

eClerx Services Limited Q2FY26 Earnings Conference Call

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ECLERX MANAGEMENT:

**KAPIL JAIN – MANAGING DIRECTOR AND GROUP CEO
SRINIVASAN NADADHUR – CHIEF FINANCIAL OFFICER**

CONFERENCE CALL PARTICIPANTS:

ABHISHEK BHANDARI - NOMURA SECURITIES CO. LTD.

ABHAY JOSHI - BARODA BNP

DIPESH MEHTA - EMKAY GLOBAL

MANIK TANEJA – AXIS CAPITAL

RAHUL JAIN – DOLAT CAPITAL MARKET

SANDEEP SHAH - EQUIRUS SECURITIES

SAMRAT SAMANTA - INDIVIDUAL INVESTOR

SHRADHA AGRAWAL - ASIAN MARKETS SECURITIES

SIDDHARTH VORA – HSBC MUTUAL FUND

SUMUKH U - KORMAN CAPITAL

VAMSHI KRISHNA – KOTAK SECURITIES

VIKAL GUPTA - INDIVIDUAL INVESTOR

Asha Gupta:

Hi, everyone. Good day, and welcome to the Q2 FY26 Earnings Call of eClerx Services Limited. Please note that this webinar will be recorded.

To take us through the results and to answer your questions, we have with us the top management of eClerx represented by Kapil Jain, Managing Director and Group CEO; and Srinivasan Nadadhur, Chief Financial Officer. We will start the call with brief opening remarks by Kapil, followed by Srinivasan, who will be sharing the financial update, and then we will open the floor for Q&A session.

As usual, I would like to remind you that anything that is mentioned on this call that 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 reports, which you can find on our website.

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

Kapil Jain:

Thank you, Asha, and good evening, everyone. Hope all of you had a good festive holiday and a good Diwali.

We are pleased to share the highlights of our performance in FY '26 Q2. It was an excellent quarter on both the revenue and margin front. Operating revenue for Q2 was \$115.5 million, up 5.7% sequentially. In INR terms, Q1 operating revenue was INR 10,049 million, up 7.5% sequentially. Margins also came in stronger. EBITDA for Q2 was INR 2,983 million at a margin of 28.8%, up 27% sequentially. PAT for the quarter was INR 1,832 million at a margin of 17.7%, up 29% sequentially.

For FY '26 H1, our USD operating revenue is \$225 million, a Y-o-Y growth of 17%. In INR terms, H1 operating revenue is INR 19,394 million, up 20% Y-o-Y. PAT for H1 was INR 3,249 million, up 29% against H1 of last year.

Deal wins for Q2 were \$46 million. Analytics and automation is up 6% over the previous quarter, slightly higher than the firm growth rate. The non-top 10 clients was stronger than the top 10 client growth. Growth was exceptionally strong in the emerging business because of operations go live for a couple of clients in the F&A subsegment. Growth was also strong in CMT and HiTech, while BFSI grew modestly.

I'd like to share some commentary and outlook about our industry verticals. On BFSI, we see broad opportunities across core, intermediate, and small new clients. We continue to have conversations in the CLC space, but also in onshore consulting, tech delivery, and low code, no code services. Fashion & Luxury continues to remain under pressure. The Q3 revenues of top fashion houses have declined or stayed flat and analysts believe the industry is near the bottom of the downturn and that things should stabilize going forward. Both HiTech and our emerging businesses grew strongly in the last quarter, and the outlook remains positive. In HiTech, client spend is concentrated on transformation and customer experience programs to reduce cost and improve CSAT, growth in emerging was on the back of wins in finance and accounting and order management.

In our digital services and market intelligence products, we are seeing an increase in deal sizes and improved win rates supported by sharper value positioning and client ROI narratives. Revenue quality seems to be improving, and we are focusing on longer-term deals.

CMT, growth has been strong because of go-live of the Cairo Center as well as in other offshore locations. Egypt is shaping us well. It showed up top quartile performance just four months into production, which, continues to reflect our strong delivery and we are seeing preliminary interest from other clients for Cairo as a location.

In technology and analytics, we continue to see traction in compliance manager and Market360, which are our two core products, and are having new conversations on agentic AI.

A brief on awards and recognition during the quarter. We were recognized as a leader and star performer in Everest Group's Capital Market Operation Services PEAK Matrix. Our deep domain specialization investments in modular automation and GenAI adoption were highlighted as key differentiators. We were also recognized as a major contender in Everest Group's Marketing Services PEAK Matrix. Buyers recognized us for [our] transparency, flexibility, and proactive relationship management across complex marketing transformation programs. We have been recognized as a great place to work, GPTW. This recognition, driven entirely by employee feedback, underscores our commitment to our greatest assets of people. It recognizes our leading practices in employees' well-being, learning and development, fostering collaboration and connection, DEI, talent acquisition and onboarding.

