“eClerx Services Limited full year FY12 Earnings Conference Call”

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Moderator Ladies and Gentlemen, Good evening and welcome to the eClerx Services Limited full year FY12 Earnings Conference Call. Joining us on the call today from eClerx are Mr. PD Mundhra, Executive Director; Mr. Anjan Malik, Director; and Mr. Rohitash Gupta, Chief Financial Officer. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchstone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. PD Mundhra. Thank you and over to you Sir.

P. D. Mundhra Thank you, for the introduction and thank you to everyone for joining our FY12 call. So as is the normal practice I would just try to take a few minutes for myself and Anjan to walk you through the few slides we put together and then we would like to leave time open for questions. So, if we can turn to the first slide in the presentation that has our key numbers for the quarter and the year.

Looking first at revenue our operating revenue in US dollar terms came in at $25.5 million for the quarter which was essentially flat as compared to Q3 and up only about half a percent or so in constant currency terms, for the year our revenue came in at $97.5 million, so it was up about 30% compared to the 75 million that we did in FY11. In INR terms we had a loss on the revaluation of our foreign exchange assets which is essentially cash balances plus receivables in Q4 because of the modest appreciation in the rupee. So, on a QOQ basis there was almost a 15-16 Crore swing on that account because we had a 5 Crore loss in Q4 compared to a 9 Crore gain in Q3. So total revenue in INR terms was down around 11% and this was the biggest driver of that and obviously this also has a corresponding impact on our net profit line.

Talking next about margins, focusing on operating margin, because that is our measure of choice, For the quarter operating margin came in at about 33% was again down about 9% over Q3. And we have a slide later that has a bridge and that explains some of the factors that made that swing. For the year operating margin came in at about 37% so it is more or less in line with sort of our goal to try and maintain that in the low 30's. EPS for the year was Rs.53 on a fully diluted basis, up about 30% from the Rs.40.7 from FY11. Turning now to the next slide which talks about our hedge status So, our outstanding hedge is as of March 31'st was about $95 million at an average of about Rs.49 so this represents a multiple of 3.7 times of the last quarter's revenue which is clearly on the lower side of the hedge booked that we have had in the preceding quarters. Some of this was because we had slowed down our hedging activity quite substantially in the calendar 2012 as we felt that there was a significant possibility of us needing to make large dollar payment on account of the acquisition that we were working on. In addition as some of you might know the Reserve Bank has recently introduced some new rules which force exporters to convert large percentage of their inflows into INR immediately. And that makes it difficult to accurately forecast residual cash flow available for hedging, so we are looking at how to model that and we will then decide what changes would be appropriate to our hedging policy. So, for the moment as you can see our hedge book is a little lighter than it's been in preceding years. Turning over to the next slide our cash balances at the end of March 31'st was about 270 crores which turns out to about Rs.90 or so for a share. After the quarter end in April we made the payment for the Agilyst acquisition. So we have some more details later but essentially we made upfront cash payment of just under $25 million part of which went to the sellers and part of which went to an escrow to fund the later earn out consideration. In INR terms this represents a payment of about 128 crores so roughly 50% of our cash balances as of year-end were used to fund the acquisition. Book value is now about Rs.120 a share compared to 82 for the last year. The next slide has a quick update on the Agilyst, so as you might know we signed an agreement with them a definitive agreement on 12'th of April and subsequently we closed the transaction on the 4th of May and post that date both the US parent Agilyst Inc. and the Indian subsidiary are now fully owned subsidiaries of eClerx. The business had a run rate of about $14 million based on the average of the preceding three quarters so based on the March to May period it had an average of $14 million in revenue, the consideration structure is that we have paid just under $16 million at closing to the sellers. So this is essentially the guaranteed floor payment for the transaction. We have deposited an additional $9 million to the escrow towards a future earn out. This Escrow payment could range from a low of 0 million to a high of 13 million which is the cap and there are a number of milestones and business parameters that the company needs to achieve to determine exactly how much will get paid after paid from the earn out and that determination will have over the next 15 months or so till September 2013.

From a consolidation perspective obviously the financials of the company will get integrated and consolidated with eClerx post-closing so when we present our Q1 numbers in July you will see some 7-8 weeks' worth of Agilyst numbers from the 4'th of May to 30'th of June as part of our financials. The next slide has a P&L comparison for FY12 vs. FY11, not too much has changed so am not going to spend too much time on this slide but rather view the next slide which is the OPM bridge analysis for the 2 years to talk from. So as you will see in that bridge the only major thing is on the G&A line item and that represents the write-off of good will that we had done last year for Igentica which was really more of a one-time item, so if you exclude that you will see that operating margin between FY11 and FY12 is fairly similar.

Turning over to the next slide, which has a corresponding bridge between Q4 and Q3 and which basically breaks down the reasons for the decline of about 900 basis points between the two quarters. I would say that broadly speaking there are sort of three big areas contributing to that decline. The first area is the exchange rate, appreciation of the Rupee so about 3% of the margin decline is because of the modest rupee appreciation in Q4 which essentially meant our dollar revenues translated into fewer Rupees. The second area is on the G&A side where we have chosen to expense some of the costs related to the Agilyst acquisition and also we have expense some of the cost related to de-commissioning of our Sewri facility which happened during the Q4 so those also I would classify more as onetime expenses because I would not expect them to recur on a continuing basis. The third factor is basically increase in employee expenses both onsite and marginally in India, and that is sort of a continuing normal business expense, so about 3-4% of the 9% decline, I would think is more of a continuing on-going reduction in margin. The increase in the onsite team is basically in line with our stated policy of ramping up our team overseas which is now up to about 52 members and we think that, that is absolutely an essential investment for our business for the coming quarters.

