"eClerx Services Limited Full Year 2010-11 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good evening and welcome to the eClerx Services Limited full year 2010-11 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, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anjan Malik. Thank you, and over to you, sir.

Anjan Malik: Thank you very much. Thank you for joining us this evening for our earnings call for the quarter and for the year 2011. It has been a strong year and a very strong quarter on all counts. For the year ending 2011, we will be ending revenues of 366 crores, our top line operating revenues of 342 crores, that is 33% up and 49% up in total revenue, more meaningfully in dollar terms is 37% increase YoY. It is meaningful in the context of a much larger base, if you remember last year, which was the year ending 2010 we were up 30% on a smaller base. So it has been a strong year from a revenue perspective. On a QoQ basis in dollar terms we had an 8% volume growth so we feel pretty good about that, that sustaining momentum for the year. Our profitability has obviously been flattered by very positive movements in our foreign exchange hedges. So our total net income number is looking like 133 crores which is up 80% YoY. You will note in the report there is an accounting exceptional item, I will talk to you in a couple of pages which takes 10.3 crores of our bottom-line bringing our total number to 123 crores which is still 70% increase on the year. Before the exceptional item our net profit for the quarter was close to 40 crores and we maintain margins for the year at 37% at the operating level which is I think a great outcome given all the challenges that businesses had this year. We finally end up at an EPS of 42.6 after including the accounting exception which is up 65% YoY and we are proposing a final dividend of Rs. 22.50.

On Page 3, we discussed very briefly the accounting exceptional item; I suspect there will be a question in the Q&A session afterwards. But in brief, we had bought Igentica Travel Solutions back in 2008 for a net consideration of about GBP 1.5 million; the company at that point was a GBP 750,000 company in accrued revenue. So effectively it was a 2X multiple company purchased back in 2008. In the subsequent period we moved all the customer contracts over to eClerx. Those contracts have since grown, in fact, in the last fiscal year, we did a calculation and looked at the total number of clients and revenue growth accruing to the clients that we have acquired through ITS and the total was GBP 1.5 million, about a 2X return on our investment, what we bought. So it has been a very substantial business addition for us and obviously it has given us a big presence in Europe. However, on the Indian GAAP, since ITS was bound down in its entirety at the end of the Q4, we have under conservative interpretation of Indian GAAP taken a complete write-off of all the goodwill associated with that purchase which is approximately 10.3 crores. We can answer any more questions that you have by that but as I mentioned it is a pure accounting entry and no way reflects on the organic business which I have mentioned has done very well this year.

Slide #4 gives you status on our current hedges. You will see that our Euro and dollar hedges are still in the money against spot, so we will anticipate that we will have tailwinds going into next year on the FX front.

Slide #5 continues to highlight that we have a very liquid balance sheet. About 180 crores in cash with no debt, which is equivalent to about Rs. 62 per share. Our trailing 12-month EPS on a basic is 48.6 after exceptional items of 45 on a fully diluted basis of 46.3 before exceptional and 42.9 after exceptional and we have book value of about Rs. 82 a share. We still have 22 crores from the IPO that we raised for acquisitions and we continue to have that on our balance sheet.

Slide #6, we do not need to go through in detail; we can obviously push into the Q&A session.

Slide #7 of the graphical representation of the operating margin bridge, remember, this is a like-for-like currency, so basically this is restating last year's operating margin of P&L statement and today's FX and comparing the change in operating margin and you will see that the loss that we had in exchange rate because obviously we are operating in a more favorable exchange rate environment last year and this year is more than offset by better scaling on G&A on employee cost and sales and marketing expenses. And a lot of that obviously is due with the additional capacity that we have rolled out in Airoli and better utilizations as Phase I of Airoli is now fully utilized.

Slide #8 gives you the net profit margin bridge**.** Again, on a constant currency basis you will notice that the exceptional item has a negative impact of 3%; we had a very positive tailwind from ForEx of about 6.5% which leaves you the net margin of 33.4. Obviously, as I mentioned before, if you subtract our exceptional item and then net profit is 37% which is again a very strong performance for the year.

Slide #9 gives you few metrics on revenue and quality. There have not been actually any significant changes to draw out here except our concentration number as we mentioned in the last few quarterly calls has actually become worse, its more concentrated with 87% currently from top five as opposed to 82. As we mentioned in the last call we continue to see a trend downwards on that concentration number which we will hope to see reflect in the next year's number as we see continued growth away from the top five and we can talk again to that in the Q&A session.

