



“eClerx Services Limited Q2 FY-18 Earnings  
Conference Call”

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**Moderator:** Good day, ladies and gentlemen and welcome to the eClerx Services Limited Q2 FY18 Earnings Conference Call. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohitash Gupta. Thank you and over to you, sir.

**Rohitash Gupta:** Thank you for joining eClerx's earnings call for the Second fiscal quarter of FY18.

We saw Q2 revenues declining sequentially by 0.9% in USD and 1.8% in CC terms with Q2 USD revenues coming at 48.4mln. Q2 revenue decline was due to previously mentioned substantial decline in business from one of the top 10 US based client at the end of Q1. While the actual impact of that event was much more, a large portion of that got offset by solid growth in emerging clients of each of the three verticals. At a service line level, Content and Tech Services in Digital, Digital Care Chat Services in Customer operations and Client lifecycle services and Tech Services in Financial Markets have shown highest \$ YoY growth in Q2. Markets and Digital consulting practice has grown phenomenally to almost double on YoY basis. Further, more than half of the new business won during H1 came from Digital of which most significant wins were in Retail and Etail segment.

We expect that both USD revenues and OPM pool will improve in H2 compared to H1 which will set up for better FY19. We are also pleased to announce closing of asset purchase deal for TwoFour Consulting at the end of Q2. Through this purchase, we have inherited more than \$4mm of annualized revenue across high single digit number of clients, few of which are as our Top 10 banking clients. In another significant update, company has recognized Exports related incentives under "Service Exports from India Scheme" or SEIS. This scheme is applicable for certain eligible IT enabled service exports out of SEZ. This is a one-time recognition of INR 202 million of Other Operating revenue under Exceptional item. This 202 million is further broken up into about 121 million INR of actual realized cash benefits for FY16 exports and a further recognition of ~82 million INR for FY17 services on estimated accrual basis. We will do true up of this accrual on receipt of actual incentives for FY17 in due course. The said scheme has not been notified yet for FY18 and hence we have not done any accrual of incentives for H1 of this year. Any Operating revenue or Operating margin metrics in the earnings presentation exclude the Impact of this INR 202 million to enable you to make like to like comparisons. Further, in an attempt to align our disclosures to market, we have started reporting a new Margin metric called "Operating EBITDA" which now excludes Other income, while our historical disclosure of EBITA will continue to include Other income. Q2 and H1 reported PAT %s would have been adversely impacted by 4% and 2% respectively if we were to exclude above one off incentive.

Similar to trend seen in last 4 quarters, our pipeline has continued to grow on YoY basis and at the end of Q2 the high probability pipeline size was double that of corresponding number at Q2 end of last year. About 50% of this Pipeline as at Q2 end belonged to Financial Markets. The pricing for offshore FTE business has remained flat on YoY basis. The share of managed services in our portfolio, where we price basis output, has increased by more than 300 bps YoY in line with our strategy. Similarly, the share of Analytics business, which is another strategic growth driver has increased by more than 500 bps YoY.

During Q2, we expanded revenue footprint on YoY basis with seven out of our top 10 clients. To give you sense of our client needs and eClerx solutions, I will highlight a few significant pieces of work that went live in Q2.

1. First, eClerx has worked on our largest ever onshore consulting project in KYC area for a large US Bank that has traditionally not worked with eClerx.
2. Second, eClerx has started work on Computer Generated Imagery or CGI projects for creating lifestyle images for a USA based furniture retailer and a toys manufacturer.
3. Third, eClerx has started a large program to support ecosystem of more than 10 vendors for a large US cable services provider to manage and improve their technician dispatch operations.

Moving on to supply side updates, our new delivery center in North Carolina has gained further traction with Cable clients and we are now looking to generate revenues within this FY. We have scanned our entire Offshore revenue portfolio for applicability of RPA and have either deployed, planned or proposed to deploy Robots in suitable process elements with high ROI. This exercise also gave us an insight that vast majority of our offshore portfolio is not suitable for application of Robotics or advance automation, which is due to the fact of having large portfolio of smaller processes. We have more than 150 bots in production today, vast majority of which are on eClerx's proprietary Robotics platform. We anticipate that our proprietary platform will provide us differentiation over competition using 3rd party RPA platforms, as we are better positioned to embed Analytics, Domain, other automation toolkits and Machine learning into Roboworx, thereby providing superior outcomes to clients.

