“eClerx Services Limited Q2 FY2015 Earnings Conference Call”

October 30, 2014

MODERATORS: **MR. P. D. MUNDHRA – EXECUTIVE DIRECTOR, ECLERX SERVICES LIMITED**
MR. ANJAN MALIK – DIRECTOR, ECLERX SERVICES LIMITED
MR. ROHITASH GUPTA – CHIEF FINANCIAL OFFICER, ECLERX SERVICES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the eClerx Services Limited Q2 FY2015 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 remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. The call will begin with a presentation providing an overview of business and then open for questions and answers.

Before starting, the company would like to remind all the participants that anything said on this call which reflects the company's outlook for the future or which would be construed as a forward looking statement by the management must be reviewed in conjunction with the uncertainties and risks that eClerx faces and which may cause the actual results to differ materially from those expected. EClerx does not undertake any obligations to update the forward looking statements to reflect events or circumstances. The same is highlighted on the last page of the investor presentation available on eClerx website. I now hand the conference over to Mr. Rohitash Gupta. Thank you and over to you.

Rohitash Gupta: Good evening everyone and thank you for joining this call. As usual, we will start with a very brief update that we have also released on our website.

This quarter we did $38.1 million in revenues which is about 5.1% growth sequentially in USD terms and 5.6% in constant currency terms. Our total revenue for the quarter was Rs. 242 crores and for H1FY15, it was Rs. 460 crores and both sequentially as well as year-on-year basis are 11% up. In terms of net profit, the quarterly number was Rs. 52 crores which is 17% up sequentially and the H1FY15 number was about Rs.116 crores which is (-10%) on year-on-year basis. The operating margin percentage for this quarter stood at about 30% which is towards the lower end of our stated range of 30%-35% and we expect near term outlook to be also in the low 30% range. In terms of other income, we did about Rs. 10 crores worth of other income in Q2FY15 as opposed to approx Rs.1 crores in Q1FY15.

In terms of primary constituents of this other income, if you look at the investments in details thereby, there was a sequential drop of about Rs.1.5 crores which is primarily because we paid dividend in early part of Q2FY15 this time which reduced our investible surplus. Our second constituent for the positive flux in other income was hedge gain and loss wherein we had about Rs.4.5 crores worth of loss last time primarily on account of first time adoption of AS-30 whereas this time we had an equivalent amount of positive number there in Q2FY15. There was also a component of revaluation and realized gain which was about Rs.1.5 crores this time as opposed to Rs. 0.5 crores negative last time which is on account of quarter ending movement of USD versus INR rate.

In terms of hedge update, our current hedge book outstanding is at about USD 94 million at an average strike rate of about Rs. 66.76 to a dollar. The entire hedge book is constituted of forwards. This is roughly 2.5 times this quarter's revenue as against the average of 2.6 times in terms of four trailing quarters and we expect that this number will be in the range of 2.4 – 3 times in near term. From this time, we have started giving a more detailed view of our hedge book given the suggestions by you. We have bifurcated our hedge book in terms of various tenures and divided them in pre AS-30 meaning thereby that those were booked before 1st April this year as well as those which were booked after 1st April this year and hopefully you can use this bifurcated data to find out the impact on other income as well as on the operating revenue in INR terms.

If you look at the detailed quarter-on-quarter P&L, the major items which saw increase were employee cost and we will talk little bit more about the reasons of each of these major increases in a moment. So the major increases were in employee cost, rent, communication, conveyance and other items including CSR. So if you look at the bridge between Q1FY15 and Q2FY15 operating income percentage, there is a drop of about 200 bps quarter-on-quarter. The major constituent of that was G&A increase as a percentage of revenue. The main constituent of that was spending on CSR that was heavily skewed towards Q2FY15 and was very minimal in Q1FY15. So we did a catchup act there. There was also underutilization of facilities in this quarter because we are consolidating Mumbai facilities and there is some intervening period where both the set of facilities which were existing and which we are getting in now are live. And probably the largest one is that most of the growth in this quarter came from our cable vertical and as we have indicated earlier among our three verticals, cable business is lower margin business compared to other two and hence the employee cost as well as some elements of G&A cost supporting that business are higher. The employee cost addition despite slight improvement in utilization was also due to the growth in cable for the reasons I just explained. The goodness that you see in selling and distribution is primarily due to the reimbursement of client funded travel that we obtained this quarter.

