eClerx/SECD/SE/2022/118

November 15, 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 half year ended September 30, 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 November 11, 2022 with respect to the financial results of the Company for the quarter and half year ended September 30, 2022.

This is for your information and records.

Thanking you,

Yours truly,
For **eClerx Services Limited**

Pratik Rameshbhai Bhanushali

Digitally signed by Pratik Rameshbhai Bhanushali
Date: 2022.11.15 12:42:34 +05'30'

eClerx Services Limited
Mumbai

Pratik Bhanushali
Company Secretary & Compliance Officer
F8538

Encl.: as above

eClerx Services Limited
Q2FY23 Earnings Conference Call

November 11, 2022

eCLERX MANAGEMENT:

PD MUNDHRA – CO-FOUNDER AND EXECUTIVE DIRECTOR
ANJAN MALIK – CO-FOUNDER AND NON-EXECUTIVE DIRECTOR
SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER

CONFERENCE CALL PARTICIPANTS:

DARSHAN ENGINEER – KARMA CAPITAL
HITESH ARORA - UNIFI CAPITAL
MANIK TANEJA - JM FINANCIAL INSTITUTIONAL
RUCHITA AGARWAL – EMKAY GLOBAL
RUCHI BURDE – ELARA CAPITAL
SAMEER DOSANI - ICICI PRUDENTIAL
SANDEEP SHAH - EQUIRUS SECURITIES
SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES
SIDDHARTH VORA – L&T MUTUAL FUND
SUNDARESAN – SPARK CAPITAL

Srinivasan Nadadhur:
Hello everyone and good evening. Welcome to eClerx earnings call for Q2 FY '23. The performance in this quarter was robust. So, revenues came in at USD 82.5 million, which is up 3.7% quarter-on-quarter and 4.6% in constant currency. Total revenues for the quarter were INR 6,712 million, up 4.9% quarter-on-quarter. Due to the strong revenue growth as well as operating efficiencies that we were able to generate, and also helped by the depreciating rupee, margin performance was stronger with EBITDA of INR 2,023 million at a margin of 30.1%, which is up 8.8% quarter-on-quarter. Net profit was INR 1,259 million at 18.8% margin. The Board has approved a share buyback of up to INR 300 crores through the tender offer route at a maximum price of INR 1,900 per share. This will be put up for shareholder approvals shortly. Do note that our payout to shareholders remains consistently high as per our stated policy. So, from FY'18 to FY'22, we have paid out approximately 70% of net profit and 70% of approximately of free cash flow to shareholders, including taxes. In Q2, we also paid out our dividend of INR 1 per share. We also completed the process of issuance of bonus shares.

The indicators on the key metrics slide are largely stable. We do want to call out one important metric. The number of clients in the $1 million to $3 million bucket has moved up from 22 to 27, which I think is reflective of our ability to deepen relationships and grow with our clients.

Headcount in Q2 was slightly higher than Q1. This is because of 2 factors. One is the lesser hiring in Q2. And the second is something that I alluded to in the Q1 call itself, we were carrying excess bench in Q1, which now has converted into billable staff. Attrition moved up by 8% points from Q1 to Q2, which is slightly lower than the 10% increase in the same period last year. We do see attrition easing. We see the number of resignations going down in Q3, and we believe that the peak is behind us.

Given the uncertainties in the global macro environment, we expect to get better visibility into calendar 2023 outlook in the next quarter or 2. On margins, we continue to believe that our goal of 28% to 32% remains appropriate. As always, thank you for your support and belief in us. We can now move to the Q&A. So, the first question is from Ruchita.

Ruchita Agarwal:
I had a couple of questions. So the first one is regarding the outlook for topline. I would see the growth in the past quarters since we have primarily been led by our top ten clients. I just wanted to understand what growth momentum do we expect in these clients going forward? And if there are any signs of weaknesses consent macro environment also an extension of that, our emerging clients don't seem to be a growing at same pace as our top 10 clients. So just wanted to understand how should one does this indicate any signs of slower decision-making or a potential slowdown. And second question pertains to the BPaaS segment. Growth seems to have remained good for the past 2 quarters. So just wanted to understand the consistency.

