in the financial market, both onshore and offshore. We're seeing less urgent transitions away from third-party to their captives on capital markets. So I think at the moment, just given supply and demand constraints, we anticipate that this sort of reduced roll-off period to probably extend for a little bit longer. But we do see it not as a permanent change, but possibly as a temporary change that's been extended. That's first.

In terms of demand for the different sectors, I think it's actually more of the same. So, in the onshore market space, as we mentioned that we have very stable market last year. I would say given this supply shortages in onshore markets, we're seeing a demand from our banking clients to move work to third parties. Perhaps a little bit more urgently as we did in the past. In our customer services business, we continue to see demand for work. I think, again, a lot of that is going to be the fact that they're finding it hard to staff their onshore sites. So work is coming to us both onshore and offshore because in many instances, providing these services onshore is most costly to both third parties and our clients. And on the digital side, I'd say that demand is unabated because our clients continue to be very focused on client-first direct-to-customer and sort of moving layers of people and looking at automation for the

way they run the marketing campaigns. So, I would say that there has been less change on that front. But generally, it's a more supportive environment for third-party vendors like us, given supply constraints.

Diwakar Pingle:

Next question is from the line of Ruchi Burde.

Ruchi Burde:

In recent few quarters, the offshore mix of the business has been trending up. So, do you see this trend of higher offshore delivery getting intensified when you look at your deals in pipeline or the new deal wins that has happened?

Anjan Malik:

Let me take that question because I think it's actually a follow on from the previous question. We anticipate that there will be more demand for offshore, again, simply because we think in our local client market, there is a supply shortage of talent. So, our clients are finding it harder and harder at the moment given all the constraints to get work done in the local market. So I think overall demand for doing things offshore is increasing. And secondly, I think the point that PD had made in one of the previous calls, there is much more comfort around what I would call virtual work, given that over the last 18 months, a lot of our buyers and decision-makers have seen working done completely virtually. So even people who in the past would not have considered being worked from third party countries are much more comfortable with that decision now than they were 18 months ago. So, I think both those factors are major contributors to a general increase in offshore demand.

Diwakar Pingle:

We have a follow-on question from the line of Hitesh Arora. Please go ahead.

Hitesh Arora:

So I am not looking for a specific guidance, but given that generally the strong momentum in the business, as you said, and general shortage of sourcing talent in-house, good traction that you see. Can we expect a better than a 1.4% sequential growth, at least say for the next 2 quarters given the momentum that you have seen?

PD Mundhra:

Yes. I think, Hitesh, I mean if you look at it, we've added a large chunk of headcount in Q1. And we would hope to monetize a reasonable proportion of that incremental adds. So, we'll always see volatility in our quarter-on-quarter outcomes. But if you take an average of the last 3, 4 quarters, probably the most recent average is in excess of that 1.6% that we reported this quarter. It's probably the softest of the last 3, 4 quarters. So, keeping that in mind I would say, yes. I don't have an exact number, but we would be disappointed if our next couple of quarters stayed averaging at 1.6%. Let me put it this way.

Diwakar Pingle:

I'll take the next question from the line of Debashish Mazumdar.

Debashish Mazumdar:

I have only one question. If I see the attrition, it has come down from 36% to 32%, which is heartening to see. The question that I have in my mind is, should we assume for a modeling purpose that we have reached to a peak attrition level of 36% last quarter, and it is expected to trending down from here on?

Rohitash Gupta:

So Debashish, I think you have to look at a little longer-term history, and we have seen several consecutive quarters of 40% plus attrition also, obviously, that is before COVID happened. And things are a little uncertain at this point of time, given the whole COVID Wave 1, Wave 2 and God forbid, COVID Wave 3, where people across the industry, about 25% to 30% people are working truly remotely, meaning not from their base station. And if a future situation when COVID is finally done and dusted, if a majority of them have to be in office, I think the industry will see probably a different dynamic of attrition. So, things are very uncertain at this point of time. But I would say, last 2 quarters are fair representation of what the current work-from-home situation for attrition looks like. And last point I would make is that just like you are seeing in eClerx last 3 quarters were strong, all the other IT companies and BPO companies where we get talent and where their talent get attrited to also are also seeing very, very good demand. So basically, if attrition increases from here on, within the current situation, I wouldn't be surprised. And we are well prepared for that. As PD was mentioning, we have beefed up a little bit on the bench side given this attrition dynamic.

