Eclerx Services Limited
Personiv Acquisition Conference Call

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Diwakar Pingle:

Good evening, good afternoon, good morning, friends, based on geography you are in. Welcome to the eClerx Services Limited analyst call to discuss the acquisition of Personiv.

To discuss the acquisition and to answer your questions today, we have with us the top management of eClerx - PD Mundhra, Co-Founder and Executive Director; Anjan Malik, Co-Founder and Director; and Rohitash Gupta, Chief Financial Officer. Please note that this call is limited to only this particular acquisition and we will not be taking any business-related questions on this call. As usual, the normal safe harbor clause applies.

I now hand over the conference to Rohitash Gupta, Chief Financial Officer of eClerx Services. He will make his opening remarks about the broad contours of the deal, and then we'll move to the Q&A session. As far as the Q&A session, I'll let you know the rules as we start that particular activity. Over to you, Rohitash.

Rohitash Gupta

Thank you, Diwakar. Good evening, good morning, everyone, from wherever you are joining. This is a special analyst call that we have arranged today.

We announced acquisition of Personiv on Friday night, India time. And we have signed definitive agreements on that date to acquire 100% interest in Eclipse Global Holdings LLC, which is the U.S. holding company of Personiv group of companies. Personiv provides digital marketing, back office and customer support outsourced services. This transaction is through internal accruals of eClerx, and it will be all cash, around $34 million is the Enterprise Value assessed and there will be earn-outs based on business performance for 2 calendar years. Acquisition is on debt-free and cash-free basis, subject to normal working capital provisions and we expect to do the closing of this transaction sometime late this month. Hence, Q3 results of ours will have probably very few days of Personiv numbers, whereas Q4 for eClerx will have hopefully full Personiv financials integrated.

As I mentioned, Personiv provides digital, creative, back office and customer contact solutions. In digital, main service offerings are content creation, social media campaigns, SEM and customer experience-related services, whereas in Creative, it is graphic design, print ads, photo retouching, et cetera. In Back office, the main service is finance and accounting, followed by several data management processing services. In Customer contact, it's primarily voice-based and deals into several functions, depending upon the client needs. Personiv has totally about 2,100 employees cutting across 3 countries: India, Philippines and U.S. In India, Personiv has 2 delivery centers in Gurgaon and Coimbatore. In Philippines, the center is located in Manila. And the U.S. office, housing top management and sales personnel, is based in Austin. Personiv derives about 85% of its revenue from its top 5 customers. Majority of whom have been there for more than 5 years in terms of relationship with Personiv. The CY '19 revenues were about $32 million, and CY '20 is expected to be around $28 million, primarily because of the COVID impact that we saw from February onwards. The EBITDA of the company has been hovering around 20%, barring the CY '20 YTD September, which was impacted because of several costs rationalization initiatives, which led to higher accounting charges for the September YTD.

In terms of strategic rationale for doing this deal, we find that Personiv's business has very attractive business demographics. So, if you talk about client dimension, the clients that they have, especially in the top 5, they are very, very tenured in terms of mature relationship with Personiv running in 5 to 10 years plus range. And several clients have been mined very deeply across several services to get to a very, very good stature in terms of revenue size.

In terms of services, it matches very closely with our digital and customer operations vertical. Client geography is primarily concentrated around North America, U.S. and Canada. And that, again, very closely matches with eClerx' concentration. Personiv has shown winnability against very, very large competition in their key clients, including some of the captive situations. And despite that kind of landscape, they have been able to make some of their top 5 fairly large.

In terms of strategy, it remains to mine existing clients and add new clients primarily in the SMB sector, focusing on the finance and accounting services. We have observed the performance during the last 8 to 9 months and the impact due to COVID, both supply as well as demand side, was very, very similar to eClerx' business impact that we felt during the COVID. And it has rebounded fairly well in the recent few months. Firm's top management has been there for very, very long time. So very, very stable management who has stuck with Personiv due to its culture and strong business growth over the last 5 years.

