Eclerx Services Limited
Q2FY22 Earnings Conference Call

November 3, 2021

ECLERX MANAGEMENT:
PD MUNDHRA – COFOUNDER AND EXECUTIVE DIRECTOR
ANJAN MALIK – COFOUNDER AND DIRECTOR
ROHITASH GUPTA – CHIEF FINANCIAL OFFICER

MODERATOR:
DIWAKAR PINGLE – CHRISTENSEN ADVISORY, INDIA

CONFERENCE CALL PARTICIPANTS:
DEBASHISH MAZUMDAR – B&K SECURITIES
DIPESH KUMAR MEHTA – EMKAY GLOBAL FINANCIAL SERVICES
HITESH ARORA – UNIFI CAPITAL
SANDEEP SHAH – EQUIRUS SECURITIES
SHRADDHA AGRAWAL – ASIAN MARKETS SECURITIES
V.P. RAJESH - BANYAN CAPITAL ADVISORS

Diwakar Pingle:

Good evening, friends. Thank you everyone to join the Q2FY22 earnings call of eClerx Services Limited. Please note that this webinar is being recorded.

Before proceeding with this call, let me remind you that the discussion may contain forward-looking statements, and that may involve known and unknown risks, uncertainties, and other factors. It must be viewed in connection of the businesses that could cause future result performance achievement to differ significantly from what is expressed or implied by such forward-looking statements.

Joining you today to give you an update about the quarter 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. We will start the call with the brief opening remarks by Rohitash and then we will move to the Q&A.

Having said that, I now hand over the floor to Rohitash. Over to you, Rohitash

Rohitash Gupta:

Thank you, Diwakar. Very good evening, and welcome to the eClerx Q2 FY '22 Earnings Call for the quarter and half year ended on 30th September 2021.

We also wish you and your family a very happy Diwali and festive season ahead. This was a notable quarter for us as we reached a new high in quarterly revenue, along with highest ever INR PAT margin and net operating cash flow, while achieving the lowest ever client concentration on top 10 clients. Our operating revenue in the quarter was USD 69.35 million, which is sequentially up by 7.6% in constant currency terms. This quarter's total revenue was INR 5,250 million, which is up 6.2% sequentially and 32% on Y-o-Y basis.

Our net profit this quarter was INR 1,007 million. We have reduced our client concentration risk by growing majority of our top 10 clients on both Q-o-Q as well as Y-o-Y base. Our clients count for $3mn+ revenue clients now stands at 16 compared to 9, 3 years ago. We had cash balance of INR 8,052 million at the Q2 end, which has increased since last quarter, but it will reduce by about INR 3,700 million once we complete the ongoing buyback. The Capex and associated depreciation are likely to moderately increase through H2, as we refurbish our facilities for return to office and buy IT assets for increasing employees.

Our DSO has improved further this quarter as client’s approval has become quicker due to new normal of remote working at several of our clients and less frequent changes by clients in their accounts payable process recently. On people side, we continue to work from home for 85% plus of our staff and have been able to get 92% plus of our India staff vaccinated with at least 1 dose. We have published our standalone sustainability report for FY '21 in this quarter, and we look forward to incorporate any of your suggestions for the next version.

We are happy to state that we have made rapid progress on diversity in this H1, with nearly half of new employees in India being women. Overall demand environment and Personiv revenue trajectory have remained strong in the last few quarters, and we continue to see fewer instances of unexpected large roll-offs. We have now aligned our accounting policy to consolidate ESOP Trust with our standalone parent entity, and we hope that it will make standalone financials also less volatile over time. This change, similar to the previous accounting policy about ESOP Trust did not impact any of our consolidated numbers reported in our investor releases of yesterday's evening. Thank you.

With this, Diwakar, you can proceed for the Q&A.

Diwakar Pingle:

Thank you Rohitash. 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 the line of Hitesh Arora from Unifi Capital. please go ahead.

Hitesh Arora:

I just wanted to understand which of the different 3 businesses have been the growth drivers? If you could tell a little deeper, whether you're coming from digital, whether it's coming from financial services, or your operations, what are the growth drivers of the revenue, please?

