eClerx/SECD/SE/2022/042

May 27, 2022

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 and financial year ended March 31, 2022

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 May 24, 2022 with respect to the financial results of the Company for the quarter and financial year ended March 31, 2022.

This is for your information and records.

Thanking you,

Yours truly,
For **eClerx Services Limited**

pratik.bhanushali@eclerx.com
Digitally signed by pratik.bhanushali@eclerx.com
DN: cn=pratik.bhanushali@eclerx.com
Date: 2022.05.27 17:12:23 +05'30'

eClerx Services Limited Mumbai

Pratik Bhanushali
Company Secretary & Compliance Officer
F8538

Encl.: as above

Eclerx Services Limited
Q4FY22 Earnings Conference Call

May 24, 2022

ECLERX MANAGEMENT:

PD MUNDHRA – COFOUNDER AND EXECUTIVE DIRECTOR
ANJAN MALIK – COFOUNDER AND DIRECTOR
SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER
ROHITASH GUPTA – PRINCIPAL

MODERATOR:

ASHA GUPTA – ERNST & YOUNG LLP, INVESTOR RELATIONS

CONFERENCE CALL PARTICIPANTS:

DARSHAN ENGINEER – KARMA CAPITAL
HITESH ARORA - UNIFI CAPITAL
VP RAJESH – BANYAN CAPITAL
SANDEEP SHAH - EQUIRUS SECURITIES
SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES
NILESH JETHANI - BOI AXA INVESTMENTS MANAGERS

Asha Gupta:
Good evening participants, and good evening to the management. Welcome to the Q4 and Full Year FY '22 Earnings Call of eClerx Services Limited. Please note that this webinar is being recorded.

To take us through the results and to answer your questions, we have with us the top management of eClerx, represented by Mr. PD Mundhra, Co-Founder and Executive Director; Mr. Anjan Malik, Co-Founder and Director; Mr. Srinivasan Nadadhur, Chief Financial Officer; Mr. Rohitash Gupta, Principal of eClerx. We will start the call with brief opening remarks by Srinivasan, and then we will have a brief update by PD. We will then open the floor for Q&A session.

I would like to remind you that anything that is said on this call which gives any outlook for the future or which can be construed as 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 SEBI and subsequent annual report, which you can find it on our website.

With that said, I now hand over the call to Mr. Srinivasan. Over to you, sir.

Srinivasan Nadadhur:
Thank you, Asha. A very good evening to all of you. Welcome to eClerx's Q4 FY '22 Earnings Call for the quarter and full 12 months ended on 31st March.

FY '22, and Q4 in particular, continue to be strong for us, supported by a strong demand environment and positive results from our strategy to focus on select service offerings.

Our operating revenue in the quarter was USD 77.2 million, which is sequentially up by 5.5% in constant currency terms. This quarter's total revenue was INR 6,014 million, which is up 6.7% sequentially and 26.2% on a Y-o-Y basis.

In FY '22, we recorded the highest Y-o-Y percentage growth in the last 11 years. And Q4 was the highest organic revenue growth percentage on a Y-o-Y basis, also in the last 11 years. As a result, we have grown from INR 200 million to INR 300 million revenue run rate in a short span of 6 quarters. Our net profit this quarter was INR 1,188 million, which grew 20.3% year-on-year. Earnings per share is up 52% from INR 81.6 in FY '21 to INR 123.8 in FY '22.

Our business has continued to evolve over time. And now there are a few significant constituents of the firm that may not be familiar to the audience on the call. So, we thought it would be useful to share some information on these newer facets of the firm. For your reference, these are covered in pages 4 to 6 of the presentation.

We'd like to start by first talking about our client base. Our clients are leaders in their industries. Many of them are part of the Fortune 100 and the Fortune 500. These companies have been in business for decades, and several of them are over $10 billion in annual revenues. We have deep relationships with these clients and, on the back of consistently high delivery standards, we have created large footprints with them. As you can see from the table on this page, over the last 4 years, we have doubled our $3 million to $10 million client cohort, both in terms of revenue percentage and number of clients. We believe that there is more opportunity to grow with these clients.

The second aspect that we want to touch upon is business-process-as-a-service or outcome-based contracts, which now account for 1/4 of the firm's revenues. We define outcome-based contracts as those where fees are linked to attainment of pre-determined milestones or fees are fixed or they are based on a combination of fixed and unit price. These services usually include software tools and know-how, which we have developed on account of executing similar processes for many clients. These technology plus operations solutions have resonated well with our clients. And in the long term, they give us more operational flexibility, stickier business and better margin. One of the examples of such a service is the KYC and client onboarding service in the client life cycle space, which includes our Compliance Manager platform. Other examples of business-process-as-a-service are creative production using the FLUiiD4 platform and Field Tech Operations in our Customer Operations business. As we mentioned earlier, about 1/4 of our revenues are from outcome-based engagements, and this is growing at a 3-year organic CAGR of 13%. 14 clients have spent over $1 million each with us in FY '22.

