



## “Hexaware Technologies Limited Q3 2015 Earnings Conference Call”

**November 4, 2015**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Latika Gidwani. Thank you and over to you ma'am.

**Latika Gidwani:** Thanks, Darryl. Good Evening, Everyone. Welcome to the Hexaware's 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 website and I shall take it as read. We will be running you through a short presentation, that presentation is also already uploaded on the website under the 'Quarterly' report section, so you will be able to even see if you get on to the Hexaware website.

With this I hand over to Mr. R Srikrishna.

**R Srikrishna:** Hello! Good Afternoon, Everyone. We try and have this presentation available online through the WebEx link there are some technical issues we are working on that, but I know that most of you do not necessarily look at the Presentation online, so we are going to get started, at some point during the session we will get the Presentation online but those of you that are seeing it from our website I will refer to the slide number as we talk.

Slide #4 Overall Financials: You pretty all have seen the numbers; we had decent revenue growth 3.15%, 3.5% on constant currency. On the back of a strong quarter where we had close to 6% revenue growth last quarter, our profitability metrics actually outgrew the revenue metrics, so EBITDA grew by 100 basis points. If you see the slide we have showed you the EBITDA before ESOP cost and ESOP cost first, last quarter was the first time that we really gave out the ESOP program. The reason we are still showing it separately is there is actually a change in cost from ESOP from last quarter to this quarter, I do not know how many of you have modeled us as having the same ESOP cost last quarter, it was at 1.26 million and this quarter it is at 1.71 primarily because last quarter was not a full quarter that we have the program for. Going forward it will actually be in range to the 1.71 for a few quarters and then actually it will come down a little bit. So our EBITDA before ESOP cost grew by 9.02% which is quite a bit faster than the revenue and after ESOP cost grew at 7.42% because of the increase in ESOP cost during the quarter and PAT grew at close to 10% and fully diluted EPS grew at close to 13%. We consistently said that we hold ourselves to looking at a four quarter performance and consistently how we grow revenue; so really we have had about a 3% CQGR in growth in revenue over the past four quarters. PAT on the other hand has grown quite a bit faster at 9.4% CQGR over the last four quarters, and EBITDA slightly lower than CQGR growth of revenue.



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I am actually going to Slide #7: We have been reporting on customer pyramids and how it has changed. So you will see that the top 50 million clients there has been one that has not changed, but very significantly over the last year in the 30 to 50 million category one client has actually now become three clients which is a significant improvement in customer mining. It actually kind of displaced customers in the 20 to 30 million. So really two clients that were in the 20 to 30 million bucket have moved to the 30 to 50 million bucket. On the other hand, at the bottom of the pyramid also there is improvement of 1 to 5 million, a number of customers has increased from 42 to 48 million. In general, our client mining has been working well; we have shown you in the slide metrics of how our top customers have performed relative to company average; top five clients for this quarter grew a little bit under company average, that has not been the case for the past many quarters, but they still grow at a healthy 2.3%, top-10 at 3.27% and top-20 at 3.82%, which is quite a bit higher than company average. In the past quarter I said that one of the measures for our success will be that we are creating displacements in the top-20 initially and then the top-10 clients. So from next quarter we will start kind of reporting displacements in the top-20 clients because I had said last quarter that we expect to start seeing new clients in the top-20 in the next 3 to 4 quarters and it actually happened earlier. So we will start reporting on that from next quarter onwards. Because of the improved profitability over the last two quarters, our return on equity has improved substantially and we are at 31% for this quarter.

We continue to kind of maintain a dividend policy which is aggressive; we have announced a dividend of Rs.2.25 per share. The philosophy remains the same. While we do not have a long-term saving policy, the philosophy remains that if we do not have good use of capital, we will hand it back to investors.

A Quick Note: We do have the Presentation up on the link online for those of you that would like to look at it.

Now, the most interesting part of what is happening in our organization to us is the fact that we have been winning actually a number of new deals. While we have not typically been announcing the value of new deals each quarter, I am happy to say that year-to-date first 9-months just new customer NN deals as we call them, exceeded a 100 million in TCV and of course to reiterate this does not include expansion of existing customers and it is the first time that we have actually crossed 100 million booking even within a year let alone within a 9-month period, it is materially higher than what we have done in past years... in fact the past years we were not even quite measuring this number.