PD Mundhra:
Yes, I can take the first one, and perhaps Srini, you can take the second one. So, in terms of growth composition across times, if you look at the revenue mix slide in the deck, you'll see our top 10 have been growing at about 20% year-over-year for the last 2 or 3 quarters, but our emerging clients, the $0.5 billion-plus segment has actually been growing closer to 30% if you take an average of the last 3 quarters. So, I do think that overall the goal of the company, which is to grow emerging faster than the top 10 and therefore, create less concentration, that is broadly working. And the other data point to

that, I think if you go back and look at the metrics slide, and the number of million-dollar-plus clients today, we have about, as of last quarter, 43 clients that are $1 million plus. And if you look at that same number a year ago, that number was only 36. I think both of those are reasonable indicators that growth has been broad-based and our client concentration, we do think it will come down. Having said that, it's great for us that the top 10 are also growing at 20%. They still continue to be a large chunk of our revenue base. If you don't see growth there that would have had an adverse effect on overall for growth rates. So we are very happy to see growth in the top 10, but it's good to see that growth outside the top 10 has also been strong. Srini, you can talk about BPaaS, please.

Srinivasan Nadadhur:
I think when you look at BPaaS revenues, there is usually not much variation from one quarter to another. It may be more helpful to look at a longer-term view and get year-on-year performance and you will see that it has actually increased. That is one. The second is that usually, a lot of the BPaaS revenue for us is in quarter 3 and quarter 4 because of pending work that our clients have, which are based on transactions and unit price. So you'll see that quarter 4 is usually the highest in terms of BPaaS revenue. Note that excluding FY '21, quarter 4 because there was Personiv revenue addition in that quarter, which is all 100% FTE. So that's broadly it. But otherwise, I think long term, you will see this metric up and it's difficult to move the metric in very sharp terms (in the short term) because it requires having a conversation with clients and getting them and convincing them to move from FTE-based pricing, which is what they are used to into managed service process. So, it will take time to move up, but that is what our goal is.

Ruchita Agarwal:
Just wanted to follow up, we do not see any weakness in our top lines. What is our outlook going forward from the client?

Anjan Malik:
That's a hard one. But I think if you look at 3 metrics. One is internally, we look at the pipeline, and I guess we look at conversion rates. And I'd say pipeline continues to be pretty strong, but conversion rates have definitely slowed. So if that's an indication of a slowdown, then I would take it as one. So certainly, while people want to spend, there's a slowdown at which they're making decisions, and that's been noticeable. The second part of it, obviously, is uncertainty at our clients. So you'll see as many of our customers, many of whom make up the global indices are facing their own headwinds. So many of these guys are reducing headcount, they're reducing spends. So you would expect in the medium term that to have an impact on the IT and the BPO industry. But it's unquantifiable at this stage.

Srinivasan Nadadhur:
The next question from Manik Taneja. Manik please go ahead.

Manik Taneja
So I had a couple of questions. Clearly, you mentioned about the aspect that you've done very well in terms of the number of $1 million-plus customers increase in terms of customers at the lower end. When I look at our client metrics, it appears that, we might be doing well with our top customers as well as probably adding customers at the lower end, but the migration of some of these customers to higher revenue buckets, that is something that still remains low. So would that be a fair reading? That's question number one. And the second question was to essentially get a sense of what you are seeing across the 3 parts of our business in terms of Financial services, Customer care and Digital, if you

could help us understand that?

PD Mundhra:
Thanks for your questions. I'll take the first one, and I request Anjan to respond to the second one on segment-wise outlook. I think, yes, broadly speaking, you're right that the larger the revenue threshold you apply, the harder it is for us to consistently migrate people up into those tiers. So for example, it's much easier for us to migrate a client from $500k to $1 million, then it is to migrate a client from 1 to 3 or 3 to 5. And there will be a drop-off. So, in terms of percentage of clients in any given tier whom we are able to successfully migrate up to the next threshold, there will be a drop-off. Having said that, I think even if you look at the larger clients, the $3 million-plus clients, we have seen an increase from 12 to 16 over an 8-quarter period. So over 2 years, we've seen a 33% increase in that cohort. And obviously, if you look at the $1 million to $3 million clients, there's been a much larger increase there from 16 to 27 over that same 2-year period of time. So I think you're right, creating $10 million clients for us is a difficult event, and it's not a very common event, but it does happen. But hopefully, if we can create lots of $2 million, $3 million, $5 million clients that will help us maintain the momentum. And I'll hand over to Anjan to respond to the second part of the question.

