



“eClerx Services Ltd Q3FY10 Earnings Conference Call”

January 28, 2010



SPEAKERS: **MR. PD MUNDHRA-EXECUTIVE DIRECTOR, ECLERX**
 MR. ANJAN MALIK-DIRECTOR, ECLERX
 MR. SACHIN RASTOGI-CFO, ECLERX



*eClerx Services Limited
January 28, 2010*

Moderator

Ladies and gentlemen good morning, good evening and welcome to the eClerx Services Limited Q3FY10 Earnings Conference Call. Joining us on this call today are Mr. P.D. Mundhra-Executive Director, Mr. Anjan Malik-Director, and Mr. Sachin Rastogi, CFO of eClerx Services Limited. This is Rochelle, the Chorus Call Conference Operator. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. P.D. Mundhra of eClerx Services Ltd, thank you and over to you sir.

PD Mundhra

Thank you so much. Welcome everyone to our Q3 earnings call. I guess you would have received the presentation sent out earlier. Without further ado I like to get started on that.

On Slide #1 we have the key financial metric for the quarter – We had a very strong quarter with operating revenue of just under \$15 million which was up 16% over the previous quarter on a sequential basis. That brought our operating revenue for the nine months period for this fiscal year to \$39 million, up 24% over the same period last year. In Rupee terms operating revenue year-to-date is 186 Crores, up 30% over the same period last year.

In terms of profitability our operating margin for this quarter was 38%, flat on a sequential basis and year-to-date 37%, up about 3% year-over-year. We will go into that in some detail later on in the presentation. Net margins for the quarter was 32%, up 3% quarter-over-quarter because our hedge books were at more favorable rates in Q3 as compared to Q2, which allowed us to have a better drop and transfer from operating margins to net margins.

Moving on to Slide #2, some of the highlights for this quarter – At the exit of this quarter we are now nudging just under \$60 million in revenue run rate, which is basically taking our December revenue and multiplying by 12 to get to an annualized number that up almost \$8 million from the exit of the preceding quarter. So we feel very good about that in terms of the amount of new sales generated during Q3. Our strategy of increasing the share of spends from our larger and most strategic clients continues to bear fruit. This also has corollary implication in that our client concentration metrics have gone up. To some degrees this was something that we expected in the wake of all the turmoil that has been happening in our market for the last year or so. But overall I think the fact that we have been able to generate good growth, means that the positives have par outpaced any adverse impact on the business. We are also now providing an increasing diversity of services to our end clients and my colleague, Anjan, will talk a little bit more about that as we go further along.

In terms of utilization – We now have pretty high utilization levels of the Pune SEZ Facility that we had started almost two years ago now. So we are operating at about 90% of our total capacity. As a result we have decided to take on additional space and we had signed a letter of

intent for a new SEZ Facility in Bombay. We are taking on 44,000 square feet in the first phase and we have an option another 44,000 square feet. At full capacity that facility will sit anywhere from 1100 to 1300 seats. It is a fairly significant step jump function in total capacity for us.

Slide #3 has details of our current hedge book – Total outstanding hedge is just under \$50 million as of now for FY11 and FY12. It is about \$40 million. Those hedges are at average rates of between Rs. 48 to Rs. 48.50 to a dollar. So we should expect in future quarters to get better net realizations than we have had in prior quarters.

Slide #4 just has some excerpts from our balance sheet – We are holding about 124 Crores in cash and cash equivalents which translate to about Rs. 65 a share. Trailing 12- month EPS is about Rs. 33.5, EPS for the quarter that is just ended was about Rs. 11. Book value per share is Rs. 105 approximately.

Slide #5 has a key element of our P&L for the nine months period this year and last year. I will go into some details in the next slide, but the only point I would like to make here is our operating margins for this nine months period was 37%. For the same period last year we had a 34.5% net margin, but if you adjust that for the one-off bad debt that we had on account of one of our clients going bankrupt, we had more or less flat operating margins year-to-year. So we maintained operating margins between FY09 and FY10.