I am going to highlight two examples of important wins and also highlight the type of deals and the type of services: The first one which is on the top left corner of the chart is a multi-year infrastructure outsourcing deal. It is for a large REITS fund. It is a mid-sized company. But it is a very interesting deal in that we have been speaking about what we believe will be the future of Infrastructure Outsourcing that it is going to shrink, there is going to be new model, there is new Hyper-Converged Technology that is going to take center stage. So this deal



actually has all those elements and it is a full end-to-end deal, it is going to have the new generation technology in the Data Center, the new generation technology in the work place, and we will actually start implementing this deal from very late this quarter and really from early next quarter.

The other interesting deal which is again a multi-year deal, it is a largish multi-year Agile development and maintenance deal, it is for a conglomerate, media, healthcare, taxation type organization. The two highlights on this deal: 100% of the work in this deal will be on Agile model which we think is going to be reflective of future. It is not just pockets of Agile work, but entire engagements which are completely Agile-based. The second interesting thing about this deal is that we actually moved it from top-3 Tier-1 vendor. Again, some part of execution has already begun, but significant ramp ups that will happen during the first half of next calendar year for this team. In general, that commentary is true that, you are seeing some of the revenues from this \$100 million booking in our current quarter, but for the most part, the bigger fall through of this booking into revenue is going to happen, the ramp ups are going to happen starting the beginning of next calendar year and go through for the two quarters or so.

Our utilization has remained range bound, I mean, you are seeing a little bit drop this quarter but really you see the chart, it represents the eight quarter data, it is virtually fairly narrow 2-2.5% band, 3% band, for all of the previous eight quarters and that is kind of where we wanted to stay and that is where we expect it to stay going forward. The little bit peaks and drops are a function of just the campus hiring dates and there will be onboard employees.

Attrition: You are seeing a slight uptick. We did complete our salary increment exercise for offshore in the quarter that just went by and it is fairly normal for us to see a slight uptick in the month immediately after salary increments are paid up. So there is nothing we are seeing as cause for concern. In fact, the number of people that are actually exiting at this time of the year are lower than what they were same month, same time last year. So we feel good about some of the measures we have taken on this front.

The last kind of few slides on commentary is to give you a sense of Geo Vertical and Service Line Split. From a geo perspective, North America grew about the average of the company, Europe grew much faster at 6%, APAC again had a contraction albeit a much smaller one.

Commentary on APAC and I spoke a little bit about it last time too; our historical business model in APAC was a large number of customers, in fact a large number of new clients that used to get added every quarter and each of those were one-off project work implementation upgrade, we have deliberately over the past two or three quarters and going forward that is what we will continue to do, deliberately stayed away from those which we kind of walk away from those bids instead focusing on building a pipeline which is larger deals, larger profile of customers and we expect that the strategy will actually play out and result in good booking over the next two quarters or so. Once that happens we will also start seeing increase in



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revenue and growth in APAC. So that is what we expect to happen in APAC past contraction the reasons I spoke about.

From a Vertical Perspective, banking continues to be a strong performing vertical for us. Given that it is the largest vertical that it is important that it performs well on a consistent basis and it has and Healthcare and Insurance actually turned what is the fastest growing vertical for us. GTT reduced marginally, but that was in the back of a very strong quarter last quarter GTT was actually our highest growing vertical and Manufacturing, Consumer had a flattish quarter, but we expect that will change over the next two quarters

Finally on Service Lines: Virtually, all service lines grew but our leading growth was BPS followed by Infrastructure. Clearly, these two are our smallest service lines right now, but we are also seeing the maximum potential for disruption, especially new client acquisition scenario using automation, using platforms in this industry in these two service lines, and a lot of our growth is being driven by automation and the potential to do even more automation. We are actually quite happy to deliver growth in Enterprise Services. It is a difficult kind of service line, not just for us, for all of the industry. So happy to have delivered growth there. But as you can see virtually all of the service lines kicked in and delivered decent growth for us this quarter.

Few Awards listed on Slide #14: But what we feel really good about is going to pick up Award for Excellence in Corporate Governance, so our finance and secretary did a great job, congrats to the members.

With that I am going to hand over to Rajesh for a little bit deep dive on the numbers to give you a sense for the next level of detail.

