“eClerx Services Limited
Conference Call”

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MANAGEMENT: **MR. P.D. MUNDHRA**
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MR. ROHITASH GUPTA

Moderator: Ladies and gentlemen, good evening and welcome to the eClerx Services Limited Q2 FY'14 Earnings conference call. Joining us on the call today from eClerx are, Mr. P.D. Mundhra, Executive Director, Mr. Anjan Malik, Director, and Mr. Rohitash Gupta, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. The call will begin with a presentation providing an overview of the business and then open for Q&A.

Before starting, the Company would like to remind all participants that anything said on this call, which reflects the company's outlook for the future or which would be considered as a forward-looking statement by the management must be reviewed in conjunction with the uncertainties and risk that eClerx faces and which may cause the actual results to differ materially from those expected. eClerx does not undertake any obligation to update the forward-looking statements to reflect the events or circumstances. The same is highlighted on the last page of the investor presentation available on the eClerx website.

I would now like to hand over the conference to Mr. Rohitash Gupta. Thank you and over to you Sir.

Rohitash Gupta: Thank you. As usual we will start with the analyst deck, which has been circulated to you some time back. Starting with slide #1, we closed the quarter with $34.1 million revenue, which is 3.4% up sequentially, and 3.1% up in constant currency terms. In terms of total revenue in rupees, we did about 215 Crores. In terms of operating margin percentage for the quarter, it stands at 40% and the net profit is Rs.67 Crores for the quarter.

EPS is at Rs.22.4 for the quarter, which is 9% up sequentially and 59% up YoY. During H1, we have seen marginal uptake in the client pricing and on a YoY dollar growth basis, we have seen highest amount of growth in cable business followed by financial services and followed by sales and marketing services business.

Moving on to slide #2, which gives an update on the other income, which constitutes primarily of three items. The first item is income from our investments, which has slightly moved up this quarter. Second item is hedge gain or loss, which has substantially increased in terms of losses, and the losses on the hedge account were about 12.5 Crores versus 6 Crores last quarter. Similarly on the revaluation side, we had about 10 Crores gain versus 13.5 Crores gain last quarter. Net-net, at Q2 level we had a very marginal Rs. 6.4 million other income in Q2 versus 10.8 Crores gain in Q1.

Slide #3 gives a further update on the hedging status. We have total outstanding hedges of about $96 million at an average of strike rate of about Rs.61 to a dollar. This outstanding hedge amount is about 2.8 times our last quarter's revenue, which is slightly more than our last four quarters trailing average. Bulk of the hedging is done through the forwards instrument. The further details by quarter and semesters are given in the table.

Moving on to slide #4, the total cash and cash equivalent is about Rs.231 Crores at the quarter end and this excludes all the amounts kept in various escrows. This is about equivalent to Rs.76.8 per share. The trailing EPS on 12 month basis is Rs.74.7 on diluted basis. The current book value is Rs.107 per share.

In terms of facilities update, we have signed a new letter of intent for taking up a new space in Mumbai. This when fully productionized will take our total seat count to about 6800 plus, which will happen towards the March-end or April-start. Similarly on the onshore side, we have invested in a new office in Philadelphia, which replaces our old temporary office arrangement.

The capex likely during next two quarters, Q3 and Q4 is about 15 Crores, which will be primarily towards the new Mumbai facility and very small amount towards the Philadelphia office. As you know that we have started the buyback sometime in Q2. Just to give you update as of Q2 end that we have totally acquired about 38,000 shares at an average price of Rs.815 or so.

Moving on to slide #5, which gives a P&L detail. The operating revenue for the quarter was 215 Crores as I mentioned earlier. The employee cost has increased about 5% or so quarter-on-quarter, which is roughly directionally in line with the headcount growth. Other items which have shown some amount of flux is legal and professional fee, which has increased about 2 Crores quarter-on-quarter primarily due to offshore recruitment efforts and also banker's fee towards the Agilyst acquisition, which is closely tied to the tranche payment and also due to some consulting fees regarding the buyback. Similarly, we have seen some amount of flux about 1 Crores in the other item, which is cumulation of lot of sundry items like housekeeping, securities, etc. We have seen some amount of minimum wage increase as per the law since April, which has impacted these items.

