eClerx Services Limited
Q1FY24 Earnings Conference Call

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eCLERX MANAGEMENT:

KAPIL JAIN – MANAGING DIRECTOR AND GROUP CEO
PD MUNDHRA – CO-FOUNDER AND EXECUTIVE DIRECTOR
ANJAN MALIK – CO-FOUNDER AND NON-EXECUTIVE DIRECTOR
SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER

CONFERENCE CALL PARTICIPANTS:

DIPESH KUMAR MEHTA- EMKAY GLOBAL
HITESH ARORA - UNIFI CAPITAL
MIHIR MANOHAR - CARNELIAN ASSET MANAGEMENT
SANDEEP SHAH - EQUIRUS SECURITIES
SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES
NIKHIL CHOUDHARY – NUVAMA WEALTH MANAGEMENT LTD
SAMEER DOSANI - ICICI PRUDENTIAL ASSET MANAGEMENT

Asha Gupta:
Good evening, participants, and welcome to the Q1 FY24 earnings call of eClerx Services Limited. Please note that this webinar will be recorded.

To take us through the results and to answer your questions, we have with us the top management of eClerx represented by Kapil Jain - Managing Director and Group CEO; PD Mundhra - Co-Founder and Executive Director; Anjan Malik - Co-Founder and Executive Director; and Srinivasan Nadadhur - Chief Financial Officer. We will start the call with brief opening remarks by Srini, 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 that 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 reports, which you can find it on our website.

With that said, I will now hand over the call to Srini. Over to you, Srini.

Srinivasan Nadadhur:
Thanks, Asha. Ladies and gentlemen, good evening, and welcome to eClerx earnings call for the first quarter of FY24.

We experienced a sequential decline in top line attributable to weak demand and budget cuts, which resulted in a reduction of technology and onshore spend, a decline in project renewals, and unanticipated project closures, particularly among our larger clients in the digital and the financial markets businesses. U.S. dollar revenues for Q1 were $83.9 million, down 2% Q-on-Q in USD terms, and 2.2% in constant currency terms. Total revenue for the quarter was INR 6,920 million, down 0.9% Q-on-Q. In Y-on-Y terms, revenue was up 5.5%, both in U.S. dollars and in constant currency terms. EBITDA for the period was INR 1,750 million at 25.3%, a sequential drop of 506 basis points. The larger than usual drop is because of the annual wage hikes and additions in our onshore sales and development teams and on top of the decline in revenue. Net profit was INR l,063 million, up 7.2% over the previous year. Net profit margin was 15.4%, down 361 basis points sequentially. CAPEX was higher during this quarter as the facility consolidation in Airoli went live and this gives us about 500 additional seats.

Attrition for the quarter was significantly low. In Q2 we expect an increase in attrition from the levels, but it will remain at lower levels than has historically been the case for the second quarter, which usually is our highest attrition quarter. On the key metrics slide please do note that we have updated the classification of revenue on the BPaaS and we restated figures for the last eight quarters. There is a 1% drop Q-on-Q in the BPaaS percentage, which also have been in the older round.

Coming to the outlook, we should be able to recover most of the top line reduction of Q1 in this current quarter. But we expect weakness in technology spend and client-specific challenges to continue for the next couple of quarters. As in previous years, we expect margins to steadily improve through the rest of the year. However, we believe margins for the full fiscal year will end up somewhat below the lower end of our stated view.

With this, we come to the end of our opening remarks. We can now move on to the Q&A. Back to you, Asha.

Asha Gupta:
Thank you, Srini. We have first question from the line of Hitesh Arora. Hitesh, please go ahead.

Hitesh Arora:
Could you sort of elaborate a little bit on the statement where you said, I didn't fully get it - 'you will be able to recover your lost revenue or the decline in revenue in Q2 itself?'

Srinivasan Nadadhur:
I'll talk a little bit and then maybe hand it over to Kapil. So given the pipeline that we have seen and the conversions, we think that we should be able to recover most of the reduction in Q2 so that Q2 might go back to near about what Q4 was.

Hitesh Arora:
Okay, So, between Q4 and Q2 we're largely flat, essentially.

Srinivasan Nadadhur:
That's right.

Hitesh Arora:
Okay. How should we look at the full year in terms of revenue growth?

