“eClerx Services Limited Q4-FY13 Earnings Conference Call”

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MANAGEMENT: MR. PD MUNDHRA – EXECUTIVE DIRECTOR
MR. ANJAN MALIK – DIRECTOR
MR. ROHITASH GUPTA – CHIEF FINANCIAL OFFICER

Moderator Ladies and gentlemen, good evening and welcome to the eClerx Services Limited's fourth quarter and full year FY13 earnings conference call. Joining us on the call today from eClerx are Mr. PD Mundhra – Executive Director, Mr. Anjan Malik – Director and Mr. Rohitash Gupta – Chief Financial Officer. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. The call will begin with a presentation providing an overview of the business and then open for questions and answers. Before starting, the company would like to remind all the participants that anything said on this call which reflects the company's outlook for the future or which will be construed as a forward looking statement by the management must be reviewed in conjunction with the uncertainties and risks that eClerx faces and which may cause the actual results to differ materially from those expected. eClerx does not undertake any obligations to update the forward looking statements to reflect the events or circumstances. The same is highlighted on the last page of the investor presentation available on the eClerx website. I would now like to hand the conference over to Mr. Rohitash Gupta. Thank you and over to you sir.

Rohitash Gupta Good evening and welcome to the eClerx conference call for Q4 and full year FY13. As usual we will take the first 10 minutes to go through the formal presentation that we have released and after that we will open it up for questions and answers. Starting with the slide #1, we closed FY13 with Rs. 660 crores of operating revenues which is 40% up YoY. In terms of USD revenues we closed it at $121.5 million which is 25% up year over year. Our net profit for the quarter stood at about Rs. 48 crores and for the full year it stood at about Rs. 172 crores. Operating margin percentage for the full year FY13 stood at about 35%, which is slightly lesser than last year. The EPS in diluted terms stands at about Rs. 57. We have proposed to provide Rs. 25 per share dividend subject to shareholders' approval.

Moving to slide #2 which gives a further breakup of the other income, we have divided other income into three main heads. First is the investment income from mutual funds and fixed deposits. This year we had about Rs. 9 crores worth of income from such investments, versus Rs. 14 crores last year. The reductions are primarily due to the payments which were made for acquiring Agilyst.

In terms of hedge related loss or gain we had a loss of about Rs. 37 crores versus about Rs. 4 crores last year. This is primarily due to the foreign currency movement that we have seen. The third item is revaluation and realized gain which stood at about Rs. 10 crores for this year versus about Rs. 12.5 crores last year. That gave us about other income loss of Rs. 18 crores for this year versus Rs. 22 crores gain for the last year.

Moving onto slide #3, this gives us the detail of our current hedging position. Our total outstanding hedges as of year end were about $72 million at an average strike rate of Rs. 56 to a dollar. This corresponds to about 2.2 times of our Q4 revenues in terms of coverage of hedges, which is slightly lower than our trailing averages. Most of these hedges are in the form of forwards. This time we have tried to provide a little more breakup in terms of future hedges by semesters, and we think you will find it useful. Moving to slide #4, we had a total cash and cash equivalent balance excluding the money kept in escrow at about Rs. 221 crores which translates into about Rs. 74 a share. The current book value stands at Rs. 146 versus Rs. 118 last year. To provide you with the facilities update; in continuation with our last quarter disclosures we now have our Chandigarh Delivery Center, the new one ready and operational and the same is the case with our new sales office in New York; both are operational. The total delivery centre capacity in India is now 5800 seats.

Slide #5 brings you further breakup of our P&L in annual terms. I would not go into the details but just telling you the headlines; in terms of India employee cost or G&A or S&D expenses as a percentage of revenue whether you look at FY12 or FY13 the numbers are pretty much similar within 100 bps range. The only significant difference is depreciation and amortization where the increase has been more than that and that is primarily due to goodwill amortization for the Agilyst related acquisition.

