

# eClerx Services Limited Q3FY24 Earnings Conference Call

**February 02, 2024**

**eCLERX MANAGEMENT:**

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

**CONFERENCE CALL PARTICIPANTS:**

**AYUSH BANSAL – EMKAY GLOBAL  
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NIKHIL CHOUDHARY - NUVAMA  
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SANDEEP SHAH - EQUIRUS SECURITIES  
SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES  
V.P. RAJESH - BANYAN CAPITAL ADVISORS LLP**

**Asha Gupta:**

Good evening, participants, and welcome to the Q3 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 Director; and 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.

As usual, 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 floor to Srinivasan. Over to you, Srinivasan.

**Srinivasan Nadadhur:**

Thanks, Asha. Good evening, and welcome to eClerx Earnings Call for Q3 FY '24.

We are pleased to report that USD growth in Q3 was a strong 3.3% and 3.5% in constant currency terms. Operating revenue for the quarter was USD 90.5 million, and total revenue for the quarter was INR 7,735 million, up 5.1% sequentially. EBITDA for the quarter was INR 2,280 million at 29.5% margin, up 4.2% Q-o-Q and Net profit was INR 1,386 million, at 17.9% margin, up 2% sequentially. As with the last couple of quarters, growth in this quarter was driven by the Customer Operations business and the Financial Markets business. As you would have noted, there is an increase in G&A in this quarter. This was driven by 3 factors: number one, higher recruitment fees, which we think will be one-off, higher costs due to work from office and number three, costs associated with the go live of a small facility in Chandigarh. S&D cost in this quarter include a one-off reclass of some costs from delivery to sales. Excluding this, S&D costs would have been similar to Q2 at around 12.5%. Attrition continues to remain low. In fact, it's the lowest that we have seen, including the COVID year. There is an exceptional charge of INR 18.35 million in the consol financial statements. This is the net impact of the fee received for the transfer of personnel from our subsidiary to one of its clients, against the impairment charge of INR 225 million of customer relationship intangibles. Related to this transaction, we also issued notice to vacate one of our premises in Gurgaon, resulting in a one-time lease modification gain of INR 69 million. This lease modification gain is included as part of other Income.

Coming to the outlook for the current quarter, we expect to show a small sequential growth for Q4 with full year EBITDA margins to be in the 28% to 32% range. We are seeing pickup in our conversations in our digital business and are hopeful of seeing a recovery in that business in the quarter or two.

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

**Asha Gupta:**

Thank you, Srinivasan. We have first question from the line of Manik Taneja.

**Manik Taneja:**

This was a question for both Kapil and Srini. If you could talk about, what are you seeing with your customer segment, both in your financial services vertical and the customer operations vertical given that across the industry, we've kept on hearing about an increase intend to in-source if you could talk about that. The second question was with regards to the strong employee addition that we've seen in the current quarter. Historically, the head count addition is a precursor to the growth in the subsequent quarter. So, should that be an indicator of our growth through Q4 and Q1?

**Kapil Jain:**

So Manik, I think overall, we are seeing decent pipeline across our 3 segments: Financial Markets, Customer Operations, and as Srini was mentioning in Digital also. In another quarter or two, we should see an uptick. And if you look at our Financial markets, obviously, we are cautiously optimistic because we are operating in the KYC compliance, where we are seeing good demand and also in the loans area. And we are also seeing some demand from the buy-side funds, both on tech and ops and our domain-led Tech Ops BPO, I think, continues to see positive momentum and our strong delivery is what clients appreciate.

On customer operations, we have seen demand both from existing customers due to seasonality as well as new net addition. Again, on the back of strong delivery, we are in the top quartile of every client that we service from a delivery point of view. And in digital, as I mentioned, across industrials, we are seeing recent demand. High end fashion, I think, is returning back to normal from a high peak demand that they saw during COVID and post-COVID because there was a lot of pent-up demand. So that's really what we are seeing.

**Srinivasan Nadadhur:**

On the headcount addition. So, I will cover that. So, bear in mind that in order to replace the revenue that has gone away from Personiv and therefore the headcount as well. So, the net increase in headcount maybe actually lower than what you are seeing. I hope that answers your question.

**Manik Taneja:**

Srini, if you could expand on this exit that we've seen at Personiv as to what was the construct of this particular contract. And the other question was that while I guess, Kapil will answer that in the subsequent months. But unlike the recent years when we have been unwilling to talk about medium-term growth rates, if you could give us some sense on what would medium-term growth trajectory looks like as you had to look at the portfolio of the business and also possibly plan your strategy around it?

**Srinivasan Nadadhur:**

Okay. So, the construct of the contract is fairly straight forward. Transfer of personnel for consideration I think that is mentioned there about INR 206 million or so and when that happened because this was an acquisition of the company, so we have to evaluate what the impact on goodwill and the customer relationship intangibles was. There was no impact on goodwill because the rest of the Personiv business has grown quite strongly, but there was an impact on customer relationship of about INR 225 million or so. And that net impact is what you see as an exceptional item in the CFS. Coming to the other question on medium-term outlook and whether you want to provide some guidance around that in the coming quarters.