**Rajesh Kanani:**

Thank you, Mr. Srikrishna. I will start with Financial Update: As Mr. Srikrishna had pointed out revenue for the quarter is \$125.3 million and Q-o-Q up was 3.1% and Y-o-Y 13.7% growth was there. Constant currency revenue is \$125.5 million, up by 3.5% quarter-on-quarter and 16.4% on Y-o-Y.

You can see few graphs down below which depicts the same number. We are at Slide #16: It also talks about the revenue numbers in INR terms which is Rs.8,184 million, this is 6% for Q-o-Q and up 22% on a y-o-y, again there are graphs that is showing the same revenue.

Now, I will come to Revenue Analysis: On quarter-on-quarter basis how revenue has grown and the reasons of revenue growth. The first and foremost reason was overall volume growth is 3%, but if you breakup volume into three parts; pure volume growth is \$2.8 million of revenue; revenue increased due to calendar is \$1.7 million; and mix as onsite percentages have gone down from 61.2 to 60.8, the revenue is lesser by 900K. Cross currency impact is 400K and bill rate impact at 600K, hence we reached 125.1 million.



Slide #19: Now I will come to the EBITDA Margin Walk: The EBITDA margin for the quarter was 19.2 excluding the ESOP cost which is 100 basis points higher in the last quarter. Now, we break EBITDA into gross margin, gross margin was at 36.6% in quarter which is higher by 60 basis points mainly due to the following reasons: Due to calendar impact bps was higher by 72, lower utilization led to lower bps of 132. There is a one-time termination cost in Q2 which led to increase in 82 bps and one-time H1B visa cost led to higher bps of 59 points. FOREX gain has led to 56 bps, increment offshore has resulted in lower bps of 38 basis points and gratuity and other costs increase led to reduction of 39 bps. SG&A cost is 17.4% versus 17.9% in last quarter. In spite of doing investment in marketing, we have added 30 consultants. SG&A has come down due to FOREX gain of 21 bps and volume leverage. Tax ETR was 22.4% which is lower than last quarter which was 23.5%, it is 110 basis points down due to two reasons; one was SEZ 100% tax reserved income was higher, and in prior year in our US subsidiary we had one-time reversal.

Slide #20: We are showing outstanding hedge position. Hexaware's outstanding hedge position of 153.69 million, USD-INR of 147.3 and Euro-INR of 5.7 million.

Next Slide #21: If you see the FOREX gains and losses in the PL in the current quarter was 1.2 million was a gain, but since rupee has weakened, the next quarter gain will be very little which is 200K and Q1 will be 600K at an agreed rate of 65.58 per dollar.

Next Slide is Balance Sheet Updates: \$58.19 million is cash and cash equivalents, in INR terms it is 3,816 million. DSO has been 54 days and 80 days with including unbilled. Dividend declared was 2.25 per share and dividend payout will be ₹816.5 million and dividend payout ratio is 73%.

Slide #23 on CAPEX 2015: YTD CAPEX was \$12.73 million in nine quarters and for the quarter it was \$4.68 million. We are likely to spend \$21 million in the current full year 2015, in rupee term it will be Rs.138 crores. Thank you.

**R. Srikrishna:**

Before we open the floor for questions, I want to throw a little bit commentary because I am sure that question is coming on the current quarter. We spoke about the fact that there is good growth happening in existing customers and there is some very solid booking that has happened from new clients which is going to lead to continued growth and now ramp up in first half of the next calendar year. We know about the seasonal weakness in the current quarter, we know about furloughs that happen, not every year, but this year we are certainly seeing the increase likelihood of furloughs, in fact we are seeing more than normal increase likelihood of furloughs during the current quarter. While there is strong underlying volume growth, the amount of furloughs is going to potentially reduce the number of calendar days quite a bit for a number of our clients and hence we are going to see that impact our revenue and revenue growth, but we still are going to see underlying volume growth and hence as we go into Q1 next year the full impact of volume growth will result into revenue growth during the period from Jan onwards.



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With that kind of quick commentary on the current quarter, I would throw it open for Questions.

**Moderator:** Thank you. We will now begin the Question-and-Answer Session. Our first question is from the line of Nitin Mohta from Macquarie. Please go ahead.

**Nitin Mohta:** I had two questions; firstly, on the current quarter, 3.5% sequential growth was steady, but not as good as we had seen in 3Q last year or even the previous quarter. So, just wanted to understand how exactly the quarter was it versus our internal expectations?