In terms of synergies, obviously, the India footprint adds to our capabilities and locations, and allows us to tap talent from North India as well as South India. And Philippines adds a new popular BPO destination for eClerx's services. There might be some cost savings, although that's not the main rationale. For example, in Austin, where sales team of both the organizations are there and we expect that there will be some cross-sell and upsell opportunities, given that there is a high overlap in digital and customer operations services across both set of clients. And U.S.-based team as well as India-based team will definitely augment eClerx' existing senior leadership team and diversify our top 10 list and also adds a new potential sector for us, which is SMB or, let's say, $0.5 billion to $5 billion segment of clients, which, till now, we have not tapped in eClerx. The cultural fit was also very, very strong, and our 4 pillars match very strongly or overlap very strongly with the 3 core pillars that Personiv has, very employee centric and very client-centric culture. As I mentioned, we expect to close in December end and look forward to that event.

With that, I will pass back to Diwakar for opening Q&A.

Diwakar Pingle:

Thank you Rohitash for that brief summary. We will now begin the Q&A session. Participants having questions will have to press on 'Raise Hands' button for asking questions. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal:

I wanted to basically understand 2 things. While you explained that it adds to our digital capabilities and reach. And basically, in every possible way, it is a good fit for us. So Rohitash, you mentioned you have observed this company in the last 8, 9 months. But I wanted to understand whether it is just the whole process started 8, 9 months back? Or you have been engaging with them for more than that period? The reason I am asking is that this whole 8, 9-month has been pandemic period. So, in a steady state, you may not have much observation, if the engagement was only 8, 9 months. That was number one. Number two, while you explained that it very fairly resembles our digital and the customer offering piece of business, but they do have some back office accounting and all. So, if you can give us some breakup, although you mentioned that largely it is digital, but can you give us breakup, some kind of indication of how much revenue comes from each of the areas, which you mentioned? And this 20% EBITDA margin is well understood. But below that, is there a big amortization and depreciation involved? Or it flows down directly to PAT to that extent?

PD Mundhra:

I think your first question was how long we've been in touch or aware of the company. And I would say that we first came across Personiv somewhere between 2 and 3 years ago. And we've had sort of casual conversations off and on either directly or through the bankers over that period of time. But really meaningful engagement started, fortunately, just before the pandemic hit in February, March this year, which is why Rohitash alluded to the 8, 9 month period. And that's the period of time in which we've been in much closer contact and having much more visibility into how the business is performing. So that's the answer to your first question.

The second question, Sandip, if I remember, was about split of revenues, right, across the 2 or 3 main service streams. So again, I wouldn't want to get into very specific numbers at this juncture. But I will say that the very vast majority of revenues are analogous to our native book as well. And that's really what attracted us, sort of their ability also to focus on large corporate clients and build multiyear, very tenured sticky relationships. So, there is a small part, a very small minor part that is of the net new service around finance and accounting. But at least in today's book, as I said, it's a relatively small contributor.

The third question, if I remember, was around the drop-off between EBITDA and PAT. And obviously, more details on this will come when we consolidate their books. All I would say is, post the close, there will be no debt outstanding for Personiv. So, there will really be no interest component, apart from the one that's required by the latest accounting standards. But there's no external interest payments going. There is no other large amortization. Of course, when we do the purchase price allocation, then some of the value may go to customer contracts and we may have to amortize that as per accounting standards. So, I guess it will be more accounting driven than any external payments that are going out below EBITDA. And tax rates, I guess, in the U.S. today, tax rates are what they are and in the future, let's see what the new administration does in terms of future trajectory of tax. So hopefully, that answers all your questions. If I haven't, please remind me, and I'll attempt to answer.

Diwakar Pingle:

Thank you, Sandip, for that. The next question comes from the line of Manik Taneja from JM Financial.

Manik Taneja:

PD, my question was with regards to the fact that this acquired entity essentially focuses significantly on the SME market. And in our case, we have focused more on large-scale enterprises in the past. So how do you see the challenges from a sales standpoint, looking at a new category of customers?

