"eClerx Services Limited Q4 and Full Year FY19 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen. And very warm welcome to the eClerx Services Limited Q4 and Full Year FY19 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 entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohitash Gupta – CFO, eClerx Services. Thank you and over to you, Mr. Gupta.

Rohitash Gupta: Thank you all for joining eClerx Earning Call for the Fourth Fiscal Quarter and Full Year of FY19 ending 31st March 2019. I will start my prepared remarks with the full year review and then I will cover Q4 financial performance towards the end.

eClerx completed FY19 with US$201 million in revenue - its highest ever, with a constant currency growth of 1.4%. Thus, we continued our trajectory of growth. Operating profit declined for the year to Rs. 2,629 million as an increasing proportion of our business shifted towards the high-cost locations. Overall sales for the firm - new contracts and orders were up 8% year-over-year, while the contract reductions slowed by 19% over the prior year. This provides good revenue momentum going into FY20. Our top-10 client concentration decreased for the first time below 70% in a full year and our over $5 million client list returned back to previous high of 7. Our emerging client portfolio showed significantly higher growth over the top-10 clients. We saw good growth in Asia, typically a very competitive market, and in Europe, where we grew by selling large deals to two multinational clients. Overall, we were able to improve pricing on our portfolio of services and to increase the size of individual deals sold in the year, which is a testament to quality and relevance of our services.

eClerx Markets, which is our financial services unit, saw growth in its data and compliance practice on back of a number of onshore and managed services engagements embedding our platforms and technology capabilities. We fared well against competitors and the captives, adding two large banking clients this year.

eClerx Customer Operations unit further grew its onshore footprint by adding a new customer in a new line of business. This was on the back of excellent delivery - notable given our relative inexperience in running U.S. delivery. We also won a large new client for technical operations services for offshore delivery with revenues to start in mid-FY20.

eClerx Digital offset some reduction in its traditional content management business with growth in advanced, creative, analytics and RPA services. I wish to provide you two significant examples of digital transformation projects won in new clients this year:

1. eClerx Digital won business with a global sportswear client to transform their digital analytics program. The client looked to eClerx's extensive digital analytics functional experience in fast-moving B2C e-commerce to guide the transformation program recommendation as well as ensure early program wins. The combination of client-side consultants and offshore

delivery teams have realized significant savings for the client as they rapidly grew their e-commerce channel.

2. eClerx Digital won a new business with a global technology product and service company to automate business operations using client's preferred RPA platform to enable cost savings and operational efficiency. In conjunction with the automation deployments, eClerx has collaborated heavily with the client's RPA center of excellence to accelerate the client automation deployment and adopt industry best practices.

Our onshore consulting and analytics businesses saw double-digit percentage growth driven by analytics. Helped by growth at our acquired business, CLX and TwoFour Consulting, our ex-India business grew to just under 10% of our employee base and a quarter of our revenue. As complexity of business needs increased, this onshore presence allowed us to move into more critical, stickier services requiring greater client interactions, technology and analytics. It also allowed us to win substantial new engagements, deliver concurrently from both onshore and offshore that we otherwise would not have been able to win.

Technology played a more central role at eClerx in 2019. We sold the most advanced technology projects in the year including RPA services to new clients. We had great success with selling services embedding our platform, notably Compliance Managers, DocIntel, eCube and Fluid4 - and an increasing percentage of our engagements moved towards the managed services model. We continued with senior technology hires including our Financial Markets Managing Principal and on our path of partnership with product companies. Notably, the Department of Scientific and Industrial Research of Government of India, after exhaustive diligence, gave formal recognition this year to our in-house research and development effort and innovation in areas like big data, analytics, machine learning, robotics, process automation. This is probably a first for a BPO/KPO, a significant honor and a vindication of our strategy of making technology core to our services.

