



“Hexaware Technologies Limited Earning Conference Call”

April 30, 2015



**MANAGEMENT: MR. R. SRIKRISHNA – CEO & WHOLE TIME
DIRECTOR
MR. ASHOK HARRIS – PRESIDENT, GLOBAL DELIVERY
MR. RAJESH KANANI – CFO**

Moderator: Ladies and gentlemen, good day and welcome to the Hexaware Technologies Limited Earning 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 Karuna. Good evening everyone and welcome to the Hexaware Conference Call. From Hexaware we have with us Mr. R. Srikrishna, CEO & Whole Time Director, Mr. Ashok Harris, President, Global Delivery and Mr. Rajesh Kanani, CFO. The Safe Harbor is available on the Hexaware website and I shall take it as read. With this I hand over to Mr. R. Srikrishna.

R. Srikrishna: Good afternoon everyone and thank you for making time to attend this call. I think by now all of you would have seen our results and know that we had now what I would describe as, modest growth in a difficult quarter. For those of you who are not on the online the WebEx, we have provided a copy of the presentation on our website so you could actually take a look from there or download it from there. We are going to run through the usual presentation where we provided actually some additional dimensions of data to help improve transparency in our reporting.

For those who are looking at the deck offline we are on slide 4. What we have shown in this is really a rolling four quarter view on Revenue, on EBITDA and PAT and we have also provided you a view of the corresponding quarter in the previous year. So you get in one shot a view of Q-on-Q and Y-on-Y performance. So the Revenues we had 0.3% in Reported Currency Growth and 1.6% in Constant Current Growth this quarter which then gives us about 4.1% CQGR over the last four quarters. While we had a drop in EBITDA this quarter, again our performance last four quarters is 4.5% CQGR which is little bit above the Revenue growth and fits with our strategy to focus on the Revenue growth and that margins will follow.

Finally the PAT grew at 1.6% CQGR but as we explained last quarter and we will do again this quarter. There is a FOREX loss that comes from some hedging that was done a number of quarters ago and we will show you the impact of that later on in the presentation. Just for that actually the PAT CQGR would have been substantially high.

That's the quarter-on-quarter picture.

Now if you look at the Y-on-Y picture, really from this quarter has really been a challenging quarter for us. And as you see a much sharper growth from a Y-on-Y perspective. You see that from a Revenue and from an EBITDA

perspective, you see that while Revenue grew quarter-on-quarter last four quarters, there was a catch up to be done relative to EBITDA, relative to previous quarters. It turned the curve last quarter and this quarter actually the Y-on-Y growth is healthy at 8.6%. The same is true in PAT. You saw that there was a gap on Y-on-Y relative to PAT. We turned the corner, it's u-turned last quarter and this quarter actually there is a Y-on-Y growth even though there is a past period FOREX loss in here. Just for that the Y-on-Y growth would have been much sharper.

The reasons for profitability mix and we will give you little more color on this later but at a high level we had a drop in gross margins and then we had a drop from gross margin to EBITDA. At a gross margin level we had one another batch of increments, quite a chunky batch. All of our onsite employees and all of our leadership senior managers around the world there was an increment effective January 1st, that's about 60 basis points contributed to the gross margin drop. And we had FOREX losses. We had some one-time cost on employee restructuring in one of our accounts. And we also had some periodic cost of Visa. I wouldn't call it one-time but its periodic it happens more in the first and second quarters and while it happens every year, the number of applications that we have done this year is quite a bit higher than what we have normally done and so there is a higher impact of that as well.

And finally the drop from gross margin to EBITDA is a very deliberate planned action of increased investment in SG&A. We spoke about increasing investments in a few areas. We spoke about strengthening our IMS team. We have hired a new President for IMS business and there is some additional leadership including a Senior Vice President that has joined us. We also said we are making investments in building a sourcing advisory team. That leader has been hired and very soon to join, so all of the SGA expansion is a very planned and deliberate strategy to position ourselves for future growth.

