“Hexaware Technologies Ltd. Earnings Conference Call”

April 24, 2017

Management:  

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Mr. Ashok Harris – President (Global Delivery), Hexaware Technologies Limited  
Mr. Rajesh Kanani – Chief Financial Officer, Hexaware Technologies Limited  
Ms. Latika Gidwani – Hexaware Technologies Limited
Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ followed by ‘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: Thank you, Ali. Good Evening and Welcome to the Hexaware Conference Call. From Hexaware, we have with us Mr. R. Srikrishna -- CEO and Executive Director; Mr. Ashok Harris – President (Global Delivery); and Mr. Rajesh Kanani -- CFO.

The Safe Harbor statement is available on the Hexaware’s website and I shall take that as read. We are running you through ‘Presentation’ through a webinar. That presentation is also updated on the ‘Investor’ section of the Hexaware website.

With this, I hand over to you, Keech.

R. Srikrishna: Good Evening, all, and thank you for making time late in the evening. We had a decent start to the year and we had solid revenue growth of 4.2% on a sequential basis which just came on top of decent Q4 we had. So you see not only is the quarterly growth good, but we are back to very solid YoY growth, so revenues at 19%. Our EBITDA grew a little bit slower than revenues, but that was not unanticipated. We had some visa costs and some of the one-time cost; it was like I said not unanticipated. As you go down towards the EBIT and PAT level is where it did not grow, and that was essentially on account of FOREX gains, we still had FOREX gain but it was a relatively small amount; in Q4, we had a substantial FOREX gain. So that is why you see a sequential drop, but otherwise, we had solid operational performance. The growth was fairly broad-based, but I will come to that later.
Slide #5 for those of you that are seeing the deck, you will see that a vast majority of the revenue growth came from volume growth. There was a very small FOREX gain that was predominantly due to pound and euro and very small bill rate reduction which kind of canceled each other off. So essentially all of the growth came from volume growth.

Gross margin chart which is on Slide #6 is more complex. There are a lot more moving parts here. So we had a little bit loss due to bill rate, some gain due to calendar, some loss due to mix, marginal drop due to utilization, H1B visa application cost which come this quarter, the bigger cost comes in Q2 which is the actual fees. So the big chunk that essentially we had one-off cost last quarter which did not come this quarter on employee benefits. So that is the big positive that was largely offset by a big negative which is ramp up cost, transition cost for a new client in BPO where we are essentially investing in the transition. So, this will kind of give us good revenue and EBITDA growth for the coming quarters, but in Q1, we had invested in the transition. We lost on FOREX within the gross margin 30 bps, I think a number of you had estimated the industry impact to be about 50 bps for us, this quarter was 28 bps, it will be a little more going forward, so not a full quarter impact for this quarter. But in all, we actually feel pretty good about where our gross margin performance was. We have been speaking about getting slow and deliberate. There will be some slow uncovering of SG&A leverage. So you are seeing that happen little bit in Q1. So our SG&A went down by 10 bps. Clearly, we are continuing to invest in sales and marketing. So that portion grew and actually all the savings came from the GA portion. That is a pattern that is likely to continue as we go forward.

Slide #7: It is very healthy that we had three new clients in the top-20. We had a specialty payment products company, a Fintech company essentially. We had a large global airline and a provider of a premium chain of fitness centers around US. Now the good news is of these three, two are new clients that were acquired in the last 15-months; one of them was actually a client that got acquired in last year Q4, another is a client that got acquired in 2015 Q4, and the third one was an existing client, but we won some substantial new
business, because of which we have three new clients coming into the top-20. This is something we have been speaking about as a proof of success that if it is successful, we will eventually see new clients getting into the top-20 and we have three new clients coming in this quarter.

Slide #8: As always, we presented a pyramid of customer. There is not a lot to kind of call out here necessarily on last year Q1 to this year Q1 basis. Some of the commentary which was true last quarter is again true that we did have two clients move up into the $50 plus million bucket, and we continue to add customers in a fairly robust rate at the bottom of the pyramid and then some of them keep growing up.