FY'26 H1 has been strong, and we will continue to build on this momentum. Pipeline continues to be strong. We expect that Q3 margins will not be as strong as Q2, given that the INR has appreciated recently. We express our sincere appreciation to our clients and partners for placing their trust in us and for the opportunity to contribute to their success. We look forward to continuing our collaboration in the future.

Thank you, and over to Srinu for more details.

Srinivasan Nadadur:

Thank you, Kapil, and good afternoon, everyone. Let me provide additional color on our quarterly performance.

Just to recap some of the revenue and margin numbers, the constant currency operating revenue was up 5.4% sequentially and 16.3% year-on-year. Including the other income of INR 303 million and aided by the INR depreciation, total revenue was INR 10,352 million, up 9.5% sequentially. On a Q-on-Q basis, EBITDA margin expanded by 400 bps. If you look at the breakup of this increase, and looking at EBITDA, excluding the other income, the margin expansion has been about 270 bps, 200 bps of which came from FX and about 60 bps from delivery, primarily due to utilization and the shift in the onshore/offshore mix and 10 bps from G&A. The net operating cash flow at INR 3,137 million and the EBITDA conversion metric at 105% have shown a sharp improvement over Q1. If you recall, the Q1 operating cash flow was low because of 3 reasons: Number one, the increase in DSO from Q4 to Q1. Number two, the additional contribution to our gratuity fund and number three, the payment of annual bonuses. The improvement in DSO to 76 days this quarter and the absence of the other two factors has resulted in an increase in OCF.

Coming to the other key metrics, 90 clients now contribute \$0.5 million or more in revenue. Utilization is up by about 2% as the people hired in Q1 became billable through the course of Q2. Top 10 concentration has reduced by 0.5%. We've added 400 seats in Pune. Attrition at 20% is up as compared to Q1, and this is usually the case after the annual pay hikes and bonuses. And lastly, I touched on DSO just a while earlier, it is currently at 76.

So, as Kapil mentioned, at this time, we expect Q3 margin to be not as strong as Q2 because FX is the primary contributor to the margin expansion in Q2 and the rupee has appreciated since. However, there is no change in the overall margin outlook. We do expect margin to remain in the 24% to 28% range for the year.

The Board has approved a buyback of INR 300 crores, and this will be put up for shareholders' approval in the coming weeks. Please note that the promoters and the promoter group will not participate in this buyback. Thank you, everyone.

And with this, we conclude our prepared remarks. We can move on to the Q&A. Back to you, Asha.

Asha Gupta:

Thank you, Srinivasan. Thank you, Kapil. We will now open the floor for Q&A session. We have first question from the line of Abhishek Bhandari from Nomura Securities.

Abhishek Bhandari:

So, I have two questions. First is on the growth and margins. So now in this quarter, as you mentioned, on margins, you had 200 basis point tailwind from currency. Do you have any special project which was kind of one-timer in Q2 growth? That's one.

Secondly, Srin, if I look at the currency number also compared to Q1, it doesn't look like rupee has appreciated too much against dollar. So, what makes you say that we would not have similar improvement? I mean, do you mean to say that even the current margin levels will have a downside from the current number of 22.7%. Improvement possibly is not there because the depreciation won't come. But are you confident of sustaining the current margin levels at EBIT level?

And my third question is on the buyback. I'm a little curious to understand what made you come up with the share price of INR 4,500 when the date on which you declared your results, the closing share price was closer to INR 4,400. So, if you can explain the math behind how the Board and the management thinks in terms of premium being assigned to the buyback price?

Srinivasan Nadadhur:

I think from September 30, the INR is appreciated by about 0.5% and that's the only reason that makes us feel that margin performance may not be as strong in Q3 as in Q2. There may be some investments that we may make on analytics and technology, and maybe some on the sales side, but those couple of reasons are the only things that we are considering at the moment.

On the buyback, the SEBI regulations are that the buyback price that we announced is a minimum price. So we are not allowed to go below that, but still the price can be increased after the shareholders' approval is received and the final price is then determined after receiving the shareholder approval. So, bear in mind that this price is announced to the floor and it's not a ceiling.

Kapil Jain:

Abhishek, yes, there weren't any special projects that have led to the growth in Q2.

Abhishek Bhandari

Could you give value to it in terms of percentage contribution to the growth?

Kapil Jain:

No. I mean, there wasn't any one-time projects that led to the growth in Q2.

Abhishek Bhandari

Okay. Kapil, if I can just extend on that question. So, if you look at your first half growth rate, we are now tracking closer to 17% year-on-year reported growth, 16% in constant currency, which is significantly better than what we had in the last year. And our ACV of deals wins also have improved dramatically in the last few quarters. So can we think mid-teen to be a new growth level for the company, in the near to medium term.

Kapil Jain:

Abhishek, the strategy that we have put in place around one eClerx - cross sell, upsell I think is reflecting well in terms of the overall numbers and is resonating also well with the clients. We recently concluded our client event in New York to commemorate and thank our clients on the 25th anniversary.