Kapil Jain:
Hitesh, an overall pipeline is good. And the reason for the decline in Q1 was due the demand in the pipeline that was there in Q4 because the quarter in which you are in determines the next quarter's growth. I think we'll have greater clarity as we move forward, because there are overall macroeconomic challenges right, in terms of interest rates Inflation, and geopolitical uncertainty, but our pipeline is robust. So, I think we should be moving forward in terms of Q3, Q4 as well from an overall growth perspective. But we will have greater clarity as we get closer to the quarters.

Hitesh Arora:
And maybe one, this uncertainty over how we're looking at things? Have you had a change in strategy? Change in product area focus, things like that if you could maybe for the medium-term FY25 you could?

Kapil Jain:
So, I think in terms of how we are looking at our overall products and services, one of our strengths is in terms of enabling technology, we are focusing on Gen Al. We have 32 POCs, and client conversations that we are involved in. And I think Digital and Customer Operations are the two service areas where we feel that Gen Al could make an impact and will be relevant for our clients.

So, overall in terms of the capabilities that we have, our ability to influence client revenues and not only impact the SG&A side of the equation, I think are all very robust capabilities that we bring to the table. We will continue in that direction in terms of overall strategy as I had indicated in the last call that we would have a greater view and we would be able to provide clarity, on our 2025 vision towards Q4 prior to the start of FY'24, FY'25.

Asha Gupta:
Thank you, Hitesh. Next question is from the line of Dipesh Mehta from Emkay Global. Dipesh, please go ahead.

Dipesh Mehta:
Thanks for the opportunity. A couple of questions. First about the S&D investment, if I look last two quarters, we were seeing good uptake in business development headcount. So just want to understand the focus areas, where we are making this investment. Either you can say from segment or capability perspective or geographical perspective whichever you want to provide some perspective.

Second question is about the demand outlook, if you can provide some sense about across three segments, how you see demand? In your opening remark, you provided some color where you are seeing softness digital financial market. But if you can provide more insight into that?

The third question is about the top 10 clients. This quarter it is showing some softness, as well as prepared remark, you indicated about some client-specific challenges may persist for the next few quarters. So just want to get more clarity, because in the past our growth rate suffered because of top client-specific challenges, and then the growth rate was very muted for some time. So, if you can provide what kind of challenges you see in those clients and how you expect it to play out?

And last question, more data related. You've changed some kind of BPaaS revenue classifications. So, if you can help us understand what definition difference we made? Thank you.

Srinivasan Nadadhur:
So, I'll take the last question and I'll answer this first. And then Kapil, I'll hand over to you the first three questions on S&D investments, demand outlook by vertical and top 10 clients.

So, on the BPaaS classification, we updated the classification of what constitutes BPaaS revenue and then we applied that updated classification to all our existing engagements. And in this process, we determined that some items should not fall under BPaaS and we applied those changes from the start of the respective engagements, which is why we have restated for the last eight quarters, we have restated what the BPaaS percentage is.

Kapil Jain:
In terms of the overall demand what we're seeing is clients are facing pressure on their overall revenue right as you have seen whether it's financial services, cable industry. Except for the high-end fashion and luxury, I think we are seeing our tepid demand in terms of as far as client revenues are concerned. So, they are looking at the cost side of the equation. They're also looking at in terms of leveraging technology, Al, and Automation to see how they can drive cost.

I think what we're also seeing is, because of the overall macroeconomic environment and the uncertainty that is there, the clients are delaying their decision-making. So that's where the overall cycle times in terms of conversions are increasing. That's the broad theme we are seeing in terms of investments where we're making, it's mostly in pivoting our solutions in terms of automation and building and bringing in Generative Al to really see how we can make an impact on the digital, as well as on the customer operation side because that's where we see the maximum number of use cases in deploying our Gen Al solutions.

I hope I have answered your question you had asked. And in terms of the top 10 outlook, I think that continues to stay and we're also looking to see how do we grow the next 10. So, as to de-risk the top 10, as well as continued to see how we can take our other capabilities into the top 10 accounts.

Dipesh Mehta:
So, let me just go for this last part top 10 related. Do you think any specific challenges which can have implications, in Q2 you indicated about flattish kind of Q4 to Q2 kind of trajectory, but entering into H2 earlier we expected H2 to have growth recovery, but do you see that to play out, or you think some uncertainty maybe even on H2 kind of growth recovery?