There are two charts here on the right side of this that one of them is a new chart and both of them have some additional data points. So this is on the client concentration. Now, if you recall, the way we report on top end clients, top-5, 10 or 20 is basis the annualized revenues of that quarter. So when you say top 20 for Q1, it is basis 4x Q1 revenues. What we have done is to show you two cuts of client concentration and how it has changed. The chart at the bottom is based on the definition of Q1 revenue 4x what is the client concentration. The chart on top is because there is a churn, if there had been no churn, then with the original set of clients, this was the top-20 list as it existed in Q4, then what would the client concentration be. The client concentration of course remains high. With the same set of clients, it has dropped marginally, and you are essentially seeing that the growth quarter-on-quarter for the other clients which is outside top-20 is actually the fastest growth, if you retain the set of clients constant as it was at the end of Q4 which is really what has led to some new clients going into the top-20 picture.

We had two new clients from a new client perspective -- There was one which is from a global professional services company. It is a full application development and maintenance. It was one from a top-3 IOP. There was another large incumbent service provider and they moved the work to us. We have begun transition and we hope to realize revenues from the coming
quarters. The other one was to transform customer experience for a large brand name eCommerce company.

The second one is in BPO. That is a client where you saw the investment for the transition, but it is highly technology-enabled BPO work.

A little bit on employment metrics before I talk about where the growth came from. Our utilization which has been inching up and hit a high watermark last quarter has remained little bit stubbornly high if you will. If you recall, I said, our goal is to notch it down a little bit. That I think continues to remain our desire. But we had just enough demand that it remain stubbornly high. It is a good thing, but yet our desire is to notch it down a little bit to be able to service our customers faster.

Employee attrition has been ticking downward for a while, it had a fairly sharp drop here you see, under 15%. Remember, these are LTM numbers. So really the in-quarter reduction was even sharper.

Finally, we had robust addition of employees; we had 579 employees added during the quarter including about 150 trainees. So even outside trainees we had a robust addition of headcount.

Where do the growth come from? From a geographic perspective, APAC led the growth, Europe kind of back to growth. APAC would not sustain the 20% quarterly QoQ growth rates, but what we think will be sustainable is the fact that APAC will be the fastest growing region among all regions for us.

From a Vertical perspective, Travel, Transportation has had a bit of yoyo in the past few quarters, you are seeing it back to very robust growth here, 7.5% quarterly.

BFS continues to do very well. On a cumulative multi-quarter basis, that is still our best-performing vertical, and even this quarter, they grew above company average.
Healthcare and Insurance: The small contraction we think is temporary. We do expect to see it return to good growth.

From Horizontals perspective, two or three points of commentary. For those of you that are looking at slides offline, Slide #13. The headline is of course IMS which had outstanding growth 21% on a quarter, 74% on YoY basis. BPO had a seasonally soft quarter in Q1; actually, a lot of our businesses do including BPO. So while you are seeing a small contraction in BPO for the quarter, the YoY numbers are still very robust at close to 32% and we expect the BPO business to grow robustly.

The third point I want to make is on Enterprise Solutions. Enterprise Solutions is a business that has been the most challenged by migration to cloud. As a percentage of business, it has come down from 18% or so a couple of years ago down to 12% now. What I have been saying is that the rate of contraction is going to slow down and you are seeing evidence of that the rate of contraction has slowed down, in fact it is almost flat, and more positively, there is a small but positive YoY growth in that business as well.

A couple of points which are not on the deck which I want to talk to before handing over to Rajesh: First is about the “Guidance.” We spoke about 10-12% revenue growth and maintain last year full year EBITDA percentages which means essentially the EBITDA will also grow by 10-12%. Now given the fact that we have had a good start to the year, we just feel very confident about meeting those numbers. You can do the math as I am sure some of you may have already done. From this point even if we have zero growth in revenue, we will get to 10% yearly growth on revenue. For us to get to the upper end of that guidance of 12%, we only need to grow at 1% on CQGR basis. So, we feel very good about meeting the guidance at minimum.

The story is slightly better in EBITDA. If we did not grow in EBITDA at all and we stayed flat at the current quarter levels, then we will actually have 14% growth in 2017 absolute EBITDA over 2016 absolute EBITDA. So that is on the
guidance. All we are saying at this point is to reiterate that we feel confident about meeting the numbers.