Slide #10 talks about attrition. You obviously can see that FY11 attrition has peaked at 39%; this has been highest attrition year for some years now. And again we talked about in previous quarters, a lot of its catch up, the opening up the job markets and release some pent-up demand for the opportunities we anticipate, attrition to come down to more normalized rates in FY12, we are already seeing that trend in the first quarter and towards the last quarter of last year so we would expect better or more acceptable attrition levels in this year.

Slide #11, in summary, snapshot 2011. And I would say it has really been a very strong year as I mentioned a number of times. If you just take a quick look back in the mirror which we really do, as a company now US$75 million accrual company which is an $85 million run rate company, that is taking our last quarter's number and annualizing it. These are very meaningful numbers in the KPO space and certainly in the mid cap space. We are now in the BSE mid cap index, a great achievement for us. We mentioned a number of times that we have been upgrading our sales and marketing efforts in onshore markets, that is continuing and we have made substantial progress this year that is obviously reaping benefits. Our Airoli facility which we mentioned was one of the fastest buildups is our largest facility today and the first phase is already fully utilized and it took us less than a year to get there. It is also a great year for accolades, we made it in the "Top 50" of the "Inc500 Mid Cap Companies," we were in the "Top 10" for "IT and ITES," we were in the "Top 20 Outsourcers" in the "Black Book of Outsourcing" and we were ranked the "Best Financial Services KPO." This week, "Asia Finance picked us as "The Best Indian Mid-Cap" in its list of "Best Managed Companies" and we were on the "Global Services 100" and a finalist in the "Knowledge Enterprises (MAKE) Award" which is a testament to our HR processes. We mentioned a number of times that we take great pride in making sure that even our shared services and all our operational activities are benchmarked to the market and certifications are therefore important. We have renewed our certification as ISO 27001 for Information Security. People capability maturity model for HR we are now ranked PCMM 3 and our Information Technology team or what we call Automation and Software Services team has regained its CMM Level 3 certification. And our talent markets and investor markets continue to make progress. We had a first and very successful analyst day. Thank you all for those who came. And our flagship initiative 'eClerx Cares' continues to gain traction, we made some great initiatives this year with folks like CRY and again we can talk more to this and clearly a very important part of the eClerx culture.

Slide #12 talks a little bit about what we see in FY12. We talked about this on and off certainly talked about this at the Analyst Meet. We are seeing increased business activity at our client end, seems to be more activity and confidence in our client markets. In the financial services industry, our regulation is driving far more investment from our customers as they have to exit old businesses and to new ones, there is a large investment in technology and change management and new types of skills. Our corporate clients away from financial services are significantly increasing spend on online services, their businesses are being competed way by guys like Google and eBay and many of them are I guess making catch-up investments, moving away from physical sales and marketing to the internet. These two trends are very supportive to our business given our skill sets specialization. And add to that the increased focus on competition, uncertainty regulation transparency and cost elimination, we are definitely seeing a lot of demand building up in our pipelines for 2012. Our investments will help us as I mentioned we got a substantially upgraded sales and marketing and client engagement function, we continue to invest in industry specialization, our positioning as a problem solver, our cost control and a people and process improvement company. And we can really make significant investments in delivery. People, process, technology and infrastructure and all of those make us very confident that FY12 will be another very strong year for eClerx. With that I hand over to questions.

Moderator: Thank you very much. The first question is from Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran: Hi, I wanted to understand a couple of things. One, we have seen good growth in our top five clients. Just wanted to understand what are the roadblocks we face in scaling up the non-five clients, typical roadblocks, or is it that these people are not warmed up to Clerx, just wanted to understand what are the issues we have in scaling up non-five clients in both the financial services offerings and then the sales and marketing offerings?

