eClerx Services Limited

Q2FY27 Earnings Conference Call

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ECLERX MANAGEMENT:

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Asha Gupta:

Hi, everyone. Good day, and welcome to Q2 FY '27 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, followed by Srinivasan, who will be sharing the financial update, and then we will open the floor for 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 the 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. Welcome to our Q2 FY '27 earnings call. We continue to grow in a mixed demand environment while sustaining margins and investing in our AI and technology capabilities.

Q2 operating revenue was USD 127.7 million, up 10.6% year-on-year and 12.9% in constant currency and 1.5% sequentially. This was our 13th consecutive quarter of sequential revenue expansion, demonstrating the underlying resilience and consistency of our operating model. INR revenue was INR 11,887 million, up 18% year-on-year. Operating EBITDA was INR 2,839 million at a margin of 23.9%. PAT was INR 1,804 million at a margin of 14.9%. EBITDA margin improved 90 basis points sequentially, supported by disciplined cost control, a more efficient offshore delivery mix and operational improvements across business units.

First half EBITDA margin remained about 190 basis points below last year, reflecting continued investments in new locations, technology and AI. In absolute terms, first half EBITDA grew 11%. Headcount increased 3.4% compared with revenue growth of 1.5%. Utilization declined slightly to 74.9%, while attrition rose to 23.4%.

New deal wins were USD 31 million compared with USD 41 million last quarter. First half deal wins totaled USD 72 million compared with USD 78 million in the same period last year. Clients remain selective, with tighter budgets and longer decision cycles as spending shifts towards AI-related investments.

Analytics and automation grew 5% sequentially and 27% year-on-year, more than twice the company's growth rate. The business now has an annual revenue run rate of about USD 109 million and accounts for approximately 20% of revenue. Our technology team has 2,300 people, and we continue to invest in GenAI technology services and process automation to strengthen our capabilities.

Vertical updates and client wins.

Emerging business: this segment now accounts for 12.6% of revenue, up from 11.7%. Our FinOps offering spans the full finance cycle, and we continue to see opportunities for growth. Communication, Media and Telecom revenue was broadly flat sequentially. Cairo and Manila continued to grow, and we deployed QA 360 at a large client. The pipeline remains healthy. BFSI revenue grew about 3% sequentially, supported by short-term engagements. Easing financial crime compliance regulation in the U.S. has reduced refresh volumes at existing clients. We continue to see traction with new clients, including a payments company where we have begun providing AML and KYC services. Interest in document digitization and related services continues.

Hi-tech and M&D: we continue to see traction in Hi-tech driven by agentic AI and transformation services. Fashion, luxury and retail revenue was flat year-on-year. Q2 is seasonally lower because of the August holiday period in Italy. The luxury market continues to face headwinds with weak demand in China and Europe.

Technology and Analytics. The growth in analytics and automation reflects the progress we are making with our investments. We continue to expand our AI team in the EU and the U.S. with a near-term focus on placing engineers closer to clients. More than 280 of our people have got Claude AI certifications.

Awards and recognition.

We won two awards at the NASSCOM BPM Excellence Awards 2026 in the medium-sized organization category. The first was for talent for building future-ready talent and ecosystems and the second for customer experience for transforming and delivering business outcomes.

For the second consecutive year, we have been recognized as a Great Place to Work in India based entirely on employee feedback. This recognition reflects our continued focus on our people. We also received CSO 100 and CIO 100 recognition for our agentic AI use cases.

The outlook in terms of the environment remains mixed and clients continue to be selective. We see momentum in emerging business and Hi-tech, new voice programs ramping up in communication, media and telecom and a seasonal recovery in fashion and luxury. These are offset by volume pressure in a few BFSI accounts.

Our client relationships continue to deepen. We now have 25 clients above USD 3 million, up from 20 a year ago. We remain focused on disciplined cost management and cash conversion.

I would like to thank our clients for their continued trust, our employees for their dedication and our investors for their support.

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 on other operating metrics.

INR operating revenue, which includes the gain/loss on our hedge book, was INR 11,887 million at an implied FX of INR 93.1 for every dollar. In constant currency terms, operating revenue is up 1.6% sequentially and 12.9% year-on-year. Including other income of INR 240 million, total revenue is INR 12,126 million, up 3.6% sequentially. Other income is higher this quarter because of higher revaluation income.

For the first half, USD operating revenue is USD 253.6 million, up 12.8% year-on-year. The net operating cash flow for the quarter is INR 2,694 million. OCF-to-EBITDA ratio is 87.5%, a recovery from 38% in Q1, which, as you will recall, is seasonally low because annual variable payouts are made in that quarter. Cash and cash equivalents stand at INR 14,318 million. EPS for the quarter is INR 19.6 and return on equity is 24.7%.

Operating EBITDA margin is up 90 bps quarter-on-quarter to 23.9%. Delivery costs improved by 110 bps, primarily because of the INR depreciation. This was partially offset by an increase of 14 bps in G&A, largely because of legal and professional fees, and 10 bps in S&D.