The last point that I want to talk about we do not have slide deck on it, we had a fairly detail amount of data last quarter is on H1B. There is just some further kind of developments on that front. What I will say is whatever has happened last week with the executive order, none of that actually changes the commentary we gave last quarter. In fact cumulatively the things that have happened or the fact that nothing has happened so far only reiterates our position which we said last quarter. We said there is going to be no change imminent; it has to go through a legislative process, which will take a while. That has not changed because of the new executive order. We also said any change that results from the legislative process will start having an impact on us only from 2019 or perhaps Q4 2018 onwards. That still remains true because the current set of applications went in on April 1st. As we are talking, the allocations would be happening and we would get allocations at the end of this quarter.

So we do continue to believe that in the short-term there is no impact. Having said that in the long-term, the direction of reducing our dependence on H1, which we showed you some data for 2016, that did not happen. That direction will continue as we progress through 2017 and 2018.

With that, I am going to hand over to Rajesh.

Rajesh Kanani: Thank you, Keech. I will continue with the “Financial Update.” As Keech reiterated, I think revenue for quarter was $144.7 million, 4.2% QoQ growth and 19% YoY growth, and in constant currency terms, I think we had 4% QoQ growth and 19.9% YoY growth. INR revenue, we have 2.1% QoQ growth and 17.1% YoY growth. I think if we look at the chart, I think we have 3.7% of CQGR for the last 4 quarters.

Now I will come to the balance sheet positions. I think first is the outstanding hedge position. As you see, we have $151 million worth of hedges, out of which $142 million is USD/INR at a very healthy rate of 72.77, and EUR/INR is
81.36 and GBP/INR is 99.08.

So if you look at gain what we had on the Slide 17, FOREX gains and losses. Even though we had a very small amount of gain in the current quarter which is only 230K, I think we anticipate that we will have a huge gain of $2.2 million in Q2 and $1.96 million in Q3 at exchange rate of Rs.64.85/dollar.

As far the cash and cash equivalent position is concerned, we are at $50 million, in INR terms 3,231 million. DSO again, we have very healthy DSO of 46 days and with unbilled 74 days.

Dividend: As we have indicated, this is constant, that is Re.1/share, and dividend payout including taxes will be around $5.5 million, in rupee terms Rs.356 million.

ETR has come down to 23.7% in Q1 Vs 25.1% in last quarter, that is Q4’16, due to more business coming in new SEZ which is 100% benefit and reduction in non-SEZ business. CAPEX is $6.6 million in Q1 2017.

With this I think we hand over for Question-and-Answer Session.

**Moderator:** Thank you very much. We will take the first question from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira:** Srikrishna, my first question was I do understand you want to be a little conservative from the guidance perspective. Marginally Q2 and Q3 are seen stronger for us. That has been traditionally the case. So is there some project which got over in Q1 as a result of which you are trying to remain conservative though there is enough evidence to showcase that the FY’17 numbers would be better than what we have guided?

**R. Srikrishna:** Thanks, Priya. If you are looking for like some no negative thing, the answer is no. There is one customer which is insourced, which we announced last quarter, because of which we will have like roughly 1-1.5% impact in overall growth which will come in the second half of the year, outside that there is
nothing. You are right, in conservatism, essentially, I look back at our history, and I do not think we have given guidance for any number of years. So when we desire to resume providing very specific guidance we did choose to be conservative, we did not want what is happening in the industry of providing a guidance and having to kind of reduce it almost every quarter. So that really was what the thought process behind. Also to provide for some uncertainties, I think a good example is the rupee appreciation. So, it is of material event, but at this point of time, we are not changing the EBITDA guidance because of the rupee appreciation.

Priya Rohira: Second question relates more on the BFSI vertical. We have seen a small traction and that means dominant vertical, growth has also been very strong. Just trying to understand how does the deal pipeline look over here more on BFSI than the overall, but more in terms of the average deal sizes or the color of the deals if you can provide in that?

