eClerx Services Limited
Q3FY23 Earnings Conference Call

February 03, 2023

eCLERX MANAGEMENT:

PD MUNDHRA – CO-FOUNDER AND EXECUTIVE DIRECTOR
ANJAN MALIK – CO-FOUNDER AND NON-EXECUTIVE DIRECTOR
SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER

CONFERENCE CALL PARTICIPANTS:

DARSHAN ENGINEER – KARMA CAPITAL
DIPESH MEHTA – EMKAY GLOBAL
GUNIT SINGH – INDIVIDUAL INVESTOR
HITESH ARORA - UNIFI CAPITAL
RUCHI BURDE – ELARA CAPITAL
SAMEER DOSANI - ICICI PRUDENTIAL
SANDEEP SHAH - EQUIRUS SECURITIES
SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES
TEJVINDER SHARMA – INDIVIDUAL INVESTOR
VIMAL GOHIL – ALCHEMY CAPITAL MANAGEMENT

Asha Gupta:
Good evening participants and good evening to the management. Welcome to the Q3 FY '23 Earnings Call of eClerx Services Limited. Please note that this webinar is being recorded.

To take us through the results and to answer your questions, we have with us the top management of eClerx represented by Mr. PD Mundhra, Co-Founder and Executive Director; Mr. Anjan Malik, Co-Founder and Director; Mr. Srinivasan Nadadhur, Chief Financial Officer. We will start the call with brief opening remarks by Srinivasan, and then we will open the floor for Q&A session.

I would like to remind you that anything that is said on this call, which gives any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included, but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual report, which you can find it on our website.

With that said, I will now hand over the call to Mr. Srinivasan. Over to you, sir.

Srinivasan Nadadhur
Thank you, Asha. Ladies and gentlemen, good evening. Welcome to eClerx earnings call for Q3 FY '23. We are pleased to report a very strong performance for Q3 with revenues of $85.1 million, which is up 3.2% quarter-on-quarter, both in USD as well as in constant currency. Total revenues for the quarter were INR 7,045 million, up 5% quarter-on-quarter. Margins in this quarter also held up well with EBITDA of INR 2,084 million at a margin of 29.6%, which is up 3% quarter-on-quarter and net profit of INR 1,312 million at 18.6%. Our Airoli delivery center comprises of two buildings in the same premises. We intend to vacate the older of the two buildings and have taken two floors in the newer one, so as to consolidate our presence in contiguous floors of a single building. This has led to a reassessment of the lease term of the older building, resulting in INR 54.6 million being added to other income in this quarter. There is also an increase in S&D costs in this quarter part of which is attributable to the final earn-out for the Personiv acquisition, and the remainder to an increase in marketing and travel spend. The increase in DSO from 75 to 82 is attributable to delays in receiving purchase orders from some clients. There is a marginal sequential decline in the top 10 client revenues as clients chose to cut onshore spend. Attrition has reduced, our benches have consequently reduced and therefore, utilization has increased. As you must be aware of the buyback tendering window is open from today till February 16, we expect to close a buyback process by end of this month.

Finally, a few words about the future, and then we'll move on to Q&A. So, the macro environment continues to be uncertain, and we do expect moderation in demand in CY2023. Other income in Q4 will be lower compared to the previous two quarters as the payout from the buyback will happen in this quarter, and the lease reassessment was a one-time event in Q3. We believe EBITDA margins will be towards the lower end of the 28% to 32% range. With this, we come to the end of our opening remarks. We can now move on to Q&A. Thank you very much.

Asha Gupta:
Thank you, Srinivasan. We have first question from the line of Ruchi Burde.

Ruchi Burde:
Thank you and congratulations on a good set of numbers. You mentioned outlook is uncertain, and you see demand moderation. Are there certain specific areas where you see this concern being more pronounced? Or this is a general caution that you are trying to highlight?

PD Mundhra:
Ruchi, I think it's more of a general phenomenon than isolated to any specific area. I think what we have seen is some slowdown in decision-making with clients particularly in committing to new spends because they also are uncertain about economic prospects in the near to medium term. So, from that perspective, while we still have a strong pipeline, I think it's probably fair to say that we expect conversion will slow down in the weeks and months ahead.

Ruchi Burde:
Follow on to that, what we pick up from your peers or similar peer sets is that this is the caution led by macro is kind of leading to sideways or indecisive, I would say, the activity. Do you see that kind of having impact on the roll-off business that we ran, are typically delays in peer signing or decisions and which can have an impact on the revenue?