Coming to our detailed Q2 results, our INR Operating revenues decreased by 1% to 3.3 Billion INR. Our OPM% was at ~25.2% which is a drop of 170 bps from Q1 level. While our offshore FTE business continues to enjoy above 30% OPM, we expect consolidated OPM% to stabilize once the impact of Q1 client decline fully subsides and we are able to redeploy staff to other revenue generating project. A few other structural reasons for decline in OPM% over long term are (1) Increasing mix of higher end Analytics, Tech and Consulting services as well as onshore Delivery ramp up (2) Increasing focus to sell Managed services where cost curve over project lifecycle has a different trajectory (3) Impact of Robotics deployment. As stated earlier, we hope to focus on OPM profit pool and will aim to improve it from current low level over next few qtrs. The Profit after tax at 887 million INR increased by 12% sequentially. The PAT percentage in Q2 was 1% higher than last quarter at 24%.

Other income was 140 million INR gain in Q2 vs a gain of 82 million INR in Q1. This was mainly due to depreciation of various currencies at Q2 end resulting in revaluation gains on our debtors and bank balances. Our forward hedge book of about \$142 mm was at 2.8 times the quarterly revenue. The average strike rate of these hedges is 70 Rs/\$ which has worsened by 1 Rupee to a \$ since Q1 due to unfavorable movement in spot and forward premiums. Based on hedges booked till now, we expect that ~61 mm worth of inflows will convert into operating revenues at 70.5 Rs / \$ during H2.

The Operating margin percentage dropped by ~170bps in Q2 vs Q1 due to increased cost of Delivery employees both offshore and onshore. We are also building 3rd offshore location capability for Customer operations which brings temporary low utilization. Our SG&A remained largely flat on QoQ basis and depreciation increased to 3.6% due to new H1 capex.

We had about 7.7 billion INR of cash and cash equivalent at the end Q2 which is about 1.3 Billion INR more than Q1 end. Our H1 Net operating cash flow stood at 1.77 billion INR and has improved by INR 109 million YoY primarily due to SEIS incentives in H1. More specifically for Q2, the Operating cash flow generation was highest ever for us.

While we have booked capex of around 65 million INR in Q2 and we expect H2 capex to be similar to H1. We have caught up on CSR expenditure plan for the FY18 during Q2 with H1 expenditure now at 28 million INR. We are proud to announce addition of a new theme to our CSR. We have now engaged a leading NGO for skills development to improve employability of youth in India thereby supporting Skills and Digital India mission of the Government.

Our USD and North American concentration have decreased to 82% and 65% respectively to reflect the loss of substantial business from a top 10 US client. The DSO improved to 81 days in Q2 and we reiterate that our DSO range is likely to be within 75-85 days in near term. Our staff utilization based on direct production staff including trainees in Q2 saw a significant drop to 73.8%. The utilization is likely to improve from here as we repurpose the freed-up resources to new growth in similar domain, location and shift.

The client counts in all revenue buckets have remained same as in Q1. While the YoY growth of top 10 client has suffered sharply in Q2 due to one client event described earlier, we have been able to grow our emerging Clients in double digits.

We have improved our disclosures on the Human resources front. We have broken out Tech Services and R&D out of erstwhile Support services and have restated the data from FY17. In this representation, R&D denotes the product development and innovation effort being put in advance automation products, platforms, Robotics, machine learning; Similarly, Tech Services denote size of rest of the software team, many of which work on client facing Tech deployments. The Support services now include rest of the info sec, IT infrastructure, Finance, Admin and HR teams globally. The company employee strength has increased marginally by 0.6% during the quarter to be at 9223. Our sales and Business Development staff count has remained steady around 80 mark, where the minor increase is due to addition of TwoFour consulting sales team.

We have now started showing Offshore attrition which includes Thailand in addition to India. As expected, and in line with industry trend, our attrition has dropped to 37% in Q2 which is a significant improvement over 41% during Q2 of last year. Tax rates for H1 is at 23% and Q2 is 25% and we still expect FY to be in the range of 23-25%. Lastly, in terms of Board constitution, Mr. VK Mundhra who was non-independent Director and non-executive chairman has vacated the office and Mr. Pradeep Kapoor, a long serving Independent Director at eClerx has been appointed as Chairman.

With this, I will hand over the call back for Q&A.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from Prashant Kothari from Pictet. Please go ahead.

**Prashant Kothari:** I have a few questions. My first question was around the revenues from your top 10 clients. We have been seeing this drop over last few quarters now. How do you see that progressing over?

