“Hexaware Technologies Limited Earnings Conference Call”

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Ladies and gentlemen, good day and welcome to the Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani. Thank you, and over to you ma'am.

Latika Gidwani: Thank you, Vikram. Good evening to all of you. Welcome to the Hexaware Technologies Conference Call. From Hexaware, we have with us Mr. R. Srikrishna -- CEO and Executive Director; Mr. Ashok Harris – President, Global Delivery; Mr Vikash Jain -- CFO. The disclaimer has been put up on the Hexaware website, it is also there in our press release and the investor deck. I shall take that as read. We have also put up non-GAAP numbers this time. These are to be read in conjunction with the GAAP numbers. Please refer to the note which is included in the investor deck for that as well.

With this, I hand over to Keech.

R Srikrishna: Thank you, Latika. Welcome to all of you. Actually, we have one other short announcement before I begin. Vikash, please.

Vikash Kumar Jain: Sure, will do that. Hi, everyone. We are pleased to announce that we have a new IR leader joining us Vinay Kalingra. Vinay comes with a lot of experience on the IR space; he used to run his own IR advisory firm before joining us. Like to take this opportunity to thank Latika. Latika continues to be with Hexaware and is going to move into a different role and very much as part of the Hexaware family. Vinay and Latika would work together in the next few weeks to do a smooth transition. Welcome onboard Vinay.

Latika Gidwani: Thanks, Vikash.

R Srikrishna: So, for those of you that are looking at the deck, we are on Slide #5. We feel very good about how our quarter was. We have had solid all-round performance in spite of what we have called out and now everybody has called out as a weakness in one segment. Notwithstanding that, we have had extremely nice quarter; we have had a revenue growth of about 5% in constant currency; we lost 30 bps on currency, so 4.7% reported; and EBITDA, we have had a robust expansion in margin, we said last quarter that our margins will go up sharply, so we have executed to what we thought can and will happen. Our EPS numbers have perhaps been the best story of the lot. You will hear more later but apart from solid operational performance, our ETR has dropped sharply to about 18% and most of it is sustainable for a long-long period of time and you will hear more on the how of that from Vikash later. We have also had a robust quarter for NN wins and $36 million, then we will talk you through some of the deals. We crossed 18,000 in headcount; this includes close to 700 people from Mobiquity. But we also had a robust intake of freshers during the quarter. Finally, our dividend is down to Rs.1.5 a quarter. We did say before for the year that we will do what we did in last year subject to M&A activity. Given
that we made a substantial cash commitment for M&A and then we have some deferred payments coming up, this is the level that we are likely to stick to in the foreseeable future which is the Rs.1.5 per quarter. On revenue, I know you will have question about the acquisition revenue. Clearly did include about half a month of Mobiquity revenues in this. If we had consolidated for the full quarter, which we have not, but if we had consolidated for the full quarter, then our revenues would have been higher by $17.6 million. Likewise, if we had consolidated profits for the full quarters, our PAT would have been higher by $1.7 million. So, those two numbers we have disclosed in our detailed financials, but that is for you to help kind of figure out the organic versus inorganic growth.

I am going to Slide #6 for those of you that are looking at the deck. Revenue was at $188.5 M. Our EBITDA before ESOP is up to 16.5% which is up from 15.3% last quarter. It is also up from the equivalent quarter last year; last year this quarter was 16.4% and post ESOP is at 16.2%, and that’s up from 15%. So, pretty sharp and solid increases in bps across the board. Now there is actually $2.4 million of transaction expense. Last time, we told you we do not know the number yet. So, this is what it is; $2.4 million. Even after taking into account the transaction expense our PAT percentage improved and our EPS in absolute terms improved even after taking the transaction expense into account.