Slide #6 provides the year over bridge for our operating margin which has dropped by about 300 bps. We have three major things to notice here. First is the 7% odd exchange rate gain that we saw; on the downside we saw employee cost increases as a percentage of revenues primarily due to wage inflation and also due to the addition of Agilyst staff cost, which is at a higher proportion to the revenues. Similar is the case with the S&D expenses which includes our onsite sales, staff cost and Agilyst addition also led to drop here.

Slide #7 provides some key revenue quality metrics. The currency contribution for the dollar revenues is at about 82% in FY13 which is slightly more than FY12 which is again due to Agilyst addition which is primarily a U.S. based business as of now. Geographic concentration again increased to about 74% this year. The debtors remained in the range of about 30 to 35 days. The client concentration for top 5 for the year has reduced to 79% versus 86% as of last year. The FTE pricing based revenue is at 92% and the revenues which are attributable to SEZ are at about 60%. The start utilization still remains at about 69%. This year and this quarter we had a strong addition of client counts. We added about 25 new clients in FY13 primarily from the North American region. This number compares to 10 in FY12. Totally about 73 clients accrued in the year gone by versus 55 last year.

Slide #8 provides the quarterly revenue breakup by emerging clients which is defined as anything other than top 5 clients. If you look at the bar chart which aligns to the right hand side Y axis, the revenues for non-top 5 clients have been growing significantly. This quarter Q4 is our highest YoY growth that we have recorded for emerging clients. The last slide provides you an update for headcount attrition. We are at about 6000-odd employees as of year-end and the attrition in this year has been towards the lower end at about 27%. With this we are done with the presentation but we will open it for Q&A if you have.

Moderator Thank you very much sir. We would now begin the question and answer session. The first question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja If you could talk about the outlook within our top clients as well as the three business segments for us and secondly if could also give us a sense on the wage increments that we intend to rollout for FY14?

PD Mundhra If you look at the outlook for our top-5 clients, I guess the data on slide 8 is a good representation, you will see that for the last three or four quarters these clients have been growing in the mid-teens on a year over year basis. And I think as we look forward we do not anticipate the environment changing too much. In terms of wage increments, Rohitash, if you could share the numbers.

Rohitash Gupta The headline increase will be in high single digits – upwards of 9% – for the eligible population.

Manik Taneja And how would that compare versus FY13?

PD Mundhra It is slightly lower. I think it is about 90% of the numbers of last year.

Manik Taneja If you could talk about what you are seeing across the 3 business segments?

PD Mundhra If we talk about our SMS or online business in general we are seeing good traction there and Rohitash shared the fact that we added 25 clients the last year. I think the majority of them belonged to our online business and the majority of them are in the U.S. So we continue to see good traction there. In terms of the banking business I would say that the outlook is slowly improving but we think that it will take some time to meaningfully change trajectory. On the cable business I think as indicated previously, it is a business where we see the largest number of short term opportunities.

Manik Taneja And specific to our onsite sales investments are we largely done with that phase or should we expect further increase in our sales and marketing investments going forward?

PD Mundhra No, our intention is to keep those numbers constant as a percentage of revenues.

Manik Taneja And sir we have recently had some senior level exits in the financial services vertical so have you already backfilled those positions?

PD Mundhra Those responsibilities have been distributed amongst existing members of our team, as you know over the past two-three years we have significantly increased our investment in the client coverage organization so that organization is now fairly enhanced not just in terms of numbers but also in terms of depth of experience etc. So we think that there is an adequate coverage within the team to take on those responsibilities.

Manik Taneja And it is just a bookkeeping question, if you could give us the strength of our onshore sales and account management team?

PD Mundhra It is about 65.

Moderator The next question is from the line of Ravi Menon from Equirus Securities. Please go ahead.

Ravi Menon I had a couple of question. One is on the head count - It is a little slower than what we had thought per unit and about head count additions over next year, you are looking at lateral hirers or fresher's or any sort of indicative numbers and plans?

PD Mundhra We do not really set any target for headcount addition because most of our hires are lateral hires and they happen on a continuous basis throughout the year. And I would expect our hiring pattern in FY14 to be similar as that in previous years. The bulk of the hiring would be at entry level positions – typically people with 12 to 36 months of work experience, coming in from a variety of backgrounds. We would be making a few campus hires from the MBA schools primarily for our management positions but the majority of the hiring in terms of numbers would come from lateral hires at an entry level.