PD Mundhra:

Yes. Hitesh, I think we had a fairly supportive demand environment across the 3 businesses over the last 4 quarters. So I think while growth leadership rotates across businesses from quarter-to-quarter, but over a 3-4 quarter view, we had good traction on all the 3 businesses. More specifically, I think in the recent past, we had some good wins, both in our customer operations business and in the markets business. If I look back a couple of quarters ago, then we had some reasonable size wins on the digital business as well. So in that sense, I think growth has been fairly broad.

Hitesh Arora:

Okay. And any commentary you can give on the outlook going forward, which is just on taking a step back on the market side, when you say your growth, what is it acquiring new customers? Or is it acquiring new business lines?

PD Mundhra:

So I'll take the first part of the question, and I request Anjan to respond to the second part on markets growth. In terms of outlook, we continue to see a supportive environment. Obviously, in fact, if you look back to the last 3, 4 quarters, most of them have been very strong. I'm not sure that, that same degree of strength will get sustained in the future. But on the whole, we see a fairly supportive environment. As Rohitash also mentioned, fortunately, we haven't been on the receiving end of any very large roll off in the recent past. And even as we sit today, we don't see any on the horizon. So in that sense, whatever new sales we make should help contribute towards net growth outcome in the next couple of quarters. So at least in the short-to-medium term, I think demand is supported. With that, I'll hand over to Anjan to address on market.

Anjan Malik:

Yes. I think, again, growth has been pretty broad-based. We've been able to add new clients, and we've seen growth in existing clients. I think the axis of growth has been twofold. One is along the product lines that we've invested in. And secondly, in sort of growth in what I would call more of our onshore consulting business, which gets us close to the business and to customers.

Hitesh Arora:

Sorry if I didn't understand fully. In financial services, if you've grown, is it because of you acquiring more clients? Or is it being more sort of business lines of work being offshore?

Anjan Malik:

Yes. Maybe I wasn't very clear when I spoke. This is a very clear connection. What I mentioned was that we saw broad-based growth. So we were acquiring new customers, and we saw growth from existing clients. So it's across both client sets. And in terms of services, we saw growth across the product lines that we fixed, which our business is effectively capital markets, operations and clients life cycle services and also in onshore consulting. So we saw a lot more growth in our onshore businesses and in consulting in general.

Diwakar Pingle:

The next question comes to the line of Sandeep Shah from Equirus.

Sandeep Shah:

Congrats on good execution. Just wanted to understand the comments about the roll-offs. So are we trying to say the roll-off what we have witnessed starting from FY '22, as of now, there is no change in that, and the roll-off continues to remain lower versus the earlier years? And can it continue at least in the short-to-medium term? And what can change if roll-off has to increase?

Rohitash Gupta:

So Sandeep, I will take that. So our comment was that we haven't seen since start of FY '21 or so, any large, unexpected roll-offs, and that positive situation is also persisting at this time. And that's what P.D. also mentioned that in near-term on the horizon, there is nothing of that sort. Having said that, there is natural roll-off, which is either planned or in some cases, because of short-term nature of the work, those roll-offs do keep happening. They were happening earlier also prior to FY '21 and they even happen today. And that's pretty natural and well planned for. What we are talking about is any large, expected discontinuation of our client contract, that kind of situation, we have not seen thankfully.

Sandeep Shah:

Perfect. Okay. And Rohitash generally shared the annual new business addition and the annual roll-offs. So can you update those figures because now including Personiv, it would help us in terms of modeling.

PD Mundhra:

Sandeep, I don't know that we've shared specific numbers, but I do think what we shared is sort of broad quantum. So if I look back over the last 3-4 years, we've been averaging somewhere between $40 million and $50 million per year in terms of new sales, annualized values of new sales. I think certainly in FY '21 and in FY '22 till date, numbers have been higher than that, which is obviously reflective in the growth numbers that you see. Roll-offs as Rohitash said, you can decompose into 2 parts. One is sort of the run rate roll-off that happened in the business. I would say in the very old days, that number will be somewhere between 15% and 20% of the book, give or take, it's probably a little higher now because there's a slightly larger proportion of consulting and short-term work that there are in our revenue. But again, to Rohitash’s point that's sort of pretty well planned for. And I think we have enough ability to absorb that and offset that against new sales that are making. What really hurts is when you have large chunky unexpected roll-offs from specific client situations. And we experienced a couple of those or 3 of those between 2016 and 2019, which basically wiped out all the effect of the other sales that are happening over that period. So fortunately, we haven't been a victim of that in the last 18 months.