On a first half basis, operating EBITDA margin is 23.5%. EBITDA including other income is up 120 bps Q-on-Q to 25.4% and PAT is INR 1,804 million, up 9.8% Q-on-Q. Utilization in Q2 is 74.9% compared with 75.5% in Q1. EBITDA, including other income, for the first half is 24.8%.

Total headcount is up 3.5% Q-on-Q with 724 additions in offshore delivery. India seat count is up by about 1,400 to 16,824 seats as capacity added in Mohali and Chandigarh became operational. CapEx for the quarter was INR 585 million, taking the first half total CapEx to INR 919 million.

On other key metrics, DSO is unchanged at 79 days. Attrition is marginally up, as Kapil pointed out, because Q2 is generally up because of following the wage increments in Q1. Top 10 concentration is unchanged at 60%. Our Analytics and Automation revenue continues to drive the growth along with emerging growth.

I also want to mention a couple of items which will impact H2 margin. One is that the government has revised the statutory PF wage ceiling from INR 15,000 per month to INR 25,000 per month effective September 17, 2026. This will have a 20 bps impact on margin. Depreciation, including rent under Ind AS 116, is up to INR 558 million or 4.7% of operating revenue from 4.3% last quarter, reflecting the new facilities. We expect to add additional seats in Mumbai and Pune in H2. So, D&A will remain elevated. We expect it to further increase by about 20 bps in H2. Having said all of this, we remain confident of remaining in the 24% to 28% range for the full year.

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

Asha Gupta:

Thanks Srinivasan. Thanks Kapil. The first question comes from the line of Saurabh Dhole.

Saurabh Dhole:

Just one question. When you talk about the contracts that you sign with new clients, et cetera, what are the parameters on which they evaluate you? How has that changed in the last 12 to 24 months? I'm just trying to understand this in the context of the shrinking ACV numbers that you've been reporting for at least the last 2-3 quarters.

Kapil Jain:

So, thanks, Saurabh. I think in terms of the contracts we are signing are not materially different than what we were signing before. If you look at our ACV in H1, it's around INR 72 million against H1 of the prior year, which was INR 78 million, so about 10% decline Y-o-Y. And as I had said that given our overall base of revenue clients, short-term volatility may exist. So, it's nothing to say that you have had a decline in terms of the ACV. The only thing I would say is that the clients are taking longer in making decisions. And the reason for that is because there's a lot of money that's getting invested in AI. So, clients are taking longer and the deal value, typically, which would be large, clients are starting with smaller deal value as opposed to starting with larger ones to test the waters, test the AI, the efficacy of the technology and then go for the larger programs. So those are some of the changes we are seeing. But in terms of writing the contract, materially, nothing has changed.

Saurabh Dhole:

And, if I may chip in another question. When you look at the number of seats that you've deployed and that you plan to deploy in the coming quarters, is it possible to club it up with the cost that you incur on productivity tools and then tell us that how much does the seat cost in this new era versus, let's say, 1 or 2 years back?

Srinivasan Nadadhur:

Could you elaborate what you mean? Club the seat cost with productivity tools?

Saurabh Dhole:

So, let's say you have certain coders inside your system, and they have been using productivity tools like Anthropic and OpenAI. When you club those costs along with the seats that you provide those tools to, how does the cost actually compare with, let's say, a completely human environment maybe two years back? I'm just trying to understand that.

Kapil Jain:

I think, as I've been saying, our unique value proposition is our ability to bring domain/consulting tech and process together. So, I think clients don't look at it the way you are describing that, look, give me FTE in this and so on and so forth. So, we have always sold a blended value proposition because domain is our unique strength, which has been built over the last 26 years. So, if you tell us what you're trying to get at in terms of asking this question, then maybe we can perhaps help you. But this is not how we internally track or this is not what our clients are asking of us.

Saurabh Dhole:

I'm just trying to understand that whatever people cost that you have, when you club it with whatever productivity tools that you're providing them on a per seat basis, there is obviously one is an employee expense that you have and there is a productivity tool expense that you have, you will possibly do a costing of that productivity tool on a per employee basis. So, I'm just trying to understand that when you combine both these two costs, on a per dollar of revenue versus the amount that you spend on that employee and on the productivity tools that the employee uses, how does the cost compare, when you compare it with, let's say, the employee expenses plus whatever tools that you had maybe two years back?

Srinivasan Nadadhur:

So, we are providing productivity tools like AI, et cetera, to our employees. Having said that, we are also closely monitoring what the usage of it and to how many people down the levels, how many people have actually the access, whether they are using it, how many people are exceeding limits and so on and so forth. So that cost today is not very significant.

Kapil Jain:

And we are absorbing that cost.

Srinivasan Nadadhur:

So compared with, let's say, the INR 250 million or so of delivery cost, which is about half the revenue, the cost on AI tools is not significant. Is that what you are asking?

Saurabh Dhole:

Yes. The final delivery cost is what I'm trying to get to.

Srinivasan Nadadhur:

It's not significantly up. So, we monitor that cost very closely. There is no unlimited usage, that's what I was trying to get at.