In our disclosures, we have said we are going to use non-GAAP numbers for the first time and we have given you some disclosures related to that. But we do think the more pertinent number from an EPS is the non-GAAP number. We have provided you a walk for reconciliation between GAAP and Non-GAAP numbers. But essentially in as much as this quarter goes, the biggest adjustment item is the transaction expense. But on a more sustained basis there is amortization of intangibles coming from the balance sheet into the P&L. So, again, we will explain to you how much is goodwill and how much is intangibles in a few minutes. So, the non-GAAP EPS is actually at much higher growth levels. It is about Rs.5.55. So, there is a substantial QoQ growth. On the revenue increase, there is a marginal FOREX headwind. The vast majority of the revenue increase came through volume growth and there is some from calendar, and there were some headwind from FOREX. So, it is really a robust quarter given a substantial volume increase that we saw.

We provided an EBITDA walk in Slide #8. What you will see is that FOREX was a headwind, visa was a headwind, SG&A was a headwind, there were some additional expenses but also some reversal of double counting for rent in some facility in previous quarter, but QoQ basis it was a headwind. Notwithstanding at least two major headwinds -- visa and SG&A -- and some on FOREX, we have the 120 bps improvement in EBITDA driven by improved operational performance on utilization, mix, but also better bill rates that you can see here. So, all round solid operational performance that overcame the visa and FOREX headwinds.

So, Slide #9 actually has the recon between GAAP to non-GAAP. I spoke briefly on it. There is $2.4 million which is the transaction cost and there is $0.3 million of amortization of intangibles and $0.1 million of NPV of the deferred payments. So, essentially, the total adjustments is $2.8
million between GAAP and non-GAAP and we have also adjusted for the tax impact of that. So, in essence, adjusted non-GAAP EPS for the quarter is Rs.5.55 and that represents a growth of 19.3% growth over the previous quarter.

Slide #10 actually has a client pyramid. Unfortunately, it is not directly comparable in terms of the absolute numbers because this includes Mobiquity customers. The good news with Mobiquity… and we spoke about it at the time of talking through the deal that one of the things we liked about them is that they have material customers, they do not have long tail, their top-20 customers account for 90% of the revenue, so there is actually four clients from Mobiquity that are now in our top-20. The top end of the pyramid that you see here really the first three buckets have not been impacted by anything from Mobiquity. But there is one that has moved from $10 million to $20 million to $20 million to $30 million in the Hexaware organic bucket, and that has been filled by Mobiquity client. That is why that is flat there. But in general now we have 120 clients above million dollars. But going forward, these numbers will be comparable at least on QoQ basis.

I have already said, we have $36 million of win. I will call out a couple of examples, start going through all of them -- One of them is a large healthcare insurance company in the East Coast. We are doing a private cloud implementation for them. That has just started. It is a start of a large program. We expect it will continue for many quarters.

The second one and actually it is one of quite a few that we won through the course of this year. I think we said last quarter that end of December, early Jan, after three years of investment, we became a partner in Guidewire. That has been the single most important driver of growth in our healthcare and insurance business. One of the deals that we won during this quarter is several services surrounding Guidewire, managed testing, devops, data migration all for Guidewire platform for a large US insurance company. Perhaps the single biggest win during the quarter is customer experience transformation for a real estate firm.

In general, what you will see that the trend that we have been speaking about for some quarters is that our wins have become less automation-focused and less dependent on that theme and more spread between automation and our other themes as well. So, you are seeing right here there is a cloud deal, there is a customer experience transformation deal and that is a trend we have been seeing for some quarters and we expect will continue.

Our attrition which has been bit of a worrisome trend for us with the constant uptick each quarter finally flattened out and we are quite happy about this. We have been speaking about this for some quarters that there is a lot of active efforts to manage this. And we have to flatten it before we bring it down. So, we have got to the first step. Hopefully, it will either stay here or actually even get better from here. So, we have to see. We are continuing our active efforts here, but we are quite pleased with the fact that we were able to flatten it out. Bear in mind that some of the underlying structural factors have not got better. In fact if anything else the US labor market is
even tighter and worse than what it was beginning of the year. So, the structural factors remain, but we have managed to flatten out attrition at our end.

Utilization has actually gone up, not exactly our desire, but I would like to see it a little bit lower than this and that is probably where we will get to next quarter, but it did go up; it is in 80.7% for the current quarter.

