"eClerx Services Limited"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good evening and welcome to the eClerx Services Limited Q4 FY 2014 earnings conference call. Joining us on the call today from eClerx are Mr. P.D. 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. There will be an opportunity for you to ask questions after the presentation concludes. 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 question 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 would 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 due 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 now hand the conference over to Mr. Rohitash Gupta. Thank you and over to you sir.

Rohitash Gupta: Good evening and welcome all of you to our Q4 and full year ending conference call. I will start with the regular update:

Revenue for the year FY 2014 was Rs. 852 Crores which is 33% up YOY, dollar revenue for the year was 138.3 million in USD terms which is about 14% up. Please keep in mind that about 1% of this 14% is growth contributed by the effect of Agilyst integration in May 2012. The operating margin at Rs. 320 Crores was up 40% year-over-year and profit after tax at Rs. 256 Crores was up 49%. Our OPM and PAT percentage for the year stood at 38% and 30% respectively. In terms of quarterly performance, all the margin metrics were up sequentially, however, our revenue in dollar and INR terms was flat to marginally down. The reason for subdued revenue performance in Q4 was three fold, some of the volume work was preponed in Q3 as we have noted in the last quarter and second reason was that one of the largest clients remained sluggish and the third reason was the cable industry consolidation which is currently happening in US and has delayed some of the ramp ups for us. Lastly, we are proposing a Rs. 35 per share dividend, and the payout translates to 48% of PAT.

Moving to slide #2, this gives update on other income for the quarter compared to last quarter. The total other income was Rs. -1 Crore which is against a positive number in the last quarter. The constitution of that Rs. -1 Crore is that we had about Rs. 4.5 Crores of investment income gain which is very healthy compared to last quarter where we had it at 3 Crores. This was largely offset by hedging losses and the revaluation losses of roughly Rs. 2 and Rs.4 Crores respectively.

Moving to slide #3, this gives our current hedge book status. We have about $89 million worth of hedges roughly at an average of 64.5 Rs. This corresponds to roughly 2.5 times of this quarter's

revenue. This ratio is likely to remain between 2.5 and 3 in near future as well. Our hedge book constitutes completely of forwards. If you look into the breakup then FY15, we have about $68 million worth of hedges outstanding at 63 rupees a dollar rate whereas FY16 hedges which amount to about $20.6 million will strike at Rs. 69 a dollar.

Slide #4 gives some other updates. We had cash and cash equivalent balance of Rs. 355 Crores which is roughly Rs. 117 a share, our basic EPS was Rs. 85. The current book value is Rs. 195 versus Rs. 146 for the last year. We also completed the buyback. Totally, 37,000 shares were purchased at about Rs. 815 excluding the expenses. In terms of facility footprint, as we have been telling in the last few quarters, we have expanded our footprint in Mumbai SEZ. We have taken three floors in our existing SEZ in Mumbai out of which one floor is going live as we speak which is primarily for growth. The other two floors are likely to go live in various points of time in FY 2015; this will be primarily for consolidating our Mumbai footprint. We have given wage hikes to our employees as usual, this time, the wage hikes were about 11%, which is slightly up from what we gave last year. In addition to that 11%, we anticipate about 4% impact on the wage base due to several pay policy changes which we have implemented starting April 1 primarily targeted at entry to mid level staff in the firm. These changes include increases in floor salary for several levels, additional incentives, additional kinds of bonuses, conversion of variable into fixed amount etc. We are also proposing rotation of our auditors for the year starting FY15 and we also propose to adopt some principles of AS 30 for hedge accounting from this year.

Slide #5 gives a more detailed breakup of consolidated level P&L comparing FY 2014 to FY 2013. I will only focus on the major items. If you look at the India employee cost, it has decreased as a proportion of revenue primarily due to currency effect in the denominator, but if you look in absolute terms it has increased by about 20%, which is roughly in line with our dollar revenue growth and the utilization changes that we will talk about in the next slide. You may also note from our press release that employee cost decreased sequentially in absolute terms in Q4 by about Rs 7 to Rs. 8 Crores and that was largely due to bonus provision changes both in India as well as onshore level.

Coming back to slide #5, if you look at other items, rent increased slightly in absolute terms, primarily because of the spaces we have taken in Mumbai, the legal and professional fees decrease that you see is primarily because in FY13 we had additional expenses on account of Agilyst integration. Conveyance has decreased a bit which is primarily due to better rates, better negotiation and better utilization of our transport services. The other item constitutes lot of costs and has increased by about Rs. 6 Crores. One of the major items where there is an increase is in the cost for housekeeping and security primarily driven by increase in minimum wages. Coming to selling and distribution, the increase again is about 20% in absolute terms, which is corroborated by the dollar growth as well as the currency change that we saw between the years. Depreciation and amortization increase of about Rs. 8 Crores, the amortization increased by about Rs. 5 Crores year-over-year due to additional tranches that we paid towards Agilyst in FY14 and the remaining Rs. 2 to Rs. 3 Crores due to fixed assets increases and increased depreciation on those.

