eClerx

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November 11, 2024

BSE Limited Corporate Relationship Department, Phiroze Jeejeebhoy Towers, 25th Floor, Dalal Street, Fort, Mumbai - 400 001	**National Stock Exchange of India Limited** Exchange Plaza, Plot No. C/1, Block G, Bandra - Kurla Complex Bandra (East), Mumbai – 400 051

Dear Sir/Madam,

Sub: Compliance under Regulation 30 of the Securities & Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Reg.: Transcript of the earnings call - financial results for the quarter/period ended September 30, 2024

Scrip Code: BSE - 532927
NSE – ECLERX

Pursuant to the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of earnings call held on November 6, 2024 with respect to the financial results of the Company for the quarter/period ended September 30, 2024.

This is for your information and records.

Thanking you,

Yours truly,
For **eClerx Services Limited**

PRATIK RAMESHBHAI BHANUSHALI

Digitally signed by PRATIK RAMESHBHAI BHANUSHALI
Date: 2024.11.11 18:05:14 +05'30'

eClerx Services Limited Mumbai

Pratik Bhanushali
VP-Legal & Company Secretary
F8538

Encl.: as above

eClerx Services Limited
Q2FY25 Earnings Conference Call

November 06, 2024

eCLERX MANAGEMENT:

KAPIL JAIN – MANAGING DIRECTOR AND GROUP CEO

SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER

CONFERENCE CALL PARTICIPANTS:

AAYUSH RASTOGI – B&K SECURITIES

DEBASHISH MAZUMDAR – SVAN INVESTMENTS

KRISH BERIWAL – NOMURA SECURITIES

RAHUL JAIN – DOLAT CAPITAL

SANDEEP SHAH - EQUIRUS SECURITIES

SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES

VARUN BANG – BANDHAN LIFE INSURANCE

Asha Gupta:
Good evening, participants, and welcome to the Q2FY25 earnings call of eClerx Services Limited. Please note that this webinar will be recorded.

To take us through the results and to answer your questions, we have with us the top management of eClerx represented by Kapil Jain - Managing Director and Group CEO 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 a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are included, but not limited to what we have mentioned in the prospectus filed with the SEBI and subsequent annual reports, which you can find it on our website.

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

Kapil Jain:
Thank you, Asha and good morning, everyone. It has been an excellent quarter for us. And I'd like to share highlights of our performance for FY25 Q2.

Operating revenue in Q2 was USD 98.8 million, up 6% sequentially and 12.8% year on year driven by exceptionally strong growth in our financial markets business and supported by customer operations business. In rupee terms, Q2 operating revenue was INR 8,318 million, up 6.4% quarter on quarter and 15% year on year.

Margins have shown a strong sequential improvement as well. This is attributable to three key reasons, strong revenue growth, improved utilization and some one-offs. Srini will cover the one-offs in some more detail. EBITDA for Q2 was INR 2,288 million, at a margin of 27.1%, while PAT for the quarter was INR 1,402 million at a margin of 16.6%.

Our analytics and automation business is USD 19 million this quarter, up 10% sequentially, which is a positive sign. Our financial markets business had an exceptional Q2 with strong offshore and onshore growth in the client life cycle business contributing to most of the growth. The momentum in this business continues to be strong, and we see demand in both change and BAU areas of this business. The growth in customer operations was driven by the care business. Digital had a mixed quarter with growth in data operations segment but offset by a slowdown in the creative business. In client geographies, growth in North America was strong while Europe for us continues to remain challenging.

ACV of the deal wins for the quarter was a strong at INR 28.9 million. Roll-offs in Q2 were higher than Q1 and the full impact of these roll-offs will be felt in Q3. These roll-offs are related to short term projects which have come to a planned end. However, the pipeline continues to be strong, our delivery remains strong, our value proposition continues to resonate well with clients and the medium to long term growth momentum remains intact.