PD Mundhra:
Yes. I think Ruchi, apologies if I was not clear, but that is exactly what I was trying to say in my previous response that we are already starting to see some slowdown in decision-making, which we think will impact the conversion of our existing pipeline. So, to that extent, we think that growth rates will moderate in the quarters ahead. I don't know if that answers your question, but that is essentially what I was trying to convey.

Ruchi Burde:
Yes. That answers. Thank you very much and all the best for next quarter.

Asha Gupta:
Thank you Ruchi. Next question comes from the line of Vimal Gohil

Vimal Gohil:
Sir, just to take the previous participant's question forward on the uncertainty you have highlighted, probably some of your peers have actually upgraded their guidance to some extent. That is point number one. And in the similar context, you can correct me if I'm wrong here, but the typical assumption is that there will be more sort of offshoring to players like us where we come into play to execute some of their cost takeout projects. So, is the slowdown expectation coming in from your normal projects? And how is the digital piece to it? if you can explain your expectation of a slowdown in these 3 contexts, please.

PD Mundhra:
Yes. So, I'll take a stab and then Anjan perhaps you can chime in. I think you're right that when there are cost pressures, clients will look at reducing cost by using offshoring among other levers that they might have. Having said that, I think our experience has shown that we tend to do far better in more positive economic environment and when clients have a freer hand to commit newer spend. So given a choice, if you ask us, would we prefer a more bullish economic environment or a bearish economic

environment, I would say hands down the former. So as things become a little bit more uncertain in the West, we do expect that will have, to some degree, an adverse impact on growth rates.

On the digital business, more specifically, I think of our 2 or 3 businesses, it's probably the one that has a relatively higher proportion of discretionary spend compared to the other two businesses. And therefore, I think we will also see some slowdown there in the quarters ahead. But with that, I'll hand over to Anjan, if he wants to supplement with some thoughts.

Anjan Malik:
I echo PD's point, I think actually, our industry is a very, very high beta to U.S. and European GDP growth rates. So, I think what we are finding now is that we have large customers that are basically pulling in spending because they feel that there might be a recession looming. So, there's just generally a conservation of spend that we're seeing, which is what makes us cautious. I think it's not anything specific, but we generally do get the sense that Fortune 2000, the enterprise customers are definitely reining in spending right now. Having said that, I think your demographic argument (is) exactly right, which is that broadly it's a supportive story for India because customers do want to do more in locations like India or a lower-cost location. So definitely, we anticipate that the industry has what I would call demographic tailwinds. We continue to be very bullish on the industry sort of more medium term. But I guess we're raising this caution to dampen some of the expectations that might have been set over the last 2 years of growth that we've seen.

Asha Gupta:
Thank you, Vimal. Next question comes from the line of Dipesh Mehta.

Dipesh Mehta:
I just want to get sense on 2, 3 things. First question is about the top 10 clients. You indicated some kind of softness and clients are decided to defer some kind of spending. So, if you can provide some more details on it, how you expect this top 10 client/any client where we see more weakness in terms of cut in spending and something of that sort?

Second question is about Personiv earn-out. Can you help us understand are we done with the Personiv earn-out related provisions? Or you think it will continue in coming quarters? And whether the cash out is already happened, or it will happen in subsequent period?

And last question is about EBIT margin. If I adjust for other income, we are not seeing rupee depreciation benefit in margin. So, if you can help us what played out?

Srinivasan Nadadhur:
PD, do you want to take the question on the top 10 clients and I can take the other two.

PD Mundhra:
Yes. I think on the top 10 clients, as Srini mentioned briefly, we have seen some pullback, particularly in onshore spends because in a sort of cost-constrained environment, that is the first area where they would want to cut spend. And as you can see, the change is very marginal, it's less than a 1% change quarter-on-quarter in top 10 clients spend. So, I wouldn't draw too much conclusions from that movement. It's really a small number. I'll hand over to Srini to talk about the other two points.

Srinivasan Nadadhur:
Thanks, PD. So, on the Personiv earn-out, we are done with the earn-out for CY2022 is the last period for which the earn-out will run for and the payout will actually happen in this quarter, but the provision has already been made. And to your question on EBIT margins, the rupee has not depreciated significantly against the U.S. dollar in Q3, which is why probably we will not see that impact.