Slide #6 gives the breakup of expansion in the operating margin between FY13 and FY14 and as you can see the majority of the expansion is contributed by exchange rate which moved roughly about 11% on FY13 average to FY14 average. On the downside, employee cost increased as I explained in the previous slide and also same was the case for selling and distribution and amortization cost.

Slide #7 gives some other interesting metrics for the business, most of things have nudged slightly, for example currency contribution is 81% in USD terms compared to 82% last year, and similarly, geographic concentration has remained more or less same at 74%. The debtors have remained in the narrow range of 30 to 40 days even for this year. The top five contribution has improved significantly year-over year, it now stands at about 74%, which was the case in last quarter as well. We have added about 16 new clients in this financial year and our total count of clients, which was billed in FY14, stood at 75. The staff utilization is at 65 for the full year, however, for this quarter it is at a low of 64% and this is largely contributed by our increasing mix of business towards the cable and financial services, which have been growing slightly faster than compared to sales and marketing and have higher benches.

Slide #8 gives the YOY quarterly revenue trend in our top five client base as well as the remaining client base. This quarter, the YOY for the strategic or top five clients is at a low of 3% whereas emerging clients now are contributing almost 10 million a quarter and the growth in YOY terms is at healthy 35% plus.

The last slide, slide #9 gives the head count status as well as attrition details, so we have 6800 employees in India as of March end out of which 871 are from support services and remaining are production staff including both billed as well as bench staff. The onsite head count has increased noticeably to about 76 people now at the year-end versus 62 in FY13 end, the attrition remains at about 30% for the year, which is our historical average as well. Thank you and we now welcome questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. We have the first question from the line of Nitin Jain from Ambit Capital. Please go ahead.

Nitin Jain: My first question is on margins, your wage cost was down 9.1% QOQ in absolute terms and despite 3% QOQ increase in number of employees and 200 basis points declined in utilization, so besides that bonus provision what are the other things that explain this?

Rohitash Gupta: I think it is largely bonus provision only.

Nitin Jain: If you could quantify that how large it would be?

Rohitash Gupta: About Rs. 8 Crores plus was the impact due to bonus provision changes in the quarter out of which majority was in India and Rs. 2 to Rs. 3 Crores kind of number was for onshore staff.

Nitin Jain: Similarly, the sales and marketing expense were quite low this quarter and despite increase in sales headcount, so was bonus the only reason for that?

Rohitash Gupta: Yes, the 2 to 3 Crores number that I talked about which is coming from the press release which gives data in a different format, but if you look into the presentation, there selling and distribution includes that 2 or 3 Crores for onshore because onshore salaries and bonuses are factored in selling and distribution.

Nitin Jain: So, what could be the sustainable range, as a percentage of revenues, do you have any target range in terms of sales and marketing expenses, 14 and 14.5%?

Rohitash Gupta: For that I think the annual numbers will make more sense for you, you can focus on the annual number which is about 14% for this year and that even in FY13 if you see it was 14.4%, so that is the kind of range you can factor in.

Nitin Jain: Okay and if you could provide outlook on your three businesses, capital markets, SMS and cable it would be a real help.

Rohitash Gupta: I request Anjan to share on outlook on each of these three businesses.

Anjan Malik: We expect and we have seen from other people in the street we have had tough operating conditions in different parts of the businesses and easier ones in others. If I take the cable business, we have done well, we have good strong growth, obviously there is now a lot of M&A happening, you have seen AT&T takeover of DirecTV, Comcast takeover of Time Warner in the biggest transaction in cable for a long, long time. We know Liberty Media has bought out Virgin Media not too long ago, so we have to wait and watch and see what that does, clearly it is going to have a slow down in decision making and we are beginning to see that. It adds to uncertainty in that market place. In the banking space focus continues to be on regulation and how end businesses are being reshaped in the back of things like capital charges, the introduction of exchanges. In both the businesses we see a lot of demand for short-term work or I would call transitionary work, which has uncertain duration, so we have certainly seen them in the banks, we are seeing some of that in cable. In the digital business there continues to be strong demand as has always been the case because of replatforming moving to digital media in general. As more and more businesses try and compete with their online competitors we are seeing all businesses all industry trying to move on line and we see a road for ourselves in that space but again a fair amount of uncertainty a lot of short term project work, a lot of I would say consulting that with engagements that potentially open up the door for new types of services for us.

Nitin Jain: So, have you been able to increase the scope of services other than top five accounts in capital markets have been trying during this for a long time.

