



“Hexaware Technologies Limited Q1 FY-18 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 call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Latika Gidwani. Thank you and over to you, ma'am.

Latika Gidwani: Thanks, Karuna. Good evening everyone. Welcome to the Hexaware conference call. From Hexaware we have with us Mr. R. Srikrishna – CEO; Ashok Harris – President-Global Delivery and Rajesh Kanani – CFO.

The safe-harbor statement is available on the Hexaware website and I shall take that as read. We shall run you through a presentation which you can see through the WebEx. The presentation is also uploaded on the Hexaware website. With that I handover to you, Keech.

R. Srikrishna: Good evening everyone and thank you for being here with us this evening. I want to quickly apologize upfront that you may have either just seen the results or some of you may not even seen it. It did kind of go out later than we had anticipated.

But it is out there, it has been out there for several minutes now and I also know that many of you are not on WebEx I am going to try and talk it through as best I can. Hopefully you also like our new logo that we launched a couple of weeks ago and those of you are in the WebEx will also see the new presentation format and things like that.

So first on the numbers for the quarter. We had a good quarter 5.4% QoQ growth. This is of course in the back of another strong quarter that we had last quarter. And our EBITDA before ESOP was basically kept pace that grew at 5.2% against 5.4% of revenue. Now both these apart from being healthy quarter-on-quarter were also outstanding year-on-year growth. More than 17% on revenue and more than 30% on EBITDA.

Our EBITDA percentage essentially remains flat at 17.5% prior to ESOP. Now I want to spend a minute on ESOP. So those of you that have seen the results or seen the screen will see that the EBITDA post ESOP has gone from what

was 17% last quarter to 16.2% this quarter and essentially what was a Rs. 0.8 million ESOP cost in Q1 for this quarter is Rs. 1.88 million. What we did was we are projecting an increased percentage of people will get payouts in our stock plan.

For those of you that may not be aware it is a 100% long term performance based plan so we are at this point of time projecting better performance than we had originally and we are upping what we are allocating for stock payment. Now the upped amount is roughly 200K per quarter which is what you will see going forward. So from 800K it will become roughly a million. But there was a onetime catchup cost of a million that we have to incur in the current quarter. So that is why there 0.8 from last quarter went to 1 million and even after that 1 million, the PAT went up 10% and on a quarter-on-quarter basis and 30% on a YoY basis.

The revenue the growth and I will talk about geographies, verticals and horizontals later but in essence there was a very healthy volume growth of 6.4%. This is kind of in spite of from a revenue perspective negative mix our onshore ratio improved a little bit. But even then there was a 6.4% volume growth which is very healthy. We have some cross currency tail winds in Europe. We did have like a best way to describe this as an episodic kind of pricing negotiation with a handful of customers. We are seeing this impact will be little bit of overhang in the next quarter and that is the pricing impact you see for the quarter but net of all that there is a substantial quarter-on-quarter revenue increase.

From a margin perspective the headline news is that operationally we were flat which is very good considering the fact that we lost 66 bps on Forex on Rupee; 44 bps in gross margin and 22 bps in SNM. So we lost 66 bps on Forex we lost 50 bps on Visa. This is incremental to cost that we already have last quarter which we have the application cost in Q1; the allocation costs were in Q2. So in essence there is about \$1.3 million of cost which we incurred this quarter which will not be there in Q3 and Q4.

Now the big kind of negative was the bill rates that we already spoke about that is where we lost 90 bps but and then the 100-odd bps between Forex and

Visa. But all that got amply made up by a smart improvement in utilization and some management of other costs which got us to a sort of being flat.

Now those who are seeing the slide offline slide 7 we have been showing top 20 customers' movement on a quarter-on-quarter basis. What I thought to be useful is to show you over the last 24 months this is a view of the left the green in view of last 12 months compared to previous 12 months. And I am not going to go through each client here but you will essentially see that there are 7 new customers that have come in and a vast majority of the ones that are out actually all of them still exists as our clients and a vast majority have not shrunk in absolute terms. They have just grown slower or have been flat. So we have done it has been a consistent team those of you that have heard this over the last two, three years from me that I say measure of our performances are we able to bring in new clients in to the top 20. So our three year scorecard is really like or a two years' scorecard that we have brought in seven clients over the last 24 months into the top 20.