Anjan Malik: If you look at the footprint that we have with the large clients, if you take $75 million book of business and take 80, 85% of it, you will see that our top five clients are broadly between $10 million and $15 million each. That is the large footprint that bills with the Fortune 500 customers. And typically there needs to be some kind of inflection point where our customers start buying two or three services from us before we become a vendor of choice. So certainly, one event that has occurred over the last few years in the company is vendor consolidation which has driven business towards co-vendors and away from peripheral vendors. I think in that interest we have won with the core customers, we have lost some of those battles in our non-core customers so that works against you away from your core customers. In the last year I would say that we have started to make headway again where we are now finding five or ten customers who are now beginning to buy two or three large engagements from us and it takes about a year to two years of these guys buying these many services before they start considering a core for that really large engagements and it is really the large engagements that allow customers to become equivalent to our top five. So I think some of it is time and I think some of it is the uncertainty event or GFC – the great financial crisis that has happened and that impact we are feeling the tail end of at the moment. PD, I do not know if you want to add anything to that?

PD Mundhra: No, I think that is an accurate characterization. I think growing a client is also largely dependent on how much information and understanding you have about that client’s needs and how much access you have to senior decision makers within the client’s organization. And the reality is that when you only have a small engagement with that client you have a very limited view and understanding of their priorities and needs. And you also typically are dealing with junior level officers and executives within the client’s organization. All of which make it harder to close large engagements. So to Anjan’s point, I think once we reach a level where you are setting two or three engagements you’ve reached a certain revenue run rate, you have access to the senior officers, and then I think you have a more realistic chance of converting those into million dollar and 5 million dollar accounts over time. I think the encouraging thing for us is that we now have a handful of accounts that have acquired those ingredients which hopefully will allow us to convert some of those to meaningful sizes in FY12 and FY13.

Anand Bhaskaran: Just as an extension, would throwing higher sales and marketing spend kind of make this maybe at the threshold level way earlier in time or do you see that to be a separate effect?

Anjan Malik: I think it is hard to measure the correlation between sales spend and success, let us say in converting million or $2 million clients. Certainly, obviously, the more people you have calling clients, more likelihood is that you would get some return and commensurate with that we have increased our investments in sales and marketing, as I mentioned I think in the last call, probably about 50% of onshore team now faces off against non-top five which is probably a first in our history because in the past our face-off in the sales and marketing organization was probably proportionate to revenue, which is why you will see a large growth in our core accounts. So certainly, there is some impact. But it is hard to measure what that correlation is and we want to measure what that impact is going to be. Certainly, we are starting to see early results because of that effort, but it is a wait and watch. But our investment is certainly there.

Anand Bhaskaran: I just wanted to take maybe a two year view, with lot of back office roles moving more towards pay-per-transaction kind of model, just wanted your thoughts especially in the financial services work we do, if we are moving towards the pay-per-service kind of a model just wanted to know how well would we be geared if some of the clients start approaching their top pick in terms of where we are, maybe not all the services but some of the services, just wanted to get the management’s thought process on the client.

Anjan Malik: Could you repeat your question? I am not sure we have understood the question.

Anand Bhaskaran: Just wanted to understand - with a lot of back office related growth moving towards more like a pay-per-use and a fixed FT kind of a model, just wanted to know how prepared will we be some of top clients come back to us asking for that kind of an engagement model versus the FTE kind of model we have currently?

Anjan Malik: I think pay-per-use or pay-per-transaction model works well for functions or processes that are well-defined, have good history so that the metrics can be well understood and are scalable - large size typically. We would argue that if you look at the portfolio services that eClerx provides very few of our services what we call our business billing line items fall into that category, most of our services tend to be very changeable, they tend to be small, tend to be complex and they tend not to be net resizable in that way, it is very difficult to build a metric to say okay, for these 3 guys that are doing this particular piece of work, converted to pay-per-transaction model, I think that is ultimately the difference in what we do and what large scale BPOs do is that we tend to be closer to the business and the work that we tend to do, you can characterize more as MVA minus so there is more thought process involved, it tends to be more unstructured. Those processes are typically are difficult to commoditize in a way that you mentioned and what we find is that things become commoditized but other more complex things pick up that space. So our view is that we'll continue to be in that more complex end of that space where this pay-per-transaction model is unlikely to happen to us.

Anand Bhaskaran: Rohitash, I just wanted to know the first facility of SEZ, when does the first block of five years expire? Just wanted to know the impact of that tax rate too?

Rohitash Gupta: The first SEZ facility was what we opened in Pune and I think three years have already passed.

Anand Bhaskaran: Okay. Any guidance on tax rates you want to give for FY12 and FY13?