R. Srikrishna: Our revenues come from four pockets -- We have Capital Markets, Secondary Mortgage, Leasing and Banking. Of these four, banking is where we are a complete non-incumbent. So, we are purely role of a challenger. Till now, we have almost exclusively been going with a single service offering which is large scale BPO, but led with Robotics and Automation. That sector we think will adopt automation in a very large way. Every large financial institution around the world has programs at an early stage to which they hope will then ultimately reduce 30% to 50% headcount in their operations. Our pipeline is from that phenomena if you will. A lot of the pipeline at this stage is kind of POCs, they are not like miniscule POCs, and they are material size pilots. Actually, pilots is a better way of describing than POCs. But then our hope and assumption is that handful of those will go through a hockey stick in the coming four to eight quarters or so. In the other segments, it is decent size pipelines, financial services never the kind which does large outsourcing type contracts, they are always more incremental in how they engage in growth. But in that context, our EN pipeline is always very robust there. Our NN pipeline is good, but they are not large deals, they are more of the type that I characterize for you.
Priya Rohira: Just a small follow-on and I will come later on if I can have more follow-on questions. You mentioned about Robotics and Automation gaining early stage though these are POCs. But given the productivity promises of 30%, 50%, this is only going to increase. So is it possible to classify either at the BFSI level or maybe at the consolidated level, how much of our delivery engine today would be more automation-based?

R. Srikrishna: So I will say for the new customers that we are acquiring, every client, or even the new deals in existing clients, virtually, every engagement has a component of automation. That is true for almost every service line, whether it is IMS, BPO, testing, application support or even AD, there is an element of automation in it.

Priya Rohira: Rajesh, the effective tax rate would remain at 24-25%, for both CY’17 and CY’18?

Rajesh Kanani: No, it will increase to 25%, 25.5% because one of our unit is again going to go down to 50% rate, so it will increase from Q2 onwards.

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

Sandeep Shah: Keech, wanted to understand regarding the order book. I do agree one should not compare it on QoQ basis, but on YoY basis also, it looks down. So any new trends you are observing in terms of decision-making, in terms of conversion of pipeline to order book?

R. Srikrishna: Actually no. So, we are absolutely not worried. I assume you are referring to the fact that $25 million is lower than the $30-odd we had last year Q1. So no, we are not worried, I will say three reasons -- One is what you already said, it tends to be lumpy and spiky. So we have still the pipeline to feel good that we should meet or beat last year full year numbers. The second is the deals in this quarter... and I did say I will provide some ongoing commentary on this on each deals. We think the revenue realization will be extremely robust... north of 100% revenue realization. So the entire revenue potential is not kind
of fully captured if you will in the TCV value. The third is that it is not from an
NN perspective, but we also had some solid wins in EN. So just in aggregate
hence, there is not a worry situation, but even pure NN, even these two deals,
the revenue realization going to be extremely robust and very quick.

Sandeep Shah: So do you mean to say this $25 million, the execution period is actually smaller
versus the earlier order book?

R. Srikrishna: Execution period is smaller, the ramp up was faster, some of the execution in
fact has already started. So one of them you saw there was a negative impact
in Q1 because we started the execution but we have not realized revenues.

Sandeep Shah: Keech, generally Q2 of the calendar year and Q3 is good for you, but this time,
Q3 may have an insourcing impact. But, is it fair to say that the seasonally
strong trend of Q2 may continue even in this year?

R. Srikrishna: Yes, but with one kind of commentary; last year was a very skewed calendar
where we had a sharp drop in calendar from Q4 to Q1 and sharp increase in
calendar from Q1 to Q2. So that is not true this year, it is a little more evenly
distributed. So we do expect good Q2. Underlying that, there are a number of
reasons, but one of them will not be calendar. So it will be volume growth,
not calendar growth.

Sandeep Shah: On the insourcing of the client, you have said you have two segments of
business. So one of the segments has been getting insourced. So it is fair to
say that the other segment of the business still continue and will continue
going forward.

R. Srikrishna: That is correct.

Sandeep Shah: Last thing on the margin then I will come for a follow-up. Keech, you believe
that offshoring would be a lever going forward because in this quarter lot of
growth has also come through onsite efforts.