Anjan Malik:
I feel that the broad strategy of specialization, product investment, combination of onshore and offshore has continued to play out for us, which means that demand in the pools that we play in has continued to be strong. So I think there was an observation made there about slowdown in emerging clients. But I think certainly because a lot of our growth continues to come from existing clients, as you know. That pool of demand, we've seem to be strong. I think as I've said, there's been some slowdown because of uncertainty at the edges, but we still seem to be growing relatively quickly. And there seems to be a fair amount of demand for the book of work at least that we service. And I would say that that's consistent across the 2 big books and markets, which is client life cycle and trade life cycle and the 2 big books in customer Operations, on Care and Engineering Services and broadly around the high level of three books that we have in digital, which is focused on Content, Marketing Automation and Analytics. And I think the one other thing I'd say that that's helped us in the last year, a year than half, this pivot towards Automation and Analytics, where we're beginning to win more work on the periphery of those big product areas where guys are hiring us to do what we call subject matter expertise related Automation and Analytics. So, I think all in all, we feel, I would say, relatively sanguine. But obviously, if you start seeing clients just disappear or entire markets shut down, then I think it will be a different game. But we can't predict that microlevel demand.

Manik Taneja:
The other thing that I wanted to get your thoughts is on the fact that you alluded to in your opening remarks that you've paid more than 70% to shareholders, so while our historical policy has been to pay 50% of our earnings as in the form of dividend buybacks. But over FY '18 to '22, that payback that returned to shareholders has been much higher. So should we assume that as the new normal in terms of our policy in terms of returning cash to shareholders?

PD Mundhra:
So Manik, we see 50% as a target. One thing to keep in mind is the other competing application of cash could be acquisitions. So to some degree, where we end up in terms of payout ratios is also a function of acquisition opportunities that we see and we are able to close on. So, over the 5-year period that Srini did the measurement for, we had one deal that we closed with Personiv. And so

therefore, there was more cash availability to return to shareholders. I think broadly speaking, we all feel that there is not much utility to accumulating large cash balances in the company because given our conservative investment philosophy, return on cash (on) our treasury cash will be low. And I'm sure shareholders have a much higher opportunity cost of capital that they would target. So, we will keep some buffer for CapEx and for OpEx and some for liquidity. But beyond that, excess cash - we want to return.

Srinivasan Nadadhur:
The Next question from Hitesh Arora. Hitesh please go ahead.

Hitesh Arora:
Congratulations on a good set of numbers. Just any visibility on the roll-off thus far? And any specific outlook for FY '24 that you have, you can throw a little more light on?

Srinivasan Nadadhur:
So roll off this year has been lower than FY '22, which itself was a much low year of roll-offs. So, I think we may help by that. I think in terms of the future, we don't see anything significant or material, which is coming up. And I think that's been a positive situation as far as the roll-offs are concerned.

Hitesh Arora:
And that visibility you would have, let's say, for the next 6 months or something or more?

Srinivasan Nadadhur:
Well, usually, it's about 2 to 3 months. And bear in mind, most of our clients can terminate contracts with 30 or 60 days of notice.

Hitesh Arora:
Fair enough. And we are presumably given our run rate, we are still, should be comfortable with the double-digit growth, I presume for FY '23 at least?

Srinivasan Nadadhur:
Yes.

Hitesh Arora:
Anything specific on the outlook from the clients or from your conversations? I know you alluded to in the previous question, but anything more specific that you can talk about what your clients are saying in terms of offshoring the business, etc, to India or in your other marketing verticals? Anything more that you can help us understand your business better would be very helpful.

Anjan Malik:
I think the demand for India continues to be pretty strong. where we have clients that already have very large GICs and already have very large exposure to Indian vendors. They are looking at second sites. But I would say, in general, that's peripheral and the demand for India is very strong. So I'd say I think there’s certainly the geopolitical risk on 1 and 2, India's performance during the whole Covid lockdown was very, very positively received. I think broadly, that's a very good positive for India-based work. I think anything beyond that, again, is client specific [and] we don't really share. And I think it's, there's no specific trend to speak of as opposed to the one that I just mentioned.

Srinivasan Nadadhur:
The Next question from Sandeep Shah. Sandeep please go ahead.

Sandeep Shah:
Just a question in terms of recruitment. So, this quarter is a soft recruitment where we have added 0.6% of the last quarter base. And generally, there has been a good correlation of your recruitment with the future quarters' growth. So is it more to do in anticipation of some sluggishness of demand in the second half? Or is it more to expect that bench coming on a billable role and there could be a utilization improvement and the growth is unlikely to slow down from what we have seen on a Q-on-Q basis in the first half and second half?