Kapil Jain:
At this stage, I think we do see a recovery basis in the pipeline that we have currently. But as I had indicated that because of the overall macroeconomic conditions, we will have a better view as we get into Q3 and Q4, so we should be able to give you a better color as we get closer to the next quarter, but at from where we're standing today, we do see recoveries what I had said and that's what we are seeing in H2.

Asha Gupta:
Thank you, Dipesh. Next question comes from the line of Mihir Manohar from Carnelian Asset Management. Mihir, please go ahead.

Mihir Manohar:
Hi, thanks for giving me the opportunity. Sir, largely wanted to understand, I mean, given the fact that there is a weakness in the revenue which is there in Q1. I understand that you had given an indication during the last call itself, but I mean, just wanted to get an understanding. I mean, given the fact that we have a larger exposure towards US Capital Markets. US capital markets have been doing well. I mean, why is it that we are still facing challenges, because so naturally because what the broader thought is that we did three settlements, from taking all these things go up in the markets so well. So just wanted to get an understanding around that. I mean, why is that you're still seeing a softness despite the US markets doing well?

My second question was on the Generative Al side, I mean, that part of the market where generative Al is something affecting us to a larger extent. So, I mean, just wanted to understand our preparedness on this particular part of the piece. Because currently, the situation is there either, we can gain a larger market share or we can lose a larger market share specifically that depends on the Generative Al side because that is currently in the disruption phase. So, I mean how do you see this event? Is it going to be pivotal for us? Just wanted to get understanding of that.

And my third question was on the margins front. I mean we saw a sharper contraction in margins for this particular quarter and you have also, I mean given the bifurcation around the margin walk, but just wanted to get a sense, I mean you know how do we see margins recovering and which will be the tailwinds, which will drive the margins recovering for us? Yes, so those were the questions.

Srinivasan Nadadhur:
So, our margins, I think we have talked about what factors for the reduction in margins, primarily wage hikes and the addition of people in the onshore sales and distribution teams. There is some one-off also in there, that should get removed from Q3 to Q4, plus generally as a matter of course as attrition kicks in and we are able to replace exits with freshers, the investment margin will be played out. And that has happened every year for the last several years. So those are the at the moment indication of tailwinds and if the revenue picks up then that would be added above that. I'll hand over to Kapil for the questions on the Generative Al and the US market.

Kapil Jain:
So overall, I think on the US financial markets, we are seeing interest on the regulatory and compliance side and that's where we see and we'll continue to see growth area, which is also a strong capability area for us on this entire KYC client life cycle remediation, right. So, we will continue to see that.

In terms of Generative Al and how it will impact us because all of our operations that we deliver have embedded technology and domain on it, we see Generative Al as a huge opportunity for us because of our ability to deploy Gen Al, because the technology is already there, the point solutions that we have built, products that we have built, we are leveraging Gen Al to further enhance our tools and capabilities. And the reason we are able to do that is because of the deep domain that we bring into our operations.

So yes, can there be a threat in terms of the existing revenue, but I see the opportunity will outlay the implications of Gen Al on the ops business that we see over the medium to long term. Short term, yes, if there are aberrations, I think we have never shied away from cannibalizing our revenue because of the technology interventions, because that's what the clients look at us for, and instead of protecting our revenues because it's the FTE model. We have a BPaaS model, we have in terms of transaction-based pricing. So, we will continue to bring technology to deliver benefits to the clients and enhance the overall experience, efficiency, and effectiveness.

Mihir Manohar:
Sure. And just a last question was on the business development side. And we are seeing increasing investment on the BD side. So, if you can just quantify what is the increase over there? Some color as to business development on the US side, Europe side. What is the quantum of increase that you are seeing in the number of people, and any expand around that, that would be helpful.

Srinivasan Nadadhur:
So, we have added five people this quarter in the Business Development team.

Kapil Jain:
See our selling is more in terms of very consultative-led selling, it's not like we are responding to tonnes of RFI and RFPs. It's a very consultative-led selling. It's also a very referenceability based selling because the work we do is highly appreciated by our clients. I have met clients in the last quarter across all industry segments. And one thing that consistently came was our very strong delivery track record and clients who work with us want to do more business with us, as well as when they move from client A to client B, it's the referenceability that drives our business. So yes, we have added business development, and we'll continue to invest in sales and business development, but I think that's a huge asset that we also carry along with us.

