



“Hexaware Technologies Limited Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Hexaware Technologies Limited Earnings 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 entering ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani from Hexaware Technologies Limited. Thank you and over to you.

Latika Gidwani: Thank you, Melissa. Good evening all of you. Welcome to the Hexaware conference call. From Hexaware, we have with us Mr. R. Srikrishna – CEO and Executive Director; Mr. Ashok Harris – President (Global Delivery) and Mr. Rajesh Kanani – Chief Financial Officer.

The safe harbor statement is available on the Hexaware Website and I shall take that as read. I have sent out the results a couple of minutes back and we will run you through a presentation which will be coming up in a website in a minute or two. So with that, over to you, Keech.

R. Srikrishna: Good evening everyone. I want to start by apologizing for the fact that our results went out much later than what we had planned due to some issues. They are behind us now, but it still went out later than we planned. So apologize if you not had enough time to see it, we will try and walk you through it as best as we can. You can follow it along if you log into the WebEx online. There are some of you online, but those of you who are not there, you would want to consider doing it especially if you have not seen the results so far.

We are going to take slightly longer than usual in the initial commentary and we will go over a few minutes additional if required in Q&A because we want to cover the usual quarterly commentary but we also want to provide both the full year view for 2017 and also guidance for 2018.

With that, our Q4, we have been guiding that for a while that we are going to have two client issues because of which we are going to have a soft quarter. And actually what I have been telling all of you now for two quarters is that, notwithstanding the two clients we are likely to get close to double digit Y-on-

Y growth. The fact is actually we did better than that quite a bit. So we are at 12.3% Y-on-Y growth. Small quarter-on-quarter growth, actually any quarter-on-quarter growth given some of the issues in this quarter is great and the fact is that we have a small quarter-on-quarter growth and reasonably good Y-on-Y growth which puts us in a good spot for 2018. Our EBITDA is down from the previous quarter but again Q3 is always a bit of a high point in each of our years. We always like to talk about EBITDA and like you to think about EBITDA on a full year basis. And again we will talk about guidance versus actuals. We provided an updated guidance on EBITDA for the full year and if you do the numbers, you will see that ultimately our EBITDA for the full year is going to be even higher than the higher end of the guidance we provided in the end.

We believe likewise, while we did not provide guidance on PAT and EPS, you will see that the numbers, based on the EBITDA should have been better than what we guided for. One note on the PAT that this quarter, there was a little over a million dollars one off negative impact on tax, as a result of a write-off due to the US tax law change. So we have forward tax at whatever 41% ETR which is now expected to be down to about 26% or so. So we wrote off, actually the write-off was more than that. But there were some additional positive one-offs, so net of that there was still over a million dollars one-off negative impact in the PAT in this quarter.

Vast majority of our growth in the quarter came through volume increase. There was a little bit of improvement in price realization. Our margins, the majority of impact in margins were as a result of 3 factors, calendar Q4 was lower than Q3. We had wage increases. So a full quarter of wage increases plus onshore wage increases. There was also kind of H1B wage corrections that we did. So essentially it is another form of wage increase. So essentially the full impact of wage increases. And thirdly, there is a number of deals that was signed in Q3 and some that got signed in early stages of Q4 for which there were start up investments, since some of those start up investments took the form of third party cost and bringing in some consulting type work which led to a higher than usual cost in that area. So those were the three areas which contributed to the margin difference between Q3 and Q4.

In every quarter on an annualized basis, there is a healthy kind of churn in the top 20 and again with the exception of 2 clients that I speak about more, all of the rest of the churn is as a result of growth in all customers. There is nobody who is going down. And so except the two that I have already referred to, the churn is extremely healthy. You see new clients growing and getting into the top 20. So I have the pyramid up here for those of you that are seeing it on the WebEx and it is on slide number 8 for those of you seeing it offline.

So I want to spend a few minutes here, first is the pyramid itself. This is the full year view. What we present each quarter as an LTM for the quarter. So LTM for this quarter then basically means the full year view, so it is a full year view of FY16 versus FY17. You go from bottom up. You just see an improvement at every level. It shows the added customers, 10 customers in the greater than one million range. A good number of them are above 5 million. So 7 of those 10 are in the above, in the 1 to 5 million range. 1 has already gone into the 5 to 10, so there is consistent addition at each level, the 10 to 20 has gone up by 3. Really the one is reduced from the 20 to 30, but 10 to 20 has gone up by 3. So we feel very good about how our pyramid is shaping up and you will see that reflected then in our growth numbers for client buckets. So look at our top 5 clients for this quarter was flat, it grew at 0.1% and that is actually a very good outcome given that one of our top 5 clients we spoke about the project that we lost, the transition got completed in Q4, so we lost the turnover revenue from that client in this quarter. Notwithstanding that, the top 5 clients are flat.