Our clients pyramid mix remain healthy, the top above 50 million one went up essentially there were two in the 20 million to 50 million; one went up, one went down to the 20 million to 30 million category. All the categories have shown a healthy growth. The 5 million to 10 million has gone up from 6 to 8. The 1 million to 5 million which feeds with the rest of the pyramid up has gone from 62 to 65 and the greater than 1 has gone from 76 to 81.

We have also looked at the top n growth profile if you do the analysis what you will see essentially is the top 5 clients have grown well. But really in the top 20 the fastest growing has been the 11 to 20. So 11 to 20 has actually grown faster than top 5 or top 10 and while our client concentration still has gone up there are new clients in there and as I showed you in the previous slide there is a lot of new clients and the next 10 are still growing faster than the top 10.

Our new win run rate is back to healthy rates, we booked about \$40 million in new wins. Again it was from a handful of deals directly linked to our two themes of strategy Shrink IT and Grow Digital. In fact this time there was more on the digital side. So I will call out one from each. Actually the headline deal from a value perspective is an end-to-end infrastructure outsourcing deal

which was with the top 3 IOP that is moving towards actually the transition has started and it is a completely Raise IT platform based automation led full IT infrastructure outsourcing deal.

In digital I will speak on Thursday for those of you who come we will speak at some length about a new service that we are launching which is customer experience transformation and we will talk about what we think is the new world of digital and the new world of Omni Channel. I do hope all of you will be there. But we have our first win in that area on the new world of Omni Channel and transforming customer experience for a large e-tailer. So that is the one that I will call out among the digital deals for the quarter.

Our utilization remain stubbornly high and I say that because of I think our desire is to bring it down a tad to give us more room to grow. It remains stubbornly high because our demand remains very strong. I think you will see it knocks down a tad for sure in the coming two quarters which is planned. Our attrition continues to trend down so went down by 1% on an LTM basis so that means the in quarter attrition is really low.

From a geography perspective, APAC all geographies did well including Europe which has been saying it is going to turn the corner, it certainly has turned the corner. So really our growth rates now in descending order are APAC, Europe and North America which is what I think is the right order it should be in. And APAC grew double digit quarter-on-quarter on the back of a double-digit quarter-on-quarter. So in terms of contribution to our business APAC is now up to 8%. It was only 6% like three or four quarters ago.

From a vertical perspective, the world is back to normal in that BSF is back to being the top, last quarter was GTT. But even though GTT had an outstanding quarter last quarter they still had a decent quarter. The good news is that every vertical had really healthy growth. The slowest here is 3.5% quarter-on-quarter.

From a service line perspective, again outside one which is essentially flattish every other service lines grew. The enterprise services which has been a laagered in growth and has many quarters has shrunk or been flat actually showed nominal positive growth which we think is a very good outcome both on a quarter-on-quarter and on a YoY basis.

Headline growth for the quarter is BPO. But BPO was a slightly lower than average growth quarter, last quarter. IMS had a 20% growth last quarter, it is continued at 9.4% this quarter. So on a YoY basis IMF is in the high 50%, 60% YoY growth and BPOs in the 30%.

Which then brings me to what we think is the most important few minutes of this commentary which is we want to provide you updated guidance for the year and we know there were some lots of news floating around in the few weeks ago about a deal and stuff like that. So let me go over three or four elements. First is we are upping our guidance for the year to our revenue and EBITDA both to grow by 14% to 15% for the full year.

We said our previous guidance was 10% to 12% for revenue and margins were flat, same percentage as last year which is essentially same both will grow at 10% to 12% in absolute terms. We are now saying both will grow at 14% to 15%.

There was news that we had lost a client that is not true. We lost a portion of business from a top 5 client, which frankly is normal business. There are plenty of clients where we have seen incremental portions of business that we do not report on but since this one is a little chunkier and there was lots of coverage on it we thought we will give you a full visibility in to what it means.

So we did lose a portion of business from a top 5 client. I do not want to reiterate that the client has otherwise resigned for a number of years for all the other work we do and we actually continue to grow in a very healthy manner the rest of the book of business. So I am talking about a portion. This business will have this loss will have partial impact in Q3 and full impact in Q4. And these impacts partial in Q3, full in Q4 are accounted for in the 14% to 15% growth.

