

**Eclerx Services Limited
Q4FY21 Earnings Conference Call**

June 10, 2021

ECLERX MANAGEMENT:

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ANJAN MALIK – COFOUNDER AND DIRECTOR

ROHITASH GUPTA – CHIEF FINANCIAL OFFICER

MODERATOR:

DIWAKAR PINGLE – CHRISTENSEN IR

CONFERENCE CALL PARTICIPANTS:

ASHISH AGGARWAL - PRINCIPAL MUTUAL FUNDS

DEBASHISH MAZUMDAR – EDELWEISS WEALTH MANAGEMENT

MADHU BABU, CANARA HSBC

MANIK TANEJA - JM FINANCIAL

RUCHI BURDE – BOB CAPITAL

SANDEEP SHAH - EQUIRUS SECURITIES

V.P. RAJESH - BANYAN CAPITAL ADVISORS

Diwakar Pingle:

Good evening, good afternoon, good morning friends, based on the geography you are in. Welcome to the Q4 and full year FY21 earnings call of eClerx Services Limited. Please note that this webinar is being recorded. The transcript of the webinar will be made available in a week's time from the call.

Joining you today to give you an update about the quarter and year gone by and to answer your questions, we have with us the top management of eClerx. PD Mundhra, Co-Founder & Executive Director; Anjan Malik, Co-Founder & Director; and Rohitash Gupta, Chief Financial Officer. I will now hand over the conference to Rohitash Gupta of eClerx Services. He will make his opening remarks and then we will move to the Q&A. As far as the Q&A is concerned, I will let you know the rules as we start that particular session. The standard safe harbor clause applies for all comments and discussions made during this call today. Over to you, Rohitash.

Rohitash Gupta

Thank you, Diwakar. Very good evening, and we welcome you all to the eClerx Q4 FY '21 and full year FY '21 earnings call for the quarter and 12 months ended on March 31, 2021.

Our USD revenue in the quarter was USD 63.8 million, which is sequentially up by 19.7% in USD terms and 19.3% in constant currency terms. Although much of this high sequential growth has come due to full quarter of Personiv revenues, the organic sequential growth was also very robust at 6.3% on a constant currency basis. The full year revenue was over USD 210 million, with 5% growth on year-over-year basis. The total INR revenue in FY'21 came in at INR 15,827 million, which is 6.7% up year-over-year. All the absolute margin metrics were up by more than 30% for Q4 on a quarter-on-quarter basis and FY'21 on a Y-o-Y basis. Our net profit this quarter was INR 988 million and for the full year, it was INR 2,826 million. Q4 margin expansion was due to strong organic growth in offshore and inclusion of Personiv, supported by stable work from home cost environment. Personiv crossed \$30 million run rate based on Q4 annualized revenues and had a reported PAT percent in double digits. Onetime acquisition-related costs amounting to INR 52 million are completely expensed out during FY'21. The wage revisions for eClerx staff globally are effective April 1, 2021. And we are recommending INR 1 per share as final dividend for FY'21. We had a cash balance of INR 6,572 million at the year-end, which decreased on a year-over-year basis due to the buyback and acquisition done during the year. EBITDA to net cash conversion was a satisfactory 76% level for full year. Most of the key business metrics now include Personiv and much of the quarter-on-quarter change that you see is due to that inclusion. Our DSO for the quarter were firmly placed at the middle of the ideal range of 70 to 80 days. Client counts in all the revenue buckets have increased quarter-on-quarter and will keep changing through next 2, 3 quarters as Personiv clients revenue gets added on trailing 12 months basis.

In summary, we are delighted with the performance in FY'21, which was one of the toughest supply side situations we have ever faced and it demonstrates the trust that clients have placed in our performance under pandemic situation. We thank all our employees who have gone above and beyond to delight our clients during this last year. With this, I will hand over the call for Q&A.

