“eClerx Services Limited Q4 and Full Year FY18 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the eClerx Services Limited Q4 and full year FY18 Earnings Conference Call. As a reminder, all participant lines will be in the 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohitash Gupta, eClerx Services Limited. Thank you and over to you, Mr. Gupta.

Rohitash Gupta: Thank you all for joining eClerx earnings call for the fourth fiscal quarter of FY18 and 12 months ending March 31st. I will start with the annual strategic review before getting into financial performance of the specific quarter and year.

Our clients experienced a mixed business environment in fiscal 2018. In the US domicile for the majority of our clients - the passing of tax reforms act and the partial rollback of onerous regulatory burdens led to increased profitability and business confidence. Compliance and consumer protection costs however increased across our broader client universe, with greater responsibility placed on our clients to ensure the highest standards of business practices. Amidst a backdrop of elevated political pitch, some trade tariffs, job protections and visa restrictions, which were imposed adding further to the cost of doing business for our clients. Automation continued to be in the forefront of clients and investments continued towards digitizing business function. Experiments with robotics, machine learning and blockchain accelerated in this year and utilities were once again high on discussion agendas as clients look to reduce cost further.

We felt well prepared to take advantage of these changes in the year and fiscal year 2018, therefore marked a welcome return to growth for eClerx. Overall revenues grew about 2% to USD 198.6 million in FY18 led by growth in our Financial Markets and Digital businesses. Overall sales for the firm - new contracts and orders - were strongest in our history and we probably added a number of large clients across each of our three businesses while our year-end pipeline remained significantly higher on YOY basis. It is of some note that the firm's revenue have increased by a third over the past three years, the firm's risk profile also today has dramatically improved. Over this time of three years, the top ten clients concentration has decreased from 87% to 70%. Our top five concentration has reduced from 67% to 60% and our largest service line now represents less than 15% of revenue, down from over one-fifth three years back. Today we have 6 clients which are over $5 million in revenue and our number of $1 million plus clients has increased from 14 three years ago to 23 this year. Notably, a fifth of our firm's revenue now comes from outside India delivery, making us most global and closest to customer we have ever been.

We have achieved good growth in new business lines this year. In Financial Markets, notable growth came from our data and compliance services with particular focus on onshore consulting and managed services and from automation projects leveraging machine learning and robotics. Customer Operations vertical offset our major client loss with new client wins across dispatch and quality services, and added new business for delivery out of our North Carolina Centre.

Digital continued strong growth with online operations being the largest driver. Creative services which is also Computer Generated Imagery service line for us and onshore led advanced Analytics witnessed strong demand both with existing clients as well as new logos. Client advocacy continued to be strong for eClerx, we won notable client awards and continued to win new business at existing clients. Our internal service excellence team won the National Golden Peacock award and then went on to win three awards at the World Quality Congress. Our investments in training automation were recognized at the CLO summit for 'Best Customer Service Training Program'. Finally, we were in the top two companies for investor returns and corporate governance across all listed mid cap and large cap IT and ITES firms at the Financial Express CFO awards.

We remain deeply committed to our social responsibilities as a firm and to our CSR program. This year we focused on increasing employee participation and on enhancing capabilities of the charity organizations that we partner with through initiatives to teach relevant BPM skills to improve employability of the youth. We also launched CSR initiatives in partnership with some of our key clients. As always, the focus of initiatives remains to help children obtain a better education and to develop skills to gain life independence.

I also want to update you on the progress of our strategic roadmap as FY18 return to growth was built on those initiatives.

First, and the most notable was the build out of our onshore delivery centre's capabilities. 2018 saw overall outside India headcount reaching just over 500. This helped us address two large trends that we had anticipated sometime back. First, the move towards more complex services requiring greater client interaction, and solutions that combine technologies, analytics, and processing and the second, the greater demand for customer facing support from within client geographies. In 2018, we purchased the assets of TwoFour Consulting, a New York-based onshore consulting firm focused on complimentary areas of business and further invested it in our onshore recruiting capabilities through it. This helped us deploy client program spanning consulting and project management. Our Italian business CLX helped in building out of our creative capabilities in India centres thus creating capacity both in Verona as well as Phuket to deliver newer services. In Onshore Analytics, we saw a substantial increase in overall sophistication of services provided with particular focus on services co-delivered from onshore and offshore. We added Singapore to our delivery locations and our teams in Austin and Toronto grew substantially. The successful launch of client-funded programs at our North Carolina site saw delivery headcount increase and in light of strong price interest, we agreed to increase the delivery capacity further at that site.

