



Hexaware Technologies Limited

Q4 CY 2013

Earnings Conference Call

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Moderator Ladies and gentlemen good day and welcome to the Hexaware Technologies Q4 2013 Results Conference call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, 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 Ms. Latika Gidwani from Hexaware Technologies. Thank you and over to you, Ms. Gidwani.

Latika Gidwani Good evening to all of you and welcome to the Hexaware Q4 CY 2013 Earnings conference call. From Hexaware we have with us Mr. P. R. Chandrasekar – Vice Chairman & CEO; Mr. R. V. Ramanan – Executive Director & Head-Global Delivery; Mr. Rajesh Kanani – CFO and Mr. Sreenivas V – Chief Strategy Officer. The safe harbor has been put up on the Hexaware website and through our press release and I will consider it as read. With this I handover to Mr. Chandrasekar.

PR Chandrasekar Good afternoon ladies and gentlemen warm welcome to this earnings call. I am aware we are towards the fag end of the earnings season and I appreciate the interest from all of you with regards to the results from Hexaware.

Now coming to the results at hand and specifically Q4 2013 we closed the quarter with quarterly revenue in excess of \$100 million. This is the first time Hexaware as an organization crossed this important landmark. It does represent a sequential growth of 1% approximately over last quarter and for the quarter 8% year-on-year growth for Q4 2013 versus Q4 2012. Given that it is seasonally soft quarter and due to the holiday season these numbers are along expected lines for us.

From a customer addition standpoint, we added 10 new customers which were broad based across all our three geographies as well as across our major focus areas. From a 2013 standpoint, it has been a strong year for us wherein we added 48 new customers during the

entire year of which we expect anywhere from 10 to 15 contribute meaningfully to Hexaware's revenues going in to 2014.

From an operation standpoint, Hexaware continued to perform very strongly. We managed our cost very well at the same time we also managed our utilization extremely well. Over the course of the year, we have pushed our utilization goals upwards and we ended the quarter at 74% overall.

This did mean a small decline in our technical head count on a sequential basis as well as for the year. However, it is important to note that while our head count decline on an overall basis we have continued to add freshers in to the system both during the quarter over 40 which brings the total to about 215 freshers which in turn will continue to improve our cost position on a per employee basis.

Equally important, given the developments at Hexaware over the last few months in terms of our ownership structure the good news for all of you is that our trajectory and our strategy remains the same. We remained focused on growing our business; we remain focused on servicing our clients but most importantly we have continued strengthen the organization materially over across a lot of fronts.

We have a new leader in Europe who comes to us with lot of experience in the European market and from one of the leading companies in the Indian IT marketplace. We have strengthened our leadership in the health care and insurance vertical. We have added a new leader from outside to launch our manufacturing vertical. Again, this person comes with significant and very relevant experience in the marketplace from one of the leading IT companies. In addition, we have added domain experts in the health care and insurance space to drive delivery and content for our health care business. We have added in the asset management a senior leader from again another leading company to be based in North America to drive the value we add to customers in North America.

In addition to these leadership roles we have also added both pre-sales that is people who can support our customers and our sales people in driving value as well as BDMs across North America, Europe as well as APAC.

We have also made some changes from a structural standpoint given the importance that we believe there is in terms of growth opportunity in the HCM that is Human Capital Management space as well as the strength Hexaware has in this particular area. We have created a new HCM business which integrates all our product competencies whether it will be PeopleSoft; whether it be new businesses like Fusion and Workday as well as the BPO area to focus on customer's needs in this area provide integrated IT and BPO solutions and become a leader in this space across all geographies.

In addition we are also making investments in both SAP and Oracle and thereby strengthening our ERP business which has always been a major focus for Hexaware as an organization.

Finally, we have continued to invest in SMAC Technologies; in Analytics; in Cloud as well as Mobility and have several wins with these customers in this area. Looking ahead while we no longer provide guidance we are looking at 2014 positively. The fundamental strategy of the company remains the same. The need to make investments is understood by our new ownership and the board is very supportive of our plans for future growth.

Q1 2014 will be a soft quarter for us as we see it. Having said that we are continuing to build in this area and we see a strong 2014 both from profitability as well as the revenue growth standpoint. With this I am going to hand it over to our CFO, Rajesh.

Rajesh Kanani

I will just highlight the financial highlights. As Sekar said we had revenue of this quarter we have won the revenue of \$100.1 million versus \$98.8 million with a growth of 1.4% on quarter-to-quarter. If you see our margins EBITDA is 22.5% which was 23.8% last quarter which has gone down by 130 basis points. EBIT is also gone down by

130 basis points. If you see the breakup of EBITDA the gross margin is 39.8% versus 40% last quarter and decreased by 90 basis points and SG&A has gone down by 40 basis points. SG&A is around 17.5% as indicated in last calls. If you look at our Forex, Forex loss for the quarter is 1.73 million versus loss of 2.95 million last quarter so it has come down due to rupee appreciation.

