"eClerx Services Limited Q4 & Full Year FY'16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to eClerx Services Limited Q4 & Full Year FY'16 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Rohitash Gupta – Chief Financial Officer. Thank you and over to you, sir.

Rohitash Gupta: Thank you. Good Evening, Good Afternoon and Good Morning to Participants joining this call from across the globe. I welcome you all to the eClerx Earning Call for the Fourth Fiscal Quarter of FY'16 and Full Year Ending 31st March 2016. It has been a very good year on all fronts in comparison to last year where we saw one of the lowest organic growth and operating margin. In FY'16 we demonstrated solid business growth in an environment of considerable business uncertainty. Your company grew revenue by 34% in constant currency terms, out of which roughly 15% of the growth came from acquisition of CLX Europe. While the organic growth of about 19% came once again mainly from our fast growing Cable and Telecom business. Digitization has been transforming, marketing and service oriented operations around the world and it is now possible to digitally run the front end of our customers' value chain. This trend gives nimble and well-positioned companies like ours a great chance to unlock value and deepen client relationships. We manage to do this in our Digital Services business where we added creative suite of services for tapping spends by our clients on digital marketing, communication and advertising. A number of our clients in Financial Services continue to undergo substantial change; thanks to automation, regulatory changes, corporate actions and operations consolidation. This led to muted overall growth in our business with banks as they continue to take longer time to decide on new spend due to volatile business conditions. There has been an overall shift in demand towards higher value added services focused on business change and reengineering and we are making necessary adjustment in our service delivery model to tackle that.

We also continue to set important industry benchmarks in innovation such as excellence and these have earned us recognition. For example, we got the coveted "Dataquest Business Technology Award" for Analytics Centre of Excellence. eClerx also was "2015 Most Admired Knowledge Enterprise Award" Winner for both India as well as Asia for our Knowledge Management Practices. Our Mobile-enabled Implied Transport Management System was selected as an Industry Best Practice during the CIO 100 Awards. We were recognized at the "Asia Outsourcing Excellence Award" for use of Information Technology for Operations Excellence. We were finalist in four Categories at the "National Outsourcing Award for 2015" for our projects for Digital Channel Conversion Rate Optimization, Customer Care Center Auditing and Data Management for Digital Re-platforming.

As we have discussed in the past, we have undertaken four main initiatives off late to keep our business agile and relevant in this fast changing environment: First, we are refocusing on key client partnerships with a much more disciplined approach to ensure our clients have access to our full set of capabilities as a firm as opposed to individual services and verticals. This approach is well supported by the fact that we continue to enjoy industry leading net promoter scores amongst our clients.

Second, we are focused on global delivery by looking beyond a source of India. As clients increasingly look for service partners for co-creating solutions, they demand more intimate business knowledge and more interactive support and this needs us to focus on increasing clients' location service delivery. We are happy to report that our centers at Burana in Italy and Phuket in Thailand are now completely integrated with core operations in India which is an important milestone in our journey towards creating global delivery capability.

Third, we have deepened our focus on analytics by creating a Center of Excellence for delivering advanced analytics based decision making capabilities to our clients as well as for blending sophisticated analytics in our core Business Process Management offerings. Our client focus has shifted from managing data to extracting value gaining insights and of course ensuring that more revenue accrue to them from data big or otherwise.

Fourth and Finally, as pervasive automation replaces recursive task, we are refocusing our technology efforts to ensure that we capitalize on emerging opportunities such as robotics to innovate our operations. In this regard, we are developing automation, partnering with established platforms and investing heavily on training. We see a great opportunity to deliver value to our clients by adding the skill sets of robotics to our delivery framework as it allows substantial reduction in risk and cost to our clients, whilst opening new revenue opportunities for us. Additionally, we will continue to advance adoption rate of our Digital Asset Management Platform FLUiiD4 across our client base.