It will have an overhang in to next year of between 2.5% to 3% based on our current revenues. So as the revenues grow this overhang percentage will come down. I know that this concern about hence all these what does it means for FY18 for us. And I know also that everybody is trying to put this and the earlier insourcing which we announced in Jan together. So while we are

not committing FY18 yet and we would tell you a little bit about Q4. Because that is then the exit from which we will continue to grow QoQ in to next year. So Q4 will have full impact of the client that I just spoke about. It will also have the full impact of the client that we announced insourcing for in Jan. So it is a bit of an air pocket quarter in that the full impact of both these will come together in Q4. Post that we still expect to be close to double digit YoY growth in Q4. That is on the strength of the new wins that I spoke about in NN but more importantly an enormous strength in EN, the new business from existing clients that we do not report of but we have been having very healthy growth in mining the existing customers.

So the combined impact of both those is that even after the full impact of both these clients in Q4 we expect to be close to double digit growth. This is now of course without furloughs which we do not know yet if there will be or how much there will be. With that, I am going to turn to Rajesh.

Rajesh Kanani:

Thank you, Keech. I will start with financial update. First, I will take up revenue. Revenue for Q2 2017 constant currency revenue is Rs. 151.8 crores. It is grown by 4.9% on QoQ basis and 18.2% on YoY basis. As far as the normal revenue is concerned it is Rs.152.6 million up by 5.4% on QoQ basis and 17.7% on YoY basis. And INR revenue is Rs. 9836 million up by 2.4% QoQ basis and 13.1% on YoY basis. Since Keech has talked about margins I will take up the balance items. First is the hedge position and the rates.

You can see today we are hedged at \$151.61 million which includes USD INR majority of hedges in USD INR area of 141.66 with average rate of 72.35. Similarly, Euro INR 81.21 and GBP INR 96.68. You can see that the average is much better than the current market is today. As far as the Forex gains loss are concerned I mean current quarter we had 2.14 million worth of gains and at the 64.58 what number is coming are 2.05 million gain in Q2 FY17 and 2.22 in Q4 FY17.

As far as the other balance sheet items are concerned cash and cash equivalent we are at \$66.5 million at the end of June. DSO has been 45 days with unbilled it is 70 days. We have declared dividend of Rs.1 per share and dividend payout will be Rs. 357.1 million or \$5.5 million. As far as tax rate is concerned it was 22.9% in Q2 2017 versus 23.7% in Q1 2016 and this is

happening mainly due to more business coming in new SEZ and the CAPEX for the quarter has been Rs. 2.3 million.

With that I will hand over for question answer session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Sir, I wanted to quickly know two questions particularly the kind of confidence which is coming in terms of upping the revenue guidance when the whole industry is struggling. So what have you done differently, or are we getting into some new service lines or something which is driving this growth which is not reported separately right now? So that is question number 1. Question number 2, is this a secular change you are seeing here or you think that you will have more clarity after two or three quarters only for CY18 or you see that there is a uptrend in a secular way?

R. Srikrishna: So I mean listen we think we have said a number of times the success of our strategy is if we can grow differentially from the market. And I think you are seeing that and it is not a one quarter story. And I will actually present some data on August 3rd in the Analyst Day and again hopefully you will all be there. There I will show you three-year performance data. But essentially on a three-year basis if our revenues were a 100 three years ago, twelve quarters ago, it is got to 150 now. Organically nobody else is close there. There are people who made like Cognizant is there at the same level, they have spent \$3.5 billion in capital for acquisition in the same period right, so we do think it is sustainable.

This growth we do not think it is a one quarter thing. The twelve quarters of good points behind this, there have been some ups and downs but I think that will continue. But if I just look at it on a long-term basis we feel pretty good about where we are in our growth. We have not yet introduced new services. We will I think there is one win that you just saw and we will talk about what that service is on Thursday.