Mihir Manohar:
Sure. And just one last question on our client-specific side. I mean lastly, during 2018 to 2021, we had some challenges on the client-specific side led by insourcing. I mean, are there any challenges that you're seeing in your top 10 or top 15 clients? I mean, I understand it's a repeat question, but just wanted to get an understanding. I mean is there any insourcing challenge for you?

Kapil Jain:
See, there is nothing that we have seen, however, to stay always stay above the game, add more value compared to what an insourcing or the GICs or captives can provide is always something that we have to continuously deliver upon. And like I said that all the clients that I met during the last quarter, they have said that our delivery is very strong, and they are very happy with the overall delivery and execution.

Asha Gupta:
Thank you, Mihir. Next question comes from the line of Sandeep Shah, he is from Equirus Securities. Sandeep, please go ahead.

Sandeep Shah:
Yes, thanks for the opportunity. Just on the margin, Srini, even if I assume a hypothetical scenario of 27% EBITDA margin, then your walk from Q1 to Q4 would require a quantum jump to 450 basis points at an EBITDA level. So, what will drive this? And you in a previous question also answered that most of the margin improvement could be in the second half rather than the second quarter, because attrition may still be higher in the second quarter. Is it the right way to look at the margin map and the direction?

Srinivasan Nadadhur:
Broadly, yes.

Sandeep Shah:
Okay. So, you believe that most of the margin improvement may happen in the second half, rather than in the second quarter?

Srinivasan Nadadhur:
Correct.

Sandeep Shah:
Okay. And in terms of Gen AI, your initial comment is helpful. Just wanted to understand in these POCs, in which you are working on 32 POCs, what is an experience in terms of the cannibalization risk which can emerge, based on the current negotiations with the client? Because what reports we are reading, the whitepapers we are reading, the impact of Gen Al could be one of the highest on the BPO business rather than any other application development or enterprise IT side of the business. So. in the near-term you believe this could be a risk to revenue growth and when do you expect the penetration adoption level to start increasing? It could be in FY25, or it could be FY26?

Kapil Jain:
So, Sandeep, I don't see a risk in the short to medium term because this time I think Gen Al, where it will make the maximum impact is more on the white-collar jobs and the innovation side of the business, right? In terms of R&D, innovation, and so on and so forth. So, in terms of the short to medium term, because, of the way our clients have their underlying technology, the technology architecture, I think in the short to medium term I do not see an impact. In fact, it's an opportunity for us to enhance the end user experience by leveraging Generative Al, by building more use cases, by helping clients deploy their products faster in a shorter time span.

So, I see this as an opportunity as opposed to the threat on our existing revenues and all the POCs that we are doing are in that area. It's like I mentioned earlier, our inherent strength is deploying technology for whatever work we take on the Ops side of the business, right? Whether it's in terms of cable and telco side, whether it's KYC remediation, whether it's on the digital side, this gives us an opportunity to embed Gen Al on the technology tools and solutions that we have done.

Asha Gupta:
Thank you, Sandeep. We have the next question from the line of Shradha Agarwal from AMSEC Securities. Shradha. Please go ahead.

Shradha Agrawal:
Yes, hi. So how should we look at our hiring trends for the next few quarters, given the decline in the last two quarters, and given where attrition is today, do we expect some improvement in hiring for the next few quarters?

Srinivasan Nadadhur:
I think this quarter is remaining flat, maybe this is slightly up. We may see employees' utilization will improve. Giving any color beyond that, is kind of hard because it is somewhat linked to the pipeline that we have seen.

Shradha Agrawal:
Right. And another question is, Srini on the depreciation and amortization number, it came down quite a bit this quarter, was there any one-off in this quarter's expense or how should we look at it?

Srinivasan Nadadhur:
So, at the beginning of every financial year, I think you may be aware, the updated written- down value is used for the calculation of depreciation for the existing assets, and that automatically results in lower depreciation. And in this quarter, the depreciation of fresh CAPEX was not enough to outweigh the reduction in the existing assets.

Shradha Agrawal:
Right. And sir, just to prod more on the Gen Al thing. So, one of the large BPO companies did indicate that they expect a revenue cannibalization impact of almost like 20%, 25% for the next two years because of Gen Al, because they also have a lot of operations around customer operation. So how do we see the cannibalization impact of Gen Al on our Customer Operations business specifically?