Moving on to our Financial Performance: I will focus more on full year performance as that loosens off many of the quarterly fluctuations due to provisions and estimate. Our operating revenue in FY15 was $199.4 million which is roughly 30% up year-over-year, while our total revenue at Rs.1,355 crores, grew by 39% year-over-year. The organic dollar and organic constant currency year-over-year growth was 15% and 19% respectively. As indicated in previous quarters, we have been expecting roll off of certain legacy work as well as substantial number of short-term projects which cost our Q4 dollar revenue decline by about 2% sequentially. We believe that this trend of flattish revenue will continue into early part of FY'17, leading us to slower organic growth in FY'17. We expect the relative order for segment wise growth in FY'17 to remain at Cable, followed by Digital, followed by Financial Services, much like it has been in FY'16. The operating margin percentage for the year is 33% compared to 28% in FY'15 and 38% in FY'14. The impact of lower CLX margin was more than offset by currency depreciation, change in goodwill amortization policy and improved cost control across the board during FY'16. We expect operating margins to moderate in FY'17 due to expectant slower growth and increased investments in our four strategic initiatives that I outlined earlier. The profit after tax for this year is Rs.363 crores which is about 58% higher than last year. As most of you will recall that we have distributed around 50% of profit after tax to shareholders every year and we will make efforts to maintain that in future. We have traditionally distributed cash to shareholders via dividend although we have also tried buyback with limited success around two years back. We have seen few regulatory changes over the year around various cap distribution methods and we will continue to look for efficient methods to achieve the same target payout ratio in future. We are currently undergoing court approved merger process for one of our subsidiaries with eClerx Services Limited and that restricts our choices at present. In light of these facts, we are announcing only a token dividend of Re.1/- per share at this time and we will inform you of any further progress over next few quarters.

Another development that may interest you: We have limited the number of employees who participate in company’s ESOP Scheme going forward. We have added long-term cash incentives to erstwhile ESOP beneficiary that may create P&L impact of Rs.2-3 crores in FY’17. The ESOPs will henceforth be given only to top management constituting about less than 50 people at present and it will amount to maximum potential dilution of 0.8% as opposed to 2% per year previously.

Lastly, we are planning to set up an employee trust where the ESOP granting in top management will be able to exercise their options via this trust for ESOP granted from now onwards. When operational, this trust is authorized to buy shares from market as per shareholders’ approval received in last annual general meeting and will help company to reduce the quantum of fresh allotment of share against the exercise of future ESOPs.

On the other income front, the investment income reduced significantly from Rs.21 crores last year to Rs.9 crores in FY16 due to significant outgo on account of CLX acquisition at the start of the year and also due to lower yield on debt instruments. The hedge gain/loss became negligible this year as against on pre AS 30 hedges were nearly offset by the mark-to-market change. Further, because we have bound up all the pre AS 30 hedges, we will no longer need to show this line item. The revaluation and realized gain jump to Rs.32 crores in FY’16 from Rs.4.5 crores in previous year mainly due to INR depreciation of 6% and 11% against the dollar and euro respectively between the last two years, and also the addition of CLX which has increased our mix of foreign currency assets under lowing revaluation now. Our forward hedge book is at $125 million with an average price rate of Rs.70.73 to a dollar which has moved up by almost half a rupee to a dollar in Q3. Based on hedges book till now we expect that at least $94 million worth of inflows will convert into operating revenues at about Rs.70 to a dollar during FY’17. Just to remind you, our hedging strategy continues to follow programmatic layering of hedges every month end to cover roughly 60% of current annualized revenue run rate.

Moving to Detail P&L: The employee cost in FY’16 increased by 130 bps year-over-year and the proportion of operating revenue due to addition of CLX, which was partially offset by lower offshore employee additions and reduction in salary cost for offshore employees. On the other hand, SG&A cost as proportion of operating revenue for CLX are lower than rest of eClerx. That was the major driver for year-over-year SG&A cost decline of 490 bps. 110 bps out of which was purely due to one-off legal cost for CLX acquisition during FY’16. Additional reason for this SG&A leverage was relatively lower addition of new seats during the year and growth in Cable business wherein ramp up of sales team happen largely in FY'15 itself. The sharp employee cost decline in Q4 in absolute terms was on account of one, roll off of low margin onshore projects during Q3 for which the onshore delivery cost got completely eliminated in Q4.

#2: Gratuity and leave encashment revaluations with latest assumptions for offshore employees. Similarly, the absolute quarter-on-quarter decrease in selling and distribution cost was driven by lower bonus provision for sales and business development staff in Q4 as adjusted for low quarterly revenue performance during the quarter.

Overall, the clients pricing remained largely stable through FY'16 despite severe OPEX pressures on many of our clients. We have Rs.545 crores of cash and cash equivalents at the end of the year which is substantial increase from Rs.326 crores at the end of Q3 and more than 85% of this cash balance resides in India. Our net operating cash flow during FY'16 was Rs.425 crores Vs Rs.243 crores in FY'15. The CAPEX during FY'16 remain at same absolute level as in FY'15 as about Rs.48 crores despite 30% growth in top line dollar revenue between the year.

