eClerx Services Limited
Q1FY27 Earnings Conference Call

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ECLERX MANAGEMENT:

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CONFERENCE CALL PARTICIPANTS:

CHIRAG SHAH – WHITE PINE INVESTMENTS

DIPESH MEHTA – EMKAY GLOBAL SECURITIES

GIRISH PAI - BOB CAPITAL MARKETS

RAHUL JAIN – DOLAT CAPITAL

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SANDEEP SHAH -EQUIRUS SECURITIES

SHRADHA AGRAWAL – AMSEC SECURITIES

VAMSHI KRISHNA – KOTAK SECURITIES

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YASH GOENKA – AWRIGA CAPITAL ADVISORS

Asha Gupta:

Good day, and welcome to the Q1FY27 Earnings Call of eClerx Services Limited. Please note that this webinar will be recorded.

To take us through the results today and to answer your questions, we have with us the top management of eClerx, represented by Kapil Jain, Managing Director and Group CEO; and Srinivasan Nadadhur, Chief Financial Officer. We will start the call with brief opening remarks by Kapil, which will be followed by Srinivasan, who will be sharing the financial update, and then we'll open the floor for a Q&A session.

As usual, I would like to remind you that anything that is mentioned on this call that gives any outlook for the future or which can be construed as forward-looking statements 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 SEBI and subsequent annual reports, which you can find on our website.

Having said that, I will now hand over the floor to Kapil. Over to you, Kapil.

Kapil Jain:

Thank you, Asha, and good evening, everyone.

Q1FY27 operating revenue was USD 125.9 million, up 15.2% year-on-year, with 2.8% sequential growth, our 12th consecutive quarter of sequential growth, reflecting consistent execution even in a mixed operating environment. INR revenue for the quarter was INR 11,524 million, up 23% year-on-year. Operating EBITDA was INR 2,652 million at a margin of 23%; PAT stood at INR 1,643 million at a margin of 14%. The sequential margin decline was driven mainly by wage increases. Strong revenue growth absorbed much of this impact, and we delivered healthy profitability while continuing to invest in our people and technology.

New deal wins were USD 41 million, up 25% year-on-year, reflecting the momentum built over recent quarters. Client conversations remain healthy across the business and our service lines, which gives us confidence going forward.

Analytics and Automation grew 7% sequentially, well ahead of the company average, and has now crossed a USD 100 million annual run rate, an important milestone for us. Our goal is to steadily increase the share of technology-led services in our business and stay relevant for our clients. I'll also give a brief overview of the vertical updates and some of the client wins.

On the Hi-tech side, the outlook remains positive. Clients continue to invest in transformation programs. Demand for our AI and technology capabilities remains strong in this vertical.

Emerging business, led by Finance and Accounting (F&A), has delivered strong growth for the fourth consecutive quarter. For one of our clients, we are expanding F&A support into the APAC region. Our combination of domain expertise and technology resonates strongly with SMB clients looking to automate their finance processes.

On the Communication, Media, and Telecom side, we saw growth across our international centers - Cairo, Manila, and Fayetteville - supported by strong delivery and execution. We are adding new inbound sales capabilities and seeing growing client interest in diversifying delivery across these locations.

In the BFSI segment, our compliance manager in the FCC space continues to receive a positive response. We are in discussions with several banks and asset managers, with some pilots completed successfully and others at various stages of evaluation.

We won an engagement to set up a contact center for a banking client in our Fayetteville center in the U.S., one of our first examples of cross-selling CX services into BFSI. We also won work in the mortgage area, an area where we have had limited presence so far. And we have started operations in Coimbatore, which strengthens our delivery network and positions us to pursue larger opportunities and tap talent from the Coimbatore area.

M&D and Retail, these verticals remain relatively soft. Clients continue to face supply chain challenges from the prolonged Middle East conflict, resulting in more cautious spending, longer decision cycles, and some delays in discretionary projects. Even so, client engagement remains active.

Fashion and Luxury revenue was flat sequentially and up 2% year-on-year. We see some early signs of recovery and expect gradual improvement to continue in Q2.

In Technology and Analytics, AI demand continues to grow, especially in Hi-tech and BFSI. We see strong demand for data preparation and exploratory data analysis, which is the foundation for implementing AI. And these are often the first steps before clients move to larger agentic AI programs. In BFSI, we are deploying AI across document digitization, KYC screening, process workbench, and financial spreading, among many other areas as well.

In CMT, we completed a successful QA 360 pilot with one of our large clients, which is going live in Q2. At full scale, it will audit around 0.5 million interactions every month across sales integrity, retention, and credit compliance. In creative services, our AI-powered creative platform, Fluid 4, now supports several of our clients in high-end fashion and retail.