On the selling and distribution side, you will see a sharp increase again; part of it is due to the dollar rupee effect, because most of these S&D cost are in dollar or foreign currency terms. So, they have translated at a higher rate, and also as I mentioned earlier, we added two or three new headcounts in the onshore organization, which has also contributed to this and further third reason is that we have increased bonus provision for the onshore team is fully aligned with the new pay structure that we have launched at the year starts for them.

In terms of depreciation, interest and amortization, you will see a significant drop this time and this is primarily due to some restructuring in the amortized amount and the foreign currency translation gains therein which have been removed from the P&L as per the accounting standards.

Moving on to slide #6, this gives a bridge for the OPM percentage. So the OPM is about 39.8% in Q2 and the largest contributor on the plus side versus last quarter has been the exchange rate gain on the topline. So, if you notice about 8% to 9% currency depreciation happened on average basis during Q2 versus Q1 and this has flown in about 6% effect on the OPM.

Similarly on the negative side, the things which have pulled the margins down primarily sales and distribution as I explained earlier, G&A and on the positive side again deprecation and goodwill as I mentioned earlier.

Moving on to slide #7, which gives a snapshot of few key business metrics. The currency concentration as well as the geographic concentration has remained steady. The DSO is again in the 30 to 40 range at about 41 days this time. The top five clients' constitution has touched 75% this time. New clients which were added during the quarter are pretty much in line with the historical trends. So we added about five clients this quarter. The total number of clients which were billed during the quarter stood at 65.

We have added two new metrics this time, which we have been reporting off and on in the previous quarters. One is the Seat count and the second is the staff utilization. The staff utilization remains at the lower end levels in this quarter.

Moving on to slide #8, which gives the trend of the revenue for non-top five clients, which we also refer as emerging clients, so the emerging clients' revenue contribution in the quarter stood at about $8.5 million and there has been a steady increase in that number over last five six quarters. Just to remind you this is the first quarter since our Agilyst acquisition where we have on a consolidated basis like-to-like YoY comparison. So, if you look at the lines, which represents the top five versus the emerging client growth rate, the YoY growth for the top five clients has been 9% about and for emerging clients it has been 33% on YoY basis.

Moving on to the last slide, this gives an update on the India based delivery headcount, which is about 6500 people. We have also added onsite headcount data for your benefit this time, which is about 62 as of Q2 end. In terms of India attrition, as expected, Q2 attrition is significantly higher than Q1 - this has been traditionally higher attrition quarter due to various reasons.

That is about the end of formal presentation, we can open up for questions now.

Moderator: Thank you very much. Participants, we will now begin the question and answer session. We have the first question from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan R: Just wanted to get a sense on how is the demand environment especially in the SMS and the financial services in terms of where we are because 14 seem to be on a good shaping up. Just wanted to see are there any relatively large deals out there in the market, which can kind of step across on the growth?

Anjan Malik: I could not even hear the question. Could you repeat it?

Srivatsan R: Just wanted to get how is the growth effective for financial services and the sales and marketing, are there any larger deals out there in the market?

Anjan Malik: I think the market is different for two businesses, for services and marketing most of our work is being driven by platforming exercises by our clients which is basically as people look for different ways, more efficient ways to manage online services and online content, and given our capabilities in that space we tend to be involved in those activities, those tend to be a combination of projects and ongoing work and they are smaller in size, then the deals that will potentially be pushing for in the banking side. Banking side tends to be lumpier and bigger deals, they tend to be more competitive, they tend to be fewer of them. So, I'd say that that emerging part of the services and marketing we are seeing a fair number of opportunities but they tend to be smaller in size, I think in the banking side we are seeing fewer opportunities that are larger in size.

Srivatsan R: Anjan, I just wanted to get your thoughts with one of the top clients going through a major corporate restructuring, just wanted to know what kind of visibility or what kind of thought process, what is our take and how is our engagement shaping up with that?

Srivatsan R: We are very close to that client, and clearly they are going through a major corporate restructuring at the moment. As that plays through we stay closely aligned with them to figure out how our business is taken. So far in some of the worst case situations I guess for coming that could have happened. For example, that organization selling off its PC business or completely changing its business direction has not happened. So we anticipate that there will be some course correction, but it would not be very dramatic. So, we are relatively sanguine and we are honestly watching very closely what happens, working very closely with the stakeholders in that organization.

Srivatsan R: I will come back later. Thank you.

Moderator: Thank you. We will take the next question from the line of Yash Mehta from Equirus Securities. Please go ahead.

