"eClerx Services Limited Q2 FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to eClerx Services Limited Q2FY16 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 phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Rohitash Gupta – CFO. Thank you and over to you, sir

Rohitash Gupta: Thank you. I welcome you all to the eClerx Earning Conference Call for the Second Fiscal Quarter of FY16. It has been another well rounded quarterly performance with good organic growth and strong profitability.

Our operating revenue was $50.2 million in Q2 FY16 which is 8% up sequentially and 30% up YoY for the H1 FY16. This also marks the quarter where eClerx breaks the $200 million run rate. The 8% sequential dollar revenue growth includes additional period revenues for CLX this quarter and hence the organic growth excluding CLX is about 6.3%. The Q2 operating revenue at Rs 328 crores grew at 10% quarter-on-quarter, while the total revenue at Rs 340 crores grew at 8% quarter-on-quarter. Much of the growth in this quarter has come from short-term projects and their roll off in due course is likely to create a flattish revenue trajectory over near term. We have earlier communicated to you about FY16 organic growth to be similar to that of last year in about 10% to 15% range and based on the H1 results we do not see any change in FY16 growth outlook.

In terms of segmental performance, cable business continued to maintain its lead in percentage growth terms compared to other two verticals. The operating margins percentage for the quarter is 33.3% compared to 29.9% last quarter and the operating margin is likely to moderate over next few quarters given our flattish growth outlook in near term. CLX came in at 17% operating margin while eClerx's native business came in at 35% giving us a blended OPM of 33.3% in Q2 FY16. It is interesting to note that operating margin percentage for H1 FY16 is at 32% which after adjusting for the goodwill amortization policy change that we did last quarter is almost same as operating margin percentage for H1 of last year.

The PAT for this quarter is about Rs 93 crores which is our best bottom-line in last many years of existence and it saw a strong 43% increase YoY for H1 FY16. On the other income front, the investment income dipped significantly this quarter to Rs 16 crores due to dividend payouts in early July'15. The hedge gain loss remained negligible as the Pre AS30 hedge gains were more than offset by the MTM change. This line item will become increasingly insignificant towards the second half of this year and definitely next year as remaining Pre AS30 hedges mature.

The revaluation and realized gains stood at Rs 10.6 crores due to significant currency depreciation and the evaluation in realized gain is much stronger in Q2 FY16 compared to Q1 FY16 if we exclude the CLX related onetime gains that we had last quarter of about Rs 10 crores to 11 crores. We have a strong forward hedge book worth $119 million with a strike rate of Rs.69.42 to $1 which has moved up by Rs.1 to $1 since we reported that in Q1. Our hedge ratio is lower than trailing average of 2.4x quarterly revenue due to addition of CLX revenue which are not hedged. Almost $114 million of these hedges will reflect into operating revenues over next two years at an effective rate of Rs.69.2 to $1.

Moving over to detailed P&L, the employee cost increased by more than 6% QoQ in absolute sense but decreased as a percentage operating revenue due to stronger operating revenue growth that we saw this quarter. Similar case was with G&A which grew by more than 5% in absolute sense but decreased as a percentage of OPR quarter-on-quarter. We anticipate G&A cost as a percentage of revenue to increase in H2 FY16, I would also like to draw your special attention to the fact that at past of our sustainable growth initiatives we have been able to reduce per employee electricity consumption significantly over last 18 to 24 months despite adding many more facilities and rising prices of electricity in that period.

Selling and distribution costs have come down this quarter due to reduced travel expenses and moderation in bonus to make considering relatively weaker exit run rate forecast now. We will adjust these estimates in Q2 FY16 as the situation on short-term projects becomes clearer. Depreciation has increased substantially this quarter given that our facility expansions in all the three cities have gone live over last three to four months and those assets are now being depreciated.

We had Rs 295 crores of cash and cash equivalent at the end of quarter which came down since last time because of Rs 129 crores dividend payout. In line with our endeavor to increase disclosures to the investors we have started providing two new metrics around operating cash flow and CAPEX from H1 and we will do that every semester, we hope that this will help you understand better the cash generation ability of the company.