**PD Mundhra:** Hi, Prashant, this is PD Mundhra here. As we discussed in prior calls, there were a couple of adverse events amongst our top 10 clients some related to corporate restructuring on their end in terms of M&A activity which resulted in ultimately roll off in the work that we were doing with them. And as we have shared in the past we think that at least the events that we have visibility to have all played out. So, as we look at ahead from here I would say that performance on the top 10 should improve from where it has been in the last year, year-and-a-half because these large roll offs that we were adversely affected by hopefully are behind us. Having said that in line with our strategic goals we would want to continue growing our emerging business faster than our top 10. So, on a relative basis, I would still hope that our emerging business continues to grow stronger but even on an absolute basis I would hope that performance of the top 10 going forward is better than it has been in the last six quarters.

**Prashant Kothari:** And the emerging client growth also was kind of negative for some time and it has shot up suddenly this quarter. First want to understand what has changed and is this a sustainable change now?

**Rohitash Gupta:** So Prashant, as PD mentioned we had three large adverse client event which have played out over I would say 18 to 20 months going back. And these things have happened over a period of time, right. So basically when you do the YoY metric comparison some of the clients that ramped down may be one year, one-and-a-half year back they may change the buckets. So that was one reason for sort of very lop-sided growth or declines in various quarters on YoY basis.

Coming to your more important question which is that what we see this quarter is a sustainable or not. I hope it is. And I must say that the growth that we have seen this quarter that is \$13.8 million coming from emerging that is pure organic growth, there is no significant impact of any artificial client movement across emerging versus top 10 buckets. So this emerging growth that you are seeing in this quarter is the real organic growth compared to Q2 of last year. So that much I can confirm and the growth is very broad based. So, as I mentioned in my earlier remarks

the emerging growth that you are seeing of \$1.4 million was surprisingly quite uniformly spread across the verticals.

**Prashant Kothari:**

Ok. And when I see your headcount breakup, two comments I have. One, that the offshore delivery employees have increased this year while we are still not seeing that revenue attrition happening and obviously it is because of these ramp downs that you are seeing from your client. So was there really a need to increase that offshore headcount? And second was on the business development front wherein the headcount has actually kind of remain stable or even has reduced from the March '15 levels. I was just trying to understand this better when we are trying to kind of increase our emerging clients and the business is obviously more difficult than what it used to be. Is there some area where we need to kind of hire more and put more resources on the ground?

**PD Mundhra:**

Prashant, I will respond to that. On the first point about fungibility of offshore headcount in the light of roll loss, I think it is important to understand that there are some restrictions on repurposing people because of the location constraints, shift constraints, the domain knowledge that they carry and so on. For example, we may have some project that is in digital in Bombay, we may have some growth happening with the Financial markets client in Pune and therefore we really cannot redeploy the affected people. So, you have to end up hiring new people for the new work and the old job or the old work that is rolled off ultimately that headcount either with attrite naturally or will get reabsorbed in some work for that same business in the same location. So that is why you will see some mismatches as in we have grown 200 heads in India since the end of FY17 without commensurate growth in revenue but that will adjust.

The second point you asked about which is about business development staff, I think you also have to look at the number of headcount engaged in onshore delivery. If you look at that numbers, we were at 178 as you will see on the head count graph in the presentation at the end of FY17 and we are at around 260 now. So, our strategy is that ultimately even the people that we have engaged in onshore delivery a good number of those are actually present at client sites and while they are working on delivery projects because of their access, because of the intimacy with the clients they do throw up opportunity for us in terms of new things that we can chase. So, in a way we are restructuring our onshore organization where the previously BD staff are more senior than perhaps what they were in the past and it is complemented by the strategy of having some people in onshore consulting or onshore client-side roles who can interface as lower levels in the client organizations and also pickup opportunities there. So, when you look at our effort of go to market, in some way I think you have to look at both those pools of people.

**Prashant Kothari:**

And one more question was on the operating margin side, you have mentioned that you want to increase the operating margin pool. I am not sure, are you trying to say that the margin should have some upside movement from here on because I think your long term margin guidance is still lower than what your current margins are unless if you have kind of changed your thoughts around that?

**Rohitash Gupta:** So Prashant, all we are saying is that we do not want to look at the percentage margin. We are at a low of Rs. 83.5 crores and if you look at the operating margin over the last four, five quarters it has declined for various events that we have just mentioned. And we believe because we do not have any visibility of further downside as of this time in any large account and the growth and the pipeline and all other metrics are looking very, very favorable. We think that this number should be at the low and hence should grow from here on. Now how much will be the growth, I think that is something that has to be seen but we will expect this number to grow at least in line with the industry growth.