**R. Srikrishna:** What we said consistently is we are not kind of measuring ourselves on a single quarter, we reaching 3.5% or is it going to be 4.5% as a lot of you had expected. We want all of you to think about more a four quarter rolling growth, right. So every quarter, yes, "Could we have done a little bit better in pockets?" Yes, but ultimately in aggregation of a number of customers and a number of things in a different customer scenario. So I know that the expectations of the majority of you were a little bit higher, but like I said there is a broad-based growth from lots of customers happening. We feel good about growth for future outside the seasonal furlough issues for this quarter.

**Nitin Mohta:** Just a clarity on in terms of those furlough issues that you highlighted and have flagged. Are there any client-specific issues that we are facing or it is just seasonality and from Q1 it is going to be business as usual?

**R. Srikrishna:** There are no client-specific issues, but what we have seen is like potential furloughs from more customers than usual, but we think from Q1 it will absolutely be business as usual.

**Nitin Mohta:** The NN deals that you talked about exceeding \$100 million, if we could get a similar number for the existing clients, new business that has been won from them, that would be very helpful?

**R. Srikrishna:** We would actually try and bring out that number from next quarter onwards for sure may be even earlier for sure.

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

**Manik Taneja:** I had a few questions; if you could first of all give us some sense in terms of how do you see demand panning across some of your top customers, because they have been the ones who have been driving growth for you in the past few quarters? Second question was essentially with regards to the step up jump that one has seen in our sales and marketing headcount over the past 4-5 quarters. If you could give us some sense in terms of what is the kind of talent that you are hiring here and how should one be thinking about this? The third question was with regards to a comment that you made in the media interview. You indicated aim to grow your



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revenue per customer and reduce the active client base. In that context, should we assume that in the near-term that could be a headwind to overall reported growth?

**R. Srikrishna:**

Let me take the last one okay because I think there was a little bit of communication gap. I was talking about new customers, not talking about reducing our client base. So very clearly, our strategy is to reduce the number of new clients that we acquire. I spoke about it earlier today in the context of APAC what we are doing. We are walking away from what we used to do historically, lots of PeopleSoft that kind of work and focusing on acquiring larger revenue per customer, fewer customers, but in aggregate higher volume of business. In terms of our current client base, whatever we had to do we have done. We formed a division about 9-10-months ago actually which kind of aggregated our tail if you will, of our customers and we did not kind of rationalize the customers. What we said is that we will box them with a certain set of focus so that it does not suck up overall management resources and we will still execute whatever commitments we made to those clients to the best of our ability but not necessarily renew those relationships if and when the time comes. So we are not doing any rationalization of customers. But comment was about new clients. So we are slightly misunderstood. A lot of addition by the way are offshore, some onsite, and it is in the solution and solution development space. We are looking for people that have done this before, not just smart people that have a strong penchant for technology and technology-based solutions. So that is the addition on marketing mostly in solutions. Finally, demand environment no different from the commentary we have made. We are seeing discretionary demand in Banking, Financial Services. We think there are lots of discontinuities in the Healthcare and Insurance space. There is lots of investments in modernizing that application landscape, claim systems are old, lots of companies are modernizing the claim system, it is driving demand for packaged application licenses for them also implementation, data migration, data integration. There is lots of work in data in general in that space. We think all of that will then set up work for Digital ultimately. What we are clearly seeing, the Digital is not Digital but a journey from Data to Digital. So we are seeing demand across that spectrum but it is also coupled with a downward pressure on commodity services, that is true across the sectors. Travel, Transportation, we have not seen it yet, but we expect to see some of the savings in fuel especially for airlines trickle down to higher discretionary spend. We have not necessarily seen it yet, but we expect to see that. From a geography perspective, it is a little bit different because we think Europe the demand drivers are not necessarily discretionary spend, it is more from the business spend, it is the generation that has already happened in US, but there is lots of companies that have not done it. So the demand driver in Europe is different.

**Manik Taneja:**

My question was specific to our large clients. How should one be reading the sequential decline in terms of business from the top customers because that customer have been growing very well for us through the past few quarters, and the top customers have been the ones who have been driving growth for us over the recent past?



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**R. Srikrishna:** It is a temporary issue what you are seeing there, two things; first is as we grow our Product business some amount of reduction in density from the top clients is not entirely an unexpected thing but yet we do see growth coming back in that client in short order.