Let me also provide commentary and outlook for each of our three businesses. We continue to see broad opportunities in financial markets, in KYC, onshore consulting and delivery. We are in conversation with a broad set of potential clients and are working on several active RFPs. With some of our clients, we are also starting to uncover opportunities in tech and change area and given our strong domain [and] strong delivery, we believe we can meaningfully grow our presence in the change area.

In the Digital business, fashion and luxury saw a decline with global fashion houses reporting less client demand, particularly out of China. This is likely to continue for the next couple of quarters. We see budget outlook improving on hi-tech, retail, manufacturing and distribution. We have also seen initial success in cross selling our MarTech and Data Engineering services to some of our clients in financial services space which we see as a positive sign.

In customer operations, the industry continues to see pressure around revenues and subscriber growth. Despite this, because of our strong delivery, we see continued strength in existing client growth and client diversification.
We have combined technology and analytics under single leadership. This will help us position our services better improve agility and enhance the value proposition for our clients. As I mentioned earlier, we are seeing a pickup in demand for change and transformation services in our financial services space.

Finally, I'll conclude with awards and recognition and hand it over to Srini for more detailed commentary. In customer operations, we were recognized by one of our large clients as “Most Insightful and Innovative Partner” in their annual partner summit. Our QA360 quality as a service platform used for call monitoring, scoring and auditing in the customer operations business won the CIO100 India Award. We won silver award at the 2024 Brandon Hall Awards for excellence in learning and development in the category of best custom content. Our award-winning entry was a transformative learning and development project designed to enhance the communication skills of analyst and senior analyst in financial market operations. The win marks our seventh consecutive year of winning at the Brandon Hall Awards.

I think people are key assets and this really differentiates how we are delivering services to our clients. Industry analysts have started to recognize a market leadership across products and services. In the last quarter, eClerx was rated as a “Major Contender” in RPA Products and in Customer Experience Management (CXM) Services Americas and as an “Aspirant” in Finance and Accounting Peak Matrix assessment by the Everest roup.

I'd like to thank all our clients, employees and stakeholders for their support and confidence in us and over to you Srini.

Srinivasan Nadadhur:

Thank you, Kapil and good evening, everyone. Let me provide a little more detail on our financial performance.

So as Kapil mentioned, operating revenue was USD 98.8 million, sequentially grew by 6% in USD terms and 5.7% in constant currency terms. On year-on-year basis, revenue increased by 12.8%. Total revenue for this quarter was INR 8,447 million, up 5.2% sequentially and 14.8% year-on-year.

Other income for the quarter was INR 128 million, lower than the previous quarter, since we completed the buyback in July. The EBITDA of INR 2,288 million is up 22% sequentially and 4.5% YoY. The PAT of INR 1,402 million for the quarter is up 26% sequentially and 3.9%. YoY, as mentioned, the reasons for the margin expansion are threefold. One is the increase in revenue leading to operating leverage. The second is the higher utilization in the quarter. So, the excess bench that we are carrying in Q1 in anticipation of future work became billable in Q2. The third is because of some one-offs in the previous quarter such as sign-on bonuses, higher 401k contributions and a change in the calculation of provision for leap. The impact of these one-off on margin is about 85 bps.

The exit headcount has increased by about 480 to 18,227. Attrition is at 22%, which is higher than Q1 as we had anticipated.

On the key business metrics slide, the top10 client concentration is now up to 63%, a result of the strong growth in top clients in financial markets and customer operations. DSO is 77 days compared to 81days in the previous quarter.

Our new office spaces in Chandigarh and Pune will go live in Q3 and the new space in Mumbai will go live in early Q4. So, there will be an increase in seat count and G&A and depreciation costs will go up in Q3 and Q4.

Thank you everyone. With this, we conclude our prepared remarks. So, we can now move to the Q&A session.

Asha Gupta:

Thank you, Srini. Thank you, Kapil. We will take the questions now. First question comes from the line of Sandeep Shah. He is from Equirus Securities.