**PD Mundhra:** So again Prashant, I think the point that we are making is that in the past we have been focusing more on a percentage operating margin, whether it is 30% or wherever in that sort of ballpark. But over time, our business has become more varied and more complex because we acquired a company in Italy, we are doing much more onshore delivery, a lot of our book is shifting away from pure FTE business to Managed services. And each of those pools of revenues have different characteristics in terms of profitability. So as opposed to trying to give guidance on a percentage margin that we aim for, we are now focusing on absolute profit dollars or absolute profit rupees which as Rohitash pointed out was Rs. 83 crores this quarter and that is the number we look to grow in future quarters. So that is the metric that we will be paying more attention to as a management team rather than the percentage margin which of course we will continue to report for.

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

**Apurva Prasad:** Sir, I wanted to understand I mean you just talked about the impact of the large US based client. How would top 10 have grown ex that?

**Rohitash Gupta:** So Apurva, it will amount to talking about client-by-client basis but I would say that it was definitely a top 6 client that declined. And as we know from our revenue bucket disclosure metric that these are all \$5 million plus client and if you do a simple average actually that number will be much larger and we lost substantial portion of that client. So, excluding that I think the numbers would have looked very favorable for top 10 on YoY basis.

**Apurva Prasad:** And also your comment on the growth in revenue pool, so is that reference to 1H or 2H last year?

**Rohitash Gupta:** No, it is versus H1. So H1 or more specifically Q2 we feel is the low point given what we see today. And both USD Dollar revenue as well as OPM should grow from Q2 levels onwards in near term.

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

**Vishal Desai:**

Just quickly if I could understand two things. One, on the revenue side, if you could split out PD in terms of the verticals what is the kind of demand that you are seeing and are the headwinds within the financial space whether it is to do with the automation bit or how are we combating that and how are we expecting growths to pick up if at all which are the growth drivers within the verticals? And secondly, in terms of the margin levers while you all have said that the margins are likely to pickup from here on. Could you also give us some color in terms of what is the available levers that we have over the medium term?

**PD Mundhra:**

So let me take a couple of the questions and I will ask Anjan to talk more specifically about your question on Financial market. In terms of demand, I think Rohitash may have mentioned this in his opening remarks. In the first half of the year, the bulk of the demand or the growth has been in our markets business and digital business, almost equal, may be little bit more in digital but more or less equal. In the current late stage pipeline, as in terms of projects that we expect to convert in to revenue in the next two to three months about half of it is Financial market and the rest all equally split between Digital and Cable. So, we have seen decent demand across three businesses. To summarize, H1 was more Financial market but still H2 is Financial market and then the others are sort of equally split. In terms of specific things around the automation in the markets business Anjan, perhaps you can talk about that and then Rohitash can talk about margin levers.

**Anjan Malik:**

I think in some ways some of the big changes that we are seeing in the market place around automation have been playing to our natural business model which is always been automation and technology embedded. We have really been focused on three different levels for driving growth in financial markets. So one is increasing the amount of onshore presence. So, to the point that Rohitash made, that focus of buying this company augments our move more and more high end we will call it ideation work onshore. So, this will be Consulting, Project Management and so we have getting involved in the design and analysis of this automation workflow for lot of our client work. We are sort of getting much earlier in the design stage as our clients embark on these different initiatives and because we have a lot of subject matter expertise in many of the areas that our clients are considering change in was sort of the natural first place to these guys are to you for driving these engagements.

The second area that we have been focused on obviously is taking the existing functions that we work on and our existing services and converting them much more into a opstech service offering. So much more than I guess the large IT guys have been able to do was very much seen as a combined offering player where we are providing SME resources together with business analysis UAT and sort of smart technology capability.

And the third implication of all of these is that a lot of our new engagements and our existing engagements are effectively converting to what we call managed services offerings where using a combination of onshore project management, onshore SMEs more dedicated technology embedding in our RPA, our intelligence as well as other third party platforms we are effectively giving an all end service was either fixed price or budget-based pricing which allows us to take



much more of the gains of productivity. And our clients are happy to do that because we are able to give them much more I guess price reduction as a part of it. So net-net the impact of all of this is that while there is a large focus on automation in our clients, I think there is actually also a huge amount of demand for guys who can work along the transformation journey and not the traditional BPO who are seemed today as guys who work as today's new job protectionist. I mean that is who the BPO guys are seen as and I think we are very much not seen in that light. I do not know if that answers your question particularly.

