



“Hexaware Technologies Limited Q1 FY-16 Earnings Conference Call”

May 5, 2016



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Moderator: Ladies and gentlemen, good day and welcome to Hexaware Technologies Limited's 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani. Thank you and over to you, ma'am.

Latika Gidwani: Good evening all. Welcome to the Hexaware's earnings quarterly call. From Hexaware we have with us Mr. R. Srikrishna – CEO; Mr. Ashok Harris – Head-Global Delivery and Mr. Rajesh Kanani – CFO. The safe-harbor content is being put up on the Hexaware website is also there in the press release. So I shall take that as read. With this I hand over to Mr. Keech.

R. Srikrishna: Good evening all of you. I know that we have had a quarter weaker than all of you and certainly us expected. So what we are going to do is to may be skip some of the standard presentation stuff that we do and try and I am going to try and give you as much commentary and color as possible. And what are the likely questions top of your head and I am going to try and address them in as much detail as possible as I go through some of the material. So we would not go through the flow and then do commentary.

But what I am hoping to do is to kind of spend as much time as needed going over that and answering any questions you have. But after that I am still would like to spend five minutes talking about a platform that we announced today because we think it is really critical for our future. We would like you to spend a minute or two understanding what it is like.

Those of you are looking at the slides on Slide #4 you see our numbers. And I am sure all of you would have seen in by now. It was not a good quarter. We started the year saying that we anticipate having muted Q1 and that we expect robust growth for the year but a lot of it will come in the out of quarters most of even in Q2 and Q3. That was true and there was a reason why we said it will be a muted quarter upfront and there are couple of cyclical reasons as weak as Q4 was from a calendar perspective. Q1 is an even weaker quarter. It is a funny Q1 and it is a funny January in somewhat for example January had 19 working days. And you will see in the walk that we will show in a couple of minutes that Q1 is just calendar cost is \$1.8 million in revenues.

But that was anticipated. The other thing that was anticipated was that we knew there was one client has restructuring which lead to a reduction in quarterly revenues. We did secure a longer term contract but we knew that. So these were some of the major reasons why we had said upfront that it will be a muted quarter. But there were things that happened within the quarter that we are unanticipated. So clearly we lost 2% on revenues. We had actually a couple of clients with downturn within the quarter which was unanticipated. One of them is the major client and the value of the downturn was significant.



The good news relative to this client is that we do expect at least on a QoQ basis growth come back from Q2. It is still take some time to catch up from a YoY basis but QoQ we do expect the growth to come back from Q2. The other client is a more kind of a permanent innovation. There may be some growth coming back but it is a lot of it is a permanent innovation but that was the smaller client. There were other factors that were not as important but still contributed to why we perform lower than expectations. There were some accounts at least where the ramp up for our new revenues were slower. They got pushed out for a variety of reasons platform not ready or customer not ready or whatever it is. There is some push out of those revenues.

There was also some nervousness in some sectors, some customers especially BFS there was lot of nervousness. 70% of the revenue comes from capital markets actually more specifically asset management in the BFS space. And so there was nervousness there. We think it is settled now but or largely settled now. But there was and there were clients with budget freezes, cuts etc etc.

So now is the story on revenue and clearly EBITDA drop followed largely the factors we had built up cost in anticipation of delivering a certain revenue which did not materialize. But there were a couple of other one-off and seasonal items that we were allude to in a few minutes. On EBITDA. So EBITDA before ESOP kind of contracted 50 bps. At the highest level 30 was the gross margin and 20 was SG&A and we will go to the walk in a few minutes, a more detailed break off.

And ESOP actually on a quarter-on-quarter basis is 89 bps or 90 bps impact. Every year we provision a certain amount quarterly and then based on a full year performance in Q4 we make a judgement. So really so last year Q4 there was a downward adjustment and back off now at the beginning of the year. So that is the reason for it. We do expect to hold this level what we provisioned for ESOP in absolute terms. We do expect that to hold for the remainder of this year.

And finally the PAT drop is even sharper, ETR went up and Rajesh will explain the why that later. There were couple of reasons why the ETR went up. So those of you looking at the slides or have it offline or seeing it from our website on Slide #5 which gives you a walk on our revenue. So we had a basically from 124 to 121.7, a million drop came due to volume and volume was due to the factors that I already explained. A vast majority was due to the factors that I explained. In fact, they contributed more than this of the volume drop and then there were other positive things that happened.