Asha Gupta:

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

Dipesh Mehta:

A couple of questions. First, just want to get deal intake clarity. So, deal intake, if I look H1 seems to be a bit softer. Even on Y-o-Y basis, it is soft. Are we witnessing, let's say, in terms of some of the deals which we might have expected to be signed in quarter 2 get slipped to quarter 3? So, any right shifting is the reason which explains some of the slippage? And if that is the reason we have closed some of those deals by now? So, if you can give some sense about how to look this deal ACV number. And if I put that into context of the headcount addition which we have done in this quarter, it seems to be a reasonably healthy number. So, if you can help us understand reconciling these two elements.

Second question is on the EBITDA margin. Partly you tried to give some sense, but just on Y-o-Y basis, last year, our usual expectation is we will be closer to midpoint of the guidance. So far, we are tracking towards more like lower end rather than midpoint. So, if you can give some sense how you expect margin trajectory to be for the full year?

And last question is on the CapEx. CapEx remained elevated in H1. How to expect it to be for the full year and more importantly for next year as well?

Srinivasan Nadadhur:

So, EBITDA margin is going to be a function of revenue growth. We do expect that margin will continue to move up as we are able to replace at the bottom of the pyramid. However, the incline will depend on what the revenue growth is, how the revenue growth will lead to more significant improvement in margins.

Secondly, on CapEx, we expect CapEx spend to roughly double for H2 over H1. And as I mentioned in my opening remarks, we have some facilities coming live in Mumbai and Pune in Q3 and Q4. And D&A should go up by about 20 bps in Q3.

Kapil Jain:

Dipesh, as I have said earlier that clients are taking longer in decision-making and also the deal sizes that initially they are signing are marginally lower than they were signing earlier. So yes, shift right is happening.

In terms of the headcount, I think what we think we have been able to achieve is the margin within the band despite of us investing in tech and AI. And as you see, our tech and AI business, the analytics business has grown almost 2.5x, 3x than the company growth as well as I had indicated that roughly 280 to 300 people have earned Claude AI certification. So, I think we have to continue to invest where the future is. And despite that, we are able to maintain the margin. So, I think we are very proud of it.

Dipesh Mehta:

Just one clarification. On CapEx part, you indicated, so let's say, H1 CapEx is roughly double Y-o-Y. You indicated H2 to be double of H1 CapEx. So, on a full year basis, it would be substantially higher. That's what you indicated?

Srinivasan Nadadhur:

Last year CapEx was lower than usual, yes.

Dipesh Mehta:

So roughly around INR 200-odd crores is what we expect in H2?

Srinivasan Nadadhur:

No. I'm saying H2 CapEx will be same as H1 roughly.

Dipesh Mehta:

Okay. Not the double one.

Srinivasan Nadadhur:

INR 90 crores plus INR 90 crores, yes.

Dipesh Mehta:

And how to expect it for next year?

Srinivasan Nadadhur:

Next year, I think we are still in the budgeting process, but I expect that seat headcount addition will not be as strong because I think we have now added about 1,400, [and] we will add another maybe 800 to 1,000 more in the next couple of quarters. So, while the full picture will be visible after the budget, but we don't expect to add CapEx at this pace.

Asha Gupta:

Thank you, Dipesh. We have the next question from the line of Moksh Mehta from Ambit Capital.

Moksh Mehta:

My question first is in terms of margins. So, majority of the incremental revenue for us this quarter came from the Emerging and F&A vertical. And if I'm not wrong, it's largely serviced from our nearshore centers. So, as we see the shift from offshore to nearshore the skew moving towards nearshore, how do you see the pressure on margins even going forward? So that's my first question.

And the second is, how are we from a roll-off perspective this quarter, this year and the kind of deals that we are signing, how do you expect the roll-off to progress going ahead?

Srinivasan Nadadhur:

I'll take both questions. So, the roll-off in Q1, Q2 is more or less on par with what we usually see: about 15% to 20% of revenue. So, there is no significant or higher pressure in terms of roll-off.

On margins, you are right, nearshore locations do have lesser margin than India. India BPO has the highest margins and then Philippines, Egypt, et cetera, are lower than India. So that does put pressure on margins. It is something that I've called out in the previous earnings call as well. However, we feel that can be mitigated if India growth continues to sustain positively. And what is actually happening is that the overall revenue mix contributes to a downside in margin. However, the centers themselves are increasing in margin from the base of Q1. So, FY '26 margin because it was the first year of investment was very low, even negative. So, center to center, each center is improving profitability, but obviously, there is a drag because of the revenue mix. So, if the margin outlook for us changes in FY '28, then we'll be sure to let you know.

Moksh Mehta:

Okay. And second was in terms of the luxury vertical, now Q3 typically is a seasonally strong quarter from a sequential perspective. Do you expect that to play out? Or are you seeing some additional pressures that will come in, which will also drag the entire company growth a little lower?

Srinivasan Nadadhur:

We do expect that seasonal bounce back to happen.

Asha Gupta:

Thank you, Moksh. We have the next question from the line of Pulkit Chawla from B&K Securities.

Pulkit Chawla:

Kapil, first question for you. How has the quarter been according to your own assessment? Were there any sort of negative surprises that you did see during the quarter?