PD Mundhra:

That's a great question, Manik. So, for clarity if I look at the current account base for Personiv, a reasonable chunk comes from what I would call large Fortune 1000-type clients, but the majority comes from companies that are smaller than that profile. And you're right, I think it is somewhat of a new segment for us. I think the only segment in our current business where we have exposure to non-Fortune 1000 clients, is our digital business where we do serve some smaller accounts. And in that sense, we'll have to take the lead from Personiv because they've clearly built a sales machine, both for acquisition of those accounts as well as for profitably servicing those accounts. And I think that works if you have a very tight focus in terms of the services that you're providing so that you can amortize those cost investments across multiple smaller accounts in that same area. And I think we'll want to learn from them and be guided from that decision in that portfolio of services.

Manik Taneja:

If I can have one more follow-up. So just trying to understand the revenue productivity of the acquired business. It appears to be quite low in comparison to even the revenue productivity that we enjoy in our offshore business. So, what would essentially explain this?

PD Mundhra:

I think it's a function of 2, 3 things. One is their geographical footprint. So, for example, if you look at Coimbatore in India, I would say, it's obviously a market where you can source talent at much lower prices than perhaps you might in Delhi or Bombay, for that matter. Secondly, it is also a function of the kind of relationship they have with clients. For example, with one large client, they have, what I would call, almost like an arm's length captive-type relationship. They are a virtual captive for their client. So, they work almost like on a cost-plus-type mechanism with them. So, I think, ultimately, we are agnostic to revenue per headcount. What we really care about is the EBITDA that the business is generating, in terms of total EBITDA dollars. And on that metric, if you look at it, a 20% EBITDA is not that different from what our sort of consolidated EBITDA metrics are. Maybe it's a little lower, but it's not that different. So that's what attracted us.

Diwakar Pingle:

I'll now let Sandip come with the follow-on question, please. Sandip, go ahead.

Sandip Agarwal:

PD, who has been advisor in this deal? That is part one of the question. And second, what is the lock-in for the management? How much skin in the game will they have for next 3 to 4 years after acquisition? And also, I wanted to know this mechanism which you mentioned of top clients or at least top 5 clients are contributing 85%. Is there a firm kind of relationship or some kind of lock-in, which will be there or any of this client can actually leave at their will? So some idea on that front will be helpful. And one small piece to Rohitash. Will it be fair to assume that it will be EPS accretive from day one?

PD Mundhra:

So maybe I'll go first and Rohitash can respond to the EPS question. I guess, a couple of your questions were about lock-ins for clients and lock-ins for employees. So for clients, there is no lock-in, very similar to or in fact, identical to our relationship with clients, they have the right to terminate their arrangements with prespecified notice periods, and that is the case with Personiv as well. With employees, as Rohitash mentioned, there is an earn-out mechanism in place spanning a couple of years. But that only obviously covers a much smaller proportion of the employee base. And we would expect to put in place sort of our normal incentive mechanisms that we have even on the eClerx side in terms of bonus arrangements and potentially participation in ESOP plans, et cetera, for appropriate members on the Personiv side of the family. So that's, I think, how we would want to manage that. Sorry, I forgot your first question, Sandip. Can you remind me what that was?

Sandip Agarwal:

Yes. PD, so I wanted to know who has advised us on the deal, what kind of due diligence has happened. So that was the part. And second part was, which was left unanswered was from Rohitash, whether it will be EPS accretive from day one.

PD Mundhra:

In terms of advisors, we had a variety of advisors. There were law firms, obviously, involved in all the 3 major jurisdictions, the U.S. being the main one, but also Philippines and India. And then we had accounting firms involved for financial diligence, et cetera. We didn't have any banking advisor on this deal from our side because we were approached directly, and we sort of worked the deal directly with Personiv management and owners. I believe on the Personiv side, their bankers were ‘Edelweiss’. I think that answers the question on advisors, and I'll hand over to Rohitash now.

Rohitash Gupta:

Sandip, yes. So as PD alluded, there will be purchase price allocation, et cetera, done when we consolidate the books. But a very short answer to your question is that on a cash EPS basis, it will be accretive from day one.

Diwakar Pingle:

The next question comes from the line of V.P. Rajesh of Banyan Capital. Please go ahead.

V.P. Rajesh:

Just trying to understand the nature of this business. Would it be fair to say that most of the projects these guys do are short term in nature, just like our CLX business? Or these are much longer assignments like our F&A type of work?