**Manik Taneja:** So you have not been impacted by any of the front end people changes in some of these accounts?

**R. Srikrishna:** The answer is no, there will be no issue with any specific major client.

**Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

**Gaurav Rateria:** Just wanted to understand better that new clients have given you TCV of over \$100 million in the last nine months, which should help you in driving growth in the next year. But, at the same time, all the account management strategies which you have put in place for top-50, 60 accounts should also continue to help in mine those clients better. So, do we see firepower for next year even better than this year with respect to driving growth because some of the new clients actually will start firing in the first half of next year?

**R. Srikrishna:** It is true that we have done more booking on new clients than we ever had, certainly we have more than what we have done last year or in the recent past. That will kind of an additional lever for growth in future. I will leave it at that. We are beginning to track through our planning process which is underway now, how much revenues we will get next year from client-specific book this year. If you recall, I have spoken about a strategy where we said we went away this year from goaling people on how much revenues will come from NN during the year. Actually resulted in a drop in NN revenue quite a bit. But on the flip side, we said, we wanted to focus on booking which is the number that I am speaking about greater than 100 million in NN. But that booking has to be real and it has to translate to revenue, so we will start tracking for ourselves how much revenues come from the clients acquired this year and next year and subsequently. So, it is an additional lever for growth which did not exist in the current year.

**Gaurav Rateria:** While your commentary on discretionary spending remains pretty constructive for some of the key verticals, but at the same time you kind of see more number of customers this year. So how do we tie up this to that near-term outlook is weak for those clients, but at the same time those clients are pretty constructive about spending over the longer term? Why would a client try to curb near-term spending and be positive about long-term spending whereas typically visibility is more for the near-term rather than the longer-term?

**R. Srikrishna:** It is a great question but really a lot of clients use furloughs as a rounding off mechanism for their budgets. If they are kind of over-budget then they use to make sure that they can budget for the year and yes, they are committed to those programs and it will resume right at the beginning of the year. On the other hand which is kind of what we saw last year Q4, if they are



underbudgets, then they are going to spend a little more, try and finish it up and you get a pop in Q4. It happened to us in many accounts last year. So, I see that there is a slight dichotomy but really it is not. There are programs which they want to execute to but there is a line in the sand for December 31<sup>st</sup> and I got to stick within budget for that year and hence use furloughs as a balancing act for the budget.

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

**Ashwin Mehta:** Just want to check in terms of what is the average execution period of these \$100 million worth of deals that you have signed year-to-date?

**R. Srikrishna:** I would say average is 6-months from slightly quicker 3-4-months but to some extent over like say 12-18-months period for the full ramp up to happen.

**Ashwin Mehta:** The duration of these deals would be three to four years or...?

**R. Srikrishna:** Good majority is 5, there are some that are 3. If you want to pick an average number, I would put as 4, or a little north of 4.

**Ashwin Mehta:** Wanted to get a sense in terms of what was the driver for the decline in revenues in the top clients -- Is it some project closures? Is it some cost pressure within the client?

**R. Srikrishna:** I got to be careful because I am talking about what would be confidential information for that client. Especially because a lot of people know who the client is, but let me say it was to do with some large projects that are not executed by us which went into overrun, so they had to do some budget balancing.

**Ashwin Mehta:** Like last quarter we indicated that we are gunning for a better growth than the NASSCOM guided growth. Do we stand by that despite the fact that you are seeing higher furloughs in the fourth quarter?

**R. Srikrishna:** That is certainly our hope and ambition to what we said of being at the top band or beating the NASSCOM growth, it certainly continues to be our hope and ambition.

**Moderator:** Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

**Ashish Agarwal:** I have a couple of questions. Just wanted to understand, historically, we have seen seasonality even in Q1 of the calendar year. So are we referring to the point that we may not see that seasonality in Q1? Second question refers to your attrition rate. That has been increasing for the past 5-6 quarters. So what could be the reason for this?



**R. Srikrishna:** There is going to be some calendar effect with seasonality in Q1, but we do not do specific guidance, like we said we are seeing volume increases and new deals ramp up which will lead to volume increases which will all kind of then offset some of the calendar backed of Q1. So the calendar year impact will continue to be dealt on going away. In terms of attrition, there was some uptick some quarters ago and then it stabilized. A slight uptick this quarter is expected. We did a salary increase during the last quarter and virtually always shortly following salary increases, the number of people that go out increases, they have the new salaries and then negotiate on top of that. Common enough for that is happening.