The next 5 clients grew at 8% quarterly and actually they more than doubled on a Y-on-Y basis, a 100% plus Y-on-Y growth in the next 5 clients and the next 10 clients actually contracted, minus 10% almost. But that is again due to a single client. So if you recall at the beginning of the year, we said that there are two top 5 clients. Out of that two, one of them still remains in the top 5, even in Q3, the other client had come down to between 11 and 20s. They are no longer in the top 5. It is out of 11 and 20, we have actually gone to zero, that client. Very small revenue is left. So that is the primary reason. And actually if you disregard that single client, the 11 to 20, 9 clients and 11 to 20 grew at about 6.5%-7% Q-on-Q.

We won \$72 million dollars of NN new clients this quarter, which takes our total annual booking to 180 million, only from NN clients, I want to clarify this does not include new bookings or renewal bookings from existing clients. This is only new bookings from new clients. The equivalent number in FY16 was 154 or 155 million. So close to 18% growth in that number, which is kind of consistent with what we need to achieve an aggressive growth number for 2018 as well.

There were 5 significant deals in the quarter, I will call out two or three. One is actually the biggest lot of this is actually a client that we announced last quarter and which is a global imaging technology provider printer company, they actually signed last quarter, but there as a small pilotish type of deal. There was a much broader commitment made in Q4 from the client. A vast majority I mean it is a basket of work that includes run and change. But the majority of the work is in transformation and change. The second one, that I would call out is a multiyear BPO deal. This client provides a variety of back office services, finance accounting payroll, tax kind of work for customers in many countries, in each country they have many offices that do differently. Each country certainly does it differently, uses different platforms and what we have signed up with them to do is to bring commonality, harmonization of processes across all countries and then bring in substantial level of automation.

Our employee metrics continue to remain positive. Our attrition trended down further to just over 13%, our utilization now inched up just a tad again. It is our intention to try and bring it down a little bit from where it is today because we think it will help us fulfill demand better. For the quarter, the headline of growth from the geographic perspective was Europe, but Europe was only just like marginally ahead of APAC, they were both, one was 8.2%, one was 8.1%. APAC, their Y-on-Y growth is like 79%. So we are almost doubling. And Europe has a pretty healthy Y-on-Y growth to a 22%-23%. But the good news is that we have set an objective for ourselves that in 3 years we want contribution from outside US. US contribution will come down to 70%. But if you recall, year and half ago it was 82% was US, for Q4 US is down to about 78% and APAC and Europe contribute 22 and we expect that trend to continue which we see as very positive.

From a vertical perspective, this quarter again BFS led growth which is very consistent. H&I had a pretty robust quarter too and from a horizontal perspective, IMS continues to lead growth and followed by BPS and the third is ADM and this three has been pretty consistent for us for a number of quarters now.

With that, I am going to shift, provide some additional commentary that we don't normally do on a full year basis. I will take 2 or 3 minutes on that side. So for a full year, again you can see this, if you are looking at it offline slide number 13, for the full year our revenues grew at 15.6%. I want to jog your memory that at the beginning of year we provided a guidance of 10%-12% growth. In the middle of the year, we up that to 14%-15% growth and at the end of third quarter, we said we will grow at the upper end of this 14% to 15% and finally what we have is 15.5%-15.6% considerably above the upper end of the guidance that we provided. Likewise, EBITDA we initially started by saying it will be in line with revenue growth which is 10%-12% when we up the revenue to 14% to 15%, we didn't change it. But in Q3, we said that the EBITDA post ESOP will grow 16.5% to 17.5%. And what we did ultimately is 17.8% growth post ESOP which is again comfortably above the upper end of the guidance, the multiple times revised guidance, but we provided. Finally, we had some solid Forex gains during the year and we improved our ETR as the year went on. So our PAT percentage improved and our EPS ultimately grew at 20.5% for the year.

The vast majority of the year growth out of the 15.6%, 16.1% was volume growth and there was less than 0.5% contraction due to Forex and price. So suddenly price held largely stable and there was very healthy volume growth during the year that contributed to almost all of the growth. We told you a little bit about what geographies, horizontals and vertical led growth for Q4. Those exact same, those hold true from full year perspective too.