**Vishal Desai:**

Well, sure it does. Just a couple of things further on the financial side. In terms of the drivers for growth while you said that the whole transformation bit is what is driving is the client's prerogative right now. But could you spell out in terms of a traditional business versus something around the analytics or something what kind of work are we doing because as I understand your managed services model is aiding your productivity gains but more on the traditional side where we were on the OTC side, is there any kind of traction picking up or how are things they are pretty much the same, if you could throw some light on that?

**Anjan Malik:**

So I am not quite sure what you mean by traditional because if you are talking about subject areas or areas of expertise I would say there are three broad areas that we are playing, right. So there is transaction processing which is effectively everything that happens after the trade is done to the point that money moves for our clients. So clearly there is a lot of impact of technology in those places like block chain and AI and robotics and we continue to be in those areas and we are continuing to see growth in those areas because of our clients. But the way we are seeing that growth is doing functions that are doing work that is slightly different for the senior force. So whereas we might in the old days have been just purely processing, today we are effectively providing changed services, we are providing consulting services, we are providing testing services and we are also providing some run rate sort of operations support, right. So that is the one part. The second part as Rohitash alluded to this is effective of the core client operations and these are all the entire activities associated with the client on boarding, know your customer, client due diligence, anti money laundering, compliance, suspicious activity and financial crime and that is another area where we have been running a large number of what we call projects/programs which are onshore and offshore which again are using technology to drive these large compliance programs that our clients are running. So that has been sort of another big area of growth.

The last piece of it is what I will call front office initiatives which are focused much more on compliance, things like the Volcker Rule or automation and robotics in the front office or sales, analytics, structured product review and activities of that sort and we are continuing to see more and more engagement and those are more front office initiatives and I think that is a new and more and an increasing area of work for us largely driven by us doing more onshore work in that space. So, I think along those three axis we are seeing growth and what you will call our traditional business, I would say that it is morph to a different type of offering as opposed to sort of run rate BPO.

- Moderator:** Thank you. We have next question from Ankur Rudra from CLSA. Please go ahead.
- Ankur Rudra:** The first question is, you have highlighted a lot of changes in your order book and the kind of business you are winning both structurally in terms of the new kind of business and also I think in the near term PD you have highlighted the second half of the year will see more business around digital and cable as opposed to financial services. So I have got two part question on this. On the margin front structurally this new kind of work you are doing, what are your puts and takes, what are the things that will pull you down and push you up on a two or three year basis and may be you can address the same thing for the short term and I have another follow up?
- PD Mundhra:** So Ankur, thanks for the question. I would say the big picture if you look at our different types of activities, it will be surprised that the offshore business enjoys higher margin so onshore business is typically much lower margins on a percentage basis. So as we think it is important to do for a variety of strategic reasons. Also managed services deals tend to be lower margin upfront because ultimately, we are making the bet that we can drive innovation and productivity gains over the like of that deal and therefore as the deal progresses over time margin should improve. So that is how it is in terms of order of profitability but then within a particular bucket so let us say if you are talking about regular offshore BPO work it does not matter so much whether it is cable markets or digital they all enjoy roughly similar margins. And same thing goes for onshore. So I think that classification of onshore, offshore managed service is a bigger driver of margin differentials than whether it is cable markets or digital.
- Ankur Rudra:** And am I correct in assuming your comments about your visibility that you feel most of the main headwinds around automation and insourcing which were impacting you for the last several quarters are largely behind you and they were mainly around those three specific client events. This is not a structural headwind for you anymore and you sort of crossed the chasm, if you will?
- PD Mundhra:** Well, I would not go so far but here is what I would say that in our type of business based upon our experience there is a certain degree of churn built in to the revenue portfolio anyway because certain projects are short term or defined term projects, client strategic priorities change. So we bake in a certain level churn in our revenue portfolio any given year. Unfortunately, as Rohitash mentioned in the last year-and-a-half we have seen much higher churn than that long-term average largely due to these two or three very specific client events. So once that goes away I think we expect portfolio churn to come back down to longer term historic levels expecting some effect of automation and client priority change and so no longer to be affected by those chunky events. And if that happens, our growth sales momentum thankfully have been pretty strong all through the last couple of years. So we think that on a net basis we should start seeing growth from H2 onwards which is what we have guided to.
- Moderator:** Thank you. We will take the next question from the line of Ruchi Burde from Emkay Global. Please go ahead.
- Ruchi Burde:** I had two questions. First, we have been building on our onsite delivery capability. How do we see this going forward? If I heard correctly Rohitash mentioned in the comment that from this

financial year we would start to see revenue flowing in from here. Could you throw more light here?