Diwakar Pingle

Thank you Rohitash for the opening remarks. We will now start the Q&A session. Participants having questions will have to click on 'Raise Hands' button for asking questions. The first question comes from line of Ashish Aggarwal from Principal Mutual Funds. Ashish, please go ahead.

Ashish Aggarwal

Thanks, Diwakar. This is Ashish Agarwal from Principal MF. I just wanted to understand on the growth front. Obviously, last 3 quarters have been very strong organically also for us. And with now Personiv coming in, hopefully, we will have another lever of growth. So how should we look at growth going into FY'22? How is the pipeline? How has been the deal intake? That will be really helpful.

And secondly, on the margins from EBITDA margin, EBITDA margins were very strong even in this quarter. The thought process was with Personiv acquisition, there could be some dip in EBITDA margin. So, with EBITDA margins already 33%, how should we look at margins also given the fact that some of these COVID related costs, which have come down will start to increase from FY'22 onwards. Thanks.

PD Mundhra

Rohitash, maybe I can talk about the pipeline, and you can talk about margins. I think in terms of growth, we continue to see a reasonably good environment. Obviously, we will have quarterly volatility in terms of growth outcomes. And as you mentioned, we've had 2 or 3 consecutive quarters of very strong growth. So, we will have some volatility in growth outcomes going forward. But in general, I would say, pipeline continues to be fairly strong. So hopefully if there is no further disruption in our client geographies in the West, then we should continue to see a good year in FY '22. Rohitash, do you want to talk about margin expectations?

Rohitash Gupta

So Ashish, the Q4 EBITDA margins as well as net profit margins that you see are obviously after inclusion of Personiv and they represent the true and fair picture of the state of affairs as of now. Coming to forward-looking direction, I would say, in these margins, and true for even last 2 or 3 quarters also, about 300 bps of expansion has come from non people SG&A cost. There has been expansion due to people cost reduction as a percentage of revenue, which is both in onshore sales and marketing as well as in delivery gross margin expansion. But that part is a little hard to isolate because of the rapid growth that we have seen over the last 2, 3 quarters. And also because of this new situation of work from home where measurement of productivity is a little difficult and how long it will last is also difficult to assess. But I would say non people SG&A expansion of 300 bps, about 2/3 of that was due to travel kind of things alone and as you can imagine that travel is not going to open any time soon. And even if it does, I think a lot of it we can continue to save in future also through online meetings and virtual get together etc. So, I think that 200 bps or around that can be protected, the remaining 100 bps is more of office related cost savings and even if we have to get back in 50% capacity to offices, that 100 bps benefit will vanish.

Ashish Aggarwal

So, is it fair to assume that on a normal scenario, we should see a high 20s type of margins, right? Obviously, it depends on the growth, how the growth will come up. But as you are seeing right now, somewhere between 28% to 30% is the right number to look at assuming everything becomes normalized, let's say, tomorrow?

Rohitash Gupta

Yes, I would agree to that. So, you can just look at last 6 quarters, which include both kinds of periods. And given the new trajectory that we are on, I think 28% to 32% is a fair range for near-term future.

Ashish Aggarwal

Got it. And on the growth front, this is for PD sir. Sir, just wanted to understand that the pipeline remains strong. Is it fair to assume that if there is no more disruption in the developed markets, organically, because Personiv will come it for the full year, we could see a double-digit growth going into FY'22?

PD Mundhra

Well, Ashish, I would say, it's definitely possible, but we don't have that degree of visibility yet to say that we will have double-digit growth. Again, we are still a very small business and individual events have significant impact on trajectory and P&L. But all I would say is, for now demand environment remains supportive, pipeline is as good as it has been in the last 6 to 12 months. So, if we have some decent luck, then FY '22 should be a good year.

Diwakar Pingle

The next question is from the line of Madhu Babu from Canara HSBC. Madhu please go ahead.

Madhu Babu

In terms of Personiv acquisition, how do you see the synergies and cross-sell playing out next year in terms of growth? And going by our track record, we used to do buyback every year, but now that we have got one tuck-in acquisition. So, would we look at more tuck-in acquisitions to start growth acceleration as a more focus area from year on?