We are today a diverse family of almost 9,500 people representing 20 nationalities working from over 20 cities in the world and we remain as deeply committed to investing in our people and talent. We increased recruiting from targeted colleges and broadened our industry-leading Skill and Hire program offering the college-leaving community an opportunity to increase employability in high-demand areas such as analytics, advanced automation and complex financial products. This has also a proved an excellent testing and recruiting channel for eClerx. We enlarged new rewards and recognition program to account for the firm's diverse skill-type requirement and implemented a number of firm wide initiatives to improve employee engagement. We invested in new technologies to deliver and monitor more personalised training, including more comprehensive leadership training. On onshore, we hired a new leader to run our HR and recruiting and to oversee the increasingly complex portfolio of onshore location and businesses supported. We are happy to report good results on the back of some of these HR initiatives. Employee satisfaction as measured by third-party surveys improved over the course of the year and attrition, especially in mid to senior management, appreciably reduced, citing at almost lower than in last three years. However, overall attrition improvement will remain an area of great focus in FY20.

We are proud of being a prudent firm, focused on long-term shareholder returns and value of our reputation as a firm with highest level of corporate governance in India.

In 2019, we continued with the initiatives to help us be better, with a particular focus this year on firm-wide efficiency.

We rationalized the corporate structure by subsuming one Italian subsidiary thereby reducing overheads and cost. In the background of a challenging margin this year, we implemented a number of initiatives to improve focus on margins. These included processes and technologies to allow better cost reporting and management across payroll, infrastructure, third-party services and travel and expenses. We also pivoted an increasing number of internal performance targets towards margins. We expect this initiatives to have margin impact over the medium-term.

We launched our new facility in Pune to consolidate our offices spread across several SEZs. This is to provide additional growth capacity and create a new state-of-the-art work environment for our large Pune family. We also added to our facility in North Carolina to provide growth capacity. Both initiatives provide better economies of scale and capital efficiency for the firm.

We have continued our established methodology of returning excess capital to shareholders by announcing our third buyback towards the end of the year, on this occasion at a market-leading premium. Notably, the independent Employee Stockholders Option Plan Trust met its ownership targets, which will limit further share issuance to meet ESOPs exercises and hence minimize the further dilution.

We also believe that firms like ours can have a large impact on environment, local community and society and we are committed to exercising our responsibility thoughtfully and purposefully. This year we launched several energy and natural resources savings initiatives to reduce environmental costs and will be continuously monitoring our progress on these environmental initiatives.

Last year, we consolidated our CSR efforts into high-impact programs such as our Lonawala program impacting over 1,000 tribal families and stakeholder engagement programs to maximize our impact in areas of education and skills for employment, with an aim to developing sustainability within the organizations we support. We focused on employee engagement by providing opportunities for our employees to participate in volunteering efforts such as teaching computer skills and career counselling for students from marginalized sectors of the society. We have been able to provide more than 18,000 hours of volunteering effort by our employees this year. We also contributed to causes of national importance such as various natural calamities that happened through the year.

The industry also recognized our work. eClerxDigital won Asia Pacific Stevie Awards, a gold award for “Innovation E-commerce” and a silver award for “Innovative Use of Technology in Customer-Service”. Customer operations vertical won e-care partner of the year at its largest customer in U.S. CSO50 of the IDG Group recognized eVigil Pro, our centralized security monitoring application as a leading product in its segment. Our Virtual Assistant technology won recognition and awards from NASSCOM and CIO100 forum. Our people function won the National Golden Peacock Award for quality for the second consecutive year and the prestigious Brandon Hall awards for Excellence in Learning and Development. It is gratifying when our clients and industry recognize us for the differentiated value that we bring.

Our business is in midst of a deliberate transformation that has needed and will continue to need investments from us. From being an all-India delivery Knowledge Process Outsourcer reliant on a handful of clients and service lines, we are changing to become a more technology-centric process management and data analytics company. We service today several hundred clients across many functions, from locations across the world, with a fantastic, global management team. We are aware that this transformation has meant lower profitability and growth in recent past than shareholders have been otherwise accustomed to, but we believe this transformation to be key to our long-term future and to shareholder returns.