Then you have our CAPEX spend was around Rs. 14 crores and full year CAPEX spend was Rs. 41 crores. As far as tax is concerned ETR is 20.1% versus 21.5% and we see ETR of somewhere around between 21% and 22% in coming year. DSO has been 48 days versus 54 days last quarter which is best in the industry and DSO with unbilled remains at 63 days against 69 days in last quarter. That is what gives us a good healthy bank balance of Rs. 656 crores versus Rs. 490 crores in September end. I think with this I will hand it over for further questions.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta

Just two questions from my side. Sekar if I just rewind a year ago we had an aspirational goal of reaching a double digit growth CY13. Now I know you do not want to provide a guidance for CY14 but if you look out for the year ahead just qualitative thoughts whether you will be able to be at least in line with where the NASSCOM is expected. Any thoughts there would be much appreciated?

PR Chandrasekar

Nitin, clearly you are looking at aspirational numbers. In terms of aspiration numbers we continue to remain focused on growth it will be difficult for you to provide a number to you but we would certainly like to be a company that is somewhere in that range.

Nitin Mohta

If I can just ask a clarification if I look at CY13 what gives you confidence that in CY14 things could be a little better in the sense that is this change in the people in the human capital management unit giving you that confidence that what has happened in CY13 and

why we could not really hit a double digit growth we should be able to move in a much better direction now?

PR Chandrasekar Our confidence or my confidence is based on the fact on a multiple things. One I think the fundamental strengths of the company remain intact has not changed. Our numbers to some extent are the reflection of certain developments with several of our clients but our top 10 remain very, very strong they are still represent about 53% of our revenues and I see that the majority of them will continue to drive growth going in to 2014. The rest of our accounts as well we have implemented a series of programs both in terms of account management as well as cross selling as well as providing proactive proposals to these accounts which I believe will again give us growth in the rest of these existing accounts.

Finally, our hunting engine which has been delivering us a set of accounts every single quarter-on-quarter. Both the quality of the opportunities as well as the nature of these customers has been improving.

We are also in the process of participating in a number of deals from anywhere small ones from \$1 million to \$3 million in size as well as several opportunities in the \$5 million to \$10 million category although we have two or three in the larger deal category as we have defined them where we think we have an opportunity to win.

Finally, both from a technology and vertical standpoint our strengths are still very strong whether it be in the capital markets area we see an improving trajectory in our travel and transportation business which as you are aware in 2013 was somewhat sluggish. We are also seeing good movement in our health care space where several customers' opportunities are in hand.

That is from a vertical standpoint and I have very, very strong hopes with the leadership and the team we are building in the manufacturing space. It is not a new area we are getting in to but we have been because we already have customers but with this

leadership as well as focus I expect things to happen more rapidly on that front.

Finally from a horizontal standpoint quality assurance and testing has been very, very strong we have been growing very well and have been able to grow the account in which we have penetrated and I also have prospects in the BPO or BPM space as we call it which is our BPO operation which has historically represented anywhere from 3.5% to 4% of our revenues. We have built up a very strong pipeline over the last two quarters and I think that will improve materially in 2014. So all of these give me and also the company the confidence that we will improve and continue to grow in 2014.

Long winded answer but I thought hopefully that will settle the rest of the questions as well.

Nitin Mohta

Well, yeah really hope so. And just one last one if I can squeeze in. Given all these initiatives the imperative on the profitability because if I heard comments right first quarter is expected to be little sluggish. So should we be prepared for some kind of margin volatility in the next six months?

PR Chandrasekar

Nitin, I think one of the things that we have managed to do at least in the last two to three years as a company has been to manage our profitability and our margins fairly well barring I think one specific quarter where there was a very, very significant drop as you know this was I think Q4 of 2012 barring that I think we have been fairly good at managing our people, our utilization as well as the SG&A cost. If you look at our SG&A as a percentage of our revenues in quarter 4 it is in the 17% range. We think we will be able to maintain it and as long as our revenue trajectory remains fairly good I think as an organization we are well positioned have both the infrastructure as well as the systems in place to deliver margins in a fairly similar range. And that is the plan as well.

We do want to make some incremental investments which we have already started doing but I do not see that having a material impact on our margins.

Nitin Mohta Thank you and congratulations to the board for a judicious use of cash.

PR Chandrasekar Yes, thank you. I think the board has decided that the board was thinking about the dividend aspect last quarter and we are aware that we did not declare any dividend at the end of Q3 but we have decided to distribute cash through to the shareholders and that is what has been done with the interim dividend as well the declaration of the final dividend.