- Sandip Agarwal:** So what I am trying to understand here is that is it a matter of reporting and we have started the work or in a new service line or it is that we have not started any new service line?
- R. Srikrishna:** No, we have taken, we have just done what you will say limited availability or initial launch for a new service. We have been testing it, we have seen very good results. We will start taking it to full market shortly and you will hear about what that service is on Thursday. But there is none of that in our revenues at this point of time.
- Moderator:** Thank you. Next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just on this the loss portion of business from a loss client. Can you just give some color what is the business which is the nature of the business retain and nature of the business gone out and the business which has gone out what was the two, three key reasons according to you the business has gone out?
- R. Srikrishna:** See I actually have no problem in answering that question but my client will have hence I will not answer it. So I do not want to talk on their behalf.
- Sandeep Shah:** Okay but you said the business which is been retained has been signed with a new MSA or for multiyear? So you do not foresee like complete loss of a client because of that?
- R. Srikrishna:** Correct, I will give you something that we do not report on. We announced the formation of a new vertical called Professional Services. Now you will start seeing reporting for PS vertical, surely by January 1st if not before, maybe next quarter or certainly the quarter after, right. Now we have combined a client with MNC vertical because we were impacting confidentially of the client. And so we do not report on that client. But what I can tell you is this, okay that client if you set aside this loss which is anyway not impacted our revenue yet, is growing materially faster than company average.
- So the rest of our book of business continues to be extremely robust and it has no known foreseeable risk of it is going away or coming down. Like I said we have completed a renegotiation, we have resigned for a fairly lengthy period of time.

Sandeep Shah: Okay that is a fair explanation. In terms of billing rate can you just let us know what has exactly happened, is it with one client and how would the full quarter impact will look like going forward?

R. Srikrishna: So actually this is a full quarter impact. Actually next quarter will be a partial quarter impact. With a little bit of over hand so there is not one client, there are three four clients in here. So the vast majority of it already the impact is there. There is one of those clients for which only some of it is there this quarter and so there will be an overhang into next quarter. So it is not one but it includes the one that we were speaking about but there is also a couple of others.

Sandeep Shah: Okay so is it a volume discount or is it like a competitive pricing?

R. Srikrishna: Well, it does not matter it is dollars, you can call it whatever you want.

Sandeep Shah: Okay, just last question I may come in the follow up. Is the new business TCV last year was really robust and this quarter we have done extremely well. But we also had very good second half last calendar year. So on a YoY for CY17 you believe new business TCV we are on track to grow or we may be at least in line with what we have done in CY16?

R. Srikrishna: Listen if we are not at or above what we did in CY16 I will be disappointed. I cannot say for sure we will get there, but we are making all the investments to get there and so if we do not get there I will be disappointed.

Sandeep Shah: Okay and sir just on the vision for the three, four years I think I am not expecting a number but what do you believe, like the faster than the industry growth rate would be the aspiration going forward each year?

R. Srikrishna: That is the base line, yes. Faster than the industry growth rate has been an aspiration for us ever since I got here we have been saying that our first stop is to grow faster than industry growth and that remains. But I think you will hear more on what we are going to do to sustain our growth maybe accelerated, what are the strategy we are doing, we are going to talk a little about that on Thursday.

Sandeep Shah: Okay and despite some client specific issues like insourcing as well as this, this does not deviate your confidence to do that going forward?

R. Srikrishna: No.

Moderator: Thank you. Next question is from the line of Madhu Babu from Prabhudhas Lilladher. Please go ahead.

Madhu Babu: Sir, could you talk about the wage hike schedule and the margin impact from that?

R. Srikrishna: Sure, wage hike our schedule is that offshore there are three waves that happen on August, September and October. There are two things I will say at this point. We are not chasing the schedule so we will be releasing wage hike as per schedule and it will happen this quarter. Unfortunately, I cannot tell you the impact because of my employees do not know it yet. So it has not been released yet, we are still early in the quarter it is around the corner but it has not gone out yet. So we are not able to share what the impact will be.

Madhu Babu: Okay and essentially your guidance implies that next two quarters the revenues will be flat without any growth. So that is right the 14% to 15% guidance implies that the H2 will be flat?

R. Srikrishna: You can do the math, at 14% it will be flat, at 15% there will be some growth.

Madhu Babu: So if I am reading the leakage right from the top five account, it is \$18 million 3% of revenues you said, so \$18 million of annual revenue is going to be the leakage quantum?

R. Srikrishna: We said 2.5 to 3, that is the overhang in the next year incremental to what is already there this quarter.

Madhu Babu: So that is almost a 20% decline in that account?