Second, from a full year perspective, how are you looking at the ACV to pan out? Because earlier you had guided that you probably want to keep ACV similar to what you did in FY '26. Now that at the end of H1, you are down slightly, how are you looking at the full year ACVs?

The third question would be the AI-led deals that you really spoke about. How are the ramp-up in these sort of deals? And what sort of margins are you looking at here?

And Srini, finally for you, subcontracting costs seem to be slightly higher in this quarter. If you could explain why that is so?

Kapil Jain:

So overall ACV, like I said, it's around 10% lower on a Y-on-Y basis and lower sequentially. And it's because of the delayed times that the clients are taking and as well as the smaller value of the deals because tech-enabled technology-led, front-ended with AI, I think clients are looking at smaller deals because there is a lot of mind share that is going in investing in AI. So, I think from that perspective. I had said that we will maintain the FY '26. That's what we are working towards still. We are not saying that that's not the goal-post we are chasing. And so that's on that front.

In terms of were there any surprises in the quarter? I don't think so. The only reason is that the right shift that happened, I think we were not expecting to that extent, if anything. And see, short term, I have said that there will be volatility because there's a lot of money that's getting invested and ROI is still to be seen by the clients. So, what will clients do? They also have quarter-on-quarter results that they are declaring. So, they will put pressure on service providers in terms of commercial terms, in terms of consolidation and so on and so forth.

However, I still believe that large-scale deployment of AI and ROI realization, that's where the future is. It will still take some time at an enterprise level. In small pockets, yes, you will see 10x, 20x improvement. But if you look at the enterprise ecosystem as a whole, it will still be a little distant from where we are standing today. What that will do is that it will put pressure on clients to outsource more, which is the 101 like table stakes, you deliver cost benefit. So that's one speedboat.

The second speedboat is in terms of helping clients on AI enablement and deployment, which is what we had set the organization. John, who used to run our financial services now heads AI across the enterprise based in the U.S. He's building his team, as I mentioned, across U.S., Continental Europe. And we are seeing good amount of conversations. So, I'm cautiously optimistic for medium to long term. Short term, there would be volatility, but I think in terms of what we have been able to deliver the overall growth margin and also, we are continuing to invest in strategic areas, I think I'm happy with the overall performance.

Srinivasan Nadadhur:

And I'll cover the subcontracting question that you have. So, most of the increased expenses in subcontracting is on technology. So, because the business is growing so fast, sometimes we have to

bring on people as subcontractors. The second is that in some cases, we also have a preference to onboarding subcontractors because we are not entirely sure how people will perform. So, we bring them on as subcontractors, if they perform well, then they become employees. So, both reasons, but largely the increase is because of technology.

Pulkit Chawla:

Got it. And Kapil, on these AI deals that you spoke about, given that they're smaller, are the margins on these slightly better? And how is the ramp-up of these specific deals?

Kapil Jain:

I think if you look at margins, I would say better or worse because we also have to invest ahead of the curve, right? Because like I said, ROI is still yet to be proven. It will take some time at a large-scale level. So, that's what I'm saying short term, yes, we would invest upfront if we believe that medium to long term, we are going to make money and it's going to help us improve our margin.

On ramp-ups, if you look at the tech and analytics revenue, that's grown almost 2.5x, 3x the company revenue. So, it is faster. And with the building blocks that we have been able to build over the last 12 months, I think that will set us up for a good segue for the future in terms of helping clients on AI enablement.

Asha Gupta:

Thank you, Pulkit. We have the next question from the line of Yash Goenka from Awriga Capital.

Yash Goenka:

Hi Kapil, you mentioned that compliance norms in U.S. are getting softer for BFS. You also mentioned that decision-making is slow, yet you are going ahead and making investments. So, is your view that this is transient in nature?

Kapil Jain:

See, I wish I could predict that, whether it's transient or is it permanent. But what we are doing is to derisk or look at other ways in terms of growth engines.

A, we are looking at adjacent areas, which I have been saying we were set up to do very complex work by bringing technology. So adjacent areas which are simpler, I think, is where we are looking at, and we are seeing good amount of opportunities. The overall macroeconomic environment in U.S. in terms of relaxation or refresh not being as frequent as it was in the earlier regime, I think that may take some time to change.

Also, we had said that we will be upfront and cannibalize our revenue if we have to with AI adoption. And we are seeing some headwinds on the entire FCC space, AI adoption. However, what we are also seeing simultaneously is new client addition and traction and discussions with prospects and new clients. So I think overall, it's like you're looking at new service areas in adjacent areas. You're also looking at new client discussions wherever you are seeing contractions.

Asha Gupta:

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

Sandeep Shah:

If I'm not wrong, Kapil, you earlier said you expect some recovery in the BFSI in the second half. However, now it looks like the recovery may be delayed beyond H2. Is it the right way of looking at it?

Kapil Jain:

I think could be. In BFSI, yes, I had said that we should look at recovery in H2. Q3, Q4, I'm hopeful that in Q4, we should see a recovery in BFSI. But as you know, the volatility is high in the overall financial services segment, but I'm cautiously optimistic on recovery in FS in Q4. Earlier, I had thought that we may be able to do it in Q3. I'm now saying we should be able to recover in Q4.