Slide #6 has the operating margin bridge over that same period – So you can see very clearly the areas where we have chosen to make further investments in which are basically around staff cost and selling expenses. Staff cost is a reflection of the increased number of senior managers that we have hired in India and also the more senior level of people that we brought onshore into our client engagement teams which is basically our sales and marketing arm. Some of that money has been created by the scaling in our G&A expenses as we hit better levels of utilization of our existing facilities and also because we did not have the adverse impact of the bad debt provision this year. So overall we chosen to make those investments that we feel will help us power our next lag of growth.

Slide #7 has our net margin bridge – So last year our net margin was just under 32%, this year we got a 3% lift at the operating level. And also our tax rates were more favorable this year as compared to last year despite a substantial increase in MAT. So although Minimum Alternative Tax went from 10% to 15% on all of our STPI income the fact that the larger proportion of our revenue came from a tax-free SEZ facility allowed us to actually enjoy a lower effective tax rate this year as compared to last year. Our FOREX losses we expect will reduce going forward because of our remaining hedge book being at much more favorable rate as I mentioned earlier in the presentation.

Slide #8 has some key demographics of our book of revenue. Currency concentration is better this year than it was last year. It has come down to 72% in dollar terms as compared to 76%

last year. Most of that has been contributed by an increase in our Euro billing which has gone from 18 to 24%. Geographic concentration is about similar as last year. Our client concentration has actually gone up from 76% to 81%. Again, as I said I think this is something that we anticipated in the wake of the turmoil last year. The other notable fact is the SEZ in Pune is now contributing about 40% of our total revenue which is what has allowed us to lower our effective tax rate.

Slide #9 has a couple of key metrics on headcount. Year-to-date we have added about just under 600 people. We ended March 2009 just under 2000 and now we have just under 2600 people. Attrition in recent quarters has been picking up as talent markets in India become more aggressive. Year-to-date our attrition is running at about 28%. I will now hand over to Anjan to take you through our early indications for FY11.

Anjan Malik

Thanks PD. I guess before we do for this last slide was talking a little bit about what we are seeing as early indication for FY11 since we are already pretty much towards the end of this year. One of the things that have been very successful for us if you look back over the last 18 months is our initiatives to become closer to customer. We have talked about share of mind being an important barometer in our business. And I think that is playing out well. So for example, if you were to look at the closeness to customer metrics which is for example the hard room facilities where we have segregated areas or metric of how many people do work with end-customer system is directly turning into customer systems release lines or other connectivity methods. It is the highest that it ever been. If you were to measure the number of services that we are providing the breadth of the services and the number of stakeholders that we touch and existing customers at the highest it has ever been.

We are also in the last couple of months have been successful at spearheading new initiatives well. We have onshore and offshore engagements in parallel. What that means is we are using consulting engagement onshore to drive large KPO opportunities offshore. And we have been able to do that successfully across both our verticals and we feel very good about that because we feel future growth is about continuing to build out vertical capabilities in the specific segments that we have chosen in the industry. We also see that building that capability will give us more large opportunities to bid for. We think that large opportunities such as those are RFP as we've discussed in previous quarters and are becoming more common. We think that as we build our vertical capabilities we are going to have greater possibility of winning those kinds of RFPs and obviously winning or losing RFPs of that size have a large impact on a trajectory of our business.

Of course, size of business also means increasing intensity of competition. We continue to see obviously the big Indian IT houses in different parts of the segment we can use. We continue to see specialist players in our local markets and so we anticipate that pricing will continue to be under pressure. So we do not really think that we are going to get realization improvements unless of course it is the large currency move of the magnitude that you have seen in the last 12 months. And to some extent as people started to realize that they really has not been in

recession in the Indian and other big markets and local markets we try to see more competition for talent as PD alluded to earlier so attrition rates are beginning to go up, which obviously will impact wage levels and we really have no view on currency appreciation but obviously if we had strong GDP growth in India, which led to currency appreciation that is obviously downside that we have to factor in for the next year.

Having said that the pipeline that we are seeing looking at different verticals is strong and where I feel very confident about 2011. And the fact that we have made it through some of the toughest markets and the most terrible markets give us a lot of confidence and obviously and given the investments that we made in people and infrastructure over the last 18 months give us a lot of confidence over the next 12 to 18 months.

With that we will hand over for questions and I am sure you will have a few of those.

Moderator

Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Divya Nagarajan of UBS Securities. Please go ahead.