Dipesh Mehta:
Understood. Just on the first question, I understand in Q3, we have not seen much impact in top 10 clients. But because your broad outlook was about moderation in growth compared to what we did in Q3, so are we seeing more implications in the top 10 clients going forward?

PD Mundhra:
So again, I can take a stab at that. I think it's a portfolio effect. I fully expect with a couple of those names, we will see some reduction in spend in CY'23, but conversely, with a couple of other names, we have a very strong pipeline, which we are quite optimistic about. So, on the whole, I think the top 10 performance for us will not be very dissimilar to what's happening with the rest of the business.

Asha Gupta:
Thank you, Dipesh. We have the next question from the line of Hitesh Arora.

Hitesh Arora:
One is the cost of technical subcontracting, this has been sharply increasing over the past few quarters, which obviously impacts the margins. If you could kindly throw some light over there, what's happening there that's causing this jump in expenses there?

Srinivasan Nadadhur
Right. So, I think there are two aspects. One is the subcontractors that we hired in Europe because there was significant demand in our luxury clients, which we were not able to hire people in time to service, and we had to hire contractors over there in our European location. So due to that, the cost grew up a little bit. And in India, the cost peaked around October and November and has been going down. So, I do expect that it will continue to go down.

Hitesh Arora:
Okay. And so even in Europe, is that has peaked or do we see an increase? Because presumably, the cost in Europe would be higher because we're paying in foreign currency.

Srinivasan Nadadhur:
Yes, the cost is higher, and I think it has peaked.

Hitesh Arora:
So, it has peaked.

Srinivasan Nadadhur:
Yes.

Hitesh Arora:
So hopefully, we should see some improvement in margins in the coming quarters purely on account of that?

Srinivasan Nadadhur:
Yes.

Hitesh Arora:
Just to confirm this Personiv, the impact on P&L, so this was the last payout, right? I think the previous participant asked the question, just to confirm.

Srinivasan Nadadhur:
That's correct.

Hitesh Arora:
And the last one was, we had discussed in the last quarter, Mr. Mundhra had said that, not as a guidance but he said that even if we do 3% Q-o-Q growth in revenue, that would be a good outcome. So, over the last 3 months, how are we looking now that we would have presumably better visibility over the next year, how are we looking at things in terms of growth, et cetera?

PD Mundhra:
Yes, Hitesh, thanks. Very honestly, nothing more to add to sort of the remarks and the responses to earlier questions. I think if you look at a year-over-year basis, we are up about 18%, 19% for the 9-month period. And I think that's actually a pretty good outcome so far. As we've indicated, we think that number will trend down for sure in the quarters ahead. But I think to Anjan's point, the medium-term environment is still good. We expect to see some moderation in growth in the near term, but medium term, we see no reason for concern.

Hitesh Arora:
And any visibility of the roll-offs?

PD Mundhra:
I think we'll see some roll-offs as clients' reset budgets, especially those who are taking more conservative cost transits with respect to their businesses. But I would say, to some degree, at least, that level of roll-off is factored into our outlook. If we see something lumpy that we don't have visibility to now, that may change the picture. But I would say, a normal level of roll-offs is factored into our outlook.

Hitesh Arora:
And just one last question, please. See, previously, you talked about M&A. You said easy liquidity conditions, increased valuations, increases competition from hand funds. But now the liquidity scenario is much more different. How do you see M&A opportunities here? Now you've got presumably some more compelling valuations, less competition now. Any thoughts there in this context for M&A's opportunities for you?

Srinivasan Nadadhur:
We are certainly seeing more targets being presented. I think whether the valuations work out and whether the business is of interest to us and whether we'll be able to make something of that business in the long term, those questions still remain, we are open to it. And I think the point that you made about liquidity not being as easy as it used to be. I think that is sort of reflected in the higher number of deals getting shown.

Hitesh Arora:
Are you looking actively at deals? Sorry, I missed it if you said that.

Srinivasan Nadadhur:
Yes. I mean we are always looking actively at deals.

Hitesh Arora:
Is it more within domestically or outside India as well?

Srinivasan Nadadhur:
Our preference is for businesses that have a greater offshore business, offshore doesn't necessarily mean India for greater offshore presence and supporting maybe Europe or North American geographies.

Asha Gupta:
Thank you, Hitesh. We have next question from the line of Sandeep Shah.