Sandeep Shah:

Okay. And this new business addition in improving Personiv or that would be over and above that?

PD Mundhra:

That's right. Yes.

Sandeep Shah:

Okay. Can I please ask another question on margins? Rohitash, just give us some color about when situation goes normal on the pandemic? How the cost line between direct cost, SG&A would look like? Will it sustain at current levels or there will be an increase? So generally give a band of 28%-32% in terms of the EBITDA margin comfort. So would that band change once the travel restrictions are totally removed maybe after 6 to 9 months?

Rohitash Gupta:

Yes, Sandeep. So situation is still fluid as to what new normal will be, especially in the industry where a lot of people are new hires, and they have been hired to work remotely. And at some point, some of them may have to come to office. So there will be some one-off costs that may happen. That's point number one. And on a sustained basis, I think travel cost will most likely not go back to its prior level. So I think out of the total travel and G&A kind of savings that we saw of about 200-250 bps through this pandemic, at least half of that we should be able to retain even in the fully normal scenario. But there might be one-off costs when we try to return to office in the near future. Sandeep, was there the second part to your question?

Sandeep Shah:

Yes. Just on the EBITDA margin range, which is generally is at 28%-32%. So it looks like right now, we are at the higher end of that comfort range. Will it change in the near-term?

Rohitash Gupta:

No. In the near future, I think our visibility is as good as yours. So as I just mentioned, we are continuing to work from home for 85% plus of our staff. The number for work to office may move slightly upward through the rest of the year, but it's not likely to go to a substantial proportion in the next few months. So given that, I think near-term margin comfort at current level is definitely there. But I want to point out a longer-term picture also, which is on the employee cost side, right? Because G&A and travel, ultimately, they are a smaller proportion. And how the supply side situation which is currently tight for some of the skills, especially in the digital and tech area; How that pans out will have some bearing on the employee cost side of things, which may kind of have an impact on EBITDA. That's why I think the range is correct. Just that due to various benefits that I talked about, we are currently at the upper end of the it.

Diwakar Pingle:

The next question comes from the line of Dipesh Mehta.

Dipesh Mehta:

A couple of questions. First of all, the managed services. If I look toward managed services growth rate, it seems to be slightly outside compared to overall growth trajectory. So if you can provide some sense about whether it is largely because of Personiv growth trajectory is playing out there? Second question is about work from home I think partly you've answered earlier, still be a sizable portion we're working on rather than. So how was the return to office go? Is there any plan which we have, let's say, in the next few quarters? If you can provide some sense about return to office sort of things?

PD Mundhra:

So I'll take the second question and you about return to office, you can talk about the managed services percentage. Return to office, as Rohitash mentioned, we don't anticipate a very aggressive return to office plan for a couple of different reasons. As Rohitash mentioned, only about 50% of our staff is double vaccinated as we speak right now. We expect that number will nudge up to 85%-90% over the next few weeks and certainly by the end of the quarter. Secondly, clients, I think, are not really pushing for an aggressive return to office plan because they want to be very cautious and not wanting to take the chance that there could again be a discontinuity in services because of an outbreak, either in our office or more generally in the community. So for all of those reasons, we think that the return to office is going to be fairly calibrated and measured over the next few months. Today, we are about 13%-14% of the staff working from the offices, and we don't expect that number to increase substantially this calendar year. Hopefully, if the COVID situation stays subdued, then coming Q4, we might see that number starting to pick up more meaningfully. Rohitash, over to you.

Rohitash Gupta:

And the question on the managed services side, I think you partly answered it already that primarily because of addition of Personiv, which is largely on FTE model across the board. That led to a step down in our managed services metric, post integration. On the probability of the number going up from here, I would like to say that half of our new sales, we try to pitch in managed services mode. So basically, there is some traction there as to why this number can potentially go up in near future.