Srinivasan Nadadhur:
I think largely, we are, it is the second. So we were carrying very high benches in Q1, mostly because the attrition was high plus we were expecting some work to get billed in Q2. And attrition has slowed up significantly in the first couple of months of Q3. And we've been able to get our utilization up by getting some of the people on the bench billed. And that is why you don't see a significant jump in the headcount numbers as we saw in Q1.

Sandeep Shah:
Okay. So this is helpful. And just a follow-up, Srini, last time, you said that the SEZ regulation in terms of working from home threshold from mid of October, which I believe got delayed. So, in that scenario, is it fair to say now our expectation of 28% to 32% is restated versus earlier because of which you were saying it could be 28%, 30% rather than 28% to 32%? And in terms of follow-up to earlier question, with expected higher utilization, is it fair to say with wage hikes also behind margin may have an upside on a going-forward basis rather than downside?

Srinivasan Nadadhur:
So the second question first. Yes, I guess so high utilization should definitely help and because the return to work norms have been relaxed and the government is not in hurry to ask SEZs people to come back to work. I think that will also probably help our margins in some way.

PD Mundhra:
I do want to add one thing Sandeep, is that if you look at our numbers, we have been beneficiaries of rupee depreciation in terms of revaluation income. So we've had between INR 15 crores and INR 18 crores of revaluation income, both in Q2 and Q1. And obviously, nobody knows if that will continue or in what direction the rupee will go. So to some degree, all of these benefits that we've been talking about may potentially be required to fill the gap that goes away exactly if the rupee depreciation stops. So that's why I think we, Srini made that comment in his opening remarks that that range of 28% to 32% is appropriate.

Sandeep Shah:
Okay. And just last thing, in terms of what Mr. Anjan has said, some uncertainty in decision-making and conversion of the deal pipeline being slightly slower. So do you believe that this may have an impact even in the second half? And secondly, what proportion of our portfolio or revenue which you can describe as a discretionary versus annuity sticky or defensive portfolio?

Anjan Malik:
Yes. I think I would say a very large percentage of our book of business is what I would call critical services, which is what we've always maintained, and I think that is continuing. I think I had prefaced my previous comment by saying that the overall pipeline is bigger, but conversion rates are slower. So, if you do the math, I guess, on that you shouldn't expect a slowdown basis of that. I was giving anecdotal color that decision-making cycles are definitely slower because people are waiting …..

PD Mundhra:
We may have lost Anjan temporarily. But just also, to supplement his remarks, I'll quantify this a little bit. If memory serves me correctly, if you look at last financial year, in terms of sequential growth rates, we were usually 5% plus in almost all the quarters. Whereas if you look at this year in the 2 quarters so far, that number has been somewhere between 3% and 4%. So to some degree, there is already a reflection of a slowdown as compared to last year. But I would also submit in the same breath that last year was an exceptional year for us and for the industry because we grew 20% year-over-year, and many of our much larger peers also had scorching growth rates. So undoubtedly, there is a slowdown from last year, maybe things continue as they are, maybe slow down a little bit more. But regardless, I think at least for this year, to a question somebody else asked, we still anticipate a fairly decent year and certainly double-digit growth rates.

Sandeep Shah:
Okay. And just any quantification on the discretionary portfolio percentage as a percentage to total?

Srinivasan Nadadhur:
It's about 70% on annuity and 30% is discretionary.

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

Shradha Agrawal:
So just wanted to understand the demand trends in Europe, especially in the context of CLX Digital. Are we seeing anything particularly soft compared to other segments or other does?

PD Mundhra:
I would break up the CLX business into 2 parts. I think the part that faces the luxury brands, which is the majority of the book - We continue to see fairly strong demand. So there has been no slowdown there yet. There is a smaller part of the revenue that faces retailers and also industrial clients. There, we seem to have seen more of a slowdown. But on a consolidated basis, we still expect CLX to grow this year compared to the last year. Of course, the last thing I'll say is in reported terms, they will have a tougher year because the euro has depreciated, whatever, 15% against the dollar. So, in reported dollar terms, the picture doesn't look as strong but at least in native euro terms, we should see decent growth this year on the portfolio as a whole.

Shradha Agrawal:
Got it. And sir, in the total headcount number, we've seen the jump up in the tech services headcount numbers. So what does that relate to?

Srinivasan Nadadhur:
So there is some investment that we've been making on the tech for the last, I think, 6 to 9 months in productizing services, making tools available for the chosen line of service product. So that is one of them. And the second is that, in general, our tech services have seen a good pick up. So that is the second reason.

Shradha Agrawal:
Got it. And just one clarification, what is the number between annuity and discretionary that we give out to the last participant? I just missed out on that.