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

**Madhu Babu:** We have been talking that in IMS and BPO, we are winning deals through Automation. So could you talk more about that?

**R. Srikrishna:** I think it is best explained with an example and I think I gave this in the Investor Meet last quarter if you were there, but I think it is worthwhile repetition, right. So there is a revenue cycle management process for healthcare providers. There is about 50,000 people between India and Philippines that do that process across different service providers. Service providers do not make money, customers are unhappy. We moved for a client which is doing for somebody else, we moved and worked from India to our near shore center in Atlanta for the same total price and we are making higher gross margin what that earlier service provider did. We can do both because we eliminated well over half to work using automation. So, earlier, a BPO analyst would have to spend hours lobbying into hundreds of potential sites to find status of invoices paid before beginning to act on them. Now, we have automated that entire process of finding out the status and they can begin their day by acting on that. There is an example of how we brought an automation to honestly disrupt an industry. This is a pilot, we can now go after the entire industry base using this proof point and using this automation solution.

**Madhu Babu:** Secondly, most of our peers are talking a lot about Digital, whereas we hardly mention it, maybe only on the Data side. So how are we seeing Digital for us as such?

**R. Srikrishna:** To clarify, we are saying it is a journey from Data to Digital, most people kind of refer to as out in the front end. So we think customers have to go through a full journey from transforming their landscape to transforming their application and infrastructure landscape and redoing their processes and process integration layers before they can truly and fundamentally change how they interact with their consumers and their employees and their suppliers. We see that as the full journey for Digital and we are seeing while there is always interesting work and including the past quarter we won a deal for a client who is building supplies. I would not narrow that segment further for confidentiality reason. They have been selling through big box stores and now their strategy is to go direct to consumer. We are building that for them. The whole process of how will that happen, how they order directly, the front end, the user experience, the portal, the commerce, all of that we are building, but yet the bigger work we



expect.... and that is what we have seen so far and we expect for some years is in data modernization and application augmentation.

**Moderator:** The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

**Priya:** This is Priya here. Congratulations for reaching 125 per quarter 500 million run rate. If I were to dig a little bit more deeper into it, would you classify this more in terms of the new deal participation or would you attribute some aspects even to the deal win ratio? The second question relates to the fact that Q1 has seasonally been weak for us. But given these deal wins, would you say that Q1 seasonality which is a little more acute to us because of predictable nature of the business, it may not repeat in CY2016?

**R. Srikrishna:** Priya, thank you for congratulating us for reaching 125 per quarter 500 million run rate, it is an important landmark for us and we have gone from 100 million run rate to 125 in about five quarters. There is a little bit increase in participation but it is really increase in win rate. We are actually winning quite a bit. We expect to increase participation in the coming quarters. The second question, I thought I will explain that ...the seasonality in terms of calendar impact is not going to go away in Q1, there is still some time to go before we kind of finish our planning for the entire year but certainly most closely Q1, but we at this point of time expect that the volume increases will offset calendar seasonality of Q1.

**Priya:** A small data point; I remember Q1 we had a \$30 million win; in Q3 we have \$100 million. I think I am missing on the second quarter. Is it possible for you to share that? What would be the effect of the tax rate assumption which one should budget for CY of '16?

**R. Srikrishna:** Priya, just to clarify this \$100 million what I am talking about we crossed \$100 million is a cumulative number over the first three quarters. You are right, first quarter we said about mid-\$30 million, so the additional \$60 odd million is during the last two quarters. We didn't kind of split out what happened in which quarter. The hand shook in one quarter and sign in the next quarter, it is not relevant which quarter this happened at this point of time.

**Rajesh Kanani:** ETR is going to remain around 23% in the coming quarters.

**Moderator:** Thank you. The next question is from the line of Raj Kantawala from Equirus Securities. Please go ahead.

**Raj Kantawala:** On this Digital front, how do we see ourselves two or three years down the line and actually what percentage of revenues comes from Digital right now and how much it will be in FY17 or even then?