R. Srikrishna: We have not told you how much is the total account and how you come to that conclusion?

Madhu Babu: And lastly on the strong growth in IMS and BPO I think that is what we have already been talking. So would you expect this kind of strong momentum continuing in both these service lines?

R. Srikrishna: It is kind of hard to say that we will continue to grow at 60% a year but we expect these two to do well for a while.

Moderator: Thank you. Next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Just want to understand the impact of the two things. One is insourcing and second is about the top five where we are seeing some business loss. What kind of impact you are expecting on margin because next year I am referring

to calendar '18 related thing. Where both would be having total impact of around 4% to 4.5% because we indicated around 1.5% in H2 because of insourcing. So if I look from annualized perspective it would be around 4% to 4.5% impact on revenue, the next year the headwind which we have to face obviously net new deal win will help us to negate part of it, but how you expect margin to change because of this headwinds?

R. Srikrishna: The good news is both these deals were roughly at company average margins. So we do not expect there could be like some pockets of issue maybe for half a quarter, one month but that is it. On a sustainable basis there is absolutely no change to margin profile because of these two because they were right about at company average margins.

Deepesh Mehta: So even now because considering where rupees we have hold our margin very well around 16% odd. So you do not expect rupee appreciation to have any incremental negative impact, presuming where rupee is?

R. Srikrishna: Well, if it goes further up then we have a problem but my annual update of 14% to 15% growth in EBITDA is assuming the current level.

Deepesh Mehta: Understood and last thing is about IMS and BPO. We are showing significant traction. Can you help us understand what we are doing different than market?

R. Srikrishna: We are leaving with a proposition where we are saying we will guarantee results from automation. And we will bring in technology change additionally in the case of IMS. So it is nothing different from what we have been speaking about for a while, that it is an automation led, automation first approach to delivery. It is not that others cannot, the incumbents cannot do it, we think they have a problem of willingness more than capability.

They also have a capability issue in some pockets, but the bigger issue is willingness because it cannibalizes their own revenues. So they are not always willing to do it and sometimes if we are able to establish the value earlier than they offer it, they lose credibility and they lose their business. So thus far singular strategy.

Deepesh Mehta: Understand and last thing is about the pricing. Whether we are seeing any pricing in these two service lines when the negotiation happened whether IMS and BPO is playing any role in that negotiation?

R. Srikrishna: So yes and no. And I am saying that because the total price does reduce absolutely but the unit pricing from a labor perspective does not change. So I think of 100, 70, 40 are three numbers. Right, 100 was when IBM was doing this service and then somebody brought it offshore it became 70. In the post automation post cloud world it will go to 40. So the total price comes down but the unit realization per labor does not come down in the 70 to 40 change they are using lesser labor.

Moderator: Thank you. Next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Yes, firstly is this guidance in constant currency term?

R. Srikrishna: No, this is reported in dollar terms.

Rahul Jain: Okay and since this has been revised positively what would be the CC terms update that has happened to this number?

Rajesh Kanani: We have actually given revenue in CC terms in your guidance.

R. Srikrishna: We will compute and come back to you. It is going to be little bit lower than this but it is still a material uptick to the 10% to 12%.

Rahul Jain: Right, so the question is what is driving this kind of confidence despite the client impact which you have already shared and from a new deal TCv per se also it is not very high versus what we used to do at least from the last two quarters perspective ever since you announced the guidance at the beginning of the year. So is it less bad news from the existing portfolio which has driven to this confidence or any other reason for you to boost up this thought?

R. Srikrishna: Actually it is growth in existing clients. It is not lack of bad news, it is really good news as in we are winning more than our fair share of business in existing clients and we are beginning to kind of win larger deals in existing clients potentially displace our larger encumbrance in existing clients. So it is really growth from existing clients that is driving it. Just to go back to your question on difference between constant currency and reported you should know that 81%, 82% of revenue is North America. So the differences are not going to be huge, 11% in Europe which contributes to the big difference. They are not going to be huge but they will be a little bit different between CC and reported currency.

Rahul Jain: Right, and secondly from a long-term profitability perspective, we have such a high growth trajectory normally this kind of growth should also drive some profitability. So what would be the thought process here? Would it be to maintain a very high growth by constant investment and sustainable profitability or we would let profitability also gain some uptick given the leverage that we may have on stronger volume than peers?