Slide 9 has the metrics on revenue quality - again not too much has changed I think looking in to call out their DSO number which has come down very sharply at the end of FY12. I would say that is more due to one off realizations that was accelerated from the clients, but on a continuing basis we would continue to expect DSO's to stay within 50-70 days. Client concentration also hasn't changed too much, it's in the same 85%-87% odd range. The revenue mix slide next has the comparative of our growth rates of top 5 versus non-top 5. This quarter our non-top 5 client base did see a reduction in revenue as we have shared in our previous conversations. At the tail end some of our relations tend to be more transactional so there is a fair degree of volatility with us signing on 2-3 new clients every quarter and similarly losing a couple of clients every quarter. So this quarter was no different and we saw some reduction in our non-top 5 revenue. However, given the kind of investments in the sales force covering the emerging accounts we continue to remain very hopeful that if you look forward to the next 4-6 quarters, you should see a reduction in client concentration.

The next HR slide has an update on the India staff count and attrition; because of the softer market for talent we have seen the attrition come down from 38% levels of FY11 to about 31% in FY12 and early signs in Q1 continue to indicate that attrition level is somewhat more subdued that it has been in prior years. With that I will hand over to Anjan to talk about what we see for FY13.

Anjan Malik Thanks PD. I think what became apparent with the second half of last year was that there was definitely a much more subdued macro environment in our customer markets and I think this is displayed in the quarterly performance in terms of QoQ growth rates. We anticipate that uncertainty in our customer markets is going to continue for the next few quarters at least. So certainly our expectations on growth by FY13 have been moderated compared to what we have been able to achieve by FY 12. I think if you look at what is going around in the marketplace if you look at the metric in our book which is looking at quarterly run rate and comparing that to trailing 12 month accrual and in our past three years of performance it's probably the smallest difference that we have had and usually that difference is a very good indicator of forward growth. So, what are the reasons for it, certainly I think what we are seeing is a delay and that delay is among the same lines of what we discussed in the last call which is that there is uncertainty in the market place, there is certainly revenue uncertainty in our customer market places, there is regulatory oversight, this consolidation in our customer markets there is a lot of what I would call personnel dislocation and shift and a lot of decisions that are essential decisions are getting delayed, so we have got examples of deals we might have been working for 6 months and all of a sudden the person was doing that deal is no longer with the organization so that uncertainty we have seen both there for last 6 months and we expect that to continue for a little while. In pockets we continue to see this year obviously people becoming gun-shy because of that plus also great amount of oversight they are getting from regulators and effectively politicians that's even more prevalent in banking sectors because of their large use of outsourcing and I guess they would be the front end of using vendors. The other thing we have been noticing is that obviously with the larger customers obviously with our larger customers, given that we have grown our footprints quite large with them. Some of our volumes mix rerates have finally kicked in we expect that we have realization reduction in dollar terms because of that. The other thing what we have seen of course given Rupee depreciation, a lot of new comers in the market place whether it is competitors or off-shore captives will re-price at today's rupee rates which naturally reduces realization so we anticipate over the next few quarters we may have, there will be some pricing push back on us, however, we expect INR revenue realization to more than offset cost inflation so we continue to remain very confident on maintaining margin. So in summary I think what we see is a short-term slow down, however in the medium term we are still very positive and the reason for that is we were taking an internal poll the other day, talking about what our customer are likely to do and all of us unanimously pretty much everybody wanted to do more offshore/ outsourcing because cost pressures are so immense it's just a question of getting themselves organized and getting themselves to do it. Most of our client organizations are planning to move more and more staff to cost locations Now, it's clear that now all of it will be in India, some of them are considering low cost jurisdictions and some of them are also considering near shoring in other locations. Overall there continues to be a very big demand for our service portfolio which we are seeing as always and we will probably have as many if not most number of opportunity conversation with clients, what is interesting is that mainly we are talking to about large-offshoring opportunities, those are completely new to offshoring. So, given that we continue to be very bullish in the long term about our business, as always whenever we have these kind of opportunities where we are looking to invest in people and delivery capability - we continue to feel that the quality of people, quality of delivery continues to differentiate us to the competition and continues to differentiate us in the captives and make a compelling offer, so we're doing all we can to continue that investment. Some of the red that you saw in Q1, Q2 comparison that PD showed you in the previous slide preference for an increase in staffing for offshore and onshore. So with that we'll hand over to questions. Am sure there are quite a few.

Moderator Thank you very much Sir. Ladies and Gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and then "1" on your touchstone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "*" and then "1".The first question is from the line of Srivathsan Ramchandran from Spark Capital. Please, go ahead.

Srivathsan Yeah, hi on the demand outlook specifically, is there any specific weakness that you are seeing with any of your top five clients especially in BFSI clients?

Anjan Malik Sorry could you repeat the question?