Yes, H1 has had a strong quarter, and we continue to be cautiously optimistic for Q3 and Q4. As we have indicated in the past for the forward guidance, we don't give that, but I think, and I also mentioned that yes, we want to be in the top quartile of the segment that we operate in, in terms of growth. So, we will continue to aim for that.

And on the ACV, I had also mentioned, I think let's not look at quarter on quarter because there may be abbreviations in Q-on-Q, but overall yearly number that we declared last year, which was I think close to about INR140 million, INR142 million. We are confident of delivering a higher ACV number this year compared to what we delivered last year.

Abhishek Bhandari:

Great. Thank you, Kapil and Srini. I'll come back in the queue.

Srinivasan Nadadhur:

Thank you.

Asha Gupta

Thank you, Sandeep. We have next question from the line of Manik Taneja from Axis Capital.

Manik Taneja:

Congratulations for the very steady performance in the current quarter. I actually wanted to get your thoughts around the growth construct between top 10 customers and the so-called emerging customers. In the course of recent quarters, one has seen a significant improvement in growth trajectory from emerging customers, coupled with some improvement in client metrics at the bottom of the pyramid. Is that a journey that we are far more confident about in terms of even both for the near term and medium term, as we move towards broad basing the business? That's question number one.

The second question was with regards to margins, but you have already clarified that there is some investments that you think about and some recent currency depreciation. But are there any other notable margin headwinds?

And the third one, historically, you've always listed that our near-term hiring essentially is an indicator of our confidence in growth. Should we consider the 1,000-odd people addition that we saw in second quarter as an indication of how we should be thinking about in terms of third quarter or fourth quarter growth? Those would be my questions.

Kapil Jain:

Manik, thanks a lot. I think, yes, in terms of the top 10 and non-top 10 and emerging, as you see, the concentration has only improved by 0.5% point despite showing a good growth in non-top 10 and emerging, which we will continue to do and focus upon, which is also what I had said earlier that the service kit that we have, coupled with strong delivery tech domain resonates well, and we have an opportunity to cross-sell, upsell outside of our core 10 clients. And we will continue to grow in top 10 as well, but there's an opportunity for us to grow outside. So you'll continue to see that phenomenon.

In terms of hiring and the growth, like I said, I think Q2 has been an exceptional quarter, both on the growth and margin front. We are absolutely confident showing Q-on-Q growth. And I wouldn't want to comment on the quantum of growth, and that's really what we are focusing on.

Srinivasan Nadadhur:

And your third question on, are there any other factors that may affect margin performance is, to our knowledge, no.

Manik Taneja:

Sure. And if I can just get your thoughts around the growth outlook across each of the industry segments in terms of how do you think which industry segments lead on growth over the next 12 to 18 months compared to what will probably be sort of a drag on a relative basis.

Kapil Jain:

Manik, we see growth potential and prospects across all our industry segments, starting from BFSI, communication, media and telecom, Hi-Tech, manufacturing, industrials. The only exception, I would say, is high-end fashion because there, I think our clients are facing headwinds. And with the overall macroeconomic conditions, tariffs and other things, though some of the analysts are predicting that this is the bottom. I think that's the only segment that we are watching closely. Rest of the segments, I think, we are optimistic in terms of the growth prospects.

Asha Gupta:

Thank you Manik. The next question is from the line of Shradha Agrawal from AMSEC.

Shradha Agrawal:

Congratulations once again on a very strong quarter. Two questions from my side. Sir, any indication on how many new clients would we have added in the last 2 years, since the time you've taken on board?

Srinivasan Nadadhur:

We generally don't share that number, but there has been a fair number of addition in the last couple of years.

Kapil Jain:

Yeah. And I think it's also what we are expanding and it's like for different industry verticals our focus is different and some industry verticals, the focus is to add new clients and some industry verticals, we have a long tail. So, the focus is to grow and expand and take our services, that are relevant for those client segments. So that's really what we are focusing on, Shradha.

Shradha Agrawal:

And looking at this from the perspective that in the emerging segment, the revenue by industries which we disclose in the emerging segment, we've been showing very strong growth numbers. So, is it led more by the new client addition that we've been doing in the last few quarters?

Kapil Jain:

In emerging, yes. It is a mix of both, growth in existing client as well as new addition. But as you know emerging segment is also small. And being a small number, absolute numbers tend to reflect on a higher growth trajectory. So that's also one of the reasons I'd like to highlight, but it's a combination of both existing as well as a new client in emerging segment.

Shradha Agrawal:

Right. And if I recall, right, I think we had also created a large deals focused team around some quarters back. So what has been the success so far and what has been the increase in deal sizes that we've seen in the last few quarters?