Sandeep Shah:

Congratulations on a superlative performance both on revenue as well as margins and even free cash flow. So, the first question, despite the strong growth, the demand commentary looks slightly mixed where we are bullish on BFSI, but we are also slightly cautious about the other segments. So, can you elaborate in detail how the second half will look like with all the comments which you have given on tailwinds and headwinds? And you also commented the roll-offs being higher in Q2 versus Q1 and will have a full quarter impact in Q3. So directionally, how do you see the growth in the near term and its impact on the margins?

Kapil Jain:

Sandeep, thanks for the question. Like I had said in the beginning that the strategy that we had put in place was to see how we can cross sell and upsell in our existing set of clients. So that seems to be working well. In terms of the overall guidance that we had given was those 3 things, we have said that we will be in the range of 24% to 28% on an EBITDA for the full year, which we are saying we will. Second, we had said we will show sequential growth year-on-year on the absolute EBITDA number. And third, we said that we would be in the top quartile of the growth amongst our peer group. And in short to medium term, the H2 outlook is in line with what I had just stated and what we have stated earlier as well. The overall strategy in terms of tech and change, which I alluded as well as cross sell, as well as the growth on the back of strong delivery that all is continuing. And we are seeing green shoots in that area as well as in terms of some of the analyst rankings.

Sandeep Shah:

So, what is the nature of these roll-offs? Is that project completion or these are customer specific issues?

Srinivasan Nadadhur:

No. These are project completions. So, they were short term projects that we started sometime earlier in the year, and which have now come to planned end.

Sandeep Shah:

Okay.

Kapil Jain:

So, there is no roll off that we have had, which is on because of delivery issues, and this is a part of the business.

Sandeep Shah:

Okay. So, if I understood correctly in Q3-Q4, we may do well. But you said on YoY even on a QoQ directionally, it should be a positive growth?

Kapil Jain:

See, I think to expect the same growth that we have delivered in Q2, I think it will not be appropriate, and we don't give forward-looking guidance, but in terms of medium to long term outlook stays positive, which is backed by the good pipeline that we have, as well as in terms of some of the success we have seen on the initiatives that we had embarked on which I had alluded to at the start of the year.

Sandeep Shah:

Okay. I will come in the follow up. Thanks, and all the Best.

Asha Gupta:

Thank you, Sandeep. Next question comes from the line of Aayush Rastogi. He is from B&K Securities.

Aayush Rastogi:

Thank you so much. So, a couple of questions. On G&A side you mentioned that it would be on the higher side, what we have seen in Q2. So, what is the comfortable band that we are eyeing for the H2 or maybe like for the full year, if you can just guide us in terms of percentage of revenue, that's the first question. Second question is on acquisition front. So, what sort of capabilities or in terms of implementation of those capabilities? Are we sort of eye for or is it more of a list like that we are looking for the customer operations side of the business, maybe to the near shore. So, these are the couple of questions and then I'll have a follow up.

Srinivasan Nadadhur:

So, on the G&A thing, we expect max about 50 to 70 bps impact, [as] the percentage of revenue in Q3 and Q4.

On your second question on M&A, so our priorities remain unchanged. We continue to look for assets which can meaningfully add to what the capabilities that we have. So, in financial markets, we are extremely strong in the delivery of KYC service, but something upstream to that in terms of consulting or advisory would be of interest to us. On the digital side, something on analytics would be of interest as with something in the creative space. On the technology side, we are users of salesforce and adobe platforms from the operations side and we'd like something that gives us an edge on the implementation side of these products. So, we are looking for assets in those areas and on the customer operations side, something on near shore might be of interest for us. The priorities broadly are the same that we had listed out last quarter. They have not changed.

Aayush Rastogi:

Next question is like basically you know that we had commented in the last earnings that we are eyeing for the double-digit kind of a growth that's an aspiration. So, it seems easily achievable for us. So, is it fair to assume if you see the ACV trend for us for the one, it looks pretty strong, so fine to assume that we would be, you know, eyeing almost like for mid-teens kind of a growth, which is kind of doable for the full year?