Sandeep Shah:
Sir, just wanted to understand when you see uncertain macro environment and impacts on the growth rates in the coming quarters, do you mean on a Y-o-Y basis, in terms of Y-o-Y growth in the coming quarters versus Q-on-Q basis? Or what do you mean exactly in terms of moderation in growth? I think you meant on a Y-o-Y basis.

PD Mundhra:
Sandeep, I think the outcome is not that different, depending on whichever of those two metrics you look at. I mean big picture, if you look at it, FY '22 for us was about 25% growth year. FY '23, we are at about 19% for the 9 months so far. So, there's already a deceleration between '22 and '23. And to the remarks that we've shared, we think that deceleration will continue in FY '24. So inevitably, the quarter-on-quarter numbers will also come down from, let's say, we were averaging 5% last year. This year has probably been somewhere between 3% and 4%. And I think that number may edge down in the near term.

Sandeep Shah:
Okay. And despite some moderation in demand and the utilization is still not at the peak levels where we used to operate around a few quarters back, the recruitment in this quarter has been healthier. And on a net addition basis, it amounts to close to 5% Q-on-Q addition. So, what leads to this good healthy recruitment as a whole?

Srinivasan Nadadhur:
So, the utilization number I should clarify is, we have restated the numbers for FY'23 - Q1 to Q3 because some of the Personiv calculation was not correct. So, we had to restate that. And we think that a more stable figure, including for the overall firm may not be the 78% or 80% that we have seen in the past. It will be a lower number. On the recruitment per se, I think at least between Q1 to Q2 and Q2 to Q3, you can clearly see that our headcount addition has gone down. Part of it is because of demand. Part of it is also because we don't need to replace people as much.

PD Mundhra:
Sandeep, sorry, just on a factual note, I think we've added about 500 employees between Q2 and Q3. So that's about 3%, not 5%.

Sandeep Shah:
Yes. And in terms of the payout of the Personiv, which you said may hit the cash flow starting from Q4 of this financial year. What could be the quantum, if you can?

Srinivasan Nadadhur:
I think the big provision that we made was in Q1, and that was disclosed at that point of time, I think it was something like INR 21 crores or something like that if I'm not mistaken. The one in this is a top up to that. So, it's not a very material amount, which is why we have not pointed out separately, and it flows down from EBITDA onwards. So, it is just a top up to the big provision that we made in Q1 of this year.

PD Mundhra:
And in terms of cash flow, I guess, the big payout this quarter will be for the buyback. So, the buyback and associated taxes is the vast majority of the cash outflow that will happen. The Personiv payout is a small rounding error to that.

Sandeep Shah:
Yes, I agree. And you expect the buyback to conclude and the money to be transferred to the shareholders by end of this year itself, before March.

Srinivasan Nadadhur:
By the end of February.

Sandeep Shah:
Okay. And the payout for Personiv would be INR 21 crores, right?

Srinivasan Nadadhur:
Give or take, yes.

Sandeep Shah:
Okay. And last question, sir. Srini, I actually missed some of your initial remarks, which you called out related to lease facilities as well as margins because my line was not clear. So, if you can repeat the same will help me.

Srinivasan Nadadhur
Yes. On the other income, you can see an INR 54 million increase, that is because of lease modification. We are present in two buildings in Airoli, we have given up the older one and we have taken up two floors, which is contiguous to the three floors that we already have in the new building, so that we will be in five floors in a single building. And that change has led to a reassessment of the lease term of the older building. So that's why the INR 54.6 million added to other income in this quarter. The difference between the lease liability and the ROU asset has got added to the P&L. So that was on the lease. And on the margins, I was just speaking some factual points on the EBITDA INR 208 crores and the net profit INR 131 crores.

Sandeep Shah:
So, what is the put and takes for the margin movement in this quarter? And what is the expectation on margin?

Srinivasan Nadadhur:
We think that other income in Q4 will not be as strong as the previous two quarters because we have been making a payout for the buyback plus this lease assessment, which got added to other income, is a one-time event. So, all in all, we feel that EBITDA margins will be at the lower end of FY'23. On the positive side, the lower attrition, easing of supply side constraints, I think those will help, lower subcontracting fees also I expect as I think to the point that someone asked earlier.

Asha Gupta
Thank you, Sandeep. Next question comes from the line of Shradha Agrawal.

Shradha Agrawal:
So, you did indicate about demand trends in digital, but possible to talk about demand in financial services and cable and telecom?