Srinivasan Nadadhur:
The 70% is annuity and 30% discretionary.

Asha Gupta:
Thank you, Shradha. Next question we'll take from the line of Sameer Dosani. Sameer please go ahead.

Sameer Dosani:
I think on financial market side, 2 parts of the business, one is trade cycle and client cycle. Can you just give an outlook because the capital markets has been very volatile? And if you can just throw some light, what's the outlook there in terms of overall segment?

Anjan Malik:
I think it's been pretty bullish. It's been one of our fastest-growing businesses over the last 3 years, and we haven't really seen any slowdown in that business. So both those areas, for example, the client life cycle business tends to be driven by regulatory pressures and compliance pressures [and] that has only continued as there's been more government-focused and more regulation put on our banks and other financial institutions. And the trade life cycle business, the area that we play in, which is the institutional part of the business continues to be very volatile and it's driven largely by volatility and complexity of businesses. And I think that's continued. So the clients that we work with, which tend to be the large global banks, they have seen their market share increase. And so as a result, we've seen our business increase. So, both those demand books we're seeing are healthy at the moment.

Sameer Dosani:
Okay. So, a few banks across the world have been facing issues in terms of their mortgage businesses or some of them are also having bankruptcy issues. So are there any clients that we deal with are at the risk of that? If you can speak about that? And also second part, client life cycle, whenever there are recessionary pressures, do you think there is some regulatory leeway available to the clients where they will say, let's do KYCs or just updating data services we can delay it for 12 months?

Anjan Malik:
Again, yes, it's hard for me to answer what regulators think. But if you look at past history, I feel that regulators don't seem to really care much about recessions or growth. I think they care a lot about compliance. And I think once, I think broadly, there's a feeling that the banks have made a fair amount of money over the last decade and compliance is number 1. So, we don't see a reducing overhead and compliance, we're seeing an increasing one, and that's continuing. I think the second part of the question, which I think you asked first was do we have any clients that we see under the financial stress. That's hard to say. I think certainly, we don't have any clients in the banking space that are on

the verge of bankruptcy. I'm very happy to say, which was more than we could have said in 2008. We do see some clients that may have to sell parts of the business, but that's the minority of our business. The majority of our business, I think, as I said, are the large global banks that actually increasing market share in this marketplace. So as I said, it's a wait-and-watch, but the immediate to medium term still looks pretty sanguine.

Sameer Dosani:
Understood. And my second question is around this, the BPO business and the customer care business that we do. So here, I think if you can just throw some light, what is the outlook? Because if you can just share overall color or what is the outlook?

Anjan Malik:
So I think if you were to ask anybody about the long-term prospects of the call center business care business, we all know that voice is moving towards chat, or towards self-help and what we call omnichannel help, which is SMS, text. web, etc. So, in our businesses, I would say, well-poised because that's the transition that we've been really helping our clients make because our first foray into the space when we started almost 6 or 7 years ago was in that chat what we call the intelligent chat space. And that's a growing part of the business for us, that I think we're probably seeing that a lot of people that had left India in the care business in the first part of the 2000s, a reassessing India, given I guess, broadly improvements in communication capability in terms of technology and in terms of scale.

PD Mundhra:
So to the point that Anjan was making, at least in the near to medium term, we continue to see reasonably good demand, especially for the kind of work we are doing because we are not really doing a lot of level 1 work. Most of the work we are doing is either in chat or I would say, level 2, level 3 support for clients. And there's also some consulting work that we are doing with clients in terms of helping them improve the efficacy of their customer contact processes. And also, in the last couple of years, if I look at actual growth, the business has performed fairly well. So a long way of saying, at least I think in the short to medium term, we remain positive about prospects.

Sameer Dosani:
Understood. And lastly, if I can squeeze in. So I'm not sure whether our business has impact of furloughs because IT services has this impact of furloughs because of lower working days. So do we also see that impact? And do you have some visibility on that because you would have 2 to 3 months of visibility? So if you can just share the color on that.

Srinivasan Nadadhur:
So for us, it is much lower. So for the operations part of business, there is no concept of furloughs. And to the extent that we are doing IT support and staff augmentation work within the IT services-like area. And there might be some impact of the furloughs for those specific ones, but I think it is a very small portion of our revenues.

Sameer Dosani:
But our financial markets would deal with volumes and volumes are generally lower in Q3, that could have an effect?

Srinivasan Nadadhur:
So that is not to do with IT.