Anjan Malik: It has, I think you can look at it both from the perspective of although we do not publish this, if you look at diversification of service book, again it is broader services and we are certainly in

new areas having new conversations with existing and new customers and the other thing you can look at is the performance of non-top five business, you can see for example the acceleration of top growth in non top five business is the fastest that has been for a long, long time, so I think both of those are indicators that our investments are helping.

Nitin Jain: What could be those service lines, which you are targeting in the next couple of years?

Anjan Malik: I think if I was to be very specific for example in cable services a lot of our activities have been around, they are in different lines of service, for example we do work in technical operations where diversifying the types of activities we are doing in technical operations we provide support in looking at call center data and optimizing call center services where increasing the scope of the services and banking where we may have in the past only looked at operations we now have a big practice in data and reference data and KYC for example in digital we continue to support more and more platforms, we are building at a bigger footprint in web analytics, so there tend to be concentric areas of what we are already doing, they are not necessarily completely new services and complete in different industries.

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

Manik Taneja: Hi sir, I just wanted to prod you further with regards to your outlook on business specifically with the US capital market players and how you are seeing captive doing in the same line of business?

Anjan Malik: I think we can guess the captives have looked like heroes in the last couple of years because of depreciation of rupee and flow through nature of the expense line item, certainly I think whenever the rupee appreciates and wage inflation starts flowing through in to the books we anticipate that people will start thinking captives differently. We are already seeing folks having conversations with us about potentially looking at activities that have been done in captives, moving to third parties who are able to create syndicates across multiple players as opposed to just providing bilateral services; we are having many of those discussions. There is broadly a move towards moving away from fixed price, FTE based deals to variable priced deals where the vendor takes risk which a captive clearly cannot and, there are discussions going on in the industry in general, I mean I think that is happening in as many industries as possible where people are looking to see whether we can effectively collaborate to reduce overall cost of the industry and certainly if the people are winning are vendors who have the broadest relationships who come out with the most salient solutions, so I think in those kind of discussions the captive discussion is almost redundant because all the captives is doing is as you said is providing straight labour do which does not look as compelling in an appreciating market.

Manik Taneja: My second question on a broader level although I do appreciate the reason for the sluggish revenue performance in the current quarter, but over the last few years, eClerx has been appreciated for its consistent financial performance, should we envisage that in the near term the

quarterly revenue performance will remain volatile wherein one single quarter you could actually grow very well, because of demand or growth driven by a lot of short term projects, should that continue in the near term as well?

P.D. Mundhra: Hi Manik, this is PD, there is some lumpiness to our business, so in FY15 also I would expect that we will have quarters that are very strong and quarters that are weak, but if you average it out if you look at FY14 I would say our quarter-on-quarter growth rates have been between 2% and 2.5% on average across the year and I think for the next year, it does not look it will be too dissimilar. We may have stronger quarters, we may have weaker quarters.

Moderator: Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon: Thank you sir. You had spoken last quarter about realigning the sales in centers to make to bonus provision based on exit rates, so that they will be higher good quarters, does it mean that we would actually have your margins improve in quarters when revenue traction is not as great?

P.D. Mundhra: I am not sure that would be the case, because ultimately the variable pay as a percentage of our overall revenue is still relatively small and this scheme is only in operation for our onshore teams who function as sales and account management. If you look at the proportion of total payroll represented by that team of 75 people and then you look further at the proportion of variable pay that gets paid to them and you then look at the proportion of variable pay that linked with revenue outcomes after applying those two or three filters you get to a number that would not move the overall margin for the whole company.

Ravi Menon: If you could elaborate a little more on what really went behind the scenes of reducing employee cost this quarter, was it because you had lot more entry level people or did the business mix or the employee mix on the bench change a little bit?

P.D. Mundhra: I am going to ask Rohitash respond to this.

Rohitash Gupta: Ravi, I think you have to look at FY13 versus FY 14 for employee cost changes to get a better picture. If you look at the quarter level I have already explained it was primarily driven by bonus provision, on the onshore side it is certainly explainable because bonuses are loosely tied with how quarter exit looks like, on the India side it is basically the reflection of policy changes that we have done in the last year as well as what we are proposing in the next year, it is a mix of all those things at the India level. I have already explained the Rs. 8 Crores plus which at consolidated level we have see in the Q4 versus Q3.

Ravi Menon: Alright sir, could explain slightly on the 4% increase, so effectively are you saying that there will be more like 15% increase in salaries for offshore?

Rohitash Gupta: That will be the impact that we are anticipating.

Ravi Menon: According to my calculation that is about between 300 to 400-basis points, would that be what you anticipate?

Rohitash Gupta: Correct.

Moderator: The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir for FY'15 how do you see sales addition and would we see further addition from the 76?