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

Sandeep Shah Sekar, you said in your remarks that the 4Q 13 performance met your expectations but if I recollect I think around two quarters back we were saying that the second half look good for the Hexaware where if you look at barring the last quarter we were at 4% growth the expectation was that with the ramp ups coming in to the PeopleSoft related deals even this quarter would be slightly better because in a constant currency if I look at outside the gross currency tailwinds of 70, 80 bps I think the growth looks really low at 0.7% to 0.8%. So what has gone wrong regarding this?

PR Chandrasekar Sandeep, I think you made a good observation at 100 million and a little over 1% sequential growth it is not where we would like it to be. We would certainly have liked that growth to be a little higher and that really was the plan. But this is more a client specific situation with several of our customers where we anticipated uptake in certain projects has got delayed a little bit. As well as the reason I said Q1 will be a little softer in several of our accounts the budgeting processes still on however, this is not as a result of any impact of a loss of our customer or any project delivery issues or anything of that nature. So we do believe and we see things picking up

significantly as this quarter progresses which will result in improved visibility and actual numbers going in to Q2.

We would have liked it to be better but it is I would like to phrase this that in our top 10 customers as well as several of our 11 to 20 customers certain project completions happen and ramp up in other areas did not take place as anticipated.

Sandeep Shah But will this comment would be similar for the top client because after almost a double digit growth in the last three quarters we are now seeing a decline of almost like a 6% in the top client?

PR Chandrasekar Sandeep, again I think the numbers speak for themselves. Yes, that was one of the customers where there was a large project that did come to an end. There are pursuits underway but the sign off on those projects is taking a little longer than we had anticipated. We believe that it is a temporary blip that will have continued on to Q1 as well. We do not see any declines but the kind of growth that they have been giving us for the last several quarters may not be there but I would not read anything more in to it than that. That they have had large programs they are in the process of consolidating their requirements and we will be back to business as usual with them going in to Q2-Q3 2014.

Sandeep Shah Actually in terms of the large deals I think now it is almost three or four quarters where we are not able to announce any large deal wins despite every time we are seeing that we are at an advanced stage of negotiations. So is it some external factors or is it some internal factors which are leading us in terms of not announcing what we used to announce on a consistent basis earlier?

PR Chandrasekar Well, the truth is we have not won some large deals that we would have liked to announce. There was one or two in which we were very close and we did not win those. So, we would have like to have announced it but we did not win and one of them fell through in the sense that it never quite materialized not and the customer changed their program in terms of that particular project. But there are a

couple of more in the offing and I am hoping that in the next couple of quarters we will be able to give better deals.

Sandeep Shah So, right now how many deals would be there in the pipeline as large deals?

PR Chandrasekar Two to three large deals in the pipeline.

Sandeep Shah And what has lead where we have lost the deals in the one or two is it the competition from a larger peers or what has lead to this?

PR Chandrasekar Yes, there is severe competition from some of the larger peers and it is also a case where it was a couple of them were with completely new clients and where there were some very, very strong incumbency and it was a little difficult in that it became very close but not good enough where I thought to figure out why sometimes win or lose these. Sometimes, it is price sometimes, it is other factors.

Sandeep Shah And Sekar, I think you said CY14 you enter with more confidence but if you look at our order book may not be as strong as it used to be earlier at the same time in the PeopleSoft where we are strong there are some technology changes where I think from the on premises software people are moving more towards software like Workday. So in that scenario what is leading you to believe that CY14 there could be acceleration in the growth?

PR Chandrasekar Actually both are pipeline as well as our order book plus our high visibility business as we tag it is in absolute terms actually better than what it was when we were entering 2013, number one. It is also far broader based than it has been in the past. Our pipeline in the BPO business is better than in what it has been in several years. Europe which for us last year was fairly stable or flat looks more positive. Out of our top 20 accounts at least 12 to 13 look like they will be growing materially in 2014. We have also see some good traction with about 7 to 8 accounts outside this top 20. All of these as well as some of the organizational changes we have made gives us belief.

With regards to PeopleSoft which has traditionally been a material area of strength in terms of numbers and account openings it is still remained a powerful entity for us in 2013. In fact in terms of absolute numbers we opened more or less the same number of accounts. But the average size of these projects tended to be small. But we are seeing material traction in that as well as 9.2 upgrades begin to get more acceleration and acceptance in the market place that is one.

Two, we are also finding that particularly in select markets both with Fusion as well as Workday we are started making winning some deals and our opportunity pipeline is increasing. So in the enterprise space as well as in the HCM space again we see traction returning.

Sandeep Shah

Just last few are in terms of margins if you look at there is a utilization improvement of 280 bps but despite that the gross margin has gone down by almost like 90 bps but I do agree there is a rupee appreciation but why there is no benefit coming out of utilization? So where do you see the margins going forward because in the first quarter we will have an onsite wage inflation and then entering in to April we will have a full year wage inflation for CY 2014?