From a full year perspective, APAC led growth, in Q4 APAC and Europe were on par, but for the full year APAC clearly 56% growth for the year. For the full year BFS, there was 23% growth followed by MNC & others is little over 12 and H&I was a little under 12. And from a horizontal perspective for the full

year, the top 3 remain IMS, BPO and ADM in that order. During the year, there are two other things that we would like to call out which are very significant. The first is that every year now for the past 4 years since I have come this is the fourth year, we hired an external agency to do customer satisfaction survey. And the same company does it for about 40 other IT services companies globally. And so they provided us with a benchmark and if you are seeing the chart, you see a trend line of past 4-year scores they have improved every year. But really what is of importance is that the 2018 really scores for 2017 but get presented in early 2018. The scores you see in 2018, they represent industry highest in every category. So if you see in the chart, you see a chart on the right side of this, on slide 17 where for each metric loyalty, advocacy, satisfaction, value for money, you see the industry highs and the industry lows. In all four metrics and at the bottom, you will see the aggregate score. In all 5 metrics, Hexaware score represents industry high scores for customer satisfaction. This is something that we are very proud about.

Now this improvement in operational performance did not come by harvesting the business. We actually made substantial investments in the business through the year and actually we added 10 people in the leadership level during 2017. For those of you that was there in our analyst meet in August, you would have met some of them, so we had a CTO that joined us during the year, we have a new vertical head in MNC; a newly formed vertical in professional services, head for that; a new Head for Enterprise Services; Global delivery Heads for each vertical, that was not a role we had before, that is an additional role we created. So there were substantial investments that we made across the board and we think that positions us well for sustained performance in the future.

Last topic I want to touch on before talking about guidance for 2018 is that there is an evolution of our Shrink IT, Grow Digital strategy. In the course of next few weeks, I am going to be meeting some of you in person. I am happy to meet any and all that want to, and my primary objective in those sessions is to explain this strategy and structure in some detail. What I will do for now is simply to talk about the highest end of the strategy. So in future what Hexaware will stand for is only 3 services, what we will do is 3 things. One is to automate everything. Help enterprises automate everything, front to back, starting from

customer experience, down till technology. This is a next step to our Shrink IT. Shrink IT, we thought about it in technology silos, automate everything, we will think about it enterprise wide, but also then incorporate far more of machine learning and AI technologies than we currently do. So automate everything is the first service.

The second service is cloudify everything. We will help customers, we think the cloud journey is another at least 5 years more, if not longer and to help customers sort through thinking between, what to go on IAS, What to go on SaaS, what to build for cloud, what new capabilities do you directly consume of the cloud through API. So thinking that through and architecting, cloudify everything journey for customers is the second thing. The third is to help customers transform how they interact with their customers. This is how we have always defined digital. But there are a number of services that we have added and there is a new leader we have hired who is not on this chart because he is joining us next week. We will actually make an announcement next week when he joins us.

So we are very excited about this strategy. We think this will represent our journey for the next several years. It is very routed in what we do currently. The customer experience transformation is our current Go-digital strategy, Shrink IT, automate everything is an evolution of our Shrink IT strategy, is a next step and we do cloudify everything in different silos today. We are bringing that together into cloudify everything.

With that, I am going to provide some guidance on 2018. For those of you who are seeing the slides offline so slide 20, we are starting the year with revenue and EPS growth of 10% to 12%. I do want to go back for a second to 2017, our full year EPS for 2017 is 16.82 and 16.6 diluted, fully diluted. 16.82 pre-dilution, fully diluted is 16.6. So we are saying we will have a revenue and an EPS growth of 10% to 12%. We are making life easy for you by talking about EPS guidance. There are things that are happening before that; some positives, some negatives. We do have some positive impact of the US tax reforms, while Q4 was a negative, that is a one off. Going forward, it will be positive and there are some small negatives from Indian budget but net of it is still going to be

positive. We think it will be positive for a number of years for us. However, we will have a little bit lower than 2017 Forex gains, so did not cancel each other little bit. But we are making it easy for you, we are giving you an EPS guidance.

Capital return, our goal is to return Rs. 8 per share for the year. So we are currently at Rs. 1 dividend per quarter per share, that is what we have announced for Q4 also that was an interim. For 2018, we want to actually double that return. We will kind of make up our mind between dividend and if we can do buyback, if there is a likely buyback, we will consider the appropriate mix between the two and announce the mix between the two in Q1. But the goal, we will return Rs. 8 a share during the year.

Majority of our growth for 2018 will again happen in Q2 and Q3. Now I don't want to call out that we said this in 2016. We did not say this in 2017. We did not say it in 2017 because in 2017 the calendar across the quarters was flat. There was no difference in calendar. A very minor or insignificant difference in Q1 to Q2, to Q3 to Q4. That is not the case in 2018. So again there are quarter differences that lead to important differences, material differences, so it will again be a little bit of a hat shape of growth and the good chunk of the growth will come in Q2 and Q3. There is also the fact that we have very robust Q4 in terms of deal signing, so that ramp up also will happen through Q1 and Q2 which leads to the revenue improvement in Q2 and Q3. That is it on the guidance.

I am going to turn it over to Rajesh for a few minutes on other financial matter updates.