In terms of awards and recognition, we received several during the quarter. At the Economic Times Future Skills Award, we won a Silver for Excellence in Industry Alliance Skilling Infrastructure, and a Bronze for Excellence in Learning Platforms and Business Impact Measurement. Forrester featured eClerx in its business process outsourcing services landscape report, recognizing our strength in AI, consulting, analytics services, and industry AI services. At the Indian CSR and Sustainability Awards, we received the CSR Excellence in Education Award for our long-standing partnership with Sampal, which supports education in tribal and rural communities around Pune.

The macroeconomic environment remains mixed, and clients continue to be selective in their spending. Even so, we expect another quarter of sequential growth. We have also crossed an annualized revenue run rate of over USD 500 million, an important milestone for the company. While quarterly growth will naturally vary, we see good client conversations, a healthy pipeline, and encouraging momentum.

Over the last three years, we have made good progress, possibly because of the trust of our clients, the commitment of our people, and the strength of our partners. We believe we are well positioned for the next phase of growth. Finally, we plan to host an Investor Day later this quarter, giving investors a deeper understanding of our capabilities, strategy, and the leadership team. We will share details soon with you all.

Thank you. Over to Srini.

Srinivasan Nadadhur:

Thank you, Kapil, and good evening, everyone. I will recap some of the revenue and margin numbers and offer more color, specifically on margin and other operating metrics.

INR operating revenue, which includes the gain/loss on our hedge book, was INR 11,524 million at an implied FX of INR 91.5 per dollar for the quarter. In constant currency terms, operating revenue is up 2.9% sequentially and 15% year-on-year. Including other income of INR 179 million, total revenue is INR 11,702 million, up 3.1% sequentially and 24% for the full year. Other income is lower during the quarter because of lower investable surplus.

The net operating cash flow for the quarter is INR 1,073 million. The OCF to EBITDA ratio is 38%, and as you must be aware, Q1 is lower than the average, as the annual variable payout for FY '26 is paid out in this quarter.

Operating EBITDA Q-on-Q is down 260 bps, primarily because of wage increments, which contributed 210 bps out of the 260; spend on computers and network infrastructure contributed 40 bps, and this was partially offset by a reduction of 60 bps in S&D. On a Y-on-Y basis, operating EBITDA is down by 96 bps. EBITDA, including other income, is down 330 bps Q-on-Q and 64 bps Y-o-Y. Utilization in Q1 is 75.5%, which is higher than what we saw in Q4.

Total headcount is down by 0.6% Q-on-Q, but headcount billed to clients was up because of the higher utilization. In this quarter, there is a slight reduction in seat count as some production seats were refitted. We are, in fact, adding additional capacity across our delivery centers in India, that is, Mumbai, Pune, Chandigarh, Mohali and Coimbatore. These facilities will become operational in a staggered manner over the next three to four months and increase seat count by about 1,600 seats in aggregate. This is also the reason for the increase in Ind AS depreciation and interest costs for this quarter.

On other key metrics, DSO is at 79, attrition is at 21%, which is about the same as the previous quarter. For a few quarters now, our tech and analytics book have grown faster than the firm average. As you are aware, we have set up operations in Cairo and Lima 12 to 15 months back, and we are very pleased to see the growth in these new locations. Manila also has performed very well. Headcount there has doubled in the last 15 months. As you may be aware, these locations operate at a lower gross margin than India, and the change in revenue mix will have some downside on margin.

We are also seeing an uptick in G&A costs, especially for computers, servers, and networking infrastructure. Despite all of this, we are confident of meeting the stated EBITDA range of 24% to 28% for the full year.

Thank you, everyone. And with this, we conclude our prepared remarks, and we can now move on to the Q&A.

Asha Gupta:

Thanks Srinivasan. Thanks Kapil. We have the first question from the line of Yash Goenka from Awriga Capital.

Yash Goenka:

My first question is on growth for the BFSI segment, which has been lagging behind the company growth. So, is this an area of concern? And by when do you see it catching up with the company growth or even going ahead of it?

Kapil Jain:

Thanks. So yes, as you would see, this quarter, if you compare it against Q4, it's flattish growth. We are flat. And Q4 compared to the previous Q3 of the previous fiscal year was negative 3% to 3.5%. So, if you see, the gradient is moving in a positive direction, and with the pipeline and the discussions we are having, we are confident to change the tide and bring it to the positive territory.

Yash Goenka:

Any timelines on that?

Kapil Jain:

I think we should see momentum build up and giving us benefits starting in H2FY27.

Yash Goenka:

And second, would there be an increase in tech services headcount. So, is this an investment which you're making? Can you talk more about this? Which part of the business is this for? And by when do you see it paying off?