The penultimate slide that I will talk through kind of gives you a perspective on the growth, how, where it came from by geography, vertical and horizontal. There are two things that you will see -- One is that BFS is performing poorly and I will talk to that in a minute. Second is that you will see kind of three areas which are red; one is APAC; one is M&C, which is (-2.5%) QoQ and IMS which is (-8%) QoQ. All these three are actually the same thing. There is a single project in APAC, in M&C sector and IMS that got over. IMS actually continues fairly robust underlying growth. You will expect to see pretty solid QoQ growth immediately from Q2 onwards. Even with this negative QoQ, the YoY is pretty decent; 27%, it is not as high as it usually is, but the YoY will also improve next quarter. I am just going to recount for you the last five quarters performance of IMS in terms of QoQ numbers; it is at 15.5%, 9%, 10%, 21.5%, 3.5%, that has been the last five quarters prior to this of sequential growth. So, the quarter when the 21.5% happened couple of quarters ago was this project ramp-up, migration project that ended this quarter. But there are plenty of other things happening that will lead to extremely robust growth starting immediately. We are not concerned about that business. M&C reduction and APAC reduction are also directly linked to this.

BFS: For those of you that are kind of seeing slides, I am on Slide #14. In Slide 14, you have all these numbers, but we have simply cut our H1 business into BFS and a non-BFS bucket. So, you see that in our non-BFS, all other vertical, even though in that also GTT is not doing that robustly. In spite of that, all other verticals put together, non-BFS is growing at 17.3%, extremely robust. In fact, three of the verticals there are all growing in 20s -- Manufacturing, Healthcare & Insurance, Hi Tech and Professional Services are all growing in 20s. Very-very-very robust growth. BFS is at 3.9%. In fact, of all the verticals, BFS got the maximum leverage from the 15-days of Mobiquity. So, actually it is even little worse than this. Now even in BFS there is a little bit of dichotomy between one account and the rest of the BFS portfolio. We said in the beginning of the year that there is a reasonably secular softness across number of our accounts. Last time, we said there is an improvement in some quarters. So, that kind of broad commentary holds. I think we started the year with very-very broad softness, but the good news is that there are quite a number of accounts that are back to normal or close to normal that have recovered. We did not see a lot of that impact in Q2, but we expect to see that in Q3. However, there is one account which essentially had new CEO in the last 45-days and as a consequence multiple significant changes and it is one of our largest accounts. That account is going through serious stress. It will for a couple of quarters. They made a decision to alter their outsourcing ratio down to 30% and execute that within two-quarter period. Started in June and it will continue through Q3 and Q4. So, there is going to be one account with a lot of stress, rest of the BFS portfolio with maybe one or two exceptions is on a good path to recovery from where it was in H1. All other verticals
are on an extremely robust growth path, in fact, other verticals, we expect them to do even better in H2 than what they did in H1, so, H1 is already 17.5%, we actually expect that they will not just sustain but improve on what they did in the course of H2.

So, what does all this mean put together? We have said we will have total growth of 20%. We now expect it in approx. 19%, it could be 19.5%, but approx. 19% range. Bear in mind that this 19% is still within the original guidance range for organic growth, very much so. So, it is not a change to what we started the year with. We still expect our EBITDA to be in line with revenue growth. We have been saying that. And even though the acquisition is slightly lower on EBITDA percentage, we do not think it is that material.

But there is good news on the EPS front. We think our EPS will be better than what we have said in the past mainly because of improved ETR and you will hear more on specifics on ETR from Vikash in a few minutes.

We have a few slides for those of you who want to see it offline. I am not going to talk to the slides on Mobiquity. I will just say few high-level things; it is about 50-days since we closed the acquisition. First off, there has been no unexpected attrition. Attrition at a broad base is what it was before. There is zero attrition at a leadership level. There is a lot of positivity in the company’s leadership and teams about the Hexaware investments. There is quite a large number of joint pipelines; quite a number of them are in early stages as you can anticipate, but as early as Q3, there could be one or two transactions that actually come to fruition. May not be huge, but they are definitely of the nature of proof points for our thesis of why we did this and we are in the process of building what we think will be a compelling joint vision.