Rajesh Kanani:

Thank you, Keech. I will start with the finance update. I will start with the revenue. I think 2017 full year revenue, we have a CC revenue growth of 15.3% Y-o-Y for the year. Dollar revenue, we had a growth of 15.6% Y-o-Y for the year. And rupee revenue we had a growth of 11.5% Y-o-Y. When we look at Q4 2017, as Keech said, CC growth was 1.3% and 10.9% Y-o-Y and dollar revenue 1.3 and 12.3 Y-o-Y.

Now I will come to outstanding hedge position and rates. If you see our slides, slide 23, USD INR we had 152.88 million hedge with an average rate of 70.98, almost 71. Euro INR 3.9, that is rate of 82.16 and GBP INR 7.5 million and the rate is 91.87. If we look at the Forex gain and loss, I think as we have quarter 4, we had a gain of \$1.98 million, quarter 1 and 2 we anticipate 2.24 and 2.23 million gain at an exchange rate of 63.875. On the balance sheet updates, we had cash and cash equivalents of \$86.4 million, in rupee terms 55.2 crores or 5,521 million. DSO again, we are at 49 days in Q4 and with unbilled 71 days. Dividend, we have as Keech has disclosed we are having Rs. 1 per share and dividend payout will be 5.6 million in dollar terms and 357 million in rupee terms.

Tax ETR for the quarter is 22.9% versus 8.9% in quarter 3. As Keech said, there was a one time increase due to tax reforms in US and then we had ESOP credits and losses from RT, that is how the ETR has increased. So underlying ETR is 20.5 and the CAPEX in the current quarter that is Q4 October to December quarter is 1.92 million spend. So YTD spend is 14.5 million for the full year.

With that, I will hand over for question and answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Madhu Babu from Prabhudas Liladhar. Please go ahead.

Madhu Babu: Sir, the guidance, does that imply some conservatism and second, are we hinting at a softer Q1?

R. Srikrishna: So guidance, listen, we have shown our history on 2017 guidance, correct? The last thing I want to do is to ever reduce guidance. However, you want to take that you can, but my philosophy is we provide guidance, there is no circumstance unless like there are completely unknown events that can happen, but outside that we should never be in a position to go down on guidance but have to reduce it or backtrack on it. That is my philosophy. We are not hinting at soft Q1, I am just telling you that, this growth, the majority will happen in, so yes, Q1 growth will be smaller than let us say last year Q1 growth because

last year Q1 calendar was actually pretty strong and this year it is not. So Q2, it will be like a little bit of a hat shape. There would be growth in Q1, don't get me wrong. There will be growth in Q1, but it will not be, if you expect whatever ex percentage average growth during the year, it will be little lower than the average and Q2 and Q3 will be higher than that. But there will be growth in Q1.

Madhu Babu: And one more from my side. So most of the peers in the sector are mostly emphasizing on digital and the percentage of revenues from digital whereas our strategy has been quite different, talking of more of Shrink IT team and the new strategy also appears a bit different. So within our focused verticals, how is our digital proposition. Are we seeing larger digital deals, any view on that. Thanks.

R. Srikrishna: See, I actually think that first of all we owe it to everyone to deliver performance on our complete portfolio, not just on a slice of our portfolio. So while whatever we define as digital is important, the rest is also important. So we are very focused and will continue to remain very focused on performance of our entire portfolio, all for businesses. How we define digital is helping our customers transform, how they interact with their customers. That portion of the business is doing well across all verticals. We don't kind of report out on what that number is separately, profit is doing well.

Moderator: Thank you. We have the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead,

Gaurav Rateria: Two questions, firstly if you were to characterize the growth in 2018 from new clients as well as from existing clients versus that of 2017, would it be fair to say that 2018 growth will be led more by, from the new clients than in 2017?

R. Srikrishna: Yes and no. So there is what is happening in 2018 is that there is an overhang which I have spoken about before from these two clients, right, which you got to make up for. We have to make up for those in 2017 too. So that full year impact was not only in 2017. There is a roughly similar impact in 2018 of those two. So given that, in absolute terms the contribution of growth from new clients is higher. However, if you normalize for that, then existing clients, if

we take that away then there is enough growth coming from existing clients also. It is more balanced if you normalize for that.

Gaurav Rateria: Second is just wanted to get your take on the overall tax rate cut in the US and potential impact on spends for the vendors. Are you seeing that in your deal pipeline already and if you could provide some color on how the pipeline looks now versus last year, that will be helpful.