Kapil Jain:

So, Ayush, we don't offer a forward-looking guidance, but the overall progress is good. And I think we continue to state what we had stated when I had presented overall strategy for this year and the future, and I think our outlook stays positive for medium to long term, quarter on quarter aberrations may happen, but the full year, what we are saying, we still stand with it. On the growth. I had said top quartile. So, it unless something happens, what you are saying should be achievable and then on the margins as well as on the sequential growth in EBITDA.

Aayush Rastogi:

Thank you so much.

Asha Gupta:

Thank you, Ayush. Next question is from the line of Shradha Agrawal from AMSEC Securities.

Shradha Agrawal:

Congratulations to the team on an exceptionally strong quarter. 2-3 questions from my side. Just again, persisting on the guidance if at all you can indicate for Q3 given that ACV this quarter has been relatively soft and then on a YoY basis, it is actually declining. So, from that perspective, how should we look at growth trends in the second half of the year?

Kapil Jain:

I think quarter on quarter, the aberration may happen. I think if you look at sequentially, we have shown a marginal increase. YoY, yes, because I think sometimes it does take time and also the clients are taking longer in decision making. That is what we have seen because the overall market is volatile, and we are cautious. However, given the pipeline growth, the momentum we are seeing in the business, I still feel in terms of restating what we had said earlier. And as I had said earlier that forward-looking guidance we have not provided. So, I'll reserve my comments on that, but for the full year, we continue to stay positive and in line with what we had stated earlier.

Shradha Agrawal:

And so just again insisting on the same thing, generally employee addition has been one lead indicator of revenue growth for us. And despite a good uptick in utilization, our employee count is up almost 2.5% to 3% on a sequential basis. So, is it reasonable to assume a 2%, 2.5% kind of sequential growth going into Q3?

Kapil Jain:

I'll repeat the same.

Shradha Agrawal:

Okay. No worries. And again, on a QoQ growth, if you look at growth, this quarter was driven more by the top accounts and the emerging clients were relatively soft. So, any demand trends or variances in demand between the top and the emerging clients, that would be helpful.

Kapil Jain:

I think what we are trying to do is also look at new buying centers in our top clients. And like I said earlier, we have seen some success. It’s only been six months from the time when we have formulated our strategy and thinking. So that gives us confidence that there is still an opportunity in taking our service offerings, product type services into our large clients as well as in emerging markets, there is an opportunity for cross selling some of our product type services in customer operations as well as in finance and accounting. And that is really where we have to double down and focus on as we move into H2 as well as for next year.

Shradha Agrawal:

Right. And just last bit on financial markets, we have been showing strong growth in this segment for last 2 -3 quarters in a row now and given the expectation of further lowering of interest rates, do you think traction in this segment can further pick-up or demand should get further strengthened in this segment for us going ahead?

Kapil Jain:

I think our financial markets growth is driven primarily from a compliance and regulatory perspective, so that I think it is a big driver. And second is the overall activity in the product classes that we support in the global market operations, and we do not anticipate a slowdown, but compliance and regulatory, I think SEC and FCC, I think it is something that we'll continue to see it in, in terms of whatever the growth we have seen, there is little amount of volatility on the compliance space because let's say if someone has got one of our clients, some clients will get, let's say a timeline by when they have to complete certain regulatory requirements. And that is really where we support our clients which drives the demand and growth.

Shradha Agrawal:

Great. Thank you and all the best, sir.

Asha Gupta:

Thank you for Shradha. Next, we have a follow up question from the line of Sandeep Shah.

Sandeep Shah:

Thanks for the opportunity again. I just wanted to understand how to look at the ACV conversion which we have started reporting 2 -3 quarters back in terms of the conversion to revenue. So, because last year, we were at $90million to $92 million this time, we could be close to $100 million and that on the top line looks like a bigger jump in the next year. So, can you give us color in terms of how to arrive at an approximate growth rate based on ACV, keeping in mind the roll-offs will continue year after year?

Srinivasan Nadadhur:

So basically, ACV minus roll-offs should be the net addition to revenue in any year.