The third area is analytics and automation. In FY '22, this is a $60 million business for us with a 3-year organic CAGR of 15%, making it our largest service line. 13 clients in FY '22 spent over $1 million with us. This service comprises 1,800 people working as business analysts, data architects, decision scientists and AI/ML engineers. CMO offices in our client organizations are the primary customers for our analytics offerings. Within analytics, we provide services around marketing and campaign management, competitive intelligence, customer analytics and visualization. Projects, by nature, tend to be more complex and delivery is usually hybrid, onshore plus offshore. Onshore presence results in better client engagement and is key to ensuring project success.

Our automation services are targeted towards businesses buyers. We do provide traditional services like consulting, business analysis, application development and maintenance. But more importantly, we have developed tools around our operation services to reduce manual work, make processes efficient, and create value for customers.

We hope the information in these 3 slides is useful and gives you a better insight into our business.

Moving on. We have discussed in a previous meeting potential headwinds to the margin due to higher-than-normal wage hikes and potential larger return to office in the early part of FY '23. However, the growth traction, positive price increase environment and favorable currency moves should help us offset the effect of these margin headwinds.

We had cash balance of INR 6,805 million at year-end. CapEx and associated depreciation is likely to increase in the next 2, 3 quarters as we refurbish our facilities for return to office. The increased depreciation impact is likely to be offset by the annual reset of the WDV in case of preexisting assets. Our DSO has remained flattish on a year-on-year basis at around 75 days.

I'd also like to mention that on Page 12 of deck showing revenue mix trends, I'd like to call out that the top 10 revenue growth rate for the previous 4 quarters show a higher growth rate than the current quarter because of the addition of inorganic clients, which are not present in the same quarter of the previous year.

On the People side, we have seen a gradual return to office with over 35% of our employees coming to office. We have continued aggressive hiring in Q4, both to offset somewhat elevated attrition and also to cater for growth opportunities. And the net, we have added 870 employees.

Our attrition has increased, which is in line with the rest of the industry. However, it is about the same as FY '20 and a little lower than FY '19 levels. We intend to make a small change to our attrition reporting from Q1 by reporting the regrettable attrition only, i.e., excluding bottom quartile performance. We believe this will give a more representative picture of the talent environment.

We thank you for your continued support over the years and look forward to your questions. Thank you very much. Over to you, PD.

PD Mundhra:
Srini, thank you for those opening remarks. I really had nothing more to add. So I guess we can go straight to questions.

Asha Gupta:
Thank you PD, Thank you Srinivasan. We will now open the floor for Q&A session. We have first question from the line of Sandeep Shah. Sandeep, please go ahead.

Sandeep Shah:
Sorry, I joined slightly late, so I might have missed the opening remarks. The first question, I wanted to understand about the attrition, which has gone up in this quarter versus last quarter. And despite our business is more dependent on business process outsourcing-related skills versus IT skill. So do you believe the higher attrition may lead to impact our EBITDA margin range of 28% to 32% entering into FY 2023 as a whole?

And second, with increasing macro headwinds, do you believe some of the businesses which are slightly discretionary, especially on digital operations, will have some impact where the rolloffs entering into FY '23 would be higher versus FY '22 as a whole? So some color about the growth and margin outlook on FY '23 will help us.

Srinivasan Nadadhur:
So I can take the first question, PD, and you can take the second. So in terms of attrition, I don't believe that attrition will have a significant impact on the EBITDA margin. And this is because I think we are able to replace people at a lower cost than the outgoing employees for most of the services required. So I don't think that will have a significant impact.

On the second question, PD, can I request you to respond?

PD Mundhra:
Yes. Sandeep, so I guess more generally in terms of growth, as Srini shared in his opening remarks, FY '22 was a very strong year for us and probably the highest organic growth rates that we have witnessed in the last 10 years. So from an FY '23 perspective, I think it's fair to say that we may see some slowdown from the scorching pace that we saw in FY '22. But at this point, the demand environment still looks reasonably constructive. We are hopeful of having a good year in FY '23. But again, it probably will not be of the same order of magnitude as FY '22, which was exceptionally strong.

Sandeep Shah:
Okay. And PD, just to repeat, what was the organic growth in FY '22?