Second of the strategic roadmap item, we have made substantial progress across our technology efforts. We made strategic technology hires both onshore as well as offshore, created partnership with emerging product companies and sold the highest number of technology programs into our clients. An increasing share of new sales embedded technology platforms and tools aligned us to skew business mix to productised and managed services. We embarked on a number of new robotic and machine learning initiatives - both internal and client funded - to improve efficiency and reduce cost. Our significant portion of onshore and consulting engagements leveraged technology skills and we found our mix of specific domain knowledge, industry expertise, and relevant technology skills of high value to those clients. This drive to tech wrapped services remains core to our differentiation relevance, stickiness, and long-term value for eClerx.

Final item in the strategic roadmap, we continued our growth in analytics and we had strong year leveraging client location delivery and technology to drive new growth. We continued to focus away from 'managing' data to extracting value, insights and outcome for our clients and enjoyed early success taking some of these services into other verticals. We are convinced that the success of our analytics initiative will be critical to overall success of the firm.

We pride ourselves as a firm focused on prudent allocation of capital to ensure high profitability and industry-leading returns. In 2018, we completed our second successful and oversubscribed buyback, maintaining our tradition of returning excess capital to investors whilst ensuring sufficient capital to fund strategic growth objectives. Further in line with last few years, we have declared dividend of Rs. 1 per share for FY18.

Coming specifically to our Q4 and FY18 results, in Q4 our INR operating revenue increased by 6% while full-year INR operating revenue grew at 3% YOY. The growth in revenues for this quarter was largely due to growth in short-term Creative services project out of our CLX unit. The OPM or operating margin for the Q4 and FY18 decreased by 12% and 23%, respectively, with FY18 OPM roughly at about INR 3,200 million. Profit after tax has shown a strong increase of 13% in Q4, while showing a decline of 18% for the year, with full year profit after tax coming at roughly about INR 2,900 million. Other income for the year as well as quarter increased sharply due to revaluation and realized gain due to currency movements with full-year other income coming at roughly INR 400 million. Our forward hedge book of $141 million is at an average rate of INR 68.8, rate which gives us smooth realization cover over next 24 months.

As you will recall, we talked about dollar revenues in absolute operating margins to grow sequentially from Q4 onwards in the last call. While the dollar revenues were much more than our anticipation, the absolute operating margin was down sequentially against our expectations. The operating margin drop was due to continued growth in onshore business replacing the offshore business and due to reasons discussed previously especially the three large client events that we witnessed over last two years. The normalized operating margin percentage in Q4 excluding one-offs would have been very similar to Q3. We feel that FY18 margins percentage is much more representative of our medium-term outlook instead of Q4. The operating margin percentage dropped by about 840 bps this year as delivery and support employee cost grew disproportionately on nearly similar revenue base. This was coupled with our increased investment in upgrading of BD team and increased travel cost.

We now anticipate that we will have a softer start of FY19 as much of the one-time growth seen in Q4 will taper off along with usual year-end regular roll offs. For the early part of FY19, we will see the usual impact of wage hikes which are effective April 1st , which were in high single digit for India staff and low single digit for the onshore staff.

We had about INR 6,000 million of cash and cash equivalents at the year-end after the buyback of INR 2,580 million. We have spent around INR 273 million on CAPEX in FY18, which was higher by about INR 60 million as compared to previous year. We expect FY19 CAPEX to be around FY18 levels excluding any major facility refurbishment or realignment that we may plan to do. We have spent about INR 68 million on various CSR activities during the year and our allocation is likely to increase to INR 77 million in FY19.