Divya Nagarajan

Hi, PD, Anjan, good quarter. Just wanted to find out for this quarter at least you have seen a sharp increase in run-rate and wanted to understand where this has come from. Is this largely a pick-up in BFSI or has your manufacturing also started picking up and was there any element of surprise that you saw this quarter?

Anjan Malik

No, I mean, this is a lumpy business, right? So we saw a couple of large deals on both sides of our business. It was not just BFSI. I think what has been interesting is I mean couple of examples that we spoke about where we had consulting business drive some KPO business for us. We had a couple of those engagements this quarter. And they were nice and chunky. So we had like in our hybrid onshore/offshore. Large offshores, small onshore sort of engagement going live.

Divya Nagarajan

Right. Going forward I definitely sense a lot more confidence in the kind of growth that you are expecting for next year. What do you think will drive this? Are you looking at similar trends driving growth for the next year as well or is there any discrepancy which means how BFSI will revive as opposed to manufacturing?

Anjan Malik

As you know for a company of our size the growth rates of our industry are really meaningful right? I think what is important is what percentage of wallet we are able to catch up. All I say is that we made lot of investments in onshore organization. We have made a lot of investments in our delivery organization which I would say is substantially upgraded on both grounds. I think those two together are opening up a larger pool of opportunity both with the existing customers and also new marketplace so I would say new customers. That we have not seen before. So I think just the activity levels that we are seeing, makes us confident that this goes behind the horizon.

- Divya Nagarajan** Great. That is very helpful. And one last question. You did speak about some of the wage pressures coming back and you are already running on pretty high utilization so I assume that you will be hiring aggressively from here on any thoughts on the kind of wage pressures increases that you are expecting and any number on the headcount addition?
- PD Mundhra** Well, on the wage pressures we are just in the middle of running this exercise that we run every year where basically the benchmark higher compensation levels with peer group and then we have a target in terms of where we want to be versus competition. So we should get that information back in a couple of weeks. What I will say is that we stuck to giving a wage hike last April as per standard policy unlike many of our peers. So I think we hopefully should not be that much out of price position with respect to our peers . But I do not yet have hard numbers. That will only come in next month or late this month.
- Divya Nagarajan** So this is going to be again an April increase like technical increase, you are not looking at a non-cyclical increase right now.
- PD Mundhra** No, anything that we do will be effective April 1, as we have always done because as I said we did our normal increase last year as well.
- Divya Nagarajan** Right. Thanks and once again congrats on the great set of numbers.
- PD Mundhra** Thank you.
- Anjan Malik** Thanks, Divya.
- Moderator** Thank you, Ms. Nagarajan. Our next question is from the line of Manik Taneja of MK Global. Please go ahead.
- Manik Taneja** Hi, sir, congratulations on a good quarter. Just wanted you to talk about couple of things. First of all which particular areas within your financial services clients are you seeing increased opportunities for you? And secondly, the growth that we have seen during this quarter has it come in from our existing clients or some new client wins? Because we do not have this number from number of active clients in this quarter in our sheet. And then if you could talk about the kind of investments that you are making in your new facility in Bombay? Thank you.
- PD Mundhra** So, let me take the second two questions first in terms of where the growth this quarter has come from. It comes predominantly from existing clients which is why our concentration numbers are also up from 76 to 81 for the top five clients' year-over-year. Total number of clients are not materially changed from last quarter. It is just under 50. In terms of investments on the new facility I would say that facility is probably about 20% larger than Pune, so I think we spent about 17, 18 Crores in total on Pune if you include interiors plus IT investments. So I would expect that this facility at full build-out would probably be somewhere between let us say 21 and 25 Crores, but obviously that investment would happen in a phased manner as we start using that.