\$1.84 million we lost due to the calendar and then the rest between mix, Forex and bill rates we get in aggregate. We have lost a little bit on FOREX and we gained a little bit on the other. So the rest of the factors were minor but we gained a little bit. So the big there was a volume drop the reasons I explained and there was a big \$1.84 million calendar drop.

Now the subsequent slide; Slide #6 shows the EBITDA walk. Clearly calendar contributed the single largest drop in EBITDA. These are in bps as such. This 89 basis points, 90 basis points.



We actually gained due to mix a little bit. Even though our offshore revenues went down a little bit some of you may have seen onsite revenues went up. Even then we gained on the mix.

Our utilization went down marginally. We clearly expected our utilization in this quarter to go up but it did not because of our unanticipated revenue drops. Finally, we had a seasonal and one-off item which contributed negatively. The season item is in H1B visa costs. In this quarter is the cost for applying and the next quarter is the cost of allocation. The applying cost is little under \$0.5 million. It is higher than the same period last year quite a bit because we applied for a lot more visas. And honestly next quarter also depending on what percentage we get, the unit cost has gone up by whatever 40% or so from \$5,000 to \$7,000. And I am sure all of you know about that. But that is for next quarter.

So coming back, the current quarter there is a one-off and a seasonal item which together contributed about 75 bps. A little bit of offset, in that on the positive side last quarter we had written off or we have provisioned for money pertaining to the Payment of Bonus Act. The new regulation law that came in whatever on December 31 so we were not entirely clear how much to provision for it though some amount provisioned and some of that came back in this quarter. After we got more clarity we will gain some on Forex and then there were other kind of costs that we could write back. There were some provisions for costs both from a fixed price project execution which were anticipated overrun. And some license cost payouts that we had anticipated that did not materialize. So we could not write those back.

So that is the walk what you see in the chart for those who that are seeing it is just the gross margin walk which is the contraction of 30 bps. And SGA went up by 20 bps. We did have a large sales training event that we do beginning of every year and there is actually one more happening right now or just happened last week. So that was that but it is anticipated. It is a conscious cost that was expended in SGA.

We did talk about reporting on and pointing out changes in top 20 in and out and I did say part of our success will be if we get a new client in. We did have a new client but it is not, I should correct that, it is an existing client who grew to come in to the top 20. And displaced the other one. And it happened not as a result of the one going out contracting but as a result of the new client growing quite a bit - The new client who came in.

I do have a little more detail on the pyramid and some of the movements and I will have commentary on that fairly detailed in a few minutes. We did announce that we did sign about \$36 million of TCV in NN new clients in this quarter. The vast majority came from three clients which was consistent with our strategy that we want to acquire lesser number of customers and increase the revenue per client. And the largest of this is the one of the top is a multiyear multi million deal lead by automation. It is very consistent with our shrink IT theme.

This deal will realize revenues over 5 years. The second one is the digital transformation it is a program which will realize revenue over two years. And third one is again is HCM transformation and the revenue will realize over three years. But that is the smallest of the



three. I did say I will talk to the client pyramid. So there is kind of I will allude to the chart here but I will also allude to what is in our press release which I am sure some of you at least would have seen.

The chart you see there is kind of increases in a lot of bucket or you see the reductions moved upward. Say for the 5 to 10 there is a drop. Likewise, in the same bucket on a year-on-year basis there is a number of customers that have dropped, five customers. Three of those five actually are above \$4.5 million. That is the reality. The other two are longer term that we need to kind of replace with other revenues from other customers and new customers.

But the three of them are in the borderline and this is an LTM at the end of two relatively soft quarters and these three customers we expect will climb back up in to the right part of the pyramid. But having said that our kind of top of the pyramid still remains fairly robust even through the commentary I told you about one client restructuring which is anticipated, one client having a sharp drop unanticipated. You will see there are top 20 clients are roughly in line with company average and our top 5 and top 10 are outperforming the company as such.

So still as a portfolio it is a robust top client portfolio. We held our dividend policy, it is something we said at the beginning of the year that we will hold our dividend policy largely consistent through the year and we did follow through on that and we expect to continue to follow through on this for the remainder of this year.