PD Mundhra:
So I don't believe we have that exact split in the deck, but I think as we've disclosed, the Personiv deal was about $50 million or so in revenues for us. And in FY '22, we got basically 3 quarters of Personiv incremental over FY '21. So I think if you back that out, you'll see our organic growth rates in FY '22 were somewhere in the low to mid-20s, 20%.

Sandeep Shah:
Okay. And any comment on margin outlook and comfort range of 28% to 32% where we are still at the higher than 30% kind of EBITDA margin in Q4 as well?

PD Mundhra:
No. I think, again, as Srini said, both in his opening remarks and just now, we feel that, that range is still appropriate for the year because I think on the headwind side, we will have the wage hikes, which took effect April 1. And this year, our wage increments have been slightly higher than in previous years, just sort of given the environment. But against that, to offset it over the course of the year, there has been some favorable movement on the currency and growth always is a tailwind in terms of managing margins. So I think while we will see some headwinds in the first quarter as the full effect of the wage hike takes place, over the course of the year, we think that we should be able to offset some of those headwinds with these other factors. And so that range of 28% to 32%, we still feel comfortable with that outlook.

Sandeep Shah:
Okay. And just the last question. What has led to margin decline in this quarter because we had some Personiv related earn-out payment, which will not have repeated in the fourth quarter. So there was some tailwind on a Q-on-Q basis in this quarter as well?

PD Mundhra:
Srini, do you want to take that? I believe you actually had an increase in margin this quarter. But Srini, you can address.

Srinivasan Nadadhur:
I think the EBITDA margin is what you're talking about, and that has declined by 40 basis points. And that's primarily because of bonuses and sales commission payouts.

Asha Gupta:
Thanks Sandeep. We have next question from the line of Hitesh Arora. Hitesh, please go ahead.

Hitesh Arora:
So we've got these 2 contrasting things as my previous analyst was asking. So you've got probably a higher focus on reducing cost for the global corporates. So we could see a strong demand environment offshoring, etcetera. But then there will also be headwinds around managing costs from all these companies. So they may go to captive, how do you see the balance between those 2, going captive versus increasing focus on outsourcing nonavailability of our talent or tight labor market in the U.S., if I can say that?

PD Mundhra:
Yes. So I'll share some thoughts and I'd invite Anjan to chime in after me. Hitesh, I think actually, if cost is the main driver, then usually third-party vendors are cheaper over any medium-term period of time than captives can be. So when clients choose to go to captives, I think a lot of it is driven by the feeling that they need to have that work done internally because of data security or proprietariness of the work being done. It's less because of cost.

Because I think on cost management, vendors have proved over long periods of time that they can operate more cheaply than captives, and even more so in high-attrition environments because I think vendor models are well suited to mitigate the effect of attrition much more so than captives, which are typically focused around retention strategies and therefore, they end up paying a lot more in the type of environment we have right now.

So I think the concern around demand, at least from my perspective if any, would less be around immediately effect from captives and will be more driven by sort of general economic trends in the West and what happens there in terms of how our clients' businesses are performing.

So with that, I'll hand over to Anjan if he wants to add something.

Anjan Malik:
I think you've got it, PD.

Hitesh Arora:
Yes. Just one more question. Any visibility on any roll-offs that you see during the year?

PD Mundhra:
Srini, you want to take that?

Srinivasan Nadadhur:
Yes. No, at the moment, we do not have any visibility into any large-scale roll-offs. Short-term projects as they end will roll-off, which has continued to happen even in the past.

Asha Gupta:
Thanks Hitesh. We have the next question from the line of Shradha. Shradha, please go ahead.

Shradha Agrawal:
Yes. Sorry, I joined in the call late, so not sure if you already discussed this. But can you talk about demand trends in the 3 segments that you update? And any lead indicators to suggest that demand continues to be robust? And if at all U.S. was to go in recession, do you think there could be concerns on our revenue growth particularly as well?

PD Mundhra:
Yes. So again, I'll sort of start off and then request Anjan to chime in. I think what we shared is that so far, the demand environment still looks constructive. And if I were to quantify that, I would say our pipeline, as of now, is slightly lower than the same time last year but still reasonably strong. So I think from that perspective, near-term demand looks good.

If the U.S. goes into a recession, if our clients start doing badly in that businesses, then obviously, there will be some spillover effect of that on demand for our services, but that's an imponderable. So I think we'll have to just sort of take it as it comes. But for now, I think we still see a reasonably decent pipeline. Anjan, over to you for anything you may want to add.