PD Mundhra

In terms of Personiv, you are right Madhu, that I think 1 of the first areas that we are collaborating with them on is around revenue synergies and cross-selling. And I would say probably our business and their business is closer together than was the case with CLX and therefore, it's potentially easier to find cross-selling opportunities. So, although it's only been sort of 5 or 6 months since the deal closed, I would say there is at least one large win that they had, where we collaborated with them on. And there are 2 or 3 proposals that the 2 companies have made jointly for which the decision is expected in the next few weeks and months. So, from that perspective, because we share the same geography for clients, primarily the U.S., the services are closer together. The delivery centers in India and Manila, in that

sense, are dramatically closer than was the case with CLX. The ability to explore revenue synergies is easier with Personiv.

On your second question about buybacks and acquisitions, we don't see those things as mutually exclusive because the business has a lot of cash on the balance sheet and continues to generate cash. So, I think given the right opportunities, we can probably pursue both as we did in FY '21. From an acquisition perspective, obviously, it's about finding the right fit, the right asset and the economics of the deal have to work. It's not something where the stars align frequently. But if we were to find something that was suitable, we still have the appetite and the balance sheet to go ahead and pursue it. Anjan, I don't know if you want to add something on either of those 2 topics.

Anjan Malik

No, I think, PD, you've covered it.

Madhu Babu

Ok thanks. And congrats on coming back on the growth.

Diwakar Pingle

The next question is from the line of Manik Taneja from JM Financial. Manik please go ahead.

Manik Taneja

Thank you for the opportunity. I joined the call little late. Just wanted to understand your outlook for the future. I know you don't provide any formal revenue guidance. But just wanted to understand some of the qualitative trends that you are seeing across the different facets of your business, in terms of financial services, the customer care business and the digital business?

PD Mundhra

Anjan, why don't you start? And then maybe I can chime in to add if anything is required.

Anjan Malik

Okay. So, we started in this journey, we've talked about a couple of years ago, where we were trying to channel our energies into a few service areas in which we felt that we had an excellent reputation and we had a very high-quality offering. So, this was wrapping analytics, automation, platforms, et cetera, around specific service areas. That journey has meant that we have been able to see growth in specific parts of our clients' books in two areas - Customer Operations and Financial Markets. And PD will talk a little bit about Digital, that coincided with a large increase in demand in last year, which I think actually took a lot of people by surprise. And those two events were the fact that we've got all these very resonant services and the fact that we've seen demand actually increase over the last 6 months from our large client base. Both through existing clients and through just number of RFP activities that we're seeing. It makes us pretty confident about demand and our ability to supply to that demand in the medium term. That's a very high level answer. I don't know PD, if you want to add to that.

PD Mundhra

No. I think, Manik, I don't know when you joined, but obviously, growth being a key topic, there were a couple of prior questions also on the same theme. And I would say, our answer is that demand pipeline is decent, as mentioned by Anjan, and if there is no big disruption in the risk because of COVID, et cetera then I think much like the industry, we hope and expect FY '22 to be a decent year for us. On a more medium-term look back, as you followed the company for a while, so we would know that one of the reasons we've sort of faced some headwinds in the last 3, 4 years has been 3 or 4 client-specific large revenue reductions, right? And if we don't experience that in the next 6 to 18 months, then sort of the natural momentum that we have around gross sales should help us post positive growth numbers. So, I think that's what the broad thinking is at this point.

Manik Taneja

Thank you for that response and best of luck for the future.

Diwakar Pingle

We have next question from the line of V.P. Rajesh of Banyan Capital. Please go ahead V P.

V.P. Rajesh

Thanks, Diwakar. Congratulations on a good set of numbers. My question is on strategic accounts growth, which is 22% this quarter. If you can just provide some color on that? Is it because of Personiv client moving into that bucket? Or it was just the older clients of eClerx suddenly giving us more business?