- Anjan Malik** I think the last point I think you are right you had another question which was around the BFSI segment. We have been primarily capital market service providers to the sell side, whether it is called the institutional investment banking business trying to sell and getting business. And over the last year we have been diversifying away into what we call the buyer side, so both large hedge funds space and also we have some management space. And also within the institutional sell side business in BFSI space we have been focusing away from operational where traditionally we have been. So we are doing a lot more work for example in power control, finance and accounting, sort of other activities which are related to the services that we have been providing before. So, both a change in the customer side that is in servicing and also the types of services that we are providing.
- Manik Taneja** And if you could also talk about the kind of trends that you are seeing on a manufacturing side is there any improvement as compared to what you saw almost like 3 to 6 months back?
- Anjan Malik** On our services marketing upside we are seeing more activity. We are certainly seeing more spend. Again, like I said in our marketplace, for us it is not really a function of how customers are doing, more a function of how much they are willing to spend and certainly the cost pressures are very high for them. So in this market as people are trying to reduce costs we are looking to us more and more. So we continue to see a lot of demand from the sales and marketing operations vertical.
- Manik Taneja** Sure, sir. Just one more question, given that you guys have mentioned that now you are looking at a hybrid kind of engagement, small team onsite and a large team offshore. If I understand correctly for us typical engagement size is 30 to 40-odd people so how is that changing now?
- Anjan Malik:** Well, I think the onsite consulting organizations are really spearhead organizations for us. Right? So what they do is that they create opportunities for us to sell those 50-60 headcount programs. So we do not really anticipate any further de-clustering in the size of our program. We are looking at the consulting opportunities as more ways in the engineering areas as new parts of our customer bases.
- Manik Taneja** Okay. And sir, just a bookkeeping question, what would be our sales team size right now?
- Anjan Malik** The onsite team is just north of 20, 20 people in total. That is the guys are actually now onshore organization. If you include the guys at support sales you probably add another 10 or 15 guys on top of that.
- Manik Taneja** Sure, sir. Thank you and congratulations for good execution.
- Moderator** Thank you, Mr. Taneja. The next question is from the line of Atul Bh ole of Tata Mutual Fund. Please go ahead.

Atul Bhole Hello, sir. Congrats on good set of numbers. Sir, you mentioned earlier that for eClerx driving higher wallet share is what matters rather than industry growth rate. And also this quarter growth you mentioned that it is from existing client, sir. I would like to know what kind of projects are coming from existing clients and what is your strategy to grab this higher wallet share and which kind of projects? Are you also targeting some different kind of projects with the same set of clients?

Anjan Malik I really answer you is all of the above. I think to some extent the same strategy we have for a while which is when you are in the customer and you grow and in concentric both in terms of getting into new divisions or providing same services to different stakeholders but also providing services that are in concentric where you are. So for example, where we maybe in some of marketing operations when we might be pricing services today we might be proving content operations or we might be providing what we call Q management services or we might provide content arbitration. On the financial services side we are providing middle officers, we are providing end-to-end back office services, you might be providing expense management, and you will be providing bi-side support. So I think the idea is that every year our addressable markets increases within the same customer base because we are doing more services, right. So if you look at our large client base each of these clients may have 20 to 30,000 employees and the idea is that every year we try and increase what percentage of that employee base we will able to be play.

Atul Bhole Okay. And sir, you mentioned that the project size is increasing. Is it that the project durations are also increasing with the project sizes?

Anjan Malik The project size I do not think it is actually to say project sizes are increasing. I think project sizes are staying somewhat the same as our project duration last year.

Atul Bhole You said larger size RFPs are coming out?

Anjan Malik Right. When you win RFPs certainly those are large one-time opportunities. But within the RFPs my point is that the individual, so the RFP is usually an aggregation of program which are 40 to 50 headcount price rate. So even within the RFPs all the RFPs might be gone to one person, there will be cluster of the same size of program. Duration is not really, I do not think they really change. But implicitly because we are doing more core and critical work implicit duration increases because your stickiness increases, right. The chance for your customers will be able to replace you decreases, because a larger percentage of work is critical and more of your work is being done inside their systems.

Atul Bhole Okay and out of this incremental work you said cost pressures are very high, so are these projects temporary in nature because of cost pressure or you can sustain the growth?

Anjan Malik I am sorry, I do not really understand your question, come again.

Atul Bhole You said the cost pressures are very high for the clients. So this incremental growth is it temporary in nature to cut cost or you will see sustainable growth?

Anjan Malik I think it is not temporary. I think it is an ongoing effort, but I think you do see decent crops because within a client they may end up outsourcing 400 heads in one year and then they say okay we will wait and see and then another nine months they do another chunk. So it happens more in ways, as opposed to in temporary.