R. Srikrishna: So I do not know somebody did, I think there has not been an official survey yet on how if \$100 comes, how much is going to go to investors, shareholders versus employees versus would be deployed in capital projects, but whatever earlier indication seems to be that a vast majority will ultimately go to shareholders and not a lot to employees and or to additional spend, but some will go and whatever comes is positive, net positive. It could be 10%, 15% of the money saved due to tax, but that is all good net new money. Our pipeline both in total quantity, but also in what is the more important metric for us is the size per deal continues to look up. Our average size per deal is just never been higher than it is which then allows us to prioritize focus on a smaller set of deals and really kind of shed out the smaller deals which could be larger in number and so to allows us to do that. So our total pipeline is strong, but also then the average size per deal is just stronger than it ever has been.

Gaurav Rateria: If I can squeeze in one more Keech will be helpful to get your take on what is happening on the immigration front. You have been quite right with respect to telling people in terms of what is likely to happen that has played out. So what is your take now and do you think company is preparing for trying to change or shift the mix towards more locals rather than depending on visa based employees? Thank you.

R. Srikrishna: I think the shift to more balanced and a more diversified work force is anywhere imperative. For us, I think it should be for virtually everyone in our industry. I do not think there is an additional sense of urgency that is required because of visas. I do not believe there is going to be a material change that is imminent that is my view. Our view is that there is nothing that is going to happen. Having said that, there is a process of improving local hires diversity before this whole noise around the immigration started and it will continue.

Just to make you understand, I do not think there is going to be like a knee jerk material change in the immigration policy.

Moderator: Thank you. We have the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Keech, my first question is on your outlook on the top 10 accounts. Is that the one account which you talked about is that really behind and how should we really see that going ahead?

R. Srikrishna: You should see our topline accounts grow without any asterisks or normalizations for one account or anything. Even if this quarter, our top 5, you should think about is the worst for our top 5, we were flat which is by the way better than our expectations. We expect that our top 5 this time would go down. Ultimately, our revenues performance for this quarter is way better than what we expected. We expect close to double digit Y-on-Y which could mean 9, 9.5, 10, but we were at 12.3. So definitely behind us. You should see robust performance in our top 10.

Apurva Prasad: Right and also if you can talk about give some color on the verticals, how should we see that going ahead particularly the banking, BFS vertical?

R. Srikrishna: BFS for us continues to do very well, right, including in Q4. At this time, BFS now contributes 44% of company revenue. So I don't see, they would will to be growing faster than company average for us. And we see good pockets of demand, continued pockets of demand, the tax that we spoke about little bit earlier I think it is only going to help. Some of the tax dollars will flow into some pent-up demand. So it will improve. I don't know how much percentage of tax dollars will flow into demand but some will.

Apurva Prasad: And just couple of quick ones for Rajesh. If you can help me with the ETR for next year and CAPEX plan?

Rajesh Kanani: CAPEX plan will be 15 million next year and ETR we are estimating around 20.5.

Moderator: Thank you. We have the next question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Keech, wanted to check in terms of our guidance of 10% to 12% on revenues in earnings, what are the underlying margin expectations? Do we think the margins will still stay flattish or we are building in some improvement going forward?

R. Srikrishna: Well, I mean the fact that we are saying revenue and EPS will both grow at the same pace, basically means that we are expecting at a PAT level margin for the full year to be flat. Like I said, there are some puts and takes before that. I think we will have slightly lower ETR than last year, but that will get compensated by slightly lower Forex gains than we had in 2017. At an EBITDA level, we expect it to be flattish. We do expect to make which we started in Q4, robust deal signings. Some of these are multiyear deals that we need to make transition investments for up to 6-9 months in some cases, so some of those will be important factors for margin for 2017, but yes all of this still means that at a PAT level we are expecting revenue and EPS to grow parallel to each other.

Ashwin Mehta: Okay. Fair enough. And second question was in terms of vertical. So the only vertical that doesn't seem to have performed for you was travel and transportation, so how are you seeing growth or the outlook they are going forward?

R. Srikrishna: Yes. So one of the top five clients, and in this quarter they were not in top 5, in this quarter they were in the 11 to 20, so drop in 11 to 20 this quarter is a result of that client. So that client went away, essentially effective H2. So you will see equal impact in this year and in 2018. Of course, our guidance for 2018 accounts for that. So I think for us after accounting I mean if you normalize for that segment or that vertical will grow. But if you account for that,, it is going to grow slowly. So it will still be among the slower growing of verticals if not the slowest in 2018 because they had that one large account which contributed to significant percentage and that is an overhang in 2018. So they will grow but quite a bit slower than company average.

Moderator: Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Keech, would it be fair to assume that the impact from the two accounts spread over CY17 and 18 would be roughly equal or would it be more in one year versus the other?

R. Srikrishna: Roughly equal.

Ashish Chopra: And just the other thing from my side was, so if you could just share some thoughts on the growth by geographies for CY18, that you are making in the guidance given the significant skew from rest of the world this year, but just how you expect it to pan out...?