The DSO was at 89 days at the year-end, which is significantly higher than the expected range as two of our top five clients changed their accounts payable vendors and process leading to temporarily payment hold ups which we plan to resolve by Q1 end. Top 10 clients YOY revenue decline rate has been lowest in last six quarters. Emerging clients show a healthy acceleration trend driven by mining of larger emerging clients. However, some of this emerging growth in Q4 was one off as explained earlier. We have now included two additional disclosures, one for onshore revenue share and second for breakup of emerging client revenue in $0.5 million plus clients versus the rest. We hope that these two additions will help you understand the profile of change in business and its margin implications better. In terms of accounting update, the company will adopt the new accounting standard as required by Ind AS 115 effective April 1, 2018, and we will update you, if there are any significant changes due to that.

The company employee strength has increased YOY to 9,429 with increase coming from net additions of 233 in offshore and 83 in onshore delivery centres and further investments in our Tech and R&D staff. Our sales and Business Development staff count has remained roughly similar over last year although with several resources upgrade. Further, we have been beefing up our onshore support services organization to tackle the onshore delivery growth. The India attrition has increased by 130 bps to 39.6% this time. Our effective tax rate for the year as well as quarter was around 23% - 24% and we expect it to touch about 25% for FY19 as some of our older SEZ units come out of MAT. 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 the question and answer session. The first question is from the line of Sharan Pillai from Allegro. Please go ahead.

Sharan Pillai: I had couple of questions, first question was in terms of your growth. Over the last two quarters we have seen our growth come back a little bit, as a long-term outlook, could you just sort of give me some idea of whether this growth is sustainable, where we see it going etc.?

Anjan Malik: Can't comment for future, but in recent times what we have seen is, our clients come back to the table with investments they press for certain, the reduction in tax rates has brought back lower buoyancy and spending. Overall, morale seems to have improved dramatically in our buyer community, so certainly I think from a confidence perspective we are seeing more transaction. I think there is definitely a shift towards those vendors who got to be seen themselves as a combination of tech and services versus dual services or pure tech play, and more of that demand seems to be shifting towards those people and the third shift will be continuing to see increasing demand is more complex services where there is more upfront solutioning involved which by definition means it will be more client location-based, so I would say that there is an overall increase in confidence, but it is in specifically in areas where you can show automation and services combined and onshore solutioning and delivery combined.

Sharan Pillai: My second question was in terms of margins, could you sort of explain to us what has been happening in terms of costs in terms of your other expenses and your employee cost, they seem to have been increasing quite significantly over the last couple of quarters, so any reason behind that, is this level of margin what we should be expecting going forward?

Rohitash Gupta: I think I refer to that if you look at the business metrics, we have added two new measures, one is the onshore revenue share as well as the managed services percentage share of the revenue. Now, both these things when they increase in share, they have significant impact on margin; the onshore one is pretty obvious because the onshore business comes at very, very thin margin profile by definition. The managed services one is little tricky simply because that is where you are taking the ownership to some extent of the efficiencies if we are able to produce, we may be able to retain that. However, when you sign up those deals up front you take effectively a price cut, so basically your margin compresses in the initial period of that deal and if you see both these metrics now stand at in Q4 at least at about 23% give or take, which is almost double than what it was eight quarters back. I think this is the major shift which has caused delivery cost to increase as we are focusing more on onshore as well as taking bets on the managed services deal.

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

Pankaj Kapoor: My first question is on the billing mix that you have shared about managed services and onshore, there seems to be a jump in the current quarter in both of them by 3% - 4% on a QOQ basis, so is this because is it overlap between these two metrics that a similar kind of project which we have executed and that is the reason why we have seen a jump or these are two different kind of projects?

Rohitash Gupta: Pankaj, great question and I think there is significant overlap in both the metrics and I would say probably more than half is overlapping.

Pankaj Kapoor: As you also were mentioning Rohitash, managed services obviously give you a better margin control, but onshore services essentially means the margin dilution, so if I have to take a slightly longer-term view over the next one, two to three years where do you see, (a) the mix of onshore and offshore revenues will be playing out, which you think will be the optimal level, should we expect a 30:70 or 25:75, what kind of a level you think given the current pipeline that you see and the nature of project that you see, it can settle out to and based on that, what is the kind of a margin outlook do you think one can assume over a two to three year period?