Lastly, coming to our quarterly results, we reported operating revenue of US$51.2 million and INR 3,651 million, which is roughly 2% up sequentially on reported as well as constant currency basis. Our total income grew by 5% sequentially due to favorable other income movements because of reduction in revaluation losses. All our INR margin metrics grew in double digit percentage quarter-on-quarter with operating margin coming at INR 680 million and net profit of INR 593 million. Our offshore revenues in Q4 grew sequentially by nearly $1 million reversing the declining trend of the last few quarters and reverting to Q4 FY18 levels. Our percentage margin metrics for Q4 was very similar to the full year percentage which signifies stabilization of margins at the level of current business mix of onshore and managed services. Our hedge book of $143 million stands at Rs. 72.7 INR/$ and will result in strong conversion into operating revenue from Q2 FY20 onwards. Our operating cash flow while down in line with our profits year-over-year, has displayed a healthy PAT conversion ratio of above 90% during the year. Our cash balances at the year-end were Rs. 7,398 million, which will come down once we complete the ongoing buyback and also execute the proposed dividend of Rs. 1 per share, pending shareholder approval.

On the cost outlook for Q1, while we expect some of the facilities costs and depreciating to come down due to tapering of Pune consolidation impact and drop in CSR allocation, the wage increases effective 1st April may cause OPM to decrease on a like-to-like basis in Q1FY20.

The effective tax rate for FY19 was about 27%, and we expect it to nudge up in FY20 as more SEZ units complete 10 years. Our high-probability pipeline, which typically converts in the next one to two quarters and is a good indicator of the demand mix, was significantly higher at year end compared to same time last year with the highest YoY dollar increase in customer operations vertical. Almost half of current pipeline is for onshore work and a quarter is for managed services indicating continued traction around our strategic intent to grow these pieces. Lastly, company will adopt AS116 for leases from FY20 and we will update you on the impact, if any.

With this, I will open up for Q&A.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Congrats on a good quarter. Sir, I think the exit has been fairly decent for this year, so the exit run rate for 4Q. So, should we say that we are still behind over the last three years and now we can look at a mid-single-digit growth, like a 6% growth for next year?

Anjan Malik: I think it's too early to say that. As Rohitash mentioned, our business has also inflected to more project-oriented work. I think some of the business that we are winning is also shorter-term work and then more volatile outcome. So, I think we would like to watch over the next couple of quarters to see if underlying demand has changed significantly. So, we wouldn't be comfortable giving you a guidance that's very different from what we have right now.

Madhu Babu: And in terms of, obviously, we will build managed services, but I mean in terms of building more longer-term annuity contracts, so any verticals where we are seeing that happening? And any case studies where we have much longer-term annuity contracts within some of the processes?

Anjan Malik: I think you will have heard this from the industry in general, there is much less appetite from large enterprise customers to fund longer-term deals because their businesses are themselves being disrupted by technology. So overall across the whole book, we see a decrease in the duration of contracts. And I don't think it's in one place or the other. You are right that typically, the duration of managed services contracts tends to be longer. Sign more managed service contracts, you will get slight extension in duration. But we are not seeing that propensity in one business or the other.

Madhu Babu: Okay. And sir, in terms of the technical services, the R&D headcount, which currently create the extra, there had been a decline in that over the last few quarters. Any specific reason? I mean is it that we have done a good amount of investment on the platform side and maybe the staff strength will be static from here?

Rohitash Gupta: Madhu, that's a good observation. Yes, you are right that our technical staff has reduced a little bit year-over-year and the primary reason is that is, that technology service unit is now more and more focusing on client-oriented projects and has reduced a lot of support to the in-house work. I think it's just mix change. I don't think on the client servicing side for the technology there is any reduction. But the main reduction is coming from where they were working for in-house applications for our own use.

Madhu Babu: Okay. And last from my side, the on-site intensity, I mean our on-site headcount and on-site investments will continue to increase next year in FY20?

Anjan Malik: We break on-site investments into two distinct parts. There is delivery and our traditional onshore function, which is sales and client engagement. We anticipate delivery will continue to increase because there is general demand for services delivered from client locations. So, on the client engagement front we will grow at what I would call an organic rate of investments. We will continue to grow and upgrade that function to drive our sales initiative.

Moderator: Thank you. Next question is from the line of Nirman Shetty, individual investor. Please go ahead.

