



“Hexaware Technologies Limited Results Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the Hexaware Technologies Limited Conference Call. As a reminder, all participant 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, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Kalingara. Thank you and over to you, sir.

Vinay Kalingara: Thank you, Raymond. Good evening to all of you. Welcome to Hexaware Technologies Earnings Conference Call. From Hexaware, we have with us Mr. R. Srikrishna – CEO and Executive Director, Mr. Ashok Harris – President, Global Delivery; Mr. Vikash Kumar Jain – CFO. As always, there is a full disclaimer in our press release and the investor deck. We take that as read. Any non-GAAP numbers mentioned 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: Hi, everyone. Good afternoon. We feel like we have had a solid quarter. It is our first quarter post acquisition of Mobiquity where we have consolidated the full revenues. As a consequence, you would see we have crossed what we think is an important milestone of \$200 million revenue, of course it's quite a bit higher than that. And we feel like we are well on our way to get to what is the next important milestone of quarter billion run rate, which is \$250 million quarterly mark.

So, our revenues were \$210.5 million, and actually on a constant currency they would have been close to \$212 million, they would have been actually \$211.7 million. So, there was \$1.2 million loss in the quarter on currency. This represents 11.7% QoQ growth on the reported number and 12.3% on a constant currency. And of course, YoY growth is in 20s. We think it's a solid growth, given that there was a single client that we have spoken about at many lengths before. That single client contributed to a headwind of 2% for the quarter. So, ex that client our growth would have been 13.7% or 14.3% in constant currency.

Having said that, I think we would have still expected the growth to be a little bit better. And there are essentially two reasons, one I already mentioned, there was a single client which contributed to a negative 2%. We did expect this client to have a substantial headwind, we have spoken about it, but yet it was a little bit higher than we assumed. Additionally, I think there is some softness in banking that kind of cut across Hexaware portfolio, but also the acquired entity portfolio in terms of banking customers. So, there was a sector specific issue, that again, something we have been speaking about. And then the third factor is that, while there is a demand issue really in one account, in the rest of the universe there continues to be - demand outstrips supply. It's not a new problem, we have been narrowing the gap continuously, but the gap remains.

So, overall, good quarter, given that one client impact (-2%). But even then, we felt we could have done a little bit better.

On profitability, EBITDA, we are roughly at the same spot as where we were in Q2. What we have been saying consistently is that on a full year basis, our profitability for 2019 would be the same as the profitability for 2018. I am sure you will do the analysis, but with the quick math; on a YTD basis - the nine months in 2019 is 10 basis points lower than the nine months in 2018, this is post RSU EBITDA. So, we have kind of stuck to what we said we will do, that our EBITDA growth will be in-line with revenue growth.



The EPS, however, is an outstanding story. We have a QoQ reported number growth of 21.3%. While that's a better number, I think the right number to focus on is the non-GAAP EPS, which I think is more reflective of the operational performance. The non-GAAP EPS grew at 16.5%. I think kind of the big factor is our active, and frankly I think best-in-class ETR performance. So, you will see later, when Vikash speaks, that our ETR for the quarter is now down to 17.4%. And this is kind of as a consequence of everything else we have done, but also the fact that there is some tax shield that came as a consequence of the acquisition. And that was very much part of the planning; the reason why we made the investment.

Our NN Wins were robust, \$28 million, is higher than what we had same period last quarter. YTD basis, again, our NNs total for first three quarters is higher than what it was last quarter. I also told you last quarter that we expect that as soon as Q3, we will expect to have at least one cross-sell win between Mobiquity and Hexaware. So, we will talk through some of the wins later. But in one of the wins, our largest win for the quarter, in that client – there is kind of two, three pieces of work. One of them is to build mobile app for this client. And that portion of the deal was won as the consequence of working with our new capabilities from Mobiquity.

Our headcount went above 19,000, that includes the Mobiquity headcount of 700-odd. And we decided to step up the dividends a little bit to Rs. 2; at least for the rest of the year.

So, for those of you who are seeing slides, slide #6, I am going to skip, it's largely the summary we have already covered. I do want to talk about the revenue and the EBITDA walk. On revenues, it's relatively simple. We have had two headwinds and everything else is green. So, the two headwinds are forex, \$1.1 million we lost; and mix of \$2.9 million we lost. The mix was a consequence of one account where I told it is causing us 2% headwind. So, the mix has also changed. So, then you see there is a volume increase and there is a bill rate increase, so everything is all positive here, except for forex, and for the mix. Very robust growth in volumes.