Rohitash Gupta: '12 and '13, we expect around 20% of effective tax or slightly more; say it will be 20 point something.

Anand Bhaskaran: For both '12 and '13?

Rohitash Gupta: Yes.

Anand Bhaskaran: Thanks a lot, sir.

Moderator: Thank you. The next question is from Kunal Sangoi from Edelweiss Securities. Please go ahead.

Kunal Sangoi: My question is earlier you alluded to substantial sales and marketing efforts. If I am not mistaken, last quarter, you had shared that the number of sales people is 25 to 26 onsite, how has that changed and also did you earlier mention that more than 50% of these people are focused towards non-top five accounts?

Anjan Malik: I think the numbers are closer to in the low 30s and I do not know that exactly but broadly between 40-50% of that effort is now away from the non-top five clients

Kunal Sangoi: Okay. Second question is how do you see the demand pipeline within the sales and marketing function? Because as you were earlier mentioning about more sales and marketing spend happening online and you guys working towards clients helping their sales spend to be more effective. Is it not the fact that your SMS vertical as such should be growing faster in fiscal '12?

Anjan Malik: Certainly, I think over the last year it was a faster growing business. And I think two things helped us in that. One, that is not truly a vertical, it is more set of services which are more industry wide; and secondly, by definition, means that it is a larger addressable marketplace. We see a lot of demand in that space. So if the question you are alluding to is do we anticipate faster growth in SMS and financial services, it is hard to tell. Both the pipelines we got from the businesses look equally strong, it maybe that one team is more conservative than the other team but as logic have it that market feels bigger and certainly if you look at other touch points for example in the West Coast or in the East Coast, today, you try and hire guys in internet technology space. The talent market has become very tight which makes us believe that demand for those services are very strong worldwide, not just for guys like us. So usually when demand market and our customer markets or the labor markets and the customer markets starts typing in a particular sector you can anticipate the demand for those services offshore will also be very high. So we are pretty bullish in that space.

Kunal Sangoi: If I look at the employee additions over the last four quarters, it seems that hiring has slowed down, over the last four quarters – each of the quarters, this quarter being just 130 people. What has been the reason there, is it that you are operating at a better utilization now or is the availability of talent being a question?

PD Mundhra: I would say availability of talent really is not a constraint for us especially for frontline resources. We shared some numbers, I think every month we get an average of somewhere between 3.5 and 4,000 footfalls in our facility for walk-in interviews, from which we end up hiring anywhere between 125 and 175 people. So our intake is maybe 3 or 4% of walks in and therefore, I think availability of talent is not a constraint per se for us. I think you see some volatility in the quarter-on-quarter induction numbers because it is the function of when we sell large engagements and when we have to therefore hire people for training, etc., so we would always see some volatility on quarter-on-quarter numbers but I would not say that the trend is towards reduced hiring.

Kunal Sangoi: Okay. In terms of the plans, what is the kind of hiring numbers that you are looking for next year? Any color on that?

PD Mundhra: You know Kunal, we do not really set a target for FTEs because all of our internal budgeting and planning is built around revenue target. I think we have been able to build a very flexible HR system which can bring people on board in a very predictable manner with a certain lead time. So we do not have any headcount addition targets, we do have internal revenue targets, which we do not share as a formal guidance.

Kunal Sangoi: Sure, okay. And lastly, any comments about how do you see the overall realizations moving going into the next year given that do you see strong demand?

PD Mundhra: What I would say on realization is that we think that downward pressure that existed a year or two ago is probably a thing of the past and I think we expect to see a very modest rise in pricing over time, if you look back at history I think we averaged low single digit increases on a CAGR basis and I think we continue to expect to see that in the future. The one wild card on this is currency. I think if you have large moves on currency then of course you could see significant changes in pricing for incremental business.

Kunal Sangoi: Right. So on a sustainable basis, last two quarters have been like 42% EBITDA margins including the other income in the ForEx and the yield income. Do you think you will be able to sustain this in about 100 basis points range as you earlier mentioned? Because earlier your stated target has been low-to-mid 30s on the EBIT margin side, so….