Attrition, quick word on that and I will go back to talking about revenue and profitability shortly here. Attrition last quarter I said it is on a downward trend. The quarterly trend will take time to catch up the LTM trends you have seen at play. Even this quarter the attrition was lower and this is an LTM number and we kind of still could be about where this is at.

Geographic view there is an important clarification. Again Slide #12 for those who are seeing it offline. What you would have seen in our release is an accurate number but there is an important footnote which we are adding which should have been there in that as well. You saw like big growth in APAC and fairly muted growth or negative growth in the other regions. The truth is actually that there were two accounts one from Europe and one from North America. Because of client reasons because they changed their center of gravity of relationship through and actually in both cases to Dubai we moved the account to APAC and so in future what we have reported in the release is the correct basis for comparing for future. What we have provided like a onetime bridge to show if we will not move those accounts then what would the growth have looked both on a QoQ basis and YoY basis in each region.

So you will now see that APAC did not grow as it was meant to be and North America shrank but not as much as it was originally and it is like a minus 1% and Europe was at minus 6% and that is actually shown on a larger reduction. So it is a clarification on North America. Sectoral in spite of the fact that banking kind of the sector was nervous during the quarter. We will have delivered growth in that sector and we actually continue to feel good that this and healthcare



will be between the four, these two will actually do better than the other two from a full year perspective.

From a horizontal again this quarter was again analytics but even through virtually all service lines had a poor quarter. But we expect all but ES, enterprise solutions to make a smart turn around in Q2. Then I want to go back to talking a little more on revenue and profitability. I think I spoke about what is the scenario for Q1 and I am going to try and talk through the future little bit in anticipation of at least some questions.

We still expect robust growth in Q2, Q3 basically in subsequent quarters but especially so in Q2 and Q3. That has not changed. So we said at the beginning of the year we expect overall robust growth ambition to outperform the industry average and that middle of the year is where a large portion of the growth will be delivered. we will have a soft quarter to begin with. We more than delivered on the first part of the promise that we have a soft quarter to begin with. But we actually see feel good about Q2 and Q3.

And I would however say that our growth expectations are a little bit tapered from what they were at the beginning of the year. The second thing was about profitability. So we said last quarter that we expect the full year for FY16, CY16 to be at the same level as CY15 which was roughly 17% EBITDA post ESOP cost. And we expect we still not withstanding that the performance in Q1 we still expect to be able to catch up to that level on full year basis.

There will be some growth through quarters two, three and four but you should see clear evidence of it in Q2 if it were to be through you will see a clear path to how that will happen in Q2. And finally though I already said it that the other thing we said I want to reiterate we said we will continue shareholder friendly dividend policy and we are recommitting to that.

With that I am going to there are a few important kind of financial matters that I am going to handover to Rajesh to speak to. For those who are looking at the slides you are going to skip through. Like I said we will come to it in the end after we have addressed all performance and financial issues first.

Rajesh Kanani:

Thank you Mr. Srikrishna. I think as Mr. Srikrishna has discussed on revenue and gross margin in break up the revenue and gross margin and the walk he has gone with I think I will skip the Slide #21 and #22 I will straight come to Slide #23 where we are talking about outstanding hedge position for the quarter as on the quarter end 31 March. Because see we have \$158 million worth of hedges as on 31 March with an average rate of USD-INR70.68, Euro-INR77.95 and GBP-INR106.69.

Then come to Slide #24 we are talking about Forex gain and loss. We have a gain of 630K in this quarter and we continue to have gain of 660K in quarter 2 and 680K in quarter 3 at a rate of 66.255. And the balance sheet I would say updates I think cash and cash equivalents we have is \$46.47 million. DSO is 49 days and unbilled at 78 days. As far as the dividend is concerned we have declared Rs. 2.5 per share; 125% and dividend payout in an amount term is



Rs. 908 million in rupee terms and \$13.7 million in dollar terms. CAPEX for the quarter was \$9 million. I think Siruseri was out of that more than 50% was Siruseri; \$5 million. Hinjewadi \$1.5 million and then we had computer equipment another \$2.4 million.

Our overall CAPEX spend for the year 2016 will be \$40 million. ETR was slightly higher at 24.2% at \$21 million was mainly due to lower profit in the SEZs and that has resulted in higher ETR. And going forward also I think one of our unit is going to go at 50% I think our ETR will remain on and around 24%, 25% from next quarter onwards.