**R. Srikrishna:** We do not report on what percentage of revenues are digital and honestly right now whatever numbers are out there in terms of reporting, there is really no consensus or consistency on what goes into that pocket. If you adopt our broad-based definition of Data to Digital virtually



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everything we do is Digital. But, we do not currently report, we may in the future. What we expect in three years is to be able to materially alter and redefine how our customers interact with three set of stakeholders. Firstly and most importantly their customers, secondly, their employees and thirdly, their partners. The first category which is our customers to their customers, it is highly contextual to the industry. Example, in the healthcare it will be changing the hospital to patient interaction or it will be changing the insurance company to member interaction. In our education sector, it will be university to student, or university to parents, in schools actually parents become an important stakeholder. So it is really highly industry contextualized transforming that interaction between our customers and their customers. That is what we expect to happen over the next three years. We think for that to truly happen a number of things have to happen starting from the data layer.

**Raj Kantawala:**

Just given your commentary in the initial remarks, you had mentioned about the second foreign win. If I am not wrong, you said that you move the deal from one of the top three vendors. So how is it that we manage to move that and what were the drivers behind that?

**R. Srikrishna:**

We call this the “Watermelon Effect”. We think it is a fairly broad-based phenomena in the industry right now that a lot of customers of the top three or four IOPs are unhappy. Not their top 50 customers, but symbolically say from the 51<sup>st</sup> to 100-150 customers which are material in size for us and actually even for them that they just are not happy because of a variety of reasons. The top four reasons in our view which is probably three of those four are true for virtually every client is our industry’s obsession with pyramid which has led to essentially lack of experience in the delivery organization. That gets compounded by too much rotation, obsession with rotation, which is the second factor which leads to not just that lack of experience continuing over the term of the relationship, but also knowledge walking out every 1.5-2 years. The third is lack of cross killing. In any of the cloud, for example, even the line between Application and Infrastructure is gone and historically skills have been very siloed and that is not going to help in future. And fourth reason we think is just lack of executive attention. Some of our larger peers have become so big that it is very hard to have meaningful thought attention, not just physical attention but are they giving enough thought to solving the problems of their customers. And the finally, the disruptive power of automation we think it is going to be pretty hard for larger peers to actually execute, even if they theoretically have the capability to do so, their incumbents, they are sitting on a ton of profit on T&M and to cannibalize that willingly and across the board is going to be pretty hard for them to do. That is kind of the reasons why this client moved and actually there are a number of other clients. For a major client in the 100 million dollar win, I would say more than two-third of those fall under the category of came because of the “Watermelon Effect”. We call it Watermelon because it is green outside, green from far but it is really red inside.

**Raj Kantawala:**

So how is the overall hiring market shaping up these days? So are we seeing some stiff competition from startups and others -- is that a reason for our attrition increasing in the past five quarters or some other reason?



**R. Srikrishna:** There is certainly kind of increased competition from the startup but we think that is more for the higher-end skills. At this point of time it is lesser for the volume skills. Certainly, when we to go to a B-school, for example, there is a category of people who would have loved to join fast growing IT companies, but for them now the best choices would be like an e-commerce company. But, it is more true in the higher end skills at this point of time.

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

**Sandeep Shah:** Keech, just the first question is you said the measure of success could be bringing new set of clients within the top client bucket. So how should we read this if we take a longer-term view of 3-5 years? Do you believe the current top-10 or top-15 accounts the growth opportunity to some extent has been peaking out or do you believe that to scale up from \$500 million both should go hand-in-hand and that is our target for the next 3-5 years?

**R. Srikrishna:** A great question. It is really more the latter. We do not want to displace the top-20 because some of those are falling off the cliff. They need to grow and continue to grow, but yet we need to have a handful of new clients that are larger. So it is more the latter. And it also derisks our portfolio, percentage of revenue from top-20, there are other good things... more stability. It is more the latter. New accounts coming in which are larger and not because existing accounts are falling off the cliff.

**Sandeep Shah:** So is it fair to say because you said that the \$100 million NN deal would be a trigger in CY'16 which was not there in CY'15, while you already have a reorganization of new account managers or some amount of change in the sales and marketing for the existing top-15 or 20 accounts. So now in that scenario, is it fair to assume that we will enter CY'16 with more confidence and the growth momentum could be in a fair case higher than CY'15?