Kapil Jain:

Shradha, overall we are seeing, I would say good amount of success in large deals as well as average deal sizes, but we don't report like what was the average deal size, like I said, it's only been four or six quarters and we want to continue on the journey of large deals as well as increasing the size of the deals and looking at our service offerings in terms of how we can solve the client problem and bring an integrated service offering to help solve clients' problem as opposed to looking at in a siloed manner, and the one eClerx like in terms of how do we look at client's problem and then bring different varied pieces of our capabilities together is something that we are continuously driving on.

Shradha Agrawal:

Right. And so just one bookkeeping question, though I know it's very short-sighted to look at it on a quarterly basis, but BPaaS has remained just flattish for us this quarter. So, anything to call out there?

Kapil Jain:

No, I think I had mentioned this in the prior quarterly conversations that I've had with you guys that BPaaS is not really relevant as far as the metric is concerned. Now you will ask me as to why we are still reporting it. I think we are still grappling in terms of how we should report it because everything we do has a blend of technology, or either through our own IP or we are bringing in low code, no code, when we are working off client systems or third-party software.

I think, to me what is important is in terms of are we staying relevant and are we adding value to our clients and are we bringing technology and enhancing the human potential. So as long as that is continuing, I think I'm comfortable. So, it's nothing to worry about on the BPaaS numbers.

Asha Gupta:

Thank you, Shradha. We have next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah:

Yeah. Thanks very much, and congratulations on a very strong execution on many fronts. So, the first question is, I think the consistent growth journey has been also tightly correlated with the consistent

uptick in the ACV, the new business order intake. So, with so many good closures and increased consistency. Do you believe still the pipeline looks good and this can be further accelerated, or do you believe replenishment could take time because of the macro issue?

Kapil Jain:

Sandeep we are confident, yes, we are cautiously optimistic. There are macroeconomic issues that have many factors that are outside of our control, but our pipeline is robust and strong, and our client segments that we operate in, I think there was a previous question on the view on the industry segments we operate in, continues to be strong.

Sandeep Shah:

Okay. And the reason for the consistent improvement in the ACV is it the strong pipeline or is it the deal win ratio which is leading to this kind of a consistent improvement?

Kapil Jain:

I think it's a combination of both, Sandeep in terms of continuing to build the momentum, more rigor, focus, as well as improving the win rate and increasing the overall size of the deal, right, because that's also important. So, all these factors have contributed to increasing the size of the overall ACV Q1.

Sandeep Shah:

Okay. And sir, any quantitative color you can give on the pipeline both on Q-on-Q and Y-o-Y?

Kapil Jain:

Our pipeline continues to be healthy, and we are seeing a robust pipeline, both on Q-on-Q and Y-on-Y. I think pipeline is one thing. I think it's the conversions that matters. And like I said in the previous question that overall, in terms of ACV for the year, we are confident of delivering a higher ACV number than what we delivered for full year last year.

Sandeep Shah:

Yeah, thanks. last couple of questions. In your growth journey since you took control, there has been a solid performance consistency. So, what according to you can go wrong in terms of breaking this journey both on micro and macro side?

Kapil Jain:

I think that's a good question, Sandeep, in terms of what can go wrong. There are a lot of things which can go wrong, right, in terms of I think we are trying to de-risk the business. As you saw, the top 10, non-top 10 growth that is a continued focus. But I also highlighted that despite a sharp growth in non-top 10, the concentration has only reduced by 0.5% points.

From a micro perspective, from inside what we are doing, I think, as I was telling in my opening remarks, I mentioned in Cairo, in just four months, we are in the top quartile of the players that we compete with for similar services with similar clients. So, I think on the internal side, we have done very well in terms of delivery, onboarding new clients, in terms of bringing tech domain, onboarding talent in a short span of time. So from a micro perspective, I don't see a challenge from an internal eClerx perspective. I think whether it's shared services, delivery teams, international locations, the client servicing group is all working fine.

From a macroeconomic perspective, I think there are a lot of challenges, right, in terms of trade, tariffs. So that I think it's a little difficult to comment in terms of what all, and they would be more industry-wide as opposed to just on us is the view I have. I think that's how I would like to put it.

Sandeep Shah:

Okay, thanks. And the last question, in terms of any further update on GenAI, agentic AI, either as a tailwind or a headwind, and any increasing demand from the clients who are giving you projects in terms of the pricing as well as renewal of the existing contract where they are demanding higher productivity gains?

Kapil Jain:

I mentioned about the client event that we had, and I was reflecting on how we started when we started. In 2000, when we started the company, we were helping clients when the entire world was moving from brick-and-mortar to digital shelf. We were helping clients to build their digital shelf, enhance their overall customer experience, enhance customer journeys by removing friction points. That's how the company started 25 years back.

So, I think it's very difficult to say that, look, what are you seeing because technology is ingrained. When we were 200 people, 20% of people we had hired just on tech to enhance human potential and enhance our overall value proposition to the clients. So that's one aspect.