R. Srikrishna: So two things I will say, right. First is I think the philosophy is to continue to invest for growth. I do not think we are anywhere in the several year horizon of wanting to systematically harvest, I mean purposefully harvest the business for margin expansions. I think what will happen is there will be some gradual natural kind of G&A leverage that happens not S&M. But I think it is going to go more to dealing with some of the headwinds rather than margin expansion.

So there is going to be always headwinds right like rupee was a big headwind this year, who knew it is coming. And so I think that is our goal. If we can kind of keep margins where they are, use a little bit of operating leverage to act as a buffer against unknowns and then reinvest the rest to continue to grow. That is the strategy.

Rahul Jain: Understood. Lastly if I may one on the Asia business. This revenue has been growing pretty fast, much faster than the company. Does traction in this geography change the way is it anyway dilutive in terms of profitability, billing rate or any other important parameters and will it have any impact, is this the reason of guidance uptick somewhere?

R. Srikrishna: No, well that is one of the reasons, it is not the only one. The answer is in general, no. There could be margin impact due to service mix but that is our onshore offshore mix but that is not unique to APAC. There is nothing unique to APAC that will impact the margins.

Rahul Jain: So are you trying to say because they are a very big corporations or you are saying that the billing rates are similar even in this market compared to the traditional US, Europe on a like-for-like service?

R. Srikrishna: They are not kind of materially different in any case. See what happens is, let us talk about the countries we are present in, right. We actually reduced the number of countries we are present in dramatically. We only work in

Singapore, Australia, New Zealand, Hong Kong and India. And in India we are only in two sectors banking, e-tailers that is it. So we are not going after every country, every sector so it is a very narrow focus.

Rahul Jain: The portfolio while it would be not less than 10% on a billing rate difference?

R. Srikrishna: I do not even know, but there is nothing in our books to show as a result of that growth our gross margins are changing.

Moderator: Thank you. Next question is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: The first question is regarding the commentary you made from 70 to 40, where are we in that cycle today and just if you could also correlate that with the improvement in the automation numbers and the employee number where would be an equal number related to that 70 to 40 journey?

R. Srikrishna: Yes, so I mean listen there are two different journeys there, right. One is as it pertains to our book of business and the other is as it pertains to when we win new deals. All the new deals we win are at 40, so we make that commitment, we bring in the automation. So it is a post automation, post transformation world is what you see reflected in our numbers. And that is why you are seeing essentially we are growing headcount. We added 350 people this quarter we have added close to somewhere between 650 and 700 people for the year which is not completely off the line with our revenue growth rate.

So there is no I mean we are adding because the deals what we are adding is a post kind of automation world. In our existing book, itself it is different so it is a journey. I would say we are in the first quartile of that journey. But do not worry about our existing book we will have a lot of IMS or BPO in our existing book. We are much smaller than usual average of application support in our existing book. And we have maybe an equal rate on testing but in testing we are actually quite a bit further ahead in the journeys than the first quarter. Actually, our first quarter is in application support but that is a small proportion. We do not have a book in BPO and IMS.

Abhishek S: Okay that is helpful. And the second one is on even the customers that you talked about having a company average margins for which was impacted. So we are talking about company average margins after the price negotiations

we had this quarter or there could be some impact of the price negotiations.
Thank you.

R. Srikrishna: Actually well, one deal does not matter because that IT portion of the business is insourced. So really there is no negotiation what we are continuing is engineering services in that client. In the other client, what I was referring to is prior to the negotiations. So really the only impact you will see is the result of the negotiations but nothing due to the loss of the contract the portion of the business that we lost.

Moderator: Thank you. Next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: My first question would be I think you mentioned SG&A leverage next year. So would that be more on the delivery side or on the sales side?

R. Srikrishna: Well, it is on SG&A. So it is really on, I will say it is really mainly on G&A. So it is neither sales nor delivery so it is from G&A. What spent that does not directly correlate to increased business.

Ankit Pandey: Okay so could I read that as you are favorably comfortable with the current utilization levels of 80% or so?

R. Srikrishna: Yes, in fact I said I am actually not comfortable, it is too high, we wanted to come down a little bit.

Ankit Pandey: Right okay and if I also look at this used to be a part of the business one point of time enterprise solutions. So of course, the mix is sort of moderated over some quarters. So would you say that over the next year despite maybe at the very margin some deterioration in the mix of our business we will still be able to retain margins and that is primarily that is where your prevaricating it on the improvement in G&A, am I right on that?