PR Chandrasekar

Sandeep, on the margin side kind of spoken at length to the question Nitin had asked earlier we do believe that we are in a position to manage our margins in a narrow range of where we are today and that is really the plan. I do not see any major reason why this should not happen. Our margins in Q4 the utilization did improve but we also have certain costs which offset that and that is the reason our margins have declined marginally.

Sandeep Shah

And just on the dividend how should we read the policy going forward because it looks like the interim dividend has been a material for the full year also it is like almost more than Rs. 11 versus Rs. 5 last year. So how should we read a dividend policy here?

PR Chandrasekar I do not about how you should read this, Sandeep. Because we are not trying to give any spectacular message or do not try and read too much in to the dividend. I think the board of the company decided to reward shareholders and gave a healthy dividend in this year by declaring interim dividends as well as the final dividend.

Going forward, I do not want our broadly the policy is unlikely to change. It is going to be a mix of rewarding shareholders as well as trying to build up some cash to make acquisitions as possible. And so if there is any specific policy that comes up we will let you all know.

Sandeep Shah But is it fair to say that at least the interim dividend trend may continue but the quantum may differ on a QOQ?

PR Chandrasekar No, I cannot state that. I think the dividend policy will depend really on the needs as well as the direction that the board decides to take.

Sandeep Shah I have a couple of more I will come in a follow up. Just wanted to know about the travel transportation because you have not commented about that vertical's outlook which used to be one of our unique selling propositions earlier?

PR Chandrasekar Sandeep, on the GTT space I will say that there are two areas there. One is the airline business and the other is a logistics space.

In the airlines, business has been challenged on an overall basis as an industry which in turn has reflected in the numbers that we have for 2013. Having said that we think the logistics business has been slowly picking up steam with a lot of wins in the APAC which we are also trying to take in to the North America and in European markets.

The deal pipeline actually in a travel and transportation space looks healthy. We have also gained some traction in the area of MRO which was something that we started focusing on in 2013. I fully believe that our numbers in 2014 in the travel and transportation space will be significantly improved over 2013.

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

Ashwin Mehta Just a follow on to the margin question. Sekar, just wanted to get to understand what would be the levers that you would utilize to mitigate the impacts of onsite wage inflation in the next quarter in the offshore wage inflation in the subsequent quarters and what would be the desired range of utilization that you would want to work with?

Sreenivas V Ashwin, Sreenivas here. So about utilization we are at the range that we want to be in as we have always been saying we will be in the 72% to 74% range so we are there.

About levers looking in to 2014 we do not want to speak quarter-to-quarter but looking in to 2014 clearly with our growth plan our headcount will increase unlike 2013. And secondly, with the planned increase in the headcount we will be able to add more freshers we will have benefits from the pyramid. So if you actually see 2013 we could add only 200 freshers which is the lowest number in the last four years. So metrics like that will change to our favor in 2014.

Ashwin Mehta And secondly, to the PeopleSoft question. In terms of PeopleSoft business are you seeing within your client's shift from PeopleSoft toward Workday or SuccessFactors and does that have any impact in terms of our revenue profile there?

R V Ramanan See as your question mentioned yes, definitely there is an uptake in terms of usage of SaaS based software like Workday or Fusion or SuccessFactors but the demand for PeopleSoft has not significantly dwindled. There is a huge demand, there is a pent up demand for PeopleSoft 9.2 and the upgrades which has not happened completely during the last year we are seeing a higher demand of upgrades. So the demand for PeopleSoft continues. Well, adoption of these new SAS based technologies is also continuing. So that is why Sekar mentioned before we have now organized ourselves as an HR-HCM practice which focuses on HR as a functional layer and implements

multiple products because we are now coming across customers implementing multitude of products. Best of breed, you know, PeopleSoft for certain core functions set the factors for performance management. The other products depending on the other areas to stay with recruitment or any other talent management kind of software. So it seems to be an area where it is not all encompassing single product but it goes in to a multi-vendor strategy. So what we have done is we have also organize ourselves so that they actually service those capabilities we have partnerships with Workday we do work with SuccessFactors; we do work with Taleo and of course PeopleSoft being our core area as well as Fusion. So we will be able to implement this kind of solutions. So we are geared to actually meet the market demand.

Ashwin Mehta

Just lastly so just to confirm this fact that essentially you are not seeing cannibalization of the existing PeopleSoft business or people switching from PeopleSoft towards others which can hurt our revenues?

R V Ramanan

No, we are not seeing that in our customer base. The demand for PeopleSoft is still continued to be strong.

Moderator

Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja

My question was regards to margins this is already been answered. Just wanted to check with regards to our acquisition strategy it has been a year or slightly more than that that you guys spoke about looking at inorganic growth will be for pure vertical presence outside of the existing set of verticals that we focus on. Now with this special dividend the cash just does come down. So does it mean that over the near term focus is actually is on growing organically?