We had a very strong operating cash flow generation in H1 FY16 of about Rs 172 crores which is almost double on YoY basis compared to H1 of last year. We had spent around Rs 35 crores on purchase of physical assets for biggest facility expansion and that was done over H1. This figure in H2 FY16 for CAPEX is likely to be much lesser as we have no immediate plans or further capacity addition.

We have made couple of announcements during the quarter around Agilyst, one of those was planned merger of Agilyst India with eClerx India and the second was around the decision of a long standing client of Agilyst inc to now contract directly with eClerx India. The second item is likely to impact standalone P&L significantly over near-term, however there will be not be any impact on consolidated profitability numbers due to that.

On other important announcement we are making today is around Board having approved granting of 1 bonus share for every 3 share held and this proposal marks completion of eClerx's 15 years and it is reaching the milestone of $200 million. This obviously is subject to shareholders' approval which we have planned during Q3 FY16. An interesting point to note here is that it took us almost 12 years to clock from 0 to $100 million mark and it took us only 3.5 years to clock the second $100 million.

Our business concentration metrics like top five revenue share, Americas concentration or dollar dependence continues to move in a right direction. The DSO remained in 70 days to 80 days historical range. Our top 10 client concentration is at 75% which used to be the number for top 5 just two years back. The FTE business mix has been dropping noticeably as more and more business moves towards other pricing models such as IP, transaction and project basis.

Staff utilization in Q2 has come in at a higher value of 67% but is likely to moderate as various projects roll off.

We had two clients, one each from digital and cable who moved up from $0.5 million to $1 million plus bucket and similarly two new clients one in digital and one in FS entered in the $0.5 million plus club. Top five clients have shown YoY USD growth of 8% this quarter which is similar to last quarter YoY growth, while the native emerging portfolio continued its momentum with 36% YoY constant currency growth this quarter.

Now with addition of CLX our emerging business has become almost $90 million run rate. The overall headcount remains relatively flat quarter-on-quarter on both the delivery and sales front. The India attrition stood at 36% for the quarter and this is an annualized number which is 480 bps up compared to the Q1 FY16 attrition number. You have to note that Q2 has been historically high attrition quarter for us given the pattern of industry hiring and higher education sessions. For example, the Q2 to Q1 delta of attrition for previous three years has been at a much higher average of 700 bps whereas this Q1 to Q2 the jump was only 480 bps.

Lastly, I would be attending various investor conferences in Mumbai and Delhi between 17th and 19th of November and hope to chat with some of you then. With this, I hand over the call back for Q&A.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: My question pertains to the near flattish growth that you are guiding for the next couple of quarters which you could give us some sense in terms of is this vertical specific phenomena or certain large client specific phenomena because of which you guys are indicating for a muted revenue performance in the next couple of quarters? That’s question number one.

The second question that I wanted to get a sense on is, if you could talk about how are integration efforts with CLX panning out and any updates on cross sell with CLS?

PD Mundhra: Hi Manik, this is PD, let me take those questions. So on your first question, as we have indicated of the 8% quarter-on-quarter growth that we saw, a fairly large chunk, I would guess a little more than 50% came from short-term projects and those projects came from basically two businesses, banking and digital and therefore the roll offs that we see also over the next let’s say three to nine months will also be primarily in those areas. I would say most of them are from large clients because that is where we see the short-term opportunities, because this has brought us partners so I would not be surprised to see that also reflect in the growth rates for may be the top five clients over that same period. And the reason we have indicated flattish growth is simply because on a quarter-on-quarter basis if I look back to the past our growth rates have been somewhere around between 2% and 4% on average, so if we are having roll offs of somewhere around 4% - 5% of revenues over the next couple of quarters that will wipe out a large part of expected growth. So that is basically the broad thinking behind this and we do not have any more visibility to get more precise than this, so that is the first question.

The second question was around integration with CLX, so I would say integration is going well, we have assimilated their front end with our European sales teams, so from a go to market perspective there is now a combined team under unified leadership, we are pitching jointly to all clients in the European region for both their service offerings and our service offerings. We have succeeded in selling some of our digital offerings to their client and we are in I would say fairly advanced stage negotiations for selling their digital asset management platform to a couple of our clients. So, I would say that that business is on track to meet the projections that we had for them for FY16, so I would say broadly speaking things are on track.