R. Srikrishna: Yes, see the thing is this. I know what an enterprise service is. I mean we managed to grow our overall business in spite of a contraction. Actually our last three years CAGR on enterprise service is 0.01%. Basically being absolutely flat for the last three years. We think we can grow the business. We have hired a new leader who just joined us from Cognizant. He will be in the session on Thursday if most of you that come there will meet him. So there is a new life, new strategy behind that meeting we can actually do that business. It may not grow at company average but remember it has

grown at zero so far. So even if we move the needle to five six percent growth that is going to have a big impact. It could add basically a percent to our overall company growth. It is still about 12%, 13% of our business.

Ankit Pandey: Great and would there be any material purchases of software or licenses or anything like that or some go to market agreements that we are looking for too say in the next six months?

R. Srikrishna: Not sure of the intent behind that question. Will there be go to market agreements potentially yes and would there be software purchase agreements for our internal use, for customers we do not usually buy software on our books. They would buy directly or even if we do we do not take it in our revenues.

Ankit Pandey: Alright and lastly could you just highlight some of the momentum in banking versus financial services that you are seeing good growth there. So industry is also experiencing some momentum overall. So could you highlight some of the new discussions in this area? Thank you so much.

R. Srikrishna: Sure, I mean I think I always first point to the fact that our pockets of revenue in BFS are different from the industries. The industry's big pocket comes from banking, commercial retail banking. However, the minority comes from there, the big chunk comes from capital markets followed by secondary markets. So those are the two big areas of business and they will be doing well. Obviously capital markets correlates pretty well with overall stock market performance that does well, sentiment is good, customer has spend more and mortgage actually is also correlated to the stock market in some ways.

People feel they are more wealthy and buy more homes. So that is where our growth is coming from. It is not directly linked to commercial retail banking where we are a strong challenger, with essentially the automation based offering, especially in BPO where we see a huge opportunity for automation led offering but that is not where our current core business is.

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

Ashish Chopra: Keech, just one observation where I need your help with. I think over the past year or the past couple of years, the headcount growth has been pretty much aligned to the revenue growth and that seems to be coming in spite of a

significant one side shift of revenue and a pretty market improvement in utilization as well. So just wanted to understand that is this really what we should be expecting from a Shrink IT Strategy, wherein the onsite yields may be much lower in IMS and BPS compared to services like development and enterprise solutions?

R. Srikrishna: Yes, see just the flip side of the equation you said which may or may not have accounted for is the increase in BPO headcount. So BPO headcount is kind of lower revenue per head count. So that is why you are seeing even though there is an onsite increase with a higher revenue per headcount the BPO which is predominantly offshore which is lower revenue per headcount and that is why you are seeing the balance. The automation impact on headcount is a different matter and is very much part of our strategy that it is not a non-linear. I have said these many times over.

We think any organization that thinks that they can retain the incremental profits that come through automation is in for a rude shock. They can keep it maybe for one quarter, two quarters, three quarters but eventually customers will take it back. So they will not be in a long-term basis non-linearity due to automation. Any benefits due to automation go back.

Ashish Chopra: Got it. And just secondly from my side so been a couple of years now into your strategy of cannibalizing revenues. And at some point, of time one would expect that to elicit some form of a response from your competition as well, instead of losing the entire business maybe cannibalizing to survive. Would you see any of that trend play out in the market on the competitive intensity side towards your deal wins in BPS and IMS. Any color on that would be helpful?

R. Srikrishna: So two things. First is I think they do already so it is not a new thing. I think most people realize that 40 is not as good as 70 but it is better than 0. It is only a question of when they realize that in the cycle. They always realize it, if it is sometimes too late we win, if they do it in good time they keep the business and we do not win everything we bid for. So they already keep enough business. So that is one. Two is we are still too small, so it is not like people are losing sleep over the business they lose to us. And that is great. It

does not take a lot for us to move the needle but I do not think we are causing any serious headaches for anyone else.