Srivathsan In terms of the demand outlook in terms of order pipeline you are seeing is there any specific weakness you are seeing in any of your large BFS Clients

Anjan Malik We are not seeing a weakness we are seeing a delay, so I think we are seeing a fair amount of demand build up we don't see any of that converting in very quickly. So, we do see some time before some of that will convert.

Srivathsan Sure, in terms of the Order pipeline that you are seeing how good is it and what kind of cost pressures that some of your clients are facing so you could see substantial ramp up may be later on, you see most of these delays do materialize into deals if not for this quarter but couple of quarters down the line, what kind of ramp ups could we see with these clients?

Anjan Malik It could potentially be very large because some of the deals we have been talking to our customers about it, very large in size and I think that's why the reason and I think, if you about it many of our customers do want to take cost savings in FY12 but many of them will find themselves against the wall because in order to be able to book the savings in this year they will have be very quick with that. So part of our focus right now is to if and when these guys do decide to do something, we need to be ready to move pretty quickly but again there is no certainty that it will happen, but we feel confident that towards the end of the year you might see things happening.

Srivathsan Sure, in terms of the other incomes this year it's a loss, Can you just break it out into what was FOREX-led and what could have been from the other income of excess cash?

P. D. Mundhra Sure, let me take that. The other income, so the interest income and the investment income is fairly stable for us, and that has been the same in Q4 largely as it has been in Q3, may be Rohitash can share the exact number once I finish. The big change on a QoQ basis was basically on revaluation of foreign exchange assets because the rupee appreciated between December 31'st and March 31'st. So, on our dollar balances and also on the receivables we therefore took a revaluation loss and as mentioned in the first slide that cumulative swing was about 14 to 15 crores. So most of the swing that you see in other income, almost all of it is attributable to this but Rohitash you have the number for interest income and investment income for the quarter?

Rohitash Gupta Hi, this is Rohitash. So, the interest and the investment income in Q3 was around 3.2 Crore whereas in Q4 it was around 3.8 Crore. So more or less the same.

Srivathsan Okay Sure. Thank you.

Moderator Thank you. The next question is from Manik Taneja from Emkay Global. Please, go ahead

Manik Taneja Hi Sir, One of my questions have already been answered. You talked about some pressure especially on the financial services side in terms of delays in decision making. Could you also talk about what you are seeing the other side of other business vertical and secondly just to confirm are we done with our whatever sales and marketing investments that we had to make and what should be the typical run rate that we should look at in terms of our S&M expenses going forward?

Anjan Malik So let me take the first part of the question, and PD perhaps you could take the second part of the question. First of all, the question which relates to growth in S&M account we are seeing similar dynamics in that front, there is some sort of delay in effectively in decision-making, there is some corporate change. Having said that as I mentioned before there are more customers out there that are looking to do outsourcing in a way they haven't contemplated before. So I think economic uncertainty in marketplace is having an impact in people's I guess as I mentioned desire to be decisive.

P. D. Mundhra Yeah and taking on the second question, I would say that the large or the disproportionate ramp that we wanted to do in our on-site team is largely complete and on a go forward basis I would say that, you should see that the team is basically scaling in line with the business so we would expect that the cost that we are allocating to that on-site team to stay within the range of 9 to 10% of total revenues which is currently where it is right now.

Manik Taneja Am looking at your sales and marketing expenses in terms of the breakup that you provided us, as a part of your investor presentation the sales and marketing expenses have jumped up to almost a 15.8% of our revenues, jump from almost sub-16 odd crores from Q3FY12 to 20 crores plus in Q4. So I'm trying to understand is there any one-off element apart of addition of new personnel in terms of initial payout that might have been made?

P. D. Mundhra There are some one-off elements in the Q4 numbers because there is also - apart from things like new people coming on board and joining bonuses there are also sort of year-end bonuses that get paid. And some of those are linked to what happens to the performance of the firm through the year. So I think more representative number is the number for the full year which again if you look at the investor presentation, the selling and distribution expenses are about 13% for the full year of which a part is on-site salary and the others are office expenses etc. So, the on-site salary expense I think if you model for on a full-year basis, between 9 and 10% is a good number to use.

Manik Taneja That's for the salary part?

P. D. Mundhra That's for the salary part.

Manik Taneja Okay and in terms of your Capex plans for FY13?

P. D. Mundhra So, as some of you might know, in the second half of FY12 we have taken on a space both in ASM and in Pune. So that combination gives us 4000 plus seats and allows us to go up to about 5000 people. So we will probably end up incurring some CAPex but that might be towards the back half of this year and again I think we now also have to give some consideration to what the Agilyst acquisition does for us because there may be an opportunity for us to maybe create a third site for eClerx in Chandigarh so we just have to sort of step back and see where and when we want to make that investment, but I think towards the back half of this year we may need to invest in additional facilities.

Manik Taneja Sure and is with regards to Agilyst, Agilyst had been pursuing a couple of large deal opportunities, any progress on that front?

P. D. Mundhra Yeah some of them have come through so as you can already see their revenues for all of the whole FY12 was about 10 million as we had shared earlier. And in the last three months they have been going at a $14 million run rate. So there is obviously a fairly good growth that's happened and of the opportunities that they are chasing I think one of them has come through and the other one there are still in conversation.