In terms of balance sheet and other items, we have cash of about Rs.300 crores which obviously is a drop on account of paying out dividend.

In terms of facilities, we are ongoing with our plans of consolidating Mumbai unit and we have rolled off one small STPI facility in Mumbai and we have gone live in one of the new floors that we have taken in New Mumbai SEZ. One new update on facility side is that we have signed a LOI for additional space in Chandigarh which will be primarily for accommodating any future cable growth and we expect that this will be operational somewhere around mid Q4FY15.

As I was mentioning in terms of our corporate social responsibility expenditure, we have done about Rs.2.4 crores worth of expenditure during entire H1FY15. Almost most of it was in Q2FY15 actually and this Rs.2.4 crores is roughly about 50% of our entire FY15 plan. The primary areas on which this expenditure was done covers health and child education especially focusing on girl child. In terms of total lives that we have touched via this H1FY15 expenditure is about 9000 people primarily constituting of children.

In terms of key revenue in other business metrics, our USD concentration as well as North American concentration has increased this quarter. For the DSOs, there is an update here because we have started giving a new metric which is DSO (including unbilled revenue) which we were not providing until now. So basically this DSO number includes what is billed and what is unbilled as of date. However because we are switching over to this new reporting metric, in the backup slide as well as in the investor sheet, we have provided both the earlier metric as well as this new metric. Irrespective of which one do you use, there has been a slight worsening of DSO days of about 4-5 days between Q1FY15 and Q2FY15 and we expect that this number will fluctuate in near term.

In terms of client concentration, the top 5 concentration has dropped to 68% which is probably one of the lowest we ever had. We added 6 new logos this quarter and our client which were billed for any amount in this quarter was 74. We have also included a new disclosure from this time onwards which is on giving you the number of clients in each revenue bucket. So in terms of (5+) million clients, we had 6 in this quarter. 1 million to 5 million, we had 9 in this quarter and above 0.5 million, we had 3. And for bucketing the client revenues, we use last 12 months accrued revenue. If you look at our revenue mix trend, the story is pretty much similar to last quarter. So our core accounts or top 5 accounts have been rather flattish in YoY terms. However on the emerging side which is everything other than top 5, we have been seeing very strong growth and this quarter was even better at 44% YoY.

In terms of India delivery headcount, we are at about 7,469 people which includes about 950 internal shared services staff and there is a sequential small drop in total headcount and we will talk more about reasons via questions and answers probably. Our headcount for the onshore which is primarily sales and development team has increased to 90 people as compared to 82 as of last quarter end. Our Q2 attrition has always been historically higher than Q1 and we saw the same trend this quarter also. However, the number by itself is pretty low as compared to our last 8 quarters trailing average which is a good news. That is it in terms of formal presentation. We will now take any questions that you may have.

Moderator: Thank you very much sir. 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 Ramachandran: Just wanted to get your thoughts on forward-looking basis in terms of growth. We saw a good quarter that went by. So just wanted to get your thoughts, how do you see you over next 4-6 quarter basis, how do you see growth playing out?

P. D. Mundhra: I would say that our growth outlook has not changed too much over the last 2-3 quarters. So if you look at FY14, organic growth was about 12% odd in dollar terms and even if you look at this quarter, we are up about 11% year-over-year in dollar terms. So I think that sort of the range we see. We do have lumpiness in our business. So we will have occasional quarters that are very good like Q2 was in terms of revenue growth, but we will also have the odd soft quarter in between. So on average, I think that 10%-12% range which is where we have been for the last year, year and a half would be sort of the expectation going forward as well.

Srivatsan Ramachandran: In terms of the growth mix, would it be fair to say that as things stands at least it will be more dominated by the cable business.