**Kapil Jain:**

So, I think Q4, despite the impact of this client that Srini just spoke about, we are looking at modest growth or sequential growth. And I think in Q1, we would be able to give more comments after the full year results.

**Asha Gupta:**

Thank you Manik. Next question we have from the line of Dipesh Mehta.

**Dipesh Mehta:**

Two questions. First about the Personiv employee transfers. So, whether any intake we have seen in Q3, and headcount reflected, or it is a subsequent event. So, if you can provide that clarity and how many employees related impact you're likely to see because of this thing? And any revenue side if you can give some sense? Second question is on the EBITDA margin, now you indicated about some reclassification, which impacted S&M. But do we expect any sales and marketing kind of structural increase going forward? Because in last few quarters, if I look at it, our sales staff or business development head count has grown consistently. So, I just want to get a sense about whether it is leading to any kind of investment and as a percentage kind of changes? Last is about G&A, you said some

higher work from office cost, whether it is here to stay kind of in that movement?

**Srinivasan Nadadhur:**

So, your third question first, yes, we do think that the higher work from office is here to stay, especially in customer operations and financial markets, both clients and us, we have seen that at least for the first 6 months to year, employees work from office because it just helps in training and learning the roles. To your other questions on whether the Personiv headcount and revenue is for the full quarter, that is, yes. So it is for the full quarter, the impact will be seen in Q4 onwards.

And I think you had a third question on the reclassification of S&D. So, what I meant by highlighting the reclassification is that excluding that one-off reclass, the sales and distribution costs as a percentage of total revenue were largely unchanged from Q2 to Q3 and therefore, what we are saying is that any impact of investments will be felt in subsequent quarters. So, we expect broadly that there will be some impact partially in Q4, but the full impact may be felt from Q1 onwards. And what effect that has on the margins, we will probably give more color during the Q4 call.

**Dipesh Mehta:**

Just on the Personiv side. Can you help us understand how many employees transfer is likely to take place? And what would be the effective date, whether it has already happened with effect from 1<sup>st</sup> January or it is somewhere in the middle of the quarter, this shift will happen and number of employees?

**Srinivasan Nadadhur:**

There's about 400 to 500 and it has already happened.

**Dipesh Mehta:**

So, it would be from January 1 kind of thing?

**Srinivasan Nadadhur:**

Yes.

**Dipesh Mehta:**

And whether it will be largely offshore employees' kind of shift?

**Srinivasan Nadadhur:**

Yes.

**Asha Gupta:**

Thank you Dipesh. Next question comes from the line of Sandeep Shah from Equirus.

**Sandeep Shah:**

Just wanted to understand with this transfer of 400, 500 employees what would be the impact on the fourth quarter revenue on a percentage basis Q-on-Q? And this will have a full year impact in FY'25 as well, right?

**Srinivasan Nadadhur:**

Yes. So, despite this, I think we will still be able to show some sequential growth in Q4, although small because that revenue obviously needs to be replaced. I think we are fairly confident that we'll be able to demonstrate that.

**Kapil Jain:**

Yes. So, I think Q4, as we said, we will see a modest growth. And for FY '25, then back of the 3 quarters that you are coming, we will give more color and view in terms of when we present our Q4 and full year results in the next quarter.

**Sandeep Shah:**

Okay. And Srin, what was the onetime margin impact because of the recruitment cost in this quarter?

**Srinivasan Nadadhur:**

It's about 40 bps to 50 bps.

**Sandeep Shah:**

Okay. And that won't repeat in the fourth quarter?

**Srinivasan Nadadhur:**

Yes.

**Sandeep Shah:**

I didn't clearly understand the impact because of reclassification. So, it's a grouping of basket, which has changed, right? Rather than any impact on a headwind because you said it may start impacting margins by Q4 and 1Q of next financial year. So, I didn't understand that?

**Srinivasan Nadadhur:**

Yes. So, what I meant was that there was only a reclassification between what was the deliveries earlier. Incorrectly delivery earlier, we will reclass it as S&D this time, but that's a one-off thing pertaining to previous quarters. So, the S&M cost as a percentage of revenue for this quarter, excluding this one-off, remains the same as what it was in Q2.

**Sandeep Shah:**

So, it doesn't lead to any incremental margin headwind, right?

**Srinivasan Nadadhur:**

That's right.

**Sandeep Shah:**

And just the last thing, Kapil, induction of yours at a leadership level, company has said is to accelerate the growth. So, do you believe FY '25 would be the first year where the strategy will start driving accelerated growth? Or you believe still a couple of more quarters in terms of accelerated growth?