So, it's difficult to disintegrate tech, ops domain. I think our strength lies in the concentric circle of bringing tech domain and ops together. So that's one point. And all the underlying IP that we use to deliver services to our clients, as I had mentioned, we are enhancing its functionality step by step by bringing in GenAI. So that's, I think, whether it's Compliance Manager, Market360, I had mentioned in the opening remarks. And I think that we will continue to do and like I had said in the earlier calls that we see this as an opportunity because of our delivery has always embedded technology in how we deliver to our clients.

I hope that answers your question. But we haven't seen any shift in the client as on to answer your specific question on gen AI. Some of the clients I have spoken to, large HiTech clients, they have mentioned that "we consider you as a transformation partner and not an outsourcing partner". So that's all I can say. So, everything we do, we are bringing in tech, GenAI and low code, no code, agentic AI in how we are delivering to our clients.

Asha Gupta:

Thank you, Sandeep. We have the next question from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta:

So just want to get a sense on the emerging industries. Emerging industries contributed one fourth of the incremental revenue on a YoY basis. Can you provide some more detail which subsegments are supporting growth there? That is question one. And how you expect to, let's say, scale up some of those subsegments going forward, which may become, let's say, 5% - 10% of revenue on its own in the next three years?

Second question is about the productivity of business development employees. If I look at it in the last two years, it is almost 30% a job. Obviously, it is one of the strong kind of point of view. But if you can provide some sense of what we are doing right in there, which is driving improvement in productivity of business development of employees and whether there is further steam left where you can increase it further without adding much of the headcount.

Third question is about emerging. I'm referring to the number which we report below \$0.5 million kind of account. It remained largely flattish. Whether we are pulling tail account rationalization where we don't see scope, we are focusing less on them and eventually those accounts we are exiting, which may be visible if you can give some sense about total account which we used to have versus now.

And last is about roll off. If you can provide any trend change compared to prior quarter. Thank you.

Kapil Jain:

Thanks, Dipesh. I don't know if I remember all the four questions, but let me start. Roll-off, we haven't seen a change in the trajectory. I think we have stated that 15% to 20% is what we have seen. So that continues in the same range. There isn't a positive or negative momentum there.

As far as emerging industries and one fourth of the incremental revenue coming in from there and subsegments, I think, yes, the focus is on emerging industries. And it's taking the same capabilities that we have for delivering to large clients, Fortune 100, Fortune 500 clients, which are leaders in their industry segments into our emerging clients because the narrative there is if we are able to deliver to larger clients, it gives an opportunity to deliver to our emerging set of clients. So that we will continue.

Will we bring a sharper focus in some segment and let go of tail clients? I think I would say yes to the first question. Yes, we will continue to give sharper focus as far as sales business development is concerned on clients that we pick and we see a potential where we have a strong relationship. The client is looking for transformation and capabilities that we have to offer. So yes, we will continue to focus on that.

And as regards to your BD cost on sales cost, that's a focus that we had laid out. However, we will continue to invest in hunting profiles because we have a lot of capability that is sitting onsite close to clients. And I think we'll continue to invest in hunting so as to continue the momentum on growth because as you will understand, as the overall numbers will increase, we have to continue to show the same growth, we'll have to continue to add more hunting profiles. I think we are very strong on capability domain people, and that's really what clients like about us. And we have to continue to hire on the hunting and BD side to continue the momentum.

Dipesh Mehta:

Just one follow-up on emerging industries. Can you name some of the industries where, let's say, specific investment which we envisage?

Kapil Jain:

I think more from the industry, we would invest in the capability side like F&O, order management, customer service. So those are the segments. So, offerings that have potential to be taken across industry segments is what really we are focusing on, on the emerging segment. HiTech, and the core industries that we are focusing on, we'll continue to build momentum there.

Dipesh Mehta:

Understand. And last question on M&A. If you can provide, I think, some of the horizontal capability investment which you indicated, whether M&A would be also on those lines or M&A would be more vertical focused. Thank you.

Kapil Jain:

I think M&A would either be capability focused, which is on the horizontal axis, or in a vertical focus, where we have a white space of a capability that we are strong in. And that gives us a jump start. And so that's really where the focus on M&A is. So, either it needs to strengthen our capability and ideally in an industry segment where we are not present. So that's an ideal mix so that where we are strong on the industry axis, but the capability has a potential, but we are strong on the capability in another industry segment. So that's an ideal place where we are looking for the M&A.

Asha Gupta:

Thank you, Dipesh. We have next question from the line of Samrat Samanta an Individual Investor.

Samrat Samanta:

Thank you for taking my question. My question is BFSI contribution has moderated to 41.4% from 43.2% last quarter. Is this mix structural or cyclical? And how do you see BFSI growth shaping up?

Kapil Jain:

So, we are confident. Like I said, in BFSI segment, our clients have done well on their businesses, and on the quarterly performance. Overall, we see good momentum in the BFSI segment. These are quarterly aberrations so I wouldn't read too much on the quarterly aberrations. Year-on-Year, we will continue to see growth in BFSI segment as well.