Ravi Menon Other question is on the Europe revenue, it has gone up by about 1.2 million this quarter. Is this specific to a vertical or a client or something like that?

PD Mundhra Are you talking about revenues in Euros?

Ravi Menon No actually from the Europe region.

PD Mundhra I think there are some adjustments quarter-on-quarter. The other thing that happens is sometimes budgets move around in our client organizations so from that perspective the ownership of a particular project on engagement also changes. I think in this case there were some projects that we were running for a client out of Europe which may have contributed to this blip.

Moderator The next question is from the line of Rohit Gajare from UTI PMS. Please go ahead.

Rohit Gajare What is the outlook on the non-top-5 clients? How is the growth traction on that side, have the investments in sales and marketing, are they giving results as per expectations?

PD Mundhra I think a good perspective on this is the data on slide 8, so our non-top-5 clients are now almost a $30 million revenue business by themselves because this quarter we earned about 7.2 million dollars from the non-top-5 clients and also in terms of year over year growth rates we are seeing good traction on some of those accounts. So I would say the momentum is positive and only I guess as a management all of us wish that we could make quicker progress in terms of growing that business so the pace is slower than what we would like but I think the movement is in the right direction.

Rohit Gajare If you see the slide on page #8 would have some Agilyst impact over there as well. So if you eventually discount the Agilyst impact, the growth is still reasonable. There is some progress but perhaps could have been better.

PD Mundhra Yeah, so if you look at the Agilyst impact I think the easiest way to see it is in the bars. The jump from FY12 Q4 to FY13 Q1 that discontinuous jump is the Agilyst inclusion but from Q1 to Q4 the further increases in the bars that you see is all organic growth.

Rohit Gajare What would be the CAPEX for this year including Agilyst and other base organics?

PD Mundhra So the big CAPEX would have been the facility that went live in Chandigarh a couple of months ago and I think the expansion in Pune was also during FY13. Rohitash can share with you probably the exact numbers offline. We do not have it on this presentation.

Rohit Gajare There is a small discrepancy between the exchange reported operating profit number and the one you have in the presentation. Presentation says Rs. 229.1 crores versus the exchange permit at around Rs. 231 crores. If you can sort of give me a number on that, that would be great.

PD Mundhra Okay, we will just look into that and again Rohitash will search for that offline and there has been a typo on one or the other, we will come back to you.*

Moderator The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

S. Ramachandran In terms of some of this non-top-5 ramp ups we have been seeing, how would you put it vis-à-vis some of the clients within top-5 when we acquire them or are the ramp-ups fast or slower than what we saw may be 4-5 years back? And if any specific reasons that you could attribute?

PD Mundhra I think there is a selection bias there so what I mean by that is let us take FY2008 as an example, so we may have added let us say 4-5 clients in FY2008 of which one grew very fast and therefore entered our top-5 bucket but the other three or four would have ramped at least equal to or slower than the way our non-top-5 are ramping today. So based on selection bias, in that sense because obviously the clients that became top-5 ramped very quickly but they were not all the clients we acquired over that period in time.

S. Ramachandran In terms of the ramps that you are seeing in non-top-5, how would you kind of describe the same, namely because is it more of the traditional way wherein we have one large MSA, we add process by process slowly, or now that we attained quite decent sizes there is a possibility of us getting a slightly more larger deals within especially the non-top-5?

PD Mundhra I would say the majority of our footprints in the non-top-5 is of the corner category unfortunately which is you sort of grow process by process, average deal size is still 100 to 200 K per deal per year. There might be the odd opportunity where you get a change to sell a half a million dollars or a million dollar for a year type deal in the non-top-5 but it is more in the minority. The majority of the accounts still have a SoW-by-SoW 100-200,000 per SoW type plan.

S. Ramachandran Within our top-5 clients especially in the financial services space, is there any major re-platforming exercise kind of stuff which can impact before and in the next 12-24 hours time frame?