**Kapil Jain:**

I think like we would be investing in both sales and marketing building capability, and there is a lag from when the investments will happen to the time when we see the growth. We would start seeing the effect of the growth in, let's say, H2 onwards. And we will give more details about the plan, our strategic view in terms of what our focus is in the Q4, as Srin had mentioned.

**Asha Gupta:**

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

**Shradha Agrawal:**

Two questions. Sir, I'm still not clear as to what should be the recurring run rate for S&M. This onetime transition from delivery to sales has happened and this should be considered as a new normal run rate for sales and marketing expenses for us!

**Srinivasan Nadadhur:**

No. So let me just clarify. So, this was a reclass of costs incurred in previous quarters into Q3. Therefore, the actual figure for Q3 is around 12.5%. And by that, I also mean that our investments into business development and sales have not started. So, when they start, there will be some impact. But what we saw in Q3 is not that impact.

**Shradha Agrawal:**

But in a normal steady state, 12.5% should be the run rate? If at all investments and marketing increase, it will be an increase over that?

**Srinivasan Nadadhur:**

Correct.

**Shradha Agrawal:**

Right. And in terms of transfer of Personiv business, was it the full transfer or we are sitting with some residual business of Personiv.

**Srinivasan Nadadhur:**

There is some residual business. This was the largest client, and there is some residual business.

**Shradha Agrawal:**

Possible for you to quantify the residual business that is with us still?

**Kapil Jain:**

No, but the overall Personiv business, the business case that we have laid out for Personiv, the overall business that we are getting from Personiv clients is more than what we had estimated at the time of acquisition. So, this client outgoing has not impacted the overall business.

**Srinivasan Nadadhur:**

Sorry, I should have clarified, the largest client in Gurgaon.

**Shradha Agrawal:**

Okay. And on the large clients, any comments on the revenue visibility from our top 5, top 10 accounts? And any indications on what they are talking of budgets for next year? That's it from my side.

**Kapil Jain:**

Like I mentioned, our top 5 clients, there is an opportunity for us to cross-sell and upsell. We saw growth in our top 5 clients. And in the luxury segment, I think it's coming back to the new normal in terms of more sustainable, predictable growth from what we have seen in 2022, which was the pent-up demand. And in the customer operations, the growth was led from existing accounts, both on account of seasonality as well as on account of new additions. So, like I mentioned earlier that because of our strong delivery technology led, it's we are seeing good traction in existing clients.

**Shradha Agrawal:**

Right. And any indications on CY '24 budget? Though I know that for us visibility is not beyond 6 months but still any early discussions on budgets that you've had with some top clients that would be helpful?

**Kapil Jain:**

I think in the compliance and regulatory area, we are seeing like because it's driven more from a regulatory, it's not discretionary spend, right? So there, we are seeing good traction. Banks are looking at cutting costs given the overall macroeconomic environment, they are also looking to cut costs so that they can spend on Gen AI and other areas. But I think we are in active conversations and they're also being very cautious and from a third-party perspective, it helps, right, because cost is becoming one of the key drivers is what we are seeing.

**Asha Gupta:**

Thank you Shradha. Next question is a follow-up from Manik Taneja from Axis.

**Manik Taneja:**

Just wanted to get your thoughts on this transition that you saw at one of your top client on the Personiv side, if you could help us understand what drove the transition from the customers' endpoint? And do you think this remains a risk for other segments or other parts of our portfolio given we've had similar challenges with our top customers in prior years. That's question number one. The second question, when you speak about the need to step up investments, does it also mean that we might possibly have a rethink around our capital allocation policy. Would be great to get your thoughts there.

**Srinivasan Nadadhur:**

I'll answer the second one. So, I think there will be no change on our capital allocation policy. I think the investments we are making, we have enough cash to fund those. At least the ones that we're thinking about right now.

**Kapil Jain:**

On the first question, we don't see that as a trend. This was a one-off event and was not in our top priority areas, and hence, it was mutually agreed with the client to do this transaction.

**Asha Gupta:**

Thank you Manik. Next question comes from the line of V.P. Rajesh from Banyan Capital.

**V.P. Rajesh:**

Srini, just a few questions on this Personiv transition. First one, what were the total number of employees before this transition in Personiv and as you said, 400, 500 people have gone out. And then the second question is that, given what just Kapil said, is it something which would be margin accretive to us or not?

**Srinivasan Nadadhur:**

I think it will be margin neutral, and to your first question, I think across the 3 locations, Personiv will have roughly about 2,000 people, if not more, a little more than 2,000.

**V.P. Rajesh:**

Okay. So, what you're saying is about 25% of the business has gone to this captive without any major impact at least on the margin of the overall business, right? That's sort of the take on it.

**Srinivasan Nadadhur:**

Yes. Now that you put it that way, it is more like 20% or little less than 20%.

**V.P. Rajesh:**

Understood. Okay. And then the second question was that was this a sudden thing? Or was it sort of planned over a 6, 9 months period?