Anjan Malik:
So I think the near-term demand continues to look strong. In fact, it's hard to talk about macroeconomics. To answer partly the question of the previous gentleman had asked about captive versus vendor, actually, we broadly feel that vendors tend be entrusted in last half. So what tends to happen is when demand picks up very sharp, which has been happening over the last few years, captive's ability to handle cost and scaling is typically challenged and gives the vendor strength.

Similarly, I think if you were to go into a recession, you'll find the opposite, companies would be very loath to retrench their captives. So we usually feel that pressure on vendors first. I think that will be across the community. So given the industry's reliance to the U.S., there is probably some reliance on U.S. consumer need to grow and U.S. community in general continuing to expand.

Shradha Agrawal:
Yes, that's helpful, Anjan. And any puts and takes for margins in FY '23? You've maintained broadly the margin band of 28% to 32%. But do you think we'll be more at the lower end of the guided range? Or how should we look at margins into '23?

PD Mundhra:
Srini, do you want to take that?

Srinivasan Nadadhur:
Yes. So I think the broad way to look at it is that there will be some decline in margin in Q1 as the impact of wage hikes is felt and that should probably recover in the next 3 quarters. We do expect to be in the similar margin range in 28% to 32%. I think giving a more precise number than that is kind of difficult.

Asha Gupta:
Thank you Shradha. We have follow up from the line of Hitesh Arora. Hitesh, please go ahead.

Hitesh Arora:
So just of the 3 sub-segments, could you throw some light on which one has outperformed and which has done maybe relatively mildly. I wouldn't expect all 3 engines to have fired simultaneously well, but if you could just throw a little more color on each of the sub-segments.

PD Mundhra:
Sure. So actually, Hitesh, in FY '22, we had the year we did because all 3 of our businesses did really well. So they all sort of outperformed. And if I look at our internal targets for those 3 businesses that were set at the beginning of the year, all of them exceeded their targets. But if the question is which one is the strongest, I think at least in the narrow window of FY '22, our Customer Operations business had the strongest growth year-over-year. But all 3 of them performed very well.

Hitesh Arora:
Understood. And any change in trend do you see, especially in the subsegments or largely the same? I mean, you say we have a slightly milder growth, but again, any variability between the 3?

PD Mundhra:
No. I think as things stand right now, we see a reasonably good pipeline across our 3 businesses. I think it will be interesting to see what happens. If there are any changes, to your point, or trends in the next few months based on 2, 3 things. One is the change in the economic environment in the U.S. and in the West more generally. So if that starts to soften, what does that do for businesses like ours? Second is, as travel opens up and clients start traveling more, what effect does that have on decision-making and choices, vendor, captive, all these types of things? So I think there are a few things that will change in the next few months and quarters as the world returns more to normal than what the COVID era had given us, both in terms of lifestyle and the effect of the massive stimulus that came in the West. But at least, as we've said a couple of times already, from where we sit right now, we still feel that FY '23 should be a decently good year for us.

Asha Gupta:
Thanks Hitesh. Next question is a follow-on question from the line of Sandeep. Sandeep, please go ahead.

Sandeep Shah:
PD, your comments indicates that the deal pipeline is lower at the start of this year versus the start of last year. So what has led to this or quarterly updation? And earlier, we used to quantify the new business addition each year as well as roll-off, which generally happens each year. So if you can quantify and just update those numbers once again will help us as a whole?

PD Mundhra:
So one of the reasons for the slightly lower pipeline, Sandeep, is just the very strong conversions that we've had in the last 2 quarters of FY '22, right? So Q4 was also a very strong quarter for us. And effectively, those conversions flushed out all the opportunities that were there at the bottom of the pipeline. So when we entered this year, we have to sort of refill that pipeline a little bit. But I would not want my remarks to be misunderstood. I think our pipeline is still fairly decent. It's just that it's slightly smaller than what it was at the same point last year.

In terms of giving you some color on gross sales and roll-offs, I would say the roll-offs in FY '22 were probably the lowest that they've been in the last 4, 5 years. And obviously, that is what sort of led to the very strong net growth in FY '22. I talked about 20% plus on an organic basis. And that would not have been possible, had we not had both very strong gross sales and also relatively lower roll-offs. So in FY '22, I think we benefited from the happy conjunction of both those favorable factors. After many, many years, we didn't have sort of large roll-offs, which we have been experiencing for 2 or 3 of the years between FY '16 and FY '20.

So FY '23, I think at least on the gross sales side, pipeline looks decent. Roll-off so far, as Srini mentioned earlier, we have no reason to believe that we have any very large roll-offs in pending. But we'll have to wait and see how the year pans out.