P. D. Mundhra: I think certainly in the last 6 months, the cable business has been the fastest growing business for us and I think at least for the next 3-6 months that is likely to remain the case. But beyond that, we do not really have the visibility to say. I think the pipeline looks decent in the other two businesses as well. So at some point, it comes down to when those opportunities convert.

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

Ravi Menon: Just wanted to get a sense on how utilization is defined. Do you use quarter end allocated employee number or use the quarterly average?

Rohitash Gupta: This was basically monthly average.

Ravi Menon: Alright, so you take a monthly average for each month.

Rohitash Gupta: So each month whatever is the billed staff divide by total staff in the company and we take basically three data point and take average.

Ravi Menon: Right sir. And how much low would you say is the billing rate for the cable business, say about 30% lower or can you give other numbers?

P. D. Mundhra: I think that would be about accurate. I think realizations for our cable business on average would be somewhere in that range 30% - 35% lower than the other two businesses.

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

Srivatsan Ramachandran: Just couple of points more on the large client addition or lack of the $5 million bucket that is the new disclosure you are giving, thanks a ton for that. So just wanted to understand that we have seen some of it get migrated to the larger client bucket category. In your experience, what is the typical timeline for somebody to go from 0 to 500,000 and what are the general hindrances you see in them not achieving even that milestone?

Anjan Malik: I think to be honest, there is no general timeline and there is no general formula because there was and I think we have seen that we have a lot many more $5 million clients given the large portfolio clients we have. So the truth of it is there is a portfolio effect. So you have large number of clients some of them have been flat**.** So there is no formula as such, but I think we continue to see positive trends in lot of our sub $5 million accounts and over the next 18 months or so, we would like to see at least one or two of them migrate up to the $5 million number.

Srivatsan Ramachandran: In some of the other large clients, I am saying not necessarily from revenue point of view, but from their size, if you not been able to penetrate, what do you think would be the couple of top reasons would it be because we already have an outsourcing partner who is doing a similar work for as eClerx does or is it just that they do not do. So what would be the top 2 or 3 reasons why you would not so far at least been able to penetrate especially in the really large logos you would be having?

Anjan Malik: So I think the only reason we end up partnering with clients that are large logos is because of our relevance and because these guys are very well broken into by the Indian IT companies and by the global IT companies. So they have a lot of CIO reach. So all of them will have some partner already because this has been a 15-year or 20-year run. So if we exist there, it is because of a very specific reason or a relevant type product service set. If we have not grown into something meaningful, it is because either the entry point for us was too small or it lead to a dead end. So they saw us and they did not fully understand the service offering or they saw us as a provider for a very particular small niche service. But in the instance, the entry point that we had was so small, so niche, that in fact it put us at dead end with our particular clients. So I think a lot of focus over the last 18 months, I think some of it is reflected partly in the very different growth rates which we are seeing between core and emerging is pivoting our portfolio of services at the entry point and make sure there are first access points are relevant in much larger footprints. But again I think if you co-exist with large competitors, you cannot co-exist providing effectively the same service. So I think it is ultimately done through relevance and the size of the product which you sell are relevant.

Srivatsan Ramachandran: Just a comment with the spirit of disclosure you have done it will be helpful, if you can just maybe over a period of time start breaking down revenues into the three broad sub-segments you operate in that will be helpful, just a suggestion. Thank you.

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

Madhu Babu: Sir this year if you see the margins are likely to now drop by 500 basis points year-on-year FY15 at EBITDA level. Sir mainly your cable business is ramping up. So do we see any threat in the margin direction may be another next 2-year that we would see a downturn in the margins?

P. D. Mundhra: So, to be completely honest, I would say our objective as a management team is to maximize total profit dollars, not to maximize percentage margin. Having said that, I think the margin profile for our two native businesses has been fairly stable in around the mid-30s range over the past many years and the cable business when we acquired it, we always anticipated it would be a 25% give or take operating margin business which is where it has**.** And I think sort of in the next couple of years' timeframe, I would expect margins to remain similar to where they are right now. The only caveat to that is to the extent we get into new businesses via acquisitions or whatever, that obviously will reflect on the overall margin profile of the company, but again let me say I think our goal is to maximize total profit dollars and not to maximize percentage margins.