Kapil Jain:

Yash, it's a mix of investments in AI, creating an AI COE, doing a lot of pilots, also enhancing the functionality of our products, as I've been saying in the previous earnings call. We are constantly looking at it in terms of the value it is giving to our clients, both in terms of the wins on tech and analytics as well as in terms of the conversions that we are having. And as you will see, our Tech and Analytics business, which is a primary surrogate for the investments that we are making in AI, is around 7%, which is higher than the company's overall growth. That's number one. And number two, in all our discussions, we are pivoting and leading it with AI and generative AI.

So, I think it's hard to say, look, if I have put in X number of people, will I get Y? I think the growth momentum, the conversions, and staying in the margin range of 24% to 28% are all the factors that will ensure that we are looking at the ROI and we are getting the right benefit. And what is the mind share you are getting with the clients when they are having discussions on AI, and how do they implement, which process or area they should pick? Can we help them accelerate their AI implementation? So that's the metrics that we are looking at.

Asha Gupta:

Thank you, Yash. We have the next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah:

The first question is, generally, our coming quarter's growth is dependent on the headcount. This headcount has marginally gone down. So, is it due to a slightly softer quarter in the coming quarters, or is it more to do with an effort to improve utilization and AI-led employment?

Kapil Jain:

Sandeep, quarter-on-quarter, as I said, we are looking for sequential growth. There could be quarter-on-quarter variations. I think for the full year, we are very confident of delivering the top-quartile growth.

The total headcount has come down, but the billed headcount has increased, and so that's the reason for the headcount reduction.

On the quarter, I said in the beginning that we are confident of delivering sequential growth. Quarter-on-quarter variations will continue, but with the discussions and the momentum we are seeing, we are confident for the full year in achieving the top quartile growth of the industry segment.

Sandeep Shah:

The second question is in terms of ACV. This quarter, there has been a 26% growth. Do you believe this kind of Y-o-Y growth momentum based on pipeline may continue in the coming quarter? Or can you comment on the whole year ACV target.

Kapil Jain:

Sandeep, for the full year last year, we delivered around $170 million ACV. And what we are aspiring for is to definitely do at least what we did last year and grow on that number because that will give us a good tailwind as we enter '27 ‘28. So that's what we are expecting. And I think, at this stage, I see no reasons as to why we are not marching towards the goal that we have set ourselves for.

Asha Gupta:

Thank you, Sandeep. We have the next question from the line of Rahul Jain from Dolat Capital.

Rahul Jain:

In terms of segments, you articulated one for BFSI; you added mortgage as one of the new pieces. So, if you could articulate what kind of a subsegment opportunity, in terms of market, customer size, or geographies, all of that, which you are trying to chase within this sub-segment?

Kapil Jain:

Rahul, on BFSI, we are seeing opportunities across the regions, APAC, EMEA, as well as in the U.S., across FCC, across trade, and all of them, like in the trade life cycle, we are looking at AI in terms of how they can use AI because we understand the front to back of the process and we understand the clients' business. So that's where the discussions are leading.

As I said, we also won a CX engagement for FS clients, which is the first cross-sell because CX was predominantly for our communication, media, and telecom, and we will continue to focus on that as well.

So, we will continue to see how we cross-sell and upsell our existing offerings into the FS segment. So broadly, that's the composition. I hope I've answered your question.

Rahul Jain:

Thanks for that color. One piece, which I think you also mentioned, is that you are chasing mortgage as an area within BFSI, if I heard it right. So, my question was more specific to the mortgage customer opportunity.

Srinivasan Nadadhur:

So, what we mentioned is that we've had a couple of clients talking to us about mortgages, and we have some momentum in that area. We will start doing work on that. Now, as it becomes meaningful, we will have to then decide who we go after and which clients do we pitch to. But at the moment, our focus is on making sure that these initial two engagements are successful. So, anything beyond that will come later.

Rahul Jain:

Okay. And this is in the U.S.; is that understanding right?

Kapil Jain:

That's correct.

Rahul Jain:

And it's refinance or origination? Anything if you would like to add?

Kapil Jain:

It is on the servicing side.

Rahul Jain:

The reason I was trying to understand is that we have seen the volatility on the origination side of it is extremely high for the BPO companies, while servicing is definitely far more annuity-like in behavior. So that's the reason I was trying to understand.

Asha Gupta:

Thank you, Rahul. We have the next question from the line of Shradha Agrawal from AMSEC Securities.

Shradha Agrawal:

Just two questions. One is on margins, when you call out the puts and takes for this quarter, rupee depreciation was not called out. So, did we see any mitigating impact of currency movement on margins?