The EBITDA walk has a little more interesting commentary to it. So, we had actually a gross margin improvement of 154 bps. In this, we had the usual tailwinds of the calendar. And these are costs from Q2 to Q3 coming down. So, these are two seasonal tailwinds that always happen. In addition to that, this is the second consecutive quarter that we have had an improvement in margins on account of bill rates. Last quarter, I can't recall the exact number, but it was again 70 or 80, or maybe even 90 bps of improvement in gross margin due to bill rates, and so we see that again. The positive of that one account causing substantially lower revenue is that that account is all onshore, so our mix has improved a little bit, and that's causing 30 bps.

The two negatives from a gross margin perspective are – 1: salary increments. So, there are two parts to salary increments. There is a portion that is gone into gross margins that you see here as 30 bps. There is an additional 20 bps that has gone to SG&A, which is all combined in the decline due to SG&A.

Finally, utilization has dropped and cost us 90 bps for the quarter. Frankly, a lot of it, not all of it but a lot of it is essentially a little bit of shoring up for the future. Building capacity or built capacity for anticipated growth in the coming quarters, including Q4. And we will talk about Q4 and guidance update in a few minutes.



SG&A decline, it looks like a scary decline of 155 bps, about half of it is just due to the consolidation of Mobiquity. That entity structurally has a higher SG&A number. So, in some ways this is the new normal for us going forward. The other half, there is kind of a couple of components, there is a competent on salary increase which I spoke about already. And the majority of the rest is increased investment in people, sales and marketing. And again, at this stage we are really focused on setting ourselves up for 2020. And there are leadership additions, and team additions that is happening now in preparation for that.

We did kind of refer to EPS GAAP versus non-GAAP numbers. Really, there are two elements that make up the difference, there are actually three elements. Last quarter we had a one off of a transaction cost of roughly \$2.4 million. So, that is one element which doesn't exist this quarter, but if we look at QoQ number, that number comes into play. The second factor is the amortization of intangibles. That is at \$1.6 million. So, the number will be at \$1.6 million per quarter for the next two years, and then it will come down a bit for another five years, and then it will become zero. And so this we think should be non-GAAP, and finally there is an NPV of the two deferred payments we have, one due in January of 2020, and one due in October of 2020. That, \$200K a quarter, and these numbers ago away post October of 2020. So, that is the bridge between GAAP EPS to non-GAAP EPS.

We go to slide #10. For those of you are looking at this, there are two kind of headline on this slide. First, I think we have a continued hearty growth and strengthening of our customer pyramid. Some of this is due to Mobiquity, and I will call it out. But a vast majority is organic, right. These are all kind of LTM versus LTM views, so this is Q3 2019 versus Q3 2018. Pick the middle of the pyramid, I think that's in some ways the most important, the middle of the pyramid. It shows that we have been able to grow at least to some extent, clients from the bottom, shows that some of these have an opportunity to grow further up. Look at the middle of pyramid, we have got \$20 million to \$30 million which has gone from one account to three accounts, none of it came from the acquisition. \$10 million to \$20 million we have gone from six to seven. \$5 million to \$10 million; substantial expansion, 15 to 22, three of these came from Mobiquity, the rest are organic.

Now, the second kind of important news in this is that, as a consequence of two factors, one positive one negative, the great outcome is that our client concentration has reduced dramatically. So, our top-five clients now contribute to 35%. A year ago, they were 42%. Now, our top-10 now contributes to 44%, down from 52%. So, in essence, a year ago what used to be our top-five clients are now our top-10 clients. And of course, due to the acquisition a client or two that went into the top-10, but the majority went below that, certainly none in the top-five. And there is also the steep reduction in the one client we have been speaking about. So, we see this was an important silver lining of that negative event that we feel a lot better about client concentration going forward.