Rohitash Gupta

So, some of the Personiv clients have actually crossed and entered into the \$3 million bucket, so that's one point. In terms of our native top accounts, which is basically top 10 eclerx native accounts ex-Personiv, we have seen growth in majority of them on a year-over-year basis. There have been few minor declines also because of tactical either short-term roll-offs or otherwise, but majority of them have shown growth.

V.P. Rajesh

Rohitash, what is the growth for those native clients?

Rohitash Gupta

So, for example there has been a very good growth in a couple of the customer operations client. One, because of Fayetteville business growing for some of them and for some it was offshore digital care type of business that grew rapidly. So, some of the large opportunities in those existing top 10 clients have created a momentum increase on a Y-o-Y basis. Also, please remember that when you see the Y-o-Y growth, last Q4 of FY'20 was somewhat unusual because of last 10 to 15 days of productivity loss and revenue loss. So, some bit of jump may be artificial in that.

V.P. Rajesh

Right. So, what would you say is the quarter-over-quarter growth for those native eClerx client?

Rohitash Gupta

Give me some time I will just pull it up, do you have any other question?

V.P. Rajesh

Yes, sure. Yes. And my other question was on the supply side, our attrition has gone up and if you can just comment on what is the situation? Because for all the other IT companies, we hear that supply side is very tight. So, are we also facing that? Or that's not impacting the outsourcing industry?

PD Mundhra

I think for us, it is a little bit more nuanced. Attrition has gone up partly because during the main months of the pandemic last year, attrition was very, very low for us. So I'm sure there is some degree of pent-up adjustment that's happening there. But in terms of onboarding new talent, I would say, it depends on the area for the majority of work we do. I think we are able to find the skill sets we need with the same lead time and more or less at the same cost levels as we were in prior quarters. I think it is only if you are looking for some niche skills or very specialized talent then there are more constraints in the talent market, and it takes longer. The counterpoint to that is, at least currently in this work from home configuration, we can hire from anywhere in India. It does not necessarily need to be restricted to Bombay, Pune, Chandigarh because everybody is working from home anyway. So, it is less relevant which city the person is working from as long as they have good infrastructure. So that helps a little bit in addressing short-term talent constraints. But I would say it is not a broad concern across the board, maybe in certain niche areas. Rohitash, maybe you have the answer to the prior question.

Rohitash Gupta

Yes. So V.P, even on organic basis, the Q-on-Q growth, my comment holds good for majority of the top 10 clients out of which, obviously as you noted, some are Personiv related now for the quarter. But even remaining native clients, majority of them saw Q-on-Q growth as well as Y-o-Y growth.

V.P. Rajesh

Okay. All right. Great. Thank you, guys, and all the best.

Diwakar Pingle

The next question is from the line of Sandeep Shah. Please go ahead Sandeep.

Sandeep Shah

Yes. Congratulations on a very excellent set of numbers. PD, just on your comment, if we exclude the Personiv and look at the organic growth entering into FY '22 then on of the previous questions asked whether we could achieve a double digit. You said, not sure, but if I look at the Q4 run rate, and do the

annualized growth itself gives you a growth of 12%. So why the confidence is not higher that FY'22 actually will be even close to mid-teen or higher than that on an organic basis as well. What are the issues which takes you to backstep to remain bullish on the business?

PD Mundhra

No. I think, Sandeep, the question is, what is the baseline you are comparing with? when you say double-digit growth, if you are going to compare accrued versus accrued, then I think your point is correct. The mathematics itself would suggest that doing double-digit growth is well within reach just because of how depressed H1 was last year. If on the other hand, you are taking Q4 exit, and then sort of looking at incremental quarter-on-quarter growth on that through the year, then things are not as clear. So, I guess, if you're doing an accrued FY '22 versus FY '21 compared, then the base effect itself makes it much easier to hit that double-digit and teens number.

Sandeep Shah

Okay. Okay. So that's where your comment is the volatility in growth may be there in the coming quarters?