Nirman Shetty: Anjan, Rohitash, my question is not so much about the quarter, but if you look at your trajectory, the economics of your business over time, we have obviously seen this has gotten harder, especially over the last couple of years. Margins have been dropping and so on. So obviously, nobody can predict the future. But as the management team, what is your hope or ambition? what is your strategy? How do you feel you can improve the economics of the business? If you can just give us some sense of the things you are doing to try to, let's say, improve the return on capital employed of the business in the next five, ten years.

Anjan Malik: I think 10 years is a lifetime in our business, so I won't try and answer that question. I think there are a number of initiatives that we set out on a couple of years ago, which we have considered to be strategically important for the firm. One of them were investing in onshore. We consider that to be differentiation and the key to stickiness and profitability. The investment in onshore is also what has been driving reduction in profitability. As you can see, today almost 1/4th of our revenue is onshore, and that move is basically what has driven margin down overall, at least a very large majority of the change in margin. Over a period of time, we expect that, that investment will start driving more hybrid business through the combination of onshore and offshore business or purely offshore business. We are early in the cycle in terms of investing, if that's going to be successful. Early signs show that we are winning in places with that strategy. That will drive more differentiation. And we think over a period of time, that will improve stickiness, duration of contracts and profitability.

So we see profitability being directly a function of differentiation, being niche and being able to provide higher-end services, all of which are somewhat predicated by one, the investment in onshore; and two, to the point that Rohitash was making earlier, more direct investments in technology and making technology much more central to the services that we deliver, both of which are under way.

Nirman Shetty: Okay, great. I don't know if I can ask a follow-up question. So, it's related to what you are saying. So if stickiness is a key subset of the strategy going forward, isn't that something that can easily be copied and probably improved upon by people who have bigger scale than us and therefore something that you will kind of back to square one, two or three years down the road when others have copied this, and you will have to think of other ways of ensuring that you are pulling ahead of the pack? what is your perspective? On a slightly different note.

Moderator: Mr. Nirman Shetty, we have lost your Line. As there is no response from the current participant, we move on to the next one. We take Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran: I just want to ask is our on-site growth has been pretty good in the last few quarters. I want to get a sense how do you look at profitability. Do you think you are at a scale where profitability could expand in on-site margins still? Or do you see that you already hit the threshold in a year, maybe you are more or less on a linear path on the on-site profitability?

Anjan Malik: I think I will answer the same way that I answered the earlier question, which is that I think we look at overall profitability not as percentage but as overall profit dollars or pick your currency of choice. And we think that we can drive an overall increase in profit dollars by driving more high grade in managed service business to which onshore delivery is a key component but not the only one. So, we are not as interested in what I would call purely onshore business just for the sake of onshore business. We look at it very much as a means to an end. To the extent that we are successful in achieving that end, then we anticipate overall profit dollars to accelerate.

Srivatsan Ramachandran: Okay. One quick follow-up. In the last 12, 18 months, there is not been much acquisition or conversation around it. Is it more a conscious choice saying that let's fix what we are trying to achieve internally than have an acquisition on this technology? Or is it you didn't find any right candidate?

Anjan Malik: I think the velocity at which we have been seeing acquisition opportunity hasn't really changed substantially from, let's say, the previous three years. We have found a dearth of good quality assets which fit strategically into our business profile, meet our internal sort of thresholds for different parameters that we look at. And we have also felt that some of the assets that we have not been valued at a level at which we would consider it to be accretive to shareholder return. But I don't think it's for the lack of trying that we haven't done M&A. And we do consider M&A to be a parallel track as opposed to, and instead of track, to focusing on our organic business.

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

Vishal Desai: Congrats on a strong set of numbers. Rohitash, just quickly on the margin commentary that you gave out for Q1, and then I would want to follow it up with a more long-term view. Could you spell out again what would be the headwinds and tailwinds in terms of the Q1expectation?

Rohitash Gupta: Yes, I can give you qualitative commentary on that again. The headwind that we will see is basically the wage hike. And typically, over the last few years, we have seen the wage hike impact to be theoretically around 200 to 230 bps in the first quarter. So that's the kind of expectation even this year because hikes have been very similar. Apart from that, there is no obvious large headwind that I see on the margin front.