And second point is that some of these managed services, new deals, they tend to be chunkier. So there might be some impact of that in few months if we end up winning those. And thirdly, we have seen some of our growth, like I was mentioning in our top 10 clients, majority of them have grown very strongly Y-o-Y also. And most of these large clients are legacy clients and their pricing is typically on the FTE basis. So when the growth happened in those client bases, that tend to kind of depress managed services numbers as opposed to growing. Thank you.

Dipesh Mehta:

And last question pertains to sales just about the last versus 6 to 7 quarters, we put a very healthy growth. It is largely, in your opinion, driven by broadways demand or it is markets are being also played out in logic? If you can just bifurcate overall demand recovery versus market share?

Rohitash Gupta:

PD, Anjan, you want to take that? I did not hear it clearly.

PD Mundhra:

Even I didn't understand the page you said, is it because of demand recovery? Or what was the other factor?

Dipesh Mehta:

Market share sir, whether we gain market share, which is explaining our strong recovery?

PD Mundhra:

Okay. Anjan, do you want to take that? I guess the question is growth, that's been there in the last 6 quarters. Is it just a broad uptrend in the market? Or have we been picking up share from other players?

Anjan Malik:

Okay. Thank you. it's a continuation of the trend that we discussed on our call 3 months ago, where broadly we've seen increased demand from our clients for 2 or 3 reasons. One is more comfort of virtual working. So we found a whole new set of customers that may not have considered offshoring, starting to consider offshoring. Secondly, we've seen a slowdown in capital deployments because possibly their model of deployment needs much more overseas travel, which is obviously going to hold. I think those 2 thematic have been the big drivers of growth, and we've seen that continue. The third interesting thing is we've started seeing a little bit of demand coming in even from the captive organizations or the India organizations themselves, where we're providing consulting services to them. So I'd say that it's more of what we saw last quarter. It's hard to gauge whether we're winning market share. We continue to win against some of the larger competitors in areas of our strength, in the areas of product capability. But I would say that's no different than it has been in the past.

Diwakar Pingle:

The next question comes from the line of Debashish Mazumdar.

Debashish Mazumdar:

So sir, What I am hearing from you, there is a lot of talks and discussion around consulting led wins and deals. So do you think that this consulting led approach winning that we are getting today that will help us to get more outsourcing opportunities or more offshoring opportunities going forward? Or it is like onetime consulting deals that we are winning, and it has no follow-up going forward?

Anjan Malik:

So again, I would say that this is a continuation of a strategy that we embark on a couple of years back. When if some of you who are on the conference call back then, you will remember that we said that, look we're going to do 2 things. One is we're going to invest in onshore deployment. And the second thing we invest is onshore delivery capabilities because our view was that our clients wanted more hybrid onshore/offshore delivery capability, and they wanted that delivery capability focused in specific areas in which we had, what I would call, resonant skills. So I think we've invested in those areas. And I feel that some of the wins that we're now seeing are a payoff on that band. So we do think that this onshore growth and the consulting growth will ultimately transfer towards more offshore growth. And we've seen that because in the last 2 quarters, as clients have become more comfortable with offshoring, we're seeing many more of these deals where the combination of onshore and offshore or onshore is helping us get a seat at the table, which is then driving offshore discussions. So I think it is very much linked.

Debashish Mazumdar:

Great. One follow-up to that, sir. When we say that we are winning some of the deals from Indian captives also, do you think that we are living in a world where captive will not be a competition for us, it will be actually incremental opportunity for us?

Anjan Malik:

I think it's too early to say that because I think, broadly, we expect India is a very popular destination certainly for new setups. So we expect that many more companies will set up captive organizations, and they will continue to be competitors to the third-party vendor landscape. So I don't think that is changed. I think if you want to win things away from captives, you have to show a clearly differentiated capability and a clearly differentiated delivery model, which is hard for the captives. So I think some of our areas of managed service fit in that area. If you have those areas, then I think you can win, yes. So there is more appetite in those areas.