Madhu Babu: Secondly sir, onsite sales headcount addition, now it is at 90. So do we see further continuous ramp up or would there be some slowdown in terms of sales additions?

P. D. Mundhra: Well, I think so. What we are also trying to do is to create some sort of onshore delivery capability by having an increased focus on consulting type projects as well as other onsite opportunities including areas like analytics. From that perspective if we are able to get into engagements where we can charge out some of our onshore headcount, then I think you will obviously see that number accelerate even more. Purely from a sales and account management perspective, if you just look at that perspective of the headcount, then we think that we are sort of right size for the scope and size of business we are and so that headcount then should grow in proportion to overall revenue.

Madhu Babu: And last question on depreciation, there has been an uptick. So should we take the figure of Rs. 12 crore as the new normal?

Rohitash Gupta: So Madhu, I think the things are little bit in the flux because as we were speaking about the Mumbai consolidation wherein we have to fit out the new spaces etc. and that work is still not over. So I will not like to comment on what is the steady state rate. I can only explain that the increase in the depreciation of about Rs. 1.5 - 2 crores has been on account of about Rs. 35 crores odd of gross block that we have added during H1FY15. Out of which, almost half was in Q2 alone and as you know under the new depreciation and useful life rule under Schedule II, most of the depreciation happens at the faster pace. So let us wait for one or two quarters and then I think we can come to the steady state number.

Moderator: Thank you. We have the next question from the line of Karan Uppal from Equirus Securities. Please go ahead.

Karan Uppal: Can you just give us some color on what outlook you are seeing especially in your BFSI client as of now because if I recall in the last quarter, you said there was a distinct movement in those lines for some kind of a product type services which I think the company was working on at a POC stage. So could you share an update on that?

Anjan Malik: So it is not just because of BFSI, I think it is broad focus at the firm level for us and some of them is going back to the genesis of where we have been as a company which is the specialist product area. So we identified, but I would say 5 or 6 key themes where we are investing more in software development, automation, platform development, upscaling in services, and then augmenting front and back end service capability which is all the way from consulting project management through the BPO/ KPO whatever you want to call it. So BFSI that much part of that and I think we picked three or four big streams for the activity and we certainly are seeing some good results because now the big wins that we have had which I guess would reflect over the next few quarters. So I think it is definitely giving us better results then we have seen potentially in the last couple of years. I think that is partly a function of the change in the buyer side which I think this was alluded to one of the earlier questions. If you want to co-exist with the large service providers, you cannot be a provider of generic capability. We have to provide a very specific service which provides alpha to that client above and beyond what they are able to buy from the large IT provider or BPO provider. So we are seeing good returns, good early signs from that re-investment.

Karan Uppal: So in that theme, just to continue a bit more on that. So we have also seen a distinct movement on the other IT companies which you may be working with or co-existing in your large logos who are already embarking on this kind of journey and they are also building these assets or platforms as you may call. In that case when we say that we can exist to a differentiation, what exactly would be the nature of that?

Anjan Malik: So I think if you look at the big IT guys, my understanding of it is I think they are much more focused on providing services around platforms on which they can provide multiplayer's support and I think their capability sale is much more about this**.** So it is much more tilted towards the platform, much less towards the service. What I am referring to is a product or service where there is a much greater emphasis on the service and less on technology, but technology is much more of an enabler and I think we are taking much narrow areas of focus than the IT guys will be taking. Say a classic example like may be something like cash securities, settlement in the security space where something like Wipro or TCS may be did try to do a JV with another house to build a centralized security clearing system, but they will go head-to-head with something like Godrej. We, on the other hand, will basically come up with something in the air or very specifically relating to a subset of maybe derivative processing where we have a very good advantage where we are offering something to our client which is an entirely niche system there. But it leverages all of the things that we know about that industry and the service portfolio is much better than our competition and where we have multiplayer footprint. So I think it is I would say high domain and it is narrow in its applicability.