R. Srikrishna: Sure. So we continue to expect that APAC will lead growth. So we expect the growth rates to be in the following order; APAC, Europe, North America.

Ashish Chopra: Okay. But you expect the difference in growth rate to convert significantly or it could be mirroring CY17 again?

R. Srikrishna: No, I think CY17 for APAC is like 60% growth. It is tough to replicate, but they will do very well, APAC. But Europe will do better than what they did in 2017. They grew at 12%, we expect them to do better. So I mean I don't know what you meant by convergence, so APAC will reduce a little bit from current year Europe will improve and North America should stay similar. So only relative impact will be APAC quite a bit ahead, followed by Europe and then North America.

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

Shashi Bhushan: What we have seen in CY17 is higher utilization and some G&A leverage driving margin improvement. What are the margin levers that are left for us because where we are operating in terms of utilization is pretty high, 80.8 or 81 and how we are going to see margin improvement for a year or are we saying that we are comfortable with this range where we are right now?

R. Srikrishna: Yes. See first of all my guidance does not account for margin improvement, right. We are saying that our EPS and revenue will be parallel growth. So the thesis for value creation is all led by growth. It is not led by profitability improvement. On the contrary, we think there could be unexpected headwinds, I mean that did happen in 2017 for example, we had a rupee appreciation and so far this year also at least till last week rupee was appreciating again. So I think we have levers but I think those levers, the conservative can outlook right upfront is that they will go to dealing with potential headwinds, so what are potential headwinds? First what are the levers and what are the potential headwinds? Levers are I think SG&A will continue to be a leverage. It is a slow burn leverage as we continue to expand revenue every year we will get some leverage from SG&A. We are not doing anything deliberate or step function but there will be a gradual and continuous leverage. But that gradual and continuous is not in substantial, right? The second one is offshore. So if you see our offshore ratio, that started improving, right and we are hoping to continue this journey that certainly a lot of effort and policies in the direction, it is not guaranteed to happen each quarter, but that is a second one. And clearly as we improve our offshore, then our overall margins, that is another leverage for us. The third is to while utilization is not a lever anymore but direct cost through other mechanisms continues to be which is pyramid and fresher issue. We didn't hire a single fresher in 2017. So many different factors contributed to that decision but we didn't hire a single one or maybe we hired like less than 100, but there will be quite a bit higher in 2018. So direct cost, onshore-offshore ratio, SG&A leverage all three continues to be positive levers for us. You know potential headwinds, rupee appreciates again, it needs to appreciate. We had a little bit of pricing headwind in 2017, that is not to be nobody should get surprised with that level of pricing headwinds. So I think our outcome we expect is to use those levers to manage potential headwinds. If something improves, that's great but that is not the primary piece, the primary pieces is to develop a topline growth.

Shashi Bhushan: We had significant headwinds from few of our topline you articulated over the last couple of quarters. Most headwinds have played out right partially in this quarter and maybe some in next quarter as well. Now coming in CY18, do we expect that most of this headwind from top client when it happens, it has

their own margin impact. So those headwinds are behind, then we should see some margin improvement just from that as well?

R. Srikrishna: The issues of the clients are fully behind us from a quarter prospective. From a full year, you saw partial year impact in 17, you will see the other part of the impact in 18. But from a quarter, we are hopefully behind us and yes, there are some edges that are not perfect in the quarter for example Q4 is, that is when we are ramping down, we cannot manage cost perfectly well. So there is a little bit of improvement opportunity from the current quarter.

Shashi Bhushan: We talked about pyramid, what would be 0 to 3 years' experience workforce right now?

R. Srikrishna: Not information we report on, in fact not even something that I know top of my head. Maybe Ashok does, but not something we report on.

Shashi Bhushan: And where do we include our cloud and digital revenue, is it in application development and IMS?

R. Srikrishna: Actually cloud is there in IMS, a part of it is in IMS, a part of it is in ADM. There is a small part in BI too. So for example we implement analytics on the cloud. So that portion is our BI and analytics business. And there is some, sorry, in our Enterprise services business, we have workday and Oracle there and our salesforce.com. So it is actually spread across 4 horizontals. The other about digital is similar, right. Digital is in fact spread across virtually every horizontal. There is some contribution to what we think of as digital.

Shashi Bhushan: And we are not disclosing our digital revenues separately, we are not calling it out.

R. Srikrishna: No, because I actually think that until the industry convergences on a definition, it is quite meaningless.

Moderator: Thank you. We have the next question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: The first question is Keech, you believe that the deal closures within the markets are improving on a Q-on-Q basis or a couple of quarters back versus what it used to be where clients are more open in terms of awarding the deals faster as the immigration related issues are a bit dying out as well as the tax reforms to some extent may give them a confidence about the cash flows and the earnings visibility going forward.