Anjan Malik: I will let Rohitash answer the margin question, the outlook for demand I think in the short-term we will see a blip in onshore as a percentage of total revenue. I think in the longer term we will see onshore as a percentage decrease in this levels potentially because we are looking at onshore as a driver of more hybrid offering, so we do not want to be onshore just for the purpose of onshore, we want to be onshore because it drives more demand offshore or drives more demand for mixed services or managed services. So I think we look at now that in FY18 and potentially now that in FY19 as a period of investment where we build up our onshore capabilities whether it is in analytics or it is in consulting of market space or it is in the phase of delivery centre for customer operations, so I think short-term increase longer-term we would expect it to come down, but overall business growth to increase as a result.

Rohitash Gupta: Pankaj, as I mentioned in my opening remarks, the Q4 margins are definitely below what the steady state looks like in near-term and I would say that FY18 full year margins are little more representative for the medium-term. Having said that, like Anjan mentioned that as we add new BPO work, which may come out of these onshore engagement or mixed delivery engagement, I think that profile has an opportunity to improve from here on although that will depend on how the mix evolves over a period of time.

Pankaj Kapoor: Rohitash, sorry to persist on this, but A, we are going to see impact of some of the wage hikes and all coming in the first and second quarter which obviously puts a dent on the margin in the very short-term. Second, this year and maybe even in the first half of next year, we may still be in the investing mode so the onsite share may continue to grow, so you think that these are the trough margin or there is a potential that the margins can go down further before they start recovering?

Rohitash Gupta: That is tough one to answer, Pankaj, simply because if you look just last two quarters, our Fayetteville or North Carolina Centre has been in the work for setup more for almost more than one year now, but really speaking the revenue started accruing only in Q4 and that will witness an increasing trend from here on, so if you look at FY18 just on that aspect obviously the cost were significantly many fold compared to the revenue that we earned out of our North Carolina initiative, but that ratio will change dramatically as we enter into FY19 because at least for the current capacity, we will be almost billing almost the full Centre.

Pankaj Kapoor: These costs were already flowing into the P&L on the delivery side?

Rohitash Gupta: For the full year, yes.

Pankaj Kapoor: Just lastly, based on the hedges that you have what kind of outlook one can assume on the effective exchange rate and the hedge gains and all?

Rohitash Gupta: Current hedge book of $141million is stacked around Rs. 68.8 to a dollar mark and I would tend to think that if rupee remains at current levels of 68 plus part then we will only increase this average hedge realization rate number going forward, so base case at this time looks like Rs. 68.8, but all the chances that it will grow from here.

Pankaj Kapoor: One more question if I can squeeze in, Rohitash, the SEIS income is accounted for in the revenues, right?

Rohitash Gupta: Only for FY18, it is included in the operating revenues, but bulk of that SEIS which was roughly around Rs 20 crores has been disclosed last quarter goes into exceptional income and is not an operating revenue.

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

Vishal Desai: Couple of things from my side, first if you could help me out with the outlook in terms of what we are seeing in the FS space and the other two verticals as well, and secondly, for Rohitash if you could help me with some amount of sense in terms of what are the margin levers going into FY19 from here on?

Anjan Malik: I think it is a question of demand again, as I discussed last year or in year has gone by in FY18 a lot of our growth has come from markets in digital and we continue to see that trend, digital being led by things like CGI, site operations and analytics, and market.

Vishal Desai: Sure, some color on FS, if you could give me?

Anjan Malik: It is primarily being driven by compliance-led activities, regulation led activities for the market space, so these are all onshore and offshore with built-in robotics, RPA, machine learning, and automation, so those are the big drivers of demand in FS and digital, respectively. For customer operations, actually one coming from our US Centre in two or three broad areas, so in the area of logistic and engineering, we are seeing growth again and in care operations, we continue to see growth. So, broadly we are seeing demand growth out there how that translates into the top line and bottom line for us it is ultimately about execution.