Yash Mehta: Good evening Sir. Just wanted to get a sense on the utilization level. What should we expect? Should they increase and is it because of that accounting increase in the last quarter, and wanted to know a bit about the DSOs?

Rohitash Gupta: There are couple of reasons why utilization is at the lower end in last few quarters. The first reason is that all of our three businesses, namely cable, financial services and SMS have different kind of bench requirement because of the way the contracts and work requirements have been structured. So to the extent the business mix among these three verticals changes, the utilization can move up or down accordingly, which was one of the main reasons. The second reason is that our utilization also counts the shared services staff and off late we have invested some amount of extra headcount in our technology services practices, which falls in shared service domain and the third reason is obviously that we have seen that there is a high increase in the attrition in this quarter. Q2 has been traditionally high attrition quarter, but if you compare Q2 versus Q1 of this year with similar periods in the last year, you will find that the jump is much more this time than last time. So these are the three reasons because of which utilization remains at the lower level, but as I said that if the business mix changes, the utilization can further inch up or down.

Yash Mehta: Thanks. On the DSOs?

Rohitash Gupta: On the DSOs, I think 30 to 40 base is pretty acceptable in terms of the way we have structured our client payment terms, and we are pretty much within that range, so I do not see any cause of concern in terms of sequential increase in number of days and broadly if you look in the five six quarters, it has remained in the same range.

Yash Mehta: Thanks.

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

Manik Taneja: Congratulations to the management for good execution. Just wanted your thoughts on what are we exactly seeing in our cable and telecom business given the fact that business was dependent… that business had high client concentration and opportunity to grow over there is more a function of getting into larger clients so, if you could take about any progress over there, and my second question was with regards to the financial services side of the business. If you could talk about what are you seeing within your large customers over there?

PD Mundhra: Let me talk about your first question on cable and I will request Anjan to respond to the second one on large clients in banking. On the cable business I think generally speaking, we are pleased with where we stand today. As you know when we close the transaction, the business was about 15 million in runrate and now it has crossed 20 million and it is a growing business. We continue to see good prospects for that business. I think one of the big things we have done is, when we close the deal there were a two client business today. We have four clients and even the non-top clients the other three clients have reached meaningful sizes and they have decent pipelines. So broadly speaking, I would think on the cable business we are on the trajectory that we would have liked to be at this stage of the game.

Manik Taneja: Sure, and there was the senior management at Agilyst, the erstwhile cable and telecom business, there were some payments to be made to them as of Agilyst performance until September 30. So, what has happened with regards to the senior level people over there?

PD Mundhra: The final tranche will be paid in this quarter, Q3 and you know after four founders two have left earlier this year and the remaining two are still on board with us so we hope to get their help and guidance in the future also. In the meantime, of course we have invested in building up a successive team, which we think is very strong and again, we have invested ahead of the curve there. We hope that the team will be able to take on and manage that business. We are confident about that. Anjan do you want to talk about banking?

Anjan Malik: I think, I guess it's similar, the theme is that I think wherever we have large client penetration, we tend to get a large share of mind. I think you have an opportunity to get into lateral spaces much more effectively. I think just as we have been able to do this in CTS we have seen the same trend in the banks. So, on the macro trend, obviously cost reduction is big and they want to do more in India and other low cost locations. In the large, customers see us as partners, or strategic vendors so we tend to get first look at the opportunities that people consider to be in our wheelhouse. So we continue to see pipeline; we have been having more and more interesting discussions about consulting and different ways of helping, which I think is much harder where as we move away from the top 10 customers we have been working may be we are not as close. Having said that that I think I see it very similar in our cable business and our banking business because it is just a size of those relationships.

Manik Taneja: My second question was with regards to the outlook on pricing. We had certain prices and pricing resets that happened in our business back in FY'13 and given the way currency has depreciated in the first half of this year any thoughts that you have with regards to possible volume discounts or lower pricing resets given the fact that our competition especially on the financial services side is largely with captive for banks?

Anjan Malik: Well, I think as you know as we have said in the past I guess most effective way that we have been able to pass on price "adjustments" has been through volume discounts, and as over the last 18 months, volume has ramped on large organization where there has been a price resets so those will happen periodically in terms of greater volume. I think periodically you will have the procurement organizations partly because obviously it is lot more sort of consolidation of power and the procurement shops in these large organizations on discussions about price negotiations. I think people are rational and people also recognize that in return for the FX depreciation that has happened, there has obviously been significant increase in wage inflation especially in the ITeS sector over longer term averages and again - you are right, whilst the guys get the goodness of captive price reduction, because of the shortfall in the rupee they also have far higher wage inflation. So, I think it is all worked out in such a way that we have been able to keep to our existing plan on price. I would say that there has not really been major rate reset nor we are being pushed into a corner currently.