R. Srikrishna: If you recall last quarter actually there was more growth offshore. So I do think
that offshore will be a lever. One of the responses from clients under the
whole H1B issue is to do more offshore. If you take the politics out of it, there is not a business around the country in US that will not agree with the fact that it is hard to get people in the US, there is a skill shortage. It is not going to play out like over one quarter, but one of the more long-term responses will be for them to look more aggressively at offshoring.

**Moderator:** Thank you. We will take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu:** Sir, that insourcing, we have said 1-1.5% of revenues. So would that imply $6-8 million of leakage in H2?

**R. Srikrishna:** Yes, you can do the numbers. Order of magnitude is correct.

**Madhu Babu:** So that ramp down will happen from 3Q... that leakage?

**R. Srikrishna:** Correct.

**Madhu Babu:** Second, BPO has been seeing strong increase in headcount, that is what we have started disclosing separately, almost 1,000 addition on YoY basis in the BPO side. So is it that the pipeline is strong there? How you see the headcount for our BPO business?

**R. Srikrishna:** The business growth has been strong, we have been doing 30% YoY growth. So the head count addition is as a result of that. In the IT business, lot of our headcount fulfillment came through improvement in utilization till essentially last quarter. So, it is really this quarter where we have started adding material amount of headcount because the growth is now coming through addition of headcount because we have hit the ceiling on utilization.

**Madhu Babu:** We have been managing margins very well compared to the other mid-size peers. Now, we will have the wage hike impact, and considering that the other IT companies are giving hikes, how do you see your wage inflation?

**R. Srikrishna:** So it is a decision we will make in the coming months in this quarter. So I do not want to tell you before I have told our employees.
Moderator: Thank you. We will take the next question from the line of Dipesh Mehta from SBI CAP Securities.

Dipesh Mehta: I have a couple of questions; just want to understand, Q1 played out better than what we earlier anticipated. So can you help us understand what surprise you positively or what factors might have played out? Second question is about the BPS business. If I look last few quarters, headcount is growing faster than revenue. So if you can help us understand because considering the strategy of automation and other things, there is some kind of disconnect. So if you can help us understand the difference is. Still you expect the SG&A leverage, there is enough scope or you believe now we reach to some kind of thresholds?

R. Srikrishna: There are two things that happened in Q1 -- There was one deal that we won, not the 2 NN deals, the existing client deal we won, which gave us some revenue, that was not huge, but that was a little bit of a positive. What really happened is that in our planning, we have just come to assume some negative surprise will happen in Q1, that has been our history. Now the good thing is it did not happen. So it is not like we had a positive surprise, but we had budgeted for some negative surprise which did not happen. On SG&A, we actually think we have reasonable headroom for leverage, but we are not trying to kind of force that leverage. Our goal is for it to uncover gradually and naturally. We think there is actually reasonable amount of that to go. If you think in terms of ceiling or floor, whatever, you will see companies at 12-13% SG&A. We are still at knocking on 18%. So there is a fair amount of space, but it will be slow. On BPO headcount, I do not kind of quite have the math on top of my head. I could perhaps follow up with you on that question. Let me maybe take an example to explain what happens. So let us say there is a client that is doing a job with 100 people, and our goal is to do it with let us say 60. On day one, we will start with 100 people and then it will come down over a period of two to three quarters maybe longer to that target state. So on day one and just given the growth, that there is continuous addition of clients. So that is kind of what could be happening, but I can give you a little more
considered answer after we look at it. But the broad principle is what I told you.

**Moderator:** Thank you. We will take the next question from the line of Apurva Prasad from HDFC securities.

**Apurva Prasad:** Keech, your thoughts on the outlook on your Travel and Transportation vertical excluding the in-sourcing impact that you had spoken earlier?

**R. Srikrishna:** From a macro perspective, airlines are going to spend money. They have a little bit more money in their pockets due to gas, but that does not necessarily mean they will spend. I think there have been some three-four very major public outages caused by poor technology which I think is going to spur a number of airlines to invest money. Now, not all of it is going to be new dollars, they are going to put the squeeze on some legacy spend but still I think there will be net new dollars spend in the sector. We think we will get some part of that growth. So we do think GTT will actually not go through the yoyo that it did in the past, so we will have some ongoing decent growth in the sector after normalizing for that insourcing.