PD Mundhra:

I would say the vast majority, if not all of that book is more of the longer-term nature in terms of how the SOWs are constructed. So typically, we are at least 1 year SOWs, which tend to renew. Of course, under the broad framework of that SOW, the clients keep sending different, different small assignments. But the SOWs typically signed at least for 12 months at a stretch.

V.P. Rajesh:

Okay. And can you also comment on 2 other things? One is, if the Enterprise value is what you stated, Rohitash, then what is the Equity value? And then second, if you can comment on the top management, meaning it is just 2, 3 guys or is it a bigger number?

Rohitash Gupta:

V.P., on the first question, I would refrain from making further breakouts at this point of time. Obviously, we will disclose it post-closing. But substantial part is Equity value, as you can imagine. The second question was about the top management team. Top management team there basically is made up of the top management that sits in U.S., which is essentially a CEO, CFO and basically the CXO layer, a couple of guys. And then each of the delivery centers are run very, very like a separate geographical center entity or who handle their own P&L in some sense. And each center has its own center lead, which is part of the top management, followed by their own hierarchy. So short answer, top management will be constituting of almost 6 to 7 people in all across geographies.

Diwakar Pingle:

The next question comes from the line of Dipesh Mehta from Emkay. Please go ahead.

Dipesh Mehta:

Couple of questions. First about, you said $34 million Enterprise value plus earn-out for next 2 calendar years. Can you help us understand what would be the earn-out kind of, whether it is over and above $34 million? And if yes, what would be the mechanism to decide it in terms of what will be the maximum, if you can help understand the payout would be. Second question was about the business, even, let's say, from '18 to '19, business seems to be flattish. So if you can help us understand how one should understand this business trajectory or growth trajectory for the business? And what explains flattish performance between '18 and '19? And third question is about the management retention. You alluded to earn-out. But in terms of how crucial those guys will be for us to grow this business, if you can provide some perspective around it.

PD Mundhra:

Dipesh, maybe I can kick off. On the earn-outs, they are incremental to the $34 million, and they are essentially linked to growth of the business beyond the baseline that exists at closing. So, depending upon growth in revenues and EBITDA, there are specific targets. And as those targets are met, that earn-out will be accrued and paid. So, the earn-out is extra, but it's also linked with business growth beyond the numbers that are there in that PowerPoint today. Your third question was about importance of management. And I would say one of the things that attracted us to Personiv is the strength of the management team and what they've been able to accomplish. So especially in our services business, I would say, continuity of management is very important. And a good chunk of the value of that franchise can be attributed to current management. So obviously, we would want them to stay and continue to guide and grow that business. I think over a period of time, we need to sort of figure out from an integration perspective where each company can add value to the other. And also, therefore, perhaps increase depth in management on either side because I think they are always short on good people. So, there might be bigger roles that current Personiv people can play in the overall structure and vice versa. So that very much is a function of time, and we'll see how that plays out. Sorry, there was one other question that you had asked, right, Dipesh. Can you remind me of that?

Dipesh Mehta:

My another question was about the business growth. So let's say, from '18 to '19, business growth seems to be flattish. Now '20 because of COVID, business has some weakness. But if you can provide what would be the growth drive. Because '18 to '19 flattish, what are the factors which led to flat performance? And coming to earn-out, can you say what would be the maximum kind of outlook? I understand earn-out were extra, but what would be the maximum, let's say, is there any cap?

PD Mundhra:

So, there is no cap on the earn-out because, obviously, for us, we are very happy in fact if the earn-out ends up being a large amount because that would essentially mean that we've bought a higher-performing and much larger business. And in terms of the trajectory between '18 and '19, I think what happened in 2018 is one of their main clients underwent some corporate development events in terms of M&A. And that created a spike in work for Personiv in that calendar year 2018. Once that event was fully digested, then in 2019, sort of they reverted back to the normal run rate of work from Personiv. And so, we saw a slight decline between '18 and '19. '20 that you see is the COVID effect in terms of somewhat of a decline from '19. '21, one would hope that there is growth in the business, and the earn-outs are designed to incentivize current management to deliver that. But we'll see, I guess, in the next few quarters, how things turn out.

Diwakar Pingle:

The next question comes from the line of Pankaj Garg

Pankaj Garg:

My question to PD is regarding the technology. So how would this acquisition fortify' s our technology in servicing our clients, regarding capability they bring on the table?