Anjan Malik:
In financial markets and in customer operations, which is sort of CX business, I think it's pretty much driven by what's happening in the macro market. If you look at our broad book of business, there's an element of consulting, which is onshore, there's pieces of work that we do, which are more project-oriented or longer-term sales which are onshore and then there's offshore work. So, I think we've certainly seen spending restrictions on the onshore book of work affecting our onshore business. Our offshore book of work hasn't really been impacted that much across both those businesses. We see demand coming back over the next 18 months. But at the moment, we are cautious for the next year because we feel that a lot of our clients are under pressure in their own businesses, which is making them very cautious about spending money with third-party vendors.

Shradha Agrawal:
But if I ask you look at the growth numbers reported by some other pure-play BPO companies or even integrated IT BPO companies, their growth rates in BPO segment does indicate that traction seems to be continuing at least from their perspective. So, do you think it's just more of some client-related issues that is making us more cautious compared to our other peers?

Anjan Malik:
Shradha, it’s hard to talk about the composition of the peer group because first of all, certainly, the IT sector is not really what I would call a comparison because the kind of business they do versus the kind of business we do is very different. We've had very strong growth rates up until now, which is in line with what other people in the industry seem to have enjoyed. I'd say that the only difference is that we may have divergent views of the immediate future. And I think we're taking a more cautious view on the future than other people are. It may be that doesn't turn out to be the case because if, for example, the U.S. recession is avoided, European recession is avoided, rates normalized, it could be that consumer spending continues, and our clients come back and start spending a lot of money towards the second half of the year. And that's entirely possible. All I'm saying is that I think if you were to look at now versus the last 2 years, it certainly seems a little more muted from a demand perspective.

Shradha Agrawal:
Right. And just one question. In ROW, we have been seeing some strong growth rates for the last 2, 3 quarters. So what exactly is driving growth in ROW for us?

Anjan Malik:
Do you mean rest of the world? PD, do you want to take it?

Shradha Agrawal:
Yes, rest of world.

PD Mundhra:
I think a lot of that growth actually probably is more on the digital side of the house, where I think we've created quite a good footprint in Asia, specifically in Singapore and Australia. So, I think clients there are probably contributing to the growth that you see for the rest of the world.

Shradha Agrawal:
Right. And one bookkeeping question, if I can ask. The realized rupee-dollar rate for this quarter seems to be low compared to the actual rupee-dollar rate. So, any thoughts on how is it calculated? And why is it low vis-a-vis the actual rates of the quarter?

Srinivasan Nadadhur:
This is an average rate. So, I don't know what you are looking at.

Shradha Agrawal:
Sir, it is coming to be INR 80.7 for us, whereas the average rate for the quarter has been close to INR 82.

Srinivasan Nadadhur
Okay. We can talk off-line, Shradha.

PD Mundhra:
Sorry, Shradha, just one point that I can make on that is I think probably the way our accounting would work is for all the hedges, we would recognize the revenue at the hedge rate. And most of those hedges would be at lower rate than spot given the recent depreciation that has happened, right? So, our average

that you see of INR 80.7 or whatever the number is, is some weighted average of the old hedges that have matured during the quarter at not great rates and whatever we may have sold at spot.

Shradha Agrawal:
Right. That's helpful, PD. And just one last question, if I can squeeze in. I don't know if I missed out on this part, but the sales and marketing expenses and depreciation expenses also seem to have shot up significantly this quarter. So does the Personiv payout provision fall into S&M?

Srinivasan Nadadhur:
The Personiv payout provision does fall in selling and distribution costs and also there has been an increase in travel and other marketing spend. So, these two points together have caused the increase in S&D costs. And the depreciation is on account of the equipment that we have bought. I think, quarter-on-quarter, we will see an increase in CapEx and consequent depreciation.

Asha Gupta:
Thank you Shradha Agrawal. The next question comes from the line of Ruchi.

Ruchi Burde:
This is more a clarification to Srini, for the facility consolidation in the Airoli facility, do we see some margin implications also at play in the coming quarter?

Srinivasan Nadadhur:
No, I don’t think so.

Asha Gupta:
Thank you Ruchi. There's a follow-up question from line of Sandeep Shah.

Sandeep Shah:
Srini, just wanted to understand what are the current regulations for SEZ in terms of work from office and what is the percentage which we track in terms of people working from home and people working from office. And do you expect a headwind towards that going forward in targeted facility-related costs?