Manik Taneja: Sure. And if you could breakup your comments across the three segments of your business because some of your IT peers have indicated some pressure in the financial services side. Do you see a similar situation happening or impacting our business in financial services? And also if you could give us some sense in terms of what are you seeing on the digital and cable business.

PD Mundhra: So I will start off and then may be Anjan can augment with more comment. I would say as has been the case in the last 12 to 18 months, on the cable side of the house we have not really seen any roll off pressures yet so most of the roll offs that we have seen or that we expect are on digital and banking. In banking, the story continues to be a continuation of the trend we have seen in the last year and year and half which is work reducing around the OTC processing area and us picking up other opportunities and risk and compliance, KYC, regulatory support. For digital, it has been a more mixed story. I think with our large clients it has been sort of more flattish, with our smaller client we have continued to get traction particularly in retail. But with that I will hand over to Anjan if he wants to say anything more on banking.

Anjan Malik: No, I think PD you have captured most of it, I am sure we will address on these topics if other questions are asked.

Moderator: Thank you. Our next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: You said that in last three years you have almost doubled the sales, so if I roughly calculate it is like 25% CAGR on top-line which we have achieved. So why every time when I am listening to the concall of management, management guidance is 15% to 20%, means are we being conservative or it is, can you just explain that?

PD Mundhra: Sure. I think if you look at our performance over the last four years you will find that some of that growth has been also driven by the two acquisitions we have done, Agilyst in 2012 and CLX in 2015. So our organic growth rates actually have been in the low double-digits in the same 10% to 15% type of range that we are guiding to in the future and because we have no certainty around when we will get more opportune inorganic opportunities therefore all we can guide to is organic growth rates.

Moderator: Thank you. Our next question is from the line of Saurabh Shah from AUM Advisors. Please go ahead.

Saurabh Shah: The short-term contracts that you mentioned which are rolling off, is it that you expect to continuously see many short-term tenure contracts which keep coming on and obviously you do not have the visibility now, or you think is that really just one time contracts for each of these thing. So the question is, you do not have long-term visibility but you still expect these things to keep coming on and on often, are you seeing that in the market? And if you could just over next 18 months give a sense of what you are seeing in each of the three verticals in terms of the drivers for the kind of outsourcing that you do, certainly will appreciate that. Thanks.

PD Mundhra: So let me take the first question, may be Anjan can respond to the second one. So in terms of the short-term opportunity I would say that roughly 10% to 15% of our revenue pool at any given time consists of short-term work and here I am defining short-term as projects that have less than one year duration. It just so happens that in this quarter we saw bunching up of these new opportunities and therefore we are cognizant of the headwinds they will create when they roll off in the next couple of quarters. But at any given time I would say it is not unusual for anywhere between 10% and 15% of our revenues to be coming from relatively short-term work. In terms of growth drivers for the three businesses Anjan will address.

Anjan Malik: So I think across all our clients as you know there is a significant revenue pressure and our clients are trying to address their cost issues both through sourcing talent from guys like us and the large IT guys that you speak with. But also talking to product and software companies that might be automating parts of the process change that they may not have been able to do five years ago. So we are I think at different paths of maturity cycle, I think our question was asked fairly about where we are seeing this in banks and clearly the banks are the most precious because large parts of banking have seen the most amount of revenue pressure over the last five years and they are looking for amongst many things non-linear solution through reducing cost. So we think over the next few years or least let’s say for the next medium term we anticipate that growth will come, a lot of the growth will continue to come from sort of the short-term to medium-term which are focused around change initiative and working alongside new platforms that these banks are moving to and maybe they might be what we call multitenant models where we support in fact the intermediate utility that might be supporting the back. But it is very much in flux at the moment because in many instances the banks themselves do not know what are they going to look like six or nine months from now. Digital continues to be the area where there is the most demographic tail winds, so almost every vendor in the street whether they are technology, whether they are people, whether they are hybrid today has a digital practice. We have been in this business as you know pretty much from the inception of our business and we see a lot of demand in that area. The issue I think PD has mentioned this to you, PD and I and Rohitash have spoken about this fact that most of the demand in digital tends to be non-linear which means that there are lot of technologies that are used to solve these digital resource pain points. So just because there is a lot of demand digital it does not translate into direct demand for us. But as I said, there is a lot of demand, it will come in small chunks so it is a function of how much of it we can capture over the next couple of years we see a lot of demand.