Manik Taneja: One final question if I can kick in with one more. You guys were discussing setting up an onsite delivery center, any progress over there? Should we have something of that thing happening in FY'14?

Anjan Malik: It is still very much under discussion. I would not say that it is anything is completely done on that front as yet.

Manik Taneja: Any inorganic plans in the near or medium term?

P.D. Mundhra: Manik, as you might know we keep looking. We are working closely with our banking partners, we are looking at opportunities every quarter. There is nothing imminent getting closed right now.

Manik Taneja: Thank you and all the best for the future.

Moderator: Thank you. We will take the next question from the line of Atul from Narnolia Securities. Please go ahead.

Atul: Thanks for taking my question. My question is based on revenue from top five clients. During the quarter, revenue growth from top five clients in dollar terms is 3.3%, how do you see the revenue from top five clients in the next two to three quarters? Are there any major context which your top five clients coming up for renewal in the next two to three quarters.

P.D. Mundhra: I think the best way to build an assessment on this is to look at the chart in our investor presentation called "Revenue Mix Trend". If you look at that chart, the yellow line basically shows you the trend in top five clients growth and I think it is settled at about 10% year-over-year type number. We have no reason to believe that the future looks significantly different than this trend. Everything that we see in the pipeline would indicate similar performance. I think what is encouraging for us is that the emerging clients continue to show good momentum and if we can maintain that 30% to 35% growth rate on emerging clients then our concentration will keep coming down, which is clearly a good outcome for us. In terms of renewals, we have nothing major coming up for renewals immediately, but on a continuous basis because each of these relationship consists of multiple statements of work - any given quarter you have a number of two to three difference of work coming up for renewal and either getting extended or amended or whatever it might be the case, but there is no single events coming up in the near future that would give us either concern or opportunity.

Atul: Sir, my second question is related to profit and loss account. During this quarter, legal and professional fees stands at Rs. 47 Crores compared to 25 Crores of previous quarter, could you give us some comments on this expenses and any guidance related to this item for the next two to three quarters?

Rohitash Gupta: Atul, I think I made a comment about this in my introductory thing also. So there were three or four main reason why legal and professional fees increased sharply this quarter. Those reasons were onsite recruitment, the fees to our bankers who helped us do the Agilyst acquisition and their piece is very closely tied to various tranche payouts, and the third is that buyback that we did required some amount of consulting and other fees. In terms of your next question, I think these items that I described are definitely one-off, so it is expected that some amount of decrease is likely in Q3.

Atul: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir, of this onsite headcount of 62 people how many are focusing on the emerging clients to drive growth?

Anjan Malik: I would say approximately about a third to a half.

Madhu Babu: Second question; the growth trajectory can we extrapolate this 3% to 4% kind of quarter-on-quarter growth trajectory over the next three four quarters from year on?

P.D. Mundhra: Madhu, I think if you look at our history over the past maybe six quarters we have been growing somewhere between 2% on the lower end and 4% on the higher end. Again qualitatively I think our pipeline today is very similar to where it has been in the last year - year and a half, so I think it is likely that potential growth in future quarters will be similar to somewhere in the 2% to 4% range would be sort of a best case, I think.

Madhu Babu: Sir, have you expected this kind of attrition rate? I mean what is the reason? Whether our wage heads are lower or we wanted it to be on the lower side so that we can play the pyramid game or was the uptick stronger from other companies in terms of demand there?

PD Mundhra: Couple of things, attrition rate in Q2 is always is the highest. It is seasonally the highest quarter for attrition for us. For example last year our attrition went from 24% in Q1 to 30% in Q2. This year it went from about 25% in Q1 to 36% in Q2. So the jump is expected. The reason is two or threefold. One is that we pay our bonuses in our Q1 and therefore people who intend to leave the company will typically collect their bonus and leave in Q2. Number two, given the average age profile of our population, a decent chunk of people who leave us going to pursue higher education and those institutions typically start their academic year at this time only in August, September or October of the year and therefore again it coincides with Q2 attrition. The last point, I would make is in general I guess, the IT industry has been going through a little bit of an upswing this year as compared to the prior years and that also contributes to a better demand environment for people in the parent markets. So I think the combination of those three things is responsible for our attrition going up in Q2, but I would expect in Q3 in all likelihood a lower number.