PD Mundhra:

The way I would answer that is if I look at the F&A practice, they have really been taking advantage of the migration of a lot of these activities on to the cloud. So as their end customers have adopted cloud accounting platforms, that has created opening for Personiv to outsource and offshore some of that work. So, that is sort of one area in which they have leveraged new developments in technology. More generally with their other clients, I think their approach has been to rely on more on their clients' infrastructure and technology platforms. So, they may not necessarily be something that we can just lift and shift from Personiv to ourselves in terms of technology. But I think where they made some use for emerging technology trends is more on the cloud adoption on the F&A side.

Pankaj Garg:

My second question is, so is Personiv a technology-intensive company? Because they have a lot of small clients. So, they must have a technology, which they can use for each and every client rather than having a proprietary technology for different clients?

PD Mundhra:

Yes, like most well-run BPO companies, they obviously have internal tools, workflow tools that they use for variety of activity. But most of the smaller clients are on the F&A side where they're using cloud software. So, they don't have to necessarily invest in that technology because the client is doing it. And the technology lends itself to remote working in a very native fashion. And ultimately, if you're doing F&A, it doesn't matter so much, which platform you're doing it on. Much more important is your understanding of the GAAP principles. And that's where I think the Philippines presence comes in very useful because Philippines had the same GAAP as U.S. GAAP. So, when they hire accounting professionals in the Philippines, those people come in with that ready-made domain knowledge. So, from a technology perspective, I think there may not be necessarily many things that we can adopt from them.

Diwakar Pingle:

The next question comes from the line of Sandeep Shah. Please go ahead.

Sandeep Shah:

Just wanted to understand the kind of services, if you can break down into voice and non-voice. And within voice, is it largely automated? Or is it still the effort based kind of a voice business?

PD Mundhra:

Sandeep, again, I don't want to give a very precise breakup here because we don't even do that for our own business. But suffice to say that voice constitutes a minority of their revenues and data and creative work constitutes the majority of their revenues. On the voice side, the work is manual because it involves Personiv employees receiving and making calls with end customers in the U.S. and that work is performed across a variety of functions, as Rohitash said, including sales and including customer service.

Sandeep Shah:

Okay. And any breakup in terms of how you look at the business in terms of sticky revenue, annuity-based revenue versus a project-based revenue from the current split of $28 million expected in CY '20?

PD Mundhra:

I would say the vast majority is annuity, and I'll let Rohitash chime in after me to add further color. But my recollection would be that almost all of that revenue is on 1-year plus SOWs, with high renewal rates. So, in that sense, I would say, the business is quite long tenured. And certainly, if you look at the past relationships, as Rohitash said, their top clients have all been clients for 6, 7, 8 years. If anything, I would say, the proportion of short-term work is higher in our native book as compared to the Personiv book. But I'll let Rohitash chime in with any further details.

Rohitash Gupta:

PD, that's what I was going to also add that the long-term work mix for Personiv is probably slightly more than what eClerx' native percentage is.

Diwakar Pingle:

The next question comes from the line of Akshay Ramnani. Please go ahead.

Akshay Ramnani:

So just wanted to get some sense on the top 5 clients in terms of industry verticals or what verticals primarily they would constitute?

PD Mundhra:

I would say 3 broad verticals worth mentioning. One is, sort of the marketing/PR space because Personiv provides digital and creative services to those types of companies who in turn are serving end customers. So that's one broad vertical, which is marketing agencies or for PR companies. Second vertical would be cable and telco, which is also there is overlap with our customer operations business. The third one would be, I'd say, industrial companies. Notably, we have a large client in the oil and gas industry. So, I would say the first 2 verticals are probably a much larger proportion of their revenue base.

Akshay Ramnani:

Okay. And another follow-on to that would be since majority of revenues for Personiv is from the SMB sector and the strategy is primarily around mining existing clients, given the high concentration, some qualitative sense on the mining opportunity, how meaningful it is to support the long-term runway for growth?