We have spent about Rs.5.8 crores on various CSR activities mainly related to Child, Education, Health and we have also added few new initiatives to support farmers facing severe drought conditions in Maharashtra. We have now earmarked a budget of Rs.6.5 crores for supporting similar CSR projects during FY'17.

Our business concentration metrics like geographical and currency share of US and US dollar respectively have improved to 74% and 68% this year mainly due to addition of CLX.

The DSO remained at lower end of historical 70-80-day range at about 73-days. Staff utilization in FY'15 was at high level of 57% due to increased scale in Cable business and effect of short-term projects where larger proportion of bench could have been utilized. However, this utilization is likely to come down in FY'17 for reasons discussed earlier.

We will be reporting the top-5 concentration for the last time now and would move to reporting and tracking top-10 concentration as our next frontier. The top-5 and top-10 concentration stands at 57% and 77% respectively.

Lastly, as our offerings become more productized with time, we will continue to improve our mix of non-FTE business by leveraging Analytics, Platform, Consulting and Robotics. In all, we have added 19 clients in half a million dollar plus buckets this year, more than half of which were contributed by CLX from Retail and Luxury segments. Overall, the FY'16 list of 40 clients in half million plus dollar bucket category consist of 27 clients from Digital, 9 from Financial Services and 4 from Cable. Top-10 clients have shown us year-over-year constant currency growth of about 14% this year while the emerging clients which now refers to non-top-10 clients have shown a constant currency organic growth of 38%. The top-10 clients growth was primarily driven by Cable side while emerging growth was broad-based across

Digital and assets. Top-10 clients growth rate has been volatile for the last few years as these clients have been undergoing corporate actions, environmental changes coupled with maturization of our Legacy Services.

Although average headcount during this year has increased by 14%, thus year end headcount shows less than 10% increase compared to FY'15-end which obviously is much lower than corresponding revenue growth during the year due to addition of CLX, improvement in offshore utilization and lower growth anticipated for early part of FY'17.

Our sales and business development staff count continues to remain flat through this year in early 80s and year-over-year decline that you see from 89 to 80 is primarily due to reclassification of onshore rolls engaged in partial delivery roll.

The India attrition stood at 33.7% for the year which is highest we have seen in last 5-years. Part of this high attrition is also reflective of slowdowns of short-term and specialized skill projects during the year.

We are training our key employees on Analytics and Robotics and hope that current and prospective employees will find eClerx much more attractive learning organization in due time.

Like every year, we have given wage hikes effective 1st April 2016 to our employees. The average increment for eligible employees was 10% and 4% respectively for offshore and onshore, very similar to last year.

Our effective tax rate for FY'16 has been between 23% - 24% as expected and we anticipate similar range for next year.

As you might know, we will adopt Ind AS standards in FY'17 and we are currently studying the impact of same on reported financials for next quarter and next year, and we will inform you through our release if we determine any significant impact on reported financials for Q1 or later.

With this, I will hand over the call back for Q&A.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Ravi Naredi from Naredi Investments. Please proceed.

Ravi Naredi: Sir, what method of dividend distribution are in your mind and when it will be distributed, any timeframe is there?

PD Mundhra: I think as Rohitash mentioned during his opening remarks, yes, we have had a policy of returning 50% cash to shareholders which we expect to continue this year and in future years, as he also mentioned in the past, we have looked traditionally a dividend and we have occasionally also looked at share buybacks, so, in this year I think we have a range of two or three instruments that we can look at, we have dividends including interim dividends, we have share buybacks and as he also mentioned we have our ESOP trust that once operational will be buying shares from the market against exercise of options by employees. So we will have more clarity as to the relative contributions of each of those three routes but by the time we meet you for our Q2 or Q3 Earnings Call we shall be able to share a further update. But again, I think the main point I would like to reiterate is that we remain committed to maintaining our 50% payout ratios in the future as well.

Ravi Naredi: Compared to March '15 to March '16, net profit margin rises almost 50%, but always you tell company top line will not rise and it will remain 30s. Sir, any reasons to talk so moderate about growth of the company?

PD Mundhra: All I would say is that when we share any kind of qualitative guidance about the future it is based on whatever knowledge we have about our pipeline as well as project endings at that point in time. So our intention is not to deliberately have either a pessimistic or an optimistic bias but we are just sharing our view of what is the near-term future looks like. Obviously, our visibility into the next quarter or two is much better than any guidance we might give about further away periods in time, so for example, if you look at the end of Q2, we had shared a statement in our earnings call that we expect the second half Q4 exit to be more or less similar to the Q2 number which I think it largely was, you saw a decline in revenues quarter-on-quarter between Q3 and Q4. So, all I would say is we are a small company and therefore individual client events both in terms of growth or in terms of project endings do have disproportionate effect on our revenue and margin. So within that constraint, we try and share as realistic guidance as we can. That is at least the attempt.