**Kapil Jain:**

I think it was something that we discussed with the client. And like I said, it was a mutual thing that we agreed, and this transaction was consummated in Q3 and the overall impact of this, we would see in Q4, from January 1. And despite that, we would be in a position to show a marginal growth on the Q3.

**V.P. Rajesh:**

Understood. And then just on fiscal '25, given the comments you have made about potential investment in BD and sales what kind of margin impact should one think about? Because you had earlier guidance for 28% to 32% range, and we have been sort of closer to the lower end. So, I'm just trying to get a sense as to what kind of margin one should expect. And obviously, there will be revenue growth. So, some of that will be offset by the growth, but still just wanted to get a sense on that.

**Srinivasan Nadadhur:**

Rajesh, we will give you more color into what we are thinking about while we present our full year results. And that's because at this moment, we are still thinking through some of these investments, and we also need to get formal Board approval for making some of these investments. So, I think if you could wait for a quarter, we will come back in with more details.

**Asha Gupta:**

Thank you, V.P. Rajesh. Next question comes from the line of Dipesh Mehta from Emkay Global.

**Dipesh Mehta:**

Two questions. First is, I think you already indicated about some recovery and sustainable growth in luxury segment. But Europe seems to be weak. Even though some of the segment, which you said are now showing signs of recovery. So, I just wanted to get your sense about Europe. Even on a Y-o-Y basis, it seems to be soft. So, if you can provide what is leading to weakness in Europe performance. Second thing is about broader trend about rollout. How we are saying, let's say, for the last couple of quarters, we have a healthy growth, even in Q4 despite client specific situation, we expect growth to sustain. So, in a way, we are indicating gross deal intake to remain healthy and roll-off seems to be not happening to that extent. If you can provide some sense about both expects in terms of how we are seeing the gross deal intake to play out. And second is about roll-off, if you can provide some sense what we are witnessing in the market?

**Srinivasan Nadadhur:**

Yes. So, pipeline continues to remain healthy. And I think as far as gross sales is concerned, it continues to remain strong. I think Q2 was our best quarter of gross sales of the last 3 or 4 quarters. And as you've noted, roll-offs other than this one client event also continues to remain fairly small. Coming to the first question on Europe. I think Kapil had mentioned that recovery in digital, we see on the high-tech client side and on B2B Industrial. Specific to Europe, we do a lot of work through CLX. Many of our luxury clients have indicated a return to more moderate kind of growth levels as compared to the outperformance that they saw in FY '22 and '23. So, you are right in the observation that Europe has been soft, and we will expect some amount of moderation to happen in that geography.

**Asha Gupta:**

Thank you Dipesh. Next is a follow-up question from the line of Sandeep Shah from Equirus.

**Sandeep Shah:**

Srini, question in terms of margins. So, when we discuss the margin, we look at operating margin, excluding the other income, which was 27.5% this quarter versus 28.4% in the last quarter. And if I adjust for the one-off of 40 - 50 bps, it is still down by another 40 - 50 bps. So, is it largely because of higher work from office because the robust growth, to some extent, is not leading to any slightly better margins on a Q-on-Q basis?

**Srinivasan Nadadhur:**

So, the return to work is one of those elements. And the other element is that we have done some amount of advance hiring in Q3, which is not fully translated into revenue yet.

**Sandeep Shah:**

Okay. And that you are saying the transition from our payroll to clients' payroll will happen in the month of January, and that's where you are saying net addition is lower.

**Srinivasan Nadadhur:**

That's correct.



**Sandeep Shah:**

Okay. And a question in terms of the in-sourcing, if I'm not wrong, it looks like in-sourcing happening from offshore location to the captive center in the offshore India. What is the logic? Is there a change in the economics, the way it works in terms of outsourced BPO versus a captive BPO, what is the logic for clients to do such a big in-sourcing?

**Srinivasan Nadadhur:**

There is no economic logic at least to my mind. Kapil maybe can comment a little more. To our mind, there is no change in the captive looking more attractive than service provider. I don't think that shift has happened. Some of it is driven by what a particular sponsor thinks about outsourcing and using service providers. Some of it is determined by what the overall firm wants to do in terms of geographies. So, I don't feel any shift. Kapil you want to add anything to that?

**Kapil Jain:**

I think it was more of a strategic decision because the captive that the work got transferred also is in the outsourcing business. So, they took it saying that look why should they use an outsourcing company. So, it was not a client. While it was a client, client, but they had their own outsourcing unit which they transitioned this quarter.

**Sandeep Shah:**

Okay. And just on the Gen AI, is it fair to believe that whatever new ramp-ups can happen in a gradual fashion, it would be net accretive to the revenue where in the first phase of adoption, our work will be slightly more accretive rather than deflative?