Karan Uppal: So in form of complete portfolio perspective, you said that DSO has gone up, but that may fluctuate in the near term. So over a long period, let us say after 3-4 quarters, what will be a good number to look at?

P.D. Mundhra: To be candid, I would say as a management team we do not set a hard target on the DSO numbers because again to be completely honest as a vendor you have certain amount of political capital which you have as a sponsor and we always felt that it is better to use that capital to try and win additional pieces of businesses, then to use it to expedite and payment that will anyway come through in the next few weeks on its own course. So where we start intervening is where we see the risk of that money going bad or getting stuck up inordinately. Therefore, the DSO number will vary. As you might know in the past quarters before this month, we have reported DSOs only for build invoices and that number are varying between 35 and 60 or 70 in the high end. So in the future also, it could vary. So I would not want to make a forecast of what that number is because as a management team, we do not set a target even internally on that beyond monitoring items that may potentially go back.

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

Manik Taneja: Couple of questions. Firstly with regards to the sluggishness that one has seen in terms of revenues from top 5 clients. If one looks at absolute revenues, your revenues have remained in a very tight band for almost like 6-7 quarters now in terms of revenues from top 5 clients. Could you just give us a sense on how do you see businesses from these top 5 clients going forward. That is question number one and second question was with regards to the breakup that you have given with regards to hedges both under pre-AS 30 and post-AS 30, how should one look at estimating forex gains and losses because of this breakup?

Anjan Malik: So I will let PD take the second part of the question or Rohitash take the second part of your question. The answer to your first question is what do we expect from our top 5. I think you have to keep in context the fact that over the last 2 years, there really have not been much in the way of revenue growth for most of our clients in our growth rate and in the world where there is a revenue de-growth for some of these customers and I think we have actually done remarkably well to stay where we are because within that 1% or 3% growth rate that we have shown over the last period in top 5 group, there has actually been a significant amount of what I call portfolio churn. So the classic case will be some of like our IT customer where portfolio services that we provide today is completely different from the portfolio services that while may be a year ago because their business have changed. Suddenly if you look at our couple of our capital market clients, the same thing can happen, if you look at our cable businesses you have the same kind of an outcome. So to some extent, you could rate down that analysis into what I would call gross sales and net sales. So gross sales which is our ability to go into areas of our strengths, I think continues to actually be very strong and we continued to show good performance and that is one area we track. I think part of the reason you are seeing slowdown in the top 5 is because of just the active scale of our footprints in those accounts. We are subject to their cost compression initiatives, obviously actively looking to shorten duration of money commitments that they are willing to make and I will be looking to make long term projects, short term projects. Now it is anyone's guess how long that environment lasts. You have to see whether there is some data which means how we performed with those clients and how those clients' customers perform for them. So I think to some extent it depends on how those clients do in their market places.

Rohitash Gupta: On the hedges related question, the hedges amount and rates which are given under the hedges under AS-30 table, those are basically when they mature, the operating revenue in INR terms will be realized at those rates for that much quantum. If you are interested in calculating or estimating operating margin for example operating revenue for a future period, you can use that section. However, the first section of hedges pre-AS 30, you can use it as you were using in the past era also for estimating other income, the hedge gain/loss line item.

Manik Taneja: Sure and if I can chip in with one more question. Essentially, we have seen deceleration in our revenue growth rates over the past few quarters and the challenge is pretty much well known in terms of the tardiness that we have seen in top clients and because of which FY15 growth rate is expected to be lower than FY14, if you could give us some qualitative sense on how you are seeing FY16 versus FY15?

P. D. Mundhra: You know Manik, I would say all else remaining equal, It is similar sort of outcome. So I do not think FY15 will be largely different than FY14, it will be in the same ballpark may be a couple of percentage points up or down. In FY15 also, from everything we see right now looks similar. I do not see that our pipeline has either reduced or increased very substantially or where it has been in prior quarters.