With that I think we will go ahead with question answers.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta: I had two questions for Keech. Firstly, on the revenue side obviously it was a bit disappointing but on a trend pieces as well if I look at the last nine months' growth has been kind of decelerating. So roughly about 11% for the trailing 12 months' period. The question is do you think hitting double digit growth as we look for the next 12 months would really be a challenge for Hexaware given where this quarter has ended? And secondly on the two client specific issues that you highlighted but were these across service lines because in the reported metrics that does come across different service offerings. So just a bit of color there, was it these clients engaged in across service lines or is there some pain that we can expect in the coming quarters as well?

R. Srikrishna: So we will take the second one first. One of them actually the smaller was actually specific to testing or largely testing. The other one was kind of more broad based. That was the larger one that was a kind of more broad based across many service lines. On your first Nitin, we have not put out specific numbers. We did not and we are not putting out specific numbers. I did say that our growth expectations are little bit tapered from the beginning. That is clear that we expect it to be little bit better off start point where we are today at the end of Q1. But it is not changed our expectations on what the growth will be for the remainder of the year. But it will get muted to the extent that first quarter was off. Whatever the progress was tapered it down by some amount.

Nitin Mohta: And if I can just ask another one on margin front. Interesting commentary over there about but still trying to do what you had said about the quarter ago. What kind of a wage hike are we building in to do that and given where we see the demand funnel and revenue conversion? Are we comfortable or if you think there could be challenges given if the growth turns sluggish because that obviously would be a big headwind for the margins?

R. Srikrishna: So for the next through Q2 and half of Q3 we do not have any wage hike at least. For wage hike for offshore is specifically is like August, September, October. It starts three staggered months. The onsite is in October which is the same as the last month for offshore. There is a small sliver of people for which it happens in July. That is the wage hike are kind of annual



plan does have industry average of thereabouts on a wage hike for each of onshore and offshore, it is not a decision we budget that but ultimately make that decision closer to when we need to do it. It is not a pre-decided exact number.

We have headwinds ranked herewith. The EBITDA describe what we see as headwinds and tailwinds and leverages. The biggest lever tailwinds for us is the utilization. And you are right that last quarter also we said we see utilization as a big lever. The fact is that the unexpected revenue downturn was a big kind of headwind in this quarter for lack of utilization. But we will in the next between Q2 and Q3 we will expect to knock up at least 4% on utilization. And utilization can result in to value for the company both ways, two ways it can result the cost saving which is a lower level or it can result in to higher revenues which is at higher level we think it's a mix of products. The headwinds could be wage hikes it is not this quarter it is not for most of next quarter too.

The continued shifts in on-offs persists though that pace has slowed down but I have been saying with agile digital nearshore is going to become more and prevalent. So that is going to be little bit of a headwind. The biggest kind of other tailwinds for us is leverage. I mean given our size a lot of our costs is still fixed. Not just S&M even within gross margin there is a component of our costs, which is not lying in the accounts, it is lying outside each of our client accounts in terms of horizontal service lines costs which are fixed. So our biggest kind of this lever it obviously hurts us when we go down but when we go up it actually does quite well for us. So that is the biggest and obviously other smaller ones.

But these are the most kind of obvious ones. Actually I will add one other thing. Just better execution you saw we had budgeted for and in this case we were managed to reverse provision for overrun. So just better control on execution is the other thing that we are more focused on more than ever, we added leadership in that function we have added a team behind that function and that is the other lever for which could come both ways improve profitability but more importantly reduce instances of negative profitability projects.

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

Sandeep Shah: As you were saying that there would be some tempering of the growth expectation for the current year but even if we just look at the NASSCOM industry growth average of 10% we would be requiring a 6% compounded Q-on-Q and the fact of the matter is the fourth Q generally seasonally not that strong for the industry as a whole. So in that scenario we are already in April so lot of thing dependent in terms of how the Q2 ramps up and over and above that how the 3Q ramps up. So is it the expectation is more or less in terms of the order book getting converted into revenues or there are expectation of future ramp ups going forward?

R. Srikrishna: There is a bit of both. There is a lot of ordering that happened in the past that are waiting to convert to the revenue. Honestly, the part of the reason why our utilization continues to be low is in anticipation of revenue, waiting for revenue. There are some new orders to come. Not all of what we expect for the year is pre-booked, there's absolutely new orders to come in from



existing clients. We don't expect too much revenue conversion from new clients but from existing clients there is absolutely more orders to come for us to shift what we think we need to achieve.