Rohitash Gupta: Vishal, on the margin front, the biggest lever is can we grow the absolute offshore BPO revenue from here on. As you will note from last two to two-and-a-half years, BPO revenues have not grown because we have lost few businesses as we discussed previously, which were purely offshore, very stable which means they were very efficient in terms of delivery cost etc. Now, we are trying to build from there on, so I think that is the biggest lever. All the other things on G&A front etc., they are relatively minor plus there were some one-off things that also happened towards Q4. Just to give one example, there was a gratuity increase due to some legislation change which required us to increase the cost one time by Rs 2.5 crores. Similarly, as we discussed, our onshore setup up seeding part is over which means that all the travel related to that which our staff from India or SMEs from India need to do for training of people there is now over and we hope that for future growth in that Centre, the future training can be more and more taken on by the local staff which is already there in place, so that could be second kind of lever where travel cost, for example, will reduce.

Anjan Malik: I think there are two things, one is of course some of the managed services that we have in place and to the extent that we are able to outperform because we have built into it that will drive the initial profit as well. One thing I did want to talk about which is on the demand outlook, it is important to note I know Rohitash mentioned this earlier that we should not be looking at this quarter as representative of all the quarters that we expect to see in 2019 for sure, I think Rohitash mentioned that we had lot of part work that sort of came from both the CLX subsidiary and also from North Carolina in the shape of both managed services and onshore work, some of it was short-term but a lot of it was pre-dated as I spoke forward into the calendar Quarter-1, which go inside the Fiscal Quarter-4, so it is important to note that we would expect Q1 not to be anything else and particularly we would expect it to be even down from what we have expected and what has happened in Q4. I think you have to look at what our average strength for '19 is and we feel pretty bullish.

Vishal Desai: Where exactly are the misses in terms of a softer outlook panning out for H1, where are we seeing that growth not picking up from Q4 going into Q1, which is giving us an outlook of expecting some amount of softness here on?

Anjan Malik: My comments is not related to H1 or FY19 specifically, what I am saying is that Q4 is exceptionally strong because some of the business that we would have expected in Q1 was pulled forward into Q4.

Moderator: Thank you. The next question is from the line of Pranav from Edelweiss Securities. Please go ahead.

Pranav: I just wanted to check your commentary basically stated that you are seeing good growth because of the tax cut, I would have expected stronger growth in North America because of that, but it seems that Europe is driving the growth and I mean similarly the North Carolina should also been driving the growth in North America and not really in US, so what exactly is happening, that is my first question? Second question is staff utilization seems to be on the lower side vis-a-vis what we saw last year and it is going down a bit, so how should we see this going forward that is second question, and lastly DSO days have increased quite dramatically in this quarter and is there any one-off or any color you can provide me there?

Anjan Malik: I will take the demand question, again tax cuts in the US does not necessarily mean that all your demand should come from the nation of the US, it is ultimately how the organization that you support although there might be listed and taxpaying in the US, domicile in the US they have global reach and have global operations and in most instances we support all of them. I think the Europe growth is not linked to what has happened in the US first of all. Secondly, the tax cuts are recent, so although we started hearing more optimistic noise from our customers and started seeing increasing in transaction, I do not think that is translated into revenue or profit as yet, we expect that to play out in FY19, and similarly North Carolina I think we are at the very early stages of our growth and I think Rohitash mentioned this in his opening commentary that we are in the process of trying to secure additional space because we already have demand lined up, so we anticipate a fair amount of demand in North America coming in for North American delivery, but it has not panned out completely as yet, obviously because it is relatively recent, but we expect it over the course of FY19 and FY20.

Rohitash Gupta: In terms of staff utilization that metric has been choppy over last two years, if you especially look at Slide 7, the reasons for long term volatility on that obviously are related to roll off that we have witnessed in that period, but if you look closely for last three to four quarters, it has been fairly stable around 73% mark give or take and we expect that FY '19 would not be any different at least on that metric and one of the side reasons I would say for slight dip in utilization also has been higher attrition which obviously you need to re-purpose and you have overlapping staff for certain period and things like that and that is also reflected in our total offshore headcount if you see in the other metric.

Pranav: If I may, I just want to know what exactly led to such a stark difference in the growth for North America and Europe for this quarter?