We have had a number of interesting deal-wins this quarter, I already called out one which is actually the largest for the quarter. It is a large audit, accounting, tax, advisory type organization, we already had one of those, this is another. There is also a client where we had our first cross-sell. So, in this client we will also be building a mobile app for them through Q4 and Q1. We have had more than one, (we called out one here), but we have had more than one interesting land and expand type deals in the insurance space. I think early this year, we spoke about the fact that we have become a Guidewire partner, that relationship is bearing fruit in a serious way, and it's helping us get into a number of accounts where someone else is an incumbent, Guidewire implementer. Some cases we

enter with data migration or DevOps, but eventually there is an opportunity to get into the core implementation.

Finally, we also had another interesting infra transformation for a leading US based furniture retail store. It was interesting because, yes, it's an infrastructure transformation and we have been winning those for a while. But the reason we won this is actually a mixed reality transformation for the retail experience, where we built a solution for them where a potential client can reimagine their house with pieces of furniture from this client. They can place it in various parts of the house, see how their living room will look or the dining room will look, without moving an inch from the rooms. That was the start of how and why the client got excited, and we rapidly moved from there to higher volume services infra transformation.

Our attrition, last quarter we said it has stabilized. We like the fact that it's stabilized, but we don't like where it stabilized. We also said, we don't know if it's sustainable, we will continue to work hard. So, I think we have some good news for a long time on attrition, it has come down quite sharply to 17.3%. And I am saying sharply because this is an LTM number which means the in-quarter number is actually down quite a bit. Again, we don't know of sustainability yet. We are going to continue all our efforts to make sure that at a minimum it stays here or if we can bring it further, that will be even better.

Utilization, we already spoke about it. We did have a fall in utilization 1.5%, 80.7% down to 79%. It cost us 90 bps in gross margins. Furlough is a big issue in Q4, ex-of-furlough, this utilization will come back up a little bit in Q4.

Q3 there are various cuts to Geo and Vertical and Horizontal growth. I will call out a few things, because all of these numbers are obviously kind of a new baseline, because this includes the full Mobyquity revenues. For the most part, from a horizontal perspective, the big growth in ADM is driven by the acquisition. For the most part, all the rest of the numbers are unimpacted by the acquisition.

On a vertical basis, last time we spoke about the fact, and in the investor meet (for those of you who came), we showed you numbers of the dichotomy between our BFS growth and our non-BFS growth. And we told you that the non BFS growth will not only stay as robust but will even accelerate in H2. You are seeing that play out here, if you look at the YoY growth or the QoQ growth. While, all of them kind of have an acquired component. You see the difference between BFS and every other vertical. In sometimes the differences are staggering, like 11.7% versus 40.9% or 11.7% versus 38.6%. So, that theme for us continues, that we have really four verticals for the most part doing exceedingly well. And even in BFS many accounts doing well and there is a serious drag from one client, which we expect will bottom out in next quarter in Q4.

Which then brings us to the most, I guess, relevant topic for all of you, is an update on guidance. So, I said right in the beginning, while we had a robust quarter, we think we could have done better, on account of three factors. The single client issue was steeper than we expected. They on their own cost us 2% sequential growth. I think there is some broader banking sector softness in Hexaware portfolio and in the Mobyquity portfolio. And there are still supply-side issues that impact our business.

As a consequence, we have brought down a little bit, the guidance. So, before I get to the number from Q2-end when we gave the guidance to what we are saying now, there is actually a full year 50

bps impact due to currency. So, in essence, if this were to be equated to the currency one quarter ago, then this should be read as 17.5% to 18.5%. We lost \$1.2 million in Q3, that will continue in Q4 and we are projecting a further loss in Q4, based on current rates. So, this statement is around all of that. So, there is actually a straight full year 50 bps loss on account of currency movements from June end.

And then we have provided a range, and the range is based on essentially two factors. Furloughs in Q4 - frankly there is more uncertainty in furloughs and a possibility of higher than normal furloughs. And even beyond some of the traditional sectors like BFS, and deeper in BFS. And the client in the Top-3, and it's the same client, there is no other client, there is just one client where the issue is. The direction has not changed, and we also knew it's going to be intense, but just how intense there is still some variability.

With that, I am going to pause and hand over to Vikash.

Vikash Jain:

Thank you, Keech. View of the numbers from an INR perspective, in rupee terms the revenue for the quarter was Rs. 14,813 million, a 13.2% sequential growth and on a year-on-year basis 22.5%. Growth in rupee terms was higher than what we saw from the US dollar perspective, driven by dollar strengthening during the quarter. So, that helped us from rupee terms perspective.