Sandeep Shah:

Okay. So, Srini just the normalized business or demand environment, what could be the annualized rollout figure?

Srinivasan Nadadhur:

Normal value is about 15% to 20% in a year.

Sandeep Shah:

15% to 20% of the top line?

Srinivasan Nadadhur:

That's right.

Sandeep Shah:

Okay. And Srini, in the first quarter, if I recollect in the earnings call, we said we will pull up margin on QoQ basis from Q2 to Q4. So, now with new facts, do you still stay by that statement where Q3 margin higher than Q2, Q4 margin higher than Q3 with some amount of headwinds you called out?

Srinivasan Nadadhur:

Yeah. So, if you remove the impact because of new facilities going live and if you remove the impact of the one-offs in Q2, then based on that, if revenue growth continues to happen, then we believe that what you are seeing holds good. So, the key determinant of margin is basically revenue growth.

Sandeep Shah:

Okay. Even revenue growth happens even with one-off, we can be still better on a QoQ in Q3 over Q2?

Srinivasan Nadadhur:

Yes, removing the one-off.

Sandeep Shah:

Okay. And can you explain the nature of one-off sign on bonus? And why you believe those are one-offs will not come in Q3 as a whole?

Srinivasan Nadadhur:

Senior management sign on bonuses. So, it will not come again. So that was one. The second is usually after bonuses are paid, the contribution to 401k increases in that quarter. So that's why it's high. I'm talking about the US. So that is the other one off. And the third one is that, when we make provisions for leave encashment every quarter, we just use the approximate calculation for that and in Q4 every year, we do an actuarial valuation. But this time, we did an actuarial valuation in Q2 itself, which led to a reduction in the accruals.

Asha Gupta:

Thank you, Sandeep. We have next question from the line of Debashish Mazumdar. He is from Svan Investments.

Debashish Mazumdar:

Good evening to the management team. Congrats on a very good set of numbers. I have two questions. First is related to the vertical exposure that we have from the numbers of your exposure to geography and clients, it seems to be the large part of the growth is driven by financial services which has definitely grown much more than what is our overall company growth would be in this quarter and the luxury segment must have been significantly impacted. So, if you can give us some amount of indication that how the financial services, customer segment and the digital segment growth going forward over the period of next two to three quarters and what are the opportunities you are seeing there? So that is the first question, and second question is for Srini, if you can quantify of the 85 bps QoQ one-offs that you were talking about how much of that is related to that bonus signing and change in accounting policy and how much is driven by higher utilization and higher revenue growth?

Srinivasan Nadadhur:

So that 85 bps to 90 bps is entirely because of bonuses and leave provisions, it does not include the high utilization or the revenue.

Debashish Mazumdar:

Okay.

Kapil Jain:

So, in terms of like I had said earlier in financial markets, the demand is driven on the back of compliance and regulatory work as well as increased activity in different asset classes that we support on the market side. On the customer operations, the demand is driven on the back of existing clients as well as cross sell opportunities in other verticals. And on digital, we are seeing again, cross sell opportunities of MarTech analytics into financial services clients. The softness we are seeing is in the creative side on the CLX business, which is primarily due to the low demand that is coming in from China.

Debashish Mazumdar:

Great! Kapil, one more question if I can add. If you can also help us to understand since you joined how the structure of the business changed in terms of focusing on existing top 10 clients or the annuity business or the focus more on maintenance business. So, what are the kind of changes that you have implemented? And where are the benefits that we are seeing today? If you can help with that.

Kapil Jain:

So, the bit I think our delivery was very strong and then our ability to offer productized services as well as embed technology in everything, we are doing was a unique differentiator that gave a very strong platform to go and take this value proposition to the clients and drive the growth momentum. And that is what we are seeing.

I think the opportunity to cross sell, up-sell, I think we are seeing that and the overall strategy of one eClerx, that we are driving I think is helping us in front of the clients as well as with our sales engine as well as on the employee side. Because instead of three individual businesses, it's one eClerx plus $350 million business, 18,000 people, I think resonates well with the client. And so that's really what we are embarking on. And I think what we are seeing is the green shoots of the strategy that we had laid out.