On the tailwind front, there are few smaller items that will help us on the G&A side, the topmost one being the facilities cost, there we have been seeing some amounts of duplication during the last few quarters, and I think that will taper off during Q1 and completely be over towards the later part of Q1. So that will provide us some small cushion.

The second thing is that CSR allocation is slightly coming down based on the 2% calculation. And there are few other G&A items that will also see a slight decrease like depreciation that will see a slight decrease, again despite of Pune consolidation project. So, these two or three are small tailwinds, but the larger headwind is around wage hike.

Vishal Desai: Sure. And just from a margin perspective, while we have continued to highlight that we will continue to be a little bit on-site skewed given that most of the deals that we are winning are on-site, our exit rate of margin for this quarter is close to around 22%, if I get the EBITDA number right. Do you expect this to at least be stable from a year-on-year perspective? Will we be able to recoup the entire wage cost pressure that we have seen given that our investments in on-site will continue or we expect this to taper off from here on?

Rohitash Gupta: Well, as we are saying, we will focus a little more on the absolute operating margin as opposed to percentage. But to answer your question qualitatively, if you look at both Q4 and FY19 margin metrics, they are pretty similar, showing signs of stabilization at this level of business mix. By business mix, I mean what is the onshore share, what is the managed services share and things like that.

Now as is just typical, there are a few headwinds lined up and a few smaller tailwinds also. So, there will be a net impact. But I think the crucial factor which will help us maintain this percentage levels of the EBITDA, as you know, on one hand, it will be the hedge rate realization that will happen. And the second, which is even harder to predict, is the client price hike. We have been seeing some uptick towards the H2 of FY19. Will we continue to see it in FY20? It's hard to say. But if it that comes by along with the hedge rates, it will help us consume the wage hike.

Vishal Desai: Sure. And one last, if I may. Anjan or any of you could probably highlight. In terms of the three business verticals, what is likely to be a growth driver going in to FY20 given our project pipeline currently? If I understood correctly, our pipeline is up year-on-year and looking stronger. Some sense in terms of verticals or our business segments would be helpful, please.

Anjan Malik: I think all the businesses have similar opportunities and challenges. I mean as you know, our Customer Operations business and the market business has a customer of the CIO and COO where a part of traditional marketing services and traditional services tends to be in the CMO. We see spend patterns in digital obviously accelerating because there is a lot of focus on digital first, I think, in businesses directly to customer and that's an area where we have a specialization. So, we continue to see demand. The programs tend to be smaller in size. And I think to the point that Rohitash was making, we have made some headway this year in increasing the size of projects that we have been able to sell in as our lead-in project, instead of us going into small engagement which focuses in only one corner of the business, which are the multi-jurisdictional projects which are very much predicated on our ability to staff in client locations and to provide onshore delivery in partnership with offshore. So that's increasing our portfolio size of a new location. So given those two trends, we continue to see a fair amount of tailwind in digital.

The CIO/COO front just in the Markets business, the tailwind there is really in compliance and client. So that portfolio of services we continue to see a fair of demand in. And we continue to see a lot of challenges because, obviously, there is a lot of focus on cost at the same time and some element of captive bias, which have continued over the last few years. In the cable and multi-operator space, we have seen both ups and downs, right. So again, we see in some places some in-sourcing bias and in other places new clients from new jurisdictions buying services from us. But there, I'd say that if we were to put money down, we believe that Digital services capability is what is the most in demand. And again, onshore capability is what is most in demand in our Customer Operations business.

Moderator: Thank you. Next question is from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah: Sir, I just wanted a clarification on this. On the first quarter, the impact of your Pune consolidation that will taper off, so it will build depreciation then sort of stabilize? Or will you see some sort of decline on that front?

Rohitash Gupta: On depreciation, we are likely to see a decline in Q1 for a couple of reasons. One, because at the year-end, written down values. So, a new lower base is taken for depreciation. That's one reason. And the second reason, as you mentioned, is Pune facility, which will have a slightly offsetting impact on that. But overall, netting of these 2 factors, I think depreciation should decrease in Q1.