Sandeep Shah:

Okay. And beyond BFSI, can you give an outlook for second half for the other segments?

Kapil Jain:

Sandeep, I think, I gave segment-wise overall commentary in terms of Hi-tech continues to see good demand. Communication Media, we are seeing good demand in the emerging markets. We have a healthy pipeline. BFSI also the pipeline is good. I think the conversion timelines are there. So overall, I think our pipeline continues to be strong. We have good client traction, but like clients are taking a little longer in terms of deciding and decision-making.

Sandeep Shah:

Okay. And in earlier quarters, you always used to say you are targeting growth in your ACV this financial year. Now looking at the second quarter and the AI-led shrinking value of the deal, you may still require $49 million to $50 million each quarter in Q3 Q4 to just stay flat on the ACV. So, do you expect this year's growth in the ACV could be difficult because of what is happening and started witnessing from 2Q in terms of what you said in the opening remarks?

Kapil Jain:

So, I think, Sandeep, I would be naive to say that it won't be difficult given what the H1 number is and you yourself are saying to get to the same number as last year, we would be $50 million. But I think what I'm proud of is 13 quarters of sequential growth. And I think we are seeing good amount of momentum with the clients and discussions and pipeline continues to be healthy. And we are working towards achieving last year's number as well as exceeding it. Will it be difficult? The answer is absolutely yes, because of the delayed decision timeline.

Sandeep Shah:

Okay. And just last two related questions. Is it fair to assume the Q-on-Q growth momentum in Q3, Q4 could be better than what we have witnessed in the first and second quarters, despite some headwinds? And the second question is as the deal value shrinkages because of the AI, is it right to assume the conversion time from the deal AI led into revenue could be faster than earlier?

Srinivasan Nadadhur:

The first question first, I think it depends on the gross sales as you know, we don't carry a lot of bench unless if you look at Q2 is one exception where we have a little higher bench than usual because of the shift right that Kapil was talking about. But if the conversion happens then I think Q-on-Q, we should see a pickup in growth

Kapil Jain:

Sandeep, can you repeat on AI? What was your question?

Sandeep Shah:

Yes. What I'm saying is as AI-led technologies are leading to shrinkage in the deal value, it may also

lead to shrinkage in the execution time. So, it may lead to faster conversion into revenue?

Kapil Jain:

Yes and no. It's not that AI-led deals are leading to shrinkage in revenue because you are starting with pilot and smaller POC and concept. That's why the deal sizes are smaller.

You understand what I'm saying? It's not that we are not like doing mass like 1,000 people a deal where we are saying we'll infuse AI without knowing whether we can infuse and then worrying about our margins. Ours is very domain-centric and looking at how do we solve a client problem using AI domain and process. And there, clients are starting with small POC or pilot. And if you have proved that successful, then you will sign the next deal. It's not that AI is shrinking the deal. I hope I'm clear in terms of making the difference.

Asha Gupta:

Thank you, Sandeep. We have the next question from the line of Chirag from Motilal Oswal Financial Services.

Chirag:

I have a couple of questions around the AI-related investments which our clients are making right now and also with respect to the deal TCV. So, what do you think, let's say, over a 2-3 years' time frame, if AI investments done by the client, and what will be the opportunity for us from whatever they are outsourcing today to us in terms of existing business as well as the potential TCV, the likely impact?

And second, what are steps as a proactive measure we are taking to assure our business, let's say, anything they stop seeing us as an outsourcing business, whatever they develop in-house with the help of AI.

And third, you mentioned deal environment or the clients are asking for more smaller value deals compared to what it used to be. What is the main reason? Is it slowdown? Or is it like larger peers, somewhere acquired some of the business in same domain and giving us a competition?

Kapil Jain:

Yes. Chirag, I think I'll answer the first and third. On the AI-related investments and how it will bolt, as I have said, given our strength on domain, we believe that that will be a big differentiator in the marketplace when it comes to AI adoption, AI acceleration and AI enablement. And that's why we are hiring people both in the market as well as offshore. I mentioned we have about 300 people who are Anthropic Claude certified. So, in our view, this investment like in terms of forward deployed engineers, in terms of having engineers closer to the client is where we see the opportunity. So that's one in terms of where we see in 2 to 3 years' time frame. So that will be one growth engine.

The traditional work that we are doing, so you have to look at like in terms of whatever traditional work that we have been doing, which had technology, which had some of our products. I said that I consider ourselves as a productized services company.

Everything we do has a blend of tech. Somewhere we have our own IP, somewhere we are using our tools, which have multi-tenancy. So that also will continue to grow. So, I think that's really the momentum and strategy we have put for ourselves.

Your second question was on the AI today, it's not like it's 5 years, people have done POCs and they have implemented. Anything new takes time for adoption. We work with several clients, we see different levels of maturity amongst different clients that we service. And data still continues to be a big challenge amongst the clients that we service. And unless you have data, see, when there was automation, AI, RPA came in. If you went wrong, the penalty was that you will not achieve the design

efficiency that you had envisaged. So, you said I'll achieve 40%. Instead of 40%, if you didn't get the full business case, you would have achieved 20%-30%. But with AI, with the massive potential it has, there is a massive downside as well. If you get it wrong, it can create havoc. It can get you down.