Sandeep Shah: Is it fair to say that with some amount of delay in the ramp up of earlier deals which may start coming from April-May-June the 2Q momentum could be much stronger versus earlier years?

R. Srikrishna: I don't know what we have achieved earlier it will be earlier so it's hard for me to kind of, I don't want to say something which will change your expectation because I don't know what it was before. So I'll just say in absolute terms we expect it to be robust.

Sandeep Shah: In terms of the margins, this time I think despite the dip in the revenues it looks like the gross margin has been managed very well. So which cost item which has led to a better management at the gross margins levels, so is it the subcontracting cost where we are controlling or how is it?

R. Srikrishna: We have started the process of improvement in utilization and putting a little bit focus on that and actually would have been a little bit better but for the headwind of drop in revenue. You are right that our gross margin did not drop as much as an unanticipated revenue drop should have led us to drop and there was some active management that has happened to make sure that we arrest the fall a little bit.

Sandeep Shah: You have mentioned three clients – one where there was a re-structuring and that was anticipated. Other two were a bit unanticipated. One of them you expect the growth to come back, so what about the other two you believe that the one where the restructuring is happening will also be like a permanent drop in the revenues or you expect that will come back and all of these three would be in top 10 for you?

R. Srikrishna: The one where we don't expect growth to come back is not top 10. The other two are definitely top 10. They are in fact top 5. The one which I spoke about restructuring its like the new contract, the new kind of revenue stream was essentially effective January 1st, so there is like a little bit of a sharp drop and then we don't expect to see a further Q-on-Q drop. It is a new normal that has been established in this quarter so we don't expect to see a further Q-on-Q drop. The largest of these, the first customer that I spoke about was an unanticipated one, that is where we expect to see Q-on-Q growth return immediately from Q2 but still it will take some time to catch up from a Y-on-Y perspective.

Moderator: The next question is from the line of Sumit Desai from Shri Capital. Please go ahead.

Sumit Desai: I have a specific question about dividend distribution policy. It was just mentioned that it is going to continue with the same kind of policy in coming times. We have a significant dividend outgo and if I put it in different perspective more than 4% of our current market capitalization is being distributed. Will the management be looking at more tax friendly option in terms of buy back of shares instead of dividend in coming times?



- R. Srikrishna:** We will certainly keep evaluating all available options.
- Sumit Desai:** Is it currently being explored as well?
- R. Srikrishna:** I can't answer that question really. We will look at all available....We are not blind to what is happening. We know there is a tax saving opportunity. We know there is a rush. We even think that window may close next tax year so we will keep evaluating opportunities.
- Moderator:** The next question is from the line of Raj Kantawala from Equirus. Please go ahead.
- Raj Kantawala:** First on the headcount side, do you think the amount of hiring we have done approximately 1500 we have added in the last year or so, so that is sufficient or that will be in proportion to revenues and how will be the trend going forward?
- R. Srikrishna:** Last year our headcount addition was still not entirely in proportion to revenue because our utilizations fell. There is some amount of fresher hiring, a lot of training in anticipation of growth so the hiring is also little bit mismatch of skills, location, and service lines, etc. Even as we continue to try and optimize utilization there will continued hiring that happens because of skill, location, mismatch service lines differential growth, etc.
- Raj Kantawala:** On this new deal side, you said in the commentary that we are expecting good growth from BFSI and Healthcare. But if you see most of the deals that we have won maybe some new clients those are into Logistics and some into Healthcare. Even in the last quarter there were not many deals from the BFS space, so where do you think the incremental growth in BFS should particularly come from?
- R. Srikrishna:** Our revenue expectations from net new clients are minimum. There is some but that's not the basis for the majority of the revenue projections or revenue expectations for the year. Among last year deals there was a good chunk from BFS but the single largest deal which was accounted for a good chunk from our overall booking was from the BFS last year. That would start seeing revenue translation, honestly that is one of the clients where revenue ramp up is slower than planned because we are also Financial Services industry, so clearly the slowdown in ramp up there. So it's from clients that already existed from before or some last year deals. Even Healthcare is not necessarily from these two deals. It is from what already existed.
- Moderator:** The next question is from the line of Ashish Chopra from Motilal Oswal Securities Ltd. Please go ahead.
- Ashish Chopra:** You also alluded to the revenue weakness during the quarter coming from maybe some slower ramps in some of the orders that had been won I guess that could have something to do with the macro as well so if there is any comment that you would want to make on that front? Would you see that as behind and then it is the ramp ups kind of accelerating or would you see some pressure coming on these deal wins converting into revenues purely because of the uncertainty in the environment out there?