PD Mundhra

Yes. So I mean, I think we've had 2 quarters of between 4% and 6% quarter-on-quarter sequential growth organically. So I mean, that's clearly an outlier, right, in terms of consecutive quarters. I would not want to set the expectation that FY '22 will see 3 or 4 quarters like that. We'll have ups and downs during the quarter, but on the whole, I think we should have a good year.

Sandeep Shah

Okay. Perfect. And earlier we had a comment in terms of the business, which gets out to leakage, generally tends to be \$15 million, \$20 million per annum versus new business, which we add is close to \$40 million, \$50 million, any update or status where you believe if client-specific issues are not there, whether any change in this kind of a matrix, if we have to include Personiv now into this?

Rohitash Gupta

Yes. Sandeep, I just wanted to set the context on your comment. So you're right that historically, until FY '20, we had roughly around \$40 million, \$50 million of new sales in a year and \$30 million, \$40 million of roll off. It was a fairly high number for roll-offs. Only during FY '21, our roll off level came down to a much lower number than that \$30 million, \$40 million. How long that state will continue in FY '22, that's a little bit unpredictable. But as of now, we still see a low level of roll-offs at this moment. So, any other question you had on this? Sorry, I missed that.

Sandeep Shah

Yes. So whether that number changed it if you have to include Personiv now, which would be for the full year of FY '20?

Rohitash Gupta

So Personiv business has a lot of concentration, as you could probably decipher from the key business metrics. And the large clients have been there for almost a decade or more and quite sticky. Obviously, their clients' business may itself be going through transformation and some of that may bring some churn for Personiv. But most of the projects in those top clients or concentrated clients are very, very annuity-based and long-term and have been so up until now.

Sandeep Shah

Okay. Okay. If I can squeeze one more on margins. Rohitash, you commented about the 300 bps. So, 200 bps was slightly clear. Can you repeat what you meant to say about the balance 100 bps, which was the saving in this year?

Rohitash Gupta

Yes. So, 300 bps is the non people related cost savings. And 100 bps that you mentioned is pertaining to office related cost. So, because we are working majorly from a home, some of the cost of operating office that full strength is not there and that amounts to 100 bps.

Sandeep Shah

In the near term, we can do 28%, 32% and if more and more travel starts, it can lead to slightly lower margins beyond that?

Rohitash Gupta

Correct. I think travel may not go back to the same FY'20 or pre COVID levels because of the new methods that behavior change, etcetera, that has happened during this time. But you are right, it can depress the margin from the current level in percentage terms.

Diwakar Pingle

The next question is from the line of Debashish Mazumdar from Edelweiss. Please go ahead.

Debashish Mazumdar

Thanks for taking my question. I have some qualitative questions around the BFSI, Digital and the Telecommunication and Media segment-wise growth that you have already answered that question to some extent, but if you can add some little bit more color on that. One of your competition has said very high about the BFSI, especially the mortgage market growth in U.S, because of the low rates. So, if you can help me to understand whether we are also seeing the same trend, what is our growth prospect going there? What are our plans around that? Or it's that for our case, mainly the digital is driving that growth? If you can help me with that.

Anjan Malik

Yes. I mean, I think the mortgage business that said company is focused on, I guess, is a bit different from the kind of Financial services that companies like us or we are focused on. As you know, our bread and butter in the Financial market space is in what we call institutional sales and trading primarily. So that business is driven by a different set of demographics. And of course, it's seen growth, but not of the type that we have seen that something like others will be seeing in mortgages, also because it was coming off a very low base. So if you look at the performance of our markets business, it's actually been very steadily upwards over the last 12 to 18 months, both through growth in existing clients and through acquisition of new clients. If you look at the customer operations business, we have seen a large amount of growth, which is being driven again by what we call digital care, which is effectively customer support in various formats, whether it's voice or chat or social media and in and around those activities. So, we've seen a fair amount of growth in that area. And in the digital space, I think a lot of our growth has come from things of the nature of analytics, where we're doing more and more front-to-back analytics for the marketing organizations and our clients. It's coming from actually interestingly, growth in technology services, things like RPA and machine learning and also in content development. So, CGI has been a growth area for us. And of course, marketing automation, which has been upgradable, it continues to see growth. I think we've seen a fair amount of demand across our book of services. And the point that I was trying to get to earlier is that I think a lot of it is a function of the fact that the areas in which we have invested are all areas that have seen demand growth over the last 12 months.