Debashish Mazumdar:

Okay. So, just to understand one more thing here before you joined, we were significantly focusing on clients beyond top 10. So that our exposure to few of the clients get reduces, at least from the last two quarters numbers, it seems to be that the focus on the top 10 client has come back. So, the point that I'm trying to understand that is it because the top 10 clients have started growing because of the initial green shoots that we see, or it is the incremental proposition that we are taking to those clients that is helping us to win new businesses?

Kapil Jain:

It's a combination of both Debashish, and that will also help us derisk the risk in our top 10 clients because we are looking to see how we can find newer buying centers in our top 10 clients. And it's not that the focus is not there outside of top 10 clients. I think the focus continues in outside of top 10 clients as well on taking our productized services and cross selling, let's say, which I mentioned our customer operations, finance and accounting, as well as our MarTech and analytics business.

And we are seeing good traction on the change tech and change side, which is what I had alluded even in the earlier earnings call that given our strong delivery domain and productized services renders well with the client's agenda on change.

Debashish Mazumdar:

Okay, and one last question, So, we are hiring the senior leadership over the last 2 -3 quarters aggressively. So, do we think that the senior leadership hiring is done, and the large part of the employee cost escalation is behind us?

Srinivasan Nadadhur:

The senior leadership under Kapil, that hiring is done. But under the senior leaders, we will decide on a case-to-case basis on whether we need to strengthen in certain areas, add more sales muscle in other areas and so on, that continues to happen on a case-to-case basis.

Debashish Mazumdar:

Okay. So, broadly what I'm trying to understand that employee cost as a percentage of revenue, is it like at the level that we are today, will we be able to see that falling trend going forward apart from the salary hikes quarters that we see apart from that, is there any possibility that our employee cost as a percentage of revenue will keep on coming down from here?

Srinivasan Nadadhur:

That is a little hard to say. The reason I say that is if we are moving into more change and analytics kind of work, then the employee cost in those areas is higher. So, it's kind of hard to say definitively that the employee cost has peaked.

Kapil Jain:

So, I think we will continue to add sales engine right, sales bandwidth and in terms of I said earlier as well, when we are looking at hiring sales bandwidth, leadership hiring, we look at in terms of what is the contribution we will have both on the top line and the bottom line. And I have said that, yes absolute margins are important. For me, what is important is the overall EPS accretion and sequential growth on EBITDA. And that continues to be the focus and, and we will continue to be in the band of what I had stated between 24% to 28%. So, all the decisions that we are making is taking that into consideration, not in terms of okay, let's like, yes, there are a lot of input metrics that we monitor and measure. But at the outset, these are the three guiding sort of a north pole that we have, which we look at when we are making some of these decisions.

Debashish Mazumdar:

Sure. And thank you so much for answering my questions.

Asha Gupta:

Thank you Debashish. We have a follow up question from Sandeep Shah.

Sandeep Shah:

Just a clarity. Srini, you are saying because of the new facility, Q3 and Q4 each will see a 50 bps, 60 bps QoQ increase in the G&A cost as a percentage to revenue?

Srinivasan Nadadhur:

Q3 for sure, Q4 may be lower than that.

Sandeep Shah:

Okay and how the depreciation will look like?

Srinivasan Nadadhur:

I think about the same, I think it will go up by about the same percentage.

Sandeep Shah:

In terms of 50 bps, 60 bps higher?

Srinivasan Nadadhur:

Yes, that's what I estimate. I have not looked into it in more detail.

Sandeep Shah:

Okay. And looking at the strong growth in Q2, especially in the top 10 clients in BFSI, there could be a follow up impact because those projects might have started in between the quarter, end of the quarter may have some impact in terms of a positive growth in Q3 as well. Is it the right way of looking at it?

Srinivasan Nadadhur:

Yes, that is fair.

Sandeep Shah:

Okay. Thank you.