Anjan Malik: Well I think there was a stark difference, I think we mentioned earlier that a lot of the growth has come from onshore and I think that onshore growth is pretty much broken up between what has happened at CLX and what has happened in North Carolina, which is in US.

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

Rahul Jain: Two things here, one on the structural basis given that the way the business is changing and we are moving from a pure offshore to a mixed delivery kind of a play and at the same time, the general growth rate of the segment and including our business coming out sharply, so from a medium to long-term perspective if we eventually turn into a 10% growth business and that too with a profile where we may have 25% to 30% onsite-offshore mix, so what is the new net kind of a margin that this kind of a profile should get because on a short-term basis it has been moving a lot and it may again look better for '18, but the way we may stabilize as an organization, the way we have shaped it up, what is the realistic margin based on the current profile?

Anjan Malik: I think PD mentioned this on a number of calls before ultimately I think what we are focused on is net margin in dollars as opposed to actual quantum of money and as opposed to margin rates we are focusing just on margin as a percentage is currently limiting for a business as we are trying to.., so I think Rohitash mentioned this earlier, we think ultimately that we probably average our near where we are for the year, but it is hard to tell quarter to quarter because we will continue to invest, but we expect that investment will yield results which will mean that in the short term we may have margin that is depressed, but on the longer term we would have margins that increase.

Rahul Jain: Let us assume we have to grow at anywhere between 10% to 15% over the next two to three years, what in your opinion the current revenue mix should rise that kind of momentum for us?

Anjan Malik: It is hard to answer that question, so I will refer to the same answer that I gave to a Gentleman earlier which is that in the short-term our default strategy will have us increase a percentage of onshore revenue, but I think in the medium-term we will bring it back down as we get more BPO and hybrid business as a result of our onshore strategy.

Rahul Jain: Lastly, on the comment on the offshore BPO revenue that has not grown in last two years if it picks up, so is there any deal or anything that has given us something or it is just that if we improve then we will see it as a margin lever?

Anjan Malik: We have seen instances in FY18 where onshore engagement has led to BPO deals, I think there have been more than a few instances where having greater reach and being able to integrate with customers earlier in the decision-making cycle.

Rahul Jain: Lastly, if I may this recent quarter we saw good growth in the European business, so what is driving this kind of a traction and I mean what should be the sustainable thing here?

Anjan Malik: Q4 is traditionally a strong quarter for our Italian subsidiary because of demand from the fashion houses, so I think it was partly seasonal and partly Q4 to be strong and I think this year was exceptionally strong, but as a function of investments that we made in that business in some of the marketing and advanced technologies.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: If you can quantify how much of revenue moved from 1Q to 4Q, that is one, and second, if you can talk about how growth in FY '18 was for financial digital in customer ops, if you can give a split of that, and thirdly, if you can explain how much the margin is for the onshore business?

Rohitash Gupta: Q1 to Q4 shift is more of a way to explain things, but you have to understand that the revenue that was added in this quarter especially, bulk of it was short-term revenue. So that will definitely roll off in early part of Q1 and that is why even on revenue front we think that Q1 will be softer. What was your second question?

Apurva Prasad: Second was, Rohitash, on financial digital in customer ops, for FY18 if you can give the number in terms of growth and decline how that was?

Rohitash Gupta: That mix, Apurva, does not change, obviously if you look quarter to quarter it will be very volatile because of the roll off that have happened in early part of the year in customer operation especially, but if you cut to today probably 40:40:20 mix still holds good if you take a little longer viewpoint.

Apurva Prasad: That mix has been similar even in FY17?

Rohitash Gupta: FY17 customer operations would have been higher actually, maybe more than 25%.

Apurva Prasad: Also the onshore margins, if you can indicate to where it is now?

Rohitash Gupta: I will not be able to give you the stable margins for onshore because we have just started investing in that, but effectively onshore margins at least in the investing phase tend to be in single digit, but with time they have a real chance of getting into double digit zone.

Moderator: Thank you. The next question is from the line of Arpit Zelawat from Swastika Investmart. Please go ahead.