What we are going to do is to have an analyst meet on the 23rd September. We may have otherwise done it like tomorrow. Part of the reason why we pushed it out is for us to more fully develop a joint vision on the customer experience transformation of the acquired capabilities and our organic capabilities and we will be ready with that by 23rd. So, we are hoping to meet all of you on 23rd. John Castleman who is the CEO of Mobiquity will also be there as maybe a client from Mobiquity as well.

So, that is what I had and I am going to hand over to Vikash.

**Vikash Kumar Jain:**

Okay. Thank you, Keech. For the folks who are referring to the presentation, I am on Page #21. A brief recap on the numbers: Revenue for the quarter at $188.5 million, sequential growth of 4.7 percentage, 5 percentage in constant currency. And as you can see on the chart, the last five quarters, every quarter we have had a double-digit growth, which is good news. Current quarter, reported YoY growth of 12 percentage, in constant currency it is at 13 percentage.

Moving to the next page, here we have our outstanding hedge position and rates. We continue with our layered hedging policy where we take up to eight quarters months in advance the hedging on a staggered basis. The total outstanding hedges we have as at Q2 end is close to $220
million. The breakup in terms of the individual currencies are mentioned on the page here. The point to be noted here is as you could see that every quarter as we have progressed, our hedging rates for all the currencies have actually improved on QoQ basis.

The next one is on the FOREX gain or loss. We have presented a seven-quarter view, five-quarters in terms of the actuals, and two quarters on a forward-looking basis. On the five quarters, in the actuals, we have had three quarters on gain and two quarters of losses given the way the currency actually fluctuated and the rupee appreciated in Q4’18 and Q1’19. Current quarter, we had rupee being almost stable throughout the quarter, not much of a fluctuation and we actually had a million dollar of gain into the P&L, primarily driven by our hedging policy. There was a very minimal impact associated with the balance sheet translation. The million dollar what have here is very close to what we had guided at that beginning of the quarter of close to $ 900K. As at the closing rate, if we take into consideration the hedges that we have open as of date, we expect Q3 and Q4 to be having a gain into the P&L of $1.7 million and $1.1 million each.

Moving to next one on Page #24, I am going to be spending a couple of minutes on the Mobiquity accounting. When we announced the deal, we said that the total deal consideration was up to $182 million. We are now presenting the deal consideration, including the deferred and the earn-out payouts - the total deal consideration is going to be $181.9 million. Application of $181.9 million of deal consideration is – towards $14.7 million on assets that were acquired as part of the deal, intangibles what we got associated with the deal is $36.5 million - it comprises of two items which is covered in our detailed financials that we have published. Brand of $2.3 million and customer relationships of $34.2 million. In terms of the period at which the intangibles is going to be amortized in the P&L, brand is going to be done over a period of ’18-months and the customer relationships is going to be done over a period of seven years. So, the expected charge to the P&L on a quarterly basis, on a go-forward basis associated with the intangibles and amortization of intangibles is close to $1.6 million per quarter. We had a deferred tax liability. That is an accounting requirement associated with the intangibles what we have done and goodwill is the balancing number what we have from a deal perspective in terms of what we said. Just for the sake of clarity, goodwill is not charged off to the P&L and it is tested for the impairment at each period, but that is not something which gets charged off to the P&L.

Moving to the next one in terms of the balance sheet and other updates. You will see that our cash balances have reduced significantly from last quarter to the current quarter, and that is a function of the acquisition of Mobiquity. So, we paid out close to $130 million associated with the deal in the current quarter which has led to the drop in the cash balance.

From a DSO perspective, DSO for the quarter is 77, three days higher than what it was from a prior quarter perspective, but very similar to the levels what we have had in Q3 and Q4. We think that the DSO on an overall basis is going to be ranging around these levels.
Dividend per share. Keech already covered about it. We are declaring Rs.1.5 per share as the dividend in the current quarter.