Moderator: Thank you. We have the next question from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just a quick one on margins. So I understand that the cable business which is a lower margin business is growing faster than the rest of the business which is compressing the margins. So could you give us a sense on what the tailwinds are over the coming quarters that would keep the margins stable?

P. D. Mundhra: I think if you look at our big components of cost, there is employee cost in India which has sort of been around 36% - 37%. So I do not see any structural reason why that should either go up or go down very substantially and on the G&A side. I think you will have some volatility. So for example, right now our rent numbers are little high because we have taken on incremental space in Airoli partly for expansion, partly for facility consolidation in Mumbai. So as that gets utilized better, then I think you see some scaling of that expenditure. So there might be potentially a little bit of scaling of G&A, but it will take its time to come through. So which is why we are saying that the margin levels that we have seen in the first half of this year give or take 30% - 31% is what our best guess is for the next 6-9 months.

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

Ankit Pandey: I guess my first one is around a little bit of summary of your view on top 5 clients and especially where we are positive on where we are having constructive engagements with them and how much of that concurs with some onshore scaling opportunities. And the second question would be where new clients business that we have had about 6 quarters, when exactly are they and how many are there in the SMS, etc.?

Anjan Malik: So the way I understand the question is, you are asking what challenges and opportunities you see in top 5 and how is that correlated to the investments we are making in onshore, is that correct?

Ankit Pandey: I am more looking at the constructive engagements that we are having with them, less focusing on the negatives.

Anjan Malik: So I would say that I come back in this whole discussion we started the conversation about our productized services. We think it is just applicable to the core accounts or top 5 accounts or the emerging accounts and I think that is what we are finding a lot of resonance with because people are looking at us obviously not just these guys are providing clever and powerful bandwidth but are bringing a lot of new ideas on the table and helping them restructuring business. So I think that is where we are having very constructive discussion. So it is aligned with PD's comment about adding up more consulting type capability onshore which again changes how people view you and I think this has been a long going journey. So the quality of engagement and I would say the likelihood of opportunity conversion has increased I think over the last 6 months because of those things. The second question was related to emerging clients, were you looking for a specific number?

Rohitash Gupta: I will take that. So as you know out of our three verticals of main service lines, digital marketing business is somewhat horizontal in nature and has wider applicability. That is why in terms of number of clients, DMS is the one which always gives much higher addition of new clients and new logos than other two verticals put together and I think this quarter was no different. Majority of these clients are from DMS.

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

Rajat Budhiraja: May be I missed the reason behind good growth in cable business, that is first thing and second thing you are expecting good revenues going forward for the next two quarters in cable. So what is the reason behind it?

P. D. Mundhra: So I think it is basically due to, I would say relative attractiveness of a couple of our lines of service. So I say that the cable business has been a big adopter of outsourcing services, but that has traditionally been in the call center and sort of lower-end BPO space. So for the kind of work we are doing around revenue assurance and pure technical support, there has not been that much penetration by outsourcing companies. So I think we have been able to develop relatively attractive products there and we have been able to demonstrate a very clear ROI case or benefit to our client which has allowed them, which has given them the ability to extend that investment case across regions and across divisions. So that sort of what I think has helped us on the cable side and it is the success of those productized offering that makes us optimistic about the next 6 months to that business as well.

Rajat Budhiraja: Right, so can we say that the new products which you are launching and which you are very optimistic, so these are like short term projects because you have a visibility for the next 6 months but not after that.

P. D. Mundhra: No, they are not actually short-term projects. They are long term engagements, but what I am saying is at any given time from a pipeline perspective, we only have visibility for 6-9 month period because whatever is in the pipeline today will either convert or will decay over the timeframe. So that is why the only comment I can make is about the next 6-9 months.

Rajat Budhiraja: And my second question is on operating margins. Right now it is in the lower range of 30%-35% and you mentioned on the call that this will be same for the next 6 months and also you mentioned that this will be same for the next couple of years. So my question is just want to confirm that so this 30%-31% margins will remain same for FY16 also?