Slide 5, we have been showing you the change in client mix and depth. The broad trend continues that we are seeing a movement towards the upper end of the pyramid from the lower end. Specific to this quarter we actually saw two customers in the 5-10 million change. One went down and one went up. But if we take a more kind of 12-month view to this pyramid, right at the top in the 20 to 30, a year ago in the 20 to 30 we had one client and now we have three. One of the strategies that we articulated was that we want to focus on our most important customers, we have strengthened the account management team, we have empowered the account management teams, we have given them more consulting pre-sales people to work with them, on a dedicated basis in their accounts. And we are seeing some early stages of success from that strategy where clearly our top 20 customers are outgrowing the company average by a very substantial percentage. You can see the numbers here. Top five grew at 7.5%, top 10 at 4.8% and top 20 at

0.9%; this is relative to the 0.3 overall growth. And this is something that we are very encouraged by and very consistent strategy that is going to increase the revenue per customer for each of our top 20 customers.

Our Return on Equity has been consistently high but there is a drop this quarter due to the reduction in profitability. We continue to have a very balanced dividend policy with a view to efficient capital management to view that if we don't have a good immediate use of capital its best in the hands of our shareholders so we did declare a Rs. 2 dividend this quarter as well. And our stock price in the past year or so has done very well and I know that it's not right now but literally after every quarter results we have seen a positive uptick in share price over the last few quarters.

From a business update and I am on Slide #8 for those who are looking at the deck offline. We added 10 new clients and you can see four in Americas, three each in Europe and APAC. We added \$30 million of TCV during Quarter 1 and this is not renewal TCV, this is incremental business that comes. Good part from our existing customers and some from new customers. And we provided some examples of the type of work; the largest in this is a very significant, very intensive domain-led agile development project in capital markets. It's a multi-year project which when completed will actually have a fairly significant impact on certain portions of financial services industry and I cannot be more specific than that without revealing what clients it could be.

We have an implementation rollout of an enterprise, HCM application, it's a core strength and we continue to do well in that business. In the insurance industry a lot of customers are modernizing their claims and policy management platforms and one of the significant portions of work is around migrating data from the old platforms to new platforms. And we have actually a solution for that that dramatically reduces the time, effort and improves the accuracy of the data migration. It's a very large global insurer that we are doing this on.

Now the other part of the strategy that we spoke about is to build differentiated service offerings that are more relevant for the Digital future. And if you look at these wins the second early vindication of our strategy in early times of success is that both the number one and three deals here are based on a new service offering. The first one even though it's a very large domain-led developing project, it's on our new agile methodology where we deliver Agile in a globally distributed delivery model. And the data migration solution is actually one of the 22 offering its actually called iConvert that we have been building over the past several quarters.

Now actually let me go back to that slide, I'll stay on the top and move this slide. We don't have a slide capturing our pipeline here but I want to speak a little bit about pipeline and some of the opportunities that lie ahead of us.

Our pipeline is better than it has ever been for us. Not only is the pipeline in value terms larger, it's actually comprised of there should be smaller number of opportunities but yielding a larger value. So clearly the shape and type of the pipeline is changing. Again some of the earlier results this large development project is an example but we have a few more from our perspective material sized deals in the pipeline which are progressing very satisfactorily and we expect one or two of them to actually close this quarter. And like I said, we feel good about how we have progressed so far. It's still a competitive situation but we are very satisfied with their result.

Our employee metrics our utilization actually improved and we added 84 net new employees during the quarter including actually a number of trainees. We did speak last time about the fact that we plan to hire substantially higher number of trainees this year relative to last year and we started that in right earnest and we expect to continue aggressive intake of freshers during the current quarter as well. Our attrition had an uptick and it's not something that we are very pleased about. We have done a number of things. We are able to see it early from the number of resignations and other techniques and are being able to predict attrition. And you seeing, with a lot of the efforts that have undergone over the past several months we are beginning to see results and we expect to see a bucking of this trend in the next quarter or two.