Kapil Jain:
In Customer Operations, the areas that we operate in like I had mentioned, I see Gen Al as an opportunity to enhance customer experience and the demand that we're seeing on the CX side, we don't anticipate cannibalization to the numbers that you are indicating. In fact, we see this as an opportunity because we have deployed technology in whatever work we are doing on our customer operation side, there are three or four areas that we operate in the customer operation side, and we have leveraged technology. Roughly 10% of our revenue comes from Tech and that has 80% intersection from the areas in which we work on the offsite of the business. So that to me is an area of opportunity for us by leveraging Gen Al. So, I'm not sure what you're referring to, but I don't see that in our book of business.

PD Mundhra:
Yes, I think Kapil is exactly right. I just wanted to add one point that the impact of Gen Al also depends on the portfolio of work for a respective company, right? So many of the larger BPO players tend to have portfolios where they have large numbers of people in a team performing a relatively similar task. And therefore, the applicability and the business case for investing in Gen Al technology is very high. So, there is a huge motivation to do that and to automate and reduce headcount.

In our case, across the three businesses, typically we have many teams of fewer headcount each, so it's much harder for technology to have a broad impact in terms of reducing headcount or cannibalizing revenue. So, I wanted to point out that there is some difference in the portfolio characteristics of our revenue book versus those are some of the larger BPO players, which is why you see the divergence in commentary from them versus what Kapil is saying about our situation.

Asha Gupta:
Thank you, Shradha. We have follow-up question from Sandeep Shah. Sandeep, please go ahead.

Sandeep Shah:
Just on the margins, is it fair to say with our objective of recruiting Mr. Kapil Jain to accelerate the growth? This may lead to some amount of new band, operating band on the EBITDA margin, which could be lower than 28%, 32% or you believe this is just a one-year blip and we can comfortably even with the search of higher growth we can operate at 28%, 32% kind of EBITDA margin?

PD Mundhra:
I think Sandeep, the answer is, what we have seen this quarter is basically a function of inherent business dynamics. As Kapil mentioned, he is in the process of assimilating the business, its trend, its opportunity areas and he sort of needs some time, it's only fair to build a point of view and a plan for execution.

So, as he mentioned, we hope to have that available and share some the high level view on that with all of you by the end of this financial year. I think at that point we would have made some trade-offs if we feel appropriate between growth rates, margin, whatever it is, and we can share those with you. All I would say is, I won’t read that right now because I think he is still in the stage of understanding what options are and thinking about what the pros and cons are of different approaches. So, we haven’t yet reached any definitive stance, but hopefully, by the end of this year, we will be able to share a more conclusive outlook with you.

Sandeep Shah:
Just a follow-up in terms of Gen Al, I do acknowledge it could be a long-term opportunity, but keeping in mind with some cannibalization impact, is it fair to assume that we may also accelerate our pedal in terms of creating more pipeline, more conversion of the deal pipeline, which will help us to even reduce and minimize the risk which may come through cannibalization?

And just a clarification, Kapil sir, you said that 10% of the revenue is tech driven, right? That is what you said in one of the reply and 80% of the intersection of the same is for digital operations?

Kapil Jain:
Yes. So, what I said, and I think PD also clarified that the nature of work that we do, which is like not large headcounts for similar functions, and what I had said earlier that Gen Al will enhance the experience. So, we see this as an opportunity. The reason I say that is, the 10% and the cross section it has with our ops revenue. So, wherever we are doing ops, we have deployed technology, our tools, platforms, and solutions, and that gives us the confidence to say that Generative Al will only lead to enhancing experience and I see this as an opportunity as opposed to a threat.

Sandeep Shah:
And in terms of deal pipeline, is it fair to assume we can accelerate on that side to minimize the risk of any cannibalization, which can come on near to medium term or long- term?

Kapil Jain:
Medium to long term, absolutely yes. We are working in terms of how to accelerate the deal pipeline as well.

Asha Gupta:
Thank you, Sandeep. We have the next follow-up question from Mihir. Please go ahead, Mihir.