Anjan Malik:

And I think to Rohitash's point, I think we should assume that in a business like ours, that high demand from our clients, it goes hand-in-hand with high demand for the supply side, which is our people. So, in a market which is generally constructive to the business, we would expect higher attrition on longer-haul.

Debashish Mazumdar:

So effectively, we should say like this way, higher attrition is directly towards higher demand. That is what we are taking. And one last question, qualitatively, can you help me to get some sense that amongst the large hiring that we have done this year, what could be the percentages for the attrition makeup? And what could be the percentage for the growth?

PD Mundhra:

Yes, I think we don't want to get into such specific breakups of the numbers, Debashish, because if you make disclosures, then we'd like to make sure we continue making those disclosures. That's a little bit too granular.

Diwakar Pingle:

I'll now take a question from the line of Ashish Aggarwal. Ashish, go ahead.

Ashish Aggarwal:

Most of my questions have been answered, but just wanted to understand, was growth in this quarter impacted by COVID in the sense that you were not able to service demand because employees were on leave, et cetera, was there was some impact of that also in this quarter?

PD Mundhra:

Not really, Ashish. And I think to be very, very honest, the negative impact of COVID for us was largely in Q1 FY '21, both on the demand and the supply side. Thereafter, if anything, I would say COVID has been a little bit of a tailwind for our business because to Anjan's remarks earlier, they have made clients more open to considering distributed supply models, which obviously favors companies like us that are based offshore. So, from that perspective, if anything, we benefited from a little bit of tailwinds in this pandemic environment.

Diwakar Pingle:

We will take follow-on question from the line of Abhimanyu Olla. Please go ahead.

Abhimanyu Olla:

I just wanted to ask that when I was going through the past concall and there I noticed that we had an impact of about \$200 million. So, are we talking about this as the gross revenue of past 3, 4 years? Or is this coming from 2, 3 clients as a cumulative number?

Rohitash Gupta:

No, if my recollection is correct that the only similar question we had was "how much of large roll-offs we have seen in the last 3, 4 years when our overall revenue remained flat." And I think the answer to that was not probably \$200 million, but it is a much smaller number on an annualized basis, and these events happened at different points of time over those 4 years. PD, you want to add that? I'm assuming this is the question.

PD Mundhra:

No, I think that's fine, that should cover it.

Abhimanyu Olla:

Okay. And if you could guide me on your strategy on it, I believe you were going to answer that question, but you could not.

Rohitash Gupta:

Yes, PD, I think this is a question about the M&A strategy, if I recollect.

PD Mundhra:

Yes. I think M&A is the art of the possible. I think from our side, we have a very open mind to considering a broader spectrum of assets that may potentially fit with our business. But our experience has been that a number of stars have to align for a transaction to actually rectify. But we keep looking at all the opportunities that come our way. And if we find the right asset, where we think there's a good business fit, there's a good culture fit, the numbers make sense, we will do it. But I guess the function also of the deal flow that we see.

Abhimanyu Olla:

Okay. And if you could allow me just one last question. So, in the case where we lost the revenue from the 2, 3 clients due to the corporate actions, why did we not have a chance to collaborate with those companies at this point of time? I believe in the past that we could not collaborate because they were not looking to have worked automated or not have offshore work. But are those clients looking to get that kind of work right now at this point?

Anjan Malik:

I guess to the point that Rohitash is making, our large client roll-offs probably happened a couple of years back. So, in the recent past, we certainly haven't had a large vertical, large client roll-offs that have had a meaningful impact on our business, first of all. Secondly, the couple of large roll-offs that happened in sort of the period 2017 to 2018, we continue to be in conversations with many of those clients. Some of them obviously made other decisions into which they are invested. They set up facilities in the local markets and they moved to different geography others, more to the captive sites. So, whilst we continue to be in discussions, it's difficult to make those clients uninvest from the decisions that they have made. But we continue, obviously, to be in discussions with those clients. In many instances, it's easier to find new clients who are in the right side of the cycle than it is to go back to old customers and get them to reverse their decisions. So, I would say, yes, our conversation is continuing. We obviously learn from the mistakes of our past to the extent that we feel we made mistakes, and we're using them to make sure that the future looks better.

Diwakar Pingle:

Next question comes from the line of Manik Taneja. Please go ahead.

Manik Taneja:

PD, just wanted to prod you a little bit with regards to the employee addition that we've seen in the current quarter, where at about 900-plus people in the current quarter. As you've said there is some element of bench build-out that you've done because of probably some fear around attrition, et cetera. And some for ramp-up or growth that we see in the pipeline. If you could give us some sense of what will be the mix from that standpoint. And do you also see attrition becoming a worry for you just like it is for IT Services because I thought it would not be it?