Asha Gupta:

Thank you, Samrat. We have the next from the line of Sumukh U from Korman Capital.

Sumukh U:

Hi, thanks for the opportunity. Sir, my question is, what is the reason or key differentiator for eClerx to have such high EBIT margin at 27% compared to your peers. And your utilization rate is at 75%. So, does that mean there's still further room for margin expansion given 80% to 85% is the general industry benchmark in utilization? And also 650 is your onshore headcount. That translates to about 3% of your headcount. This is relatively very less. So, is there anything different with your business model or quite the numbers?

Kapil Jain:

We didn't hear your all your questions clearly, but we'll take the one that we heard. So, the first question is, what is the key differentiator which makes our margin high at, let's say, 26% to 28%, a key differentiator. And then there is a second question that I'll take which is on utilization, which is, is there further room for utilization to improve?

I think our differentiator is in terms of, like I mentioned, tech, our ability to bring in tech in everything we do and as well as domain. I think all my direct reports bring in domain. I think that's really what the reason is for our better margins on the EBITDA. I had given a range of 24% to 28%, and we are confident to stay in this range for the full year.

Srinivasan Nadadhur:

I'll take your second question, which is I think you asked whether there is IT companies seem to operate in the 80% to 85% range and whether our utilization can go up to that percentage. So, I don't think it is

fair to compare us with IT companies. In operations, we need to carry a bench. So, if you look at historically, 12 to 15 quarter performance, we would be in that 73% to 78% range. So that's where we will continue to operate in.

Sumukh U:

Sir, your onshore headcount is at 650, which is about 3% of your headcount. So, this is again very less compared to your peers, any light on that? Is there any difference in your business model, delivery model?

Srinivasan Nadadhur:

Since we are an ops service provider, our requirement for onshore headcount is lower, so we don't have a lot of onshore presence, doing coding and other kind of work.

Kapil Jain:

And I think Sumukh, like we take a portfolio approach. So, in terms of consulting, change business, these numbers, as we will continue to grow, we have to maintain a healthy mix and as we are expanding into new centers between onshore and offshore. But currently, we think that 3% is a good number. Can it increase in subsequent quarters? Yes, it can. And we will take a portfolio view again in terms of consulting and as well as in terms of how the overall operating model between on-site, offshore and the new centers that we are building.

Asha Gupta:

Thank you, Sumukh. We have the next question from the line of Vikal Gupta an Individual Investor.

Vikal Gupta:

Yeah, hi. Good afternoon, and congratulations on a fantastic number this year again. And my question remains the same as I requested last time. How and when you are going to consider for the bonus for this so that it becomes more available to the small shareholder like us?

And second is, you declared the buyback at INR4,500, but the share price is INR4,700 today. So, are you going to revise the number? Or what are you going to do on that?

Srinivasan Nadadhur:

So, second question first, I think the Buyback Committee will take a decision based on what available information at that point of time. And noted your question on bonus. I guess we'll put it up to the Board and they will decide. I guess the buyback has to pass, after that.

Vikal Gupta:

All right. Thank you very much. I will keep repeating this question until we get the bonus.

Asha Gupta:

Thank you, Vikal. We have the next question from the line of Vamshi Krishna from Kotak Securities.

Vamshi Krishna:

Yeah. Actually, really strong quarter, both on execution as well as deal wins. Kapil, if you can just highlight the composition of deal wins and maybe some flavor on what the client priorities are across various verticals? And were there any large deals which created some lumpiness in the deal wins this quarter?

Kapil Jain:

Yeah. Vamshi, yes, there were some large deals in the deal wins that we have reported for Q2. In terms of the clients, I think how we bring tech to deliver the overall value, that continues to be the ask as well as how do we quickly get into steady state. As I gave an example in Cairo, within four months of our launch, we are in the top quartile. I think that gives a lot of comfort in terms of our ability to scale and take the delivery that consistently we have been delivering from India and few on-site locations as we expand into new geographies. So, does that answer your question? Because your voice was not very clear. So, if I have missed anything, then please you can ask.

Vamshi Krishna:

I was just asking on the client priorities between, say, vendor consolidation or some of the discretionary projects, if there is any change in that?

Kapil Jain:

No, client priorities, I think, in terms of enhance retention, enhancing customer experience on communication, media and telecom continues, cross-selling their products. So that continues to be there and how do you bring in the technology and customer service, customer operations, so that continues to be there. On the financial market side, it's ensuring clients are, from a regulatory compliance perspective, that we are helping them stay relevant and meeting the regulatory time lines. So that's on the financial market side.