Madhu Babu: SG&A means should we assume this is the new normal as a percentage of sales or it would continue to trend up? Any trend there?

PD Mundhra: Again, the appetite is very much there on our part. If we feel that you can generate a good return on that investment. When we talk about selling investments I think primarily if we are looking at outcomes in terms of growth rate and particularly in terms of emerging growth rates. So, at this point, we have no plan to materially increase those investments as a percentage of sales, but if we start getting better traction and if we see opportunities I think we would be aggressive about investing.

Madhu Babu: Finally, what is the final payout for Agilyst which is coming in this quarter?

PD Mundhra: That is not yet determined. The final tranche payment will get determined in the next month or so.

Madhu Babu: Thanks.

Moderator: Thank you. We have the next question from the line of Ankit Pandey from Quant Broking. Please go ahead.

Ankit Pandey: Good evening to the management and congratulations on the results. Thanks very much for the improved disclosures, much appreciate it. My question is basically the way we are having on sales and marketing front still pretty conservative, so I just want to understand what is the strategy and where exactly are we hiring given the visibility and pipeline that we have and where do we want to improve our front end?

Anjan Malik: Could you repeat that question, because I have not fully understood it.

Ankit Pandey: Basically where are you targeting your sales and marketing, incremental high is that you are planning, which areas are you targeting exactly?

Anjan Malik: … are you talking about hiring people right?

Ankit Pandey: Yes.

Anjan Malik: I think we found that the best sales folks in our organization are ultimately the guys that speak our client's language the best and they tend to be guys who come from the industry. So, we are focusing on hiring on bolstering domain in those areas where we see the biggest opportunities. For example, in the banking space it will be around regulation, KYC, data compliance, living well activities, in CTS it is anybody who is associated with technical operations, and customer care, and customer care analytics. In SMS business it's folks who have got experience in replatforming and the digital lifecycle. So, I think that is what typically works the best and a very small percentage of people that we would hire would be what I would call direct outreach. The more professional sales folks, because I think in our business it is really the proposition that sells as opposed to the phone call.

Ankit Pandey: Sir, just a sort of final conclusion on that. Is it getting a lot more difficult to penetrate further into the emerging clients as compared to say a year ago? Do we need to hire or invest more in certain areas than we would have anticipated a year ago and is that investment per se a new acquisition of client, is it getting more expensive, is it getting more difficult in these times?

Anjan Malik: I think it is hard to quantify that way again because our business is more of a size and scale where you can apply those sort of the averaging math on it. I would say that it's not necessarily any hard or easy to penetrate emerging clients, I think in our journey through this process, there has been recognition that ultimately what we need to do is place our bets on a few things, and not go after everything. We got to it as opposed to being very scattered in our approach, even when we approach emerging clients today, we need to be much more focused in the proposition that we bring to them and when we bring the proposition to them we have the right people in front of them. Given fixed budgets by definition that means that you cannot go out and when you come and try and open the emerging doors with everything that we've got - it is explicit opportunities.

Ankit Pandey: Thank you so much for the color. Rohitash, I had just one more question. Our depreciation and amortization cost, if I could catch the explanation correctly, this is the new level roughly that we should assume that we are on 3.5% of sales and obviously any lumpiness would be from the tranche payouts from the amortization of the asset list but is this a new level? Is that what I have to infer?

Rohitash Gupta: This line item is mix of a couple of things. One is the due depreciation on the fixed assets type item, like hardware etc., which is roughly flattish quarter-on-quarter and it is about 4.5 to 5 Crores, I believe. The only thing which is creating flux is relating to goodwill amortization and this quarter the drop as I explained earlier is primarily due to foreign currency translation related accounting, but the steady level I would assume will be slightly higher than this number.

Ankit Pandey: Thank you so much and all the best.

Moderator: Thank you. We have the next question from the line of Prateek Gandhi from IDBI Capital. Please go ahead.

Prateek Gandhi: Thanks for taking my question. Good quarter. I think there are a couple of questions. One, if you can just throw some light in terms of the activity in all the three segments in terms of deal pipeline and deal closure. How you are seeing that vis-à-vis a quarter back or two quarters back? Secondly, a question to Rohitash. What will be the tax rate expectation for FY'14 and FY'15? Thanks.