Srinivasan Nadadhur:

Yes. So, excluding FX, I think the impact on quarter-on-quarter delivery would have been 330 bps, of which the majority would have been increments. G&A, S&D would largely have set themselves off. So, I think the impact of FX for us would have been 50 bps or so, quarter-on-quarter.

Shradha Agrawal:

And secondly, I think, Kapil, last time you had indicated that there is a U.S. government regulation on offshore call operations that was being monitored. So, what is the status on that? And in relation to that, we've seen some softness in our CMT vertical. So, is it to do with some regulation change in the U.S.?

Kapil Jain:

No. There is no further change in either direction from what we reported in the last quarter. And I think it's more a quarterly aberration if you see the growth in CMT business in Q1 over Q4. Sequential growth from 7% to 1.3% is just a quarterly aberration. It's nothing to do with the regulatory environment.

Shradha Agrawal:

And last question. The top 5 accounts have been relatively slow for some time now. So, is it some particular client-related weakness? Or what is happening actually in the top 5 client category?

Kapil Jain:

So, it's not slow, what is happening is that I have said in earlier quarterly earnings call that, if clients are implementing technology, AI, we are not going to shy away from it. So, the fact that we are able to capture the demand and a lot of work that we do in the FCC area is also dependent upon in terms of how and when you are doing client refreshes, and it's linked to the regulatory environment. And that, has slightly come down because of the overall regulatory environment. The overall regulatory environment for financial services in the U.S. is slightly less onerous than it used to be, let's say, two or three years back. So that's the reason. Otherwise, there is no other reason for growth in the existing top 5 clients.

Asha Gupta:

Thank you, Shradha. We have the next question from the line of Vinit Thakur from Plus91 AMC.

Vinit Thakur:

Thank you for the opportunity. I would like to know your overview on the emerging market because there has been drastic growth. Could you just comment on that?

Kapil Jain:

So, Vinit, as I mentioned, our F&A, we started with SME, and then we are gradually moving into the mid-market segment. We have also built a financial workbench, which is resonating well with the clients in automating their processes. So, we expect to see good momentum in the emerging markets business on the back of our F&A capability.

Vinit Thakur:

In other segments as well, there has been a very muted growth in other segments, not a lot, especially in BFSI. Could you comment on that as well?

Kapil Jain:

If you look at Q4, I know we were coming on the back of a very strong quarter of Q3. We had a 0.6% growth, and Q1 versus Q4 is about 2.9%. If you look at Financial Services, it was negative 2.8%, and this quarter, it's negative 0.1%. And as I said in the beginning, we do expect to turn the curve and see how we can deliver positive growth from H2 onwards. And we are seeing good momentum and traction in FS.

On the CMT side, it's more quarterly volatility. we are seeing growth in our international centers, Cairo as well as in Fayetteville.

And Hi-Tech and M&D saw a good growth turnaround. So, I'm not worried in terms of the overall growth of 2.8% to 2.9% that we delivered. And FS, like you rightly said, is a large area for us, we should start looking good from H2FY27 onwards.

Vinit Thakur:

What would be our revenue guidance and Capex guidance for the next three years? If you could also comment on our expected revenue growth, that would be helpful.

Srinivasan Nadadhur:

Capex, we are slightly higher. We are probably running at INR 130 Crores is my estimate.

Kapil Jain:

On revenue growth, the guidance stays the same. We are confident, given our capability and industry mix, to stay in the top quartile growth.

Vinit Thakur:

So, what has been the Q1 top-quartile growth? If you could help me with that.

Srinivasan Nadadhur:

I think you can look at the top 20-odd companies that are listed in India with a similar market cap, and you should be able to work out some of that number.

Kapil Jain:

We think even in Q1, we have delivered top-quartile growth.

Srinivasan Nadadhur:

Some of them have not released results yet. I think a couple of them are today. So, we have to wait for that picture to emerge.

Asha Gupta:

Thank you, Vinit. We have the next question from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta:

Thanks for the opportunity. I have two questions. One is about any change you are observing in the roll-off trends, considering the adoption of AI as well as technology investments, which can have some implication on the prediction. And second question is related to CMT and fashion and luxury, so taking into account what you said, we are seeing a decline, particularly, Q2 is a seasonal weakness in direct media. So, if you can cover the context around seasonality.

Srinivasan Nadadhur:

So, on CLX, you are right that Q2 is soft. But if we look at Y-o-Y comparisons for H1 to H1, we think that we will still be up for fashion and luxury. I think full year for CLX is probably around 0% to 2%. I think we should be able to do a little better this year.