**R. Srikrishna:** I kind of answered this in response to a question from Morgan Stanley. Without being more specific I will say, yes, it is true that we have more NN booking than we have had last year quite a bit more so, and that revenue visibility is a new lever for us.

**Sandeep Shah:** On the IMS deal, where we have won it with the new generation of technology, we are a little eager to know that this would have helped you in terms of bidding with a lower TCV or a lower contract value though your margins could be really handsome. So can you give us color that with this new set of technology, what was the cannibalization in terms of a contract value if you would have bided with the traditional technologies?

**R. Srikrishna:** It is a great question. First off it is a mid-sized company. But, we were really interested to create a showcase where we could demonstrate every aspect of what we are talking about and discuss about will be that even a mid-sized. I would say it leads 30% to 40% contraction in the deal size.

**Sandeep Shah:** You were the only one or there were other vendors who had similar kind of proposals?



- R. Srikrishna:** It is a competitive phase, but I do not believe anybody else kind of using the set of technologies that we have brought to the table. That is part of the reason we won.
- Sandeep Shah:** This includes the SDC like Software Defined Datacenter kind of?
- R. Srikrishna:** Yes, it is completely based on hyper conversion....
- Sandeep Shah:** On the offshore wage inflation, if we look at on the margin walk, the impact was just 38 bps. It looks like a partial offshore wage. So one can expect the offshore wage to come in the fourth quarter as well?
- Rajesh Kanani:** Yes, there is a wage hike in Q4 as well. First of all, offshore will have one month wage hike and then onsite there is a wage hike. There will be a 55 basis point in the Q4 as well.
- Sandeep Shah:** By Q4 we will have 100% onsite and offshore wage hike?
- Rajesh Kanani:** That is right.
- Moderator:** Thank you. Last question from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** Sir, we have seen actually that your onsite component had been increasing for some time, but this particular quarter it has come off a little bit. If you could give some color around whether that is a trend that you are expecting even going forward or is this like kind of one-off?
- R. Srikrishna:** In this particular case actually there was a client who have moved a fair bit of work from offshore to onshore and obviously it went with some revenue cannibalization in that client as well. We are telling our account managers and delivery managers not to worry about that because that is we are going to tell a new client that we will cannibalize your spend and we are not afraid of doing it in our own clients because if we do not, somebody else will, right. The biggest reason in that change was a significant client where we moved a significant piece of work from onshore to offshore. Having said that we still believe that in general the onshore ratios will be higher than what we have seen as industry in the past. It is closer to our current levels because a lot more work and Agile and I think a lot of customers for them a start point for Agile is I should be able to see the person face-to-face any minute of the day. Having Agile work offshore not many customers have come to grips with. That is going to be near shore or a significant component of it happening near shore. So, again, we have said this to reiterate while it is reported as onshore increase actually a lot of increase is in our near shore centers. We club them together. We expanded our Atlanta center quite a bit. We are expanding our Mexico center and actually we are going to add a center in Europe at the end of this year as well.
- Ravi Menon:** For next year or maybe even next two, three years, which service lines and which verticals do you see growing faster than the rest?



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- R. Srikrishna:** Let me try and answer it differently. What is our strategy? Our strategy is in BPS, Infrastructure and in ASM to go after a0 chunky deals because that is where chunky deals exist, more so especially in BPS and Infrastructure. There are a few in ADM like the one that I described fully Agile win was a fully ADM play that came to market. In development projects and even ASM is more often land and expand kind of a strategy. It is just a combination of larger deals in Infra, BPO, sometime in ADM. Otherwise, if the client profile is right, then it is more land and expand for Application Services.
- Ravi Menon:** From the vertical side, do you think we will continue to see BFSI, Travel and Transport be the main drivers or you also see others contributing a lot more and say Manufacturing consumers lagging the company average a bit?
- R. Srikrishna:** I actually think we will find it over a period of year hard pressed to call which will outgrow. May be I can bucket it as the faster to likely be H&I and BFS and relative slow to may be GTT and M&C but beyond that I think it will be hard to predict a lot.
- Moderator:** Thank you. I would now like to hand the floor over to Mr. R. Srikrishna for his closing comments. Over to you, sir.
- R. Srikrishna:** Thank you all a lot. Look forward to speak to you again next quarter and Wish You All A Very-Very Happy And Prosperous Diwali.
- Moderator:** Thank you very much, sir, and members of the management. 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.