Now the next three slides are showing you respectively vertical split, service line split and geography split, all of which have been restated. And so the current quarter is stated and basis the reclassification which I will explain in a minute, we have also restated the past four quarters for you to get a baseline. So we have also shown what was the earlier reporting for the past four quarters that at a glance you can see what the differences are. The vertical split, there were a couple of reasons which led to that if you recall the caliber point which is our BPS Division became a wholly owned subsidiary and hence all of the BPS revenues have been now fully assimilated into the verticals. And aside from that there were some logical regrouping of accounts into the verticals that happened. Some of these changes have happened cumulatively over time and the same is true for the horizontals where you see a little bit of significant shift. And there has been a difference between how we structured and how we have been reporting on this and we thought it is a good time to realign and have reporting that is reflect to how we are structured currently. So that you see the vertical split here and going forward we will only use the charts above. The charts below are only for you for this quarter to see a comparison going forward we'll read the charts above. And so directionally still I mean banking financial services is the largest and manufacturing, consumers and others form a significant chunk and travel, transportation and health care and insurance are roughly similar size business as well.

Slide 11, if you look at our services split and I would let you just look at it and absorb this for a minute. And again for those of you that are off-line looking at slide 11, you will actually see that there are more material shifts here. I will give you some examples of what is happening here. For example, a significant amount of BI work but we do an accounts with enterprise platforms. The BI platform is often times independent of the enterprise platform and yet in the past that has been included as enterprise revenues and we have now put them where we currently execute them, where we build offerings for it which is under BI and analytics. Very similar for testing where testing work associated with enterprise and other applications and accounts with a significant portfolio enterprise applications was considered, was reported under enterprise applications and we have now put them where we do it from which is in the testing service.

And finally on the geography and this is on Slide #12. Some years ago we had classified our top account. We moved it from US to Europe because of shift in center of gravity of the client and consequently our account leadership and management in Europe. Since then it has been some time that over a year, well over a year, since that center of gravity moved back to the US and hence we are putting it back in the US. Now through this entire period the predominant currency of billing has remained US Dollars before even while it was being reported in Europe.

Awards and Recognition, we actually feel very good that our Chief People Officer, Amberin actually got recognized as the Top 100 Most Talented Global HR Leaders. Our CFO and his team won an Award for Excellence in reporting the second consecutive year. From this aside, there were a number of reports that had positive mentions of Hexaware that are listed here and a lot of these are Gartner. There is a statement from Gartner here.

With that I am going to hand the mike to Rajesh to give you a little more flavor on the financials.

Rajesh Kanani:

Thank you Srikrishna. I will just start with the Revenue walk and EBITDA walk. As Mr. Srikrishna said the Revenue for the quarter was up by 0.3% on a QOQ basis and 19.9% on YOY basis and Constant Currency the growth was 1.6% and in INR terms growth was 0.2% on QOQ basis and 21.1% on YOY basis. I will also walk you through the analysis what we have made. If you see the analysis there I think it starts with Revenue Q4 14. We started with 114.54 and then this is how the revenue has moved. If you just see we have lost Revenue of 1 million in Canada because of an onsite mix, we got additional revenue of 1.12 million. In FOREX as I said \$1.5 million we have lost, in bill rates we got \$1.8 million worth of revenue. That is how we reached to 114.9 as on Quarter 1, 2015.

Then I'll go to EBITDA margin walk. EBITDA for the quarter was 17.8%, 220 basis points lower than last quarter. If you look at the bifurcations of EBITDA

into gross margin and SG&A, gross margin was lower by 170 basis points which was at 35.7%. Mr. Srikrishna already said because of increments we lost 60 basis points. Visa and one-time cost we had 68 basis points. Visa only includes right now the Visa legal cost and other local Visa cost which we had. And other costs increase is 42 basis points. SG&A up by 50 basis points because of S&M investments, Mr. Srikrishna elaborated that. If we look at the ETR, 21.2% versus 22.5% in Quarter 4.

I will also again go back to the FOREX gain in the chart which we have given last quarter which is updated for the Quarter 1. If you see the FOREX loss is 2.2 million this quarter versus loss of \$2.4 million for partial term hedges. If you see the Quarter 2 now which is April to June quarter, our losses....overall we are having a gain of \$0.5 million even though we have losses of 0.6 million from partial term hedges and after that from Quarter 3 onwards we have no losses of partial term hedges and we have a gain at 62.50, INR-Dollar rate exchange rate. That will definitely be accretive for the PAT going forward.