Debashish Mazumdar:

Okay. And one last question is when your rightly said that you were investing in the consultancy led approach and onshore capabilities, which is definitely going to follow-up as more offshore opportunities going forward. So in a longer period of time, I'm not asking for next 2 to 3 quarters, structurally when these offshore opportunities will come to us, do we see incremental margin scenario for us? Or it's like that even if we are getting into more offshore, our margins are not going to improve further? I'm not asking for next 2 to 3 quarters. I'm asking for long term structure?

Rohitash Gupta:

So it's a question that will margins improve because of more offshoring?

Debashish Mazumdar:

Yes. So sir, what I'm trying to understand is right now, and for the last 2 to 3 years, it's very clear that we have invested in consultancy and onshoring capabilities, which is expected to translate into more offshore revenues going forward? And do you think because of this offshore shifting in our business, our margin structurally is expected to go up in the longer term?

PD Mundhra:

So I'll break up my answer into 2-3 parts. One, it is undoubtedly true that offshore work is more margin-rich than onshore work. So if our overall mix of revenues was to move more towards offshore, that would be a tailwind for margins. Having said that, I think we disclosed this number in our earnings deck. If you look back 4 quarters ago, onshore work was 23%. Last quarter, it was down to 20%, which has helped a little bit in terms of margins. But I don't know whether we have line of sight to that number secularly becoming lower in the quarters ahead. So I would say, even if we can keep it at the current mix of give or take 23%, it's not a bad outcome at all. And therefore, the margin rates that Rohitash shared, the 28% to 32% range is, I think, appropriate.

Diwakar Pingle:

The next question comes from the line of Shradha Agrawal.

Shraddha Agrawal:

Congrats on a good quarter. So, P.D. would it be possible for you to break down the revenue from Personiv this quarter?

PD Mundhra:

Yes. So I think, Shraddha, Personiv, as we've disclosed at the time of the acquisition was about in the vicinity of $30 million revenue run rate. And given it's been a fairly short period of time since then, it's not really changed very materially. So that should give you a good sense of where it is. Most of the growth that has happened is obviously on the nature business.

Shraddha Agrawal:

Right. And any joint go-to-market deals that you would want to talk about in the sense that have you been able to break into new accounts or get incremental wallet share from the existing top accounts for installing?

PD Mundhra:

Yes. I think that's a good story. And thank you for asking that question. I think we touched on this briefly perhaps in the last call, but there has been progress even since then. So if I look at where we stand today, there are 3 opportunities that we pitched in conjunction with the Personiv team that we won, one in our markets business, 2 in our digital business. There is a fourth opportunity which they pitched, using some of our technology expertise, which they won a mandate for us. I would say there are at least 4 different opportunities where the combined teams have won a mandate from clients. And given that it's been only 9 months since that deal was closed, I think that's a pretty positive outcome.

Shraddha Agrawal:

Right. And since you said that in the recent quarters, operations and markets are the 2 verticals that have been kind of driving more growth for us compared to digital. So financial services, Anjan, briefly touched upon. So but what's the driving growth in operations for any specific client-related ramp up for that? Is it again broad-based growth out there? And what service plan particularly in operations that is driving both?

Anjan Malik:

Yes. So I think there's a couple of things. So during the pandemic, because of the way India held up, there's been some geographic transfers. So at one large client, for example, there was work that has been done in Philippines, that's been moved into and being a partner of choice, I think we've benefited from that. That's in the customer care space. Given cost pressures and labor pressures in the U.S. market, there's being a move of that same customer, plus another one moving more customer care work in India. So that's been the second driver of growth.

And I think the third driver of growth has been because of the same labor shortages and difficulty of running functions in the United States for some of our customers who don't want to offshore, we've seen tremendous growth in our Fayetteville site. So we've taken 1 customer fully onboarded into the Fayetteville site. So that's ramped quite rapidly. So we've seen sort of 3 levels. And then there's a little bit of automation and analytics that we continue to gain traction in. But I would say that those are the big 3 drivers in demand.

Shraddha Agrawal:

Right. And just last question if I may. I mean, the last 4, 5 quarters have been very good, so barring probably 1Q where in growth was a bit tepid. But as we go into second half, how do we see the sustainable of growth rates given that probably you would might also have some challenges because of furloughs and holidays. But do we see that impacting our revenue growth traction or we see probably confident of percent of growth rate in the second half of the year?