P.D. Mundhra: Hi, Prateek, let me respond to the first question and Rohitash will jump in on the tax rate. I think if you compare outlook today versus outlook 12 months ago, I would say on the banking side, outlook has improved because the bank has typically done reasonably well this year and therefore they have more conviction and decisiveness in their decision making which ultimately plays to our benefit. On the online business I think the outlook is worse today than it was 12 months ago, some of it is driven by challenges and some of our large clients there, I think the only bright spot in that business is the growth of emerging accounts which are contributing heavily to our overall emerging growth. The cable business I think we had a reasonably optimistic outlook 12 months ago and nothing has changed so we continue to remain optimistic now. So net-net if you take snapshots 12 months ago versus today, I would say outlook on banking has improved, outlook on online has degraded a little bit, cable is about the same. With that I will ask Rohitash to jump in on the tax rate.

Rohitash Gupta: Prateek, the full year effective tax we are still anticipating is about 23%. The decrease that you might have seen this quarter is due to some reversal of provisions in both India as well as US side, but the full year should be around 23%.

Prateek Gandhi: That seems for FY'15 as well right?

Rohitash Gupta: As of now, yes.

Prateek Gandhi: Thank you so much.

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

Ravi Menon: Thank you. Congratulations on a good quarter. Just wanted to check about the sales and distribution - how the bonuses are paid out, our total deal value and did you pay upfront or did you make that quarterly payments or the bonuses and any color on that?

Anjan Malik: I think there is a very small group of people who are paid quarterly and we pay commissions, and they get paid on… there is a calculation on deal value, which takes into account the riskiness cash flows and amount of cash flows over the tenure of the deal, but for the vast majority of the onshore organization is one-off payment that is made in the bonus period which is in the summer of every fiscal year, at the end of the fiscal year. That is linked to revenue performance of the overall business and the business that a particular person is involved in directly.

Ravi Menon: So, I might have a followup to that. I was trying to look at your trade distribution compensation on a per person basis and that seems to have increased a little bit from $280,000 thereabouts annually end of last year to about 90+… is it just the sort of people you have hired or where there is some specific bonuses this quarter?

Anjan Malik: I do not know… that number does not seem recognizable to me. I am wondering if you are taking into account some of the onshore costs that have gone up. Maybe P.D. or Rohitash can you answer that question. I am not sure.

Rohitash Gupta: Are you talking about the INR cost for sales and distribution?

Ravi Menon: I have actually taken the entire sales and distribution, and I have tried to look at that on a per person basis on the onsite. I know it is not all compensations, and there are rents andthings like that in there?

Rohitash Gupta: There are couple of reasons why at least in INR terms the sales and distribution cost has increased quarter-on-quarter.

Ravi Menon: I was looking at the USD terms?

Rohitash Gupta: So then there are lesser reasons. So one of the reasons is that we increased the headcount by two people so some factor of that, and the second reason is like Anjan explained, for vast majority of onsites the bonus are payable only at the year-end basis various factors including the year ending exit revenue runrate. So that is like a provision that we make based on our anticipation of how the year will turn out to be and those provisions can fluctuate based on the quarterly business performance.

Ravi Menon: Thank you.

Moderator: Thank you. We have the next question from the line of Nitin Jain from Ambit. Please go ahead.

Nitin Jain: Most of my questions have been answered. Just one question on the billing rate. We were able to get the billing rate increase as planned and what is your expectation from top five accounts in respect of the top account? Second question was on the volatility in your G&A expenses, so there were many line items like communication cost, legal and professional expenses, there was lot of volatility in those line items, any explanation for that?

P.D. Mundhra: I will take the first question on pricing and billing rates and Rohitash will respond to your question on G&A line items. I think whatever contracted billing rate increases we had for the first half of this financial year, those have all gone through, so we have not faced a situation where contracted rates have not been honored or have been renegotiated. Against that we did have a couple of situations where we crossed certain volume thresholds with clients and similarly contracted discounts for them and passed on to them. Net-net as Rohitash said in H1 we had a slight increase in pricing overall, netting out these two offsetting effects. As we look forward, I think we expect pricing to remain stable, I think the currency seems to have settled in the 61-62 range so at these levels we would think that our pricing will also hopefully remain stable. The one caveat I will add on this topic is that ultimately we exist in very competitive market and if there is a significant change in behavior in terms of pricing by many of our competitors we would be required to respond. At this point, we have not seen any of that so again I think best case for allowing that for now the pricing is stable. With that ove to Rohitash…