So I think the regulatory environment is such and industries that operate in regulated environment, obviously, before they deploy so on and so forth, so they are taking a cautionary approach because it's like if you put a very smart guy and if you give a wrong use case or there is any other, the potential downside is huge, which was not the case in any earlier technology that has come in in the past.

I hope I have answered your question. You had asked 3 questions. I didn't get the third one.

Chirag:

So, you mentioned now clients are moving more towards the smaller size of deals. So, is it like the case where some of our large deals globally and India have acquired some of the assets which are similar to our business, and they are giving any competition to us?

Kapil Jain:

No, Chirag, that's not the reason. I said the reason is because it's so new and the adoption and risk of going wrong, so you're starting with smaller deal sizes, not because there is competitive pressure. Yes, there are deals that are being done with the prospect and the potential. So, you have 1,000 people, I'll do it with 20% and I'll use AI. Now yes, there are some players who are doing those deals. But I think we are staying focused on where we have domain and where we understand the upstream and downstream of our client business.

Asha Gupta:

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

Girish Pai:

Question on BFSI. When I hear the commentary of various other peers, it looks like BFSI is growing fairly robustly for them, including discretionary spending, whereas we are finding things a little difficult. Are we losing market share here in the BFSI space to others?

Kapil Jain:

No, we are not losing any market share because the segment that we operate in, we do better than anyone else, than the competition we compete with, and we are not losing any market share to anyone.

There are reasons that I said earlier. In the FCC book, which is a large book for us, there are two themes that we are seeing. One is the overall regulatory environment in the U.S., the overall easing financial crime compliance and regulatory environment in the U.S. So that's one factor.

And the second one is AI adoption in the FCC space in terms of client outreach, in terms of client data. And we are also building AI, generative AI on our compliance manager, which is a product we use to deliver FCC services.

So, on one side, this is happening. On the second side, we are seeing traction and good momentum in discussions with new set of clients. So, it's not that we are losing traction.

I think the opportunity for us in financial services is to look at adjacent areas and we are seeing a good amount of traction. And I think which is what is giving me the confidence earlier, I thought Q3, but I'm cautiously optimistic that in Q4, we should be able to turn the tide and next year onwards because we are building capabilities in adjacent areas, which will help us bring the growth momentum.

For example, in payments industry, now we are doing KYC, AML. So that opens a new set of players for us compared to what we were doing in the past all along. Mortgages we started last year, and that will give us momentum to build on that as we move along.

Girish Pai:

Srini, if I heard you right, you're expecting sequential growth to be a little better than what you've seen in the first couple of quarters. And would margins improve from here because that's been a typical trajectory? First quarter is the worst quarter and then things should improve from here. Should that be the kind of road map we should look at from a growth and margin perspective?

Srinivasan Nadadhur:

That's right. Assuming we'd be able to close the gross sales, then all of those things should follow.

Girish Pai:

Okay. You mentioned something that clients are spending a lot on AI, but not so much in services. Can you say where exactly are they spending on AI?

Kapil Jain:

I didn't say they are not spending on services. On AI, you see like the growth in all the GenAI companies, OpenAI, Anthropic, all these, you see all their revenue, you must have seen their IPO. So obviously, the clients that we work with are the ones who are giving the revenues to some of these AI companies.

So, there is a massive amount of spend that's going in buying the tokens, in experimentation, in deploying AI, in seeing how the AI potential is, it has completely democratized coding. So that's where I think clients are using.

And the ROI at an enterprise level is yet to be ascertained. Like I was saying earlier, the different clients are at different levels of maturity.

Some clients are seeing benefit, some clients are in experimentation stage. And you would have seen also in the press with some of the Hi-tech clients that whatever the budget was for AI tokens and AI spend got exhausted in 1 quarter. And then the CFO was after the businesses and the tech teams that look, please rationalize and everyone is looking to rationalize. Somewhere, the money has to come from some place. So that's really what I meant. I'm not saying that they're spending less on service.

Girish Pai:

Okay. My last question is on margins. Can you give the margin walk for the quarter compared to Q1

Srinivasan Nadadhur:

Yes. So almost entirely the increase in margin is because of FX. So, the 90 bps that you see is almost entirely because of FX. There have been small improvements because of delivery costs and a small reduction because of G&A.

Girish Pai:

Okay. And the other emerging, what exactly are the elements driving this? I mean, which subsegments, which subverticals are driving this emerging space, which has been growing very quickly on a quarter-on-quarter basis?

Kapil Jain:

Yes. So, emerging for us is all the industries that growth equally fall into the first four buckets. So, there are mix of advertising companies, there are some logistics and shipping companies and so on in that mix. The service, which is primarily growing there is finance and accounting.

Asha Gupta:

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

Shradha Agrawal:

Couple of questions. First is, to what extent would our portfolio have gone through an AI-led renewal cycle? Meaning what proportion of our business has already seen a renewal?