Debashish Mazumdar

Understood. One last question. If I see the pipeline, which you are saying, which is decent for us, this is tilted towards which part of the business, if you can help me with that?

Anjan Malik

I think for example, if you look at our pipeline data, the business always has the following characteristics, right, which is that you'll see lots of deals of smaller values in our digital book business. And you will see fewer deals, but a much larger value in both the customer operations and the financial markets business, right? So probability adjusted, I'd say that they're probably all 3 are the same. It's just that in one business you tend to get lots of deals of smaller value and the others are fewer deals with lot of large values. So, they have a large blip to that they were making earlier in U.S, we are a smaller company, so they can have a large impact on the upside or the downside as compared to us in terms of growth.

Debashish Mazumdar

Thank you for answering my question. I wish you best of luck.

Diwakar Pingle

We have a follow-on from the line of Sandeep Shah.

Sandeep Shah

Just before Personiv, if I'm not wrong, we used to see business as 40% from capital market, 40% from digital and 20% from the cable and wireless. So with Personiv, can you break down the business in whatever buckets you want and give a brief outlook in terms of demand, you might have answered this, but this may help us in terms of annualizing company better going forward as a whole?

Rohitash Gupta

Sandeep, we have never formally disclosed that breakup because as Anjan and PD were also mentioning, one large outcome on positive or negative side can change that mix and make our numbers that we have stated very irrelevant. But broadly over last 3, 4 years for our native business, the percentages that you mentioned are roughly representative. Coming to future disclosures, we are treating Personiv also as part of single segment that we operate in, which is broadly Business Process Management. And we do not intend to disclose or split Personiv business further in near term, but I can qualitatively tell you that Personiv business has good representation of what we would call digital and customer operations. So, a very good representation of those two businesses there, if we were to ever split it in terms of our native verticals.

Sandeep Shah

Okay. Okay. Helpful. And if you can split demand outlook for these 3 segments, which we generally identify, that would be helpful. So do you believe most of the business has a good demand or maybe outside digital, things are still volatile?

Anjan Malik

Let me take that question. So digital, remember, is not an industry-specific service. It's more cross-industry and it's really aimed at the office of the Chief Marketing Officer. So I would say that demand there continues to be high, but as we've said before, because of the nature of the services that we provide, the deals tend to be of a smaller size. Although over the last 24 months, we have made a conscious effort to upsize those deals. And we've had some success in that, especially as we've included automation and analytics in the work that we do. So I'd say demand there definitely came back very strongly after the initial COVID quarter because, obviously, a lot of our clients were affected by shutdowns, right, because, for example we support multiple industries. The MSO, or the Multi-System Operators, which is broadly what we support in customer operations, obviously, saw demand return to them as people spend more time at home and there was more live streaming of events and activities. So, we actually saw, after the initial COVID shock, a lot of demand for customer care support. And we've seen that grow because those industries have obviously benefited from sort of the work from home chain. I think customer operations have seen that growth because of a demographic change to that client base, which probably isn't as much true for retail, for our digital business because there's lots of different industries. The financial market business, I'd say that in way has been yet the most unaffected side. I'd say that there hasn't been a marked shift in demand. Although I think what had happened is that maybe transitions to captives slowed down during this period. And possibly, what work that was being done onshore because of things like minimum wage increases and the shortage of labor. Maybe we saw more demand offshore than we have seen in previous years. So I'd say the most native, like the industry that benefited the most probably the MSO Telco business in our portfolio than its markets, then I think

it's some parts of digital towards the end of the year, that did really well after having suffered in the beginning.