Arpit Zelawat: My question is to Mr. Malik, like how expanding business onshore brings more business like earlier in calls you said that you get business basically mainly because clients approach you, so how going onshore can help us bring more business?

Anjan Malik: There are certain clients will not deal with you if you do not have onshore execution, so we have been able to have conversations and are in negotiations stages of certain clients who are only talking to us because we have onshore capabilities, that is one. Secondly, when we do work in the consulting space, we are usually able to hire more senior people who have more senior reaches into our client organization and who have more subject matter and expertise to be able to provide consulting solutions to our clients, some of those consulting solutions end up us being able to provide a part of the activities from offshore. The third part of it is in areas like advanced analytics, it is given that some of the customer problems that we are looking to solve, we just do not have the skill or the domain in India, so you need local market presence and you need local market team that works closely with our clients and stakeholders, so having that capability increases your overall pool of revenue which you are able to attack, so I think those are the three reasons why we see more offshore growth because of onshore capabilities.

Arpit Zelawat: One more question, what is the long-term problem you currently see with the business?

Anjan Malik: Our long term problem is that we have always had which is how do you stay relevant and pretty much everything that we do from a strategy perspective is to try and stay relevant to our clients every year.

Moderator: Thank you. The next question is from the line of Sandeep Kapadia from Four Stone Advisors. Please go ahead.

Sandeep Kapadia: My question was around, I just want to take some time around understanding how we sort of change the business, we have invested a fair amount in new areas like in analytics and robotics, I am just trying to grasp from where you have come, how you are making these changes, and where you would like to go, so just kind of a broad question, but I had a frame of mind from couple of years back of where the company was, I can see that many changes have taken place, but I am not being able to kind of comprehend that, so if you do not mind it, can a you take a step back spend a few minutes on that?

Anjan Malik: I think that is a very broad question, I think we need much more time than we have available on this call, but if you ask us where this journey is taking us, we see ourselves ultimately as the chosen middleware company in the services space by that I mean we have specific niches, we want to have more of those niches and in those niches, we want to be the top two or top three suppliers for combined services, now by combined services I mean that everything that we do has a combination of onshore and offshore business services or you could call it BPO. It has an element of automation and technology and has a large element of analytics built into it, so we are seeing more and more as a middleware solution company as opposed to a pure play BPO. I think that is kind of the place that we have always been in, but as we scale the size of that challenge becomes bigger, so if you were to compare us to the large guys, we are not IT services and if you look at where the some of the revenue would come from IT implementation and that is pure large scale BPO, and we are now pure BPO where we are not running functions of 300 headcounts doing the same thing on average, so we tend to run more clustered programs where there is a higher amount of domain expertise that we tend to do more of that.

Sandeep Kapadia: This whole area of analytics, robotics, does that lend itself to more of these services or is that just simply necessary to be more relevant like what you have seen before?

Anjan Malik: I do not think you can take any one of those things in isolation, I think you have to take all those things together to determine what gives you relevance, so we look at robotics journey as the tool of yesterday, today it is machine learning. Before that, it could have been analytics or even before that it would have been webcrawling, I mean if you look at our journey and evolution, every year we make a decision on which is the areas that we want to invest in and every year that is different, so I think we do not want to be pretending that we are out there building robotic solutions for our clients, but what we are saying is that we have best practice technology that is top of mind for a long time, so it is in the services and the solutions that we are delivering.

Sandeep Kapadia: You do not envision that the services component decreases because you know everything which goes on the cloud and software as a service and all these models effectively seems to be decreasing the need for IT services?

Anjan Malik: I was just going to say and I am sure much of the audience since there is some selective who will be avid reader and a lot of the reading would be in finance and technology, there is not a shortage of books and magazines that will talk about the rise of robots and how algorithms would replace humans. So, inevitably automation, you always fight the automation curve, so whether you are in the coding business or in the servicing business, there is always automation that is going to make you obsolete in some way or the other. We actually see that the book of business that you are on and I think the way we are successfully positioning ourselves makes us less vulnerable as opposed to more vulnerable, I mentioned to you that we do not run very large books of homogenous function because most of the decision making that have elements of automation, that have elements of our analytics, these are all functions that lend themselves very easily to pure play automation, so I would say that the journey that we have taken and the journey that we have been on helps us to be more relevant and more sticky and I guess more automation protected in some sense.