**Kapil Jain:**

When you say Gen AI, we are seeing, like in the last quarter as I mentioned, if you look at the top of the funnel continues to grow with the active discussions we are having with our clients. We have had several wins and albeit small because the size of these projects are small, the use cases are small, and we are in quite advanced discussions in closing a few others, right? And we are seeing traction in care ops, content ops, insights on demand. We are also trying to bring Gen AI on our technology applications, which we are using for BPaaS to enhance the functionality. So that's another area. We are in discussions with clients in terms of use cases that we are taking. I think from an overall scheme of things, I don't see Gen AI impacting from a headcount perspective in terms of the growth that we will see.

**Sandeep Shah:**

Okay. So here, the proof of concepts is coming altogether a new process or is it on the existing process client is adopting Gen AI. If it's on the existing, how is the revenue cannibalization happening?

**Kapil Jain:**

Because the volume of the transactions is increasing. So even if some of it is like on care or on the content side, it's existing, but the volume is increasing, and hence the net impact we don't see that it will be decreative.

**Sandeep Shah:**

Okay. And Srini, last thing, if I see your realized rupee dollar, where your account hedges, this time, it's almost similar to average of spot rates. So, is it fair to assume our hedges are becoming slightly more favorable, and we may have slightly better realized rate versus a lagging rate earlier?

**Srinivasan Nadadhur:**

That is correct.

**Asha Gupta:**

Thank you, Sandeep. We have follow-up questions from the line of Debashish Mazumdar from Motilal Oswal.

**Debashish Mazumdar:**

Congratulations on a good set of numbers. So just one clarification. This loss of Personiv business is a yearly run rate of around \$7 million to \$8 million?

**Srinivasan Nadadhur:**

Roughly.

**Debashish Mazumdar:**

Okay. And are we confident of that even after losing \$7 million, \$8 million revenue, in FY '25 will be able to grow at a faster pace?

**Srinivasan Nadadhur:**

Yes.

**Kapil Jain:**

That's correct. Because Q4, as we had mentioned, we will see a sequential growth, though small.

**Debashish Mazumdar:**

And from Q1 FY '25 onwards, is it fair to assume that we will come back to like 3%, 3.5% kind of run rate, which we are maintaining today?

**Srinivasan Nadadhur:**

That would be a hard to make. So usually, our visibility is limited. So, I think we prefer to give more commentary into what Q1 looks like, maybe after 3 months.

**Debashish Mazumdar:**

Wherefrom I'm coming is basically that one side, there is a loss of business. On the other side, your commentary such as that there is a recovery in the digital spending, which is 20%, 25% of our revenue or a little more than that. So, I'm just trying to put a balance in between that and getting some sense in my head that what is the number in FY '25, '26 that we should pencil in?

**Srinivasan Nadadhur:**

Yes. So, I think where we are coming from is that we do see a recovery in our conversations with clients, we think at least there's some improvement in sentiment among the high-tech clients whether that actually translates into the bookings and therefore increase in revenue, that remains to be seen.

**Debashish Mazumdar:**

Okay. And this in-sourcing kind of conversation, are you seeing this increasing with your clients? Or it's just like a one-off event?

**Srinivasan Nadadhur:**

This is a one-off.

**Asha Gupta:**

Thank you Debashish. Next question comes from the line of Nitish Rege.

**Nitish Rege:**

I just wanted to know, could you please share your M&A progress? Like what kind of assets are we assessing and in which areas. Is it in new segments or adjacencies? Because currently, we're sitting on more than INR 1,000 million of cash.

**Kapil Jain:**

I think we are looking at where we can drive synergies for our clients. So, I think that's the first question. And does it fit our overall strategic direction, which is in terms of digital analytics. So, I think the first question you are asking is, does it fit in our synergistic value is what we can add, and it overall is adding

value to our clients and to us. PD, do you want to add?

**PD Mundhra:**

No, I think that's right Kapil. And I would say, broadly speaking, we've invested more in the M&A effort internally. And as a result, I think we are seeing more deal flow because we have interaction with a broader set of intermediaries in terms of bankers, et cetera. And I think to Kapil's point, a number of things have to align for a transaction to be consummated in terms of fit, valuation, growth prospects, management team, culture and so on. But hopefully, I think we'll be more active going forward than what we've been in the past.

**Asha Gupta:**

Thank you, Nitish. Next question comes from the line of Nikhil Choudhary.

**Nikhil Choudhary:**

Sir, my question is regarding this transfer of employees from Personiv. What I want to understand is during the last call, we have given commentary that our quarter 3 is going to be a very strong quarter. And generally, the expectations are that you have visibility generally for the next 6 months. So how this surprise came in terms of transfer of employee or in-sourcing by client?

**Srinivasan Nadadhur:**

So, the quarter was strong, isn't it? It was 3.3%, and that is the commentary that we have given for Q3. I'm not sure why you feel that there was not enough information provided regarding what the quarter is going to be.

**Nikhil Choudhary:**

Just wanted to understand, we expect maybe there was some surprise in terms of Personiv transfer. So basically, you are saying that, that visibility you already had, and this basically transfer is more or less on expected lines?