PD Mundhra: I think you are right. Our stated goals have been low-to-mid 30s on operating margin basis which is if you see for FY11 we came in at 37% against the same metrics. So we were clearly above what our targets were. Some of that honestly is also because we have been somewhat underinvested in our client-facing sales and marketing efforts and we believe that given the demand scenario that that exists and given where we are as a company this is now the right time to increase our investments in that space. So we will do that in the year ahead but I think we still remain very confident that we should be able to maintain operating margins low-to-mid 30s. At the net margin level, I think to Rohitash's earlier point our tax rates will go up because of a new alternative tax on SEZ units so you will see our tax rate going up to 20% which will bring down net margins proportionately. But at the operating margin levels I think we are still very confident of maintaining them low-to-mid 30s.

Kunal Sangoi: Okay, all right, thanks a lot and all the best.

Moderator: Thank you. The next question is from Deepak Agrawal from Impetus Advisors. Please go ahead.

Deepak Agrawal: Yeah, just a couple of questions. What is the current STPI exposure?

PD Mundhra: I believe our STPI exposure is now down to about 40% of total revenues. If you look at the revenue quality slide I think the last line item actually on that does show the proportion of revenues coming from SEZ so the balance for STPI, which of course will also now expire as the STPI scheme sunsets.

Deepak Agrawal: Okay, fine. And the Phase II of Airoli was to become operational from the current quarter. So has it become operational?

PD Mundhra: Yes, it has become operational and we have people sitting and working out of the Phase II.

Deepak Agrawal: Okay. And any deployment opportunity for the liquidity that we have?

PD Mundhra: I think you have seen our dividend policy so we proposed a dividend of Rs. 22.5 per share, if you take also the tax on the dividend into account it would represent close to 60% payout. So I think that is one use of the funds. The other use is we continue to be on the look out for acquisitions, we have appointed a banker to help us, conduct a search, and identify assets that are good fits with our business and I think if we find a target that we feel fit well and is available at a price that makes sense that should be another good use of funds. To fund organic growth our business is not capital intensive - when we built Airoli, it cost us about Rs. 25-30 crores and any subsequent expansion also would be similar. So I do not think that would be a big consumer of our funds, that acquisitions and dividend would be the two primary usages of the money.

Deepak Agrawal: Okay. And what is your CapEx plan for the current year?

PD Mundhra: CapEx plans for the current year I guess we have significant headroom in Airoli. So it will probably be sometime before we need to make commitments to further facilities. So I would say that probably in the second half of this year or maybe the first half of next year is when we would look to bring on stream additional facilities.

Deepak Agrawal: Okay And this other income that we have around 7.5 crores in the quarter, that is mostly the ForEx gain?

PD Mundhra: Yes, it is a combination of ForEx gains on the realization of our hedges and there is also of course an interest component on the liquid funds that we had.

Deepak Agrawal: Okay. That is it. Thanks.

Moderator: Thank you. The next question is from Madhu Babu from Systematix. Please go ahead.

Madhu Babu: Yes, sir, what is the current total seat capacity?

PD Mundhra: The current total seat capacity is about 3500 seats or thereabouts.

Madhu Babu: So any plans on new seat additions?

PD Mundhra: Well, as I said a little while ago, I think we have a lot of headroom because we can accommodate about 1000 to 1200 more people within our existing capacity. So I think anything we do incremental would not be before the later parts of the financial year or early the following financial year.

Madhu Babu: Sir, what is the steady state revenue your top five clients can reach in terms of revenue per client? Would it be that they would stop growing after they reach $25 million mark or something like that?

Anjan Malik: I think that is a hard question to answer. Because if you look at what determines the size of a client unlike an IT company where you have discretionary spend from an IT budget, in our case, we are effectively placing costs for our customers. So really your headroom is to some extent the SG&A or the FTE cost that is allocated to our kind of activity. And I would argue for the companies that we work with are $20 billion to $40 billion revenue companies where their SG&As are in excess of hundreds and hundreds and millions of dollars. So I would say the headroom is probably larger than that number that you mentioned.

Madhu Babu: Okay sir, thanks.

Moderator: Thank you. The next question is from Shubhashni Gurumurthy from Ambit Capital. Please go ahead.

Shubhashni Gurumurthy: My question is with regard to the financial services segment. Given that there have been mixed data points from the US of late, what are the feelers which you are getting from your clients currently and how do you anticipate growth over the next two years in the segment?