Ravi Naredi: So, are you giving any guidance for financial year '17 also?

PD Mundhra: Yes, Rohitash alluded to this in his opening remarks; we expect the first half of the year to be a little soft again the first two quarters because we have some projects that are going to continue to end in this period of time, but hopefully in the second half of the year we should again see growth pick up a little. So beyond that we are not giving a specific numeric guidance. I think again it is safe to say that our organic growth in FY'17 will be lower than FY'16; FY'16 was the highest we have had in a long time, 15% dollar growth and 18-19% organic constant currency growth. Given the soft start in FY'17, it is clearly mathematically impossible for us to get anywhere close to those numbers. So it will be lower than last year but we expect things to improve in the second half.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please proceed.

Sandip Agarwal: There has been a substantial drop in the employee cost in 4Q and Rohitash alluded it to be because of lower salary expense to a few offshore employees. Could you tell me how do we see the trajectory of the employee cost going ahead in FY'17, will there be a pressure or will they act as a margin lever? How do we see the demand environment specifically to the top-10 clients which have grown at only 14%?

PD Mundhra: I think Rohitash again might have alluded to this in his opening remarks. We make provisions during the year for estimated payouts on a number of fronts including bonuses and statutory liabilities like gratuity and so on. Those numbers actually only get finalized in the fourth quarter when either actuarial valuations are done or bonuses are finally determined. So in that sense in Q4 when we did the true up of the numbers there was a lower charge that we ended up incurring because of these variable payouts to employees, point #1. Point #2, we had a number of short-term projects running in the second half of the year where we were able to opportunistically utilize some of our bench resources and not have to hire incremental headcount against those projects. So, these were the two main factors I think in my mind which contributed to a lower employee cost in Q4. As we go ahead in FY'17, I would expect our employee cost and operating margins to start reverting back to the longer-term trends. Anjan, I do not know if you want to talk about the second point around demand outlook.

Anjan Malik: So the Financial Services clients is no secret, going through life changing period, regulation, automation, change in business, the emergence of Fintech means that our clients are under a tremendous amount of pressure from the revenue side, thus translating to what they are willing to spend and how often they are willing to spend. So we continue to see demand moving towards higher value add services that are aligned to business change, automation, implementation and consolidation efforts. So we do see demand, but it is obviously lower than what we have seen in the past in the go-go years of financial markets.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Despite strong seasonality, our commentary is little muted for first half. Is there any client specific challenges that you would like to highlight apart from the project closure that the CEO alluded to?

PD Mundhra: No, I do not think it is attributable to any one client or another but across our portfolio we see some projects that are ending and I think also from a pipeline perspective in terms of new projects going live, we think that the first half of this year is going to be muted. So, we are just sharing with you the sum total of our pipeline of opportunities as well as some sort of roll offs.

Shashi Bhushan: Can you please help me reconcile the difference between consolidated P&L and the standalone, because our standalone revenue has grown well over the last few quarters, whereas revenue outside standalone has declined over the last two quarters?

Rohitash Gupta: I think in last quarter or last to last quarter we mentioned that one of our large Cable clients has requested us to make the contract with eClerx Services Limited entity which is the parent entity and has much larger and stronger balance sheet and delivery capabilities. Because of which certain business which was earlier getting booked in subsidiaries got now booked to India parent entity which is the standalone entity.

Shashi Bhushan: On your margin bridge for the year, we have nearly 8% currency depreciation, aided our margin by around 310 basis points, implying almost 40 basis points for each per cent movement, should it not be higher compared to our higher offshore mix?

Rohitash Gupta: These are the numbers that we have based on our mix of business both onshore and offshore. Just keep in mind that we have much larger onshore mix because of CLX, so the sensitivities may not exactly remain same in FY'16 and going ahead versus what you may have seen in FY'15.

Shashi Bhushan: But in FY'17 it would be more or less like 40 basis points for each per cent point movement in currency as of now?

Rohitash Gupta: Correct, operating margin sensitivity for one percentage of currency effect is around 40 bps.

Moderator: Thank you. The next question is from the line of Sameer Kapadia from Fortune Interfinance. Please proceed.

Sameer Kapadia: Just wanted to know, like are you looking for any acquisition because you are seeing a flattish revenue growth and you are having a considerable amount of cash and equivalents into your balance sheet?