Sandeep Shah:
Okay. This is helpful. And just a follow-up. We also do some fashion-related business, especially in the Europe. And Europe may see higher macro headwinds because of the geopolitical issue as well and the higher interest rate and higher commodity prices impacting those regions higher than most of the other regions. So do you believe there could be a higher risk in terms of some of the businesses which we have in the Europe as a geography?

PD Mundhra:
So most of the fashion work that we do is actually for the higher-end luxury brands. And if you look at the results of the flag-bearers of that segment, people like LVMH or the Kering group, they've reported blockbuster results. And I think there outlook also is very strong for them. So I think for that segment, presently, there doesn't seem to be a demand challenge at the very top end of the luxury market, and that is principally the client segment for our European business. So at least at this point, again, we have no reason to be overly concerned.

Asha Gupta:
Thank you Sandeep. We have follow-up question from the line Shradha. Shradha, please go ahead.

Shradha Agrawal:
Sir, we used to have gross sales in the range of $40 million to $50 million and because of larger roll-offs, net new sales addition used to be low. But how has been the number of gross sales addition in the last 1 year? And how do we see that trend this year?

PD Mundhra:
Yes, Shradha, thanks for that question. So I think gross sales last year were substantially higher, which is why we reported the organic growth that we did. If you see, we added about $75 million in reported revenue between FY '21 and FY '22. And of that, maybe 3/4 of Personiv would have been under $25 million. So we net added even on an organic basis, $50 million plus of accrued revenue in FY '22. So gross sales are obviously much stronger than the $40 million to $50 million usual figure because we did experience some roll-offs which were more in the usual sort of 15%, 17% range. So gross sales were very strong in FY '22. FY '23, as I said, pipeline is a little softer than what it was in FY '22, but still strong overall. So if I had to guess, hopefully, as I said many times, I hope FY '23 should also be a reasonably good year for us.

Shradha Agrawal:
Any indication on gross sales number that you, maybe, want to give from the pipeline that we are seeing currently?

PD Mundhra:
Too unpredictable, Shradha, for me to sort of say that at this juncture.

Shradha Agrawal:
Great, sir. And on the financial services side, so between KYC and on the derivative processing side, how are the trends emerging in the 2 sub-segments? And where do you think we are more certain on growth numbers going ahead?

PD Mundhra:
Srini or Anjan, do you guys want to take that?

Anjan Malik:
Yes. So I think the KYC programs have been more productized. So they did tend to have a larger market. So by definition, there's a larger demand set for those kind of programs. They, however, have much more competition. So identifying that your leads to more conversations. But obviously, your conversion rates are as high as they are in the market operations side.

On market operations side on the other hand, it's a super-specialized business, where potentially you don't have as many large opportunities out there, but when you do get those opportunities, we tend to have first dibs on it. So I'd say that the second one is much lumpier than the first one. But net-net, I'd say the expected value of both seems to be quite strong at present. So what I would call expected growth rates.

Asha Gupta:
Thank you Shradha. Next question comes from the line of Nilesh Jethani. Nilesh, please go ahead.

Nilesh Jethani:
My first question was on the pricing side. In the initial comments. you did mention that we are seeing some positive trends on the pricing side. So I just wanted to understand is this pricing trend or pricing uptake decent enough to cope up with the hikes in the employee, which you also stated that is slightly higher than initially expected, the wage hikes. So whether both of them offset each other?

PD Mundhra:
I think we have been able to secure some pricing increases with clients. Obviously, given the magnitude of cost pressure that we are seeing offshore and also the inflation environment in the West, I think by themselves, those price hikes would not be enough to offset all the wage inflation because, obviously, those price hikes have only applied to a subset of the portfolio. A decent chunk of the revenue does come under long-term contracts, which are not open for price discussions at this point in time. However, the combination of the price increases, some helpful tailwinds on currency, some element of growth, which allows us to manage the staff pyramid, in combination, all these things we expect will help us offset the effect of the wage increases.

Nilesh Jethani:
Got it. Second question was on the other expenses line item. So wanted to understand in a very brief manner, if Personiv continues to do well, what is the expected earn-outs we can expect from that? During the Q3 call, we were also mentioning about once the work from office starts and starts in a very big way, there would be certain refurbishment, et cetera, cost at the start of the process. So I want to understand on the other expense side, how can we look at FY '23, especially the H1, and also on this Personiv earnouts going forward?

Srinivasan Nadadhur:
On the Personiv earnouts, I think we made a provision last year. And I think a clearer picture will emerge on what the expected earnout is likely to be probably in 1 more quarter or maybe a couple of quarters more. So any further provisions that we may make is probably only after that time.