PD Mundhra:

Shraddha, I think furloughs are not really a material factor in our business as much as it might be for the traditional IT business. So we don't have that fixed seasonality. It's more a function of specific events that happen that drives outcome of a given quarter. You are absolutely right. I think the majority of our prior 3-4 quarters have been very strong, 5% plus sequential growth rate quarters. Look, I have no way of saying what Q3 and Q4 will hold beyond the fact that generally speaking, demand is supportive. And I think if large roll-offs continue to stay subdued, then we have a good shot of ending the year also on a strong note.

Diwakar Pingle:

The next question comes from the line of V.P. Rajesh.

V.P. Rajesh:

Congratulations on a very good set of numbers. P.D., just wanted to clarify, when you say the growth has been higher? what you said, if I interpret it correctly, that your growth in the native business has been higher than the Personiv business, right? Is that the takeaway?

PD Mundhra:

Yes, certainly, in the last couple of quarters, that's accurate.

V.P. Rajesh:

Okay. And then second question is, given the cash that is building up again on the books in spite of the buyback, are you guys back in the M&A market to see other companies that you could acquire like Personiv or others?

PD Mundhra:

The answer is yes. But I would sort of say, if you take a look back between 2012 and now, we closed 4 deals, including sort of the smaller deal and 3 others slightly larger deals. If you do the math, it's an average one deal every 2 to 3 years. And I think it's fairly reflective of the challenges in ultimately closing a transaction, because so many stars have to align in terms of finding the right asset, cultural fit between the teams, financial metrics being right, us feeling that 2 plus 2 can fully make 5. So many things have to align, right? So it's not a very high-yield process. But we are absolutely continuing to look at potential opportunities. And if we find the right one, you are right, our balance sheet and the fact that we have no leverage certainly allows us the financial flexibility to pursue it.

V.P. Rajesh:

Okay. And lastly, you talked about the growth in the financials capital market side and the operations side. What about the third core segment? If you can comment on that? What trends are you seeing there?

PD Mundhra:

I think we are also seeing strong trends on the digital business. My comments on our markets and customer of business for more with reference to the immediately preceding period. But if you take a twelve-month view, I think all 3 businesses have grown very substantially over that period. So growth leadership rotates amongst our businesses quarter-on-quarter depending on who closes more deals in any given 3-month period. But broadly speaking, I think the demand situation is supportive across all the 3.

Diwakar Pingle:

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

Sandeep Shah:

Just a follow-up, how do we see recruitment numbers, because that has been really robust in Q1 as well as Q2. So is it to face the attrition challenges and the high utilization or also in anticipation of a strong growth outlook the Q4s going better?

PD Mundhra:

Yes. So Sandeep, I think this question was asked also with our prior quarter results. And I think the answer hasn't changed. That is a mix of both those factors. So certainly, as you would have seen in our attrition numbers, attrition is elevated both for us and for the industry, we were at a 40% plus level in the prior period. So we feel that it is prudent to somewhat beef up our benches in selective areas to compensate for those attrition levels. So there is some of that. But there is also the fact that we see a good demand pipeline, market for talent is stretched. So we think, again, it is prudent to invest in certain areas where we think the odds are good that we'll be able to build out those resources sooner rather than later. So it's a combination of both of those factors, Sandeep.

Sandeep Shah:

Okay. And if you look at this year, on an organic basis, the growth can touch close to 20% or upwards of 20% in dollar terms. So assuming no major pandemic-related pressure or no major macro-related pressure, directionally you believe even beyond FY '22 could be in a healthy growth scenario, I'm not asking your guidance, but directionally you believe at least a good healthy growth scenario can be built versus what we have seen in FY '16 to FY '21?