PD Mundhra: I will request Anjan to respond that. The question is if we see additions to our onshore team beyond the 76.

Anjan Malik: Of course we will see more additions but I think it would be proportionate to the growth of our business, we think as a percentage of revenue where at about the right place. I think we will be tweaking the organization to make sure that is aligned according to business focus, so I think we will add as we grow.

Madhu Babu: Sir, how should we see margins because we are having stronger currency and now wage hikes have been higher than our average, so next quarter as well as next year how should we see margins.

P.D. Mundhra: Well I think the currency factor I guess you guys are in a better position to model them than perhaps we are. You have access to the same if not more data. In terms of wage hikes the effect is little bit more in Q1 and then over the course of the year as we have growth and as we have some attrition the effect of that initial wage hike tends to get dampened, so as was mentioned in response to a previous question this 14% to 15% wage hike in India might have an initial magnified impact on Q1 margins of 300 or 400 basis points but if you average it out over the course of the year I would think it will probably be 200 basis points are thereabouts. Given that we had a 38% OPM in FY'14, I would expect that if the currency did not move too much from the average of 60.8 that we enjoyed last year then I would think that in FY'15 our margins would be closer to 35, where we end up is also a function of how much the currency moves from the 60.8 average that we had last year.

Madhu Babu: What is the CAPEX sir for FY'15 guidance?

P.D. Mundhra: We will get back to you offline on that.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: Thanks for the opportunity. Question to PD. PD you mentioned earlier that you are looking at 2% to 2.5% quarterly growth. If I remember right it used to be 2% to 4% quarterly growth band earlier, question is what has changed to sort of make our outlook slightly more conservative

because if I take 2.5% growth we will end up probably at 10% full year growth for FY'15, is the outlook or demand environment changed over what it was a year ago. Thank you.

P.D. Mundhra: I apologize because I think may be I am being unintentionally more specific than I intended to be. The main thought I would leave you with is in FY'14 we had 14% growth in dollar terms. If I look to FY'15 netting out all the positives and negatives I would say largely for two of our businesses financial services and SMS, the outlook is not dissimilar, only for cable I think we see a somewhat slower environment because of some postponement in decisions than we had in FY'14, so therefore on the whole given that we had a 14% growth here in FY'14 I would expect FY'15 to be may be marginally lower than that. Now is that 10, is that 12, is that 14 I really do not know. As management I do not think we ourselves have that visibility but qualitatively I would say the environment is similar to last year with the exception of cable and telco where we see some slowdown.

Moderator: Thank you. The next question is from the line of Abdul Kareem from Narnolia Securities. Please go ahead.

Abdul Kareem: Thanks for taking my question. Are there any major contracts with your top five clients coming for renewals in the next two to three quarters and any incremental success story there in terms of other scalable clients?

P.D. Mundhra: Sorry we did not get the second part of your question. I did hear the first part about upcoming renewals with the top five clients. Could you repeat the second part?

Abdul Kareem: Any incremental success is there in terms of other scalable clients?

P.D. Mundhra: I would not say that we have any bunched up revenues that come up for renewals in the next six or nine months. If you look at our top five clients they constitute 75% of our total revenue, so give or take $110 million of revenue for us and that revenue typically comes up for role once every two to three years, any given year roughly $25 to 30 million if not more of revenue with the top five clients is up for renewals and this year is no different. In terms of scalable new clients I think our number of million dollar clients is now up to about 12 or 13, so we have continued to make what I would only characterize as slow but steady progress on that front and we continue to remain hopeful that we can grow some of these to $2-5 million number.

Abdul Kareem: This is the first year of Agilyst after acquisition, just I want to know how Agilyst has witnessed revenue growth and how do you see the growth outlook especially for Agilyst in FY 2015?

P.D. Mundhra: When we acquired the company in May 2012 they were at about $15 to 16 million revenue run rate. They have grown roughly 50% from there in the last 24 months coming to about 23 to 24 million are thereabout. From that perspective I think it has been a good outcome. I think the services we are providing in that business continues to be very relevant for our clients. We have a reasonably strong and good demand pipeline and we are hopeful that the business will grow even

more potentially to a $30 million number over some period of time. As I mentioned a couple of times previously on this call we think for the next few months there will however be some slowdown in terms of capturing new opportunities because of distractions around regulatory approvals for all the pending mergers.

Moderator: Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta: Thanks for taking my question. My question is around the visibility if you could share on your top two clients that have slowed down, one in the cable and other I presume in the S&M. Do you have any kind of a visibility even tentative by when do you expect them to the normal trend rate?