On the second question around office refurbishment, so there is some space that we have taken up next to our newer Airoli facility that we are currently getting ready. And we are going to give up space in the older Airoli office. So there will be some associated CapEx with that. And also as the head count grows, we will be making some investments in laptops and other computing equipment. So you can expect CapEx to be a little bit higher than what it was in FY '22.

Nilesh Jethani:
Got it. And one last question, from a very macro level, just wanted to understand. So things in U.S. probably were taking off very nicely until last few days, certain COVID cases, et cetera, have been reported. But broadly, if opening up is the theme, probably outsourcing of jobs to developing nations like India would take a hit. So wanted to understand, are we seeing any trends on that matter. Of course, you mentioned that pipeline is slightly lower because of the deal conversions. But any headwind expected owing to opening up activities in U.S., which can impact our revenue growth?

Anjan Malik:
Yes. So I think actually, broadly, we feel that there's not that much cases of COVID in U.S. than demand in general because I think to some extent, the genie is out of the box. We've been speaking about a couple of macro trends in our last few calls. And I think those trends are going to be strengthened. So, one of them, obviously, is the comfort with which we work. And we're more and more biased or increasingly comfortable by just getting work done from anywhere. And in that, you think India is now top of mind, which is the second trend. It is more we feel in Central Europe as focus is on a lot of people minds to the relative safety of India. And even though people look at rest of India, I think actually, over the last few months, it's been more interesting than before. And I think the last trend continues, which is that whilst the demand continues, there is trouble, let's say, in our captive company's ability to staff and regain balance. I think all those 3 things at the moment continue to be firmly positive for India in the vendor segment.

Asha Gupta:
Thank you Nilesh. Next question comes from the line of V.P. Rajesh. V.P., please go ahead.

V.P. Rajesh:
Mr. PD, regarding your comments on the roll-offs, I was just wondering if you have any visibility on any major roll-offs coming this year? And relatedly, the cost of transferring the processes to clients captive, is it increasing or decreasing on the margin? Meaning their wage inflation, I would suspect will be higher than your wage inflation. But if you can just talk a little about how that variable is working in your favor or not?

PD Mundhra:
Yes. So on your first question, V.P., we do not have any visibility at this point for any unusually large roll-offs. As Srini mentioned, there are the short-term projects that come to the end of their scheduled life. There is some sort of normal run rate of roll-offs that keeps happening. That's regular churn characteristic to the business. But we don't yet have any visibility of any large roll-offs. Having said all of that, I will add one caveat that even in the past, when those large roll-offs have happened, typically, we don't get a lot of notice about it. So usually, when they do happen, they happen at short notice.
On your second question, I think your understanding is absolutely correct. Our assessment also is that captives typically experience higher cost inflation than third-party providers in these times

because their talent strategy is typically focused very heavily around retention of specific people. And to secure that, obviously, the cost increases that they experience are very, very high. Vendors tend to have more hesitant models where I think there is also more focus on training and on creating sort of more bench strength and more depth so that the business is more resilient from the effects of attrition. And that typically allows you to run with a lower sort of growth rate in your cost than the captives would experience. So at the margin, if anything, I think if somebody is taking a 3 to 5 year view, then captives would look more expensive than third-party vendors. Again, I'll have one caveat, sometimes all of this comes down to how you're preparing analysis because, for example, if on the captive side, you ignore facilities cost thinking that it's a sunk cost, you've already built the facility. You just look at the marginal cost of the headcount, then obviously, it looks much cheaper than the vendor who has to consider the total cost. So to some degree, depending on your way of doing analysis, you can make the numbers say whatever you want. But if you did a cost analysis, I think you are right. So over a 2 to 3, 5-year period, captives are definitely more expensive than third-parties.

V.P. Rajesh:
Got it. That's very helpful. My second question is now that Personiv is fully integrated, are we becoming more active on the M&A side? And if so, what are the skill sets or geography or lines of businesses that we are looking at as part of the M&A strategy?

PD Mundhra:
Sorry, V.P., your voice cut out in the middle of the question, at least for me. So do you mind repeating the question?

V.P. Rajesh
Sure. So I was just saying that in terms of our M&A strategy, how active are we looking at various deals? And in terms of the strategy, what skill sets, geography or lines of businesses are we focused on?