R. Srikrishna: There is one fairly single largest deal from our perspective was in the Financial Services sector, that was in the capital markets. So there is the definite nervousness I would say it's settled down it's not a run away. You guys know it better, it's your industry. You know what the mood is in each of your own organizations, what were we seeing is a reflective of that. Though I cannot see continued slowdown in ramp ups, a little bit but that is incorporated into everything else as such about revenue growth. Whatever I thought is incorporated already into the commentary that I gave.

Ashsish Chopra: On the margin front since you are holding onto the guidance as far as the full-year is concerned that would mean fairly healthier margin well above 17% for the remainder of the year. But you mentioned that second quarter will really be the barometer of that. So just to understand you think that should we be expecting a gradual recovery in second quarter and beyond? Do you see the ramp-up coming in 2Q thanks to the utilization uptick and then that kind of being stable or having the seasonality impact in a lower growth quarter? How just do you see this moving on a quarter-on-quarter basis as you approach the target for the full-year?

R. Srikrishna: Thanks for bringing it up Ashsish. I thought I had explained it but apparently it was not clear. So we do see that it will go from next Y to Z, do not go up all the way up to the final number in one quarter. What I was saying is that the next quarter will be a proof of that we are clearly in that path. What will become clear is that we are going to be in that path. What needs to happen is that ultimately for us to get 17.2 we need a quarter at least where we are kind of making up for Q1 and then there are going to be quarters in between where we need to be at or close to maybe one little bit below, one little bit higher and then one where we actually make up for our first quarter. So what I'm saying is Q2 you should be able to see that path if you don't see that clear path then we will have a challenge for the year.

Ashsish Chopra: In terms of the weakness that was there in this quarter like you mentioned that it came in weaker than you had also originally anticipated at the beginning. So just at what point of time would you have really been taken by a negative surprise because given the fact that commentary probably little later into the quarter was also of expectation of probably better growth than what we eventually came out with. So was it more towards the later half or was that a slightly clear idea probably getting into March, if you could just throw some light on that.

R. Srikrishna: I'm glad you popped this point because that allows me to clarify an important position that we will not change our commentary what we give in the beginning of the quarter through the quarter till we get to the next quarter after we announce the result. So it is not about whether I knew it, not knew it so we don't put out a guidance at the end of the quarter. We don't say hey too high, too low, we don't do that. Commentary in middle of the quarter, end of the quarter whatever it is, we are clearly sticking to saying we're not going to alter whatever commentary is, there is some what we know during the quarter. So what you hear from me today and if you meet me one month from now or two months from now I will not say anything different. Unless there is some new strategy, new thing we are launching that is a different matter



otherwise on revenue profitability I will not say anything different based on what we know. That will only come as an update July 28th, just think it is the next quarter date.

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

Ashwin Mehta: I missed the proportion of revenues that you talked about which comes from asset managers where you indicated that there are budget freezes and cuts. Are they now over and they starting to release budgets, what's the situation there?

R. Srikrishna: About 70% of our BFS revenues comes from capital markets and there are kind of segments in there and I would say I can give you a more accurate that the good chunk that comes from asset management. There is also like a big chunk from capital markets but these are secondary mortgage securitization companies, so there we can see nervousness. The asset management buy side there was definite nervousness. In the client base some of them did announce cuts, freezes. I think there is definite lightening of that right now, is it gone away completely, no.

Ashwin Mehta: There has been this tech support staff which seems to have reduced materially this quarter, so is it some permanent rationalization that's happened or what exactly is happening there?

R. Srikrishna: We should have issued a clarification and we will actually provide a bridge for this. For just purity of data tracking in future and we actually move that under billable headcount because we want actually internal tech support staff and customer-facing project staff to be interchangeable. Let me give you an example why we are doing it. We moved our entire internal infrastructure management under Vinod Chandran who is the President of the IMS business. He is kind of half the CIO if you will, some would argue the plumbing part of the CIO. The reason we did that because that is over time we have a lot of solutions we are bringing in to the market and we want to take two minutes to talk about Raise IT. What we want to be able to do is to show customers demonstrate how the best of everything we offer will come together in a real world enterprise. In a global decent size fairly complex distributed enterprise such as Hexaware, we want to actually implement and show the world how all of this will be and that's the reason we moved that thing also under the technical billable manpower. That's not a reduction, we just moved.