Anjan Malik: First of all I do not know if there is anything such as a normal trend rate for buyers such as this. If you look at not just the top two but the top five clients you know they have a smattering in each of these three verticals. As I have mentioned earlier they all have their challenges right now, as you know one of our top five clients has gone private and they are effectively are going through a major heart surgery right now to determine what they are going to keep as their business and what they are not, so while we continue to partner with them there remains uncertainty about the future state of the business, similarly in the cable space we now know that there is going to be major heart surgery as a function of course, which businesses and which regions stay in the combined entity, so it is very likely that we will end up servicing two new clients at the end of this but we do not know what the shape of these two new clients is going to be and the same thing in the banks right to some extent there is a reshaping of what used to be whole investment and commercial retail banking, these banks are effectively reshaping themselves, new businesses, new focus, so we continue to be close to them. We think that we have a very, very high probability of being even closer once they have gone through this change because of our skill sets and service history but nothing is guaranteed, so when you say normal trend rate I say that what these industries are going through right now is anything but normal.

Shivam Gupta: As we know we are very top heavy in terms of clients or business composition like top 5 to 6 would be constituting a fair share, so suppose these two clients of yours continue the way they are then are not you like would not that put a lot of pressure on the kind of growth you are seeing on the emerging to actually even maintain you on the trajectory that you are suggesting right now.

Anjan Malik: Ultimately pressures are on the work because otherwise you can only do what you can do. So as we have seen and demonstrated today our top five contributes 75% of our business, two years ago it was 90%, so the fact that this is happening when emerging is 25% of our businesses versus 10% it is a better position to be in. Today our growth rate in emerging is in a very healthy double-digit percentage ranges on a decent base. I think that is the best that it has ever been certainly in the last three years, so the combination of those two facts you could argue we are in a better position today than if this slowdown had happened two or three years ago, would it have been better if emerging 50:50 for sure, but I would say that we are what we are but we remain

optimistic that the combination of the portfolio businesses that we have will in the medium to long term do well.

Shivam Gupta: Is there any client in your ex-top five since your ex-top five are growing pretty healthily and would now have graduated to a position that they can actually move into your top tiers and probably share this slowdown or is it that you have a very disaggregated tail in the emerging side?

Anjan Malik: I am not sure I understood your question, could you repeat that?

Shivam Gupta: What I am saying is that in the top five we have one client who is not growing for some time due to external reasons and not under your control and then you have your non top 5 which you say and it is evident that they have been growing at a good rate. So could I make a case that there could be a client who can let us say displace this non-growing client very soon in your top five bucket.

Anjan Malik: I mean I think we have seen displacement in our top five quite regularly over the last 10 years. So I would not be surprised if we see a displacement again in the next couple of years in the top five with the new guy coming in and some old guy picked up.

Shivam Gupta: I am actually asking in the next two quarters do you see that?

Anjan Malik: I do not think it will happen in the next two quarters.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor: PD Just taking the same question a bit forward on the thought process. If I am looking at structurally we have been now in the 12% to 14% kind of growth band this year and probably that is what we are looking at next year also. So somewhere around a mid double digit kind of our growth rate is what we are settling down at and it looks like much of it is because what is happening in a few of our large accounts, so two, three thoughts. One is it something where we have reached a state where anything incremental will be driven more by external factors like what is happening in our client base or is there something internally that we are doing to build a new growth engine or propel this further back to that 20% plus kind of growth that we have seen in the past. Second are we looking at may be from organic bases that is the one way or the second part would be in terms of inorganic will that be an engine for us to go back to that 20% kind of trajectory, not may be this year or next year but over a next three to five years perspective where should be we looking at our growth rates settling down at?

P.D. Mundhra: Pankaj let me take those questions. On your first one I think growth outcomes are a combination of both those factors. One is what we are doing as a firm in terms of developing new skills or services, restructuring compensation plans to focus the sales force on specific areas and services

but also what is happening in our end-environments for our clients especially in a world where 75% of our revenue comes from five clients material changes in their business environment inevitably transmit themselves to our pipeline, so I cannot say that we can insulate ourselves from challenges that our clients are facing. What is helping us is diversification because to the extent we create a larger and larger emerging business over time then I think the revenue stream becomes more resilient, more diversified, less susceptible to client specific issues.

On your second point about inorganic opportunities, I think that is something we have been looking at very consistently and diligently for the last year or two and really the objective is not to compensate for slower organic growth but objective is to capitalize on incremental opportunity that present themselves. So even if we had a slow growth in FY'15 of FY'16 it would not necessarily mean that we would lower the threshold for targets that we were looking at. To give you some color I think every quarter we continue looking at somewhere between two and three companies, at any given time we have a couple of active conversations going but for us it is important to be sure that the target company that we are looking at is something that we feel convinced about because not all acquisitions have succeeded in our industry, so we are just very cognizant of that.