Rohitash Gupta: On the G&A front, Nitin, the major items which are showing flux is legal and professional and others. These are two items where cost has increased significantly quarter-on-quarter. The legal and professional fees increase is due to onshore recruitment, banker's fee for acquisition and buyback, etc, kind of items like I said earlier and the other item is primarily due to minimum wage hike for various services like security, housekeeping, etc. The items which you are seeing some minor flux like communication, you pointed out or conveyance, those are various healthy factors for example certain communication costs are paid for by clients and they are accounted based on when the client bill is raised etc., and there can be lumpiness there. Secondly in communication we also tried to optimize our lease line footprint based on various consolidations that we that do across the facilities and cross linkages that we do. Similarly, on conveyance, you have transport cost on one hand, which gets annually renegotiated with the transporters, and there might be some goodness coming from there, plus you know there is small amount of recovery that we do from employees which can also provide some amount of goodness if that recovery percentage increases. But I think the major factors are legal, professional and others to worry about which I have explained earlier.

Nitin Jain: Thank you.

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

Rahul Jain: My question is more from a strategic point of view and how we see business growing from the current $120 million kind of revenue to say a $250 million kind of a company level, so which could be medium-to-long-term, but do we see the current skill sets or service industry offering are good enough to take us to these levels or we expect more line additions as we did in case of cable and telecom business to achieve these long-term goals.

Anjan Malik: I think there are many metrics again you can use to answer that question ultimately. For example, you can look at the size of the top five customers and take the average size of those accounts and ask yourself the question that if I was able to make every one of those accounts the same as let us say top accounts or top three accounts then what is the business size. The next metric intake is, say if you can take my next clients and make them as big as my fifth client you know what is that due to our team size, what would you do to a company size or it just could be if you look at the addressable market for the kind of services that we are providing and the footprints both within that we could grow and gain with an existing client and also within new clients that could be a third metric. I think if you just talk with those three metrics you would find that a much larger company is not unfathomable. So, I would say that to grow from where we are, you do not necessarily need to add services. Would we add services if those are opportunities arise - of course we would, and I think that is associated with some of the discussions that we have had earlier about inorganic opportunities, but I think we would want to continue to exercise the same degree of discipline on adding new business lines through inorganic opportunities as we have done until now and look for specific areas where we think further growth is provided to us. What I would call adding alpha. So, I think the first thing is, we think yes there is a lot of growth, there is a lot of opportunities existing in the markets that we have chosen for ourselves or have been chosen for us, but we will continue to look forward what I call alpha opportunities as those opportunities present themselves.

Rahul Jain: I also understand the client mining kind of an opportunity. I would rather appreciate if you could give color in the sense, because with the kind of extraordinary your alpha kind of growth which we were doing a couple of years ago, we are facing certain challenges, so obviously the other possible accounts where we are small today there could be existing vendors which could be also facing similar challenges or they maybe growing their wallet share within those clients where we are second, third or very insignificant vendor to them. So, if you could some actual case references where you could see okay, these are couple of opportunities where we see we could possibly make a much better inroad in coming times and also the addressable part, which you said so how you define the said addressable opportunity in terms of say million dollars or whatever?

Anjan Malik: What I said I think there is two or three different areas. I think in the banking space is there are opportunities for us I think to create what I will call pseudo-utility opportunities where we in fact act as an intermediary, with many of the large clients we work with and take on activities that many times due today that we have already do for many of them, but not necessarily for all the participants of the market place. Some of the discussion will happen there, I think there are the large potential opportunities, but there is low probability by definition. Other areas that we have discussed you know things like marketing automation, replatforming those are things that pretty much every large organization or Fortune 500 as the things that the digital domains is having to go through and we think that those are large opportunities and if we look at our pipeline in the digital space, a lot of what we have and things like sales force are those types of opportunities and we think those are million dollar opportunities in many instances; other where areas we have discussed in cable, we can do the thing that some of the services that we provided with things like avoidable track-roll of a customer, customer interaction monitoring has lots of interest from other telco providers that we are not currently talking to that we believe as discussion progress. I think the last part of it is some of the discussion we've had about speaking some of the horizontal services such as digital across to a cable and banking customers, which we have not done in the past - we have just had a first couple of pilots in that space and we think that given the amount of money that the banks and the last cable companies spend in digital, we believe that kind of cross selling has a large potential to provide the alpha that we are looking for.