PD Mundhra: I think we are constantly looking for acquisitions because we do believe that in our industry there are a large number of assets or companies out there who have built very attractive niche businesses but may not be able to scale for a variety of reasons and so the shareholders might be contemplating exits and we think that adding on such assets on to our platform is a win-win for both sides and some of our capabilities will allow us to accelerate growth of those companies. That has been the philosophy behind the Agilyst acquisition and the CLX one. So we continue looking for acquisitions as a fair amount of deal flow, our finance officer under Rohitash keeps looking at companies, and this is not connected to faster or slower organic growth, it is an independent activity, obviously, the cash flow that we generate and the cash balances that we have makes this easier for us to execute, but it is not linked with rates of organic growth, we acquired CLX last year, during a year in which we experienced our strongest organic growth. So really it is more about availability of the right asset at the right price which fits well with our business and our strategy.

Sameer Kapadia: But then is there anything into the pipeline in the near-term?

PD Mundhra: I will say there is always something in the pipeline, in the sense that in any 12-month period in the last 2-3 years we would have looked at 25 to 30 companies, so that averages something like 2 companies a month, so which is why I say there is always things in the pipeline, it is a bit like the investment business, it is a low yield game, you look at many-many assets, you decide to pursue further on a small number of those and on a much smaller number do you contemplate making a big and on a even smaller number does that bid actually succeed. So it is like a sales activity, there is a funnel, there are always companies who are at the top but it takes time for something to really fructify and get to the bottom and execution.

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

Abhishek Kumar: PD, my first question was on FY'17 outlook. You said second half you expect some pick up. So is this confidence based on the fact that the tailing off of these projects will complete and therefore the demand from other portion of the business will take care of the growth or you have certain projects in the pipeline which will start ramping up in second half?

PD Mundhra: It is a combination of both those things, but it is more the former than the latter. So, we have had some short-term projects running which are ending, we have some known clients' engagement which we know are going to end in the next six months. So from that perspective, even though we may have a reasonably healthy gross sales pipeline for the next six months, net sales growth or net revenue growth will be muted as Rohitash has indicated because of these headwinds. As we move to the second half of the financial year, we think the headwinds will slow down or abate and therefore the same run rate of growth will yield into higher net revenue growth.

Abhishek Kumar: Where I was coming from was that, last couple of quarters and even next two quarters it appears that the growth is increasingly dependent on the shorter term projects. So, is it because structurally in the Financial Services domain because of the focus on automation, the growth has actually slowed down and we are not able to fill up the gap because of the automation the volumes that we might be losing?

PD Mundhra: I think short-term projects are actually an outcome of two or three different underlying root causes. There is the work on Financial Services, Automation and change which tends to be short-term in nature. Even some of the Analytics work we are doing, particularly on the Digital side, tends to be more project-oriented because somebody is asking you to solve a business problem or answer a question, so it is very often sold on a project basis on a non-FTE basis. Also, on the Cable side, although to a much lesser extent, we have seen some short-term projects. So I would say the higher value add services if I were to generalize so much, tend to be more project-oriented and less FTE-denominated and less two-year, three-year contract which tend to be higher value add six-months, nine-months, three-months engagements. So yes, if the point you are making is the business seeing an evolution, it is, and you will see that reflected in our non-FTE mix which I expect will go down over the next couple of years because of the shift.

Abhishek Kumar: Share buyback last time we tried using the tender offer which was not very successful. So are we looking at doing the share buyback from open market as well?

PD Mundhra: I think it is too early to say because as Rohitash also mentioned we have a court overseen merger process underway between our Cable subsidiary company in India and the parent entity, and as you might know SEBI regulations do not allow other corporate actions while this is underway. So we are waiting for that process to get completed and then we can conduct a proper review of what are different options are and what would make the most sense both for the company and the shareholders.

Moderator: Thank you. The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Could you all give some sense in terms of what is the outlook on the Cable and the Digital space? What is our expectation of levers that we have in terms of arresting the margin decline that we are probably looking at in FY'17?

Anjan Malik: We continue to see growth from the Cable industry, again, this is an industry just like all other industries which is going through number of client events, there is not as much as acquisitions of large scale happening at the moment or regulatory pressure and there is obviously technology change which the Cable and Telco guys been challenged more by things like free-to-air video and even the likes of Google and eBay. So, it is a wait-and-watch scenario where we continue to see reasonably healthy pipeline in that business.