On the hedge, we continue with our layered hedging policy where we take forward covers up to 24 months in advance, higher coverage for the first 12 months and then gradually we keep on reducing for the future quarters. The chart you see provides a compare of how the hedge rates have moved over the last four quarters. And as you can see, our forward cover rates are improving quarter-after-quarter, which is good news. As of the quarter end, we have a total forward cover book of \$220 million, if you convert the Euro and the GBP back into the dollar terms, so close to \$220 million of hedge book, with majority of them being in US dollars.

We have also provided the seven-quarter view in terms of forex gain or loss, five quarters of actuals and two quarters in terms of forward looking. This takes into consideration impact of two items. One is the hedge gain or loss and the other is the translation gain or loss associated with the balance sheet translation as at the quarter end. In the current quarter we had a \$2.8 million of gain, and both the items actually attribute it this. So, we had a gain from the hedging, and we also had a gain from translation, because the dollars appreciated at the quarter end of September, compared to the June close rates. For the next two quarters, we are expecting that we are going to be having hedge gains, and this takes into consideration assuming that September close rates hold good, that's going to be \$300K in Q4 and \$800K from Q1 perspective.

Moving on to the Slide #19. From a cash perspective, cash generation for us remained pretty strong during the current quarter. We closed the quarter with \$30 million of cash. While it looks like that on a QoQ basis there was a \$5 million of increase, what is worth noting is that this takes into consideration the increase after repaying \$4.5 million of working capital loan. For Mobyquity acquisition we had taken a loan which was a combination of the term loan and a working capital loan. As of Q3 end, the total loan what we have outstanding on the books is just the term loan of \$20 million. The other way of looking at it is that, if we net out the loans what we have on the balance sheet from the cash balance, we actually are on a net cash position - \$30 million of cash, \$20 million of loan, net it off - \$10 million of net cash position.

The other metric what I want to draw your attention to when I refer to the fact that we had a strong cash conversion cycle. On a YTD nine months basis, which is YTD September 2019, we had OCF to EBITDA, which is cash conversion cycle of 68%, which is significantly higher than the same time last year.

Moving on to DSO, our DSOs have come down by 1 day, and primarily it is a reduction which is driven by the billed DSO. As I had mentioned earlier, we expected our DSOs to be hovering around this range. It is going to fluctuate marginally QoQ by plus/minus few days, but this is the level at which it is going to stabilize at.

Keach already spoke about the dividend. The dividend for the quarter that we are declaring is Rs. 2 per share, which is 100% dividend for the current quarter.

From an ETR perspective, consistently, for the last three years our ETR has reduced year-after-year. And even from a current year perspective, each quarter the ETR has reduced. We expect the Q4 to continue within our guided range of ETR what we provided last time.

CAPEX for the current quarter is at \$4.4 million. If we add H1 spend, the total CAPEX on a YTD basis is \$12.5 million. Before we open up for Q&A, one additional point what I would like to mention, which we had mentioned in the last quarter too is, when you look into our margins from an EBITDA perspective, that does not take into consideration any of the transition impact of IND AS-116. So, just want you to keep that in mind. And our transition is going to be from 1st of January of next year.

The other piece on the ETR, there was a concessional rate regime which was announced by the Government. We have looked at it and realize that our existing tax rates are more beneficial than the concessional tax rates, which has been announced by the Government, which requires the exemptions to let go off. So, we will continue with the existing tax rates instead of making the transition to the new rate structure for now.

With that, we will open up for Q&A.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sandeep Shah from CGS CIMB India. Please go ahead.

Sandeep Shah: Keach, wanted to understand the 4Q guidance, which is implied from the full year, is a range of 1.8 to 4.8. And the wording indicates that it all depends. So, even at the lower end of 1.8, are we not confident or this is a worst-case scenario built at the lower end of the guidance?