Sameer Dosani:
Okay. No. I think overall financial markets as a segment, the volumes, the derivative volumes and everything would be lower. So that would have an impact or...

Srinivasan Nadadhur:
No, that will not have an impact to clients pay mostly in that world by on an FTE basis, and they don't go up and down that dramatically.

Asha Gupta:
Thank you, Sameer. Next question we'll take from the line of Siddharth Maheshwari.

Siddharth Maheshwari:
I have a small question. If I look at the utilization percentage, then except Q1 of FY '23 and Q2, utilizations were quite high in the range of 78% to 80%. I'm talking about, let's say, last 6 quarters before FY'23. So what is the reason for that? Is that, you just said that since the constant currency growth rate has also come down. So whether these 2 things are connected or anything else?

Srinivasan Nadadhur:
So it is not related to currency, but it is related to the on/off of bench that we are carrying and the amount of attrition that we are facing. And therefore, we have to carry that excess bench. So in the last 3 or 4 quarters, our bench across the businesses has been pretty high. And it's only now that we are seeing attrition going down a bit. And therefore, I expect that the utilization should improve in the next 1 or 2 quarters. So, well in mind that it takes some time for the utilization to pick up as people are more confident that attrition is going down. Therefore, they don't need to carry some excess staff and so on. I think 80% is unusual, it was probably a one-off. 77%, 78% is probably the long-term average for us.

Asha Gupta:
Thank you, Siddharth. Next question comes from the line of Ruchi. Ruchi please go ahead

Ruchi Burde:
I joined the conversation slightly late, so pardon me if it is a repeat. I can see the on-site revenue has declined here. So, we got challenging macro typically concerning is what gets impacted, that's more discretionary in nature. Is that the reason for the on-site revenue decline? Or there is some other explanation for this?

Srinivasan Nadadhur:
There is actually no reason, the decline is only minimal. And I don't think we should be looking too much into it.

PD Mundhra:
And could the CLX conversion into dollars be part of that? Does that get included in on-site revenue?

Srinivasan Nadadhur:
I will have to check and maybe that is one, let me check that. Yes. We can check and come back to you.

Asha Gupta:
Thank you, Ruchi. Next question is a follow-up question from Sandeep Shah. Please go ahead

Sandeep Shah:
Yes, I think in the initial remarks, we clearly said that FY '23 IT budget clarity will come with the Q3 results. But any interaction with the clients gives you slight worry that FY '23 could be a tough year versus FY '22? Or do you believe it could be other way where macro slowdown mainly to incremental outsourcing and offshoring which even Mr. Anjan was saying that demand from India and offshoring from India has been becoming much, much in demand in the last 2, 3 years?

PD Mundhra:
So Sandeep, I think given a choice, we'd always want clients to be having enjoying or strong trading conditions as opposed to having challenges in their business because we feel broadly speaking, that environment is more constructive for people like us than situations where there are slashing budgets and so on and so forth. In terms of, I think it's hard to see, but given everything you read about the global economy, and you guys will know better than us on this front, it doesn't seem like 2023 is going to be stronger than 2022 from a macro perspective. So I think if we are able to continue these the growth rates that we are currently experiencing, the 3%, 4% quarterly growth rates that we've seen for the last couple of years, that would not be a bad outcome. But I think you'll get more clarity as we said in the opening remarks in the next quarter or 2 as to what the environment looks like. But in terms of aspirations, I think if we're able to match FY '24 with what we do in FY '23, that would be a good outcome.

Sandeep Shah:
Okay. And just a little follow-up. How to read this 30% discretionary portfolio in a challenging environment, which could be the case in FY '23. So how the pattern for this portfolio in terms of revenue growth in the years of slowdown?

PD Mundhra:
So again, Sandeep, I think we have to look at it on a portfolio basis. So, we have a portfolio where it's good to have something that are defensive, some things that are more, if I can use that term, higher beta. And the combination of those 2 things hopefully helps us deliver at least some steady performance across cycles. So, I don't think we are uncomfortable about that mix in the portfolio. And all the remarks and the outlook that we are sharing with you is based on the specifics of our book.

Asha Gupta:
Thank you, Sandeep. Next question is a follow-up question from Sameer Dosani. Please go ahead

Sameer Dosani:
So a lot of these banks are putting freezing on hirings and they are also laying off people. So broadly, I understand there would be 2 things. One is that they would rather than firing people, they would rather in-source the work and make their resources utilized or they would, since there is a high increase they would incrementally give more volumes to companies like you? So what is the scenario that is

playing on you think and which is a more beneficial scenario. So, if you can just highlight that?