Asha Gupta:

Thank you, Sandeep. We have next question from the line of Krish Beriwal from Nomura Securities.

Krish Beriwal:

So just one question. Can you share some details around our current pipeline? And how is it against, let's say start of the year in terms of size or average 10 year and nature of these?

Kapil Jain:

I think our pipeline pressure is up from when we started the year and it's broad based. We have the pipeline involves the opportunity that we had seen in the beginning, which is cross selling. So, there are opportunities on that front. We are also seeing a pipeline which is of larger deals compared to what we had seen earlier. So that's another good sign and as well as it's across the three businesses that is financial markets, customer operations and digital and in tech and change. So overall pipeline momentum is positive, like I said, in digital, we are seeing a little bit longer timelines in terms of decision making.

Krish Beriwal:

Got it. That's useful and just one follow up on our top 5 accounts, they have done very well this quarter, so is a growth broad based within those top 5 accounts or driven by 1 or 2?

Kapil Jain:

No, it's broad based. It's not just dominated by one or two accounts.

Krish Beriwal:

Okay. Thank you so much.

Asha Gupta:

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

Rahul Jain:

So, two questions. Firstly, on the margin outlook that we have shared earlier, since we might see our growth actually pick up better this year versus the previous year. Do you see that once the growth is back, this band would get narrower towards the upper end in the year to follow or you think this is more a strategic thought process. So, you would continue to invest back into the business and stay in this broadband even from a medium-term perspective.

Srinivasan Nadadhur:

So, at the moment, I think the commentary that we have given on the band is for this year, for FY25. For FY26, I think we really need to evaluate the situation which we are just in the process of starting. So, we need to evaluate whether the band will change upwards or downwards, but we haven't come to any decision on that yet.

Rahul Jain:

Sure. And secondly, we highlighted about the opportunity that we see in the analytics as well as MarTech side, it would be great if you could share some thought process what is the size of this practice for us at this point? And how the competitive landscape is here? My understanding is that this is very scattered market, so any color on this element?

Kapil Jain:

So, our analytics automation was what we did was we combined, as I had stated earlier, the analytics and technology, we brought it together, which has resonated well with the clients. And in terms of the overall value proposition that we are able to take and in terms of overall competitiveness we have a good roster of clients, and I think a very strong referenceable client set. So, we are positive in terms of the momentum that we will be able to drive on the analytics side.

Rahul Jain:

Anything more on the size of the business and also any seasonality that you have within your portfolio in the MarTech business, if that could be shared?

Kapil Jain:

I think in the creative business is where we had said that we are seeing softness in demand. On the campaign, management and performance analytics, we continue to see a good demand and I think in terms of size of the business, we don't give individual split of the businesses. So, I'll reserve but like I said, from what we are seeing in the market and from our clients, we are competitive and, and we have a good value proposition for our clients.

Rahul Jain:

Right? So, Kapil, what I'm trying to understand is generally this kind of businesses. They do have, you know, spike both up and down. So, is there a way to understand the seasonality like Q2, Q3 to be bigger quarter for such business or there's no such trend that we have identified in the past?

Kapil Jain:

I think it's a little difficult to identify the trend in quarter on quarter. I think we look at anything we are doing, we are looking at how we create medium to long term value, both for our clients and shareholders. So, I think in terms of quarter-to-quarter seasonality, we haven't seen or identified a trend.

Rahul Jain:

Okay. Thank you guys. Best wishes.

Asha Gupta:

Thank you, Rahul. Next question we have from the line of Varun Bang.

Varun Bang:

Thank you for the opportunity and congratulations for the strong performance. Just one question. So, within the three verticals, can you explain on the cross sell and upsell opportunities in detail? Maybe if you can give or state one or two examples to explain how we are upselling and cross selling?

Kapil Jain:

So, for example, our MarTech stack, we have had a win in the financial services client, so that's one thing. Our customer operations in hi-tech area, one of our product type services. So those are some of the successes we have seen which are the two large ones and I think on the back of this is giving us the confidence on our ability to cross sell and upsell. And the reason, I think our delivery, as I had mentioned again is very strong, so, the internal clients act as reference when we are cross selling and upselling to other stakeholders, the same client.