And what proportion is still pending to be renewed? And in terms of quantification, do you have any number as to how much AI-led businesses contribute to our revenue currently? And what was the number, say, 2-3 quarters back?

And thirdly, I still didn't get the context of a 3% net employee addition given that we've had two back-to-back soft quarters on deal ACV. So, is it more short-term deals which are not counted in ACV that is giving us confidence to have 3% addition in employee base this quarter?

Srinivasan Nadadhur:

I'll answer the question on employees and maybe Kapil can answer the question on AI renewal.

So, there is a shift right that Kapil and others talked about. So, we've added headcount maybe a little in advance expecting some work, which has not yet materialized, which is why you see stronger headcount growth and lower utilization as against if you look at the ACV growth or revenue growth in H1.

Regards AI renewal and percentage of AI-enabled services, I really think it's a hard question to answer, but maybe I'll let Kapil take it.

Kapil Jain:

Shradha, because I have always said we don't look at what is the revenue in AI, like everything we do has a tech component, and we have human in the loop. In some places, we have our products which we have prioritized Compliance Manager- Market360, QA360 and Fluiid4, which is our digital asset management platform, where we are enhancing the functionality and we are making it like we're bringing in GenAI and we are taking that to our clients. And we are delivering the value of AI to our clients in all of these four areas. Now we have other toolkits - DocIntel, Loans Manager and several others, which we are using to deliver services to our clients.

So, I think if you were to say, I'm not clear what the question is on renewal or CX, for example, our Care business continuously sees AI adoption, that's one area where we are seeing continuous adoption. We are seeing two things there.

One is because we expanded and invested in alternate locations, Cairo, Lima and Philippines, now we have a CX clients care client in all these 3 locations over and above India. So that's helping us. Second is that we are also getting new clients in Care space. Third is, even though the client volume is shrinking because of our delivery excellence, because of our ability to bring analytics insights, we are seeing that relative to the shrinkage, either we are growing or our shrinkage is much lesser than what the client is shrinking. So, I think these are the things that we monitor and track, I think I'd like to see if I've answered your question or if there's anything else that you'd like me to cover.

Shradha Agrawal:

Right, Kapil. I think the idea was to just get a sense of how much of AI-related deflationary pass-through have we already given out to clients? Because if I look at the top 10 client's growth that has come to mid-single digit, 5%-6% on a Y-o-Y basis. So that renewal cycle of the large clients, is it broadly over? And are you starting to see new AI-led use cases emerging in those clients, which will give us the next growth lever from the large existing clients of ours?

Kapil Jain:

So, you are saying that what is the AI-led deflationary pressure we have is already incorporated in our top 10 clients versus, I think we'll have to look at the number and come back to you, Shradha, in terms of exactly what that number is.

Shradha Agrawal:

Got it. And any client-specific instances that you are seeing in our top 10 client category because growth number there has been coming off? So, any budget cuts or any client-specific instances that you would want to talk about?

Srinivasan Nadadhur:

Client-specific issues are not [seen]. that budget is constrained for many people, not just the top 10.

Kapil Jain:

But I think what gives us confidence is that if you look at like we have 25 clients which are above USD 3 million, up from 20 a year ago. So, 5 clients have moved in that bucket. And I think that's really where our focus is to see how we grow clients outside of top 10 as well and continue to grow in top 10.

And if you look at the top 10 growth also, I think because of the large base, while in percentage terms, it may be lower, but in absolute terms, I think we don't see our relevance coming down in the top 10 clients.

I think we continue to work with them. I have heard accolades that working with eClerx is like we have never had that kind of experience with any other service provider. So that's all I can say when I go and meet the clients.

Asha Gupta:

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

Rahul Jain:

Most of my questions have been answered. Just one thing, if you could tell, mostly on the capital allocation side, is there a sense that we might like to accelerate the pedal here, given that the general challenges that you are talking could soften the growth for both compounding on an organic basis? So, any addition to inorganic channel could be the way to accelerate the overall growth? So, are we thinking on those lines? I mean, I am sure that is a part of the strategy, but anything more area-wise, dramatically, that we want to strengthen our bandwidth on?

Kapil Jain:

See, our inorganic growth is not constrained because of capital allocation. In terms of if we see a right asset where we can bring in synergistic value, it aligns with the culture, price is right, I think, obviously, like depending the constraint could be in terms of we still want to retain our DNA, our culture. So, the size of the company we acquire has to be proportionate to the company that we are at, so that we don't

lose our relevance, our DNA, our culture because I take a lot of pride. I've been here for 3.5 years in the culture and people that I get to work with.

So capital is not the constraint. I think we have been looking at assets, as I had said. I think we have been a little unlucky that we have not hit the target. I think the stars have not been aligned. But I think we will not shy away from looking at adjacent areas, and I had said earlier like in FCC space or in financial services, adjacent service lines.