Mihir Manahor:
I largely wanted to understand, you mentioned that the pipeline is building up good. So, if you can just quantify what is the growth over there? I mean I understand you don't disclose the number, but I mean is it like a 5% kind of a sequential growth, 10% growth that will be really helpful? And which are the areas that are driving this? And also, you mentioned that even from a medium to long-term perspective you see this accelerating driven by Gen Al. So just wanted to get an understanding, which are the end application areas, which are the end-user areas where you see this happening for the acceleration pipeline. I mean what is giving you the confidence? So just wanted to get an understanding around that.

And my second question was on these POCs. I mean, you mentioned you are working on 32 POCs. So, I mean any three or four large and important POCs which are material, which are important, which will be a key differentiator service offering. So, if you can throw some color, some highlight any three, four large POCs, just to get an understanding that would be helpful?

Srinivasan Nadadhur:
So, I'll take the first question, for pipeline we don't give a specific number on how big it is. I think I will comment that across all three areas, with the three digital and customer operations and financial markets, we are seeing that pipeline be higher than what it was six months earlier. On Gen AI and POCs, I would ask Kapil to comment.

Kapil Jain:
So, see, most of these discussions are on providing value add and adding cognitive capability on our current services to our existing and new clients. So that's the one bucket. And these are areas around content management, data management, code automation, insights on demand, and customer care, which predominantly are around our customer service side, as well as on the digital side of the business. And we are building business specific IPs on the foundation models, which will help solve specific problems across industry verticals, whether it's industrial or high-end fashion and retail. And most of our discussions are around Digital and Customer Operations centric verticals is where we are seeing the active discussions. We won't be able to share in terms of exactly which clients, what is the size of the pilots that we are doing at this stage.

Mihir Manohar:
Sure, sir. That's fair. I mean this is what something that gives you confidence from a medium to long term angle. I mean that's what you commented upon on the pipeline part of the piece driven by Gen AI?

Kapil Jain:
Yes

Asha Gupta:
Thank you, Mihir. Next question comes from the line of Hitesh Arora from Unifi Capital. Hitesh, please go ahead.

Hitesh Arora:
Yes. Thanks, again. So, you mentioned earlier that the deal pipeline is longer. It's taking longer to convert. Just wanted to check any visibility on roll-offs, especially the bigger ones. How are you seeing any threats out there?

Srinivasan Nadadhur:
We did have some roll-offs in Q1 and Q4. Beyond that, I think there may be some that currently would happen as a matter course of which is happening periodically, but we are not seeing anything in large.

Hitesh Arora:
Ok. Nothing large or unexpected?

Srinivasan Nadadhur:
If it is unexpected. How can we know?

Asha Gupta:
Thanks Hitesh. We have a follow-up question from Sandeep Shah from Equirus. Sandeep, please go ahead.

Sandeep Shah:
Just a clarification on bookkeeping. Srini, what is the quantum of the non-recurring margin impact in this quarter?

Srinivasan Nadadhur:
My guess is somewhere around 0.6%

Asha Gupta:
Thank you, Sandeep. We have the next follow-up question from the line of Dipesh Mehta from Emkay Global. Dipesh, please go ahead.

Dipesh Mehta:
Just on the prior question, you said non-recurring 0.60%. Can you help us understand the nature of that non-recurring, what played out?

Second question is about the margin trajectory now, because Q2 is likely to have positive growth. H2 we are more positive, so are you suggesting quarter-on-quarter growth likely to accelerate in coming quarters for FY24, or we refrain to provide that kind of comfort? And on margin, also I think in some of the earlier questions, you said Q2 is unlikely to have a very big margin delta compared to Q1. So, in a way, we are looking for a very big shift in the H2 margin trajectory. What gives you that comfort in terms of that big delta? Because usually when we accelerate next quarter we see margin recovery, but this time, we are integrating it more gradually and the H2 phenomena. Thank you.

Srinivasan Nadadhur:
There is public information available where this is referred to, which can give you an indication of what the non-recurring component is. On the margin improvement, that non-recurring component will impact from Q2 itself and we expect a stronger recovery in Q3 and Q4.

Dipesh Mehta
What about revenue growth trajectory?

Srinivasan Nadadhur:
So, implicit in all this is that revenue and EBITDA.

Asha Gupta:
Thank you, Dipesh. We have the next question from the line of Mihir. Mihir, please go ahead.