Cable is an interesting point, it is a niche market which is undergoing a tremendous amount of regulatory change, we are seeing a lot of M&A so that continues be right there as another client. But in the medium-term we continue to see demand for the services that we are in and we are happy to see that a lot of our services and some of the new ones that we have launched are getting traction. So we continue to feel sanguinely bullish on the cable business.

Saurabh Shah: Just one question follow-up to what you said on banking Anjan, are you looking at kind of more to the non-linear or the automated part either as part of we are trying to do more work yourself or it is part of an acquisition strategy as well or you expect to stay in the more linear side?

Anjan Malik: As you understand, what you guys call the BFSI sector is the most mature buyer market that there is and therefore by definition it also has a most mature vendor market serving it. We found that the most successful way or at least in the short-run that we have been in the business is to differentiate and stick to the thing that we do very-very well. Non-linearity is really being driven today by product companies and what we call fintech, so you guys are seeing fintech investments over the last year have quadrupled. We do not feel that we can add any alpha in that space so we continue to feel that our alpha is picking two to four domain areas that we have depth in and to be more front to back which means being closure to customer by doing more onshore work, partnering with whichever technology platforms they work with and making sure we have the skill sets in them and then continue to provide execution at the highest level possible and we feel that that is why we are still winning business, whether it be short of long-term rather than not.

Saurabh Shah: PD just one follow-up to what you said, do you see this 10% to 15% of short-term contracts increase for you and in the market as well where people are just being more opportunistic, more short-term versus the earlier model of longer-term models?

PD Mundhra: I do not know whether I would call it any kind of trend because here is what I would say, I think in situations where clients are feeling more confident and they have more budgets for discretionary spends then you tend to see more short-term work.

Moderator: Thank you. Our next question is from the line of Madhu Babu from Centrum. Please go ahead.

Madhu Babu: Sir we have mentioned flat revenues for a couple of quarters, so is it like maybe you are seeing seasonality or this roll off for one quarter and is there a chance that Q4 can be strong again, you can get that growth from Q4 onwards or is it going to be a three quarter of weakness?

P D Mundhra: We honestly do not know because we do not have that good visibility, all we know is that some of the work we have got recently is short-term so it will go away somewhere in the next three, six, nine months and that will therefore act as an impediment to showing stronger growth in those quarters. So that's all we can say, it is hard to predict exactly when these projects will roll off and therefore when that will hit in terms of growth, but I would guess probably over the second half we will have a flat to flattish kind of outcome.

Madhu Babu: Sir in terms of automation, could you talk about how that is hitting on the banking process and whether you are seeing this new third party automation companies and how their traction is briefly on that?

PD Mundhra: We are seeing more focus from the banking industry than ever before and investing what technologies that they can invest in or implement to try and reduce manual steps. But it is too early to tell how successful or unsuccessful it will be at the moment, I think it is early stage.

Moderator: Thank you. Our next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: I have couple of questions. One, on the growth side I heard your answer both on growth and margin kind of guidance, but can you give a little bit more clarity why you are guiding for a kind of decline on the margins from here specifically? And also if you can throw some light on the tax rates for next year and other income for the current year from here?

Rohitash Gupta: So for your first question around margins, the prime driver of margins is essentially growth and because we are foreseeing in near term a flattish kind of growth trajectory, it is likely that we won't be able to get pyramid benefits or benefits due to other people factors over near term. So that is the prime reason I said that. Secondly, on the G&A, if you look it has been trending at the lowest end in Q2 as a percentage of operating revenue and we expect it to go back again to 12% plus range. So that is the second reason, but the primary reason is on the people side, where basically the employee cost is the largest cost for us and if we do not see enough growth we do not get to play with the pyramid and cost efficiency and utilization, which in a good quarter we can do. On your question around tax rate, I think if you look at H1 and if you exclude the deferred tax item that was exceptional item in Q1, our effective tax rate had been trending at 24% for H1 and we expect similar number for full year as well.