Pankaj Kapoor: Yes sir I understand that in fact the whole business model that we have given that there is a high client dependency and given that the scale up of client is not very rapid so at any given point of time one or the other of our client will be undergoing some of its own business challenges which is the reasons why I am trying to understand that what is the thought process in terms of trying to either reduce this dependency or to create separate engine which obviously will not show up in the next one or two years but is there a thought process where we can look at potentially going back to a 20% kind of a scenario or do you think that that will be again dependant largely on how the external world shape us?

Anjan Malik: It is not like you don't hold back for 8% growth rate that is kind of hard to do. I think what you are doing every year is you have been trying to figure out where are the opportunities for us in the business and I think ultimately we think that when you enter environments like this where there is high degree of turbulence. In any industry like ours, it is not a given that business just stays with the incumbent, so when an organization is going to change it is going through that change because of industry, so what we are doing is we are making investments in initiatives that keep us close to industry whether we are participating in seminars, whether we are involved in utilities, whether we are involved in sort of the industry initiatives around cost reduction, etc., etc., what I would love to do is speak to a much broader audience about changes and how during that period of change organization like us can help. What that does is open new doors for you in areas where you were not involved in before and that potentially opens up new opportunities and new revenue streams that we have not seen before, so I think we are doing n-number of things out there today that increases the likelihood of us keeping our existing focus of businesses and growing both service lines and new customers, I think it is all of the above, it is hard to tell whether that translates in to a 10% growth rate or 30% growth rate in the longer run because ultimately you are dependent on your clients wanting to buy services from you and there have

been many instances your client stop existing and then it is a problem, so I think you are dependent on these clients and I have been able to speak close to those in industry and develop new client lines and new service lines to reduce risk but you cannot do it.

Moderator: Thank you. The next question is from the line of Rajat Budhiraja from Banyan Capital. Please go ahead.

Rajat Budhiraja: Thanks for taking my question. Basically in your outlook you mentioned that there is a good demand for the short-term projects, which could be because of the regulation and M&A activity. So I want to understand first thing is what is the average duration of these projects? Second is how much these projects are contributing to overall revenues?

Anjan Malik: So average realization is anywhere 16 to 18 months. I think the number is 10%.

Rajat Budhiraja: We have seen emerging business increasing by 35%. So how much of that growth is coming from the short-term projects?

Anjan Malik: In the emerging business we do have the exact percentage but we can anticipate that percentage of short term is much larger in emerging than it is in the core businesses in your top five business.

Rajat Budhiraja: Okay and we have not seen the increase in billed clients so is it fair to assume that you are basically into more processing the same client?

P.D. Mundhra: I think also the fact that in the tail of our client list , we also lose accounts on a fairly regular basis. Because in a situation where we are only providing one service to a client whenever that service ends when we lose that client, so I think for clients who are less than let us say 250,000 dollars per year in revenue for us there is a high degree of churn with us both acquiring new logos as well as losing old clients.

Rajat Budhiraja: Okay I understand. So my next question is do you see the demand from the short-term projects likely to continue for the next year or you feel that these are lumpy revenues. So how do you see the demand basically going forward?

Anjan Malik: To some extent we would like the short term projects because in many instances they are opening new doors for us that did not exist before, so the very fact that at the time of change many of these clients are coming to us given the confidence that the services that we provide are relevant, so we anticipate that they will continue because we are focused on it. We also anticipate that some of these short-term projects will be the genesis of long-term relationships. So I think yes there is volatility in the short-term and we anticipate that to continue but we also do anticipate that this is the seal of the new business lines for us.

Rajat Budhiraja: Okay I understand and I am looking at slide #6, which is your OPM bridging analysis. So if I take out 10.8% effect of exchange rate so you are operating margins are roughly around 30%. So would this number 30% is going to go up or down next year and basically for FY'15 what is your guidance on this?

P.D. Mundhra: We have always tried to target operating margins in the low to mid 30s. As you can see this year we were much above that of course helped largely by a weak Indian rupee. Next year I would say that provided the currency does not move too much from where it is right now 59 or so I think we can be within our band of low to mid 30s. Now I cannot give you more specific number but we do not really provide guidance and again our P&L is not that large. So 30 or 50 basis points move is easily possible with some lumpy expense or the other but broadly speaking over the medium term we expect to be in the low to mid 30s.

Rohitash Gupta: I just want to make one correction in your analysis. 7.8% is the only the topline impact of currency. We also have 15% to 20% of our revenues as dollar or foreign currency denominated cost, which also has increased, by about 11% right. So that 7.8% net number is actually closer to 5.8.

Rajat Budhiraja: Okay net-net the margins remains the same right, is that what you are saying?