**Rohitash Gupta:** So Ruchi, that comment was specifically in the context of North Carolina operations which is dedicated as of now to customer operations. So we have set up that delivery centre primarily to serve or try out the onshore delivery models for few specific cable clients. And in that context I think we are having much clearer visibility now to get onshore revenues from that delivery center within this financial year.

**Ruchi Burde:** Okay as we kind of improved our disclosures on the resources, can we also give revenue as onsite has becoming more and more important part of the business can we expect such disclosures to follow on?

**Rohitash Gupta:** Yes Ruchi, I think we take your point and every year basically at the close of year we look at major changes in the disclosure of that nature and we will definitely take your point into consideration.

**Ruchi Burde:** Lastly, it is regarding what applications in our business? You mentioned that the **BOT** application for the offshore part of the business does not seem that appropriate considering the ROIs. Could you elaborate more I mean what kind of implication we should think because of this for your offshore? Would it be correct to assume that I mean the perceived threat for automation for your offshore piece of business is less means the processes are very small?

**Rohitash Gupta:** Yes so Ruchi, the accurate statement will be that relatively compared to peers or BPM industry it is lesser threat. The reason for that is that our digital vertical if you look, the portfolio is typically made up of multiple processes across multiple clients averaging about maybe 5 people per process, if I talk in people sense. Similarly, Financial Markets will be slightly larger than that and Cable Operations will be even larger. So as you know, smaller processes are typically less amenable for automation of any kind, including bot applications. And that's what the discovery was because we have scanned our entire portfolio for application of our own platform. But on the flip side, we have also found a lot of areas where we could deploy. And that's why I said we have already either deployed or plan to deploy in future or have proposed to client because in many cases it requires client permission. So your comment is right that our portfolio is little less susceptible to robotics led risk compared to maybe other BPM players who may have very large footprint of F&A or other scalable type of back office businesses.

**Moderator:** Thank you very much. We will take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

**Shekhar Singh:** I just wanted to know like in terms of revenue growth, you were expecting H2 to be better than H1. But overall, say over a 2 or 3 year period can we expect a double-digit growth sort of a thing because last 2, 3 years have not been very good?

- Rohitash Gupta:** Shekhar, I think, as PD mentioned, our better visibility is largely for 6 months. And long-term we can put as a statement in terms of hope or expectation or desire or target, but there won't be any databased weight behind that. So I agree to your comment that being a small niche player we should grow at industry or industry above kind of growth rates. And that's the expectation over long-term.
- Moderator:** Thank you. We'll take the next question from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.
- Govind Agarwal:** PD, you mentioned in the opening remark that the active pipeline is almost double on a year-on-year basis. So can you provide some more details on this and the possible conversion to order book and what does it mean in terms of growth?
- Rohitash Gupta:** So, yes, pipeline has been growing on Y-o-Y basis at a company level. And you know, as I just mentioned, that pipeline typically converts within max 6 months. The reason for that is also linked to the previous point I was making to Ruchi that in many pieces of our businesses, the process or the piece of work is smallish in nature, and hence by design and by our value proposition also, clients don't have to give us long advance intimation. And that's why the visibility is only 3 to 6 months.
- Govind Agarwal:** And how is the conversion of this pipeline to order book happening?
- Rohitash Gupta:** So conversion for the pipeline that I alluded to which has doubled, these are late stage pipeline. I would leave it at that. So conversion does happen as I mentioned, for a majority of those over 3 to 6 months.
- Govind Agarwal:** So basically conversion can be a very short cycle phenomena?
- PD Mundhra:** Yes. For that part of the pipeline, yes, Govind. This is PD. Because as Rohitash said, we measure pipeline at 2 or 3 stages in the funnel. And his comment was more about the late stage, things where you effectively have verbal approval from the client or which are very close to getting converted. There is an early stage pipeline also which of course has a much longer sale cycle associated with it.
- Govind Agarwal:** And also could you provide some color on this, what is the demand drivers for this and what is leading to this increased pipeline?
- PD Mundhra:** I would say one thing, Govind, that as growth sales for us have been reasonably strong through each of the last 2 or 3 years and the reason that that hasn't translated into net growth is more because of the larger than usual roll-off we've experienced. So demand on the whole has been fairly decent I think for us in terms of new sales for the last couple of years. Where we stand right now, I think there are 2 or 3 things that have helped us. One, we've seen a relatively earlier adoption, in my sense, of new technologies like robotics and machine learning and that has led to renewed interest amongst clients to have conversations. In some cases, they may not end up

buying those services, but at least it gives us the access. And then sometime we either sell the same service or we sell something else. But it creates more access because there's more interest around these new technologies. And right now we are one of the early adopters or early providers of these things, point 1. Point 2, I think our focus on building onshore capability has helped us target a broader range of opportunities than we could have done in the past with a purely offshore capability. So again, as our hypothesis of that the fact that we build onshore delivery we can target a broader share of clients, I think to some degree that's played out. Thirdly, I would say we began a journey 2 or 3 years ago towards becoming more productized in terms of service that we take to market and also incrementally, I think that has helped because it has helped our salesforce in the sense that they have to sell a fewer number of things and therefore hopefully they can be more productive in those areas. So I would say it's a combination of those 2, 3 things. Very hard to attribute to anyone on its own.