Manik Taneja Sure, and with regards to Agilyst, what kind of a growth are you looking at over 2 to 3 year horizon?

P. D. Mundhra Our native business is plagued by volatility and lumpiness because we are a small company and if we are a small company they are micro-company because they are 1/10 of our size. So, it's very hard to make an honest prediction about what we see but there are opportunities facing them - all I can say is at least on a look back basis for the last 2-3 years their business has been growing faster than our business. And on their small base I would hope that, that trend can be maintained for next two years.

Manik Taneja Sure, Thank you and best of luck for the future.

Moderator Thank you. The next question is from Umesh Gupta from Reliance. Please, go ahead.

Umesh Gupta Yeah Just a couple of questions. First in terms of you mentioned that there was the smallest difference in three year between quarter run rate and 12 month of accrual. If you were to do some calculation based on the last year number, you did about 20% odd higher than the quarterly annual run rate last year. So if one were to analyze this year quarterly run rate based on Q4 of this year, you would end up at similar number as of last year may be about 5 to 6% higher, so what is your estimate on after analyzing that last year number, what kind of growth rate you are looking at?

P. D. Mundhra Well we, as a policy we don't provide any guidance. So I would stay away from giving a specific number out there but as Anjan mentioned, we do definitely see an elongation in decision cycles for clients and given what our current run rate is we are very sure, it's fairly inevitable that the FY13 growth will be substantially slower than FY12. Now how much slower it is, a) we don't give that guidance as a policy and b) to be completely honest even as management we don't have complete visibility because our business is volatile and lumpy. So depending on whether growth happens in October versus January, it has a very material difference on how much of that accrual you capture within the same financial year. So timing of growth also has a big part to play in it so I would stay away from putting a specific number out there but I think it's certainly fair to expect that FY13 will be substantially slower than FY12 however as Anjan said we do think that towards the back half of this year you should see momentum returning.

Umesh Gupta Okay this substantially slower number is excluding your Agilyst acquisition topline contribution that would give right..?

P. D. Mundhra Yes.

Umesh Gupta Okay and second on the margin you mentioned that the INR realization to offset costs inflation and you expect margins to be maintained, so what margins you are talking about, the quarter end or the year-end?

P. D. Mundhra We are talking about full FY13 margins and to be very clear we are talking about operating margins because …

Umesh Gupta No I'm saying you are talking about Q3 end margins which were about 33.5% of the year end margin which was about 37% for the full year?

P. D. Mundhra Well I would again, I think to us the difference is not very substantial because in dollar terms if you look at on our revenue basis the difference may be around $2 million or $3 million over the course of the year. So again are operating margin has been swinging more than that in prior quarters as well, we do not have the scale or the diversification of an Infosys or TCS to have that perfectly smooth quarter-on-quarter trajectory. So I think you will see some volatility or some movement in those numbers but our goal has been to try and maintain OPM in the low to mid 30’s and we remain fairly confident with everything that we see that in FY13 we should be able to achieve that.

Umesh Gupta Okay one last question on the margins again, in this quarter you mentioned you had a hit of about 5% odd based on the exchange rate and G&A, which you categorize one-off, so should one assume that if the currency kind of doesn't remain very volatile in this quarter, this 5% would add in the current quarter?

P. D. Mundhra Yes they would add over the year, I’m not fully sure whether we have booked all the expenses relating to the transaction. We may have some more expenses that get recognized in Q1 but again those would be sort of one-offs. So apart from those yes I think that is a reasonable expectation that if the currency stays where it stays then there aren't any more of those expenses and that's where our margins would be.

Umesh Gupta Now this transaction related expenses which you are saying, what was the quantum in absolute terms in the Q4 and what do you think would be going forward in this Q1, whatever estimate you have?

P. D. Mundhra So Q4 a combination of transaction expenses plus costs related to de-commissioning of our Sewri facility was one and a half crores. I would think more than 50% of that was transaction related expenses so in excess of 75 lakhs. Q4 am not sure of the exact number, maybe we can take that off-line and come back to you once Rohitash has his chance to look at it.

Umesh Gupta What is the remaining in terms of the transaction related costs. What could be the number, could it be similar to 75 lakhs?

P. D. Mundhra That's what I said we have to look at it and we will come back to you off-line and but basically those expenses are lawyer fees, banker fees, accounting fees for diligence etc. So it's those types of expenses - Rohitash will have a better sense of saying what is already been provided for booked and paid and what is remaining so maybe he can come back to you off-line after the call on that.

Umesh Gupta Okay one question on the Agilyst, how are their profitability margins are they comparable to eClerx margins or in what part they are?

P. D. Mundhra Well they will certainly be lower than our margins because their realization as you can work out from their numbers are lower than ours, so margins will be lower than ours but they maintained fairly healthy margin; now the reason again am staying away from giving a specific numbers is because in this period immediately prior to closing there are a number of one off transactions that have occurred in their books also. Because our agreement was to buy the company on a cash free debt free basis and therefore accumulated cash in the company has been paid out to old employees and shareholders as bonuses and dividends and things like that. So, I think when we present our Q1 numbers which will have two months of contribution from Agilyst we will be in a much better position to model and make a statement around, on a more longer term what we see their margins to be. I would say straight-off that their margins are definitely going to be lower than ours because they realizations is lower than ours.

Umesh Gupta Thank you.