R. Srikrishna: Yes, 1.8 is lower end, right to 4.8. It is a wide range, we recognize that. Unfortunately, we at this point don't have a handle yet on furloughs. I am going to say a vast majority of this variance is on account of furloughs. There is some basis, we already assumed a fairly sharp further reduction. So, just so everybody is clear, we told you that this one client caused a 2% negative drop. There is going to be a further sharp cut from Q3 to Q4. That is known. So, we already assumed a sharp cut, but it just could get a little worse. So, there is some variability on that, and the smaller variability then is on bookings. That is not a huge amount of dependency at this point on bookings. So, the vast majority is on furloughs, Sandeep.

Sandeep Shah: Okay. So, is it fair to say that if the furloughs are higher than expected and the sharp cut into the top client is higher than expected, we may even actually miss the lower end of the guidance as well on a worst-case scenario?

R. Srikrishna: No. Really worst scenario - anything could happen. But what we clearly expect at this stage is that if kind of furloughs are bad and the top client is bad, then we will hit the 17. I mean, while the percentage numbers have a wide variance, if you look at it in absolute numbers, we are talking about \$5 million - \$6 million in absolute swing. And like I said, a vast majority of that will be swinging on account of furloughs.

Sandeep Shah: Okay. And Keech, if I look at the difference between the earlier guidance of 19% and that revised guidance at midpoint of 17.5%, the difference is \$10 million. And if I adjust for the 50 bps of currency impact, the difference is \$7 million. So, that comes to 3.7% impact versus what you were highlighting, 2% impact as coming through one client. But the balance 1.7%, it also looks big. So, what is happening in the rest of the accounts? Why the visibility has been becoming so weak on a QoQ basis?

R. Srikrishna: So, by the way, I must commend you on the speed of you doing math. The part of this is furloughs, right, and there is variability. You take a midpoint, there is some variability of a furlough built in. I will call out that there is also kind of some weakness in banking. And that's actually been there in not just in our portfolio, it's also in the Mobiquity portfolio. Recall, we said Mobiquity has a strong core banking presence, digital banking presence. We have seen the softness in banking potentially. It certainly had an impact in Q3. We will see how it plays out going forward. So, yes, that is the factors. Just the last thing, of course, just from a math perspective, with the sharper cut in Q3 in one client, that also carries forward to Q4. So, there is kind of a little bit of a double impact on Q3.

But if you again do all the math, you will see that volume growth is extremely strong. If you are doing 12% growth after negative 2% from one client, that is just enormous. We have an engine chugging, and I think the best evidence of that engine is the data we have on vertical-wise QoQ and YoY growth. We are just seeing that all non-BFS verticals are on a nice orbit. I mean, to be sure, everything has an acquisition impact, but you can see that there is still a material difference. And frankly, actually, the biggest positive of acquisition went to BFS. In spite of that, we are seeing a substantial difference between BFS and other verticals.

Moderator: Thank you. We will take the next question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Keech, just wanted to understand a couple of things. Number one, if you could help us understand how the wage increments have been for you this year and how would they compare versus last year? And if you could talk about what you are seeing from a supply side standpoint from a go-forward basis?

R. Srikrishna: Yes. So, just first to get the numbers behind us. This quarter there is a 50bps impact on EBITDA due to wage increases, 30 bps in gross margin, and 20 bps in SG&A. The SG&A impact is kind of there will be no further QoQ impact, it is fully baked in. On a gross margin, this impact is staggered. There is some of it in Q3, there is a further impact that will come in Q4. Our increments this year were actually higher, a little bit higher than what we did last year. We also used some different techniques

for distribution, but on an aggregate level they were higher than last year. And that's on the wage increments.

With your question about supply side, I think supply side just continues to remain a challenge. I mean, you will see the headline figures on macros. Unemployment just continues to inch down, and that's broad-based. Tech unemployment is virtually zero, so hiring skills is hard. And I spoke about the two or three strategies - pay more, create skills in U.S., create skills in Mexico. We are executing on all of those. But yet, the reality remains that our cost of doing business has gone up, and we are still leaving revenues on the table each quarter.

Manik Taneja: Sure. And how should we be thinking about next year's growth, given that the order intake numbers basically have been pretty similar to what we saw through the last three quarters of last year?