**Apurva Prasad:** So when you had mentioned lower than company average that is largely due to insourcing?

**R. Srikrishna:** To the insourcing, correct.

**Apurva Prasad:** Then also on the profitability of that vertical, travel and transportation, there is a big spike this quarter. Any one-offs there really?

**R. Srikrishna:** Actually, there is no particular one-offs in this quarter.

**Moderator:** Thank you. We will take the next question from the line of Abhishek S from Equirus Securities. Please go ahead.

**Abhishek S:** I am just trying to understand whether the decline in the TCV, is it because the number of deals are lower? Or it is on like-to-like basis, we are seeing an impact on the reduced sizes because of the automation?
R. Srikrishna: Actually, it is neither of those. I would not read too much into a single quarter TCV from new clients.

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

Sandeep Shah: Sir, just a follow-up on the infrastructure management. I think what you have set a road map around 2 years back, if we look at the quarterly run rate, it has almost grown to more than 2x. So from the current run rate, can you throw some light which is like a nonlinear IMS management versus the current, and how are the trends in terms of the cannibalization which is happening and which you yourself is actually proactive in offering the same, so can you give us some trends, how the demand is moving in the IMS as a whole?

R. Srikrishna: The most important demand driver in IMS is migration to adoption of cloud. So we think that as much as cloud has grown people like AWS and Azure have grown, still is a very large and sustained wave of growth left. Enterprises have not yet for the most part moved their core to the cloud, they moved their periphery, their client-facing applications, and consumer-facing applications. What lies ahead is moving a lot of the core. So that is going to be the most important demand driver.

Sandeep Shah: There I think post the migration Keech, do you believe that the business will have some issue in terms of the follow up revenue on maintenance?

R. Srikrishna: The migration revenue by the way in themselves are also not that huge, right. Actually the bigger work due to migration falls into application remediation space more so than in the infrastructure space. There are kind of opportunities for ongoing operations of hybrid infrastructure because it is not going to be all cloud for a long time. So there are clearly opportunities for running that for a while. While someone like AWS will and have been continuously automating operations on the cloud standalone but most infrastructure is not cloud standalone.
Moderator: Thank you. The next question is from Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just one data-keeping: we have seen utilization inch up this quarter QoQ, but in the margin chart, it seems it has negative implication. So can you help us understand?

R. Srikrishna: It is the onsite utilization has come down, offshore has gone up, so total has gone up but has the negative impact.

Dipesh Mehta: It is mix change kind of.

R. Srikrishna: Yes.

Moderator: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Just a general question, if you see recently, Accenture has bought Genfour and even Genpact has bought one automation provider. So do you see more of these services companies buying out this software rather than partnering with them?

R. Srikrishna: So Genfour is actually not a software product company, Genfour is an RPA implementation company. So they also work with companies. Genfour implements blue prism and other software. I have not kind of fully looked at what Genpact bought, but I think it is more of a product or a platform company. Our views on acquiring platform is that we do not think it is a good idea. We think in the long run it will essentially restrict our capabilities to do what is right for the customer. We want to not be constrained by the capabilities of a platform we own only because we own it. We want to be able to buy - partner with the best available software out there. Our assumption is that software prices will keep falling and that has been true. They have seen in every client situation that typically a single software does not meet automation requirements. You do need to bring in more than one platform. So we feel that the strategy of kind of playing a whitefield if you will and
focusing on the customer end goals is the right strategy. So we would not acquire a software product or a tool on the automation side.

**Madhu Babu:** Onsite growth, earlier we said that most of our nearshore centers have been ramping up, and that is driving onsite growth. So was that the same for this quarter also?

**R. Srikrishna:** That continues. Our onsite growth there were two drivers; we have two clients for whom we only do work onshore and that is by law and then we have Agile. So a lot of clients when they move to Agile, their first preference is to do it in their site. Our goal then is to try and move them to at least our near shore centers from there when we can take them offshore. So those factors continue and to the extent that we do get them to go to our near shore centers, that continues, our near shore centers are full up, we will continue to expand both Atlanta and Mexico.