Healthcare is one area, one vertical that we don't service, which is an evergreen industry. I think the valuations have slightly come down from where they used to be 12, 18 months back, and we'll continue to look at assets in that space. But it has to be right. We won't just go for inorganic growth to bring in the revenue momentum because I'll bring the revenue in 1 quarter, 2 quarters unless I see that there is a potential and the alpha 1 plus 1, we can make it at least, if not 11, we can make it 5 is when we will look at bringing the asset.

Rahul Jain:

Got it. And just on the ETR, if you could share a thought, Srini, that what should we model for this year and coming year?

Srinivasan Nadadhur:

Yes, about 25% should be okay.

Asha Gupta:

Thank you, Rahul. We have the next question from the line of Jinal Sheth from Awriga Capital.

Jinal Sheth:

So, mind my ignorance, but what I hear is one way you guys are investing, which shows that you guys are obviously positive about the future; one way you are cautiously optimistic; and also, what I do hear is that about the delayed decision-making at the client side, right? So I am just trying to understand, when I look at the ACV decline, is there any disruption threat or risk that is impacting it, or how should I see that? Because at the end of the day, they are in the pipeline, but I'm just trying to see what will it take to convert them? And how are they thinking? Because at the end of the day, when I am thinking of a long-term disruption threat, I mean, it's hard to know, so I'm just trying to kind of see that whether we are tracking that, are we impacted by that? Any thoughts?

Kapil Jain:

Jinal, I think the disruption may happen, may not happen. I think that's like crystal gazing, and you don't know what will happen.

I think all you can do is from an executive leadership point of view is you can plan in terms of what if the disruption happens, are you set up for success and can you convert a challenge into the opportunity.

So, which is why when we are saying that we are building tech analytics, AI capability, I think we are saying that that's where the future is, particularly on AI tech and analytics was there before. And if you look at the revenue that what gives us the confidence is that, that stream of revenue is growing 2.5x, 3x than our traditional revenue.

So that's one proof point that gives us confidence that we should continue to invest in this segment, which is why we moved one of our senior leaders to look at enterprise-wide AI across all verticals so that it gives a very sharper focus.

And there's very clear distinction that, look, there's one person whose life depends on this. And then

you have rest of the business with other leaders. So that to me is our strategy. Early signs are looking positive. And as we go along, we will keep you informed.

In terms of future, yes, I'm positive. Otherwise, we wouldn't have been investing, and I wouldn't have been here. So, for future, I'm positive. And the reason I'm positive is because of the strength from where we are coming.

And again, I'd like to repeat the domain is something which you cannot build in a short amount of time. The domain that we carry as a company has built over the last 26 years by servicing top clients in their industry segments.

In every industry segment that you look at financial services, we serve the top quartile of the clients in that industry segment. Communication Media, we do the same thing, in Hi-tech, we do the same thing. And we have had these clients for the last 10, 15, 20, 25 years. You cannot bring consistency in delivery just by having people because we also operate in the same industry where attrition is 25%, 20%, 30%.

The only way you can bring consistency in delivery is if you had technology delivering along with people delivering the services, which has been the ethos of the company from day 1, which is why I have said that AI is an opportunity for us and not a threat, which is why we are investing.

So, I think that's all I can say. Only future will tell how we do and what the numbers are. But yes, I'm positive on a medium-to long-term basis.

Jinal Sheth:

Just that point because when I said about the ACV, at what point of time does the ACV decline start bothering you? Or the way you're seeing it right now, is something is more like a blip and as a cycle, it should tend to come back is what I'm just trying to understand that.

Kapil Jain:

I think like in terms of what time it will bother me, I think my view is, I think instead of getting bothered in terms of what you can do, create new service lines, create new engines of growth. Look at like in the AI investments that we have made in, for example, Continental Europe, apart from CLX, our high-end fashion and retail business, we are saying we'll start with AI. We're not going to go with traditional services.

So, I think instead of ACV, I am more focused on ensuring that we have the right building blocks. And then on the back of it, we will build ACV as well as the revenue momentum on the back of some of these things, strategic initiatives that we have taken.

Asha Gupta:

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

Sandeep Shah:

Just one question. The delay in decision-making of the client on ACV, is it any way one can relate where they are debating in their mind whether to do this process automation internally or to outsource with a specialist vendor like eClerx? Is it also one of the reasons where delay in decision-making is coming?

Kapil Jain:

In some cases, Sandeep, but not by and large. It's always a mix of reasons why there's a delay, but I wouldn't say that that worries me because there is a lot of insourcing. There's a lot of traction on GCCs, if you ask me. More than insourcing, every company is talking about setting up a GCC. So, we had

created that, let's look at opportunities in the GCC space. We are one of the only players in the FS space where we coexist with GCCs in the BPO/KPO space. So, I think, some of it may be, but not that something worries me.

Asha Gupta:

Thank you, Sandeep. As there are no further questions, I'll ask management for the closing remarks.

Kapil Jain:

Thank you, everyone, for your continued support and wishing you all a happy Diwali and look forward to meeting you soon. Thank you.

Srinivasan Nadadhur:

Thank you.

Asha Gupta:

Thank you, Srini. Thank you, Kapil. With this, we end the Q2 FY ’27 eClerx Services Limited earnings call. Thank you, everyone.

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