Your first question was whether we are seeing any change in roll-off trends. So generally, roll-off tends to be volatile because if you're doing some short-term work and that ends, then that will show up in the roll-offs. So, it tends to be volatile. It is not fully predictable. There are quarters where not much roll-off happens, and there are quarters where there is a lot of roll-off. But generally, if you look at it in a 4-quarter period, then it is generally between 15% and 20% of revenues for the year. And we expect that, that should broadly hold up this year as well.

Asha Gupta:

Thank you, Dipesh. We have the next question from the line of Rohit Thorat from Axis Capital.

Rohit Thorat:

The first question is regarding growth in non-top 10 clients. So, for the past few quarters, your non-top 10 clients are actually growing at a faster rate compared to your overall company growth. However, this quarter, that cohort has seen some slowdown. So, can you give some color on what's causing that during this quarter? And how is the outlook going forward for this cohort?

Kapil Jain:

So, as I had said earlier, that given the size of our business and outside of top 10, quarter-on-quarter volatility will exist. Directionally, there is a strong focus on growing outside of top 10. It's not to say that we are not looking to grow in top 10 or looking to get a larger share of wallet of top 10. But I think we are confident in delivering higher growth outside of the top 10 as we continue because that's a significant focus area for us, to see how we can reduce the top 10 client concentration. I don't think there's anything to read into on a quarter on the basis of whether it's a trend or something slow or anything we are seeing, nothing of that sort.

Rohit Thorat:

The second question is related to other operating expenses, which are there in your exchange filings, the P&L in exchange filings. That has also seen some substantial increase in quarter-on-quarter. So, what's causing that?

Srinivasan Nadadhur:

Communication, network infrastructure, and some amount of facility buildout. So, it's all G&A-related.

Rohit Thorat:

And is it expected to go down as a percentage of revenue going forward or in the next two to three quarters?

Srinivasan Nadadhur:

Communication and networking expenses, I think the trend generally is not expected to go down. I think equipment has become more expensive. Some of it is also dependent on when we make the purchase. So, I think CapEx has been a little higher this time around. Some of the OpEx also has been higher. So, we should see some goodness as revenue growth goes up.

Asha Gupta:

Thank you, Rohit. We have the next question from the line of Chirag Shah from White Pine Investments.

Chirag Shah:

Just one question on the non-FTE model, or outcome-based model, or what you term the technology analytics part of the business. So, any light you would like to share on it ? What kind of interaction are you having? What is the pace of interaction versus the last three to six months? I presume BFSI would be more active in this kind of discussion, where an outcome-based model becomes more prominent, at least from some part of the work.

Kapil Jain:

So, I think the discussions are centered around AI-led deals in our client life cycle, SEC, transaction monitoring, fraud, and selling both new services to existing clients, as well as capturing and onboarding new clients. We have also had some industry recognition, which is also helping with inbound inquiries. So, in terms of the momentum that we are seeing is definitely higher than what we have seen in the previous two or three quarters, the question that you're asking. And we are also looking and having discussions on the retail mortgages and the payment side of the business as well. Those are the broad areas where we are seeing comments in the financial services space.

Chirah Shah:

What I was trying to understand is the conversions. How fast they are happening, and what kind of difference is there versus the traditional FTE-based deals that you have? So, has the pace picked up on you winning those orders? Because I presume you would get a better absolute profit over a period of time in an outcome-based model if you're able to prove yourself very well.

Kapil Jain:

I think I have mentioned this in past, there are clients that are absolutely not inclined to go on an outcome-based model and share the potential benefit or reward of the transformation that AI can bring. There are certain clients for whom at least the starting conversation is that AI should not be the traditional FTE model, and what is that we can bring in from an outcome-based and non-FTE model. We are confident in operating in either of the two models because of the confidence that we have in our delivery and helping clients achieve the outcome that they are looking for in the areas that we operate in, the service lines that we are operating in, and the verticals.

So that's where I think is where we are driving the conversations. And it's not that we are having AI conversations here and then there's a traditional deal. Everything that we are talking about today has an overlay of AI technology, which always used to be the case even earlier, which I had mentioned, the productized services that we offer, the technology that we offer, bringing humans in the loop, amplifying human potential.

What we have done is we are bringing AI agentic solutions into our productized services. So, those are the discussions that we are having.

Chirah Shah:

But anything on the conversion side? How fast is this conversion happening? Because if it is 15% to 20% of your revenue today? Can it become 25% to 30% in 12 months' time or 18 months' time?

Kapil Jain:

I think the deal sizes in AI are relatively small. You see what I'm saying. So, what is happening is that it's like icing on the cake. So can it become 20% or 25%, I don't know. But can it lead us to higher conversion, can it lead us to get the right mind share of the clients? Can it lead us to pivot our organization in the right direction? The answer is yes to all these questions.