PD Mundhra I think it is a continuation of the trend over the last two years, so clearly as all of you are probably aware there is a move away from OTC derivatives towards more exchange traded and listed securities and that has obviously affected our portfolio with our clients and we think that it will continue over the next couple of years. So that transition is happening and there are associated project type opportunities that come up as clients move onto new platforms and have to institute new processes. There are also project opportunities that get thrown up because of new regulatory or compliance requirements. So we see some short term projects coming up from time to time. I believe we shared the fact that in a quarter earlier, we had a large blip for short term projects arising out of factors like this. So I think that is what we see, but I do not think it is material enough to change our future outlook in terms of growth trends.

Moderator Our next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar I see a small increase actually in the goodwill, so I was just wondering what is the reason because I thought once you have started amortizing this number should …?

Rohitash Gupta I believe you are talking about quarter, right, not the year.

Abhishek Kumar Quarter from 2Q 13 to 4Q 13.

Rohitash Gupta So there was some catch-up effect in Q2 but after that it has been uniformly accrued at 70 lakhs per month for Agilyst.

Abhishek Kumar And what should we pencil in for the next year?

Rohitash Gupta Next year we anticipate something in the range of 20.5 to 21.5%.

Moderator The next question is from the line of Chandrasekhar Sridhar from Union KPC Mutual Fund. Please go ahead.

Chandrasekhar Sridhar One is that for FY12 your dollar revenue growth is close to about 28 to 29%. For FY13 if I were to back out Agilyst assuming it did between $15 to $18 million, effectively your non-Agilyst revenues grew only by about single digit or existing organic business grew only between 6% to 7%. So what was the sort of trajectory which we are looking at in FY14, what sort of visibility can you offer? Secondly you hiked, after reducing your dividend payout last year in FY12 on 32% because of the Agilyst acquisition, you have again hiked it to about 43-44%. Are there plans to hike it any further? Also there was an announcement sometime ago on the BSE saying that you were looking for a buyback of up to 10%. On the outcome of your Board meeting today in point #7 you said that you had resolved to seek fresh shareholders' approval for raising long term financial resources. So just trying to figure out what is happening there, some clarification on the two if you could?

PD Mundhra The item relating to raising fresh long term resources is basically a renewal of an enabling resolution that we had sought last year which allows us to raise fresh equity and/or debt and the idea behind this is we always remain on the lookout for attractive acquisition opportunities and having an enabling resolution in place allows us to raise capital if and when we need to. So there is no intention of raising capital immediately but it allows us the flexibility to do so if a compelling opportunity would present itself. On the buyback we are in the process of running a shareholder ballot to get again approval to amend our articles of association to allow us to conduct a buyback. The thought process there is that historically we have been using only dividend as a route to returning cash to shareholders. With the increasing rates of dividend distribution tax it is not the most efficient way of returning cash back to shareholders, so we want to make sure that we also have the ability to use buybacks as a way of returning cash. So in any given year depending upon the judgment of the Board we could take a decision to use those two instruments in some proportion to return cash. So that is the thought process. Again, you know until our articles etc get amended and the Board takes the view on this, there is no immediate proposal to do anything at this time. On your question about the dividend payout ratio, I think for the last 2 or 3 years we have been targeting about 50% of net income as a payout ratio. Last year was lower because a large part of our accrued surpluses were used to pay for the acquisition. But this year given that we have no such major investment coming up, we have taken the payout ratio closer to 50% once you add back the DDT component. On your first set of questions about the outlook, I think it is absolutely accurate that our organic growth rates in FY13 have been significantly lower than prior years. In terms of an outlook though I think it is fair to say that the trajectory that we have seen in recent quarters is probably the most likely outcome for the near term to medium term in the future as well. So if I look back at the last 2-3 quarters we have been growing at somewhere between 2% and 4% on a quarter-on-quarter basis. And I think that sort of represents the base case for the next six to nine months as well.

Chandrasekhar Sridhar So would it be safe to assume that a significant proportion of the delta in FY14 again will come through Agilyst?