Ashwin Mehta: Can you remind us on the stated dividend policy? I had one question because your cash after payout of the dividend will be somewhere around \$33 million odd, so would we be able to keep up the kind of pay-outs that we have been giving out till now because we might need some of our cash in terms of working capital requirement?

Rajesh Kanani: I don't think we will have a much of a problem because cash keeps on collecting and then we always have cash we accumulate after the dividend we pay so we have not faced the problem as working capital as yet and I don't think so will have the problem.

R. Srikrishna: We obviously consider that before, announced in the amount of money that we will pay so it will be perfectly fine, including the CAPEX requirements and everything else. Working capital



CAPEX will be perfectly fine. In your first question on divided policy we don't have stated policy as in how much we will pay out but directionally it is shareholder friendly to put money back in shareholders' funds, we don't need to put it back.

Moderator: The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Wanted to ask question on margin, so you have said that we are going to improve our utilization by nearly 400 basis points. But if I look at some of the headwinds which we have visa cost and even some of the pressure on our top clients which tend to be generally higher margin business. Do we think that our exit rate would be somewhere similar to where we were last year in CY16?

R. Srikrishna: Yes, that is still the goal to be at the full year of CY15 level, just below 17% EBITDA. We have a clear path; we know the path to get there. I already described what we think are the most important headwinds and the levers and what you may appreciate the extent of leverage, extent of fixed cost even within gross margins.

Shashi Bhushan: On the challenges with our top client, do you think it's going to bottom out in the next quarter or it will take another 3-4 quarters before it will bottom out?

R. Srikrishna: We do expect to see Q-on-Q growth coming from Q2. It will still take some time to catch up on Y-on-Y growth.

Moderator: The next question is follow up from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just wanted to understand on travel and transportation. If you look at the other company's result including some of the large caps plus even looking at the financials of the global clients the airline companies, the profits have been showing because of the favorable commodity prices. Also there are high amount of digital initiatives which have been taken by some of the airline companies or transportation companies so why the segment despite our one of the preferred offshore vendors the growth has not been coming in this quarter? Why you are not so bullish going forward also?

R. Srikrishna: Not bullish, I was just saying relative to BFS and H&I it will be slower growth. The better way to say we are more bullish on H&I and BFS. This quarter I did say there was a big contract which got restructured during the course of last year. There was a planned drop in the revenue so that was basically not all of but most of the reason why you saw the sequential drop in GTT. I do anticipate growth; you will see growth in GTT in Q2.

Sandeep Shah: But apart from that client how is the momentum in terms of demand in the industry segment?

R. Srikrishna: You are absolutely right; there is a lot of digital initiatives and there are investments happening in terms of how customers can do everything from reservation to claiming baggage in a different manner including in-flight services. There is also focus on what this increasing



ancillary revenues which is very associated with digital from airlines. That's the high profit ancillary services. We do see them and actually result of some of the digital programs, they end up having to re-platform some of the costs optimization so we don't see particularly weak demand environment. Having said that the improve profits from commodity prices don't necessarily always grow in equal proportion in the IT business.

Sandeep Shah:

When we hear the comments of some of your counterparts based in Europe focusing on BFSI, they have made the comments that in some of the capital market clients there is increasing trend in terms of consolidation of a third party packages like Murex & Eagle where even Hexaware has a proficiency in terms of package implementation. Do you subscribe to that view their clients are moving from on premise to a larger implementation on these kind of a software and this maybe a demand driver for you going forward?

R. Srikrishna:

We subscribe to view our Grow Digital strategy has four components; one of the most important components is what we call the composable enterprise. The composable enterprise view is simply that there are going to have to be a lot of modernization of underlying IT to go through the digital. That is not going to happen in a monolithic fashion, some of going to happen that one big custom app is going to get replaced by another big custom app. Instead you're going to break down the functionality into multiple lego blocks if you will which will get assembled together. The lego blocks will then come from a combination of smaller customer applications on some platform like Eagle. We have one of the foremost expertises in Eagle in the world and new age SaaS platforms. Small companies that you haven't heard of but where the best innovation in industries happened, so we think it is all these three types of systems will come together in what we called the composable enterprise in that lego block mark. So we subscribe to it but in a manner that I just described to you.