Harit Shah: Okay. Sure. My second question relates to the attrition rate. Your attrition rate has been increasing. I mean, it's been up for the last three, four quarters now. So, what is your guidance? Are you seeing some sort of a shortage of your talent for your newer services that you are looking at? Or is there some other reasons for the same? I mean what steps are you taking to get it stacked down to lower levels?

Rohitash Gupta: You're right that attrition is probably at a higher level when compared to last year also. And we are seeing most of the attrition at the execution level because, as I just mentioned, the mid to senior management put together, we are at nearly all-time low in last three. But execution level, attrition remains a problem as that happens to have bearing on operation delivery excellence. So what steps we have taken and as I alluded to also is that on the career planning side, on the training side and on the job role side. And we are seeing some early good outcomes of that based on our third-party surveys that we have done both in H1 and H2 and we saw a noticeable jump up in the employee satisfaction. So, we hope that in time, it will help in reducing attrition at junior level as well.

But the second reason, I think, also is the premium business. As we had talked about in last few calls, both the new sales as well as roll-offs are at elevated levels although they are coming down from last year. But absolute number is still very large. But both those things cause churn, right. And sometimes, what is getting rolled off is not exactly of the same skill as what is coming in and that requires some people to find other opportunities elsewhere which fits their skills better as opposed to moving on to a new project or new skill area that is offered in eClerx.

Harit Shah: Sure, sir. What level of attrition will you probably be comfortable with? we are at about 44% or so on the offshore side in the fourth quarter. At what level would you be, let's say, satisfied if you were to put it in that way?

Rohitash Gupta: Attrition reported today was actually for offshore and not onshore. And I think most of the attrition numbers that we have seen, we have worked through them through extra bench and other things so that delivery is largely unaffected. Having said that, something in 30s, around mid-30s mark is a much more comfortable range than in 40%.

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

Apurva Prasad: Perhaps you can tell me about the +$5 million accounts? I think you talked earlier about a moderation over the next two quarters. So how is that progressing in two out of those seven accounts?

Rohitash Gupta: Sorry, can you elaborate your question a little bit? Are you referring to something that we said or...

Apurva Prasad: Yes. I think this is in reference to the 5 million-plus clients which are currently seven in number. And I think you had earlier referred to challenges in two of those accounts which are expected to moderate. So, if there is any progress you can talk about.

Rohitash Gupta: Talking about the last quarter commentary, is it?

Apurva Prasad: Yes, that's correct.

Rohitash Gupta: Yes. Right. So, the client event which happened, which was disclosed in the Q3 call, was more around actually $1 million to $5 million clients. Couple of digital clients got acquired and that led to change in their outsourcing or partnership programs with vendors. And I think that impact is already moderating as we speak.

On the $5 million-plus clients, I think there is a good news that last year we were only 6 in number, and now we have come back to 7, which was our highest ever. So, I don't think there is any concern on the $5 million-plus clients. There is a little concern on a couple of clients in the $1 million to $5 million, which is now tapering off in Q1 as we speak.

Apurva Prasad: Right. So, I mean, do we expect growth in the $5 million client bucket as we stand today?

Anjan Malik: We expect growth. Yes.

Apurva Prasad: Right. And if you can break down FY19 by segments in terms of revenue contribution, how would that be? And how much plus or minus growth would that have been versus the company average for the full year?

Rohitash Gupta: Well, we don't give vertical wise breakouts. However, qualitatively speaking, I think the digital has done well this year compared to last year. So, year-over-year growth in digital is better compared to other two verticals.

Moderator: Thank you. We take the next question from the line of Parth Thakkar from JM Financial. Please go ahead.

Parth Thakkar: I guess I miss a bit on the pipeline. So, if I get it correctly, is it 25% in managed services, the pipeline which constitutes right now, was it correct? And regarding the win ratio, so do we expect stable or increasing win ratios going forward?

Anjan Malik: I think win ratio is very hard to predict on a year-on-year basis. I mean we have a very good idea, having looked at our data over the last five or seven years, how different stages of a deal will convert to actual conversions to dollars and that's not really changed substantially over a period of time.

Parth Thakkar: So over year-over-year, I would say the pipeline had been stable to increasing, right? At least that's what, I think, as per our definition, essentially what you must have remarked?