Atul Bhole Thanks, sir so much.

Moderator Thank you, sir. Our next question is from the line of Vinay Paharia of Religare Mutual Fund. Please go ahead.

Vinay Paharia You have given in your presentation that top five clients contribute about 81% of your sales. Would you also be able to share what the top client contribution to turnover would be?

PD Mundhra We do not really disclose that, Vinay, but what I would say is that all of those top five and the top seven or eight clients would be a prevalent for us in terms of importance and branding.

Vinay Paharia Okay. One client is not a significant chunk of the 81?

PD Mundhra Each of those five are the significant chunk of the 81.

Vinay Paharia Okay. And in terms of your employee what is the ratio of onshore to offshore?

PD Mundhra We do not really do any onshore execution. We have just about 20 people based in U.S. basically act as sales and account managers. All the rest are in India.

Vinay Paharia Okay. Thanks.

PD Mundhra Thank you.

Moderator Thank you, Mr. Paharia. The next question is from the line of Viju George of Edelweiss. Please go ahead.

Viju George Yeah, hi, can you hear me now?

PD Mundhra Yes, Viju, we can.

Viju George Congrats on good set of numbers. My question relates really to the long-term margins in this business because I do recollect at the time of IPO you were running at close to 50% margins which is now scaled down to 35%. Now if you look at the levers for margins going forward by its own admission that it is tough to get the realization increases even if your addressable market space improves. Wage inflation you said probably could kick in now and you might

have to spend more on getting closer to customers. So when you look at all of those things you remove except for exchange rate benefits, what could be those factors that can hold up margins on a sustainable basis at these levels, particularly keeping in mind that there has been drops since the IPO.

PD Mundhra

But I would say, Viju the significant number that you are referring to is at least 3.5 years old. For the last two years, 2-2.5 years we have been always targeting mid-30s operating margin and 28 to 30% net margin. If you look at all of our results or all of the commentary it has been in that range. If I look forward and I say what are the big factors sort of influencing margins? On the revenue side I think it is accurate to say that price realization will not change dramatically in the absence of currency move. But as we get into more transformative engagements where there is a blend of onsite consulting I think you can charge for some of those projects more on a project basis as opposed to an FTE basis and you can also participate and share in some of the gains, that creates for clients. We are also looking at expanding our suite of services to include potentially more higher-end engagements which are more of an analytical flavor to them and which therefore come with better realization. On the cost management side again I think we are at scale so I do not expect our talent pyramid or our overhead structure to change very dramatically even if you were to double in size, let us say over a period of time. So I do not think there are necessarily opportunities there for extracting further juice. In terms of wage inflation and attrition I think those go hand in hand because what tends to happen is in a more aggressive market although you have wage inflation pressures you also have attrition pick up, which is a two sided coin because on the one hand you lose people, but on the other hand that lowers your average cost per employee because you are potentially replacing an experienced resource with somebody who is younger in the system and therefore lower cost. So I think what we have seen over a period of time is that in the absence of large currency moves we feel a pretty confident that over the near to medium term we can maintain operating margins in that sort of low-to-mid 30s range and net margin in the 28 to 30% range.

Viju George

Okay. The other observation is depreciation and amortization has fallen in absolute terms over the same period last year. Is it got to do with the amortization part?

PD Mundhra

It is actually do with depreciation because in that same period last year our Pune facility had gone live and because all the IT hardware depreciates at 60% if I remember correctly you get a very large depreciation cost in the first year of any new facility and Pune was the large facility for us. In FY10 we did not have any new facility going live. So from that perspective depreciation charges were lower.

Viju George

Okay. Thank you.

PD Mundhra

Thanks.

Moderator

Thank you Mr. George. The next question is from the line of Rahul Mehta of Lucky Securities. Please go ahead.