Sandeep Shah:

In terms of your strategy of showing IT and Grow Digital, how the major that? Are we able to convert the clients which we are looking to target from the incumbents? How receptive is the strategy and how are the other vendors who are reacting to the strategy?

R. Srikrishna:

The best proof point is booking and not just if bookings are happening but are they happening aligned to the strategy. So if I take these three deals the first one is shrink, the second one is digital and the third one is neither but it's the smallest but clearly the last majority of booking is aligned to one of these two strategies.

Sandeep Shah:

Are we also getting reception from the existing clients and we are ready to cannibalize those revenues because of the strategy?

R. Srikrishna:

I am absolutely going and telling our customers that we will do shrink and we are not changing our positioning one word from what we are telling the customers and existing customers because we think if we don't do it somebody else will.

Sandeep Shah:

If you throw some lights on RAISE IT as a platform how different it is from...



R. Srikrishna:

Thanks for bringing the question on RAISE; I was hoping to get a couple of minutes to talk about RAISE IT to everyone. I did want to do in the end after we sufficiently address everything else. We have some slides there I don't know how many of you will be able to see it. The way RAISE IT works, it has five components. You don't necessarily need to look at the slides. It has a component of monitoring, applications, and infrastructure and that component some customers already have is to have that we can consume this part of the platform from what customers have. The second part of it which most customers have is a Service Management System but again customers we will consume what customers already have. The third component is something we bring in between the monitoring and the service management system which is a big data system. The big data system that will help us both initially pinpoint and help resolve faster. But it's a learning system so eventually predict where things could go wrong so that's a third cool new component that comes in between these two. The coolest is the fourth; the fourth component is in learning cognitive AI automation system that essentially the service management system will send the ticket. In the historical model the first two steps will happen. There will be monitoring something is going wrong either the monitoring system by itself or a human would send would make a ticket in an incident in the service management system and the service management system some human will then send it to an appropriate engineer. What we are doing completely different is that in our platform the service management system will send it to an AI platform, AI and automation platform. The automation platform will determine whether it can resolve on its own. If it senses that it either can't resolve it or it may create a risk by resolving it, it will send it to human. We expect that and so those of you who are seeing Slide #this is actually Slide # 19, we expect that there is a 50% to 70% reduction in the number of certain need to be handled by humans through use of this platform. But definitely we expect about 50% to 70% tickets could be handled through this automation platform. The automation platform, we have 800 mini robots that are in it right now. The fifth component is a development platform that allows us to build new robots rapidly from an application perspective. So it's a development platform, it is scripting text weeks sometimes more and this platform will allow our engineers this component developments will allow you to develop new robots in a week basically. So those are five components and essentially the value that we think it will bring is that in infrastructure we think it will reduce first time to respond it will get it down to 0 from 15 minutes for 50% to 70% of situation and about 50% to 70% will also we think it will get auto resolve for the automation platform. All those numbers will be lower for application support because there is less standardization so there is more learning and robot building that we need to do over time. But even then we don't think it will get these levels, so that is what RAISE IT platform is.

Sandeep Shah:

You also said in the earlier remarks that the NN bookings won't form a bigger portion of the growth in this year. But if I look at last year it was (+120) first quarter being close to around 34. So close to around \$150 million and assuming a four-year kind of a tenure, this could be one of the material portion of the additional revenue coming in CY16, so why you don't believe so?



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May 5, 2016*

R. Srikrishna: I just said we don't expect NN booking; we don't plan for NN to form an important part of revenue for that year. So clearly the booking that we did last year is an important part of our revenue plan this year.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. R. Srikrishna for closing comments.

R. Srikrishna: Thank you all for being patient. I know that we have spoken about the performance. Thank you for being patient through this, listening and asking the questions. I look forward to talking with all of you next quarter as a group or potentially meeting like we did last year. One thing I would like to say is just given I know that there is some nervousness. I am actually committed to spending more time with either you or your customers in the coming weeks. I do have a tough schedule but I am going to do my best to spend time with you or your customers that you think are important. So feel free to reach out to Latika or Mani and we will do our best to get back. Thank you and have a good evening.

Moderator: Thank you. On behalf of Hexaware Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.