PD Mundhra:
So we continue to look our deals, and we don't want to be very restrictive at this point in terms of defining a very tight universe of skills to look at. We would rather sort of have a broader approach because anyway, there are many filters that you later apply in that process because of which a lot of candidates get eliminated. So broadly speaking, I think we still like companies that have long enduring relationships and have demonstrated the ability to build large relationships with select corporate clients. Secondly, we like companies that are serving large corporates. So I think revenue demographics becomes an important factor for us and being assessed fit with our business because our business is all about serving large corporates. As you may have seen from the slide that Srini had in the earnings deck, almost 75% of our revenue comes from Fortune 500 companies and more than 80% of our revenues in FY '22 came from clients that had been acquired in FY '17 or earlier. So I think that's where the DNA of our business is. And we believe that we do a good job of building these long-term, deep and broad partnerships with clients. And so we would like companies that have a similar ethos.

The one thing that I think is changing is the funding environment, and therefore, I think, as we look forward, one would like to believe that probably competition for some of these assets will reduce because the cost of capital for financial sponsors is also going up. In the past, a lot of competition for us used to come from financial sponsors and private equity companies for some of the more attractive assets and maybe sort of the increase in funding costs may reduce some of that competition in the future, we'll have to wait and see.

V.P. Rajesh:
Right. And are you still looking for tuck-in acquisitions? Or now you're setting your sights on some bigger targets as well?

PD Mundhra:
So I think the reality is that the vast majority of assets that we get to see would qualify as tuck-ins because very honestly, there aren't that many companies in our industry that have built scale of, let's say, more than $50 million. So most of the companies that we see, I would say, fall within the $10 million to $35 million, $40 million revenue range.

V.P. Rajesh:
Okay. Understood. And just finally, when is the Personiv earnout coming to an end? Is it this financial year or next financial year?

PD Mundhra:
No. So the second earnout is based on the performance during calendar year 2022. So we are sort of midway during the observation period for the second earnout. The first turnout was based on calendar '21 and has already been paid.

Asha Gupta:
Thank you V.P. Rajesh. We have next question from the line of Darshan. Darshan, please go ahead.

Darshan Engineer:
This is Darshan Engineer from Karma Capital. Sir, I wanted to know your views on the cross-sell opportunities that you had highlighted in earlier quarters for Personiv. I mean, if you can throw some more light as to where are we on the journey of cross-sell and upsell of Personiv and eClerx business opportunities to their respective clients?

PD Mundhra:
Yes. Thanks, Darshan, for that question. No, I think we are very pleased actually with the progress in collaboration and cross-sells across the firms. I would say the majority of the cross-sells have been for us selling Personiv delivery to eClerx's clients. I think there are at least 2 to 3 clients where those deals have been sold by the eClerx sales teams and delivery is being fulfilled out of the Personiv locations. And in addition to that, there are a number of fairly active conversations, including some late stage ones, along the same lines. So in that sense, I think we're very pleased, and we are off to a much quicker start in terms of having tangible cross-sales across both companies than we've been in the past with some of our other acquisitions.

Darshan Engineer:
Got it. And my second question was slightly longer term in nature. I mean, we have been looking at our company for the past several quarters now. And you never talk much about your long-term prospects and growth strategies. But if you can throw some more light on how do you see eClerx, say, 3 years down the line or 2 years down the line. Where do you envision eClerx to be from the

current juncture? If not quantitatively, maybe in some qualitative terms, what's the vision of the promoters to scale the business to maybe the next level and so on?

PD Mundhra:
Anjan, do you want to take that?

Anjan Malik:
Yes. Thanks, PD. I get all the easy questions. Look, this is our 15th year of being a public company at the end of this year. And as you can imagine, you would make a decision about the business every quarter, not just every year. So we've had a lot of time thinking about the business. The fact that we're here and we're still committed to the business, that means we see that there is a tremendous amount of opportunity that's out there for us to capture. Where we see our role as being a specialist process management and analytics and automation company, and it's going to be in specific areas. So we think that there's an opportunity for a midsized company like our size to do docket acquisitions, invest in automation and analytics and to build out market share, providing best-in-class service to several, let's call it, expensive enterprises over the next 3 to 4 years. I'd say we'd be bigger and better and slicker, I guess that would be our ambition.

PD Mundhra:
And I think just to add to that, Darshan, if you look at the sort of the 3 slides that Srini mentioned in his opening remarks, that give you some sense of what the point of departure is, right, as we stand today. Because if you look at the ingredients of the eClerx platform, number one being clients, we aren't allowed to disclose the logos that we work with, but you can see that 75% of the revenue comes from Fortune 500 companies. Most of the revenue comes from partnerships that we've built over the last 5 to 10 years. And these clients have a lot of strength. And therefore, the headroom for us to grow some of these accounts is meaningful. And we've shown the ability to grow those accounts, as you can see in the client bucket chart that's there. So that's point one. So I think there is that clear opportunity to Anjan's point.