Sandeep Shah

This is very helpful. Just Rohitash, can you describe what could be the wage inflation headwind in the first quarter as a whole? And with Personiv, can we expect the depreciation run rate and the tax rate of what is reflecting 4Q can continue going forward?

Rohitash Gupta

On the wage, we obviously benchmark with what industry is doing what has done in the past. And wage increments in this cycle have been fairly normal as per the industry standards, what we have heard from other companies of similar size. So, it will be in mid-single digits, which is not very different than pre-COVID times, actually. And to your second question, sorry, what was your second question?

Sandeep Shah

With Personiv, the depreciation and the tax rate can continue as it is?

Rohitash Gupta

Yes. So depreciation and tax rate. Tax rate, just keep in mind that some of the Personiv units offshore operate from tax advantageous zones and some of the units are still within that first 5 years or so. So slowly, the tax rates may increase after a year or so, and it will gravitate towards the normal, no SEZ benefit the kind of tax rate that are prevailing in India now, and which applies to other eClerx business in India. On the depreciation, the situation is a little fluid, as in February, March, we thought that the special CapEx cycle is over. But because of second COVID wave and some bit of growth and headcount increase in our India businesses, we have to buy a lot of laptops, et cetera. And that will reflect in added depreciation, but if you look beyond a quarter or 2, if you look little medium-term picture, I think the depreciation is a fair representation that you see in Q4, as we will get some benefit in Q1 because of the new reset of WDV. So, the additional CapEx depreciation may get offset by that. I don't think you should model any different depreciation as a percentage of revenue than what you have seen in Q4.

Sandeep Shah

Okay. And the Wage hikes will cover 100% of the employee, right, in the first quarter?

Rohitash Gupta

Yes. Correct.

Diwakar Pingle

We have a follow-on question from the line of Ashish Aggarwal from Principal Mutual Fund.

Ashish Aggarwal

I just wanted to understand this pipeline, which we have, will it be offshore heavy in terms of delivery? Or do you think it will be a fair mix of what we are currently between onset and offshore?

PD Mundhra

I think what we've seen in the last 2, 3 quarters and which has also helped margins is that the mix of business has shifted slightly more towards offshore than onshore. Part of it is because some parts of our onshore business are meant to support clients on-premise. And then clients themselves are not working from their offices, there is no question of our consultants being allowed into their offices. And if everybody is working from home, then they rather prefer the lower cost that come with somebody working offshore. So, in the last 2, 3 quarters, incrementally, we have seen a little bit of shift more towards offshore. And at least for the near future, I would think that, that mix will continue to stay stable. If anything, perhaps we might see more work offshore.

Diwakar Pingle

We have a follow-on from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh

Yes, thanks. PD, you said that buyback and acquisitions are not mutually exclusive. So should we expect another buyback this year?

PD Mundhra

Well, I think we can't do something in that, there needs to be a minimum 12-month gap between successive buybacks as per SEBI regulations. So, we are still within that 12-month period. Let us come to the end of that period, and then we'll evaluate what makes sense at that time.

V.P. Rajesh

Right. And that period gets over, I think, end of July. So that's not too far away. That's what I was wondering about this.

PD Mundhra

Yes, I think in July or August, something like that. So, we'll evaluate at that point and come back to you guys with what the thinking is.

Diwakar Pingle

We have a question from the line of Ruchi Burde. Please go ahead Ruchi.

Ruchi Burde

Congrats on very good quarter. Gentleman, I have 1 question. Now with the change in the on-site, offshore business mix, could you help us understand how the state of operation looks like at our on-site location in terms of utilization and the profitability scenario there, that's it from my side.