PR Chandrasekar

Manik, this is Sekar here. Clearly in the last few months and last couple of quarters we there is a management team have been as you can imagine in busy both running the business as well as in other activities resulting in the Baring deal.

Fundamentally, the approach in terms of how we want to grow, where we want to grow has not changed. The board as well as Baring PE continues to support our ambitions to grow above industry as well as increase our depth and breadth both organically and inorganically.

Yes, there has been a small hiatus in terms of our active pursuit of acquisitions. The fact that the board has declared a healthy dividend this quarter does not change our plans going in to the future. We continue to generate healthy cash quarter-on-quarter and we can always fund the acquisitions through other means. I do not think you should read anything more in to that in terms of our desire or our ability to do acquisitions going in to the future.

Manik Taneja

And just a clarification once again on the dividend payout. There is almost an interim dividend come as special dividend of about Rs. 7.5 and apart that there is a final dividend. So should we see that final dividend as a quarterly dividend going forward that kind of a number or that kind of a percentage going forward?

PR Chandrasekar

Manik, once again cannot really comment at this stage or predict the payout ratios or the kind of dividends that are likely to follow starting Q1 of 2014. Going forward I think the board will weigh dividend distribution based on maximizing shareholder value either in the form of returning cash or doing some value accretive acquisitions. So at this point, it is difficult to really predict what the dividend payout ratio is going to be.

Manik Taneja

And one last one from my side. If you could tell us what is the outlook within some of your top accounts and anything that we should read in the sequential decline in revenues from the top client?

PR Chandrasekar

The only thing you can read in to the decline in the top client is that they did decline. Other than that we did not lose any business, we remain as strong and dominant player in that organization. There are several large projects which are coming down in the pipe. We believe that will remain our number one client. We believe that they will

grow over 2013. Our top management relationships with that organization remain very, very healthy and strong. We will in fact be celebrating our tenth anniversary with that client very shortly. I do believe that there are several active project pursuits. There have been change in priorities with regards to one or two programs with regards to this particular client which in turn has resulted in shall we say not the kind of growth that we usually see. I would not read anything more in to it other than to say that the numbers from this client as a percentage of our business in Q4 and Q1 are likely to remain more or less flat.

Manik Taneja

And if I am looking at your top 5 to top 10 client bracket, over there the revenues have actually remain nearly at the same level for the past almost 4, 5 quarters while you have done relatively better in top 5 accounts. So how should we look at business from this segment?

PR Chandrasekar

We have not grown that much Manik overall. If these customers had grown we would have also grown more. I would not read anything more in to it. I think the attempt is the top 10 will continue to deliver that 50+%. We see opportunities there out of that top 10 as I mentioned there are 5 to 6 that will give us good growth going in to 2014. There are couple of them which will remain stable and there are some question marks in one or two of those. Just like any other customer profile. We see better possibilities in the 11 to 20 going in to the second half of the year and there is a decent pipeline of other accounts that we opened both in 2013 as well as few others that we have gained some traction which also will start contributing. So that is really the best I can answer without specifically giving any more information.

Manik Taneja

And one final question from my side. While the percentage share of business from onsite the onsite split of business is still remains largely unchanged we have seen a sharper decline in the mix of employees. What differentially is causing that?

PR Chandrasekar

One second can you elaborate on that question, Manik when you say mix of employees?

- Manik Taneja** So when I am looking at your revenue mix the onsite-offshore mix is actually remains in terms of business remains at about 53.5% or to about 46.5% for offshore while when I am looking at your billable the breakup of employees in terms of onsite and offshore break up that number has gone down by about 130 to 140 odd people sequentially?
- Sreenivas V.** Yeah Manik, I do not know whether you could hear. The prime reason for movements from Q3 to Q4 is the improvement in utilization. So little bit of business mix change with some of the projects coming to an end and second utilization improvement primarily driven by onsite helped with the people profile changes.
- Moderator** Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.
- Madhu Babu** Sir, attrition has been picking up gradually last couple of quarters. So how should we see wage hikes for this year what would be the quantum?
- RV Ramanan** It is kind of too early to predict. See attrition we have always been traditionally lower than the industry average and we continue to maintain that quality and with the higher uptake of more pressures which we are planning to take next quarter and the subsequent quarters for the year and a growth in business which is projected this year we expected to be in a narrow band pretty much under the industry standard. It was extremely low at some point of time which I have to correct itself. But I do not think it shooting up further from here.
- Madhu Babu** And sir, how should we see Forex losses over the next couple of quarters from the hedges?
- Sreenivas V** Madhu, Sreenivas here. So if you actually look at our hedge book that we report through our press release you would notice that our hedges amounts are actually coming down quarter-on-quarter and you can also see our hedge rate. So beyond this frankly whatever

would happen to our P&L in terms of hedging losses is essentially function of the spot rate.