P.D. Mundhra: No what I am saying is that with the constant currency if you go back to some of the earlier discussion on this call with currency remaining constant between FY'14 and FY'15 some of the things we have done most notably the wage hikes would have meant that the 38% margin would be may be 35 or 36 this year but to that you can then add the effect of wherever you expect the currency to end up. We think that with all of that said unless there is a very, very sharp move in the currency from here we should still be able to maintain low to mid 30s operating margin.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: Good evening. My question is mostly around why the particular incentive that we gave to your employees exactly I mean is it to target productivity because I do not see you guys concerned very much with attrition.

P D Mundra: Sorry are you now talking about the 4% wage hike provision.

Ankit Pandey: Absolutely.

P.D. Mundhra: I think we do this once every three or four years, if you just step back and look at our compensation strategy and HR programs, last year for example we ran a very extensive internal survey as part of the great places to work initiatives and we got feedback from our entire employee base on things they liked and thing they did not like about the firm and we put in place a number of initiatives to try and address some of these things. One of the tracks was around

compensation and one of the things we did is basically de-emphasize variable pay for junior employees and move it more to a fixed benefits type structure for them. In doing that conversion there is some incremental cost that comes on the company because we could not do a perfect equalization and whatever equalization was done had to be more in the favor of the employee than the company.

Ankit Pandey: But am I right in assuming but you are not worried about attrition?

P.D. Mundhra: I think we have always maintained that over all attrition is not a big deal for us, what is much more important is loss of specialized and senior staff, which thankfully for us have not been too bad, so as long as we can sort of keep the senior level and subject matter experts attrition down to a reasonable number I do not think that will be the driving cause, it is more about sort of coming up with compensation practice that is more suited for each level of employee base. The other thing we did is of course changing the floors for various levels of employees in the company as we did an external benchmarking survey. We found that some of our compensation floors had become out of position with our peers in the market place, so we wanted to adjust for that.

Ankit Pandey: Okay on the DSO there is a slight deterioration from 33 days to 38 days YOY that has been observed through the year as well, there has been some marked depreciation there. So is that largely a reflection of the rupee?

P.D. Mundhra: Not really, to be honest DSO is a metric that internally we don't sort of focus on very, very tightly as long as is within that range of 30 to 50 days. You have a limited amount of political capital with your clients and we have tried not to use it for accelerating payments. We have tried to use that to get new opportunities, so only when we feel that particular payment is likely to get stuck up inordinately or may even get stuck then we will go and ask the client's sponsor to intervene with their payables department to try and get that resolved. Otherwise it is more a reflection of efficiency or lack thereof with the various clients accounts payable groups.

Ankit Pandey: Is there anything to read to this particular resolution that you just passed in the board meeting to as pertaining to the borrowing powers you said something on the capital raising option. Should I read much in to it or is this more routine?

P.D. Mundhra: It is an enabling resolution, as we have discussed earlier in this call we keep looking at potential acquisitions on a regular basis and given the way our tax rates have moved we feel that if we do not need to raise capital in the future to fund any particular deal then certainly looking at raising a moderate amount of debt might be sensible even from a tax optimization standpoint instead of raising equity. This is more from the mindset of getting enabling approval from shareholders so it gives us the ability to move quickly should an opportunity present itself for an acquisition.

Rohitash Gupta: Just to add we already have this enabling resolution in place, which is active by the way for the same amount just that under new Companies Act some new provisions have come up which

requires us to note this again in front of shareholders. So that is what we are doing by adding this again.

Ankit Pandey: Can you just give me the estimations for the tax rate next year?

Rohitash Gupta: This year if you look at the consolidated we have effective tax of about 22.9% and that is what we expect for the next year, also about 23%.

Rohitash Gupta: I just want to cover off one previous question which was around the CAPEX we did in FY'14 the amount is 20 Crores that we spent on computer hardware, software and lease hold improvement type of things and you should expect that this amount will increase in FY'15 simply because we are adding new facilities in Mumbai. Thank you.

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

Srivatsan R.: I specifically wanted to take forward the point you mentioned on that increasing a lot of conversation on going more towards outcome based pricing or fixed pricing kind of things. If you look at our own numbers we have been almost at FTE account 94% to 95% of revenues and that has been the number for the last three years. Just wanted to know what eClerx strategies are there being undertaken to go after the demand, is it outcome based FTE, or FP based billing?

P.D. Mundhra: I think there are a couple of prerequisites for moving away from an FTE contract structure. So whether you go to transaction based billing or outcome based billing we feel that it is important for there to be a reasonable critical mass of people performing a similar task and secondly the nature of that tasks or the nature of that process should not change too frequently because if the average handle time is changing every quarter or every six months then you have to renegotiate prices with the client. If I look at our portfolio where those two conditions do hold true for a majority of what we do because the average head count per process is fairly small and many of the processes have an endemic high rate of change, so it is really not feasible to move to any non-FTE type pricing model for a large part of what we do. Having said that wherever we do have the benefits of scale and some degree of consistency of process we ourselves would prefer to move to either transaction or outcome based pricing because ultimately I think that is more margin rich for us over a medium period of time because we can deploy automation, we can improve productivity and we can retain those benefits but unfortunately the scope for us to apply those models is limited to a small part of our portfolio.