PD Mundhra: I guess your question around outlook on Digital and margins. On the Digital front, I would say, there is a reasonably good pipeline both around Analytics and around Marketing Communication, Creative Services as well as Cloud-linked Services around Demand Generation. The challenge there for us is because of the productivity of these technologies, these opportunities do not typically become large dollar values for us, because the technologies are very scalable once you implement an Analytics solution, whether you are using it to analyze 50,000 transactions or 5 million transactions, there is no linear increase in revenue for us as you scale it. So that is the challenge on the Digital side. We have a strong pipeline, but those pipeline typically consists of many opportunities, each of which are not very large by themselves. On the margin question, I think by way of context, FY'16 was a high water mark in some sense is at 34% particularly when you keep in mind the fact that this includes the CLX contribution of almost (+10%) to our revenues which comes at much lower margins. So, really in FY'17, we expect to see some kind of mean reversion to a slightly lower margin number. Our long-term goal has been to say in and around 30% range. So it is too early to say exactly where we end up in FY'17 but hopefully we stay somewhere north of 30%.

Vishal Desai: Just in terms of what could be the levers that you would probably be able to employ in terms of coming towards the 30% mark if at all is that what we are looking at in FY'17

PD Mundhra: I think it is ultimately the same things, it is around utilization because employee cost is our single biggest item of cost and from a increment perspective, Rohitash already shared with you that we have done the increments for FY'17, so that bullet is fired, so now the remaining lever we have is around utilization of resources to the remainder of the year. From a revenue perspective looking at short-term projects and so on which typically come at higher margin, so to the extent we can have some of those in the mix that helps improve the margin number. From an SG&A standpoint, we have already hit scale at close to 10,000 employees, the sizes of our facilities are such that we are already achieving economies of scale, so I really do not expect much goodness on that front. So, I think the big levers for us are mainly around utilization and employee cost that we can continue to use.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please proceed.

Ankur Rudra: Could you possibly breakup the one-off nature of the margins or the cost catch up this time due to the variable pay or provisioning you did over the course of this year versus the sustainable nature of the lower cost -- thanks to the shorter duration projects which were low margin as you said that have ended?

Rohitash Gupta: The effect that you are asking for is more prevalent in Q4, but I would say that if you look at the full year numbers, those are fairly representative and there is no reason to believe that the short-term projects that we executed on in FY'16 we will not have some of those at least redone in FY'17. So to that extent, I would say, the full year number definitely is very close to the current business mix number.

Ankur Rudra: The 500 basis points shift we saw this quarter; it is not possible to sort of breakup into like 200bps is this or 300bps is this for the sake of how do we project from here onwards?

Rohitash Gupta: If you look at the operating margin this slide that gives the breakup in terms of the main drivers on the downside where employee cost as a proportion of operating revenue which is primarily due to CLX addition as netted off by some statutory obligations that were revalued. That was more than offset by the currency and the amortization policy change. So if you exclude especially the amortization policy which is only accounting change, the delta becomes roughly around 400 bps as opposed to 500 bps and I think that is a equivalent number we should compare with FY'15.

Ankur Rudra: Just on the point that PD mentioned that you want to take your margins towards a long-term average but I will just point out that your long-term average actually has been 36% till we saw the volatility in FY'15 & '16 and even if I include FY'15 the average was 34%, so it is significantly higher than what you alluded to. But the question from me here is if I look at the demand environment right now six months ago you were quite early in pointing out you will see a bit of softness and you basically panned out the way you said, but in the last six months it has been a very volatile period for most of your customers especially on the Banking side. So your view right now, is this because you are a bit conservative in terms of what customers are doing, is this breaking in any level of conservatism in terms of perhaps slowdown, because the trailing revenues most of your customers have taken massive beating in the last six months, I was wondering how you are thinking about for the near-term and a more longer-term there?

Anjan Malik: Actually, trailing revenues of our customers have been taking a beating not for the last six months, but in some instances, for the last four years, so for example, if you look at some of the investment banks, the commercial banks that we have been working with, for the parts of businesses that we support, the revenue has declined by 50% to 80% in some instances. So the fact that we have grown in that environment is actually pretty remarkable and a lot of that is about the diversification that we have been investing in over the last five years. If you look across the board, there is a tremendous amount of revenue growth at all across most industries and most of our client companies, and I am sure that is not just a function of us, it is certainly the case for larger IT organizations that derive much more money from these organizations. So, I think there continues to be a fair amount of uncertainty about where things go. I think a lot of it ultimately is also macro-driven. So to the extent that we get reasonable GDP growth and we get confidence back in the markets and money velocity increases, transactions increase, and that finally leads to revenue growth for our client base, for the industry base. I think that will translate into the performance for guys like us as well. But at the moment, you have to look in the near-term and you can see that there is a fair amount of uncertainty.