R. Srikrishna: See, I do not think immigration was ever a dampener on deals even in the height of immigration debate. By that way, that noise was far more here than in the US, really not even close. But even in the height of that debate, there was not a client that I know of, that paused to consider the impact of change in immigration on their deal strategy, not even one. I do not think the concern ever reach that point. So I do not think deal flow has got changed one way or the other due to immigration. The impact of tax I think will be more in small projects and discretionary work less on outsourcing, outsourcing kind of is meant to save budgets. Tax is going to put additional money, so it will get spent on discretionary. But there is some kind of, I think there is a little bit of more clarity on the overall regulatory and governance environment. So some of the freezing up that happens due to any government change in the US, that is kind of well behind us at this stage, but I think it has been behind us for some quarters now.

Sandeep Shah: Just Keech if you look at when you entered CY17, you had 153-154 million worth of NN deals and now you have above \$170 million plus you also mentioned that the two clients which you had issues had likely to have a similar impact in CY17 versus CY18 and you started a guidance of 10-12 for CY17 and you ended with more than 15%. Again you are starting with 10%-12% guidance, is it fair to say that one cannot rule out if there is no unlikely adverse impact, the growth rates has a potential to improve. I am not asking about the conservatism in the guidance, do you believe that are you worried about something which does not give you a confidence looking at your track record in CY17 and all the parameters are similar while entering CY18, you can actually execute better than what you have guided?

R. Srikrishna: Well, that will certainly be what everybody in the company is working hard towards is to do better than what we have said at this point. Like I said earlier, I hate to be in a position of kind of having to go back and right now in our industry, I do not know how many people are giving a full-year guidance and not many that is for sure. Those that have been giving have to backtrack or that is not where we want to be for sure. So I would rather have an outcome like 2017. Dont ever be in a situation where we have to say we are now reducing it from 10-12 to whatever it is. But we are all working very hard to see how we can beat this guidance that is for sure.

Sandeep Shah: Just one strategic question. If you look at last 2 or 3 years strategy, most of your growth has been driven through IMS and BPO, but do you believe that the long-term picture if you look at 3 to 5 years to scale up, your growth has to be diversified beyond these two services more in terms of scaling up on the big data analytics or actually creating growth out of data which many companies have started doing that. So we do not hear too much on this norm the Hexaware wherein the last analyst meet you said that you are also looking to create separate focus in the enterprise solution to drive the growth on SaaS. So if you can update in terms of where are we on that journey for driving growth beyond IMS and BPO?

R. Srikrishna: There are a lot of questions there, but I am going to try and give two-three important pointers, right. In the analyst meet, we said there are three imperatives for sustaining growth. We have to sustain pockets where we are doing well. So I would not talk that. We said we have 6 problem areas and we called out three. We said Enterprise Services, ES is already back to growth, right and it is flat. After the years of going down year-on-year, we are flat in ES which is basically it is maybe u-turn. MNC is actually back to solid growth. It was growing, but much lower than company average. Right now, you are seeing MNC and professional services together in MNC and others. From Q1 next year and going forward, we will split the two. So you will see what I am talking about. We will also provide you some back reporting so you can do comparisons. So actually ES, PS, MNC where we made investments to turn around have all started showing good early results and you will see it in the reporting from Q1 onwards. We also said we want to build new digital services

that will get us at least 6% CQGR, right or more. Essentially, goal is to grow 30%-40% year-on-year. The new strategy that we spoke a little bit about, one part of it in the analyst meet and to the extent that we have an opportunity that we will talk more in the coming week. I will explain in some detail what we are doing, but I do want to clarify one point that our growth is not just from IMS and BPO. In absolute dollar terms, our single biggest growth has always come from ADM. ADM has been consistently our third fastest growing horizontal, given that it is like more than a third of our business in absolute terms and that is very significant because a lot of our application, modernization which is driven by digital initiatives, API, building for cloud, all of that is extremely relevant for future services are sitting in that horizontal.

Sandeep Shah:

Okay. Fair enough. Just two book-keeping questions. You said one of the clients which had an issue in the travel and transportation which is now within top 11 to 20, you also said that it has now a negligible revenue, but you said one side of the business if I am not wrong IT services is likely to continue. So that chunk has also shrunk where you believe it is now a negligible size and second in terms of your cash payout ratio, can you give us some guidance, how should we build, so you have already given a 8 per share, but for which you believe that FCF to the PAT ratio has to improve dramatically and what are the efforts to do that or we may also consider to leverage the balance sheet?