PD Mundhra:

That's a really hard one to answer Akshay because it's hard to predict at this juncture. I will say, if I look back and see the growth of Personiv from, let's say, $14 million, $15 million to give or take $30 million where we are now, probably 70%, 80% of that growth has come from accounts that we already had when they were $14 million, $15 million. In that sense, at least in the past, they've demonstrated very good ability to find existing opportunities with their current clients and enter new spaces. And as Rohitash mentioned, in certain cases, they've even displaced other very large outsourcing companies who are already present providing those functions, including some of the top 3, 4 Indian IT BPO players. So, I would say there is opportunity now what the future holds than we did.

Diwakar Pingle:

We have a follow-on from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh:

The first question is just trying to understand the ownership of Personiv. Is it just concentrated with 2, 3 folks who are in the management or there are financial investors? If you could just give some color around that. And then the second question is, is this sort of the end of our M&A appetite for the near term? Or are we continuing to look at other ideas which can be in a different area or more addition to one of the verticals that we currently have?

PD Mundhra:

In terms of the ownership structure, the majority ownership in Personiv was actually held by the original founder of the company, who, for the last 4 or 5 years was playing no role in active management. So, he was the largest shareholder and a majority shareholder in the company. Then, of course, a substantial stake was held by senior members of their management team, including the CEO. So they are all getting a liquidity event in the form of this transaction. In terms of our appetite, I think it continues to stay intact. If you look at this transaction at about $30 million, it's 15% of our revenue base. So, it's meaningful enough to move the needle for us. But I wouldn't say that it totally transforms our company or the revenue profile. And similarly, if I look at our cash balances, give or take $100 million at the end of last quarter. This outflow will still leave a reasonable amount of cash besides of course the fresh accruals that happen. I think we'll continue looking with an open mind at assets that come to us. But having said that, it's a low yield process because you would typically look at 30, 40 assets every year, and only a small handful of those are interesting enough to progress to further conversation. So, if you look at how we've done the transaction, we bought CLX in 2015, and we bought Agilyst in 2012, and this is 2020. So, it's been 1 every 3, 4 years on average. That could change, if we find something great next month, but let's see.

Diwakar Pingle:

There is a follow-on question from Sandip Agarwal of Edelweiss. Please go ahead.

Sandip Agarwal:

I have one more follow-on question. I wanted to know, while you very nicely explained all the parts and I think that is a very good piece of information which you have given already. I seek little more clarity on 2 parts. One, on the EPS accretive part, which Rohitash mentioned. So, since you have all the data already, can you give some more idea on that front, assuming that when will it be normally EPS accretive because depreciation and amortization, obviously, has to be written off only if the visibility on the future earn out capability of the acquisition goes down, right? So I'm sure that it will not be the case as of today. And probably, you will have some visibility of how much portion can come in that way in next 2, 3 years. Second piece is that on the senior management, you mentioned 5, 6 people are there. We have seen very bad acquisitions in the past purely because the senior management was not locked in to stay. So other than the earn-outs, what is the lock-in? For at least this 5, 6 people, is there any lock-in? Because if you pay the whole money right now, the way I understand out of $34 million, let's say, $25 million, $26 million is going to the promoter who is no more active, then only $7 million, $8 million is, let's say, going to this 5, 6 people. So, will they stay or not stay, and that can have big impact because they have very strong relationship with the client and all. And also if they, let's say, any one of them is going, what kind of conditions you are putting when they are going to exit? That is number two. And also, I wanted to understand a little bit on what will be the benefit of the key people who are staying other than the earn-out. Will they also get something in the eClerx stock, if they stay back for a longer time? Anything on that side has been finalized?

PD Mundhra:

So Sandip, I'll answer the second question and share very high-level thoughts on the first one and let Rohitash answer the first one in detail. Look, I think, as I said, we see a lot of strength in the current management. And hopefully, they like the eClerx team as well. And at least at this juncture, everybody wants to work together and put our attention to jointly growing that business. At the same time, there is no lock-in, ultimately, and people are free to leave, if they so choose. Having said that, I would say, even in that eventuality in our experience of running our firm, I would see relationships with clients, especially large relationships tend not to be focused or held only by a single individual in the firm. Ultimately, that client is buying from eClerx or from Personiv because of all the things one is able to deliver to them, not because of one relationship manager that they work with. And certainly, that's our sense also of the Personiv business as it is of ours. Finally, the only other thought I would share is that the digital and the customer contact work that they do is at least thematically similar to some pieces in our business. So, if we did come to that eventuality where god forbid, there was a mass exodus of existing management. Then I do believe that within the eClerx family, we have management depth to take on some of that work and provide continuity to plans. But I do not think it will come to that because I do feel that there is substantial incentive for people to stay and to try and grow the business. On a related note, I mentioned this in response to a prior question, but for senior members of the Personiv team who come on Board, in addition to sort of their current fixed salary and so on, we will obviously be integrating them into our eClerx incentive plans, which include normal sort of long-term variable compensation and stock options, which currently eClerx' management team participates in as well. So hopefully, there is enough incentive for them to continue.

On your first question about how accretive this is high level, I would say, if you just look at EBITDA for a moment. On our cash beyond, let's say, a 5%, 6% yield. So that's what shows up as EBITDA on the cash flow. On the acquisition, if you just take sort of and triangulate the dots, $34 million purchase price, give or take 20% EBITDA on $30 million revenues. That works out to a 5.5x, 6x EBITDA multiple, give or take, right? So earnings yield or EBITDA yield on the money invested in acquiring Personiv is, let's say, in the 15%, 16% range, give or take. So, to that extent, there is a clear delta between what you would have earned on our cash balance and what you earn by investing in acquiring the asset. Of course, there will be some leakage because of amortization, et cetera, which Rohitash can talk about. But to our mind, those are more accounting entries because of accounting policies. They are not external payments to somebody who owns debt or some other outgoing from the company. It's just a function of how accounting standards are. So I'll let Rohitash to provide more clarity on that.

Rohitash Gupta:

Sandip, I think for a moment, we can ignore what accounting entries will be created because of this event. And just look at Eclipse as a stand-alone business on itself, right, the way it's running currently. And their operating model is very, very similar to what eClerx has. They work basis leased facilities similar kind of computing system, same cost. So basically, things that are below EBITDA line, which are depreciation of assets is very similar to eClerx' model. And then tax, as PD alluded to earlier, India, U.S., Philippines, all are gravitating towards the same mid-20% number, give or take, given the new policies that are there, both in India as well as the current U.S. tax policies, right? So below EBITDA, I don't think that their native operating structure is any different than eClerx. Now what additional entries on accounting will get created because of this event, I think we have to take them in that stride.

Sandip Agarwal:

Thanks, Rohitash and PD for answering all my questions. And all the best for this and hope you will be able to make lot of money and able to accelerate growth from hereon.

Diwakar Pingle:

The next question is from the line of Surya of DSP. Please go ahead.

M. Suryanarayanan:

PD, could you just talk about -- can you take the services that Personiv has to your base of existing clients? Is that an opportunity? Or given that the offerings are primarily SMB focus, it's not something that will find appeal within your client base?

PD Mundhra:

So Surya, I would say, if I look at the vast majority of their revenue, 3 of their 4 service lines are things that we already do in some similar fashion. If I look at the customer contact work they do and the work they do on digital and creative. We already provide fairly similar services, maybe that's on nuance differences to our clients. So, in that sense, there's no net new service. Of course, there might be minor differences in terms of how those services are provided. The net new thing, I think, is the F&A piece. And I think we have to yet see if there will be a realistic opportunity within our enterprise account base for those services because F&A, very honestly, is a more horizontal outsourcing decision. And while we haven't yet done a proper survey, I think there is some chance we may find that many of our parent clients have already got F&A outsourcing arrangements in place. So, there may be less retail opportunity for that. But I think there may be more opportunity going the other way in terms of eClerx' capabilities, particularly around analytics and automation, being of interest to current Personiv clients. And I think the other capability that comes to mind that would be interesting in the Philippines presence that Personiv has because that's something we didn't have. And especially from a customer contract perspective, I can see that potentially being attractive to some of our enterprise clients. There are a couple of, I would say, initial ideas that we have in terms of exploring potential cross-sell opportunities, but we'll probably get to that a few quarters down the line. For now, the main focus is getting the deal done and making sure that the native opportunities that exist in Personiv we are able to jointly exploit.