Anjan Malik: I think there is a lot of change the thing that is happening clearly that there is a lot of regulation and there is a lot of uncertainty because you probably read that lot of the regulation that is supposed to come out of Frank-Dodd is getting a lot of pushback from our customers. I think the uncertainty continues. And the only thing that is certain and there is a lot of technology and change and people investment that our banks are making. So there seems to be a lot many more consulting projects, lot many more technology projects and programs and associated spend than we have seen in a long time. The other thing that is definitely there is the appetite for outsourcing seems to be more aggressive than it was before GFC. So we are starting to see a lot of organizations that before have not even considered outsourcing now, seriously looking at it. Because the one thing that has happened in this marketplace is that capital cost is increasing, our customers are nervously looking at returns and so looking at a return on equity, and return on capital which is decreasing. So I think people are looking for any way they can to automate, to eliminate, and to reduce costs through outsourcing.

Shubhashni Gurumurthy: Sure. Anjan you also mentioned that there is increased technology investments. So does that make any of the current services which you provide redundant in that, anything from that perspective?

Anjan Malik: Well, actually, automated technology is our biggest friend and biggest foe because if you automate everything there is nothing to do. So in a long run, ultimately, yes, technology will replace manual work and to the extent that we do manual work - that work will go away but that what we are seeing is being replaced by other sorts of things. People are leaving certain product areas and moving to other product areas there and they are making money of different businesses and while these new technologies roll out they need help in consulting, they need help in implementation, they need help in investing, they need help in migration. Overall, all I can say is demand is up; it is a different kind of demand than it was for the GFC. What the world looks like five years from now it is hard to tell. All I can say is there is always technology investment from a customer’s side; there is nothing new in that front.

Shubhashni Gurumurthy: Sure, that was helpful. And just one more question with regards to your top five clients. While I understand the revenue contribution is something from top clients, which you see coming down in FY12, but the future growth from top five clients where do you see them coming from? Is it from newer services or is it the expansion of the current services which you…?

Anjan Malik: If you look at our business, I think I have mentioned a few times that we talk about the delta in our business to volume and I think it is very low because we grow by typically doing new things and I guess one of the good things about the concentration numbers that we have and the great growth that we have with the top five is that I would say almost all that growth has come from new things, doing new things. And very rarely do we do the same thing, just more off. So to answer your question is typically new things.

Shubhashni Gurumurthy: Sure. And just one last question. On sales and marketing you have mentioned that you would be looking at making further investments. Could you quantify that for us?

Anjan Malik: I cannot quantify that for you. I would say it is a process.

Shubhashni Gurumurthy: Sure, thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from Himanshu Nayyar from Quant Capital. Please go ahead.

Himanshu Nayyar: Yeah, just a couple of questions on your human resources. Firstly, on attrition, wanted to understand what is the difference in attrition that you have seen for your say managerial level employees or domain experts and at the analyst levels broadly if you can give a color on that because attrition obviously is at an all-time high for you?

PD Mundhra: Attrition for us is very different across the two segments. I would say broadly speaking at the frontline analysts level which is the guys processing transactions or doing work for clients, attrition is low 40s and for people managers and above, I would say attrition is in the low double-digits so probably around 12-15% or thereabout. That is very much in keeping with past trends in prior years as well. Because I think the consideration is that apply for those two classes of employees are slightly different.

Himanshu Nayyar: Yeah, okay. And secondly, I have seen your employee costs have come down significantly. I mean, both year-on-year and quarter-on-quarter. So one reason you obviously said last quarter was lower bonus provisions, so I just wanted to understand have we made bonus payments to employees for FY11 in this quarter?

PD Mundhra: Yes, we have in fact made bonus payments. So, just to share the fact if you look at employee cost as a percentage of operating revenue that was 43.2% this year compared to 41.9% last year. So employee cost has actually gone up as a percentage of operating revenue. And we have made bonus payments to the entire company. The reason why provisions went down is because of high attrition. So obviously if you have high attrition then the provisions that were made in the past for people who have left can be written back. So that is really what happened in the previous quarter.

Himanshu Nayyar: Okay. And lastly, what is the average hike in compensation that you have had for this year?

PD Mundhra: So we went through our wage hike cycle and in India, our average hike has been about 11 - 11.5% to the total population which is a higher number obviously to the eligible pool because not everybody was eligible.

Himanshu Nayyar: Right, yeah, okay, that is all from my side and all the best.