- Ashish Kacholia** Good evening, PD, this is Ashish Kacholia here. I just wanted to check what is the contribution of our to five and top ten customers right now?
- PD Mundhra** Top five for FY10 year-to-date is 81%. Top ten I do not have the number off hand but I am guessing it would be in the high 88 to 90%.
- Ashish Kacholia** Okay, since you have mentioned that you are currently looking to mine only your existing customers how many customers apart from these top five would you expect to scale up to a significant revenue?
- PD Mundhra** Well, I guess first of all let me say we are also looking to acquire new customers but we have always felt that in the short-term, growth would come disproportionately from existing clients. I think our top five as I said are just over 80%, top ten are 90%. We would hope to see that contribution reducing and the metric that we would track internally is a number of customers we have who are 0.25 million, 0.5 million and a million dollar clients. And we would expect to grow that overtime. I do not have a hard number that I can share with you but that kind of how we think about it.
- Ashish Kacholia** How many million dollar accounts do we have now?
- Anjan Malik** We do not track that our side because it depends on how you count it right, whether it is run rate or Crore. So we have not counted that.
- Ashish Kacholia** Okay. Right. Thank you very much and all the very best, guys.
- PD Mundhra** Thanks.
- Moderator** Thank you. The next question is from the line of Anurag Purohit of Religare. Please go ahead.
- Anurag Purohit** Thank you very much for taking my question and congrats on a good quarter. My question was regarding the growth DNA in the top clients this quarter. Was it one single client or very few as a couple of clients that were more important in terms of growth in this quarter or was it across all the top five that you witnessed growth?
- PD Mundhra** Our business is lumpy, Anurag. So I think it would be unfair to set an expectation of perfectly smooth quarter-on-quarter growth or for that matter perfectly smooth growth across clients. If I look at Q3 in particular I would say there were three clients that contributed disproportionately to that growth last quarter.
- Anurag Purohit** Okay. And also for FY11, you mentioned that you will be going more in to onshore/offshore kind of delivery metric, the kind of services that you will be providing in this kind of delivery practice that will be different from what you are doing right now? And also if you could speak a little bit about the margin impact of that going forward?

PD Mundhra

Sure, I mean I guess I would say that what we are trying to do is to create a more complete end-to-end service offering. At some level if you think about it today for client has to offshore some activity there is some degree of scoping, project management, and hand holding that they invest their internal resources on. And then the offshore partner whereas us or somebody else perform the rest of the activity and delivers from offshore. What we are now saying is that we can take on some of the upfront onshore activity which otherwise our clients may have had to perform. By doing the discovery and design process on their behalf getting them a proposal that they sign off/on, and then going ahead and implementing it offshore. So it is not that that work is not being done today, it is that the client is doing some elements, we are doing other elements, we are now saying that we will create a more complete offering that will stand on both sides. In terms of margins I do not yet have a good feel for what that will do to margins. The revenue contribution of the onshore fees would not be huge because it is a very thin onshore presence and it is a large offshore delivery organization at the end of the day but I think the reason is important is because it makes clients think of you differently, it makes them realize that you have a broader range of capabilities, and it allows you to open up opportunities that you may not have had access to purely as a delivery provider. So I think it is important from a strategic positioning and addressable market standpoint more than necessarily a hard dollars and margin standpoint in the short-term.

Anurag Purohit

Okay and also taking forward the point in terms of growth focus being more on existing clients what you will be targeting more in terms of incremental spending from the client going forward or would it be kind of rationalization from the client's point of view as replacing another vendor into that count?

Anjan Malik

I do not know how many opportunities there are really to replace vendors. It is bulky. It happens once in a while, so you cannot really make any kind of business plan based on that. However, we do see lots of opportunities to increase spend by offering end-to-end solutions to customers. So where our customers are doing things in a very fractured dispirit manner we are looking for opportunities where we can provide them end-to-end solutions. So we take on more of what they cannot be doing, however they are doing it.

Anurag Purohit

Thank you and all the best.

Moderator

Thank you, Mr. Purohit. The next question is from the line of Krudent Chedda of Value Quest Research. Please go ahead.

Krudent Chedda

Congrats on a good set of numbers. Sir, you said you are providing more different type of services so could you throw some light on the new services which we have started to provide?

Anjan Malik

I have alluded to this earlier. I have been asked to one of the earlier questions. The examples on the financial services side where we only providing services to sell side institutions up until now we have increased, we started providing services to buy side. We are only providing services in the operations for example we are not providing services that go to the other

departments in those organizations. For example, finance, accounting, product control, and risk management, etc., Similarly on the sales and marketing operation side where perhaps we only providing services let us say in pricing or product managers we are not providing services to products or stakeholders within those customers. I think as a function of broadening our service portfolio what we also obviously finding is that your addressable market size changes, it increases both within the existing customers and also the type of customers which can go out and mind for in new business.