Srivatsan R.: Sure and on the question on M&A expansion strategy what would be the preference, would something similar to Agilyst wherein you got a foothold in to a newer offering, would that be the prime focus or would you look at something that will bolster your existing presence?

P.D. Mundhra: I think we look at both things. Obviously if we are getting into a new business or a new industry then it is something that we have potentially lesser understanding from the outside and therefore

it becomes a little bit harder for us that has to build the same degree of conviction but on the other hand if you are able to pull it off and make it successful if you are lucky as you are with the cable transaction then it does more for us because it give us a greater degree of diversification then a tuck in acquisition under any of our existing businesses. So I think the ease of integration is much easier with a tuck in acquisition with one of our businesses but the rewards potentially are greater if you are able to pull off a diversified business acquisition.

Srivatsan R.: On the earlier point you had mentioned on the many number of diversified processes it would be kind of helpful if you can just indicate what would be the largest single process that would be running in terms of manpower?

P.D. Mundhra: I think the larger processes tend to be more on the cable side of the house where even our situations where we have 60 to 70 people working on a single process but in our native businesses I think the average is closer to five or six people for a given process.

Moderator: Thank you. The next question is from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

Pratik Gandhi: Thanks for the opportunity. PD just wanted to get a sense in terms of the 2% to 2.5% quarterly growth rate which you are mentioning does it include the short-term boost on this short-term projects, my question is does 2.5% also take care of the short-term projects?

P.D. Mundhra: Yes I mean Pratik I think I might have mentioned this previously do not focus too much on that 2.5% or 2% I think more from an annual basis we did 14% this year I think next year is likely to be similar to slightly lower. Now what that translates in to every quarter will vary but yes it includes everything, short-term, long term everything. Remember there is also some short-term in our existing book, which will expire and will need to be replaced just to stay flat.

Pratik Gandhi: Fair enough and looking at your current utilization rate that gives you reasonable opportunity to improve that so is it fair to assume that the head count growth rate will be lower than your topline growth rate for FY'15?

P.D. Mundhra: Hard to tell because partly depends on the composition of growth that we expect but I think utilization rates if you look at all of FY'14 have been about 65 so I think somewhere between 64 and 66 may be is where we stay in FY'15 if I have to guess.

Pratik Gandhi: Okay and when do we expect clarity emerging from one of the largest account in SMS and also in your cable business because of this M&A thing, should we expect more clarity emerging in H2 of FY'15 and if that gives a better visibility should one expect FY'15 to be better.

P.D. Mundhra: So I think for the cable consolidation I think it is reasonable to assume that in the second half of this financial year we will have more clarity because decisions will get made by the regulators over the next six months and one way or the other we will know which way the dust is settling.

On the SMS side the house it is less clear because the factors there are not short-term that are affecting our large clients and therefore I am not so sure as to when they either recover and when we get some more clarity about their business performance. Be that as it may I think for FY'15 as a whole we are sharing with you our best guess of slight revenue outcomes as things stand today. If things change materially we will let you know but I think where things stand today we see similar to FY'14 may be slightly weaker but more or less similar.

Pratik Gandhi: Fair enough and just last one would be on your this incentive for your sales team especially for last two Q4 quarters we have seen a significant drop on a QOQ basis. Now probably one can assume that this is linked with the performance of the quarterly run rate. So how should one read that into a FY'15 so my question is it is fair to assume that your sales guys would be linked to assume less than 14% growth rate, if they achieve they will get 100% incentive on the same.

P.D. Mundhra: No I think Pratik to be honest this is also the first year where we implemented this incentive plan. So there is some degree of estimation that we need to make as a management team when we provide for those bonuses at interim points during the year because the final bonus is determined based on exit of the financial year run rate but because we have quarterly accounts every quarter we need to make some estimate of where we will end up and make a provision accordingly. So there is also some of that adjustment that happened in succeeding quarters, if the prior quarters are either over provided or under provided for those bonuses, which ultimately are in estimate, so there is some of that causing that volatility also. We are trying to set target for our sales force much like most other organizations do which is to set a realistic target which is slightly aspirational and see where we end up against that.

Moderator: Thank you. As there are no further questions I now hand the floor back to Mr. P.D. Mundhra for closing comments.

P.D. Mundhra: Thank you all for your participation on this call and we look forward to talking to you with our Q1 results. Thanks.

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