R. Srikrishna:

So let me answer the second one first, our FCF we don't need to improve it actually, so we have lesser capital spend, we already have lesser capital spend in 17 relative to 16, 16 we have massive capital spend. But 17, our FCF is pretty good already, so we don't need to do anything additional. We built up capital consistently, you know what we said is that we want to build up capital for acquisitions. We got to a point where I don't want to build up a lot more. I am trying to balance between returning it versus still holding capital. So my goal in general is to kind of hold or grow it at a much slower rate than we have grown it in the last year. Last year every quarter we have grown cash on books substantially. We will continue to grow based on paying out Rs. 8, but it will grow slower and that we want to keep for potential acquisitions. So we don't need to change. We certainly are not going to lever up to pay out dividend. On the first question, two corrections. One to what I said, one to what you said.

What you said actually it is not that IT is staying, IT is going away, some engineering work is staying. So that continues to stay. It is negligible and it is small. And in future it will be out of our top 20 but it continues to say, IT is the one that was much bigger, that has gone now.

Moderator: Thank you. We have the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Keech, if you could help us understand what the deal sizes you are talking about are in pipeline versus what was your sweet spot earlier and what is driving this change or this increase in the deal sizes?

R. Srikrishna: See, I think what is driving it is simply that it is going to continue to happen for number of years going forward. It is that, you have to prove, you get to a 5-10 million deal size, you show good execution then I think you can credibly fight in the 10-25 deal size. You show some solid execution there, you can credibly fight in the 25-50. So I think that is the evolution that we are in. I think we are in the cusp of that 25-50 being fairly consistent in that deal size range. But we also have some moonshots in 100 plus and we will continue to have those. Those tend to be more in EN, which by the way we don't disclose. We do disclose material losses, but not necessarily wins in that space. So we will continue to pursue moonshot deals in our existing customers because we think we can win, more likely the first win of north of 100 million will come from there. But in the 25 to 50, I think we are going to be fairly consistent in being able to compete very effectively for NN clients.

Gaurav Rateria: These deals are likely to be in the space of infrastructure management services?

R. Srikrishna: No, I think IMS, BPO, App Support, AppDev, Managed Testing, so I think a mixed bag of IT but there are also BPO deals in that size. Our larger deals, larger than that size also BPO deals.

Gaurav Rateria: Sure. I am not sure if there is enough time to talk on this subject, but Keech, I know that you don't disclose the digital as a percentage of overall revenues. But if you could help characterize in each of the service line what is actually new, what is old, what is the percentage of or what is kind of exposure to the

legacy business. So probably IMS and BPS is something where most of the business is new because that is when you start targeting the deals?

R. Srikrishna:

Yes. I will try and do it real quick for everybody's benefit. So bigger business is ADM. We don't have a lot of support, fortunately, we have some, we don't have a lot. So lot of it is dev work which is all now 80% is Agile. 70%-80% of that work we do, new work we take on is on Agile. And that will continue, whatever is remaining in non-Agile will go to Agile. The new wave of change that will start there in that will start building for cloud, when building to be deployed in house data centers and then try and see how to deploy it in cloud. I think it will be building for cloud with the future building, using cloud components in APIs is the future. In testing, I think a very substantial portion has moved away from manual testing, but there is still some. But a good chunk has moved into automated testing. There is a new portfolio services surrounding digital which is visibility testing, performance testing, security testing. Those are our new services, those are small but obviously faster growing than the rest of the portfolio. There is still change to be made. There is still some manual testing, but it will go away pretty quickly. But we will be managing through that and still growing, if you see our numbers, our digital assurance or testing business grow at 13.3% for the year. And everything I told you has been true through 2017, right? There is a portion of manual testing business that we managed out into automated testing and through all that, we have delivered close to company average growth. BI and Analytics, there is a portion which we think is, there is a portion which is BI which we originally thought is going to go away more rapidly than it actually has. In truth, it is going to be there for a while. I think the concept that ETO work is going to get fully automated. It is perhaps a little overhyped. So we think a lot of what one could think of is legacy BI business. The churn is going to be slower. It is going to stay and then obviously we have the new business in building big data systems and using it for analytics as the newer digital services that are faster growing. The ES is the last service client, IMS and BPO where the legacy business is PeopleSoft and some other on-prem, SAP and Oracle. The new stuff is, in Oracle, there is Oracle Fusion, Workday, SAP HANA, so everything moving into clouds, SaaS, Salesforce.com and the whole ecosystem surrounding Salesforce now, Einstein, Lightning, all of that and that I think is



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more than made the U-turn. I think the legacy business is now a minority of the total business and that is kind of then also coinciding with the fact that we are seeing finally ES business coming to flat and you should expect to see growth in future. Thank you all for your patience. I know we went over a little bit. Thank you all and look forward to talking to you again next quarter.

Moderator:

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