R. Srikrishna: Yes. So, I have been saying this for several quarters now, right, that what you are seeing as order intake is only the NN numbers. The huge driver of growth for us is EN. I mean, we don't report on EN booking. And I am not even sure, and we have been asked this question many times, why don't you report on EN booking, and it's a little bit like digital revenue. There is no kind of good basis, do you include/ not include renewals? Do you include something 6 months, and then it starts again? How do you deal with EN booking is a non-trivial issue. We think the best kind of metric to track EN performance is just revenue growth. So, the much bigger driver of growth is EN. I mean, NN is important, don't get me wrong at all, NN is incredibly important. But if you look at kind of four years ago to now, relative scale NN was like 90, EN was 10. Today, it would be far more balanced.

Manik Taneja: Sure. If I could chip in, just wanted to understand the strong performance that one has seen in the European geography through the last couple of quarters. How much of it essentially is organic? And how much of it essentially is held by the Mobyquity acquisition? And what do you see from a go-forward perspective?

R. Srikrishna: Europe been strong, obviously, this quarter numbers, every business is aided by the acquisitions. And perhaps Europe a little more so. The acquired entity business had a higher Europe footprint than the organic entity. But Europe's been doing very well, notwithstanding that, and in a very sustainable way. It's not one or two accounts driving it, it's just many accounts and many geographies and verticals that are driving growth for us in Europe. And of course, all this is notwithstanding the fact that all the currency headwind is, of course, in Europe.

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

Dipesh Mehta: A couple of questions. First of all, can you help us understand what is the organic growth? Because I think you indicated about some weakness in banking client in Mobyquity also, so if you can help us understand what is the organic growth, which we have seen?

Second question is, IMS growth continues to remain muted even this quarter. So, if you can help us understand what is hampering growth in IMS?

And the third is, in terms of your outlook, you have mentioned about extent of weakness in top three clients. So, if you can help us understand, we are more emphasizing on one client, whereas in your outlook, we have mentioned three, so if you can help us clarify this part.

And the last one on wage impact, what would be the impact in Q4?

R. Srikrishna: Okay. So, let me kind of deal with the third question first. If the English is not clear, I apologize. It is not three top clients; it is a Top-3 client; it is one client among top three, so it is only one client we are talking about, it is not three different ones. The same client that we have been speaking about from before, there is just no new client or no new issue. Wage impact for Q4 will actually come back to you on, I don't kind of have it top of my head. Vikash has a number.

Vikash Jain: So, it's going to be on a QoQ basis, 40 basis points impact.

R. Srikrishna: So, like I said, SG&A there will be no further impact. This is on the gross margin, there was a 30 bps impact this quarter and again further 40 bps impact next quarter. I am now going back to your first two questions.

Yes. Organic, I mean, we are not reporting on organic versus inorganic. You can do enough numbers to make a fair estimate. We did tell you enough data during the last quarter call to make a fair estimate. We told you how much would have been the revenues if we had consolidated for full quarters. So, you can make a fair estimate.

Dipesh Mehta: Yes, I understand. The reason for asking is because you indicated some weakness in banking clients on Mobiquity also. That is why I just tried to get sense whether it was more pronounced kind of weakness in Mobiquity?

R. Srikrishna: No, it was not. It was not more pronounced in one versus other. I think it's just what I think is the sectoral weakness theme extends to Mobiquity as well. It's not that a type of revenue, let's say, digital revenues or whatever have been immune to that. It's very early, it is just one quarter, but that is what we have seen in this quarter.

Dipesh Mehta: Last is about IMS.

R. Srikrishna: Yes. So, IMS, I think if you heard our Investor Day presentation from VC, one of the things you have heard is that the business is a fair mix of outsourcing and project and consulting business. And I think that's a different kind of business from what historically IMS business is all OPS and annuity. So, we still have a chunk of annuity, but there is still a lot of project work in it. And finally, the project work is actually high end, and it does offer a great bill rates and profitability. But the flip side of it is that, I think there is going to be some lumpiness in some quarters and some projects get over and other projects haven't quite kind of ramped up fully yet. What we feel pretty good about is that the little bit softness path that you are seeing is of a short-term nature. The long-term growth trajectory for IMS will improve and will pick up. So, it may not, in the past four years it was astronomical, it was kind of in 40s. What we see you refer to speaking about in the next three, four years we expect it to be in the 30s or mid-30s, but it is still going to be a substandard improvement from what you are seeing in the current quarter.

- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, on Mobiquity, so how are we seeing the growth outlook? So, it used to grow at 25% CAGR, so should we say that, that kind of momentum is what we are targeting internally?
- R. Srikrishna:** So, I think even the last couple of times we have spoken about it, we said we expect robust growth, but for it to kind of taper a little bit from the historical 24% type CAGR, because higher base. So, we expect it will taper a little bit, but high growth, much higher than the prior to acquisition Hexaware revenues.
- Madhu Babu:** Sir, within our pipeline what needs to work out to again move that to 15% organic growth? Because this year, it might end up like 12% kind of growth. We have done 15% in good times. So, any couple of deals which can swing in favor for next year, which can put us back on that kind of growth?
- R. Srikrishna:** Yes, frankly this year we have had, I think, more than our fair share of difficulties with top five clients. We have had three different client issues in three years. In essence, every year we are seeing a 3%, 4% overhang for the last few years. Some people ask me the question, hey, is there something specific to Hexaware because of which you are having all these client issues? The answer is, no. We shared some of the data on the Investor Day. We continue to remain on top of the pile in customer satisfaction, both as measured by us and as measured by third parties. So, I think a year that we don't have these issues, we will comfortably do above 15%.
- Madhu Babu:** Okay. And last one on the BPO. Sir, I think the hiring, how much is BPO? Because we have seen a substantial increase in BPO headcount over the last couple of quarters.
- R. Srikrishna:** Yes. I think that the hiring pace has slowed down just a little bit. But on the other hand, you are now seeing the hockey-stick growth, and you are seeing the lag. So, there is quite a material lag between when the hiring happened and when the growth has happened. To be sure, the hiring continues to be strong. But just kind of we had a couple of large contracts that we had hired early for, that's kind of there.
- Madhu Babu:** In LTM, we added 2,300 employees organically, excluding Mobiquity. How much of that would be BPO, sir, in the last 12 months? 2,300 organic headcount addition approximately.
- R. Srikrishna:** So, I would say roughly half.
- Madhu Babu:** Yes. Okay. 1,400 is on the BPO side?
- R. Srikrishna:** Yes.
- Moderator:** Thank you. The next question is from the line of Tanmay Mehta from SBI Securities. Please go ahead.
- Tanmay Mehta:** I just wanted to understand if you could give some more color on what's happening at the top client? You indicated some weakness, so is it more pronounced in the current quarter than the previous quarter?

R. Srikrishna: First of all, I would clarify, that is the reason I called it out specifically as a top three, is that literally on quarter-over-quarter basis the position of the client in our portfolio is changing. So, it is currently in our top three. It was higher one quarter ago. So, the commentary I have given before, there is no change in the commentary, and I will repeat it for good measure. They had a new CEO who came in, I think, June. So, the new CEO did two things, slashed the budget, one; and two, said that outsourcing cannot more than 30%. And the third is that all of this has been executed in two quarters. So, for us, in some ways, mayhem started in the last two weeks of June. So, there was some Q2 impact. And then kind of this significant impact we had in Q3, and we will have a further significant impact in Q4. This is known. The impact in Q3 we are now quantifying was a negative 2% on the overall company growth, and there will be another substantial negative impact in Q4, further - Q3 to Q4 impact. But we expect it will stabilize at the end of Q4. So this minus 2% or actually more in Q3 and Q4, that headwind will go away from Q1.

I do want to add further commentary, which I think is important. We have lost no market share. In fact, we may have gained some through these last three, four months. We are pretty sure we have not lost any market share. They have six or seven strategic vendors. They categorize them into three categories, A, B and C categories. There are two people in category A, and we are one of the two in category A in terms of quality of delivery. So, it's important to understand we have not lost market share and whatever business is coming down is not as a consequence of quality of delivery.

Moderator: Thank you. Next, we have a follow-up question from the line of Sandeep Shah from CGS-CIMB India. Please go ahead.

Sandeep Shah: Yes. Last time, Keech, you said that in the banking capital markets, things are improving outside this top three client. But this time you are saying it has been broadened. So, what has gone wrong on a QoQ basis in terms of estimating that?

Second, in terms of margins, at the EBIT level we are at 13.7% for the nine-months of CY 2019. And in the fourth quarter is it fair to say headwinds would be higher than the tailwind? So, the exit rate would be much weaker to enter into the next year. So, how are you looking at it in terms of targeting the EBIT margins on an ongoing basis as a whole?