P. D. Mundhra: So there are lot of things that affect margins including things like currency. So obviously any statement that we are making is about in a status quo environment. So all we are saying is structurally we do not see the margin profiles of any of our three businesses changing over the next couple of years. So our two mature businesses traditionally have been in the sort of low-to-mid 30s. The cable business is sort of in the mid-20s and we think that that will stay the same. So on a weighted average basis and on a portfolio basis, we end up with a 30% - 31% or low 30 number which is where we think we will be.

Rajat Budhiraja: Okay. So this is fair to say that excluding currency fluctuation, the margins will remain the same, right?

P. D. Mundhra: That is what we think. You will have some volatility quarter-on-quarter given the small size of our P&L, but yes they will stay around this margin.

Rajat Budhiraja: Okay and my last question is on acquisition. So I understand that you have been looking out for the acquisition. So is there anything in the pipeline which can be completed in the near future?

P. D. Mundhra: So just to give you some perspective, I would say in the last 12 months, we probably looked at 30 plus companies with various degrees of seriousness. So at any given point in time where 3 or 4 assets that we are looking at again with different levels of interest, but this is a low-yield activity because you look at 30 or 50 assets and may be one and may be not even that converts. So I think the moment we get close to converting something, you guys will be the first to know. But at this point it is not like we have something that is a done deal.

Moderator: Thank you. We have the next question from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim: Couple of questions I have. Can you just give the client breakup within the vertical if that is possible.

Rohitash Gupta: So I guess your question was if we can give further breakup of the new disclosure that we made around client bucket.

Abdul Karim: Yes.

Rohitash Gupta: Was that your question? So I think we have refrained from doing that and we will think about it if we can disclose it in coming quarters, but as of now I think this is what we have. But just to give a qualitative color on that number, it has representation from each of the three verticals. So that much definitely can be said.

Abdul Karim: Yes, vertical wise or any specific success or updates which you could share in terms of understanding where the demand could come from?

Rohitash Gupta: So I think we have discussed this in the earlier part of the call and if you look at the H1, majority of the growth has come from our cable business and we have also stated that in the next 3-6 months, this trend is likely to remain. So cable will be the fastest growing business throughout this financial year. That is the likely case scenario and in other two verticals, I think at least the top 5 segment clients have been somewhat flattish put collectively; however, we are seeing new logo additions in the digital marketing and if things go well probably in longer term, those two verticals will also pick up.

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

Pratik Gandhi: Three questions. First is on top 5 clients. I think last few quarters I think we are seeing that is largely stable. So I think if you look at on absolute basis. Now I think if we exclude one of the large account from DMS, just wanted to understand how is the trend in other 4 clients, are they growing in line with the industry, in line with the company average that is first and then I will have couple of others.

P. D. Mundhra: So Pratik, I think even if you excluded that one client from DMS, I would say definitely the other top 4 accounts are growing much slower than company average for the reasons that Anjan alluded that I think a) there is a scale effect given the base of revenue that is already being generated from those accounts and b) because they are mature accounts, we also have the headwinds or some degree of rollout that happening within those accounts as their businesses change. So generally speaking, I would say yes there is particular headwind in one of those accounts, but all those accounts are growing definitely slower than company average.

Pratik Gandhi: Fair enough. Secondly, I think Rohitash did allude in terms of how that hedges slide will be used. So just to get myself comfortable with the explanation, Rohitash did you mention that the AS 30 rate which for example in for H2 FY15 which is Rs. 62.8, that will be used to recognize revenue?

Rohitash Gupta: Sorry, I am not able to relate to Rs. 62.8 number, but let me take that. So if you look at FY16 for example and you will see lets talk only about USD for now. We have about USD 28 million worth of hedges which will mature in FY16 which are under AS 30 and their rate is Rs. 66.1 right. So in a very ideal world, currency remains where it is at Rs. 61**.** What will happen is that your operating revenue for this USD 28 million worth of revenue will get recognized in INR terms at Rs. 66.1 and not as the spot rate of Rs. 61.

Pratik Gandhi: And for the remaining I think that will be at spot rate.