Anjan Malik

Yes, sure. I think the only really dedicated facilities that we have for delivery onshore is the facility in Fayetteville and by onshore, I am excluding, for example, at the moment, our facilities in Thailand. And of course, the facilities that we have inherited through Personiv, but at the moment, and for the last 12 months, in fact, 15 months, we've been effectively entirely work from home. So, what we have found is that our ability to provide onshore services is actually greater than it's been in the past because you're not actually limited by physical space. So having said that, we have not reduced any office costs as such up until now, and we don't plan to, but we don't plan to grow it. So, we do think that any additional work that we're able to get onshore, we should be able to satisfy with our existing fixed cost or at least our existing fixed footprint of office space. I think that also applies to the work we're doing in Verona within CLX.

Ruchi Burde

Yes. All the best for the future.

Diwakar Pingle

We have a follow-on from the line of Sandeep Shah from Equirus.

Sandeep Shah

Yes, PD, I think you made a comment about the synergy benefit. So can you, once again, repeat, just to understand, you said one deal has already won where eClerx has tried to cross-sell its own offerings to personal clients, and there are other Q3 joint bids as a whole. So how is the progress? And can you give some more highlights on the change?

PD Mundhra

Yes, Sandeep. I think the progress is good. Very honestly, if you had asked us back in December, what level of collaboration, we might reasonably expect to see between the teams in the first 6 to 12 months. And if you benchmark where we are today versus that, I would say we are ahead of expectations. There's tangible collaboration happening. As I mentioned, there are 2 or 3 proposals with clients, which require delivery from both teams, Personiv as well as eClerx's teams. Hopefully, we will win at least one, if not more of those in the next few weeks and months, and that makes it much more tangible, but broadly speaking, I would say it's easier for us to exploit these synergies because we work in the same geographies from a client perspective, talent pools are located in similar geographies and the nature of what we do is not that different. Where it's interesting is, just to be more specific, for example, we have a location in Coimbatore, which gives us access to talent, perhaps at a different price point than what we would be able to achieve in Bombay or Pune or Chandigarh, for that matter. We also have a location in Manila, which gives us delivery outside India and access to a different set of skills, including voice

skills, that we may not be able to source in India. We have automation skills that they perhaps may not have organically. So in that sense, I think that there is good scope for complementing each other's strengths.

Sandeep Shah

And just 1 bookkeeping. Rohitash, if we look at the selling and distribution, that has not changed despite Personiv been consolidated for the full quarter. So whether the current level of 10% to 11% can continue going forward? And what is the reason where selling and distribution cost is lower within Personiv?

Rohitash Gupta

Yes. So two things, and I will sort of give you a flow and then you can model whichever way you find it appropriate. So basically, Personiv onshore BD team is just a few people, probably 5 or 6. And their cost has been added. Having said that, there has been a compensating factor in Q4 because our native business development team's variable pay was already caught up for the full YTD in Q3. So Q3 onshore variable pay was already caught up for 9 months. So basically, that provided some Q-o-Q cushion in Q4 to absorb some of that Personiv BD cost of those 5 people. So basically, if you take H2, probably, but that will have Personiv only for one quarter. So rather, if you take average percentage for both the quarters of H2, probably it will be a better representation.

Sandeep Shah

Okay. Okay. So just a clarification. You said the variable pay in the December quarter included for all the 4 quarters. So I didn't get it clearly.

Rohitash Gupta

So basically, as you know, H1 was quite depressed, especially Q1, and we were not expecting this amount of high growth towards the end of the year. And many of these bonuses or variable pay is basically linked to, at least for this year, it was linked to H2 performance. So basically, we had to guesstimate how the Q3 and Q4 will turn out way back in Q1 and Q2. So, we ended up underestimating. By Q3, the picture became clear. So, we caught up for the 9 months of accrual for the full year bonuses already in December. And that's why in Q4, that depression in variable pay came.

Diwakar Pingle

Since there are no further questions. I will hand it back to PD for his closing comments.

PD Mundhra

Thank you everyone for joining us on our earnings call for the last quarter of fiscal '21, and we look forward to connecting again with on our Q1 results in the July, August timeframe. Thank you.

Diwakar Pingle:

Thank you everyone and stay safe.