Srinivasan Nadadhur:
The current regulations are that people working from SEZ facilities are allowed to work from home 100% if required till December 31st of this year. And anything beyond that, I think we'll have to wait for any announcements to come. At the moment, we are somewhere between 45% and 50% work from office, which means that on any given day, half of our staff is coming to office. And at the point that is let's say, everybody were to come to office, there would be an increase in transportation cost. Transportation, housekeeping, facility, all those costs will increase.

Sandeep Shah:
So this 45%, 50% can continue in CY'23?

Srinivasan Nadadhur:
Yes.

Sandeep Shah:
Okay. In this quarter, in the margin slide, we have also mentioned an earnout payment of INR 24 million towards Personiv. So this is over and above what we have provided earlier, right?

Srinivasan Nadadhur:
Yes, that is the provision for this month, for this quarter.

Asha Gupta:
Thank you, Sandeep. Next question is from the line of Hitesh Arora.

Hitesh Arora:
Sir, just a little more strategic. While we have seen the slowdown and we've talked about it, any thoughts on how are we looking to tackle the slowdown in terms of maybe trying to onboard more clients or are we sort of more mature already in the financial services space? Or maybe is it via getting more book of work from the same set of clients or diversifying into more geographies. If you could just give some thoughts there, how can we tackle the slowdown for the coming year?

Anjan Malik
So Hitesh, I think it's pretty much the same things that we've been doing in the past, right? So I think we've talked about the last 5 years where we've set out a bunch of initiatives. And I think those initiatives helped us tremendously over the last 2 years when demand came back. And I would say we doubled down those initiatives. So there would be, for example, sort of a productization initiative we've identified 5 or 6, what we would call arrows in where we have technology and capabilities that differentiate us sufficiently from competition and our clients find resonant, that service is resonant. We want to invest more in those business because we feel that those are high demand areas. So they could be, for example, areas like KYC or client onboarding, market operations, the work we're doing around, let's say, logistics in a FieldTech operations space, work we are doing around analytics, work we're doing in, let's say, marketing automation, these are all areas where we feel that we have tremendous IP, our client base and technology and automation. So, we want to invest in that area more and more. Our focus on client's add coverage continues as always, which means that we're always looking to upgrade salespeople, add salespeople. But in our view, it's not a numbers game, it's a quality game. So I think actually, interestingly, when the market slows down, you have an opportunity to upgrade your teams, which we will, of course, be doing over the next few years. There's continued focus on what we would say, building the front end of our service set, which is consulting and the onshore capabilities. So, I think we're going to continue building that out because we feel that, that gets us closer to the customer in a way that hasn't happened in the past. I think there is one other area, which is that we also feel that in a period where demand slows down and attrition slows down, you also have an opportunity to build capabilities and depth in our delivery teams, which also gets us closer to customers. So, I think there's a number of initiatives that we have going, which we will continue on. And I think Srini also mentioned fifth looking at M&A opportunities. So, we continue to feel that in a market which weakened there may be opportunities for tuck-in acquisitions. So we would look at that as well. So, I think nobody is standing still. We're all at it, and we feel that whether the market is supportive or not, that's not really for us to decide, but we feel like if we execute well in these 4, 5 arrows, we have a good future ahead.

Asha Gupta:
Thank you, Hitesh. We have the next question from the line of Tejvinder Sharma.

Tejvinder Sharma:
My question is that in some of the verticals we have, our major chunk of revenue coming from 1 or 2 clients only and they are very high revenue clients for us. So, what's our long-term or a short-term strategy to de-risk that because given the fact that if the revenue is coming from only 1 or 2 clients, it also carries some associated risks?

Anjan Malik:
I think ultimately, you have to look at the trajectory of concentration. For example, today, our top 10 clients represent the lowest percentage of revenue that we've ever had. There's an ongoing focus on reducing our reliance on large customers, which is effectively acquiring new customers and making sure that we maximize the value, the net present value of revenue that we generate from those clients once we access them over the lifetime. I think we've actually done a pretty good job of it, especially if you look at some of the metrics around our performance in, say, clients that are north of $0.5 million in revenue and under $3 million in revenue. I mean those are metrics internally that we incentivize our client teams to focus on. So, there's definitely every focus on trying to diversify. Having said that, for companies of our size, just smaller companies, you have to expect that we would have client concentration. In fact, what makes you strong makes you weak in a way, right? So, we have no anticipation that we would stop focusing on our top clients because we also want them to grow, and we feel that we learn from them. And we also feel that with our record of performance with those clients, we have an opportunity to grow footprint, so we're going to keep doing both.