ETR is where I will spend some time. Q1 effective tax rate was 18.4%. In Q2 our effective tax rate is 17.9%. And we expect this range to be sustainable from a future perspective. Given this sustainability - we are bringing down our ETR from 20% what we had guided earlier to 18.5% from a full year perspective. This is the new base level ETR for the full year. This is primarily in terms of the way that deal was structured and the transaction-related expenses which were available for us to be taken as taxable deductions into our P&L, which is helping us reduce our effective tax rate for the current year. We expect a lot of it to continue even from a future perspective, but we are not guiding to this level from a future perspective. I will come back to that in terms of the future, but we definitely expect that a significant chunk is going to continue even from the future.

CAPEX: What we incurred during the quarter is $4.6 million. This is in addition to $3.1 million what we had incurred in the Q1. So, overall, what we have incurred in H1 is close to $8 million of CAPEX.

That’s an update from finance perspective. One comment what I would like to make on the margins before we open up for Q&A is on the AS 116 accounting for lease. From an accounting for leases, lot of our peers have already started taking that impact from 1st of April because the accounting standard came with effect from for the financial year starting 1st of April. Given we have an accounting year which is from January to December, the AS 116 is going to be applicable to us from 1st of January 2020. So, all the margin numbers and the EBITDA numbers what we have shared does not have an impact of AS 116 into it. A bit of a clarification cause for a lot of the other companies and our peers, AS 116 has given them a bump up in their EBITDA percentages starting this quarter.

So, with that, we are going to open up for Q&A.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

**Sandeep Shah:** Keech, wanted to understand with 50 days of acquisition in the bag, how is your experience with the existing client set of Hexaware, any white space creation where you can say that this can be to an addressable market increase within your top accounts or within the existing accounts?

**R Srikrishna:** At conceptual levels, there is absolutely no doubt that it can. The market data is pretty clear, companies are spending money on creating digital products, that market is growing at mid-20s or early-20s compared to the rest of IT market which is low single digits. And within that, actually the mobile portion of it is growing faster than other forms of digital products. So, there is no doubt that we can create new markets in our customers. It is early days but we already have
a joint pipeline, and actually the pipeline goes both ways. We have opportunities in their current customers and there are opportunities for Mobiquity capabilities in historical Hexaware clients. So, both are there. Like I said, we expect; not for sure, but we would not be surprised if we have at least one proof point before the quarter is out.

Sandeep Shah: Just on the organic growth, which we have reiterated at 12-14% still the ask rate in the next two quarters is still a reasonably like mid to low single-digit as a whole. So, looking at your order pipeline plus a deal cancellation, are we on track to do that or do you believe the growth may be more Q4 dependent versus Q3 dependent?

R Srikrishna: Actually, we will have a pretty good Q3 for sure. We have had a good Q2, we will have a pretty good Q3, and Q4 will also have growth. We will have some of the usual Q4 headwinds or furloughs and all that, but notwithstanding that, based on the ramp-up of the orders in hand, actually we will have growth in Q4 as well but we will have a pretty robust Q3.

Sandeep Shah: Keech, this is for business outside of Mobiquity, right?

R Srikrishna: Yes, you will see both numbers together, but our organic business will grow pretty robustly in Q3 and it will also have solid growth in Q4.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Keech, just wanted to understand the weakness that you alluded about BFS particular client. So, can you provide some color which is totally unexpected kind of situation? And when you say 30% is outsourcing, they plan to do in two quarters, where they are currently and what kind of decline you foresee and maybe how overall situation you foresee in that client environments? Second thing is about insurance deal which earlier you alluded might be not ramping up or might not be there from Q4. So, considering all this put together from BFS and then that insurance deal, how one should look at from momentum perspective in BFS particularly from medium-term perspective? Because earlier we indicated some headwind in secondary mortgage, largely because of higher attrition which we face.