Looking in to the policy itself I think we have mentioned in the previous quarter call the board and the board appointed committees is actually looking in to the Forex policy from a fresh perspective. So we are working on a few scenarios and a few models including coverage of 12 months versus 24 months and different such options. So once we have something more concrete to tell we will tell you but as things stands today you have our hedge book details in the press release.

Madhu Babu

And just lastly, manufacturing verticals are we going to start reporting it from the next quarter and which are the sub-verticals in that where we are going to focus?

Sreenivas V

About reporting we will do once we reach a critical mass but let us check state about the components inside Manufacturing.

PR Chandrasekar

Madhu, what I would like is that yes, we have launched the vertical. We are clearly focused on two or three industries where we have both customers as well as some tools that we are and capabilities that we have built both from a broad MIS as well as industry specific solutions. Both discrete manufacturing and EPC are two areas where we are looking at but let us come back to you in the next quarter as we formulate our plans better and build our teams in that area.

Moderator

Thank you. The next question is from the line of Urmil Shah from May Bank. Please go ahead.

Urmil Shah

Sir, you have indicated regarding the growth in the top 20 accounts. Just wanted to club the deal pipeline with that. Previously we were having about 4 to 6 large deals that have shrunk to about 2 to 3 deals right now but we have maintained that the deal pipeline looks good. So is it that it has just got a bit delayed and we should see it strengthening in Q1?

PR Chandrasekar No, I think they are two slightly different things. Yes, the large deal pipeline in terms of the number of such deals has shrunk from 5 to 3 because of activity in one of them which I explained to the earlier caller but in terms of dollars of the overall pipeline that we have in terms of confirmed business the yields in 70% probability as well as the various opportunities we are participating in probability lower than that. This is how we track our pipeline has actually improved in terms of dollar numbers.

Urmil Shah Just wanted to get a few comments on the cross-selling opportunity which you mentioned about in the top clients. These would again be back-ended I mean we should see some traction in the second half of the year or it is there in the deal pipeline which you have mentioned?

PR Chandrasekar See we track our pipeline the confirmed business as well as the activity in our top 50 customers and clearly we have greater visibility and greater confidence in the top 20 and what we see is improved level of traction, activity, confirmed business and better pipeline going in to Q2 as well as better conversations we are having with the other clients going forward as well. That is the rationale for our confidence in a better Q2 going and numbers going further.

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

Dipesh Mehta I have couple of questions. First I just want to understand from client perspective what kind of outlook we are getting from our let us say top 25 to 30 clients about next year budget and how they are seeing a CY14 and from that perspective how we look CY14 spend happening in our different verticals?

Second is about few service lines if I look BIBA and BPO it appears to be weak in CY13 so how we look those service lines going forward? And last part is about we announced one large deal in Q2 CY12 about BOT deal of Rs. 100 million so can you provide some update on that deal?

PR Chandrasekar Dipesh, it is Sekar. With regards to our top 20, budgets in those areas several of them are still in process so I do not want to comment but by and large we do not see anything. It is flat-to-up. I do not want to say there is anything spectacular out there which will make you think that things are going crazy.

Having said that, we do not see any major issues with more than may be a couple of customers in our top 20 but that could be more isolated but other than that it seems fairly positive. With regards to the verticals our financial services pipeline is remain strong. We are confident that our capabilities will find new ground in the asset management space as I have already indicated GTT looks healthy and looks like the growth rate there will be better than what they were in 2013 for sure. The same is the case with BPO. Europe is looking stronger the impact is looking better. North America for us I think will begin to start looking a lot stronger as this pipeline and these deals fructify. With regards to service lines good possibility in our quality assurance and testing business. BPO I have already mentioned. In the enterprise solution space with HCM being launched as well as 9.2 getting more embraced as well as a few customers that we have in pipeline for Workday and Fusion we see good probability. So that is broadly the picture, Dipesh.

Dipesh Mehta And one large deal which we announced I think Q2 CYT?

PR Chandrasekar About the BOT deals that we have announced bottom-line: It is not delivering us the kind of results we had hoped for.

Dipesh Mehta And just to get some sense about salary hike first I want to be get clarity about whether only onsite happened in Q1 and offshore to be in Q2 or and the quantum if you provide some clarity?

Sreenivas V. See the onsite salary hike will happen in Q1. The offshore we will have to decide subsequently we cannot make a comment right now given that last year we had given the increments in Q3 we will evaluate. As of now, we do not want to comment on it. We will review the policy and get back.