Moderator: Thank you. The next question is from Pravin Kumar from Dolat Capital. Please go ahead.

Pravin Kumar: I know that we do not give any sort of guidance. But what are the growth rates that we are right now seeing on the revenue front? We know that the net addition say something around 200-odd from last eight quarters. So what is the growth for FY12 we are having in our mind? Would this be achievable with this set of net addition for the coming quarters, first thing, and second thing, if it is not then are we looking for any sort of pricing hikes or volume hikes in the business front?

Anjan Malik: I think there are some pricing hikes built into our large customer contracts which automatically kick in at various points. It is hard to tell you exactly what number we are targeting next year since we do not make guidances or make forward-looking statements, but I would say that we are very confident that 2012 will be a strong year based on the pipelines that we are seeing from our business leaders.

Pravin Kumar: Okay. My question is mainly with the sort of net additions what we had from 200 to 220, would this number of 200 to 220 of odd additions….

Anjan Malik: What is the 200 to 220?

Pravin Kumar: Net employee additions what I am trying to say.

Anjan Malik: In the last quarter?

Pravin Kumar: Yeah, in the previous four, five quarters.

Anjan Malik: Okay.

Pravin Kumar: With this sort of net additions would the revenue targets whatever we are having on our mind we will it be achievable….

Anjan Malik: There is another way to answer that question which is that our business is relatively linear between revenue and headcount. So we would expect that the growth of our headcount to be in proportion to our revenue. And we think that we can maintain similar rate of growth or we like to maintain similar rates of growth over the next 12 months. So I guess that answers your question.

Pravin Kumar: Okay, fine and next is that as we know even in the absolute terms S&M expenses there was a slight depletion what we are seeing on absolute terms. In the coming quarters, what are the margins we are targeted for, would this margin will be sustainable at 40 levels and will there be any appreciation in the S&M expenses?

PD Mundhra: I think on the margin front, we always targeted operating margins in the low-to-mid-30s and I think we continue to do that. Margins for this year came in higher, they came in at 37% at the operating level and a lot of that was also driven by higher attrition and also the fact that we feel that we have still underinvested in our client facing onsite organizations for most of FY11. As we correct that and as we invest more in client facing teams, I think margins in FY12 might be slightly lower than FY11, but I think we will competitively hit our targets.

Pravin Kumar: Okay, fine, that is it from my side, thank you.

Moderator: Thank you. The next question is from Jay Doshi from Equirus Securities. Please go ahead.

Jay Doshi: What would be your active customers count at the end of FY11 and if you could also tell us how many of them are the ones we acquired from Igentica, if possible?

Anjan Malik: I am going to hand over to Rohitash; I think he has these numbers.

Rohitash Gupta: Jay, total customer count that we accrued in FY11 is still about 50.

Jay Doshi: Okay, that is it from my side, thank you.

Moderator: Thank you. The next question is from Shashi Bhushan from Prabhudas Lilladhar. Please go ahead.

Shashi Bhushan: What is the wage hike that is due for the next year and when is it due and what will be the impact on the margins because of that?

PD Mundhra: Our wage hike cycle is effective April 1 and we have finalized and communicated our wage hikes for FY12 which averaged about 11%, 11.5% on the total wage bill in India. Obviously for smaller number overseas. The effect of that on margins would be as has been in the previous years where it shows in a more substantial manner in the first quarter and then as you go through the year and as you add new employees as old employees leave I think it kind of evens out. But I think the wage hike has been in keeping with what we have done in previous quarters. So we feel very confident about our ability to maintain margins within our target goals accounting for this.

Shashi Bhushan: But can you quantify that number that what would be the impact because of the wage hike and obviously it could be amortized over the next few quarters in terms of employee addition and broadening at the bottom of the pyramid?

PD Mundhra: Well, I think if you do the math, if you take 11-11.5% and you take it on let us say about 33% of revenues or so which should be sort of India payroll roughly, then that would get you to a number which is about 3% or thereabouts of revenues. That will be the headline number in the first quarter potentially.

Shashi Bhushan: Right. And what is the utilization level in the current quarter?

PD Mundhra: Our utilization tends to stay again in a fairly tight band, so roughly you can take it as 70 divided by 85 and what I mean by that is about 70% of total firm headcount is charged on client projects at any given time and 85% of total firm headcount is in operations because last 15% is shared services. So our utilization tends to stay around that 70 by 85 type of a number which is in the low-80s overall.