R Srikrishna: That is why kind of we broke it up as much as we could in one slide where we showed you the momentum in rest of the verticals. So, first I want to reiterate if you look at our non-BFS verticals in aggregate in H1, they grew at 17.3% and we expect it will get better in H2 than they did in H1, not just sustain, we expect it will get better. So, we are in actually wonderful performance, wonderful momentum in those verticals put together. In BFS, beginning of the year was kind of bleak all round. At this point, outside one account, lot of other accounts have started picking up. We actually expect to see decent growth in Q3 and in general in H2. But there is one account I called out. So, where are they relative to that goal? It varies on the program; some programs that are 50, some programs are higher, 60, 65 in terms of outsourcing. So, they had a new CEO, who joined I think like 30-45 days ago. This was a consequence of that. So, overall momentum is
pretty good, this account will bottom out in Q4. So, once it bottoms out, it actually looks pretty good because all our other verticals are growing like high teens, maybe even breach teens and rest of BFS from Q3, we expect will do reasonably well, certainly quite a bit better than what they did in H1 and which really leaves us with one major drag which is this one account, and that account will bottom out in Q4. So, there are a couple of different factors happening there -- One is the dictum to get outsourcing ratio down to 30%, but also they were overspent on budget Q1 and the new CEO came and said, “Hey, do not expect what happened in previous years that we’ll give you more money.” So, you have to stick to budget which means they have to cut quite a bit in Q3, Q4. That is what we anticipate will happen right now. But once they do that, they have to come back to average in Q1. So, there could be some growth going into Q1. But even if there is no growth, if it simply stabilizes and bottoms out, actually we are in pretty good shape because the rest of the business is doing very well. Now, notwithstanding all this, the fact that I just said this account will go down, Q3, Q4, will bottom out in Q4. Notwithstanding that, because the rest of the business is doing so well, we actually expect to have robust growth in the rest of the year which I said earlier, I am reiterating that is notwithstanding this account going down.

Dipesh Mehta: Just to get clarity. Earlier, we indicated some weakness in capital markets and secondary mortgage. So, now outside of this client, rest of the clients you are seeing growth trajectory returning and stability coming there?

R Srikrishna: Correct, and this client is in secondary mortgage.

Dipesh Mehta: Second question is about the margin. I think earlier we indicated about recovery in margin entering into Q2 onwards kind of. Now, we have seen a decent uptick in margin. What would be the medium term kind of margin trajectory because our margin performance remains fairly volatile across quarters, so if you can help us understand what would be the broad range where we should operate?

R Srikrishna: I slightly disagree that our margin performance is volatile. There is actually a reasonably well set cyclicality to our margin. Our Q2 and Q3 are decent, our Q1 and Q4 are lower, and we say this every year, ‘Hey, do not look at what is Q1 or Q4, do not look at what is Q2 and Q3, the numbers for the full year is going to be somewhere in between.” In fact, usually Q3 tends to be little bit better than Q2 and either Q1 or Q4 tend to be the worst depending on calendar and so reasonably well set pattern. But what tends to happen is because Q4 and Q1 are consecutive quarters, just the sense that, “Oh, my god, margins have fallen and it is not going to recover.” But kept saying we are very confident margins will recover. There is volatility, yes, but it is within this pattern. If you go back and look at a number of years, it is going to be largely within this pattern.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
Manik Taneja: Keech, just wanted to understand your commentary on sequential growth further. So, in recent years, typically the June quarter which has a best sequential growth, do you think we will probably have a slightly different trend this quarter given some of the challenges on the financial services side have reduced recently for you…Q2 of calendar quarter in recent years?

R Srikrishna: Between Q2 and Q3 both tend to be quite robust. Given this year’s context, I think Q3 we expect at this point certainly will be better than what Q2 was. So, Q3 will be our most robust. We also expect that unlike in usual years where because of a lot of cyclical headwinds, Q4 is either flat or very low growth, we actually expect that trend to get bucked this year.

Manik Taneja: So, just to prod you further with regards to the decision by one of our financial services customers which you say is on mortgage lending side, I suppose this customer was largely onsite-centric delivery and even in the past you have spoken about possibly the wheel turning on an incremental basis towards higher offshore delivery, so will this also be beneficial to our margins from a go-forward basis?