Srinivasan Nadadhur:
I think, obviously, it is more beneficial for us if the world does not look at in-sourced. But I believe that there is a difference between the kind of work that we do versus what traditionally gets done by the captives. And clients tend to keep that in mind because the profile and the skills of the people that is required for each of these pieces of work are different. So, in-sourcing is typically not as straightforward as saying that you want to pull because you don't want to fire your guys. What was the second part of your question, Sameer?

Sameer Dosani:
I was asking whether clients would much would in-source rather than hiring people? Or if there is a fee, they would give more work to you? Is there some any of the scenarios playing out in place?

Srinivasan Nadadhur:
Exist pricing that if clients want to variabilize their costs as I expect that they would want to do if they are under cost pressures. Then they will prefer outsourcing because that's the scenario where it can mix up and down more easily than you can do with your own staff.

Anjan Malik:
In fact, Srini, can you hear me because I think I want to add one observation on this. But in the last 2 years, actually, we've seen a lot of roles move from GICs and captives to vendors, partly because a lot of captives felt that they weren't very resilient during the COVID period and the period of high attrition. And I think in recent times, we've had more conversations with banks and actually not banks were to Srini's point, they want to show reductions in overall FTE because today, the GICs and the India capitals don't get treated as a low-cost center, they just treated as an FTE center. So, when there's a push for reduction in headcount, the centers get treated the same way. So actually, in a neurotic way, that's an opportunity for vendor organizations, including ones like us. And actually, that I can have a larger impact on discretionary spend, i.e., the part of our book that shows up as discretionary spend could actually flex upwards in times like this because people are looking to variabilize their costs. Therefore, it's better for them to have those things done by third parties and have it done by themselves.

Sameer Dosani:
Okay. So since you highlighted that a lot of the work has moved to, I mean, there's a portion of or that would have moved to us. So, if you can just quantify, what is the portion of work that you would be doing is still in-house or with the captives versus what you are doing for the client? If you can just, if there's something, something possible to just share?

Anjan Malik:
There is no way to do that because it's not a function. We do different things for different organizations. So actually, that's felt exercise.

Sameer Dosani:
Okay. Understood. And this would be more limited financial markets or the large segments of the customer care segment.

Anjan Malik:
I think the financial markets tends to be the part of the industry that's the most what I would call outsourced. So they're the most mature buyers. The care business, by definition, is very, very vendor-oriented. So there, it's more a decision between vendors and a decision between locations versus doing it in-house versus outside because very few people today would still want to run care centers in-house simply because of the cost advantage that third parties provide. And I think in the digital part of our business, it's really about scale in many instances, the skill set just doesn't exist in-house. So a lot of that skills has to be brought from the outside.

Sameer Dosani:
Okay. I was asking this portion of work moving from captives to your organizations like yours I mean which segment this has happened more? Is it the financial markets or the other two?

Anjan Malik:
That tends to be across all 3, but it's been most in the banks recently.

Asha Gupta:
Thank you, Sameer. Next question is coming from the line of Sundaresan. Sundaresan please go ahead

Sundaresan:
Congratulations on the good set of numbers. I just have a couple of questions. What will be the revenue mix from Personiv during the quarter? And what would be your outlook on headcount addition going forward?

PD Mundhra:
Let me take the second one, and Srini can take the first one. So honestly, I think headcount addition, we don't have any target. It's a more dynamic thing, which is a function both of where we are in terms of benches and what we see in terms of plan conversions. Because ultimately, I think our staffing model is fairly flexible and we can respond reasonably quickly to changes in either direction. So even in our internal budgeting, we don't really set any headcount targets. And that is managed more dynamically through the year. In terms of where we sit right now, Srini had mentioned in response to an earlier question that we are at about 75% utilization. If you see longer term, we've been closer to the 78% kind of range. So clearly, there is some room for us to float utilization up a little bit. So, we don't need to hire as aggressively right now. But that's just a near-term outlook. Srini, over to you on Personiv.

Srinivasan Nadadhur:
On Personiv, I think this quarter, we have grown pretty much in line with the rest of the business. But in Q1, they had very strong growth. When we acquired them, they were about 10% of revenues give or take. So that may have moved up slightly.

Asha Gupta:
Thank you, Sundaresan. Next question comes from the line of Darshan. Please go ahead.