PD Mundhra I do not know because I think we are seeing growth across all of our 2-3 businesses. It is very slow, it is tepid. It is not like 25% annualized growth that we have seen in prior years but I think all the three businesses are growing.

Moderator The next question is from the line of Sandeep from Edelweiss. Please go ahead.

Sandeep We have been trying to grow our non-top-5 customers. I would like to say 6 to 10 customers very strongly for sometime now. So how do you see that effort reaping benefits? If you see in the past it has not given substantial benefits. Of late what is the status? How do you foresee it, and this has been quite a problem for similar models for other players also. So if you can add some value on that how we are approaching? Whether our approach is a bit different now or do you see that non-top-5 would also grow at a very fast pace and probably come closer to top-5. What is your view for the next 2-3 years at least?

PD Mundhra I think the challenge of trying to grow our emerging accounts is a tough challenge because of the inherent difficulties of selling into clients where we have marginal relationships, mid-level access and incomplete information. To address that challenge we have done 2 or 3 things on our side. We have significantly increased our sales force. We have disproportionately focused our client coverage staff onto the emerging accounts away from the strategic accounts and we have also changed our compensation clients to disproportionately reward our client coverage teams for new deals sold into emerging accounts. So those are the actions we have taken to try and address the challenge. The outcome of these actions I think is on Slide #8, so I think if you look at the history, let us say FY10 or even FY11 our top-5 have grown faster than our emerging accounts and so our client concentration was becoming steadily more concentrated but over the last four to six quarters I think that trend has reversed. So although again emerging accounts are not growing as fast as we would like them to, overall our client concentration is coming down slowly over time. So I think that is sort of where we are.

Sandeep Will it be fair to assume that there could be some shift in the top-5 accounts in next two years?

PD Mundhra Each of our top-5 accounts is a fairly large account for us. I do not know if there will be a shift. Whether one of our emerging will grow as fast as to get into the top-5, it is possible, if not likely.

Moderator The next question is from the line of Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra Can you comment on what pricing trends you have seen in the quarter for example, have you been able to get any price cost to living increases from any of your top-5, top-10 accounts this quarter?

PD Mundhra In the last quarter I do not think we have had any pricing increases. Most of our pre-agreed pricing increase will happen at different points in FY14 so if you ask me for FY14 as a whole I would expect a modest uptick in pricing on a blended basis through the year unless of course again there is a very sharp move in the currency. So with that caveat the expectation at this point is that we would see a slight uptick in dollar pricing.

Ankur Rudra So you are expecting, for example, for the last couple of years you probably have not seen costs increase, so that you are a bit optimistic about that coming through this year?

PD Mundhra Well I think we did see a pricing uptick in FY12. In FY13 we had a couple of significant price cuts that we took early in the year, and so therefore I would say on a blended basis pricing actually would have declined marginally. In FY14 as I said we expect pricing to again resume its upward trend although slowly.

Ankur Rudra So basically no headwinds from any particular client, the kind of discounts you had to give probably in the first half of FY13 this year and may be some of them will give you increases – which is why the blended commentary is what you gave us?

PD Mundhra Yeah I think those price reductions were on two accounts. One was volume related discounts where we have triggers with clients to pass on a more aggressive price if they give us significant incremental volumes of work. And the second was a couple of very specific situations where with the sharp depreciation of the rupee we felt that our price position was becoming stretched. So it was more driven I think by currency moves than anything very specific on our side. So this year the currency has been fairly stable in that 53-56 type range.

Ankur Rudra Can you give me an update on how the sales headcount has been at the end of the quarter and if the sales and marketing cost over the course of the year will be similar to last year because you had increased your sales with presence quite substantially over the course of the last may be 4-5 quarters. Will you stop that now and begin to burn that expense?

PD Mundhra Total headcount in our client coverage organization was about 65 at the end of the quarter and we expect that expenditure to remain constant as a percentage of revenues.

Ankur Rudra We will keep adding people over the course of the year?