Asha Gupta:

Thank you, Chirag. We have the next question from the line of Girish Pai from BOB Capital Markets.

Girish Pai:

Kapil, you mentioned that we've hit a run rate of $500 million in this quarter. Obviously, you were probably aiming for $1 billion as the next target. What is the strategy from here on? I mean, from an organizational capability, verticals to address, areas to functional and sales, and all that, what do you foresee from here on? What should change? What should not change for your company to hit that $1 billion target?

Kapil Jain:

Girish, overall, as I said, we are seeing good momentum in the capability areas that we have. We have also expanded into newer geographies, and we are seeing a good amount of traction there. We have started seeing momentum in adjacent areas. We were doing loans for the institutional side. I think we've had a couple of wins on the mortgages side; we are seeing traction on the wealth side. So, these are some early green shoots that we are seeing. I think in F&A, we were doing SMB, now we are seeing traction in the mid-market.

So, I don't think that there is a very fundamental shift that is required in terms of what we are doing. I think we have to continue to invest in our sales. We have to continue to maintain a strong delivery focus, continue to invest in our technology and AI capabilities, which we are doing. And I think that's what will get us to the overall goal that we have set for ourselves.

Girish Pai:

You mentioned that you would want to be in the top quartile in terms of growth. But if I look at the ACV numbers, they've been trending down for a few quarters now. What are you going to change to get that trajectory up, for your top quartile growth to remain there?

Kapil Jain:

So, I think focus on large deals, as I had mentioned, that industry recognition is helping us get inquiries. And I think that's what will help us increase the trajectory on ACV.

I've always said that quarterly aberration will stay, but $40 million, $41 million in Q1. And if you look at Y-O-Y growth, it's substantial. And our aspiration is to do higher than $170 million, which we did last year, which will give us good tailwinds as we enter FY '27 and '28.

Girish Pai:

And from a margin standpoint, will it mimic last year's trajectory in terms of quarter-on-quarter margin improvement?

Srinivasan Nadadhur:

Margins will continue to improve because this quarter is when we gave out the increments. So, from now on, if everything stays equal and there is revenue growth, then margin should improve.

Girish Pai:

My last question. BFSI, most other peers of yours, large and small, have been indicating fairly strong growth in the BFSI space, whereas we've seen, I think, two successive quarters of weakness, if I'm not mistaken. So, what's happening here? And how will things change here?

Kapil Jain:

So, we're already beginning to see the change. I mentioned that if you look at the Q4 decline over Q3 and the Q1 decline over Q4, that trajectory, or the gradient, has already started moving in the right direction. And with the pipeline momentum and conversions we have, I'm confident that we will turn this around from H2FY27 onwards.

Asha Gupta:

Thank you, Girish. We have the next question from the line of Vamshi Krishna from Kotak Securities.

Vamshi Krishna:

Just to start off with, I think you have formed a new AI organization. But then if I see the tech capabilities you have, that's largely the Compliance Manager and the Market 360 platform, which have been doing quite well for you. But then you're talking about moving into CX in the financial services vertical. Now, can you just share if there is something in the pipeline or any platforms that you are going to leverage, given that this can be an incremental opportunity for you?

Kapil Jain:

Vamshi, it's not just that our AI is restricted to compliance manager or Market 360 or one of the hi-tech manufacturers; we are their AI implementation partner. So, on the entire supply chain order management side, it's not just restricted to these two areas. These are our IP products that we own, but we are having discussions outside of that as well.

Vamshi Krishna:

Since you're entering CX within the financial services business, is there some platform or any IP that you're going to leverage, given that this can be an incremental opportunity from traditional ways of working?

Kapil Jain:

So, in terms of partnerships and alliances, we are continuously talking to the hyper-scalers. We have our own IP in the ATR business, which we will continue to leverage for quality monitoring and audit. We have our own proprietary platform, QA 360, which we are continuing to invest in. And in my opening remarks, I had mentioned that we have had a win in the number of transactions we'll be able to monitor on the back of QA 360. Last is our agent assist. And so that's broadly what we are doing in the CX space and also working with the client-led technology platform. Because what is happening is in CX, a lot of clients are implementing technology at their end, and because we work with large clients, they are leveraging multiple partners. So, it's better to scale and build the technology at enterprise on their side. We are being leveraged for experimentation as well as testing of the technology, being a credible partner. But the implementation is predominantly happening on the client side.

Vamshi Krishna:

Srini, one question for you. So, you started the year with about 90 bps lower gross margins Y-o-Y. And you just indicated that given the diversification in your delivery, gross margin will be lower at these locations and, second, higher G&A costs for the year. So how should we think about the margin trajectory for the year? Will it effectively or essentially be the improvement on a Y-o-Y basis? Or will there be some divergence?