Moderator: Thank you. Next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Kawaljeet: This is Kawaljeet here from Kotak. Keech, congratulations on excellent performance. My question is that while we are broadly aware of Hexaware's strategy on IMS and BPO, the strong growth in last 12 months has been impressive. So what I wanted to know is that can you just talk about the additional things that you have done in the last 12 months to build muscles in to both these service offerings. And also I remember that the level of engagement that you had with the deal advisors 12 months back was at a nascent stage. So can you please talk about the progress on that count as well?

R. Srikrishna: So in BPO I will say the most important kind of muscle we have added from a 'what we take to the market' perspective is that we are now really talking and thinking beyond RPA. So RPA is kind of bread and butter now fuel and really there is plenty of cases involving into ML and then potentially into AI in future, so that is from an offering perspective. But the dollars have gone into building execution teams. So we can now execute multiple deals in parallel. I mean really we are thinking of an organization many times our size, what does it take to build that and start building those elements. So those are I would say the two dimensions of BPO side. For IMS the second dimension remains constant, right that means we are thinking of a bigger organization what does it need to build to make that happen across all dimensions, create services, health services, deliver services. From offering perspective it is really it is a journey I still think we are not even half way there. The strengthening is on cloud and we think enterprise movement to cloud is still nascent. Enterprises have moved their periphery to the cloud the core to the cloud is going to happen in the next many, many, many years. And so that is the area where we have added growth. Sorry there was a second question, Kawal, I missed?

Kawaljeet: And the second question was that I remember 12 months back your engagement with deal advisors was at nascent stage. So can you just talk about progress on that ground?

R. Srikrishna: It is progressing right. We are getting invited to more than a handful of deals. I think that is one dimension. The second dimension is the size of deals is beginning to see the inch up in my experience that will be a multiyear process. Each year we have to break one glass ceiling it will go from 25 to 50, 50 to 100, 100 to 150. So it is a pretty slow multiyear process. We will first win, then show ability to execute, before getting worried for larger deals. And so we are seeing movement in both dimensions.

Kawaljeet: So what is the size of deals you get invited to by these deal advisors, what is your sweet spot today?

R. Srikrishna: I would say that 25 to 50 is the sweet spot today. And we will have some outliers which are quite a bit larger.

Kawaljeet: Right and if this has to change over the next 12 to 24 months is it just building scale in the practice or would you need to add additional offerings as well to move up in terms of deal sizes?

R. Srikrishna: I think we are quite rich from an offering on these services I think it is about scale, it is about proof points tell me show me like a \$50 million deal you have executed. And little bit of headwind against us there is that what used to be 50 is no longer 50. By the time we get down it is already smaller.

Kawaljeet: Right, just a final question, Keech. How should we use the new TCV signing in understanding the quantum of growth? I know directionally higher the quantum the better it is for your growth. But have you done some kind of models in simulation in transit just to get a head around as to how to view this number?

R. Srikrishna: Yes. So I think there are two variables to it and actually I did promise that we will provide some color so thank you for bringing it up, I omitted too, so I will. There are two dimensions -one is the tenure and I think if you want to model four it will be a good average, there are some three, some five. The second variable which I think is the larger one is one of these is truly kind of fixed scope yield that is 100% converted revenue and one of these are more kind of, this is the volume of work but you know the ramp up may vary based on demand because it is really discretionary spend.

So I will provide on a quarter-by-quarter basis some commentary on what percentages is - volume and what percentage is kind of against discretionary

demand directional intent to spend. Typically the Shrink IT deals tend to be fully kind of baked-in, as in they tend to be firm revenues and the digital deals tend to be the latter kind. Even some of these deals are our firms. So I will say for this quarter I would say it is a 70%, 30% split. So 70% you will guaranteed see to falling site revenue. Some cases from next quarter from Q4 and the other 30% there could be some variability in the full revenue realization.

Moderator: Thank you. We take the next question from the line of Mayank Babla from KR Choksey. Please go ahead.

Mayank Babla: I just wanted to ask what is the guidance you had given for revenue and EBIT?

R. Srikrishna: We just said we are upping our guidance growth for the full year to 14% to 15% growth over last year and the similar growth in EBITDA 14% to 15% growth over last year EBITDA.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to handover the floor to the management for their closing comments. Over to you, sir.

R. Srikrishna: Thank you all and I hope to see all of you or most of you on Thursday.

Moderator: Thank you very much, sir. 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.