Ankur Rudra: So does your guidance bake in the uncertainty, I mean, should we be ready to be surprised either direction?

PD Mundhra: Ankur, I tried to answer this in an earlier question on this call; look, to be honest, our guidance reflects our base case based on whatever we know about upside and downside over the next six months, it is not like we are trying to create either optimistic bias or pessimistic bias. There can always be surprises on either direction because ultimately we are still a very small company, small P&L, so individual events can swing it by 2-3-4% plus/minus either way. But from what we see, I think it is fair to say the first six months looks pretty soft and hopefully after that we think the headwinds slow down a little bit and we should see better growth.

Ankur Rudra: The headwinds are limited to the Financial Services business of a few customers which is why you have the clarity that this should begin to ease off?

PD Mundhra: Yes, there are customers in Financial Services which are contributing to this but we also have projects pending in other businesses, but clearly to the point, Rohitash also made earlier in the call in terms of the relative growths of our three businesses in FY'17, based on what we know sitting today, we would bet that Cable grows the fastest followed by Digital, followed by Financial Services.

Ankur Rudra: Could you perhaps remind us how the split of the businesses between Financial Services, Digital, ILS and CLX?

Rohitash Gupta: Ankur, we have formally not disclosed the vertical wise breakup, but as you would know from the past that roughly in 40-45% is Digital, which is the largest vertical, followed by Financial Services in terms of size which will be somewhere around 30% or thereabouts and as we have mentioned in the past, Cable business at the year exit was roughly north of $45 million run rate. So that will give you a rough split.

Ankur Rudra: We have seen the Cable growth rates being quite high so far. Are you significantly confident that the sort of (+30%) growth you have seen in the past cannot be repeated, just want to get a sense of where you are seeing the range of growth there?

PD Mundhra: At some point, I am sure you will appreciate the law of large numbers start kicking in. So when we bought the business it was $15 million in revenue. To create 30% growth rate on that meant adding $5 million and $45 million it means adding $15 million. So it becomes significantly more difficult to maintain the same percentage growth rates. Having said that I think we expect Cable to grow much faster than the remaining two businesses. So, it may not be 30% but I think it will still be a very-very respectable number hopefully in FY'17.

Ankur Rudra: Any revenue or cost synergies you have been able to identify from CLX, it has been close to a year since you bought it?

PD Mundhra: Again, there was never any attempt or the thesis was never about creating cost synergy. So we have not really done that. It was a well-functioning business. We did not really want to restructure it in anyway. The thesis was more around the standalone business plus potentially revenue synergy. So, talking about that business has met its growth targets in FY'16 and from revenue synergies perspective we are now actually pretty close to cross-selling their creative services into two or three of our legacy digital clients in our organic business. So, I think there are a lot of green suits at least as far as that cross-selling opportunities and revenue synergies go. We expect that we are accounting on some of that to count towards our FY'17 revenue number.

Rohitash Gupta: Ankur, to your earlier question on long-term margin averages, I would just like to make a side note that we have undertaken these four large initiatives which we talked about like Analytics or client side delivery, and some of these will require investment ahead of the curve and that may mean that we will essentially reinvest some of the margin in excess of 30% on to that. So just keep that in mind.

Ankur Rudra: So the core business existing does it have margin challenges because you are investing you want to keep a lower potential band?

Rohitash Gupta: If the opportunity arises, we will definitely make substantial investment in any of those core initiatives and that may create margin decline from FY'16 levels for sure.

Moderator: Thank you. The next question is from the line of Grishma Shah from Malabar Investments. Please go ahead.

Grishma Shah: I just have one doubt; is there some reclassification in the emerging client revenues for Q4, in the Investor Presentation? if you look at the Investor Sheet, the number that I have for Q4 is $10 million, is that number correct?

Rohitash Gupta: I will check on that and send you an e-mail separately.

Grishma Shah: Also, in the Presentation, you were mentioning that the emerging client revenue is around $46 million. Is that number correct?

Rohitash Gupta: I think your doubt maybe that now the emerging clients mean non-top-10. So if you are comparing with the previous world where we were classifying the non-top-5, there will be a difference. So $46 million number looks almost correct to me given that top-10 concentration is 77%.

Grishma Shah: Then there is no point looking at those numbers for the emerging client numbers, right?

Rohitash Gupta: Yes.