R Srikrishna: There are kind of three good things in this bad news -- The first is what you said that our offshore ratios will improve and hence it is a bit of a tailwind to our margin percentage. The second is that our client concentration right at the top is going to reduce. It is going to bit of derisk our business. And the third is, the fact is that notwithstanding that we expect to see a robust H2. And once this bottoms out in Q4, then we could have a really nice H1 next year. So, that is all the good news that we see in the bad news here.

Moderator: Thank you. The next question is from the line of Abhishek from Equirus. Please go ahead.

Abhishek: So, Keech, should we read the drop in the software and development expenses on a sequential basis are related to the mortgage customer that you are referring to or anything else has happened on that side?

Vikash Kumar Jain: That is a reduction in our subcontracting cost and that is primarily driven by the fact that our business mix, there is a significant shift from onsite to offshore. So, on onsite, to keep our cost structure variable we have a lot of subcontractors and with the business coming down in the onsite, subcontracting charges have come down.

R Srikrishna: Yes, it is linked to this customer too, it is not only that customer, but probably a good chunk is linked to that customer.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Keech, just wanted to understand, looking at the macro, do you foresee any further instances where clients are slightly jittery in terms of releasing the IT spend or slowing down the decision in terms of the deal wins or deal awards and all that, any segments because you called out capital
markets at the start of the year, but are you seeing any kind of signs of similar thing in the other industry segments?

R Srikrishna: Not at this point; however, capital markets some of the events in the last one week, we have not fully digested, I do not think our customers have, I do not yet have a view on what that could mean. Just logic, trend wise, anticipation of the fact that there will be further reduction in interest rates has gone up, that is a negative for capital markets, for asset managers, for buy side capital markets is a negative, they make money on interest rates. But that is not fully baked in. Just like happening in real time. But we have not seen impact in others, especially in our portfolio, you have seen the numbers, 17.5% growth. Like I said, we expect that to improve through H2.

Sandeep Shah: Just on the capital allocation, you said that the current dividend per share per quarter will continue and that you also assume that in the fourth quarter likely trend would be to go with the interim dividend rather than any further higher final dividend, so one can you foresee that?

R Srikrishna: The board will make a decision each quarter, but that is likely. We usually do not do an additional; we just stick to interim. This is what we are likely to stick to for a while.

Sandeep Shah: H2 generally is for you better in terms of new accounts, new wins. Will that similar trend would be visible even in this year especially in the fourth quarter?

R Srikrishna: Yes, that is usually the case, right, but we can never predict for sure new wins, but yes, in general, that tends to what happens. People keep postponing decision-making and then they have to do it before the year is out, so they do it. That is what we expect will happen this year too.

Sandeep Shah: Just a follow-up to that, In the existing accounts, we have done good in CY’18, where we were able to win some larger deal wins. So, those trends are continuing, can you give some update, how are we progressing in terms of existing client mining?

R Srikrishna: Thanks for asking that question. So, our existing wins in existing clients, pipeline in existing clients... I have been giving that commentary for some quarters now, there is no change. It continues to become better, and I think it is a very sustainable secular trend that our clients are recognizing that we can do more. They are inviting us to more and more initiatives, virtually anything material that they do, we get invited to in a lot of customers. So, pipeline from existing customers are better, our win rates are improving. So, we are doing very well with existing customers. Our dependence on NN for growth is in the balance lot lesser now than what it was three, four years ago. It is still an important part of a growth, but in balance it is less important than what it was before.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from IDFC. Please go ahead.

Ashwin Mehta: Keech, in terms of the Mobiquity business, is there any seasonality to this business in terms of what quarters are stronger, what are weaker?
R Srikrishna: So, there is not like a business seasonality, but there is a lot of the business, historically they have not taken a risk on fixed price. Even if they take accountability for delivering a product, they charge on T&M. So, there is some calendar-based variance to their business. But there is not a cyclicality on top of that.