We come to Balance Sheet update, Cash and Cash Equivalent at \$56.3 million i.e. INR 3521. DSO has been 51 days and 77 days including unbilled which is higher than last quarter which was 47-63 days. We have declared first Interim Dividend of Rs. 2 per share and Dividend Payout will be in INR terms 724 million, in Dollar terms 11.6 million and Dividend Payout Ratio is 87%. Capital Expenditure for the quarter is 339 million in INR terms and this expenditure is mainly made for in Siruseri we have a second phase where the major expenditure has started.

I think with that I will hand over.

R. Srikrishna: Before we go to Q&A, last quarter we told you based on the feedback we heard the prior quarters that we will improve our interactions and last quarter I told you that we will do an Investor Day when we will be here. So we have tentatively marked a date. We will reconfirm it to you in short while. So we are planning about half a day on 5th August. So we would love for you to mark your calendars tentatively and we look forward to meeting all of you there.

Rajesh Kanani: We will hand over for questions and answer now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Aswariya K from Spark Capital. Please go ahead.

Aswariya K: Thanks for taking my question. I just have a question and a clarification on your data points. Is it possible for you to give color on how are things happening as per your verticals especially in travel and transport considering crude has come down and how are Airline willing to spend? That is my first

question. And the second one is it possible for you to give a number like how much of your enterprise application services is from SAS implementation?

R. Srikrishna: Let me take the second one first. We don't report on it currently but we are considering doing that but what I will say is two things that we are the only support partner for Workday from an Indian origin company. We are also the only phase two implementation partner for Workday. We have a strong and a growing practice in Workday and we also have a growing practice in Oracle's Fusion both Cloud platforms. We don't kind of report on revenues on that separately but have it in future. On your question on GTT, do we see airlines kind of jumping into the higher spend bandwagon with the lower fuel cost? Not yet, but will be a great outcome for us if that were to happen. We are very strong in that vertical. But we are seeing some growth within that vertical, for that's the performing vertical for us this quarter.

Aswariya K: Thank you and just a clarification, revenue by geography, do you guys classify it as where the work is done or as per the geography of the client?

R. Srikrishna: As per the geography of the client, as per where we contract for it.

Aswariya K: So how different it will be from your currency contribution?

R. Srikrishna: There are some clients that have global billing in different currencies but it is largely should be aligned to the geography of origin with the exception of some clients.

Moderator: Thank you. The next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: The number of Fortune 500 Clients which Hexaware services currently, just trying to understand the wallet share which we have and what is the opportunity lying over there?

R. Srikrishna: And there was another one prior to that something about pipeline?

Priya Rohira : On the large deal pipeline, I mean your focus on the large deals how do you see the pipeline and do you think there are a couple of senior management inductions required or if you need to have a team in place from that perspective?

R. Srikrishna: So the second one we will come back to you with the accurate number of Fortune 500 Companies we serve. What I have top of my head maybe a little bit dated so we will come back to you on that, if you will. On the first one, on the leadership like you said we did and it's a very deliberate strategy to add leadership. I mentioned that we have a new President for the IMS business who has joined us. We also have a Senior Vice President for that vertical. We also added Senior Vice President for hunting especially for new

business for our MNC verticals which is essentially our youngest vertical in North America and then there were some other positions we added too. We also had identified in the investment area, building a sourcing advisory relationship and management team. We have hired for that a leader and that person is soon to join us. We have hired a CMO who is very soon to join. So with that we actually believe a number of the leadership we need, will be in place but yet there is some further build out of these teams that we are going to continue do during the next quarter. Our pipeline I did say we are very pleased with our pipeline. It looks very good and from a TCV perspective it is much higher than before. Yes, the number of customers is smaller. It is large deals from our context and our size it's not the hundreds and millions of Dollars we did but it is very significant for us and we are happy with how we are progressing with our deals. And they are the kind of deals that take the 6 to 9 to 12 months closure and we are progressing through the stages of the deal very satisfactorily.