Moderator: Thank you. The next question is a follow up question from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Did you mention that wage hike impact captured in Q4 or is it going to get captured in Q1? Can you please quantify the wage hike and impact?

Rohitash Gupta: That is from Q1 onwards because wages will be effective from 1st April. We have already shared the increment numbers, roughly 10% for offshore and around 4% for onshore and you can create a blended impact given that our employee cost is about 38-39% of total operating revenue.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: First question is regarding the integration of CLX. So, if you could comment on that if that is behind us?

PD Mundhra: Yes, I would say the integration is mostly done, it has been more than a year since we acquired the firm and really what I would call a light touch integration because we have not touched too much of the delivery model, we have integrated the front end sales and business development teams, in fact, erstwhile CLX CEO is now the head of our combined teams in Europe and also we have tried to augment capacity for them by creating some production capability in India. So, those are the main things we have done apart from sort of the corporate integration of accounts and audit and so on and so forth, yes, it is all done now.

VP Rajesh: Then my second question is regarding the change in going away from ESOPs to deferred cash incentives. Could you comment about how you guys are thinking about it and why make that change?

PD Mundhra: Actually, there were two or three driving factors behind this – one is there have been a lot of changes in regulations in India which have sort of tightened the trading norms for insiders and so on and so forth and the consequence of a non-compliance even administrative or trivial by an employee is fairly severe both for the individual as well as for the company. The second factor is we have had an increase with the growth in the company, we have had an increase in the number of people getting these ESOPs. Since we were capping the dilution at a certain level, therefore the per person grants are becoming smaller year-upon-year. So now if you put these two things together, you have an increased number of recipients getting a smaller number of shares as grants in an environment where even administrative non-compliances can create a lot of censure and issues with SEBI and so on. So what we have done is for the more junior employees who were getting smaller grants, we have replaced that with cash equivalent instruments of equal or higher value so that they do not have to deal with all the trading compliances and SEBI compliances that come with the option program in India. This is even more important for our onshore employees in different geographies. So may not be fully familiar with the requirements under the Indian regime and it was always a challenge to sort of assist them with their compliance requirements. So, that is the idea is that for the more junior employees, free them up from the burden of compliance in India and replace that instrument with something of equal or higher economic value. For the more senior employees, in fact, we have gone the other way, so restricted the pool to a smaller number, given them more options on average per person to create more of a sense of ownership and we believe for that smaller more senior pool that burden of compliance is worth it. So that has been the basic thinking behind the redesign of the program.

VP Rajesh: How many sales people have actually hit the targets for fiscal year '16 if you can comment on that?

Anjan Malik: We have had a total of I think four guys what I would call are pure play sales guys that have hit targets and we would have a total of seven or eight pure play sales guys, the rest of the organization which is the onshore guys as account managers and they do not get it on individual targets, they get paid on business targets, of our three businesses, one of the businesses would have hit target and the other two would not.

Moderator: Thank you. The next question is a follow up question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: How many new employees likely to be inducted this year?

Rohitash Gupta: We do not have any formal guidance even internally for hiring outlook. The reason for that is because traditionally we have executed large number of projects or statement of work for our almost 150 plus clients and because of that the team sizes are fairly small of 5 people, 10 people or thereabouts. If an attrition happens or if further growth happens in any of those individual statement of work for a project, it is a matter of hiring a couple of guys over a day or a week and that is pretty easily manageable through regular walk-ins that we conduct, so we do not need to plan very long-term basically.

Ravi Naredi: Because your attrition level is very high, so there is no planning for mass recruitment or such type activities?

Rohitash Gupta: No, Ravi. As I mentioned, our business is fairly fragmented in terms of team sizes. Even when the attrition happens, obviously, you are seeing 33% number which is for the full year, right, it is not that that has happened over one month or one week, it has been fairly spread over all the weeks of the year, right. In a week, typically, attrition will happen of maybe let us say 20 guys, I am just making it up and hiring those 20-guys spread over a week, spread over three different cities that we operate in, is not difficult at all.

Ravi Naredi: But one thing I would like to tell, so much good pristine balance sheet and working in spite of such good things listen your last three-four concalls, you never tell anything positive thing, always you remain very moderate, the growth will be moderate, the margin will be moderate but the things are different, so I cannot understand still why you are not talking in positive way and what is the purpose, but really your working is a so nice and so fine. I can salute here only.

Anjan Malik: We will take that compliment. Those are few and far between.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management of eClerx for closing comments. Over to you.

PD Mundhra: Thank you, everyone for joining the call and we look forward to talking with you again I guess in two months' time.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of eClerx Services Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.