Rohitash Gupta: Yes.

Pratik Gandhi: Fair enough. And I think last question I think in terms of the client data which you have reported, the number of clients you have billed in the current quarter is around 74 versus last quarter of 65 and if I just look at the new clients added in the current quarter is around 6 and which was 4 in last quarter. So I think it is difficult to reconcile.

Rohitash Gupta: Right. So maybe we will think about simplifying it in coming quarters, but just to explain the new client added number is basically new logo additions alright and the client billed is basically from how many clients you accrue the revenue in a given quarter or you bill those clients. So what may happen is that you may have acquired a client maybe three quarters back and that client gave short term project lasting only one quarter and then went off and then came again this quarter, we will not count that as a new client in the new added client metric.

Pratik Gandhi: Sure, okay. And how do you see this utilization rate going forward?

Rohitash Gupta: So it is tough to say Pratik like we were discussing the cable business have been the fastest growing and is likely to be faster growing. So the number between 61% and 64% where we are or 65% may be, that is the broad range we will play in depending upon when the ramp ups happen. So that is the broad range, I would say early 60s which will prevail till the time cable business grows faster.

Pratik Gandhi: Fair enough. And the expectation of tax rate for H2FY15 and FY16. Thanks.

Rohitash Gupta: We are still expecting around 23%.

Moderator: Thank you. We have the next question from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

Abhishek Shindadkar: Sir regarding the margins, you have alluded to the fact that the cable business has a lower margin profile. The question is as the contribution to the overall business rises and the scale grows, are there any tailwinds which could improve the margins of the cable business or the higher towards the company average?

P. D. Mundhra: I think it is difficult to foresee that because I think as was mentioned in response to an earlier question, that business has a billing rate that approximately 30% give or take lower than our other businesses and the costs are lower, but not that much lower. So I think that business will remain with the margin profile it has. But as you have seen, it also gives us opportunity to scale in bigger chunk because the deal sizes for that business are bigger and we feel that that is a good trade off for us because if it allows us to accelerate revenue, then we do not mind lower margin percentage. It is increasing total profit dollars which ultimately is our goal.

Abhishek Shindadkar: And just a follow up, if I can squeeze in other one. On the revenue growth front, we are seeing acceleration relative to what we had talked about at the start of fiscal '15. Has anything changed in terms of the deals or business mix apart from cable contribution which had led to the numbers being higher than what we had anticipated at the start of the year?

Rohitash Gupta: No Abhishek. I think our commentary at least for the two quarters has been very consistent. If you look at Q4FY14 as well as Q1FY15, we talked about that FY14 we had about 12-13% organic growth and when we talked outlook that we gave was that it will be similar or lower to that number for full FY15 right. So which translates roughly 10% - 13% range right. So if you accumulate 2% that we did in Q1FY15 and 5% odd we did in Q2FY15 which we believe is an extraordinary quarter for us, then I think we are still in the same range for the full year.

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

Ravi Menon: Just two follow-up questions. One is that Anjan did mention about the quality of engagements is going up for the onsite. I was not aware that some of you people have already engaged in consulting engagement, is that correct?

Anjan Malik: Yes, correct.

Ravi Menon: And secondly, do you see any sort of pricing discussions with customer either positively or negatively especially in the BFSI area?

Anjan Malik: All the time. So I think most of our clients are engaged with, they are all doubled out in procurement organizations and/or outsource to third parties were consistently having discussions about price reduction, price change. We do not anticipate any major price changes.

Ravi Menon: Nothing of the sort that we had seen, I think about 6-8 quarters back.

Anjan Malik: So I think part of it is obviously reduction in the concentration of our business. And as our business becomes less and less concentrated which I know policy we will be focused on, the individual events even do not have the same impact in our book anyway, then you ended up having more portfolio effect. We do not anticipate any single event having such a large impact for sure.

Moderator: Thank you. As there are no further questions, I now hand the floor back to Mr. Rohitash Gupta. Over to you.

Rohitash Gupta: Thank you very much and look forward to talking to you next quarter.

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