**Govind Agarwal:** And this is my last question, if I may. So the shift to new technologies right now helping you in terms of growing the pipeline and growing topline?

**PD Mundhra:** I would say overall yes, because while the impact of any individual deal is revenue negative. So, for example, if you implement some automation and take away manual work, there is a reduction in revenue. But those conversations give us access into newer areas or other areas where we may not have been. So I think if you look at it on a more holistic basis, it's probably at this point a little bit of a tailwind for the business as opposed to headwind.

**Govind Agarwal:** This is like a market share gain for us?

**PD Mundhra:** Hard to say Govind. It all varies case to case.

**Moderator:** Thank you. We'll take the next question from the line of Abhishek S from Equirus Securities. Please go ahead.

**Abhishek S:** So you've been alluding to this growth in H2. So just looking at the data on a Y-o-Y basis for the quarter, I think the growth of this quarter has more or less, the decline has been closer to a percent for the quarter. So when you say better H2, would we start seeing year-on-year growth from Q3 onwards, are you talking more from a sequential perspective?

**Rohitash Gupta:** I think we are talking about sequential perspective. From here on we will see growth. And like previously mentioned, we are seeing strong demand and hopefully the conversion rates will remain what they are and those things will convert within H2 from our late stage pipeline. So it's not so much of a Y-o-Y commentary because what happened 1 year back may have been in different set of clients than what we have today because of continuous churn in some of the top clients.

**Abhishek S:** And based on your visibility for the next 6 months, is there any potential increment in risk from any of your top 10 clients in terms of dissimulation or any sort of revenue risk?

**Rohitash Gupta:** Abhishek, as PD mentioned, we have no visibility at this point in any of the current top 10 clients to undergo any large event which could impact us.

**Moderator:** We'll take the next question from the line of Sandeep Agarwal from Edelweiss Securities. Please go ahead.

**Sandeep Agarwal:** PD, I had just one question and I think you already explained a bit of it earlier, but just wanted to know in little bit more detail. How has this digital thing impacted us till now? Is it very positive or you would say it is moderately positive or it is not that positive, point number one? Point number 2, this whole wave of automation, do you think that it can impact us in a long-term in a very negative way because with automation happening the role of human interface will slowly go away? So is there a reason to be a little worried about that and to develop more products to counter that?

**PD Mundhra:** So, Sandeep, I'll take the second question first because I didn't fully understand what you meant in the first question about digital thing. So I'll come back to that. But on the question about long-term impact of automation, I guess our perspective is automation has been a factor in our business from the early days. It's just that in those days it came in the garb of Excel macros and workflow tools. Then it started coming more recently under the nomenclature of robotics. And now it's all about machine learning. So in some flavor, automation has always been there. And I think to the extent you become more productive as a result of applying automation or efficiency tools, then you find more things to do with the time that gets freed up. So this is more a philosophical discussion, but if you look at the amount of automation that has come about since the industrial age, first on the factory floor and then in offices, it's not that unemployment rate has become 30% or 40%. People have found things to do with that spare capacity and my hope is with human ingenuity, the same thing will happen in the future. And the last thing I would say, as Rohitash has mentioned, our portfolio I would say will not feel the first order effects of automation in that sense because it's not like we have 400 people doing finance and accounts or 800 people doing insurance claims processing. So if you have large pools of people doing very rule-based activity, then I think you are in the frontline of facing that fire. In our case because we are smaller teams typically doing more judgment-oriented work, it's harder to automate. So there will be some effect, but I think it will be over a period of time. It will be in line with what has happened in the past and it will also create some opportunities being a double-sided coin. On your first question, I didn't fully understand what you meant by digital thing. So could you explain a little bit and then we can respond.

**Sandeep Agarwal:** I just wanted to have some sense that with this digital transition happening, are we big beneficiaries of it right now or you would say it is kind of moderate benefit or you would say that it is slightly negative? So how will you rate this transformation and how is our preparation in that direction?