Tejvinder Sharma:
And I have a follow-up question on that. Again, it's something similar to what I just asked. So basically, we have a major chunk, again, coming from some of the geos in the current states or what's you plan to diversify in the other geos?

Anjan Malik:
I think maybe PD can answer the question about digital. But I think if you look at the two businesses of financial markets and customer operations, I'd say that they are basically Anglo-Saxon businesses in the sense that they effectively serve Anglo-Saxon markets, right? So they're English-speaking and they work primarily with U.S. plus, plus clients. I don't anticipate that, that is going to change in the short term. If anything, we expect that growth will continue to come more from U.S. customers because we see them as being winners in this broad market consolidation. I expect in digital PD, you may have a different view. So maybe you can answer that question.

PD Mundhra:
Thanks, Anjan. Well, actually, I mean I don't think it's very different. Of course, we have more regional opportunities in Europe, particularly because of the CLX business, where we have an ability to serve Italian and French clients along with German clients. But away from that, Anjan is right, I think the biggest market for companies like us will always be the U.S. And then after that, if you look at the big English-speaking sort of high GDP per capita countries, it's the U.K., Canada, Australia, so I think those are the places which will be more amenable for us to provide services. So, I don't think that the geo concentration worries us. Certainly, the top 10 client concentration to Anjan's earlier comments is something that we would like to continue reducing over time.

Asha Gupta:
Thank you Tejvinder. Next question comes from the line of Gunit Singh.

Gunit Singh:
I have a question regarding the growth projections itself, which we have discussed. We know that the macro environment going forward is cautionary. But previously, we had internal growth projections of around going at 4% by quarter as far as the previous calls. But right now, is the management having some internal growth projections, like even though we have a slowdown, looking at the pipeline or the order book, what can we expect for the next quarter, say, the next year, like single-digit growth? Or are we still looking to grow in small double digits. So, I just want to hear your thoughts on that?

PD Mundhra:
So Gunit, to be honest, I'm not sure that we ever shared the specific number as a guidance for growth because very honestly, I would say we as a team don't really have that degree of specific visibility. And we are still a relatively small P&L, small business and individual client events can have a material effect on growth outcomes for a given quarter or year. So, it's hard for us, even internally to come up with forecasts that are very precise, which is why we typically don't share any quantitative guidance with the market. I think qualitatively, our assessment stands, which is, I think, to the point that we made earlier, FY '22 was 25%, FY '23 so far is 19%, and we expect a slowdown to continue, at least in the near term. Medium term, we're still very optimistic about the business. So, I would restrict our outlook to those comments because I think they accurately and completely capture what we know about the future at this point.

Asha Gupta:
Thank you Gunit. We have next question from the line of Darshan Engineer.

Darshan Engineer:
So, thanks for the conservative guidance, I appreciate that kind of honesty from management. Just a question relating to the longer-term and shorter-term views on the growth outlook. So, you said that in the near term, you do feel cautious, it sounds logical as well. But you also said that on an 18-month to medium-term view, you are quite positive on the growth prospects and demand trend. So, if you can just explain, so this cautious view is for the next 2 to 3 quarters because somewhere down the line, you will start a resumption of spends across various industries and so on because people will eventually emerge out of the recessionary trends. And therefore, should we expect that this cautious view is for the next 2 to 3 quarters and then possibly you can see some improvement again?

PD Mundhra:
Yes. I think, again, Darshan, to be honest, the visibility we have at any given time is probably a 3- to 6-month-type visibility because whatever is in our pipeline, will either convert or will sort of peter out by then. So, it's hard to sort of (predict) longer than that. All we can share with you is what we see as of now, and we'll update that assessment when we speak again in 3 months' time. But Anjan, I don't know if you want to add something to that?

Anjan Malik:
Yes, I think our view about the future is always based on effectively what we think is going to happen in the macro market. And from all that we hear and read and in our discussions with our clients, I understand is that if there is a recession if there's a reduction in spending, we anticipate it to be short

term. Nobody expects it to be a deep recession. But again, we're not economic soothsayers. So, when we say we expect it to be not a very long-term impact, it's because of that. The reason we remain bullish about the medium term is because we feel that the services that we provide and in the areas that we provide them in are exceptionally valuable to our clients. It's in very high demand. The fact that we can provide operations capabilities, technology and analytics capabilities and consulting capabilities altogether, in a very cost-effective manner in our areas of expertise, we feel that those services are in very high demand because those businesses continue to grow for our customers. So, I think that's why we're saying in the short-term we were a bit more sanguine; in the longer term, we're quite bullish.