PD Mundhra:

Yes, Sandeep, like we've tried to explain a few times that between 2016 and 2019, we were basically flat in revenues. But if you decompose that trend, 2 things were happening. We still maintained a fairly good momentum on gross sales, new sales that we were making to clients, which was very encouraging internally for us as a management team, because it's an indication that the services we are bringing to market are relevant for clients. Unfortunately, we were not getting the financial benefit of those new sales because that was compensated by the 3 or 4 large roll-offs that happened over that 3, 4-year period. So what's happened since then is that gross sales have accelerated a little bit. But more importantly, those roll-offs have not rematerialized. And therefore, the net growth numbers have been very strong. So to answer your question, with that backdrop, I think if we are able to avoid those large roll-offs in FY '23 and beyond, then I would feel optimistic that our growth sales will allow us to post decent growth numbers. Obviously, I think FY '22 is a little bit of an outlier if you're indeed able to get to a 20%-plus like number. That's not something that I would say will get repeated very often. But we can certainly have respectable growth outcomes even in FY '23 and beyond, if those large roll-offs are not there.

Sandeep Shah:

This is helpful P.D. Just last thing, Rohitash in his opening remarks said there is an accounting team. I just missed in detail. So can you repeat the same? Something on ESOP trust!

Rohitash Gupta:

Yes, Sandeep. So like many companies, we have also set up ESOP Trust for the benefit of employees. Basically, the ones who gets granted employee stock options in senior management. And prior to this quarter, that trust was getting accounted in a different manner, which created at a standalone level, testing of impairment of the loan that eClerx was giving to the trust. Now we have merged both the entity, both the entity meaning, the trust as well as the eClerx India parent entity to which trust is attached as a single consolidated entity. So from now on, that volatility that was happening at standalone eClerx India level will not be seen in future. But again, at consol level, neither the prior accounting, nor the current changed accounting has any difference.

PD Mundhra:

Yes Sandeep, if I can just add to it, Rohitash's point, the trust was already getting in the consolidated financials. So that was happening for the last 4 or 5 years. The change that Rohitash is outlining is that we have now chosen to consolidate it at the standalone level as well, because ultimately the trust is buying shares of the stand-alone parent company. And under this accounting treatment, those shares get treated as treasury shares effectively and offset against the equity capital of the standalone company. So we feel that is a more appropriate we are accounting for it since the trust has been effective and extension of the standalone company.

Diwakar Pingle:

We have a follow-on from the line of Debashish Mazumdar.

Debashish Mazumdar:

Some of your IT services peers have mentioned in the call that because of the lack of talent availability at their end, clients are more shifting towards outsourcing and offshoring. Do you think that we are also seeing the same kind of scenario in our business? And how sustainable is that if you are seeing that today?

Anjan Malik:

Yes. I think we mentioned that as one of the main reasons for seeing demand, which is in sort of local market hiring shortages and skills in our client markets. It's actually been a big driver overall to why our clients are in general looking to do more offshore. I think that's definitely affecting us also. How long it will last is a question that maybe we should post to economists of federal reserve, because ultimately, the U.S. continues to be our largest market. And then followed by sort of the developed other western markets. So to the extent that, we expect minimum wages to move up. We expect outsourcing to be in demand for some time.

Diwakar Pingle:

We have a follow-on again from Sandeep Shah.

Sandeep Shah:

Just a last question. Anjan, you earlier mentioned that one of the uses for the highest growth has been the talent scarcity in on-site locations. So in a scenario, if that gets addresses, would you agree the growth opportunity may dry down? Or do you believe once the client to taste the benefits of offshoring are unlikely to reverse that outsourcing and offshoring agreement?

Anjan Malik:

Yes. So I think I'll give the same answer that I gave in the previous question, which is ultimately, look, we can't tell the future. So it's hard to know what happens next. All I can tell you is that at present, the sort of broad-based shortage of skills seems embedded, right? I mean, we're discussing higher inflation in the U.S., they talk about inflation in the European markets in addition to supply side shortages, labor shortages in addition to wage hikes. So our expectation is that actually, this demand is likely to continue. I think if there was anything that we would expect in the short-to-medium term, there's more supply side pressure for us in our service markets. For example, wage pressures in places like India and places like the Philippines, I feel like it is a closer second order effect than reduced demand in our biomarker for the medium term.

Diwakar Pingle:

Given that we don't have any more questions, I'll hand it back to P.D. for his closing remarks. P.D.?

PD Mundhra:

Thank you, everyone, for taking the time and joining our call, and we look forward to speaking with you again with our Q3 results. Thank you.