**PD Mundhra:** Well, I'd say it's moderately beneficial to us. As you know, one large business for us is our digital business and in that sense obviously if clients are allocating more money on digital initiatives, we are in consideration for some of those projects and therefore potentially beneficiary. Having

said that, I think it's also important to understand that digital by its very nature typically is a very scalable technology. So if you are implementing the latest Adobe, SAP or whatever, it's not like you need human resources in proportion to the volume of work that you want to do. So, for example, if you set up an e-mail marketing campaign, now whether you send that to 10 recipients or 10,000 recipients, the number of people you need to set up and manage that campaign doesn't change. So the effect of this is we get more opportunities, but because the tools are inherently very scalable and cutting edge, they are not so effort intensive as to require large numbers of headcount on our side. So that's why the book is consisting of a large number of small opportunities for us, particularly in the digital space. In some of our other businesses where we work in legacy systems of clients which are maybe not as efficient as these new cloud-based platforms, there, there is more need for manual intervention, so the opportunities also tend to be larger. So that's just the nature of the deal. So I'd say on the whole the digital push is moderately beneficial to us.

**Anjan Malik:**

So actually, PD, if I can add one point which I think might be useful to the last point that you made in context. So I think it's important to clarify that when you look at eClerx as a business and you look at the majority of our footprint, we're very different, as you know, from what I would call classic BPO, who are the lowest cost provider of long-term services, and to the point that I made earlier, who are guys who effectively just do the same thing on and on, just cheaper. I think we're very much seen by our customers as middleware, the guys who take complex functions and transition them to a point at which they will either become sunset as when they land or they'll get automated or they will end up going to an even low cost producer, maybe a cheap BPO or even in-sourced to the captive. And I think it's in that middle space that we add a lot of value. And there I think we're seeing a lot of uptick of demand, because the skill set that you need to operate in that middle space is effectively being a person who has high domain expertise, can pull together technology, whether it's new and advanced or even old stuff, reengineering and high SME or subject matter expertise content and manage that whole journey from taking very fractured processes to make it defined, understood and low cost. And I think that is part of the reason that we've been investing in onshore, investing in more advanced technologies, because it sort of just upgrades our skill set to continue to win that business. And I think some of the demand uptick that you're seeing is because our customers understand that in this new world they need a partner sort of that's more nimble and quicker to respond than your classic IT or BPO counterparts.

**Moderator:**

Thank you. We will take the last question from the line of Sudhir Kedia from Mirae Asset Management. Please go ahead.

**Sudhir Kedia:**

Just one question over here. When you say that going forward you will not focus on margins and would focus on rather on EBITDA growth, do you indicating that your EBITDA growth would be lower than your sales growth going forward on a sequential basis?

**Rohitash Gupta:**

No, Sudhir, we are not thinking in that sense. The primary focus of the company where we stand is to grow revenues first and alongside we have the strategic initiatives like PD and Anjan

mentioned about increasing onshore delivery, managed services, robotics, analytics etc. And some of these we know will come at much lower percentage margin, especially onshore consulting as an example, or even some analytics business may be lower percentage margin than our offshore BPO business. So we are not able to define and we don't want to define a target percentage margin number for ourselves and our own internal teams as we move along those strategic growth drivers because we want to set us up for long-term.

**Sudhir Kedia:** Basically what I have understood from you is that the part of the incremental sales has a much lower margin versus the company average margins and hence you don't want to project any kind of percentage margins or indicate or target margins and not lose business, something like that. Is that what....

**Rohitash Gupta:** Yes, this is largely true even from the historical perspective. So when I mentioned in my initial remarks that Consulting and Tech Services and Analytics have grown phenomenally year-over-year basis, obviously many of these are lower margin than offshore BPO business, because offshore BPO business has the highest percentage margin. So that comment is correct, yes.

**Sudhir Kedia:** And since the product mix of the company has changed and hence the company average margins have come down, can we say that on an incremental basis as you're indicating that some of the lower margin business may grow faster than the others, margins may further come down?

**Rohitash Gupta:** Sudhir, I can at least talk about what has happened, and for that, at least that comment is true that some of the margin drop has been because of increasing the share of such services which have lower percentage margin. And we will expect that some of these things will grow in future further especially Consulting now that we have TwoFour added to us and also analytics continued traction and onshore consulting continued traction. We think that newer business may have a larger share of onshore business, which will be at low percentage margin.

**Moderator:** Thank you very much. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

**Rohitash Gupta:** Thank you everyone for joining us this time. Look forward to talking to you next time. Thank you.

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