Mihir Manohar:
Sir, just largely wanted to understand, I mean you mentioned about this, but I mean after Kapil sir joined and you had in the last call indicated about accelerating the growth. So, any color around that, what is the differentiation in strategy, which will drive the acceleration of growth versus what we had

historically? Because I mean we continued to have good growth in '22 and '23 as well. You mentioned that end of the year, you are looking to give a proper commentary, but still if any indication at this point in time. Any color around the strategy that would be helpful.

And just on the second part of the piece, on the Gen Al. I mean how do we rate our preparedness versus the competition and how do you see, I mean we prepared versus competition? Just wanted to get an understanding around that.

PD Mundhra:
Kapil, I think perhaps on the first point, I don't know if we have a strategy to share at this point, but maybe you can share some observations, from your three or four months, whatever it's been so far. And then you can take the Gen Al question.

Kapil Jain:
Yes, thanks PD. So, I think in terms of overall observations, like I said, right in referenceability, repeat business, how we are winning business, consultative led, high on the domain, having subject matter expertise, ability to deploy technology, bring in the BPaaS revenue, outcome-based not a bum-on-seat model for the entire book of business on the creative side, digital, we are opening up a center in Paris. We have expanded our facility in Bangkok, which you would have seen from the release that we have done. So, I think overall if you ask me, we have a lot of assets that we have in terms of whether it's technology, whether its domain, subject matter expertise, and client reference ability. And we work with Fortune 500, Fortune 1000 clients, the set of clients that we have are all marquee clients. So those are the assets that we have.

In terms of overall strategy, obviously, we will have to double down on high focus and pick certain areas. I'm still evaluating and meeting the clients because the areas we will pick have to be relevant from a client’s point of view. And so that we can match our focus areas with the demand that we see in the market. And like I said earlier, in Q4 we should be able to provide you some clarity in terms of what our focus areas would be and how we would be able to accelerate growth and present to you a three to five year plan. So that's the broad thinking at this stage.

Mihir Manohar:
Sure, that's helpful. And just on the preparedness on the Gen Al side versus competition. How do we see ourselves versus what competition is paying out?

Kapil Jain:
Our focus right now has been, because it's so new and it has accelerated at a speed where none of the previous technology interventions have had. So, I think rather than seeing in terms of what the competition is doing, we are doubling down in terms of how we can deploy Gen Al and enhance the cognitive capability of the tools and platforms that we already have deployed in the ops area like I mentioned before, and that's really where we are focusing on. And on the back of it, like I had mentioned, we have about 32 POCs pilots that we are working on.

Asha Gupta:
Thank you Mihir. We have the next question from the line of Sameer Dosani from ICICI Pru. Sameer, please go ahead.

Sameer Dosani:
Financial operations business, is there some consolidation opportunities, because clients would be very much interested in consolidating vendors, is there some opportunity and our participation in those opportunities if any?

Kapil Jain:
So, Sameer, I think we are not seeing, the clients are looking to stay with their existing suppliers in the current scheme of things, we are not seeing that clients are looking for consolidation, because of the

overall uncertainty that still prevails and there's always a cost to switchover and the pressure that the clients are facing on the revenue side. And hence, at least we are not seeing consolidation happening in the industry currently. However, as and when that happens in certain areas because that's depends upon the clients where our footprint is, and how we're positioned. And I think like I said, we have strong referenceability with the clients. So, I think currently, I have not seen consolidation as a key driver in the clients that we work with.

Sameer Dosani:
And second thing, If I'm not wrong, our volumes, in that business is dependent on the volatility of the market rather than the direction of the market. So how are you seeing volumes develop in last six to nine months the volumes would have been very low. So how do you see that correct me if I'm wrong. And how should we think about the pipeline or the capacity buildup by your clients in this space? If you can share some light there?

Kapil Jain:
Not very clear, can you please repeat…

Sameer Dosani:
So, I think based on the capacity your clients would have forecasted, what are you seeing in this business? Last six to nine months would not have been great I'm assuming. So, if some way you can just share some insight on this?

Kapil Jain:
So, I think like I said because of the overall macroeconomic environment, clients are cautious, but I think as you know, most of our US clients, they have their planning cycles around October, November, and before December they will freeze on their budgets, which is where we will get a better clarity. But at this point in time, we are seeing a better environment than we saw when we were entering this year, the Q1 of this fiscal and we were exiting Q4 and entering Q1. So, I think in terms of what the outlook would be and how the clients are looking to have their discretionary spend, we will have a better view in Q3.