R. Srikrishna: Yes. So, let me start with your second question. We will have a drop in profitability in Q4, okay, from Q3 level. But that's no surprise. That's happened every year for us for any number of years. It's just a consistent pattern. That is why we encourage all of you not to look at quarterly run rates on profitability and make estimations. If you estimate based on Q3 it's too high. If you estimate based on Q4, it will be too low. We always said, please take a look at the total average for the year. And we said we will maintain profitability full year average last year. The same, we will do full year average this year. Until now we are basically, for all practical purposes, we are the same, we are 10 bps lower at this point compared to average last year for nine-months.

Sandeep Shah: Keech, last year was 14.4%, and the first nine-months is 13.7%, plus you are saying Q4 will decline on a QoQ, so that won't be a flat YoY margin, right?

Vikash Jain: YTD, Non-GAAP, Last year was 14.5%, Current year is 14.4%.

Sandeep Shah: I think CY '18, we had a reported margin of 14.4%

- Vikash Jain:** The number what Keech was giving to you was from an EBITDA perspective. So, that's the number what we are talking about. On a YTD basis, last year was 15.9%, and the current year on a YTD basis is 15.8%.
- Sandeep Shah:** Okay. Because even in 1Q next year, we will have some wage inflation pending, right? So, that's why I am saying the run rate on a QoQ basis, we are actually going at one of the lowest in terms of the EBIT margins.
- Vikash Jain:** We have not changed our wage increase cycle. In Q4 of last year we had a wage increase impact. In Q4 of this year too we will have a wage increase impact. Our wage increase impacts come in two quarters. Some of the impact comes in Q3, the balance impact comes in Q4. The trend in current year is similar to last year
- Sandeep Shah:** So, in Jan, Feb, March, there is no wage hike, right? It will be completed by December '19 itself?
- R. Srikrishna:** Correct, So, one thing you said that there will be a further impact in the Q1, there will be no further impact in Q1.
- Sandeep Shah:** Okay. And just on the capital markets, Keech, if you can help us.
- R. Srikrishna:** Yes. So, what I said last time is that in H1 it was fairly secular in terms of cautiousness. We said now there are many accounts and many pockets that kind of are better, but not across the board. So, that remains, I think it's not like every account is on a negative trajectory. There are still accounts that are on a positive trajectory. But it's hard to draw the line exactly what percentage is going to be up versus flat or down. So, it is not hugely different, but there is some estimation error in terms of we do think it will be slightly stronger. Also bear in mind that Mobyquity came with a higher percentage of core banking revenue than we had at all in Hexaware in the past. So, that's the other piece that contributed. Like I said, the softness in the banking sector extended to the Mobyquity portfolio also.
- Sandeep Shah:** Okay. And just last question on the order book. Keech, is it possible to say that fourth quarter generally seasonally higher for the new business order book from new clients, the trend may continue even in this quarter?
- R. Srikrishna:** Yes, that's certainly the hope. It's been true for a number of years that our fourth quarter NN intake is higher. Last year, it was not true if you kind of discount off the one large deal. But outside that, it has been true. And it's a fair expectation at this point for us that that will continue to be true.
- Moderator:** Thank you. The next question is from the line of Abhishek S. from Elara. Please go ahead.
- Abhishek S.:** Just a quick question. You talked about retaining your market share in the BFS customer, and you also spoke about challenges, both in your existing as well as the acquisition portfolio. So, the question is, have you retained your standalone market share or it's the combined market share? Thanks.
- R. Srikrishna:** Well, I think kind of two different comments that are perhaps being inflated. When I spoke about retaining market share, that was with respect to the single large client. That client has nothing to do with Mobyquity. So, that single large client, the point I was making is, even though we are dropping



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revenue substantially, we are not losing market share, and in fact we may be gaining market share. And we continue to be rated as one of the 2 Class A service vendors for that customer. So, that's the point I was making about market share. It did not have to do with a broader portfolio.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for any closing comments.

R. Srikrishna: Thank you, all. And we look forward to speaking to you next quarter. Happy Diwali.

Moderator: Thank you very much. On behalf of Hexaware Technologies Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.