Srinivasan Nadadhur:

So margin trajectory depends a lot on how growth is. So, if growth goes up like it did last year and we did the three quarters of close to 5%, or exceeding 5%, then the trajectory will be sharp. I think we were also coming off a base of significant investment in FY '25. So, FY '26 numbers appeared much stronger. I think we ended up FY ‘26 at 27% margin, which is actually higher than the midpoint of the range. I think right now, if you're looking for some information, we would advise you that the midpoint is what you should pick because higher than that is going to be a little bit difficult.

Asha Gupta:

Thank you, Vamshi. We have the next follow-up question from the line of Sandeep Shah.

Sandeep Shah:

Thanks for the opportunity. Kapil, just wanted to understand that many of the large peers, specifically, in this earnings call, has been talking very bullish in terms of agent-led business operations. So, what is driving this growth for the industry perse? Is it client are outsourcing more newer services with the help of Agentic AI?

And second, if that happens and big players enter this game, are you seeing more competitive pressure in terms of smaller deals, larger deals, because Accenture, in their earnings call, has also called out that they want to enter into small and medium deals in the industry, and if you can explain.

Kapil Jain:

So, Sandeep, on the first question on the industry, see clients are investing a massive amount of money that's going in AI. And there is a lag between when the investments are happening and when the benefits will start showing up the ROI. And the investors, the CFOs, are asking where is the ROI? So that's one lever that's driving outsourcing.

Second, because of technology transformation, scale becomes important. So, there is consolidation that we are seeing. Some players are winning in some areas, and some players are winning in some other areas. So that's the second lever, whereby the agent operations.

And the third one, in terms of looking at the process and looking at where you can bring cognitive, and how you can use deterministic from an overall agent craft perspective. I think there's a lot of conversations.

But like I said, the ROI is still yet to be seen. So, there's a lot of promise in terms of commitments that are being given. So that's on the overall industry.

On the second question, are we seeing pricing pressure because more and more players, obviously, competition always determines the price at which you win the deal. Yes, there are pressures that we are seeing, but nothing untoward to say. And then operating model, you have to see what operating model you want to use to deliver to the outcome that we have committed to the Street and also deliver to what we have promised to our clients. So, I'm not seeing any extraordinary pressure over and above what we have seen as we were doing our business.

So, I think if you deliver value to the clients and your total cost of ownership is what clients look at, I think price then becomes a secondary driver in terms of discussions around price.

Sandeep Shah:

And last question is, when you talk about setting up a contact center for one of your BFSI clients, will this increase our contribution of revenue from voice, which has been much lower, maybe less than 6%, 7%. Can that increase? What is the road map and planning in terms of balancing non-voice versus voice? Because what I understand, correct me if wrong, voice business has a higher percentage of disruption through AI versus non-voice?

Kapil Jain:

I think it's a mixed feedback, Sandeep. There are clients that are reducing non-voice and increasing the voice component. So, depending upon where clients are on their journey and what is important for them, is it retention? Is it cross-sell or upsell? Now all these are important, but then the question is which is the primary metric that the client is chasing. So, I wouldn't say that, directionally, non-voice is going to be less disruptive than voice. We are seeing clients moving from non-voice to voice.

To answer your second question, will it increase our voice? Traditionally, if you look at our percentage of non-voice was substantially higher than voice. So, we are not worried about if it increases because, as a percentage of our total CX revenue, still, we are in a very comfortable zone between voice and non-voice.

Asha Gupta:

Thank you, Sandeep. We have next follow-up question from the line of Vinit Thakur.

Vinit Thakur:

I could not get the CapEx number for the next three years. You said INR 130 crores for this quarter or for this whole year itself?

Srinivasan Nadadhur:

No, whole year. INR 130 crores to INR 150 crores, let's say. And for the next three years, it depends on what we decide to do as a Board. So that will get finalized only in the budget for next year.

Vinit Thakur:

And sir, going forward, which will be our most growing segment out of all five segments that you operate in?

Kapil Jain:

From an industry perspective, I think, like I said, emerging will continue to grow. BFSI, we have to turn the tide, it's a large segment for us. CMT and Hi-tech, are the areas that we are confident that it will continue to grow. Fashion and luxury, it's a small segment, and Q2 for fashion and luxury, because of the holiday season in Europe, is usually soft. And it's just seeing some green shoots, but I'm cautiously optimistic on this. But I think Q1 was a flat quarter for us from a negative 2% growth. So, I think even if it grows, it will be modest growth. So, you ask me for high-growth segments. I think those are the ones that I would pick.