Moderator Thank you. The next question is from Gaurav Jain from AltaVista Capital, please go ahead.

Gaurav Jain Thank you for taking my question. What is the impact of rupee depreciation on your margins, what is your sensitivity in terms of 1% rupee depreciation increases your operating margins by around 50 basis points, is that a good rule of thumb?

P.D. Mundhra When we illustrated that model that's a fairly good approximation Rohitash can jump in to suggest if anything has changed. But of course not all of it flows through to the net income line because to the extent you have hedges then whatever gains you make on an operating income levels some of that gets off-set because of loss on the maturity of hedges. But at the operating income level that equation that you mentioned is probably a good approximation. Rohitash do you have any view?

Rohitash Gupta So when we did this exercise last year it was around 45 bps for 1% which was at the net level including the FX losses based on the hedge book at…. Obviously this number will change now given that our hedge book has reduced substantially. But you are right that it should be around 40 to 50 bps give or take.

Gaurav Jain I was actually asking on operating margin lines since you're saying it is 45 bps on net then add the operating level it could be as high as 75-80 bps.

Rohitash Gupta We will come back to you on the numbers when we have revised one for bps more recent one.

Gaurav Jain What will be the average rupee realization for the previous year?

P.D. Mundhra It's on P&L so it is 48-53.

Gaurav Jain Average rupee let us take it is 48 and let's assume that for this year it is 53 so basically you're saying that you will give about for 10% pricing concession to your clients so that your margins don't move, is that a fair assumption?

P.D. Mundhra It doesn't play out that way because first of all when you have the pricing discussion with clients nobody has clarity of whether the currency is going to stay at 54, go back down to 50 or go up to 56-57 so partially what you agreed with clients is based on what other people in that market place are doing in terms of other vendors or captives, and also based on what commitments the client is reciprocating with in terms of additional business. So the point we are trying to make is if the currency has moved from 10% from 48 to 53 over the last 6 or 8 months then it is unlikely that all of those gains will be captured entirely by the vendors. So what we're saying is that some of those gains will ultimately go back to clients.

Gaurav Jain But is it something that you are seeing currently in negotiation with clients or is it just an expectation that you have?

P.D. Mundhra It is an expectation based on what we have seen happen in earlier episodes when there have been sharp movements in the currency and we are beginning to see some re-pricing done by other vendors and certainly by captives who effectively have a direct cross charge back to the clients so in their instances if the currency depreciates and that impact is passed onto the clients immediately. So we have seen some impact on that which is why we expect that over the course of the year we may see in specific instances small reduction in dollar prices. But I don't think it will be anywhere in the 10% range and again in INR terms we will get enough of an improvement to offset the wage inflation that we have seen this year plus any other cost inflation in terms of power tariffs and things like that.

Gaurav Jain Does that make you and that Indian IT services industry more competitive if everybody is reducing prices, the implication does it mean that you could see a lot of volume pick up later this year?

P.D. Mundhra The first answer is yes, it does make us more competitive compared to other alternatives that clients may have, us meaning the whole India based spectrum of providers. In terms of whether that directly results in more growth or not it's hard to say because these changes are at the margin. So if we were charging $30,000 to our client and there is a reduction of 2 or 3% that becomes $29,000 - that by itself is not enough of a swing to motivate the client to do more volume earlier. So, on the margin it is not enough of a swing to make them change behaviour.

Gaurav Jain That's all from my side thank you.

P.D. Mundhra Thank you.

Moderator Thank you. The next question is from Ashish Kacholia from Lucky Securities, please go ahead.

Ashish Kacholia I just wanted to understand PD what is our current foreign exchange policy as earlier we used to hedge 12 months of our receivables. Are we is still on the same policy?

P.D. Mundhra Ashish we have actually slowed down our hedging in Q4 for two reasons. One is we knew that there is a high probability that if the acquisition that we were working on were to close then we will have to make a large dollar payment so we wanted to slow down the hedging because of that. Second thing that happened is that the RBI has recently made a change where basically they have asked exporters to convert 50% of their realization into rupees immediately on receipt. Now what that does is that it leaves you fewer dollars left to hedge with so we're just trying to work with our banking partners to figure out what leeway there is on those regulations because you don't want to be in a situation where you fall afoul of RBI regulations because you put on a hedge and you had to convert the dollar into rupees as soon as they came in. so we will see what we do there, I think the likely impact is that we may end up either reducing the size of our hedge book or maybe increasing the proportion of options that we use as opposed to forwards so that you have an economic hedge but you're not required to physically delivered those dollars. So we're not sure but we're still working through what the impact of this RBI change is because it has happened hardly a couple of weeks ago and then we probably have a better answer in place by the time Q1 comes.

Ashish Kacholia So basically what is your philosophy? Is there are philosophy on the foreign exchange front that we are following?

P.D. Mundhra The philosophy was to try and hedge out as much of our contracted revenues as possible because for those revenues our realizations were locked in dollars but our costs were open in rupees. What I'm trying to say is that there is now logistical problem because of these RBI regulations so we just need to figure out if we can accommodate that. If we can't accommodate that then obviously it is more important for us to be compliant with RBI regulations than anything else so we will have to give that higher priority.

Ashish Kacholia Any change in the philosophy as such?

P.D. Mundhra No change in philosophy.