Priya Rohira: Can you quantify the pipeline may be seen. We last year said or six months back is it up by 40-50% or 20%, a color more over there or maybe on the vertical side? That could be helpful.

R. Srikrishna: I would kind of say it is more than the 40-50% improvement in the pipeline. I forgot giving a specific percentage but I would say it's more than that.

Priya Rohira: The last question on selling and marketing side do you think we're adequately placed right now or you think we will still need more hires entering into the year?

R Srikrishna: Our year has already started, it starts since January. Like I said we hiring the leadership is in place say for one kind of replacement position that we have identified who all should be on-boarded soon but there will be some build-up under the leadership that will continue next quarter.

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

Sandeep Shah: Just the first question in terms of the outlook within the top 10 to 15 accounts entering into CY-15, do you believe the high client concentration could be a hurdle or you still believe that the both the pipeline as well as the opportunity is higher?

R Srikrishna: So we have a great quality of top 20 customers and we kind of took a very deliberate strategy that we want to focus and put more of our organization resources with an intention into growing the accounts which have the highest headroom and I showed you some data that is early indication of that strategy. Client concentration, yes it will be good to diversify more and that going to come through knot-by-knot mining our customers as well but by looking to add more material size customers which will start off the

journey. We'll continue to mine our top customers and parallel look to add material size deal with customers.

Sandeep Shah: So you believe that even in CY-15 the growth within the top 10 or 15 accounts would be at least in line with the company average?

R Srikrishna: Actually I did show a data-point where the growth in the top 5, 10, and 20 is actually materially higher, if you have access to the deck, those figure are still online, I am going back to that slide. It's actually in Slide #5, our top 5 clients grow at 7.4% quarter-on-quarter in reported currency, top 10 at 4.8%, top 20 at 0.9% so they are actually doing much better than company average.

Sandeep Shah: With that trend and momentum expected to continue then is it fair to say that maybe with a slow start in the calendar year of 2015 but we are still well-poised to at least be within the range of NASSCOM growth average of 12% to 14%. I agree you don't give a guidance but do you have a comfort to reach that levels?

R Srikrishna: So you already asked a good question but I will say what I've said before that we are working very hard to beat a NASSCOM guidance, we feel good about our deal pipeline.

Sandeep Shah: This quarter if I look at both the utilization has gone up as well as the onsite revenue contribution has gone up but the reported currency growth or the constant currency growth has been just 1.6% so is it fair to say that either the pricing has declined or is it the volume which is not up to the mark?

R Srikrishna: I think we showed you that split out.

Rajesh Kanani: There was a breakeven in the volume, the volume has not increased that's what was the main reason.

R Srikrishna: I think this worth for clarifying that while we say onsite a lot of increase was in our global delivery locations. I may have mentioned last time to you that we had two centers in US, one in Mexico, we are significantly expanding one of the two centers in US which is in Atlanta and the one in Mexico, both are seeing significant expansions so really still in a global delivery model but in a near-shore locations. Could I request that you would come back when if you do have time you could come back and we had gone through three questions from you.

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

Ashwin Mehta: First is in terms of the volume growth which was close to zero this quarter, we were negatively surprised by that, what according to you were the

reasons for this disappointment and the second question is we had a 14 day move in terms of our receivables plus unbilled, what led to that and how do we see that coming back, how soon can we come back to the levels that we have seen which are closer to the 63-65 days?

R Srikrishna: The first one and Rajesh will answer the second one. On the first one not entirely, we would have actually expected do a tad better but like I said every year this quarter has been a weak quarter for us. It's a function of the type of work we do and our client base, a lot of customers kind of renew or reset their budgets for programs and programs that we are working on have to be refunded even if they are meant to be long-term programs so they tend to be even if its 10 day delay or two weeks delay and refunding the program it impacts our volume for the quarter and that's what we have been seeing happening quite consistently in our Q1 so it was not entirely a surprise to us during this quarter.

Rajesh Kanani: On the DSO side I think let me just put it this way, the mainly DSO was on unbilled side the December was an exceptional quarter by 47 days DSO was there but the 51 is still an exceptional number. As far as the unbilled DSO is concerned which went to 77 days from 63 days, mainly because March had a maximum number of days and the heavy billing. Secondly, on T&M contract customer had responded late in doing the billing because there are lot of approvals required from customer for delivery and that's the major reason I think by this month end most of the things are going to be all right and I don't think that we see that as anything special, it's a normalized thing.