PD Mundhra:

So Manik, thank you for your question. The first one, it's hard for me to break that out because it's akin to effectively giving the guidance in another fashion for what we see in terms of revenue outcomes. But on your second question, I would say, look, I think to some degree, our bench had gotten depleted over the last couple of quarters because we saw, at least by our standards, stronger growth than what we might have anticipated at about 5%, 6% sequentially. So that led to a drawdown in our bench and some of the hiring that we've done is to normalize the bench and we build a little bit of a buffer there. Worry from an attrition perspective, I think it comes down to who is leaving the firm. Because I think if we are losing what I would call broad talent, then it's much easier for us to replenish with new hires after getting them the appropriate training. If you start losing subject matter experts or people with niche and domain skills, then it's much more difficult for us to fulfill those gaps. As of this point, I wouldn't say it's become a worry for us because the attrition has been pretty broadly spread across different skills as it has been in the past. It's not like it's focused in one area that would create a lot of pain for us. So, I wouldn't say it's a worry, but I think we've just taken some actions to give us a little bit more resilience.

Manik Taneja:

And one just to check up. So, in the recent past, you've suggested of much stronger near-term visibility in financial services and customer operations part of our business. Does that hold true from a go-forward standpoint as well?

PD Mundhra:

Yes. So Manik, I think we addressed this a few different ways and a few questions today. But broadly speaking, I think our different businesses tend to rotate growth leadership from time to time. So, if I look back at FY '21, probably our digital business had very strong traction in the aftermath of COVID and some of our other businesses were more flattish over that period. As of now, in our pipeline, markets seems to have a pretty strong pipeline. So, I would say that rotation keeps happening. But let's say over 2-year time frame, FY '21 and FY '22, I think all 3 of our businesses, hopefully, should be strongly up over where we were in FY '20.

Diwakar Pingle:

We have a follow-on question from the line of from Sandeep Shah.

Sandeep Shah:

PD, just this is a more strategic question. So, if I look back to your business development spend, it has been moving up gradually maybe because of personal ads. Why not more slightly more aggressive invest in building a higher team, which helps you to build a new business consistently higher than the roll-offs which we see. So that may be a medium to longer-term growth sustainability as a whole rather than having a predictability for 3 to 6 months?

PD Mundhra:

I'll defer that to Anjan. I think he may be able to give a better answer than I might.

Anjan Malik:

Thanks, PD. Well, look, we've gone back and forth in the strategy over many years. And we are of the view that ultimately, this business and growth is not about throwing dollars at sales people and a client development team. Obviously, we need them, but I think it's the horse before the cart problem, which is that ultimately, we need to make sure the stuff that we sell is well defined, well productized, easy to understand so that when we throw dollars at it, they automatically gain traction. And I think if you look at the success that we've had over the last 3 years, that success is in spite of the fact that we haven't really missed that many more new dollars towards sales. It's come from the fact that our product sets are much better defined -- be a function of focus. So, we want to continue to make those investments go hand in hand. Now when you look at the dollars that have been that we invest in what we define as productised services, they don't necessarily show up in onshore headcount, so they won't show up in P&L. But they're in there, they're in subject matter, they're part of our operations team. So, our view is that we want to continue to super invest in defining products and then add sales capability selectively. We think that the shortcoming from hiring sales capability is not very investment accretive, especially for a company for our size.

Sandeep Shah:

And just last question, just the impact which can come to earnout for pursuing in September '21 and March '22. Will it be material? Or it may not be that big to call out and maybe a headwind to our market?

Rohitash Gupta:

Sandeep, that's difficult to say and that's what this exercise will lead to in future to assess what are the future projections like because earn-outs are still some time away. So, we have to project what those earn-outs will be 1 year or 2 year out. And we will do that assessment in September and then March. And then we will see if the amounts are material as per the accounting standard.

Sandeep Shah:

So, this is September '21 and March '22, right?

Rohitash Gupta:

Yes. And also following September also. So earn-outs are for 2 years from the deal date. So, it will happen for next 3 semesters.

Diwakar Pingle:

That was the last question for the day. Now I hand over the conference back to PD for his closing comments.

PD Mundhra:

Thank you, everyone, for taking the time and joining our call today, and we look forward to speaking with you next quarter. Thank you.

Rohitash Gupta

Thank you everyone and stay safe.

Diwakar Pingle:

Thank you everyone and have a nice weekend. Bye.