Darshan:
First of all congratulations for a good set of numbers. Sir, I had a question relating to your acquisition strategy. In the previous quarters, you had alluded to the fact that because of low-interest rate regime,

there was a lot of PE funds who were acquiring entities at a much higher valuation multiples. Now that the scenario has reversed, are you seeing any possible acquisition opportunities in the coming quarters? Do you think that the valuations have become more reasonable now and there are potential gaps that you can fill through acquisitions now?

Srinivasan Nadadhur:
We are looking at opportunities. And I think qualitatively speaking, what we've seen is a little more opportunities than we used to see in the past. And I'm not sure the valuations are at a level where it is still interesting for us. And we take quarter for that to come to levels which would be interesting for someone like us. But we are seeing more opportunities being shown to us.

Darshan:
And what would be the areas be in terms of opportunities? Which particular segments, which particular geographies are you seeing there?

Srinivasan Nadadhur:
Your question is which geographies are we seeing today?

Darshan:
Which geographies and which particular gaps that you feel you want to fill up possibly?

Srinivasan Nadadhur:
Okay. So in terms of, if I look at our 3 businesses, then in financial markets, something on the buy side would be of interest to us; in digital, anything on analytics in areas that we don't service today. It is that we do a lot of work in product marketing and operative intelligence. So I think that is around that or that would be of interest. And in customer operations, something on providing care services in non-telco - that would be interest to us.

Darshan:
Right. And secondly, in terms of the cable business in U.S., are you seeing any slowdown? Or are you seeing any revival -- how is the current opportunity set over there? Because of late, we have seen that a lot of the traditional media channels have also become have adopted OTT in a big way. So how is it impacting our cable business?

Anjan Malik:
I think cable cutting has been a trend over the last decade. So that's something that has continued. I think you've seen that as a result, most of our clients have moved on to streaming themselves as opposed to just being cable providers or connectivity providers. And we are certainly seeing a part of our business growing, providing servicing to the streamers directly. And of course, as I said, one part of our business is around engineering services. And obviously, if you're in the business of providing any connectivity, you're also providing help desk support to those people that get their connectivity. So that's been an area of growth for us. So net-net, yes, I think our client base is mutating. They're moving towards a different set of services, including obviously becoming owners and providers of content. But so far like the nature of demand has changed, but the demand has stayed or, in fact, increased.

Darshan:
Right. So net-net, it has been still a growth engine for you?

Anjan Malik:
Yes, because, I think the industry is mutating and we support the industry in aggregate.

Asha Gupta:
Thank you Darshan. Next, again, there is a follow-up question from the line of Sandeep Shah. Please go ahead.

Sandeep Shah:
Just last bookkeeping question. Srini, if you look at the realized rupee the dollar for us slightly between then the average quarter rates, which we see for the others. So, is it fair to say all the gains and losses on the matured hedges goes in the revenue line?

Srinivasan Nadadhur:
It will go into operating revenue. That is correct.

Sandeep Shah:
Okay. And how do you see based on the hedge rate going forward? Will it improve in terms of gain in the revenue line? Or do you believe it may have some more impact because rupee is depreciating as well?

Srinivasan Nadadhur:
I think currently the rupee rate is at 80.5 now average rate, you can see for Q3 is 78.8. So I think that tells you what Q3 is likely to be in terms of gains or losses in the hedge.

Asha Gupta:
Thank you Sameer. Next question is again a follow-up question from the line of Sameer Dosani.

Sameer Dosani:
Just a clarification. So this 20% to 32% gains margin rate that we get includes our other income.

Srinivasan Nadadhur:
Yes, our EBITDA calculation is based on total income, not operating.

Sameer Dosani:
And just to understand, so if you can explain me how does our ESOP policy work because as we have a fund advise. So if you can just explain how does the ESOP policy work overall?

Srinivasan Nadadhur:
So, ESOPs are granted to staff in the top 1% both India and onsite. And ESOPs are granted at the money at the prevailing market price on the day we have the Board meeting for the year, and there is a lock-in for 3 years. And after the 3 years period is over, the employees can exercise the options. Typically, half of the ESOPs are time-based on 3 years and the remaining half is based on the performance of the employees.

PD Mundhra:
Sorry to intervene. I think we're almost out of time. So I would suggest that if you have a follow-up on ESOPs you can connect separately.

Asha Gupta:
As there are no further questions, we will now close the earnings call. I'll hand over back to the management for closing comments.

Srinivasan Nadadhur:
Thank you, everyone, for joining the call. I hope it was useful and informative, and we'll see you back in the next quarter. Thank you very much.

Asha Gupta:
Thank you, everyone. Have a nice weekend. Thanks.