On the HiTech, as I mentioned, it's more on the improving CSAT, cost of defects and some of those things. So, I think, yes, the priorities are more in terms of how we can get time to market early. So that's one in terms of whether it's getting into steady state, whether in terms of delivering on enhancing the NPS or retention or cross-sell, and how do we deliver that using tech. So that continues to be the ask. But different industry segments have different priorities. But broadly, yes, it's centered around tech, how do you bring tech to amplify human potential, how do you get quick time to market some of the priorities that we see.

Vamshi Krishna:

Just on CMT, I think you seem to be quite positive on CMT, and that has been doing fairly well for us. So, it that seem to be different from the perspective that there can be some risk from AI adoption in these particular services that you offer here. So just trying to understand, is it more of wallet share gains against some of the larger vendors? Or are you participating in some of the new opportunities and new clients in horizontal service offerings?

Kapil Jain:

Vamshi, it's both. In existing clients, it's a wallet share gain and looking at newer areas outside of our customer service. So that's on the existing clients. And we are also pitching in with new clients in CMT as well as non-CMT.

Vamshi Krishna:

And finally, on the furloughs, what do you expect for furloughs this quarter?

Srinivasan Nadadhur:

No, we don't have any impact. We don't have many IT guys doing it.

Asha Gupta:

Thank you, Vamshi. We have the next question from the line of Abhay Joshi from Baroda BNP.

Abhay Joshi:

Congratulations on the great set of numbers. Just want to understand the rationale behind the buyback offered. Like is it some kind of capital allocation policy because the share price is at all-time high. And just to understand the reason behind why we are opting for the buyback because it is not very preferred because of taxation and all. So, I just want to understand the rationale behind it.

Srinivasan Nadadhur:

Right. So firstly, the price itself, as I mentioned earlier, that is a floor. So, the price can go up if the committee decides that it needs to go up.

The second is you are right, it is part of the capital allocation policy that at any point of time, over, let's say, 12 to 18 months period, we would like to return 50% of cash back to shareholders if it is not required for use by the company.

And third, in terms of buyback versus dividend, for the individual investor, it makes no difference, right? In fact, I would argue that a buyback is slightly more advantageous in the sense that it gives you a choice whether you want to participate in the buyback or not participate in the buyback. And you also get the benefit as an individual investor of setting off the capital loss that you have when you acquired the share. And from a stock perspective, it improves the EPS. And therefore, I would argue that buyback is somewhat more advantageous than dividend, although it takes longer to execute.

Asha Gupta:

Thank you, Abhay. We have the next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah:

Yeah, thanks. Srini, just a question on capital allocation. This time, the buyback size seems lower versus the earlier buyback, and it could be lower than 50% kind of a payout ratio. So, is it fair to assume the dividend could be slightly higher than INR 1 as a policy which we announce every year?

Srinivasan Nadadhur:

I think if you look at the factors which go into the buyback, it is a function of the buyback that has to be paid out from the stand-alone. So, if you look at the stand-alone, it depends on how much cash the stand-alone has and the net worth of the stand-alone because there is a calculation based on net worth of the stand-alone entity. So that puts a ceiling on how much we can return back to the shareholders. So that is the primary consideration.

Sandeep Shah:

Okay. Any commentary on dividend. Can it be higher than INR 1?

Srinivasan Nadadhur:

I guess we'll take a call because FY25 dividend, I think we paid it over last quarter. We'll take a call when it comes to FY26 at the end of the year.

Asha Gupta:

Thank you, Sandeep. We have the next question from the line of Rahul Jain from Dolat Capital.

Rahul Jain:

Thanks for the opportunity. Congratulations on a very strong execution. Most of my questions has been answered. Just trying to understand your thoughts on growth in different manner. Just if you could share your perspective that the way you were situated six months back at the end of Q4, whatever may be your thought process for this year, how is it panning out on those thought process? Is it any better than what you were thinking 6 months back? Or this is just the execution that has happened just in light of your thought process? Any color on that would be helpful.

Kapil Jain:

Rahul, our overall strategy that we have laid out in terms of cross-sell, upsell, One eClerx, we participated in analyst rankings. We were recognized in some of the analyst rankings. We revamped our website, strengthened our overall marketing engine. So, all those things enhanced our overall sales engine, more rigor, more focus. So those were the input vectors that we have put in.

In terms of the expectations, I think it's in line with what we had expected in terms of the overall trajectory. But Q2 exceptionally has been strong because, obviously, we didn't expect the dollar rupee to give us a 200 sort of tailwinds. And the growth this quarter has been exceptionally strong. It's not on account of any onetime projects or special projects that we executed for Q1. What we are doing, I think 6 months and quarter-on-quarter, like I had said, the quarter-on-quarter numbers gives us an indication that the overall strategy in medium to long term will yield good shareholder returns is what I think that gives the conviction.

Can there be quarter-on-quarter aberrations? The answer is yes, because we are operating on a small base. Quarter-on-quarter, aberrations can be there. But what overall strategy we are resonating with the clients, we are talking to existing clients, new clients, taking our capabilities that were never presented to our existing set of clients. All those are resonating well.