Rohitash Gupta: Yes.

Parth Thakkar: Yes. And just last question, it's a bit of bookkeeping question. So, do we have any SEIS incentive income in this quarter? We had in 2Q and 1Q. I mean, can you just provide, sir?

Rohitash Gupta: In quarter, yes. We did have.

Parth Thakkar: We did? How much did we have?

Rohitash Gupta: So we do have SEIS incentive income recognition every quarter. And during the last year, FY19, the accruals were in the range of about Rs. 4.5 crores to Rs. 5 crores per quarter. And in FY20, we expect the number to be slightly up, let's say, around Rs. 5 crores to Rs. 5.5 crores a quarter.

Parth Thakkar: Rs. 5 crores to Rs. 5.5 crores per quarter. Okay. That is a lot.

Moderator: Thank you. We take the next question from the line of Ruchi Burde from BOB Capital. Please go ahead.

Ruchi Burde: Rohitash, this refers to your, well prepared comments. You mentioned about one big offshore deal which is expected to start flowing to revenue from mid of the year. Could you talk more about the characteristics of the deal? Does it fall into the zone where we had won this on the back of some on-site work? Or this is an independent deal that came through?

Rohitash Gupta: So the example I gave was from Customer Operations, and this was in the service area of technical operation that Anjan also alluded in some other context. But that had been a very good, fast-growing area for us. And this is largely an offshore deal from a client which generally doesn't outsource and definitely doesn't offshore. So, I think this is a good example of winning deals on back of just the value proposition as opposed to be an offshore provider at a low cost.

Ruchi Burde: Did it start or did it come from an already on-site engagement? Or was this an altogether new offshore delivery that we start?

Rohitash Gupta: No. It's a totally new client.

Ruchi Burde: Okay. Understood. And qualitatively, how do you see in terms of in our offshore deal pipeline? Has the intensity increased now or what it was, let's say, last quarter or last few quarter?

Rohitash Gupta: I think I alluded to that indirectly that our pipeline is currently higher than what it was in March 2018.

Ruchi Burde: That 50% on-site proportion?

Rohitash Gupta: Yes. And by the same logic, because our pipeline roughly has been in the same mix, 50-50 for onshore-offshore, the offshore value-wise growth also is slightly larger than what it was last year. So, I think that's a good indication on the pipeline side. Secondly, you will see on the revenue side, we were at $39 net million in a quarter, in Q4 FY18. And now we have come back to $39 million in a quarter, in Q4 FY19. Although in between, we have declined to almost $38 million and below, right. So, if you put these two pieces together, the revenue trajectory as well as the pipeline indication, I think offshore is also likely to grow, although onshore mix, as I just said, is 50%. So that will appear to be slightly stronger growth on its 25% revenue share.

Ruchi Burde: Okay. Lastly on margins. I understood your point that you are focused on more absolute increase in operating profit. But at the same time, you guys emphasized about the stability of margin for the revenue mix that we have. So, is it fair to assess that the operating margin that we see is stable margin for the business that we have, let's say, in the near term if the on-site mix of the business doesn't fluctuate much? Is that what we intend to imply?

Rohitash Gupta: So Ruchi, that's a very tough question because there are so many unknowns, right. So, the business mix, how it will pan out in next four to six quarters, is very hard to define now. What we talk in terms of indications in pipeline which will hardly take one or two quarters to materialize. And also, remember that much of our revenue conversions happen through a very, very short cycle of because they are typically incremental deals or small projects in the existing clients, right. So, clients don't give or don't need to give too much notice to us. There are too many unpredictability around what business mix would be on managed services or onshore two quarters out or three quarters out. As far as Q1 is concerned, I think in the earlier question I have talked about few headwinds and tailwinds. And I think that's where I would like to leave it.

Moderator: Thank you. And ladies and gentlemen, that was the last question for today. I would now like to hand the floor over to the management for closing comments.

Rohitash Gupta: Thank you very much, everyone. And I look forward to talking to you next quarter.

Moderator: Thank you very much. Well, ladies and gentlemen, on behalf of eClerx Services Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.