Sandeep Agarwal: And one more question, I asked this question for next year actually, so how you are seeing that part? Secondly, also if you see in this quarter the SEZ revenue is showing a little fall from 69% to 67%, so still there is a fall in tax if I am not wrong, so what is the reason for that?

Rohitash Gupta: Sandeep they are not directly correlated because the tax computation for a enterprise is based on basically couple of methods, first of all we fall under MAT especially in SEZs, so if our MAT based tax is more then that prevails, but if our regular tax for all the units put together is more then that prevails. So do not go by the pure SEZ revenues for drawing a correlation to the effective tax rate which also includes our onshore subsidiaries taxes where the effective tax rate at an individual entity level is much-much higher; it goes up to 40% also.

Sandeep Agarwal: Also sir, our selling and distribution expenses if you see it is consistently falling quite sharply, this quarter it was 13%, so what is the reason for that, is it somehow related to the currency or something else?

Rohitash Gupta: So these percentage metrics for S&M are computed on rupee to rupee basis, so even the costs are in rupee and revenues are also in converted rupee, so I do not see a FX effect on that one. But having said that, in S&M revenues the only variable factor is travel and bonus provision which is estimation at best and that estimate gets more and more accurate as we move towards the year end. So if the travel cost fluctuates then that hits the S&M cost, if the bonus provisions estimate at any point of time goes up or down that can also impact S&M, otherwise the peoples' salary cost as far as that is concerned for onshore has remained steady to slightly up quarter-on-quarter.

Sandeep Agarwal: And any comment on the sharp increase in India attrition rates?

PD Mundhra: So I think Q2 is always a quarter where we see higher attrition, the sense we have is also generally hiring in the market place has picked up and I think the combination of those two has lead to higher attrition rate this quarter as compared to last one.

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

Abhishek Kumar: So just wanted to dig a little deeper on the short-term projects, PD just want to understand what is the typical sale cycle for these kind of projects?

PD Mundhra: I would say it varies a lot depending upon the level of urgency for the client, so in some instances it can be less than a month, in others it could be two to three months, but that sort of a range is usually for short-term work.

Abhishek Kumar: And secondly I think I remember a couple of years back 3Q was when we got a lot of short-term projects around the holiday season in the US, but this time we are not seeing, I mean we are actually talking about the current projects rolling over. So any comment that you would like to make why this year there are actually lower number of short-term projects in the 3Q?

PD Mundhra: I would say it is more about our book of specific clients and when opportunities open up with them, our sample size is too small to draw a trend from it or for seasonality and etc to start playing a big role, it is more about the fact that for the six, seven, eight clients where we have large relationships where these opportunities sometimes open up to us, what is going on in their business priorities and when those opportunities come.

Abhishek Kumar: And my next question is on margins, I think last quarter we mentioned that in the native business the EBIT will be around 30% - 31% and 19% -20% in the acquired business, I think CLX specifically. This quarter the native business margins have gone up significantly to 35%, so going forward when you are guiding about slightly lower margins are we talking about freshers in the native business itself or are we seeing some headwinds in CLX as well?

Rohitash Gupta: So Abhishek to answer your questions on the margins, I think full year outlook we have already stated in the last two conference calls and we are expecting it in the early 30s still, so H2 also I expect to be in early 30s. What was your other question, sorry?

Abhishek Kumar: So are we seeing some headwinds in CLX as well in terms of margins?

Rohitash Gupta: Yes, so CLX margin for H1 has been about 18% operating margin and that you can assume to be a fair estimate for the full year as well, we do not see any additional pressures there. As far as your overall eClerx margin pressure question is concerned, we normally get client price hikes through the year for some of our large clients and this year has not been any exception, so I do not see any pricing pressure which is abnormal in H2 compared to last H2.

Abhishek Kumar: So for the full year basis it is safe to assume that we would be around 30% for the consolidated business?

Rohitash Gupta: Absolutely.