**Madhu Babu:** If the $6 million ramp down happens, will it happen at a sudden pace from Q2 to Q3, because then Q3 might look very tepid if I am doing the math?

**R. Srikrishna:** Exact details of like a week-by-week transition for Q3 is not quite done yet. But let me say this, right, that at this point of time even assuming there is like a 1-0 drop we feel we will be okay.

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

**Shashi Bhushan:** The four vertical segments in BFSI that we talked about, Banking, Mortgage, Capital and Leasing, in which segment we are seeing maximum traction? Is there any service line that is resonating well with BFSI clients?

**R. Srikrishna:** Just across BFSI, no matter which sub-segment, the one important area of investment is data and just getting their arms around and cleaning up data in preparation for analytics and better customer marketing is a fairly secular trend across all sub-segments. Please do not read this as a commentary on the sector, this is now specific to Hexaware – For us because we are non-
incumbents with the bank sector, the max new customer acquisition velocity and activities in banking. That is driven like I already said by a single service line on automating operations. Automating operations is not just about (RPA) Robotic Process Automation. There is already now work that is starting on more advanced form of Automation, Machine Learning, we will then give into AI and Cognitive. The journey with Machine Learning has certainly started. So for us that is a single service line in the sector which is the smallest for us which is kind of I would say with one of the maximum velocity.

Shashi Bhushan: There is some softness in the deal closure in the quarter and that might be an aberration, it is not really too much into it. Can you give some quantitative color on deal pipeline, how much it has moved over the last two or three quarters?

R. Srikrishna: I will say our deal pipeline in aggregate is flat, it had been growing for a long time, say Q4 to Q1 the pipeline is flat, but remember that is good, Q4, we had a number of wins, Q1 we had some wins. So those wins and some losses have been replenished with the new pipeline. The average ticket size for us continues to be decent from our context at least they are a much better size deal than we worked in, in the past. The last color I will say maybe is that we did a fair bit of revamp in APAC top-down, we got a new leader a year and a half ago. So we will say the one area where we are seeing actual substantial growth in new pipeline is in APAC.

Shashi Bhushan: Our performance in APAC was good. Is it because we penetrated into our parent portfolio investee companies?

R. Srikrishna: We do not have yet any material revenues from any portfolio company but that is certainly an opportunity ahead of us.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Keech, you mentioned that you displaced top-3 IOP in one of the contracts. What do you think led to the win in your opinion?
R. Srikrishna: This is not unique, virtually every quarter we announce at least one deal sometimes more where we displace someone and it is always centered around two or three regions that we are bringing in more automation that the incumbent did, sometimes the incumbent has just become too large for the client, so they do not get enough focus and attention. So it is usually one or both of these that lead to a market share shift and this one is no different.

Girish Pai: You mentioned about in-sourcing of a particular client. What has led to this insourcing.. is there any particular reason why this has happened?

R. Srikrishna: They have a captive which is not fully utilized and then they are paying us money, so just a logical decision for them, they are people literally idle on one side of the table and they are paying us good money and all that.

Girish Pai: The other question was regarding competitive landscape. You mentioned “Shrink IT and Grow Digital.” In these two areas, who do you generally come across besides the Tier-1 players, among the mid-size players, do you come across Indian or is it like overseas players in a competitive scenario?

R. Srikrishna: We do bump into Accenture a lot in the automation deals, especially in the BPO we bump into Accenture a lot, in fact, more so than the IOPs. From the Tier-2 if you will, I think we bump into then more on AD, Agile and AD is where we tend to bump more into them.

Girish Pai: I know maybe this must have been discussed in the previous calls, “Shrink IT and Grow Digital”, what percentage of revenues comes from each of these segments?

R. Srikrishna: It is not a segment, both are strategies. We do not measure or report what percentage of revenues. I will say 80% of deals we win is as a result of one of these two.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to Mr. R. Srikrishna for closing comments.
R. Srikrishna: I do not really have any closing comments. Thank you all. In all likelihood we will see you in person next quarter, most likely the day after our next quarter results we will host “Analyst Meet” so I look forward to seeing all of you there.

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