Shashi Bhushan: And as we are investing in the business and in the sales and marketing and perhaps maybe currency plays a spoil sport in FY12, we do not know about that, so are there any margin levers that we are working on? One thing we spoke about attrition number which is taking care of lots of wage hike and other issues but apart from this, are there any other margin levers that we could work with?

PD Mundhra: Well, I think honestly not that much, because the business has achieved fair amount of scale. If you look at G&A cost, I do not think there is too much of an opportunity to drive them down. And we think that this is the right time for us to be investing in the future of the business. I think we already have fairly decent margins as opposed to sort of trying to maximize those; our intention now is to try and ensure that we maintain an accelerated momentum on growth.

Shashi Bhushan: And also in terms of investment in the technology, are we looking at a fixed number as a percentage of sales that we may use to invest in technology in order to cater the need of next generation?

PD Mundhra: Well, I think our investment in technology is mainly by way of our in-house software services team which is basically a CMM level team that builds our own work flow tools and platform that we used to deliver services. So that team has remained fairly constant as a percentage of total firm headcounts. For example, today, we have about 175 people in that team on a total firm headcount of about 3500, so it has been about 5% of our total firm headcount for the past two or three years.

Shashi Bhushan: Okay, that is all from my side.

Moderator: Thank you. The next question is from Neerav Dalal from Sharekhan. Please go ahead.

Neerav Dalal: Just wanted to know what is the seat addition from the Phase II of Airoli?

Rohitash Gupta: Neerav, it was roughly half. So the first phase is already fully occupied more or less and the second phase is now fitted out and we have started operations from that in a small manner.

Neerav Dalal: So but what would be the seat capacity?

Rohitash Gupta: The Airoli total seat capacity was 1300 seats. Out of which first phase was slightly less than half and second phase is slightly more than half.

Neerav Dalal: Right, 600 to 700. Okay, thank you.

Moderator: Thank you. The next question is from Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran: Hi Rohitash, just wanted to understand the tax rates that you said. It is close to 60% of the revenues from SEZ and it is increasingly going further. Just wanted to understand if you are taking deferred tax credit for the MAT tax you pay?

Rohitash Gupta: Yeah, we do have accumulated MAT credits of about 16 crores as of year end. The chances that we will be able to use them, I am not very sure at this point of time, but given that the recent budget proposal has brought SEZ profits under MAT regime, that plays a major role in bringing our effective tax over the entire portfolio to about 20%.

Anand Bhaskaran: Okay. Because I was given to understand even the MAT on SEZ you can create deferred tax assets.

PD Mundhra: So just to clarify that, our policy on this MAT has been that in our P&L we expense that. So even if we are paying MAT we basically show that as a tax cost and we do not create an asset in our balance sheet against that MAT. In our tax returns, of course, we mentioned that we have MAT credit. The reason we do not create an asset on our balance sheet is because Rohitash's point there is some uncertainty around whether or not we could actually effectively utilize that MAT credit before it expires. So under a more conservative accounting treatment we have chosen not to create those contingent assets on our balance sheet but of course for tax purposes we have that credit available, should we be in a position to utilize it.

Anand Bhaskaran: Okay. I just wanted to have that clarification, thanks a lot sir.

Moderator: Thank you. The next question is from Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta: Sir, just to take a three to five year view on your business, currently, we are running our seat capacity of about 3500 and further on we can add about 1200 in the existing. If we were to double this seat capacity over let us say three or four years what are the key challenges you face and how easy or difficult it would be, can you just enlighten us on this part?

PD Mundhra: I would say honestly creating delivery capacity is not a challenge. I think we have done that very well. We have sort of fairly robust processes in terms of how to scale up infrastructure, how to bring on people, how to train them, and how to make them productive and billable to clients. I think the constraint to growth has always is how much we can sell in our clients markets and I think that is why investments in our client facing teams are very strategic and imperative for our business. If we can sell the business then I think past history gives us a high degree of confidence that we can deliver it effectively and to higher quality.

Mitul Mehta: Okay, thank you so much sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference back to Mr. Anjan Malik for closing comments.

Anjan Malik: Thank you very much for joining us for this quarterly and annual call. We look forward to hosting the next one for Q1. Talk to you then.

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