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

Vishal Desai: Sorry, just couple of things on the margin bit, you all mentioned that Q1 we will have a salary hike coming in and any kind of quantification that you all have given on the onsite-offshore bit if I missed out?

Rohitash Gupta: It is very similar to last year and it is in low single digit percentage for the onshore staff and mid-to high single digits for the offshore which is largely India staff.

Vishal Desai: Rohitash, if you could just help me what was the one-off component in the margin breakup between Q3 and Q4 so that we could get some sense as to excluding that how margins have played out?

Rohitash Gupta: For that, Vishal, I already mentioned that you have to look at FY18 picture as opposed to Q4 picture because Q4 will systematically have those one-offs which were actually for the full year or were truly one-off items etc., so if you look at full year that is already presenting a normalized picture what it would have been in Q4 for example.

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

Rahul Jain: Any incremental input you could give on the TwoFour acquisition and the prospect that we shared in terms of our access to client budget and how that kind of a model could evolve incremental prospect for us in that space and where that revenue run rate today stand versus where we acquired it?

Anjan Malik: The TwoFour acquisition was a special situation for us because ultimately it came at what I would call at distressed value. If you look at the run rate of the business from when we close the deal to where we are, it is about the same. I think what is interesting to look at is synergy, I know that is an overused word, the synergy of that business has performed us, so first of all it has given us a bunch of new MSAs that we did not have. Secondly, it has given us recruiting engine and embedded our ability to hire in the onshore locations, so some of that, a lot of the work that we today do in the onshore location requires the staff onshore and we certainly did not as much the capabilities before the acquisition, so that is two. Three, I think it actually increased credibility within our large existing clients where they now see us as potentially from hirers of onshore consulting in a more serious way because they have seen us commit capital to buying those capabilities, it has played off in different ways and we think ultimately it was a very low-risk and low capital entry point and a very simple bolt on for us, so it certainly in a concentric area of growth.

Rahul Jain: How we plan to leverage it in terms of growing business from some key clients, I mean our top clients is what we have seen in sort of stuck from a revenue run rate perspective for pretty long and bring the overall growth, does that add any led to that piece?

Anjan Malik: I would again refer back to my earlier answers, we see FY19 and FY20 playing out. We mentioned that we anticipate growing onshore footprint in all the three areas that we have mentioned whether it is North Carolina delivery, whether it is consulting in the market space, and analytics in the digital space, to us the TwoFour helps us in the second access, it effectively helps us turbocharge our ability to staff onshore in the, out of the part of the same answer, so TwoFour is one part of the solution in those markets, but I mentioned that a couple of times earlier that we see onshore driving offshore.

Moderator: Thank you. The next question is from the line of Ruchi Burde from BOB Capital Markets. Please go ahead.

Ruchi Burde: My question is regarding our managed services and on-site, so one of the participants earlier asked about the overlap, could you elaborate this in more detail?

Rohitash Gupta: I mentioned earlier that roughly half or probably more of those two will be overlapping revenues, so if you are trying to find what is the sum total of onshore plus managed services, I would hazard a guess probably one-third or slightly more than that of total book.

Ruchi Burde: Secondly, though a earlier participant tried to ask in different way regarding this quarter's margin, so this quarter we talked about we had some short-term project which kind of aided our top line, however, there were margin not as much favorable as we would want, so that implied that in this quarter the quantum of extraordinary items impacting margin is bit on higher side, you called out one such item being gratuity, could you just talk us through what are other items?

Rohitash Gupta: The other item also I alluded actually and these are smaller items to be honest, second one was travel for example, and the third item which is actually the bigger item is the onshore build out and the new revenue that we got in Q4 which was substantial 7% increase quarter on quarter that came at pretty thin margin.

Moderator: Thank you. Ladies and Gentlemen this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, Sir.

Rohitash Gupta: Thank you all. We look forward to talking to you again in Q1, thank you.

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.