Ashish Kacholia Thank you and all the best.

P.D. Mundhra Thanks.

Moderator Thank you. The next question is from Krudent Chedda from ValueQuest Research, please go ahead.

Krudent Chedda What was the volume and pricing growth, de-growth in Q4?

P.D. Mundhra Rohitash would have the exact numbers but I think both would be fairly stable. I don't think that there was any material change in either and our revenues sort of were flat. It wasn't that volume grew and pricing fell or anything like that.

Krudent Chedda So there was no volume growth in this quarter compared to Q3?

P.D. Mundhra No but as you will appreciate that in every quarter we have both rollouts and new sales so on a net basis there was no volume growth but there would have been line items that rolled out has happens every quarter and there would have been new engagements that were sold. So there were new sales that happened but there would also have been rollouts that happened and the net of those was not enough for there to have been volume growth.

Krudent Chedda We expect some pricing adjustment going forward in FY 13, could you quantify how much did you expect like, what kind of decline we are expecting?

Anjan Malik At the moment it is hard to quantify because most of the things that we are seeing are qualitative as opposed to quantitative. So the one metric is we can look at by the time of couple of months have passed and the rupee has settled into more favorable pricing range where the rupee ends up will give us some indication of where our new book is priced at, in dollar terms. So at the moment it is hard to tell certainly as our business is growing, we are going to head lower price points with our larger customers because of volume discounts given, again this uncertainty of when that will happen. So at this point it is very hard to know exactly what that number is but we wanted to be upfront in the call and say we do think that the pricing would be lower over the next couple of quarters certainly with some of the larger customers.

Krudent Chedda We have seen some re-pricing of our existing contracts, can you give us a rough idea of how much was rough range of pricing?

Anjan Malik Again we are still in the process, so nothing is done as yet so we're still in the process of discussing and negotiating this outcome. I would expect that there will be a few percentage points reduction across some of our bigger customers in return for volume growth, is what I would expect and again it was too early in those discussions process with our various customers.

Krudent Chedda What kind of wage hikes do we plan to give in FY13?

P.D. Mundhra That we have already done. We have modeled our wage hikes at about 90 or 95% of last year's level and so the wage hike that we have given is about 12% to eligible staff in India which translates to an average of about 10.5% on the total population so this is about 90% of the corresponding numbers of last year and overseas the wage hikes are more in line with western market inflation so there would be more in the 3 to 4% range.

Krudent Chedda This was given in April?

P.D. Mundhra This is effective April 1st.

Krudent Chedda Thanks a lot sir.

P.D. Mundhra Thank you.

Moderator Thank you. The next question is from Pratik Gandhi from IDBI Capital, please go ahead.

Pratik Gandhi Thanks for taking my question. Firstly on what kind of service offerings or work where we are seeing a delay because if I understand your business most of the business is run the business kind of nature where it essentially done by client, they cannot let go that kind of service offerings. So just wanted to understand which service lines are seeing pressure actually in both the segments?

Anjan Malik As PD mentioned I also sort of alluded in my earlier commentary, it's not existing line of business that are really seeing pressures because work that we are doing continues to carry on. I think if you look at all the conversation that we have had up until now about growth, it's not about existing business. so what we are talking about new business - and I think we have mentioned in the past that a lot of our growth it doesn't come from incremental volumes because a lot of work that we do tends to be smaller processes which are less volume dependent so our growth considering new things or doing things that have a concentric set of the activity that we are already forming. So when we talk about reduction in growth or delay in growth where we are saying that some of the conversations that we would normally be having or some of the transitions that we will normally be doing in those concentric areas have been delayed. But it doesn't mean that any of existing books has been affected anywhere.

Pratik Gandhi In this quarter we have seen the top-5 client growing by about 1.6%, this is slightly lower so just wanted to know whether any ramp down was there in any of the top 5 accounts?

Anjan Malik I think the comment which PD made earlier when you look at our book as a net there are few metrics we always talk about which is that I think maybe we need 90% renewability in the services that we do, you do have some churn. If we have 10-20% probably in the book of business, even with the large clients you will have certain small processes will ramp down and certain new things will ramp up, so there has been that in this quarter as has been in previous quarters. It is just that we haven't had the same incremental growth as we would be expected in the prior quarters that should have shown stronger growth rates.

Pratik Gandhi But more ramp down you are indicating right?

Anjan Malik There are no abnormal ramp downs.

Pratik Gandhi Since I think you have given around 10.5% overall wage hike and as in the opening commentary you were mentioning that attrition rate is tapering off, what kind of impact one should expect on the OPM because of that with the lower attrition?

P.D. Mundhra As we have also said we expect increase in rupee prices so we expect that increase in rupee prices will be more than enough to off-set the impact of the wage hikes. In terms of attrition, it changes quite frequently so even in prior years we have seen that it maybe soft for a couple of quarters but if things look up then later on in the year attrition does go up. Attrition in Q4 was about 25-26% or thereabouts. So I would expect attrition for FY13 to be somewhere between 25 and 35% if the past is any indication. So using that as a base, using the wage hike that we have given and using on a realistic basis what we expect to get in terms of rupee increases and pricing that should be enough to off-set these cost pressures.