Diwakar Pingle:

We have another follow-on from the line of V.P. Rajesh. Please go ahead.

V.P. Rajesh:

Last question from my side. Just if you can share any first cut cost synergies or revenue synergies that you see in the next financial year for us?

PD Mundhra:

V.P., no cost synergy or that was not the motivation of doing this. We may opportunistically have some very small opportunities. For example, as Rohitash mentioned, both companies have sales offices in Austin. We may not need both offices, maybe we keep only 1 of the 2 leases. I don't know. But I would say nothing that will move the needle from a financial perspective. Revenue synergies, we've talked about potential cross-sell opportunities at multiple points in this call. But in the near term, I would say the focus is just on exploiting the stand-alone opportunity that Personiv has over the next few quarters. And over that time, I think we'll get a better understanding of each of these capabilities, and we can have a more thought through cross-sell plan.

Diwakar Pingle:

Sandeep, I'm just trying you for the last time. Are you there? I've unmuted you.

Sandeep Shah:

Just on the PAT level, if I look at the purchase consideration of $34 million and if we assume for a PAT breakeven, the PAT margin, give and take, should be mid-single digit versus the EBITDA margin at 20%, just wanted to understand will that indeed to a 15% write-off below EBITDA? And if yes, for how many years? If my calculations are correct, how soon we can actually become EPS positive?

Rohitash Gupta:

Sandeep, I think we have already addressed this question a couple of times earlier. So, on a stand-alone basis, the drop between EBITDA and PAT is not very different than what eClerx has in its own native business. Because it's the same asset depreciation based on leasehold and computing assets. And the tax rates are not very different for both of us. Some accounting entries will get created for amortization of certain breakup parts that we will allocate by doing purchase price allocation and those amortization will be over the lifetime or the useful life of those assets depending upon whatever those are determined to be. I think it is too early. We will do that at our Q3 closing or soon after closing rather. And then we will have a better picture on what those charges are. But just to give you comfort, I think from your question, I sense that you are asking when it will become EPS positive. I don't think that's a question mark. Despite all those charges, it will be PAT positive anyway.

Sandeep Shah:

Yes. Rohitash, the point I'm driving is at the payment which we are doing and the post-tax treasury yield of close to around 4%. Then to breakeven, the PAT margin for the transaction should be close to 5%. So, despite the ask rate being so low, why it's just the cash EPS despite the EBITDA margin being as...?

Rohitash Gupta

Yes. I think PD already answered that question in the same context that the treasury yield is post-tax 4% to 5% only. And this asset will give us more than that on a reported PAT basis.

Sandeep Shah:

Okay. And just last thing. On addressable market, we said $500 million to $1 billion, right? Why such low market despite SMB being a big market?

Rohitash Gupta:

Sandeep, my comment was for defining the SMB segment because it could mean different things to different people. SMB segment in Personiv's context is typically companies which have their revenues between $0.5 billion to $5 billion.

Sandeep Shah:

Okay. Got it. And just last, revenue per employee, any trends? Is it been improving? Is it declining? Is it remaining more or less stable, just last thing and all the best.

PD Mundhra:

Yes. My sense is, Sandeep, that's clearly a function of the distribution of mix across the 3 centers. Because as you can imagine, Coimbatore has the lowest realizations and Manila and Gurgaon have more. So, depending on how the mix shifts, the revenue also realization shifts. But probably in the last year or 2, my sense is average revenue per head may had increased marginally over that period of time because the mix has shifted more from Coimbatore to the other 2 centers. Rohitash, please, keep me honest, if that's not the case.

Rohitash Gupta:

Yes, that's accurate, PD. The revenue per employee is lowest in Coimbatore. And Manila is somewhere in the middle, and Gurgaon is highest. And it's all determined by what kind of service mix is there in those locations and what pricing that commands.

Diwakar Pingle:

Thank you, Rohitash. With that, we've come to the end, that was the last question. So, I'd like to hand it back to PD for his closing comments.

PD Mundhra:

Thank you, everyone, for taking the time to attend this call at a very short notice. And we look forward to connecting with you again for our Q3 results in the end of January. Thank you.

Diwakar Pingle:

Thanks, everyone, for your time today. Thank you.