Abhishek Kumar: And just wanted to check, in terms of some of the large clients that we have, were there any client specific issues, have you seen one of our large digital client they are basically acquiring another technology company, a large acquisition. So any follow through impact on our business due to that?

PD Mundhra: I would say it is too early to tell, because there is a lot of M&A activity happening across our clients in all three businesses, actually cable, banking, and digital including the transaction you are referring to. And most of those deals have not closed, so I think once they close, once we understand who their successor management team is going to be within those entities and what they declare as their priorities we will be able to better assess the likely impact on us. But at this point we do not have any reason to believe that they will either be significantly positive or significantly negative.

Abhishek Kumar: So I would assume that is not impacting our guidance for the next half?

PD Mundhra: It is not because we do not really know how that will play out, so until we have more information we cannot incorporate that into our guidance.

Moderator: Thank you. Our next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: My understanding was that short-term projects have lower margins because these transformation programs are more likely to be onsite and they are also less likely to be automated which you otherwise do in your regular business. But somehow this quarter we have had a lot of short-term work but the margins have gone up significantly and the S&D expenses which include the onsite costs have actually come off. Could you just explain?

Rohitash Gupta: So I do not think these three things are necessarily correlated, so the first one is around the growth lead by short-term projects, second being S&D cost and third being margin or utilization. So it depends basically on the nature of work you are getting, so as long as you can deploy your existing resources or bench or whatever to service those short-term demand in certain pockets then to that extent your utilization rises and you do not bear the burden of any additional costs for executing short-term projects. So I think that is what has happened and also PD explained that much of the short-term projects not only these two quarters but also historically have been in our large clients specially our top five clients where you do not have to necessarily spend additional sales dollar to get those.

Moderator: Thank you. Our next question is from the line of Harit Shah from HDFC Securities. Please go ahead.

Harit: Sir I just had a question on your debtor days, I notice that over the last several quarters now maybe for the last 2.5 to 3 years it has, while quarterly fluctuations have been witnessed on an overall basis, the trend has been more towards the upper end, so now in fact this quarter was at 80 days, so any specific trend that you are seeing over there, any particular reasoning that you can attribute this to, is it because of changing project types maybe away from FTE because of collection cycles maybe longer or what would you attribute this to?

Rohitash Gupta: So Harit as you rightly noted this DSO number has been in the very broad range of 70 to 80 days and there can be specific instances in our large clients where they maybe undergoing a system change on procurement end or some other effect which affects our payment cycle. But apart from that we do not see any structural change in terms of movement of debtor days upwards.

Moderator: Thank you. Our next question is from the line of Shubham Gupta from Nirmal Bang. Please go ahead.

Shubham Gupta: My first question was on the margins and the short-term projects which has been answered. My second question is on the bonus provision sir, what are the parameters which you consider while estimating the bonus provisions?

Rohitash Gupta: It is typically based on the exit run rate for the year which is measured by likely Q4 revenues.

Moderator: Thank you. Our next question is from the line of Rahul Aggarwal from Banyan Capital Advisors. Please go ahead.

Rahul Aggarwal: My question is on your CAPEX, what is the total number of seats we will have post the expansion and how will this CAPEX help us in reducing our cost or let us say containing attrition rate?

Rohitash Gupta: Sorry, I did not fully understand the second part of the question. But in terms of seat count, we have about 8,600 seats now across the three cities and just to remind you we have now a facility planning cycle which typically extends up to 12 months or more, so these facilities which went live in early part of this quarter or late part of last quarter were actually planned much before that and these were basically for the 10% - 15% growth that we have talked about all along for this year. So this has no implication in terms of what future growth there will be, I think we have enough capacity today given that we have only around 8,600 or 8,700 people whereas we can go up to easily 1.2 seat utilization, so we can easily add maybe 800 more people without adding new seats. But again that depends on the type of business that we get, like day shift, night shift, what kind of work and things like that. So we will see in terms of future additions.

Rahul Aggarwal: Actually I read in your presentation somewhere that you are having these expansions across various cities and not only just three cities, so I was trying to understand that how is the expansion in various cities that this distributed expansion is going to help us in cost in any way or let us say containing attrition in any way?