Rahul Jain: Just a small extension, as you mentioned a lot of pipeline in the S&M or digital space and you said there is a lot of cross leveraged opportunities as well so, these are the comments with you in some of the larger peers have also mentioned, so do you see, are we equipped enough in terms of the modern offering, which you know is more in vogue right now as compared to the traditional set of services and there is a lot of new terminology which are playing in this particular segment, so are we equipped across these new generation kind of technologies as well?

Anjan Malik: Well I like to think that we are, but I would say that business I do not think you are ever current enough. I think it is somewhere in between.

Rahul Jain: Fair enough. That was quite insightful. Thanks.

Moderator: Thank you. We have the next question from the line of Hitesh Shah from IDFC. Please go ahead.

Hitesh Shah: Congratulations on a decent set of numbers. I just might have missed it in the previous call, because I was away for about 5 to 10 minutes, but I just wanted to understand if cable business has declined 11% QoQ, is that the right figure that I am getting – I'm kind of taking a difference of consol and standalone numbers and in dollar terms?

P.D. Mundhra: Hitesh, let me jump in I think that may not be a representative view, because of a couple of reasons. First of all the difference between consol and standalone includes other subsidiaries also, not just the Agilyst business, so all are onshore marketing subsidiaries. Secondly, as integration has proceeded now a number of our new contracts for the cable business are being booked directly into our parent company. So, the revenue of the cable business is no longer just in the old entity.

Hitesh Shah: Sure, also I request if we could start breaking banking, capital market, SMS and cable business as what is the proportion of revenue that would be very helpful beyond that also had a question that we have seen steady improvement in our top five proportions in the sense the concentration for top five has been declining. Is there a significantly higher concentration for the next two three clients, is that a fair assumption or it is very well distributed beyond the top five names?

P.D. Mundhra: Hitesh, I do not have the numbers in front of me, but if I were to hazard a guess, I would say our top five 75%, our top 10 would probably be about 90% - may be somewhere around 88% to 90% - and then the next sort of 20 would be another 5% and the last 5% would come from 15. So, there is a typical distribution, but I think what is heartening for us is that you know we now have 10 or 12 "million dollar clients", even up to client somewhere 11 or 12 they are starting to reach respectable sizes.

Hitesh Shah: Sure, that is very good and lastly our targeted EBIT margin has been 30% to 35%, but with currency being at the levels where it is, we had been hitting margins which have been significantly hit of that? What is the management view? Do we plan to invest this into more onsite capability either or more sales force and grow our revenue line or we would kind of continue to report slightly higher margin than our targeted range?

P.D. Mundhra: First of all, I expect in Q3 our operating margins will decline, this will be from Q2, because Q2 we had benefit of currency rate in the 66 to 68 range at times, which at least so far it does not look like will be the case in Q3, so partly those numbers will come down a little bit because of that effect, number one. Number two I think there is a lot of appetite to invest from our perspective as management, so we just want to be sure that we are investing in areas where you can generate return, so as you know, we have increased our spend on account management and client coverage. If we see those incremental spend generating returns I think there is a lot of appetite to invest more, but we need to see the return.

Hitesh Shah: Definitely and it is very heartening to see that Agilyst margins have also probably moved to a company average, because the overall margin are much higher than the targeted range, so congratulations for that, and lastly a bookkeeping question for Rohitash. What should be the kind of recurring depreciation and amortization we should building closer to 9 Crores or closer to 7.5 Crores?

Rohitash Gupta: I think the one large unknown component today is the third tranche payout, so once that is determined I can give you a better sense but as I mentioned the two reasons - depreciation on hard assets is about 5 Crores and you can anticipate the same for the next one or two quarters and the remaining amount, which could be 2.5 Crores, or could be 3.5 Crores, I do not know at this point of time, will be steady state amortization value for the full Agilyst related goodwill.

Hitesh Shah: We would have better sense of this by probably mid November or late November is that right?

Rohitash Gupta: Yes correct.

Hitesh Shah: Thanks and all the best. Congratulations for a good progress.

Moderator: Thank you. As there are no further questions, I would like to hand the floor over to Mr. P.D. Mundra for closing comments. Thank you and over to you Sir!

P.D. Mundhra: Thank you everyone for joining a call. We look forward to talking to you with our next quarter results. Thank you.

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