**Srinivasan Nadadhur:**

These are confidential transactions. So, till the time that it actually consummates, we are not able to really talk about it. And which is why now we are disclosing this information because we were not allowed to do it earlier.

**Asha Gupta:**

Thank you, Nikhil. Next question comes from the line of Mihir Manohar.

**Mihir Manohar:**

This Personiv transfer, which is happening, largely wanted to understand what sort of work we were doing here? And second question is on the deal wins. I know despite this transfer, which is I think we are looking at growth in 4Q. So, I just wanted to understand how you are looking at deal wins for this quarter and maybe for 3Q and 4Q, both that will be helpful. You talked about increasing spend on luxury and high tech. If you can quantify, what kind of increase are we looking at? Is it like 10% increase, 15% increase, that will be helpful?

**Kapil Jain:**

I think the nature of work that we were doing was more on outbound sales and in terms of our deal pipeline is healthy. Conversion rates stay the same. So, there isn't a material change in terms of our win rate or conversion rates. In terms of exactly what we are like 10%, 8%, I think it's difficult to quantify, like I said earlier, that despite the full impact in Q4, we will show a moderate growth in Q4 over Q3. And for the Q1 and the rest of FY '25, we will be able to give more color when we meet you guys in our next quarter.

**Mihir Manohar:**

That's a fair point. So, I mean, despite Personiv, so we are looking ex of the Personiv, but the growth rate is expected to be good. Do you see this sustaining? Or how do you see that given the fact that there are some green shoots which are happening?

**Kapil Jain:**

Yes, like overall, we do see the growth, the pipeline environment, and we will be investing in sales to further create the sustainability.

**Mihir Manohar:**

And just lastly, I mean, any more color around team building exercise, any more senior people being hired or anything like that after you have joined in?

**Srinivasan Nadadhur:**

There have been no further senior hires, and we are in the process, and that's part of the investment plan. So as and when they happen, we will call it out.

**Asha Gupta:**

Thank you, Mihir. Next question comes from the line of Darshan Engineer.

**Darshan Engineer:**

First of all, congratulations for a decent set of numbers considering the external environment. My first question was on the top client front. So, if you look at the data, it seems that your top 5 clients actually have grown at a healthy rate. Does it mean that, despite all the challenges we see in the external environment, the client that you are working with continue to have a good growth going ahead? I mean, the growth rates on the top 5 and the top 10 clients are quite healthy and above company average.

**Kapil Jain:**

So I think, yes, we will continue in terms of like as I had mentioned, because on the back of strong delivery, technology-enabled delivery, we are seeing good conversations with existing clients and to bring sustainability, we have to also build new growth engines, which is where I think we will be investing in sales and marketing to bring more sustainable and scalable growth.

**Srinivasan Nadadhur:**

Just to add to that, Darshan, some of it is just the way it plays out is as we have been talking. A lot of the growth has been in CO and FM in the last couple of quarters. And by definition, you know that we have a smaller number of clients with larger footprint. So, it sort of stands for reason that the larger of our clients would have grown faster.

**Darshan Engineer:**

Right. And this client, which has been in-sourced by the client, I mean. So is that the one which is why your USD 5 million to USD 10 million clients you're seeing a reduction from 5 to 3 quarter-on-quarter and so one of them might have moved larger and one of them might have gone out. So, if you can just explain the number of clients remain the same quarter-on-quarter, but there has been shifts between the different buckets.

**Srinivasan Nadadhur:**

There is always that sort of shift between buckets as one client moves in, and somebody moves out. To this specific question on your, what you're asking about this client input something, they're not part of the top 10.

**Darshan Engineer:**

Then the third part was on the emerging revenue that you would disclose. Again, there, we are seeing good quarter-on-quarter growth in the \$0.5 million bucket. And we are seeing a corresponding degrowth on the other kind of things. So, if you can just explain what is happening in this emerging business.

**Srinivasan Nadadhur:**

Again, I think it's driven by where we've seen growth in our businesses. So, in the customer operations and financial markets where we have these emerging clients those have grown. And I suspect that more of these clients would be in the 0.5% bucket and less in the others. Hence, you see the 0.5% plus growing faster than the others.

**Darshan Engineer:**

And finally, coming to the headcount. I mean, you explained that, I mean, this headcount addition is not really the correct way to look at. So, if you can just again explain what exactly meant by the quarter-on-quarter growth of headcount?

**Srinivasan Nadadhur:**

Yes. So, what I meant is that the Personiv transfer is effective only in this quarter. And therefore, the exit headcount that you see in the slide # 10 which is approx. 17,000 is not reflective of what we will enter the quarter.

**Darshan Engineer:**

Okay. So maybe we expect a flat quarter-on-quarter in Q4, considering the normal growth that you would expect say in terms of a future pipeline, there may be still be addition. But on a reported basis, it will look like a flat employee addition in Q4.