Rohitash Gupta: What we do is that we have footprints in Bombay, Pune and Chandigarh and when we look at expansion we look at facilities which are contiguous which become available in the same premises, so that does not necessarily add to much of a cost because it is just one floor down or one floor up or something like that.

Rahul Aggarwal: And next one is on attrition, what steps are you taking to contain attrition vis-à-vis competition?

Rohitash Gupta: So first of all let me give you historical perspective, so I alluded to it in the initial note. So if you go three to four years back and look at our Q2 attrition, it used to be 39% to 44%, so by that contrast this 36% is not alarming at all, but having said that, yes there is a jump between Q1 and Q2 of about 480 bps and even that jump is lesser than what we have seen in last three years. So I would not count it as alarming metric, obviously we are keeping a close watch on it and we have people initiatives planned every year in terms of what new we will do to keep our employees more engaged and hopefully those initiatives will help us in curbing this attrition. But even without that I expect that Q2 is typically the higher end of the attrition quarter and as we move into Q3 and Q4 it will moderate.

Rahul Aggarwal: But is it possible to bring it down to let us say in 20s?

Rohitash Gupta: You talked about competition a little bit while ago, and I would say if you compare like-to-like companies in the BPM space their attritions also are in 35% plus range and have been so for last as many years as I can recollect. So in terms of peer benchmarking I think we are already there, so this is not alarming from that angle. Now as an industry what we can do to retain people, I think there are some industry initiatives which NASSCOM is doing and eClerx is actively participating in that and we hope that that will overall increase the inflow into the BPM industry and build a little bit more pride in our employees to stick for a little while longer.

Moderator: Thank you. Our next question is from the line of Harit Shah from HDFC Securities. Please go ahead.

Harit: Sir just wanted to get some clarification out here, so given that your overall employee headcount was more or less flattish in this quarter and obviously seat count increases to quite a bit and if you were to assume a 1.2 times kind of a sharing factor the utilization of course reduces has helped a lot in this quarter, so I get the point about you having planned this well in advance and not necessarily anything to do with the expected growth rates in next two quarters but is this utilization rate then maybe over the next three or four quarters can we then expect this to further go up, how do you view this going forward?

Rohitash Gupta: Harit just to clarify, just in case there is any confusion, the staff utilization in the report has nothing to do with seat utilization that I talked about.

Harit: Yes, I know, I am talking about your overall capacity utilization, I mean your total employees divided by…

Rohitash Gupta: Yes, so currently we have almost 1 seat for 1 person but in reality many of the seats we are able to double shift because of the day and night processes going on in the same seat and that makes it a little bit unpredictable but the trend has been that we are getting more and more live work which is typically EMEA to US shift and which typically improves the seat utilization because in the day time you can do something else.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Systematic Shares. Please go ahead.

Rahul Jain: So in terms of the CLX business, so are we seeing any impact of the China kind of a slowdown business impact on the luxury good market or any eventual impact to player like us?

PD Mundhra: Interestingly we were having an internal discussion on this very point a couple of weeks ago and so far apart from one client of theirs who has been, I would say significantly impacted by the slowdown in China, the rest of the portfolio does not really seem to be showing that yet. And as I think I mentioned a little while ago, they are still on track to meet their forecast for full year 2016. So on an overall basis we think it is not so adverse.

Rahul Jain: So not to worry kind of a number as of now?

PD Mundhra: Yes, effectively.

Rahul Jain: And the platform there is still asset management solution, so how is the traction on that particular thing, is it driving the traction for this business going forward?

PD Mundhra: Yes, I think they are trying to encourage all their existing clients also to move on to that platform and again I think as I might have alluded to earlier, we are pitching that platform to some of our native clients as well. So I would say that yes with every quarter they have more and more clients not that platform which is a good thing.

Rahul Jain: And that means a much more incremental opportunity from the same client or it is not meaningfully higher?

PD Mundhra: No, I think it does create stickiness, whether it creates more opportunity in the long-term is more open to question but it certainly creates more stickiness because the client is now using their platform.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the conference to Mr. Mundhra for his closing comments. Over to you, sir.

PD Mundhra: Thank you everyone for making the time to attend our call and we look forward to talking to you next quarter. Thanks a lot.

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