Varun Bang:

And on the upselling side, if you can give, for example as to?

Kapil Jain:

I think in terms of looking at adjacent areas and on the overall change and tech stack is where we are seeing upselling because we have domain productized services and looking at changed driving transformation is where we feel there's an opportunity for upsell.

Varun Bang:

Okay. Got it. Thanks.

Asha Gupta:

Thank you, Varun. We have next follow-up question from the line of Debashish Mazumdar.

Debashish Mazumdar:

Srini, one follow-up question on margin. So, effectively what we are communicating is, this quarter our core EBITDA margin is 26%, which has 85 bps of one-offs benefit which will not be there next quarter. So, is it like we are starting Q3 where around 120, 130 bps lesser compared to Q2 or is there something I'm missing?

Srinivasan Nadadhur:

How do you get 120 to130 bps?

Debashish Mazumdar:

85 bps is the one off and then 50 bps impact you said because of the new change?

Srinivasan Nadadhur ***Eclerx Services Ltd - Chief Financial Officer***

Yes, that's a fair assessment.

Debashish Mazumdar:

Okay and do we have enough levers available to nullify some of this 120, 130 bps impact that we will be seeing sequentially?

Srinivasan Nadadhur:

It's largely based on revenue growth. So, if there is revenue growth, then we should be able to do it.

Debashish Mazumdar:

So, the question that you answered on Sandeep's question on few of the new projects that is getting started because our ACV in Q1 was very, very strong. So is it fair statement to assume that in Q3 may not be at 5%, 6% but we'll have a reasonable amount of handsome growth that will be making in Q3 that will be able to maintain some amount of margin benefits. I mean, some amount of margin that will be losing in Q3?

Srinivasan Nadadhur:

I think the way you should look at it, is put both ACV and roll-off together. I think you're only looking at ACV.

Debashish Mazumdar:

Srini, what I'm trying to understand is, so in H1 put together, our average ACV growth is around 35%, 36% and even if you assume 12% to 15% roll-offs, I think getting a 12%, 13% growth in this year will not be a very big trouble and in that case, our sequential growth ask rate is supposed to be 3%, 3.5%. So, is it a fair assumption that in next two quarters, the CQGR will be 3%, 3.5% to reach a 12.5% number for this year?

Srinivasan Nadadhur:

The assumptions are fine. But what we don't have is the visibility in those.

Kapil Jain:

I think you're asking in terms of I had mentioned that we will be in the top quartile of the industry peer segment that you evaluate us on, now whether that is 12%,13%, 15%, 9% that's something I think it is your guess as well as mine, right? So, we will be in the top right on the margin in terms of whatever impact, one of whatever we will be in the range of 24% to 28% and we will show sequential a bit of both these three things. I have said, we will stick to it, and we'll maintain that, and we'll deliver that to you guys.

Debashish Mazumdar:

Sure. Thank you so much.

Asha Gupta:

Thank you Debashish. We have a follow up question from the line of Sandeep Shah.

Sandeep Shah:

Yeah, that's the question on capital allocation. We generally prefer a buyback as a method of cash distribution. So, with the tax ruling change in the budget, do you believe our priority may be now more towards dividend or priority continues to remain on a buyback?

Srinivasan Nadadhur:

I think we will definitely have to examine it, as you say, there is no difference in buyback and dividend anymore other than the reduction in dilution. So, we have to examine, but I guess there is a lot of time for us to do it.

Asha Gupta:

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

Kapil Jain:

Thank you, everyone. And once again, I'd like to thank all our clients for having the confidence in us and all employees, my colleagues who have worked very hard to deliver the quarterly performance that we delivered. And thank you all for your support and look forward to talking to you in the next quarter. Thank you very much.

Srinivasan Nadadhur:

Thank you.

Asha Gupta:

Thank you, everyone.

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