**Srinivasan Nadadhur:**

That's possible. I haven't looked at it, but that's possible.

**Darshan Engineer:**

Understood. And finally, on the attrition, I mean, this 16.6% seems to be too low. And actually, I think we would love to see it actually higher. I mean, in our case higher attrition is actually beneficial to the margin. So would you actually look at this going up again, because despite the lower attrition your margins actually are on a good rate actually, so.

**Srinivasan Nadadhur:**

Yes. So, we think that in Q4, this should pick up. This is the lowest that we have seen in a long time, and we think that Q4 will be higher.

**Darshan Engineer:**

Okay. And just one clarification, final clarification, you said that Q4, you expect a modest growth, but that would be despite the revenue that is going. So, in a way, I mean, after excluding that business, the growth rate would still be a reasonable Q-o-Q growth.

**Srinivasan Nadadhur:**

It will be small.

**Asha Gupta:**

Thank you, Darshan. Next question comes from the line of Ayush Bansal.

**Ayush Bansal:**

I have a couple of questions. So, our utilization for the quarter is around 74%. What could be the optimal range going forward?

**Srinivasan Nadadhur:**

I think we are targeting some number between 74% to 76%.

**Ayush Bansal:**

Got it. Another is on the top 6 to 10 clients, if we see that we are seeing a decline from the last 3 quarters, a sequential decline. So, any color on that side?

**Srinivasan Nadadhur:**

I suspect this is just a function of what the situation for those specific clients is, I think our focus remains on trying to grow some of this, but I think maybe it's just a function of time and the recovery in their respective business.

**Ayush Bansal:**

So, we do expect a recovery going forward there?

**Srinivasan Nadadhur:**

Hopefully.

**Kapil Jain:**

So, we have a large franchise of client Ayush, hence, I think it's like whether recovery happens since plan 6 to 10 or from 11 to 20, I think we have a good franchise of clients, strong delivery and strong technology capability.

**Ayush Bansal:**

Okay. And last thing on the depreciation part. It has increased slightly quarter-on-quarter. So, any specific reason for that?

**Srinivasan Nadadhur:**

So, a small facility in Chandigarh gone live, about 200, 300 seats. So that is one reason. And because of the lease termination in Gurgaon, there is accelerated depreciation for the next few months.

**Asha Gupta:**

Thank you, Ayush. Next question comes from the line of Sandeep Shah.

**Sandeep Shah:**

Kapil, just reference to my earlier question. You said to accelerate the growth you have to invest and the benefits of that may start reaping from the second half of next financial year. So, in that scenario, you believe the acceleration can happen because investment may eat into margins? Or this could be some change in the expense churning, which can keep the margin more or less stable rather than compromising margin in search of a higher growth.

**Kapil Jain:**

So, I think see, even like I said, we will be investing for growth in sales and marketing. There will be a lag from the time investment is made to the time we will see growth, and thereafter we will look at in terms of where all optimization is possible. We are delivering healthy margins. We have a good client franchise. We are continuing to invest in areas where we have strength and good capability. And we will come back to you in Q1 when we declare our Q4 and full year results in terms of giving you the impact in terms of the margins and what directionally we could look at over 3 to 5 years. I think we will take a more longer term view than a quarter-on-quarter view.

**Sandeep Shah:**

Yes. Fair enough. And just last, in that budgeting cycle and your aspiration for the growth whether Gen AI makes you worried in back of your mind or you believe no, that won't be a worry, and we would anyway achieve our growth targets if we execute well?

**Kapil Jain:**

As I had said earlier, our BPaaS work that we do and our ability to deploy technology on the ops work that we are doing, roughly 12% to 15% of our revenue comes from the tech side, and 90% of it overlaps with the work that we do in the ops area. So, I see Gen AI as an opportunity for us to build proof points because we have domain, process and tech knowledge, which is, I think, a unique skill set. So, I don't see that as a threat, if at all, I see this as an opportunity.

**Asha Gupta:**

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

**Shradha Agrawal:**

Most of my questions have been answered. Just one follow-up. I think you mentioned that the comfortable range of utilization for you should be between 74% to 76%. And we've historically operated at utilization levels upwards of 78% also. So why is the new normal band utilization lower than what historically we've operated at?

**Srinivasan Nadadhur:**

I think from FY '23, Q1, we changed the calculation.

**Shradha Agrawal:**

I'm talking on the new calculated range only.

**Srinivasan Nadadhur:**

The new calculated range, what I can see is between 73.1%, 75.4%.

**Asha Gupta:**

Thank you, Shradha. Next question comes from the line of Jalaj Manocha.

**Jalaj Manocha:**

This is more from a structural perspective or a change which has happened. So, I see that at least for this financial year, the subcon cost has reduced to the range of 2%, 2.5%, which has historically been in the range of 3.5% to 4%. So how should I read the impact of this on the margins? And what would have been the replacement headcount, which would have come from it.