- Dipesh Mehta** And is it possible to provide onsite quantum?
- Sreenivas V** Dipesh, the onsite has in this quarter between 2% to 4%.
- Dipesh Mehta** And the last part is about the FOREX loss I think one of the participant asked, if rupee remains at current level can you provide some clarity about what kind of loss we might see in coming let us say couple of quarters and whether it would be similar kind of thing or how the distribution would be?
- Rajesh Kanani** I think if you look at the quarter 1 I think the loss will be on and around \$2.5 million if the rupee is at the same level.
- Moderator** Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.
- Shivam Gupta** The first question is along the new reorganization we have done to create this service line around HCM. Could you just elaborate is this line being organized only on the delivery side of the organization or is the sales people are going to be pitching as a component package of the whole?
- PR Chandrasekar** See this aligned throughout the organization not just in delivery. Actually it includes components of BPO as well if making sure that we take our HR capability, take the HR servicing capability which is also a big chunk of our BPO business together in to the market then provide the integrated IT and the BPO solution as basically a business process as a service kind of a solution is what we are taking to the market. This has organized across the organization not just in delivery but it constitutes the delivering HR solutions which are either a single product solution or a multi product solution combined with our BPO and making sure that the customers reach the best value in terms of either hosting the service or in terms of our if it is an on-premised or a SaaS model making sure that we implement the whole set of services and carryover the BPO part of it along with that. So the entire organization is structured in order to meet this kind of a goal.

Shivam Gupta I heard that in some of the large deals which we were in advance stages I think the incumbent was able to retain the account?

PR Chandrasekar I cannot add anymore colors to what I just said Shivam. That was one of the large deals which we were pursuing. I mean beyond that there is nothing more to say.

Shivam Gupta What I am actually trying to understand is that in lot of these where we are hearing commentaries that there are areas where clients are driving big vendor consolidation drives and due to which some of the players who are like marginal players are losing the contract. So I just want to know that is that affecting Hexaware in any fashion?

PR Chandrasekar No, this was not one of the situations. As I mentioned it was a situation where it was a new customer so it was not that we got consolidated out of that equation. On the other hand the opportunities that we get in the market when they are consolidating remain fairly good. In fact there are multiple situations where despite that consolidation in certain niche areas whether it will be testing, whether it will be in the PeopleSoft or in some cases even BI we have continued to remain and have actually got opportunities to grow. So that is this consolidation process is not affecting us. In fact we are currently one of the deals we are participating is in one where we are a supplier there in one of the shall I say services lines and we are hoping that the consolidation will be across that company and we will win that deal for that particular type of service and it could be sizeable.

Shivam Gupta Another question I have is on the enterprise solutions side. So we are like discussed about how Workday and other products are coming in but on the ground could you just give a color like as an industry as on the clients how much percentage is getting migrated on to the clouds as of today?

R V Ramanan See the HR market has multitudes of products. One thing which we are familiar with of course is PeopleSoft which is still the largest product in the HR industry. While the others which are gaining

tractions primarily Workday is gaining a lot of traction. It seems to have won lot of deals as well as the SuccessFactors which is now owned by SAP is also gaining a lot of traction in the market. Originally it is a Performance management solution which is now seen as generic HR platform. These are the two major things which are gaining traction in the market. However, there are lot of other fringe products which do specific activity like recruitment or talent management and other activities Taleo and other companies which were doing this. So there are multitudes of products. What we are seeing is PeopleSoft continues and as far as the Oracle coming out with its Fusion product which itself along with PeopleSoft itself as a combination package. So what we are seeing in the market is the uptick of PeopleSoft has not really come down because we are definitely seeing demand for 9.2 upgrades on the PeopleSoft take does not come down while the SaaS based products like Workday and SuccessFactors are taking market share from the other lower fringe products and they are gaining market share but overall the market will have a healthy mix of PeopleSoft, Fusion, Workday as well as SuccessFactors going forward.

Shivam Gupta

Just a question on this related that you are I think the platinum partner for Workday, right? So basically I mean as a strategic advantage I mean being exactly I mean we are taking a bet on this platform will ultimately win out of these. So are we like comfortably positioned in terms of competency and technical people trained on all these platforms or that is exactly what I am trying to get at?

R V Ramanan

Yes, we are comfortable in these platforms, it includes PeopleSoft it includes Oracle Fusion, it includes Workday which are also includes SuccessFactors.

Shivam Gupta

And this 9.2 upgrade of PeopleSoft how far this from attaining the critical stabilization?

R V Ramanan

See we expect in 2014 based on our pipeline we are seeing a huge demand for it. See usually as soon as the product is announced people do not rush into upgrade but 2013 there was some upgrades

we did about 7 or 8 upgrades in 2013. So we are expecting a lot more in 2014 as we are seeing customers moving taking on the upgrade in 2014.

Shivam Gupta Q1 that we will see start of that?

R V Ramanan Some of them are starting in Q1 as such.

Shivam Gupta Okay I have just one last question that is that in the whole bouquet of service lines that we have which line would you see there you have your potential to drive off shoring more than where we are? I do understand somehow that we have an onsite heavy exposure a little on that but you will see any potential of driving or off-shoring any on the line?