PD Mundhra As the business grows we will certainly need to add people but the expenditure and investment on client coverage should remain in that 13.5-14% of revenues range where it is right now.

Ankur Rudra I think in the quarter according to my numbers it indicated non-top-5 accounts has reduced sequentially. Was it just a one-off? Is there any trend to this?

PD Mundhra No, I think our non-top-5 actually went up quarter-over-quarter but it did not go up significantly to reduce concentration from 79 to 78 but our non-top-5 business actually grew on a quarter-on-quarter basis.

Ankur Rudra I think last quarter you had commented that there were several short term projects which helped you, has that sort of recurred this quarter as well?

PD Mundhra At any given point in our portfolio there are some short term projects that we are doing. Last quarter, as in Q3, that proportion was slightly higher then is the case usually and Q4 I think is dragged down to sort of more regular levels.

Ankur Rudra And just more globally, clearly last year you benefited from not just introduction of Agilyst but also incremental growth within Agilyst after it was acquired. Are you similarly optimistic within your cable or telecom business that you will keep seeing higher than a group level growth?

PD Mundhra I think we are still very early stages for that business. So certainly in FY14 we remain optimistic that we should see more growth in that area.

Ankur Rudra And just more globally now from a budgeting process perspective, do you see more optimism across your client base outside of the pricing increase you are seeing?

PD Mundhra Yeah, it is hard to tell. I think yes may be on the margin there is slightly more confidence but I do not think it is material enough for us to really have a change in our outlook for revenue or growth.

Ankur Rudra Finally two bookkeeping questions. One was, the communication expenses have been a bit volatile in the last couple of quarters. Is that more of an accounting thing as opposed to anything any other changes there? Secondly on the tax for the next year given there will be surcharge?

PD Mundhra In Q3 the number was down to 1 crores, because in Q1, Q2, and in Q4 it is between 2-2.5 crores. So I do not have the details handy but I would suspect may be we received the credit or refund of some duties from the government and that may have driven down the number in Q3 because of the reversal of some duties or refunds.

Rohitash Gupta We expect around 20.5 to 21.5 range for effective tax this year.

Moderator The next question is from the line of H Shah from Value Quest. Please go ahead.

H Shah We were seeing some downtick in few of our top-six clients. So has that stopped? Would we see growth in all of top-6 or would we see a decline in the next year as well?

PD Mundhra I would say that at any given time there are certain processes that are rolling off either because clients are disinvesting from certain businesses or they have automated some activities, but at any given time there is a percentage of our revenue base, every quarter that is rolling off. But what we have been able to do at least so far is make sure that we are more than covering that and then selling additional projects to maintain some growth. So if you look at our top-5 clients in all of this year for the last four quarters we have been growing at somewhere in the 10-12% year-over-year range and we hope and expect that we can sort of continue that in the future as well.

H Shah So all of the top-5 will be able to do that?

PD Mundhra If you look at it in isolation in any given quarter it is very likely that one or more of the top-5 clients are de-growing.

H Shah Yeah, on an annual basis I am asking?

PD Mundhra On an annual basis also you may have situations where one client is de-growing but the other clients hopefully are growing enough to more than cover for that hole.

H Shah And of the clients added, Agilyst we had one client and another client which is ramping up, any client acquisitions on that side of the business, the cable business?

PD Mundhra On the cable side in the last year in FY13 we added two new clients but the difference there I think is that each of those relationships have the potential to be meaningful in terms of size. In our native business particularly in online we have added many more clients but those relationships tend to be smaller in an average size.

H Shah Okay, so there were two clients added which will ramp up?

PD Mundhra Which are ramping.

Moderator The next question is from the line of Ashish Kacholia from Lucky. Please go ahead.

Ashish Kacholia My question pertains to basically the change in banking companies which do now more business on the exchanges rather than OTC. So does a reduction work for the same volume traded by these guys? Are we going to keep growing these accounts or are we going to have to find some other lines of business?