**Srinivasan Nadadhur:**

I don't have a ready answer. Firstly, I think our subcon cost was higher, not historically, but probably only in FY '22 and FY '23. And it has come down since to this level, which is probably more reflective of our long-term number. I don't know if PD you have anything to add?

**PD Mundhra:**

I don't have anything to add.

**Srinivasan Nadadhur:**

I will get back to you, Jalaj.

**Jalaj Manocha:**

Okay. I guess the outlook part has already been covered, but in the short run, where do you see the pickup in the top line at least coming from in terms of these 3 segments if you could talk about because we don't get the segmentation across them.

**Kapil Jain:**

I think in financial markets, like I said, I mean we are seeing demand in the area of compliance, in the area of loans, and we are seeing both ops and tech opportunities on the buy side front. On the digital practice side, we are seeing some outlook, some green shoots on the high-tech clients, fashion and luxury, as we mentioned, that there is a moderate, but sustainable growth.

I think it is coming back to the new normal and industrial manufacturing, we are seeing a good outlook in terms of their continued investments on the digital transformation journey, where we are also bringing in a Gen AI capability. Retail and brands are still, I think, a little bit struggling in terms of low to single-digit industry growth. And in customer operations practice, I think we are seeing, again, demand on account of seasonality as well as net new addition in existing clients.

**Asha Gupta:**

Thank you, Jalaj. Next question comes from the line of Debashish Mazumdar.

**Debashish Mazumdar:**

The question that I have is more to do with the long-term trajectory of this company because what we have seen eClerx in the past is targeting those business where margins are very, very high. And we are still reporting highest margin by any parameter in the industry. But once you onboard it and it will start chasing scale, seems to be that there could be some pressure on margins, although may be transitory, so broadly what is your view? How do you think of balancing it in terms of growth and margin because if I say the BFSI business today, we are largely into the B2B space, the moment you go to B2C space, there is a large amount of competition there, where margins are low. So just wanted to get your thoughts around growth and margin, how you are looking at it?

**Kapil Jain:**

Like I said, I think we would be investing for growth in terms of which will have an impact on the margin in the short term. And then in terms of segment, we believe that the current capabilities that we have and in the adjacent areas, there are enough and more opportunities. So, we really wouldn't have to go and look for B2C and other areas. And we will be able to give you more color once we have finalized the plan, it's been approved by Board in our Q1 in terms of more than quarter-on-quarter as you tell your investors to have a 5- to 7-year outlook when they invest in equity, we would recommend that you take a view of 3 to 5 years. And overall, if there will be a dilution in margin, we will also look at how it is EPS accretive.

**Debashish Mazumdar:**

Is there any threshold margin limit that is there in your mind that will not go below this number?

**Kapil Jain:**

I don't have that at this point in time.

**Asha Gupta:**

Thank you, Debashish. Next question comes from the line of Darshan Engineer.

**Darshan Engineer:**

Just wanted your view on the Gen AI proof-of-concept projects that you had mentioned in the previous quarters. I mean there is some 50-plus POCs already underway at that time. I'm asking this because, I mean, when we look at some other BPO/KPO companies like yours and who are even larger in size, they are also suggesting that getting a lot of new projects and from first-time outsourcers of business processes through the Gen AI route itself. So, if you can throw some more light on this Gen AI being a net accretive to the BPO industry in general and how it will benefit even companies like us in terms of these POCs then translating into maybe much larger commercial level projects.

**Kapil Jain:**

Like I said Darshan that the funnel is increasing. The discussion that we had in advanced stages last quarter, some of them have got converted, some of them have moved into advanced stages of conversion and the top of the funnel has increased as well. Like we are focusing on our existing set of clients to deliver additional value as opposed to looking at new clients because as I have mentioned earlier, we have a strong franchise of clients. And any which way our delivery is tech-led, and we have offerings on the BPaaS where we have underlying technology and our own platform where we are enhancing the functionality by bringing in the Gen AI. So overall, I see it to be net accretive from our company perspective.

**Darshan Engineer:**

Sir, what I meant was that, are you also getting maybe new clients altogether and clients which are doing an outsourcing of their business processes for the first time?



**Kapil Jain:**

Yes. So, I think we are, but like I said, it's a question of focus, right? In terms of, yes, I can chase new, new clients. But if we have a good franchise of clients, I'd rather focus with the existing set of clients where I have domain process, already underlying technology to bring in the Gen AI. Can we go ahead chase new clients? Are we getting requests from new clients? Answer is yes, but we are prioritizing our existing set of clients and servicing them.

**Asha Gupta:**

Thank you, Darshan. As there are no further questions, I will hand over the floor to management for closing comment.

**Srinivasan Nadadhur:**

Thank you, everyone. Thanks for joining the call. We will see you again next quarter. Thank you.

**Asha Gupta:**

Thank you, Everyone.