Vinit Thakur:

And sir, what would be the impact of AI going forward on our headcount?

Kapil Jain:

I think impact of AI, I see AI as an opportunity for us because clients are looking for a partner that understands their business upstream and downstream and has a technology mindset in terms of delivering to whatever we have been delivering. It's not like I'm saying that I can bring in technology today. We have always been seen as someone who brings productized services. So, I see the impact of AI as something that is positive for us.

In terms of headcount, Srini mentioned, while overall headcount has come down, the billed headcount has gone up. It's a function of utilization, and it's just a quarter-on-quarter variation. I don't see any concern as we move along on the headcount.

Asha Gupta:

Thank you, Vinit. We have the next follow-up question from the line of Girish Pai.

Girish Pai:

Kapil, slightly long-term questions on margins. You have probably the best margins amongst your peers, so when you look at growth from $500 million to $1 billion or maybe even higher going forward, what do you see as the directional view on margins? I mean do you think it's going to trend down? Or are you going to hold up broadly in the same range? And what is going to help you from a slide on a margin front going forward?

Kapil Jain:

Girish, at this stage, we think that we would like to stay, and I don't see any reason going outside the range between 24% to 28%. As we will pivot the organization into more tech, analytics, AI, which is currently, I think it's growing faster than our regular business. Today, we are making a lot of investments. There is a lag in terms of when you make the investments and the benefits that you see. So, if we continue in this direction and if we are able to get 30% to 40% of our revenue coming in from tech analytics, despite the competitive pressure, we should be able to hold the margins in this range.

The unique thing why we have been able to deliver higher margin to operate in competitive environment is because of the technology that we bring in and the domain and the understanding of client business.

Asha Gupta:

Thank you, Girish. We will take last question from the line of Varun Bang from Bandhan Life Insurance.

Varun Bang:

So, my first question is basically that one of the focus areas for us was to sort of move from domain-specific opportunities to cross-selling. How do you see the cross-selling initiative has started playing out for us? And is the biggest growth opportunity today winning new clients, or it is sort of increasing wallet share within the existing ones? How do you see it?

Kapil Jain:

So, I think cross-selling, as I mentioned, the CX opportunity that we got in financial services, MarTech in CMT, which we had mentioned in the previous quarters, our compliance manager in non-financial services clients. So. there is a good amount of opportunity for cross-sell because the service kit that we have is relevant across industry segment. So that's number one. What was your second question?

Varun Bang:

Is there a bigger opportunity winning cross-sell?

Kapil Jain:

It's both. See the growth aspirations that we have, we have to win new logos. We have to continue to grow in our existing clients, outside of top 10 because that will reduce our client concentration. And we need to continue to get larger share of wallet and cross-sell in our existing clients to de-risk single service line, single location, and see how we can deliver greater value to our clients by a mix of different service lines and as well as hybrid location or multiple locations.

So, for example, if I am helping a communication, media client on servicing side in terms of taking a chat or a call, can I help them on the client onboarding, which is a marketing stack service offering that we have? So, it becomes then end-to-end capability that I can bring in. I can help you onboard a client, I can help you service a client. I can help you on the entire servicing side, retention and so on and so forth. So that's really what we are looking at on existing clients in terms of different segments, but we have to focus on all three.

Varun Bang:

And please correct me if I'm mistaken. But I recall management mentioning that once eClerx crosses the $0.5 billion revenue mark, we would be eligible for larger opportunities and bigger size deals. Is that the right way to think about it? Does that thesis still hold?

Kapil Jain:

Yes, absolutely. And I had mentioned that with the analyst recognition we have got, we are getting inbound leads. And we are seeing increase in the deal size. And I think that thesis still holds, and we are still confident in participating in deals that are larger in size than those we have participated in the past.

Varun Bang:

And last, in terms of growth, would we look for acquisitions to accelerate the capability building, or will our growth be predominantly organic only?

Kapil Jain:

When I'm saying industry-leading growth, we are looking at organic growth. If acquisition comes in, absolutely, we are looking at acquisitions. I think it's just the timing of the opportunity. We are conscious in terms of the company that we acquire, capability, synergy, culture, and price. There's a lot of things that have to align.

So, I'm not saying that the growth will only be organic. But at this stage, we don't have anything that we can tell you about that, look, this is the percentage of organic or inorganic. For now, I think you should go with organic, but we are constantly looking at acquisition targets.

Asha Gupta:

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

Srinivasan Nadadhur:

Thank you, everyone, and we'll see you again next quarter.

Kapil Jain:

Thank you, everyone.

Asha Gupta:

Thank you, everyone. This concludes the eClerx Services Limited Q1FY27 Earnings Call.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.