Ashwin Mehta: In terms of the reduction in guidance from 20 to 19, it is largely due to this client or the impact because of this client is actually higher and we are making up for it from rest of the business?

R Srikrishna: It is actually the latter. Impact on account of this client is actually quite a bit higher than that reduction. But we are doing better than expected everywhere else.

Ashwin Mehta: This reduction is largely based on the CEO’s rethink and not necessarily something to do with government businesses looking to do insource?

R Srikrishna: No, actually it is nothing to do with government. We have two clients in that same vertical that are neighbors and other client is actually doing okay. They were doing just about okay in H1, but they are actually looking quite robust in H2. So, specific to this client, the CEO also brought in a new CIO, so that it is unique to this client.

Ashwin Mehta: One last small clarification. In terms of Mobiquity business, you indicated around $17-odd million of quarterly run rate. So, we can assume proportionate contribution for half the month?

R Srikrishna: The $17.6 million to be specific would have been the contribution for 2.5-months, not for the half year. What I said to reiterate is that if we consolidated for the full quarter, then our revenues would have been higher by $17.6 million.

Moderator: Thank you. The next question is from the line of Sudhir from Ambit Capital. Please go ahead.

Sudhir: Bill rate improvements actually contributed almost 90-basis points in terms of margin improvement in this quarter. So, is this broad-based or driven by any specific segments in terms of verticals or any particular segments?

R Srikrishna: I think it is more driven by skills than segments. We have been speaking for some time that we see an opportunity to kind of get better rates in pockets from some customers. I think it is more a function of that. I think some of these skills the consumption across verticals is fairly secular.

Sudhir: My second question is in terms of utilization, we are almost at 81% and in terms of attrition, close to 18%. So, given these two variables, how comfortable are you in terms of any possible risk to margins going forward?

R Srikrishna: We feel good. We have said many times over, there will be a sharp improvement in margin from Q1 to Q2 and we will sustain that or maybe slightly improve that in Q3 and I think we continue to say that. We have the same pattern every year; Q1 is low; Q4 is low, Q2 and Q3 are good. So, we do not see a risk to this range for Q3. So, between Q2 and Q3, there is going to be some puts
and takes, right. There is some amount of ongoing visa renewal cost, but there is big chunk of visa annual costs that are not going to be there next quarter. We will have partial wage hike impact next quarter. We will have full wage hike impact in Q4. So, that is some of the major puts and takes that actually calendar is going to be slightly better in Q3 than Q2. So, yes, we feel pretty good about where the margins will be in Q3.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: If I look at the new deal win in H1 CY’19 and compare it with H1 CY’18, the growth is hardly like mid single digit. So, what is driving the confidence for a stronger growth in H2 -- is it the pipeline that could translate into stronger deal win or the ramp-up of some of the deals that we have already won in CY’18?

R Srikrishna: So, it is the latter. There are some pipeline dependency always. But a lot of what we are talking about is orders in hand, transition is going on or is scheduled to start or is scheduled to end. So, much of it is based on orders in hand. There is some, but not a huge amount of dependency on pipeline.

Shashi Bhushan: So, in that case if the deal win momentum does not improve in the second half compared to the second half of CY’18, there could be some deceleration in growth momentum in CY’20. I know it is slightly far away, but still…?

R Srikrishna: Yes, in general, what you say is true; however, our CY’18 deal had a blip. We had a $100 million client essentially not doing the contract in that same form and fashion, they are just doing automation, not doing the outsourcing, it is materially different. So, it is not strictly comparable, but in general, yes. If the deal momentum for H2 is not good, it will not have an impact on ‘19 revenues, it may not even have an impact on H1 of ‘20 but have an impact on H2 ‘20.

Wonderful. Thank you, all. We actually took a little bit longer in our commentary than usual because we had more things to walk through. So, we were actually prepared to go a little bit later on Q&As if needed, but looks like there is not. So, thank you all, and hopefully we will see all of you on the 23rd September. Look forward to that.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Hexaware Technologies Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.