Darshan Engineer:
Understood. And you made an interesting comment on the approach that currently our business is mainly Anglo-Saxon kind of countries. But from a longer-term point of view, do you have plans to also look at non-Anglo-Saxon markets because eventually, a lot of them are high-cost countries, even though their market opportunity may not be as large as the Anglo-Saxon market, but do you think that eClerx can create a similar kind of business in the long term, even in those kind of markets because we do have a very large Spanish-speaking population and some in South America and maybe Mexico and parts of Europe. And many of these are also high-cost countries, and therefore, eventually, there will be some outsourcing of basic work or maybe some kind of quality work that you do. So do you expect that in the long term that you can look at this as a growth market for yourself?

Anjan Malik:
Again, I think that's a pretty hypothetical question. So, the first thing I'll caveat that by saying that, look, ultimately, if you really want to have a macro discussion, what you really need to look at is GDP per capita and look at what the Anglo-Saxon markets make up as a percentage of GDP per capita above, let's say, USD 50,000 versus other languages. And you'll find that the Anglo-Saxon markets are very, very much larger than any of the other single languages. That's one. Two, I think for a company of our size, which has limited resources compared to other large companies, I think you have to pick your bets. And I think as I said to you right at the beginning, I think focus is the #1 priority for us as a firm. So, if we choose 5, let's say, arrows or access to invest in, then I'd say that focusing on Spanish language is not 1 of those access. Now it may be that through an acquisition, we end up acquiring both a client and the delivery side in Latin America and that may well happen. And we will assess that on individual merits. But we're not out there looking to hedge that in the currencies because we continue to feel that demand is largely in the Anglo-Saxon markets.

Darshan Engineer:
Got it. And one last question. I mean on your emerging businesses and on your more value-added businesses such as consulting and analytics, I mean you do have those kind of businesses and some of your verticals or horizontals whichever way you want to put it. But any more qualitative comment on how you plan to accelerate the growth in those kind of businesses? Because now we do have a listed company who does similar kind of work, maybe not exactly comparable, but there is one. And at the same time, there are a few more companies in the pipeline who plan to list on markets and who have similar kind of businesses, maybe more focused on India, but at the same time, they are doing that kind of business in India.

PD Mundhra:
So I think look, as far as other companies are concerned, I don't know that we have the ability to comment on that. I guess time will tell in terms of sustained performance. As far as our business is concerned, I would say probably one of the fastest-growing segments of our business is the analytics and automation piece for which we do share numbers on an annual basis. And certainly, that business has been growing faster than the rest of our book. And I think we continue to see good prospects for those services with clients. But we do think that it's important for us to focus and try and build those capabilities around the industry verticals and the service areas that we already have a presence in because there we have some differentiation and some ability to right-to-win engagements. So, I think our focus will continue to be in and around our current product areas.

Darshan Engineer:
And acquisitions can be one of the ways to add on to those capabilities?

PD Mundhra:
Yes. I think as Srini mentioned, we have a very open mind for acquisitions. So we don't really have a very tight filter for the types of assets we look at. But you have to sort of look at each of them on their respective merits and the fit with our current business and our assessment of our ability to potentially add some value to the combined business going forward. So, I think the idea is to keep an open mind, look at everything and then try and take a very rational view on what the fit might be with the existing portfolio.

Anjan Malik:
And I do see that as more companies of our nature list in the public markets, it sort of creates a more equal playing field because in part the problem we find in the M&A space is that the price-to-quality ratio for private assets tends to be pretty poor. So, if you look at companies like us who I would argue, operate at a level of corporate governance is very high. And you look at like the assets that we often get to see. I think there's a big disparity in the quality, but the price multiples tend to be high. So, I think as we get more comparators listing, I think broadly, it's great for us, and I think it's broadly great for the investor community.

Asha Gupta:
Thank you, Darshan. As there are no further questions, I would like to hand over the call to Srinivasan for closing comments. Over to you, Srinivasan.

Srinivasan Nadadhur:
Thank you, everyone, for joining the call today, and we can see you back again next quarter. Thank you so much. Bye-bye.