PD Mundhra:
Sameer, just to clarify, when you talked about volumes, did you were referring to the trading volumes of our clients?

Sameer Dosani:
Yes. Is that correct understanding?

PD Mundhra:
So, I think if I look at our markets, it's broadly into two main buckets, one is trade processing and trade lifecycle work, where there is a loose link to volumes. I won't say it's a very tight link, there is a loose link to volumes, but a good chunk of the money comes from also work we do around client lifecycle and it is not regularly driven. In that case for that work change in regulations is much more a driver of activity for us than the trading volumes of our clients. So, in some senses, I would say those parts of the market book have different underlying drivers which determine how much work gets. And so, to some degree that reduces the correlation, and across the book, which is good for us.

Asha Gupta:
Thank you, Sameer. The next question is from the line of Nikhil Choudhary. Nikhil, I would request if you can just name your firm before asking questions. So that management can know you. Over to you Nikhil.

Nikhil Choudhary:
Hi, this is Nikhil from Nuvama. So basically, we haven't seen any case of roll-off compared to what we have seen in the FY'16 to FY'19 period right, completely stocked in the last three year compared to the

pre-COVID period. So just wanted to understand what is driving this change in the industry and basically, why the clients are not choosing to do roll-offs or insourcing compared to the FY'16 to FY'19 period, anything changed?

PD Mundhra:
So let me take that because I think that is before Kapil's time. I would say if you look at the roll-offs we have, I would categorize them into two broad buckets, one is a certain percentage of business that grows of any given year, just because of the nature of the book we have. It could be that work was short-term originally when we signed up for it. So, we knew that it has a defined end date. It could be that the client has chosen to de-focus from that area, so they've stopped that line of work and so they don't need our support. It could be different reasons, but historically in the 20-year history of the firm, there is a certain percentage of the work that tends to come to an end any given year. And that I think is sort of baked into and accounted for when we build our forecasts and projections.

The second bucket of roll-offs is very client-specific, some corporate events happen and as a result, there is a chunky amount of revenue that gets affected for us. And that by its very nature is hard for us to forecast because we get visibility into those events pretty much at the last minute. What did happen unfortunately in that period you referencing between 2016 and 2019 is that there was a bunching up of two or three of these events within a four-year time period which cumulatively had an impact of about $50 million in annual run rate for us. And at that time, we were at $200 million firm, so that $50 million was almost 25% of the book. And that basically wiped out the effect of all the new sales that we were making into other clients. Fortunately, that hasn't recurred. But again, by its very nature, those are not things that we can forecast. So, if a large client of ours, god forbid, was to go bankrupt or if a large client was to suddenly decide they want to pull all the work to in-source, then we would suffer that kind of impact. Having said all of that, as Kapil said, we believe the work we do is very high quality and provides outstanding value to clients. So usually there is not that business case for them to move work from us to some other vendor. But there were two or three events that happened in 2016 to 2019 period, again driven largely by corporate events like M&A that created that outcome for us, it can happen from time to time and it's not something that we have visibility into.

Asha Gupta:
Thank you, Nikhil. We have the next question from the line of Sandeep Shah. Sandeep, please go ahead.

Sandeep Shah:
Yes, thanks for the opportunity. Kapil, in your remarks you said we are as of now applying Gen Al more on the digital operation and customer operations. So, it could also have an impact in terms of what we do on the financial service operation as well, right or you don't foresee much of the impact on that side, because what we do could also be impacted through Gen Al in the financial services as well?

Kapil Jain:
So, you're right, Sandeep, and what we are also seeing is clients also in terms of the POCs, what the impact would be, having discretionary budgets in terms of to work on pilots, POCs, to really see where the impact would be, what's the opportunity and mostly like I said, it will be on enhancing experience, innovation and so on and so forth. So yes, more than an impact, I see it as an opportunity, and with financial services clients also, though the majority of traction we are seeing currently is in the two spaces that I mentioned earlier.

Asha Gupta
Thank you, Sandeep. As there are no further questions, I would hand over the floor to the management for a closing comment.

Srinivasan Nadadhur:
Thank you, Asha. Thank you everyone for joining the call today and we'll see you next quarter. Thanks a lot.