Krudent Chedda

But sir in the case our client base has not increased beyond 50 since last one year.

Anjan Malik

I think that is actually somewhat deliberate. Because in the last year one of the things we have been trying to do is if you remember that about three years ago we have done this acquisition of a company called ITS in UK. We had acquired a pool of companies. I think one of things we have been working on doing is we are seeing how we can takes along the very small customers to being meaningful customers. And I think one of the things we have been successful in, in the last year is we have been able to make a number of those customers who are meaningful in size both in terms of revenues and also in terms of being buyers of multiple services from us as opposed to just a single service that they were buying from us in the past. And I think it is sensible to say that in 2008 and early part of 2009 there was a large BPO vendor consolidation happening. So our ability to go out and open new doors was somewhat limited. So we focused on bringing revenue where we can. But that does not mean that we are not focused on bringing new customers over the next 4 to 18 months.

Krudent Chedda

Right, sir. And one more question, the new facility which we have bought in Bombay so is that also in the tax free zone?

PD Mundhra

Yes, it is an SEZ facility which we have leased.

Krudent Chedda

Okay, thanks a lot.

Moderator

Thank you, Mr. Chedda. The next question is from the line of Ruchit Mehta of HSBC Asset Management. Please go ahead.

Ruchit Mehta

Yeah, hi, good evening. Just wanted to clarify the growth in the quarter how much of it would have been driven by existing service lines within customer growing more, customers adopting for new service lines?

Anjan Malik

Can you repeat that question?

Ruchit Mehta

The growth in the quarter how much of that would have been because a customer decided to opt for additional services from you or essentially just existing services that you have been providing have only delivered volume growth?

Anjan Malik

I do not think any of this really because of volume growth.

- Ruchit Mehta** Okay.
- Anjan Malik** It is all because we are providing either a different service or eccentric service.
- Ruchit Mehta** And in terms of the pricing environment as well are you still facing pricing pressures or would you think that broadly done away with and
- PD Mundhra** I think ultimately we are in a competitive environment, the large guys as well and the captives of our client. So ultimately our pricing is anchored to what other people are charging. And it has been there for the last 18 months or so. So the most insight that you would have is that we do not anticipate any large price increases. But at the same time I think we are providing very competitive prices. So we do not anticipate deterioration in realization as well.
- Ruchit Mehta** Okay. And just finally increasingly are you seeing more deal from internal work being coming to you guys or is it more of consolidation that customers wanting to consolidate between vendors or is it market share gains?
- PD Mundhra** Mostly it is the clients becoming open to moving larger variety of work offshore than they have been in the past. So in some sense it is about increasing the addressable market because the point that Anjan made I think it is quite hard to displace an existing offshore vendor unless there is some problem with the vendor's delivery because the risks for a client in transitioning work from offshore vendor A to offshore vendor B is not insubstantial. And the benefit is likely to be small. It might be 500\$ or \$1000 per person per year. So it is very hard to displace existing low cost providers. So most of the growth by definition comes from moving work from high cost geographies to low cost geographies.
- Ruchit Mehta** Okay. Thank you.
- PD Mundhra** Thank you.
- Moderator** Thank you Mr. Mehta. The next question is from the line of Nimesh Chandan of Canara Robeco. Please go ahead.
- Nimesh Chandan** Hi, guys, congratulations on a great set of numbers. And just wanted a small detail, to expand the business say in terms of service lines or in terms of the clients that you are targeting is the time right for doing another acquisition, I guess you have done one couple of years back. Now you have good cash on your balance sheet .Is it time that you guys would use that to increase size as well as reach?
- PD Mundhra** Nimesh, I think we have been very open to that thought process all through the last 12 or 15 months which should have been good times to buy assets. But the reality also is that I think in our business the number of quality asset is also finite. And a number of things have to work in terms of the founder, the promoters wanting to sell their being a fit with our business, our confidence is that we can integrate and then finally most importantly price expectations

matching. So I guess the short answer is intent is there. But we do not have anything imminent that we can share right now.