PD Mundhra Ashish we are growing our banking business and we are growing the relationships at an account level also but it is definitely true that the footprint we have within the derivate state has been coming down over the last two years, so if you look at our banking business and you see the percentage of revenues that comes from supporting OTC derivative type work, I would say from a position where it used to be 65%-70% of our banking revenues, it is probably now down to may be 35% or so of our banking revenues. From that perspective I think a lot of that transition has already happened over the last couple of years. Some of it will continue happening over the next 12 to 18 months which also in some way drags down our net growth rates, right, because whatever else we are selling into those same accounts some part of it gets offset by the losses on the OTC side.

Ashish Kacholia So net-net even after losing so much of business from the derivative area, we have still been able to grow these accounts?

PD Mundhra Yes definitely.

Ashish Kacholia So that means once the hit that comes to us from reduction in this derivatives business and it will bottom out now 35% of your business, may be it will bottom out at 25-26% whatever. But then do we at that point of time do we hope to see if we have meaningful kick-up in revenue growth from these accounts?

PD Mundhra It is hard to predict as to what happens. Partly it also is a function of their business confidence and their sourcing strategy so if you leave aside the headline numbers and growth trends for a minute, we do feel that this is also a process of transition for our business where a couple of things are happening. On the banking side, the reliance on OTC derivatives is decreasing and on an overall level for our P&L our reliance on our top-5 is slowly coming down. So from that perspective we feel that it is building a stronger foundation for the future.

Ashish Kacholia And can you throw some color on what areas of business are replacing these derivatives business?

PD Mundhra A lot of it is in the listed securities space, derivates space as some of these products want exchanges. Clearing activities, supporting clearing as well, some KYC type work that we are doing, reference data management, some consulting type of work, middle office activities that we are picking up for the banks. So I would say it is generally more complex, more functions that are closer to the front office.

Ashish Kacholia So this kind of work is unlikely to tend to go away?

PD Mundhra Some of it will go away because all of these things have a shelf life, but hopefully, we would not see a sort of the bunched up roll off that we have seen on the OTC side because it will be a more measured replacement cycle.

Ashish Kacholia And off late we have been hearing about some global banks completely shuttering their trading and those kind of activities on the investment banking side. Have those hits already been absorbed by us? Obviously if they are shutting down some particular line of business itself, we would also have taken a hit in our business, right. Have all those been taken?

PD Mundhra I guess the one name that comes to mind for example is UBS which has announced a decision to close down its banking activity. I think we are fortunate that for our top-5 clients they remain very committed to the investment banking business because it is a very core business for them. So we have not had an outcome like that across the clients. Of course we may disinvest from certain product areas but that is a much more small outcome to absorb.

Anjan Malik I was going to say what you are finding is although the fringe players are exiting, the big guys are actually coming down in a big way. If you look at Q1 results for a lot of the guys they probably had a best quarter than most of us had in a long, long time. So this is fine. We are seeing more discretionary spending opening up from these guys. They are definitely looking to invest in building up these businesses. We are already seeing those exits. You are right the marginal players have other problems. They are not as involved in this kind of slow mover kind of products but there you have a lot of options given what you call more of the product and services structure we lend to the big guys we sort of slight up in the retail side and take to the smaller guys so we are having some luck there.

Ashish Kacholia Any impact of this data theft and all that kind of news that has been coming out? Does it affect any of your transactions or any of your relationship?

Anjan Malik You see that in the headlines with some regularity which we have so ultimately we are in the work for hire business and also our facilities and our services we alternatively take clients every three to six months, so we are very much in it together. So people come to us and to other vendors, their eyes are always completely open so we are no different from anybody else in that regard.

Ashish Kacholia If we guys make any processing mistakes on behalf of our clients, is there a Blackphone kind of an event that we are exposed to?

Anjan Malik You know that is something that we pay a lot of focus and attention to. So as a firm we do not take liabilities off individual errors and omissions which I know a lot of guys do on the street. So I would argue we have been relatively sanguine on this approach by saying that ultimately we want to make sure that our exposure to our clients is proportionate to the revenues that we earn from them and not to our clients' balance sheet and their P&Ls and I think most clients have been pretty sensible about that thought process. So, our errors and omissions which we do not really take unlimited liability. There are things which you cannot carve up from a legal perspective, things like deaths, personal injury but that is sort of very-very remote and not really related to our run-rate business.