Pratik Gandhi Just an extension to the previous question; on the pricing front that normally for every given year we expect around there is adjustment in the rising of around 2 to 3%. As per your commentary you are indicating in the next couple of quarters you may see pricing going down and with the current quarter my calculation indicates that there is a slight decline in the pricing so does that indicate on a year-on-year basis in FY13 the pricing would be lower than FY12?

P.D. Mundhra I think that is a possibility for sure because as the currency has moved 10 or 12% assuming a base of 48-49 in FY12 and 53-54 in FY13 then it is reasonable to expect that

that gain will be shared between the vendors and clients in some proportion because the magnitude of the currency move this year has been substantially more than in prior years. So it is somewhat of a more one-off situation, number one. Number two to Anjan's point we have in the past struck deals with clients where we have offered rebids linked to significant traditions of growth with us and all we are saying is that because of the growth that has happened over the last year, year and half, some of our clients are now in sight of those triggers that were put in place, the revenue triggers that were put in place so it is reasonable to expect that if we see a little bit of growth this year some of those triggers will get hit and therefore those prices will adjust. So that combination means that we will see prices probably remaining flat in this year may be marginally down. I certainly don't see prices going up in FY13 in dollar terms, in rupee terms of course we do expect prices to go up.

Pratik Gandhi But we didn't expect similar kind of thing in FY09 where rupee again depreciated from 40 odd levels to 46 levels so during that time also we had a similar kind of arrangement with the clients?

P.D. Mundhra Some of these deals were struck after that point in time and even at that point of time we did see on the margin some re-pricing by captives and competitors which in effect does influence us because our business is competitive and we don't operate in a vacuum so we have seen the environment around us, everybody else is taking cognizance of new rates and re-pricing then at some point we have to stay in line with that.

Pratik Gandhi And just couple of questions, one when you are saying that demand would be substantially lower probably the growth will be substantially lower in FY13 versus FY12 so are we indicating that we will be growing less than the NASSCOM of 11 to 14% on organic basis?

P.D. Mundhra Pratik I would like to stay away from giving a specific number because we don't give guidance as a policy. If you just look at some of the observables, our Q4 run rate was 25.5 million so annualized that's about 102, our full year accrual was 97.5 so if you see that gap it's about 4-5%. If you did that same math for FY12 that number would be in the low double-digits, maybe 12-13% or thereabouts, so we are just sort of looking at that time saying this is a clear indication because it gives you some sense of how much growth is "in the bag for FY13" and that number is substantially smaller than it's been in previous years. So if you just look at that and you make assumptions that whatever new growth you sell will happen in the different times in the year and therefore will be give you varying contribution to FY13 accruals. You come up with some numbers so it will be lower than FY12 now whether it is lower than 14% or higher I don't want to make the comment.

Pratik Gandhi Just last one on Agilyst, since most of the delivery guys are sitting in India in Tier-2 cities. Should we expect there will be incremental spend on the sales and marketing to cross sell or up-sell the services?

P.D. Mundhra I think they have a very similar model to ours so they have 99% of the headcount sitting in India in Chandigarh and then they have 1% sitting abroad in various locations in the US, doing sales and account management. I think for FY13 basically those spends will continue in the same ratio for them as has been in the case in prior years, it's not that different from our model really. The big difference is that their average realization is lower than ours but on all the other metrics ratio of headcount, sort of skill sets of the staff pyramid, length and tenure of contracts, type of work that they are doing, everything else is pretty similar to our business. So it is that kind of where it is.

Pratik Gandhi Just a final one on the tax rate for next year.

P.D. Mundhra We would assume that we will continue to be a MAT paying company so given that MAT is at about 20% that is what our effective tax rate will end up being.

Pratik Gandhi Thanks so much.

P.D. Mundhra Thank you.

Moderator Thank you. The next question is from Madhu Babu from Sunidhi Securities, please go ahead.

Madhu Babu Sir could you quantify the target EBITDA margins for Agilyst?

P.D. Mundhra We would rather make some statements around Agilyst profitability with our Q1 results. As I mentioned somewhat earlier in the conversation we don't have a very good visibility in longer term more normal margins for Agilyst at this moment because around closing there are a number of one-off transactions that have happened in the company. So once we have two months of more stable numbers then I think we will be in a much better place to make some commentary or set some expectations around margins for that business. But we know that they will be lower than ours because the realization is lower than us.

Madhu Babu At the higher end we are valuing it at a 2x sales, 24 million?

P.D. Mundhra The higher end is not 24 million by the way the higher end is 28 million or so because the earn out that could get paid, the cap is 13 million so13 million plus the 15.75 paid comes to 28.75 but keep in mind that 13 million is only we paid if certain triggers get hit in the future and those figures are set substantially above where they are today as a business. So ultimately the revenue multiples that we will end up paying for that company will clearly be sub-two times.

Madhu Babu Two times sales?

P.D. Mundhra Yeah.

Madhu Babu But does that appear to be on the higher side considering the economic situation and the size of the company?