Ashwin Mehta: If I can squeeze one more in, where do you see is the possibility of increasing your utilizations? You historically worked at 74 to 75% as well so do you see that changing materially versus the way you had operated historically?

R Srikrishna: Our positioning and our outlook is still for growth. While it is possible to move the needle on utilization we are happy where we are because we want to be able to respond with some relative quickness to our customers and so actually we feel good about where we are, we'll move in some zones in a band from where we are but the deliberate strategy is not to push the needle on utilization, the deliberate strategy is to position ourselves for growth.

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

Manik Taneja: If you could just give us some more details with regard to your CAPEX plans. I suppose there is a plan to increase our delivery strength footprint out of Chennai, how does that synch in with our strategy of building up local delivery centers across our major markets and especially we've seen in the context of the fact that for Hexaware and the sector as a whole one has seen an increase in onsite mix of revenues over the last couple of years.

- R Srikrishna:** I mean there is going to be a balanced increase so while there we will expand as we are expanding the Atlanta center and we will add a European center late in the year, it's not all the growth is not going there so we are adding capacity in clearly in Chennai and we are also actually in the early phases of beginning to build our campus in Hinjewadi in Pune.
- Manik Taneja:** If I can chip in with one more question, just trying to understand you mentioned about your large deal pipeline being extremely good, if you could talk about in which particular verticals are you seeing very strong pipeline, is it largely to do with existing set of customers or new customers and what could be the areas in which you see these deals in?
- R Srikrishna:** Actually we do have representation in our top 5-10 deals from every vertical, we have BFS in due proportion to their being a largest, we have MNC, we have an airline in that and we have actually more NN than EN from our large deal perspective. Existing customer expansions tend to happen in smaller chunk, we have good visibility there so there is a good mix across verticals that's the sum of substance.
- Moderator:** Thank you. Next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.
- Deepesh Mehta:** I have two questions one is about the margin, how do we see margin tracking over next few quarters if you can help us understand how we see compared to let's say calendar '14 what the reported kind of margin? Second question is about the marketing employees what we reported in our part of the data see, it shows almost 50% jump quarter-on-quarter so whether we have added that many employees or there is some reclassification?
- R Srikrishna:** On the margin our stated strategy is very clear to focus on growth. 80% or more of margin issues are under pinned by growth or lack that off and if growth happens then margins will take care of themselves that's the philosophy at which we are approaching managing the business and so the focus at growth and if the growth comes back which we feel good about then the margins will come back. I am not sure we fully heard your second question so would you go with that again?
- Deepesh Mehta:** Data sheet that we reported percentage of employees in different-different buckets in that marketing employees shows roughly 50% jump from 2.1% to 3.1% kind of thing so it is roughly 80 people added during the quarter kind of thing so whether that is pure addition or we have some re-classification happened in this quarter?
- R Srikrishna:** There is some reclassification, there were kind of doing solution development have been classified under, some people have been put under sales and marketing budget.