I hope I answered your question, Rahul, in terms of what we have thought six months back versus what we are doing now. I think it's just giving us confidence because when we were sitting there, yes, we had planned for it. But we didn't plan that this is what the growth numbers and all that stuff. But I think we had planned that our overall cross-sell, upsell, client relevance, tech will continue to resonate. And that's yielding up the results.

Rahul Jain:

Right. Thanks for that color. From a vertical point of view, you mentioned in your opening thoughts that luxury is something where possibly there is some bottom out that has happened. So, what do you think is going to drive the momentum in that space? Because clarity in terms of consumer demand definitely is not one area which could be an easy pick in that space. So, what is driving that confidence?

Kapil Jain:

No. I think what I had mentioned was it's not I'm saying that for us, it has hit the bottom. I'm saying that from our clients and the analysts who track luxury as a segment believe that it may have hit the bottom and the trajectory is looking positive from now on because our work has a strong correlation on the overall client growth and client environment is what I think we believe in Q3 usually for luxury in fashion and retail because Q2 holidays in Europe and other things is usually a softer quarter compared to Q3.

So that's I think, but we are watching that segment. And in my opening remarks I said, and I think one of the questions that was asked is that we see good momentum across all our industry verticals, but we are cautious about the luxury segment.

Rahul Jain:

Right. And just last bit, and my apologies if this has been already answered. Just trying to understand your margin thought process from a more near- to medium-term perspective. We've been in the entire band that you have highlighted in the past. Is it that we have a much stronger situation now versus, let's say, four, five quarters back, both in terms of how some of these things have played out to your strategy. Do you think a much narrower band could be something where you would be operating from a 12 to 36 month perspective? Any color on that would be helpful.

Kapil Jain:

Rahul, I think the reason we have given a band between 24% to 28% is that it gives us flexibility in terms of doing what is right for the business, what is right for our clients from a medium to long-term perspective. We don't want to not do things that are right from medium to long term. Because of a smaller base, the moment we give you a narrower band, I believe that we will be constrained in investing in growth and investing in the future, which will help us stay relevant from a medium to long-term perspective. And hence, we have consciously chosen to give the band as what we have given as 24% to 28%.

Rahul Jain:

Sorry to harp on this aspect. But I think one of the reasons that you've been highlighting is that you have an upfront sales and marketing investment, which may or may not necessarily give you the right outcome. And that's why the margin band could take that kind of hit and, of course, the uncertainty around. So, I think since we have done so well I understand that you want to keep that flexibility on a quarterly basis. But on an annualized basis, you think the operating margin band would be much tighter, although on a quarterly basis, it may hover in the 24% to 28%?

Kapil Jain:

Rahul, I think the reason I'm saying that is, and you don't have to be sorry for asking the same question. It's your job to ask the question. I think it's not just the sales and marketing investments that has a bearing on the margins in terms of investing for future growth, hiring ahead of the demand curve, opening new centers, investing in the new centers. All these have bearings on the margin front. And I think we will continue to give the margin guidance in 24% to 28%. If we believe that there is a reason to change and give a narrower band because I think you guys have been asking for this, we will inform you accordingly. At this stage, we think that the band that we have given is the right band and our balance between what is right for the business and what's the indication that we have given to you all.

Asha Gupta:

Thank you, Rahul. We have the next question from the line of Siddharth Vora from HSBC MF.

Siddharth Vora:

Congrats on strong set of numbers. This thing, which you have highlighted, that the margins largely showed very strong performance based on currency. So, should I assume that these benefits get passed on at the end of one year when contracts re-set or something? Or these benefits stay with you?

Srinivasan Nadadhur:

No, sorry. It has nothing to do with the contract. Contracts are denominated mostly in constant currency.

Siddharth Vora:

So, then these benefits are there, right? It should be in the numbers. So then when we say 24% to 28% is the annual guidance for a particular currency, if the currency has gone to INR 88/- or mid- output, your band slips up naturally? Or how will you look at it?

Srinivasan Nadadhur:

I think that is one factor there, but there are other investments also that we look at. And if the margin has moved up significantly, then we may decide to preempt or bring forward some of those investments.

Siddharth Vora:

Sure. And the customers do look at the currency depreciation then?

Srinivasan Nadadhur:

We have quite sophisticated buyers, right? As we mentioned, a lot of them are Fortune 100, Fortune 500 clients. So, they are certainly aware of where the currency is and what that means for us.

Asha Gupta:

Thank you, Siddharth. As this was the last question, I will now hand over the floor to the management for closing comments.

Kapil Jain:

Thank you, everyone, for your continued support and active participation. And thank you all. Good luck. Thank you.

Srinivasan Nadadhur:

Thank you, everyone.

Asha Gupta:

Thank you, everyone. Thank you, Kapil and Srinivasan. With this, we conclude the eClerx Services Ltd Q2FY26 earnings call.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.