P.D. Mundhra It depends on your point of view; so from our perspective when we look that potential acquisition we had a number of criteria and we think that Agilyst probably fits those criteria best. They have demonstrated the ability to build large multimillion dollar footprints with large corporate clients. Their business looks the most similar to ours so we feel that from an integration and management standpoint, on a go-forward basis we have the best shot of pulling it off. They have experienced fairly steady and very strong growth so while we have been growing at 25-30% over the last 2-3 years they have grown even faster and it's a well-run cash flow generative, profitable, good operating business. So from that perspective we think that depending on where the transaction ends up if we end up paying between 1.5 or 1.8 or 1.9x sales it's not an unfair price. Ultimately you have to pay fair value to get a transaction done which is where we think our purchase price is. If we can make it work then it also adds a strategic value to our business because it's gives us an additional business to go after, it produces our industry and client concentration and gives us a base in another city in India. So it has all of the other ramifications for our business as well. When you put all of those factors in place we think that the price that we paid is a very fair price for the business. And in the same breath it's not a risk-free transaction. As you know any acquisition comes with its own share of risk, as this one does as well. But we think that it is sufficiently close to our business that we have a good chance of integrating and making this a very successful partnership for both companies.

Madhu Babu And we would be consolidating for two months right this quarter?

P.D. Mundhra From May 4^{th} to June 30^{th}.

Madhu Babu Thanks.

P.D. Mundhra Thank you.

Moderator Thank you. The next question is from Abhishek Gupta from Goldman Sachs, please go ahead.

Abhishek Gupta Thanks for taking my question. This is regarding your filing on the exchange and I am referring to the employee benefit expenses. Now as per the number quoted we have about 3% increase in the headcount but the same number as far as the employee expenses are concerned is more than 10%. I can understand probably there were some year-end expenses as far as the bonus payouts are concerned but still this number looks way too high to me. So can you probably explain that number?

P.D. Mundhra Are you talking about quarter-on-quarter changes?

Abhishek Gupta Exactly I am referring to the quarter-on-quarter changes right now.

P.D. Mundhra The function is because you're looking at it on the quarter-on-quarter basis so if you look at our employee expenses on a quarterly basis they are roughly 40-45% of $25 million so it will be about $10 million give or take, let's say Rs.50 crores between India and overseas put together. If you have a 10% increase on that that's about a 5 crores expense. Now that 5 crores expense some of it is pertaining to bonuses, those bonuses would have been paid on the full-year base pay because the bonuses are once a year event so the effect you see is very magnified on a quarterly basis. As an illustration full-year base pay may have been 160 crores or thereabouts so if you end up increasing the bonus provision by 3 or 4 crores on that base on a quarterly basis it equates to 10% jump. So that is kind of what you are seeing there more than anything else.

Abhishek Gupta But isn't your compensation cycle is anyhow in the Q1 only or do you end up paying your bonuses in Q4 and employee salary hike in Q1?

P.D. Mundhra So we end up paying the bonuses in Q1 but that determination is done by the end of Q4 and the provision is made in the Q4 books because that bonus pertains to FY12. So although the physical payout happens only in May or thereabouts, April and May, but that provision is there in the March end book.

Abhishek Gupta Based on your earlier interaction what I understand is typically when we start a year we talk about 15% odd minimum growth as the normal year kind of base assumption and then we obviously build upon looking at how they are trying such spending and everything. Now looking at where we are right now and obviously a year-on-year growth what looks right now in the bag is only 5%, how does it look like so I'm just comparing a normal year to what we foresee in FY13, what could be the extent of difference which we are able to probably see right now?

P.D. Mundhra Abhishek you put forth all the facts already in your question that I would have given in my answer so I have nothing more to add. You say that and prior years that gap has been 13-14-15%, this year it is 5% which is the only fact I can point to because as far as the future guidance goes, a) We don't give it as a policy and b) To be completely honest as the management we don't have complete visibility into what is going to happen over a 12 month period because there is a lot of lumpiness in our business and if you look at specific opportunities, the timing of closure also matters a lot in terms of how much of that revenue flow through to in our books for a given period, so that combination of conversion percentage is uncertainty and timing uncertainty makes it a very difficult exercise for us to give a specific guidance so we have stayed away from that. But based on the math you have done you know that there is a gap between where we've been in prior years and where we've been in this year so it is only prudent to sort of put that into your expectations.

Abhishek Gupta Last three years you talk about the CAGR has been more than 30%, now the statement that it could be substantially lower can be interpreted the way one wants to and it will be appreciated, there could be some kind of guidance which could be talked about so we don't want you to put the number but obviously there is a qualitative number which could put on which could be talked about because otherwise this number could be as low as single digit if I want to assume that way right?

P.D. Mundhra It could be right Abhishek, unfortunately our number is always quantitative so I don't have a good way of giving you qualitative number. The only thing I can give you on a qualitative basis is a commentary and we will try to dance around that in as many words as we can, hopefully giving you a flavor for what we see in the pipeline but I can't give you a number because that's the choice we made that we don't want to a guidance, we will do as good as a job as we can managing the business for the medium-term and we will show you the numbers whatever they are at the end of every quarter. But we want to stay away from giving guidance because that then becomes for us a very distracting exercise.

Abhishek Gupta Thanks for your time.

P.D. Mundhra Thank you.

Moderator Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference back to Mr. PD Mundhra for closing comments.

P.D. Mundhra Thank everyone for joining the call and we look forward to talking to you with some more information and an update next quarter. Thank you.

Moderator Thank you very much. On behalf of eClerx Services Ltd that concludes this conference call. Thank you for joining us and you may now disconnect.