Nimesh Chandan Okay, all the best. Thank you very much.

PD Mundhra Thank you so much, Nimesh.

Moderator Thank you Mr. Chandan. Our next question is from the line of Viju George of Edelweiss. Please go ahead.

Viju George Hi, thanks for accepting this. It seems to me that when you are talking about expanding relationships through targeting newer set of offerings Anjan did mentioned some of things being in the finance and accounting, risk management, etc., This seems to be a little more competitively thought out as compared to your earlier best proposition of maybe sticking to operations and process analytics, so would it be not right to presume that as you branch it to newer and newer service and sub-offerings if you will, unless you effectively bundle your offerings and have bundling strategies around it, you might be actually losing some element of discretion in pricing?

PD Mundhra Well, actually, Viju, I would say you are right and I would extend that thought process further and say even our other core service offerings are competed for. Because as we have grown in size the things that we do are more attractive to our larger brethren and they are also more hungry than perhaps they used to be a year or two years ago, so any meaningful opportunity that we target is competed for. What I can tell you is that our pricing has been benchmarked by our clients on both sides of our business with our larger and smaller competitors many times over the last year. And on average the feedback that we have is our pricing is sort of middle of the pack to pick a quote. So I guess what I am saying is that I think that price test has already been conducted with our client base and we are at equilibrium in terms of pricing where there is a competition is as well. I think it is unrealistic to expect that we will have proprietary lines of business where we will be only in town and you can have a monopoly pricing. I do not think that that is the case, but I do think that even at these prices levels if you run an efficient shop and if you apply technology if you automate whatever you can and if you focus your investment wisely then you can maintain good margin.

Viju George Sure. Just one more question. Is there any seasonality to your business? I would think not. But just look at the jump in, in business in this quarter. Is there something like an H2 phenomenon that kicks in?

PD Mundhra There is no seasonality, but there is lumpiness. So we will have flat quarters and then we will have very good quarters like we did this quarter. But it is not that they will happen at the same time every year. So which is why we always say when you look at our numbers you have to see year-over-year, because quarter-on-quarter you could get either very flattering or very uncomplimentary pictures.

Viju George Sure. Thanks.

PD Mundhra Thank you.

Moderator Thank you, Mr. George We have a follow-up question from the line of Rahul Mehta from Lucky Securities. Please go ahead.

Ashish Kacholia PD, Ashish here again. Just wanted to check whether how long are your typical contracts with clients?

PD Mundhra Typically two to three years rolling contract is what we have.

Ashish Kacholia Within this contract is there any inflation-related pricing element?

PD Mundhra On most of our book of business there usually is an inflation clause but obviously it is not at the same magnitude as the wage inflation that we face in our talent market. So it is usually a single-digit number and usually a small single-digit number.

Ashish Kacholia This is linked to some U.S. inflation index or something like that?

PD Mundhra No, I mean, either it could be an agreed upon constant number in terms of percentage terms that we have agreed with that client or it could be benchmarked or some NASSCOM index, it all depends on what the client wants to have in place and what they have it with the service provider.

Ashish Kacholia And these kind of inflation linked increases are there across your entire order book?

PD Mundhra Not across our entire order book, but across many of our larger client engagements. Obviously in places where there are fixed price contracts, those would not have inflation clauses because the presumption is that we will be improving productivity in a year-over-year to offset wage inflation. But when you have large FDE type engagement then I think wage inflation clauses are more common.

Ashish Kacholia The wage inflation clauses cover what percentage of your overall revenues?

PD Mundhra I would not have that number off hand, but I would say it is a majority proportion of your per FDE revenues.

Ashish Kacholia And what percentage of the total revenue the FDE revenue?

PD Mundhra About 70%.

Ashish Kacholia 70%?



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PD Mundhra Yeah.

Ashish Kacholia Thanks.

PD Mundhra Thank you.

Moderator Thank you Mr. Mehta. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Mundhra for closing comments.

PD Mundhra Thank you to all the participants for having invested the time to attend our conference and we look forward to speaking with you next quarter. Thank you.

Moderator Thank you Mr. Mundhra, Mr. Malik, and Mr. Rastogi. Ladies and gentlemen on behalf of eClerx Services Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.