P R Chandrasekar I do not see any specific service lines; it is kind of broad base across all service lines. Testing of course has been a leading offshore driving factor. We are seeing Infrastructure Management that is a mix betting where we are seeing quite a bit of offshore uptick if you see that was portion of the business are also going up. But it tends to be broad based. These two are specifically mentioned testing and infrastructure because they tend to be slightly higher on the offshore components. But the others are also equally gets the....

Moderator Thank you. We will now be taking the last follow up question from Sandeep Shah of CIMB India. Please go ahead.

Sandeep Shah Yeah, just in terms of the cash balances like last quarter we had a hit of Rs. 1 billion because of the role forward of the hedges. So is it now with rupee appreciating from the peak levels is it fair to say that most of that or all of that has been now recouped?

PR Chandrasekar We have not been able to recover the full but I think we have been able to recoup some amount of money from that.

Sandeep Shah Can you quantify that?

PR Chandrasekar It will be around 40% to 45%.

Sandeep Shah So the rupee remains at similar levels then the further recoup may not happen going forward?

RV Ramanan There will be some recoup happening going forward as well because most of the deals are not maturing today we are maturing over a period of time.

Sandeep Shah Just in terms of you said that there are some changes and there are some investment we are recruiting more so is it fair to say that there is also some changes in the sales structure or the organizational structure in terms of the way we pursue deals or the revenues?

PR Chandrasekar No, there is no fundamental change but I think we are launching a view to once again look at how we are managing the accounts that we open because one of the things that we have been trying to do is to see how do we accelerate this growth further and build more sustained momentum. So if you still look at Hexaware as an organization the truth of the matter is that we have done a fairly good job of growing, building, and nurturing relationships with our top 10 accounts. We have built some good capabilities in select verticals and horizontals. We have clearly now proven the fact that we can open doors and get new customers every quarter. What we have not been able to do as well as we would like is to find a way to get these accounts that we open or as many more of the accounts that we open to grow faster and grow to a certain size. And some of the changes that we will be making and are trying to figure out how to make it more effective, to leverage the fact that we as a company of our size do open a good number of accounts in multiple geographies and some of them are very, very good names to have. But we have not been able to do as good a job of taking it and getting them to grow and that is really the serious exercise that has started and we are adopting multiple approaches. We are changing the structure, we have created a new vertical manufacturing, objective being to get the ownership of those accounts against a leader, and create account managers under him. We have created management teams and proactive sales approaches to go after these accounts so that we can go there and I am hoping these

organizational changes will pay some dividends. So the real focus is not so much on how we hunt more because I think we have done a reasonable job although in Europe we are adding say a little focus more on audit. You will see in 2014 that we will do more in the Latin American market because that has beginning to gain traction but the bulk of what we have to do and get to do better which in turn will provide more sustained revenues will reduce volatility is to get the next set of accounts that is beyond 20 to 50 as well as the new set of accounts to starting to generate more revenue. So historically if you look at it our new business has been about 5% to 6%. It has dropped to 3% to 4% in Q3 it is up to about 4.5% but I would like it to be in a sustained 6% to 7% range because that is what we will need to contain revenue. Then the accounts we opened out of 10 that we opened I want 3 to 4 to generate at least a \$1 million in the next year if not more. That is really the area where that we will be strengthening our organization.

Sandeep Shah

And just last broad strategic question with the change in the board and a controlling ownership is it any direction in term of where the new board wants to take Hexaware in the next three to five years where is it fair to say that current focus may be on the investment which may keep the margins little lower or little suppressed for the recovery over three to five years?

PR Chandrasekar

No, I think the direction from strategy has not changed that we remain an IT services company we are going to be focused on these verticals and now want to strengthen the horizontal and add to our clients. Clearly the message is grow and I think they have a fairly long term horizon view of Hexaware and they recognize that growth is the paramount importance. In terms of our operations as all of you can see we are fairly tightly managed, tightly controlled and we have been able to deliver decent gross as well as EBIT margin levels. We feel comfortable that we can continue to do that. So the key really is to find growth and I think the new management and the board is really supportive of finding ways where we can invest more in technologies, add more depth to our competencies and if that means

temporary and a small extra expense so be it. And I think that is the right approach.

Sandeep Shah But one should not assume that there would be a temporary slide in the margin before that?

PR Chandrasekar You cannot have it both ways, Sandeep. No, I am not saying there will be a slide in the margin, what I am trying to say is that we are going to try and see if we can squeeze out some more money from the kitty to invest a little more in our business. So it will remain in a narrow bag we have been in the last few quarters been somewhere in EBITDA of anywhere from 20 to 22 range and I think we will be in that range and may be time strive for closer to somewhere in the 20's so that an extra percent or two that we get we can invest in implementing growth possibilities going in to the future.

Thank you all for your interest in Hexaware. Wish you all the best and we look forward to talking to you in the next quarter.

Moderator Thank you very much members of the management. Ladies and gentlemen, on behalf of Hexaware Technologies that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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