Moderator The next question is from the line of Rohit Gajare from UTI PMS. Please go ahead.

Rohit Gajare Can you share your margin outlook for FY14? This year we had a margin of around 34.7 as per your definition. What is the outlook going ahead?

PD Mundhra We have always targeted low to mid-30s for operating margins. This year we were in the mid-30s. I think FY14 we should be at similar levels.

Moderator The next question is from the line of Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra As the nature of your work is changing like it is cast in the investment banking part of your business away from OTC derivatives from where you had a large volume of work towards probably newer areas. The level of process excellence and expertise you have here and possibly the level of automation you might drive could potentially be lower than what you had earlier. Does this make it tougher for you to drive similar sort of profitability in these projects given they would not be as scalable as the previous bunch of projects?

PD Mundhra I think if you ask me what is different about eClerx in the large number of outsourcing businesses that exist in our country. I think one of the things that we have been relatively good at is our ability to manage small and complex processes in an efficient manner. So if you look across our book today the average size of our process is about 5 FTE per process and I think the way we have constructed our knowledge management and IT practices, it allows us to deliver those services in a fairly efficient fashion. So we think that despite the work moving more higher end we should be able to maintain our margin profile and the last element I would say there is that for activities that are truly more complex we also have differentiated pricing and an ability therefore to charge for those more higher-end skill sets. So we think that we can probably appropriately reflect the complexity and the cost of delivering that work in terms of how we are charging our client's factors.

Moderator The next question is from the line of Hitesh Shah from IDFC Securities. Please go ahead.

Hitesh Shah FY13 has been a difficult year for us if you exclude the $16.5 million that came from Agilyst, standalone revenue in dollar terms have grown at just about 8% YoY, how do you see FY14 at this point of time? Do you see the growth in SMS and the financial services business being a high single digit or do you see acceleration there? And secondly, Agilyst has shown almost 10% to 15% QoQ growth in the last two quarters. Do you see this kind of growth continuing in the following few quarters in FY14 as well? If you could throw some light on that?

PD Mundhra I would say that certainly in the next 2-3 quarters based on the opportunities in the pipeline today it is highly likely that the cable business grows the fastest of the three businesses that we had. Now whether it is 10% QoQ, whether it is 5% QoQ, very hard to predict given how small that business is. But I do think you are right that it will grow the fastest of our three businesses for the next 2-3 quarters. For our native businesses online and SMS I would say that again the operating environment has not changed very dramatically over the last 6-8 months. So I would say we will continue to see a slowish growth, that would be my expectation.

Hitesh Shah So at this point of time you do not expect any acceleration in financial services or the online business?

PD Mundhra I do not think so. I mean again there will be some volatility quarter-on-quarter. We could have a flat quarter. We could be 4-5% up on a QoQ basis. But overall it is the same environment and the same trajectory.

Hitesh Shah Secondly there were some uncertainties because few of your financial services business reducing their investment banking business and one of the large clients in online business also going through corporate action, do we have any better clarity on that?

PD Mundra In terms of corporate actions I guess whatever information is there is out in the public domain and probably you have as good an insight as what we might have into likely outcomes. But the outlook or the feeling that we are sharing with you in terms of future trends reflects whatever information we have about our top accounts at this point in time. So knowing everything that we do and seeing the opportunities we have in our pipeline I would say the base case expectation is sort of slowish growth.

Moderator As there are no further questions I would now like to hand over the floor back to Mr. PD Mundhra, over to you sir.

PD Mundhra Thank you so much everybody for joining our call and we look forward to talking with you in July with quarter 1 results.

Moderator Thank you. On behalf of eClerx Services Limited, that concludes this conference.

**[Management clarified subsequent to the call that there was no discrepancy. The difference was about INR 211 lakhs which had been carved out as an Exceptional Items in the press release given to the Stock Exchanges whereas it was clubbed in the operating cost in the presentation.]*