Second is if you look at sort of the more differentiated services, whether it's business-processes-as-a-service or whether it's analytics and automation, we've had good success in both of those arenas. They are now a meaningful part of the firm's business.

Collectively, those 2 sort of areas constitute more than 1/3 of our revenues. And as you can see from the CAGR, they've been growing at 13% to 15% over the last 3 years. It's not just the last year that was particularly strong. But for 3 years in aggregate, they've grown at faster and firm growth rates. So if you extrapolate those things in the future and you just say that those same trends continue, then I think that gives you some contours of what the firm and the business could look like 3 to 5 years from now because clearly, analytics, automation and managed services, if they maintain the same growth rates, have become more than after book by then easily.

And the client profile certainly is of a nature that has the kind of spend and opportunity to support that growth. So I think that's really the vision. We see that that's the opportunity and the question is now can we execute to capitalize on it.

Darshan Engineer:
Got it. And just to achieve that vision, do you think that you still lack or are not capable in certain

service lines or do we lack certain processes or service lines, and therefore, we might need to do acquisitions or grow organically for the same? Or we have all the ingredients in place?

PD Mundhra:
So Darshan, I think we sort of group our business along about 10 different service lines. And we sort of see that within those 10, there are probably 4 or 5 that we think are more high potential, and that's where we are investing our energies to create differentiated BPaaS offerings in those areas. So for those, we think we're well covered.

Acquisitions, I think, is more opportunistic. So if we find good assets, which we believe have built good relationships with large clients similar to ours in that sense. And we feel that we can add value to those platforms beyond just providing capital. Then I think that's just an opportunity for us to add another vector of growth. But the default strategy is always to look at organic growth because that's more controllable. And that's certainly an area where we see the destiny is more in our own hands.

Anjan Malik:
PD, I think one thing I would also add is I do think that the journey that we've taken by giving this initial sort of information about the company, it's really aimed at letting you, all the investor communities, to get a better understanding of what our business is because we do feel that perhaps there isn't as much an appreciation of the quality of business that we've built over the last 2 decades. And I think actually, as we stay in this business and we have more companies join us as public companies on the Indian exchanges, we are quite confident that our business will have an opportunity to sort of differentiate itself from it's competition more meaningfully over the next 5 years. And I think that's another thing that we said will help us grow.

Asha Gupta:
Thank you Darshan. Next question is a follow-on question from the line of V.P. Rajesh.

V.P. Rajesh:
Yes. So just wanted to get your some comments on your capital allocation. And in that context, should we expect another buyback in this financial year?

PD Mundhra:
So V.P., maybe I can take that. I think as we stated, our goal is to return at least 50% of net income back to shareholders. And we want to accomplish that using a mix of dividends and buybacks. So the Board has already approved a dividend of INR 1 for this year in the current Board meeting. And I think as the year progresses, given our cash balances, if an opportunity presents itself, we will certainly look at other ways of returning cash to shareholders, including buybacks.

Asha Gupta:
Thanks V.P. Rajesh. We have follow up question from the line of Sandeep.

Sandeep Shah:
Yes. Just the last question. PD, I think generally, your business has a high correlation in terms of the employee addition which you do in a previous quarter and how the growth looks like in the immediate quarters. So assuming that correlation continues even in the coming quarters where your employee addition continues to remain high in anticipation of a good demand going forward?

PD Mundhra:
So Sandeep, I think while that is somewhat true, it's not precisely true. Because as you saw, Q4 was very strong. First, we added 5.5% in reported constant currency growth. So some of the hiring that we did earlier in the quarter was also against opportunities that were expected to convert later in the quarter. So more specifically, some of the hiring in January was against opportunities that later went live in February and March. And secondly, also some of the hiring is also to help us cater for the attrition that we are experiencing. And you've seen that attrition in Q4 went up a little bit. Q1 is typically our highest quarter for attrition because that's when bonuses, annual bonuses are paid. So typically, people who are expecting to leave the organization want to collect the bonuses before they leave. So when you look at that 700 or 800 headcount addition that Srini mentioned in his remarks, there are those 2 factors also to adjust for. Having said all of that, we do expect to continue to see growth this year. But again, as I said, right up front, probably not as strong as we saw in FY '22, just given how exceptional FY '22 was.

Asha Gupta:
Thank you, everyone. I think there are no further questions. I will hand over back the call to PD for closing comments.

PD Mundhra:
Yes. Thank you so much, everybody, for joining our Q4 and full FY '22 earnings call, and we look forward to speaking to you with our Q1 results.

Asha Gupta:
Thanks everyone. This ends the call. Bye.