- Moderator:** Thank you. Next question is from the line of Abdul Karim from HDFC Securities. Please go ahead.
- Abdul Karim:** Could you please help us give a number which could be there for the next years as a percentage of sales for your SG&A?
- Rajesh Kanani:** Very faint but I think you asked could we give you guidance on SG&A percentage, 18.5% roughly we generally maintain.
- R Srikrishna:** But we have said we want to expand a little bit from where we are but we also want to expand the revenues so in absolute terms we want to expand our strength but we expect our revenues to grow.
- Abdul Karim:** Please put some color on hiring guidance for next couple of quarters.
- Ashok Harris:** We're looking at hiring close to about 1000 trainees during the current year so that is in terms of number of trainees that we will bring in and approximately about 600 people over the next two quarters we are looking at.
- Moderator:** Thank you. Next question is from the line of Shashi Bhushan from Prabhudas Liladhar. Please go ahead.
- Shashi Bhushan:** We have added almost nearly (+60) clients over the last 6 quarters but net client is still flattish so can you help diagnose this, are we getting rid of some less profitable tail and adding some must have accounts?
- R Srikrishna:** We would certainly organize us through with that object so I wouldn't use the term there are certain types of clients where you wind down the project we're not trying to build so certainly our focus towards improving our average revenue per customer.
- Shashi Bhushan:** Second one is more about the industry trends, most of your peers have witnessed uptake in attrition during the quarter including us; however, we see the growth, it has been relatively muted for the quarter so can you please help me reconcile this disconnect ideally this quarter was seasonally weak for attrition, is the demand environment getting better I know this quarter was aberration in terms of attrition, these two things are little bit irreconcilable.
- R Srikrishna:** I know it is, I actually don't have a good answer for you. The only thing I would say is that the boundaries of what we think of as competition where people go to is expanding to their broader technology in e-commerce industry not just the IT services. That's not to a huge kind of factor in terms of volumes right now but it is out there and it could become more so in future. But outside that it is a bit of a conundrum because people are clearly

going from one IT company to another and yet nobody is really grown that much.

Before the next question I do want to kind of the numbers that we provided on hiring, is very much planning number for us so please don't read anything more into it than that. It is what the to be in the scenario so good growth, bad growth best hiring so that's a planning internal guideline for us so please treat that as that.

Moderator: Thank you. Next question is from the line of Kunal Dayal from Bank of America. Please go ahead.

Kunal Dayal: Srikrishna could you talk about the plan for wage hikes for the employees not covered in Q1 and I'm just trying to ask this in the context of increase in attrition we have seen.

R Srikrishna: The next wage hike will come predominantly in October-November-December quarter with a little bit in the previous quarter so that's a cycle so there is one cycle in OND and there is one cycle in January that's in the historical cycles.

Kunal Dayal: And the October quarter should predominantly be the offshore employees?

R Srikrishna: Correct, it starts a little bit earlier its staggered but most of the impact would start coming from October quarter.

Kunal Dayal: Quick question on your pipeline you mentioned that it's looking much better now versus any time ever. Does the service mix of the pipeline look similar to companies had project the various services or something like infrastructure or BPO starting to look a very big part of the pipeline now?

R Srikrishna: BPOs was our single largest growing horizontal this quarter and actually it has been in the certainly top 3 virtually every quarter in the last quarter. IMS didn't have a great quarter this year and you can actually compare the growth and this quarter IMS didn't grow but it has for the last many quarters so last time we spoke about we characterized one of the deal won was a good size and I would characterize as large from our perspective multi-year global multi-linked will BPO deal. And we do have good mix of BPO deal in the pipeline but even from an IT services perspective the size per deal is increasing.

Kunal Dayal: I guess you are saying that BPO is a much bigger part of the pipeline than ever and even the traditional businesses aren't too far behind. IMS necessarily not part of it just yet?

R Srikrishna: Mostly yes.

- Moderator:** Thank you. Next question is from the line of Nitin Jain from Credit Suisse. Please go ahead.
- Nitin Jain:** My question is on your dividend philosophy so has there been any change for last two years the pay-out was over 100% and this quarter it was down YOY and the payout is also around 86-87% so is there any change in your philosophy?
- Rajesh Kanani:** Payout is decided by board of directors and on the basis of various circumstances and the capital expansion and another things looking at all other aspects Board decides the dividends so really there is no policy decision on that. As and when each and every quarter, Board decides every quarter Board decides how much dividend is to be declared based on the cash, profitability, CAPEX, etc.
- Nitin Jain:** So there is most change as such.
- R Srikrishna:** I think the direction is to be efficient, if you don't have a need for capital then put it back and we do have an increasing need for capital we are doing this campus build-out that we spoke about.
- Nitin Jain:** Second question is on your service line so I was looking at your service line breakup and YOY growth rate so ADM and testing seem to be growing at a pretty good rate and Enterprise Solutions is growing at low single-digit so anything worth highlighting in Enterprise Solutions business or it was just one quarter factor?
- R Srikrishna:** On a Y-on-Y basis the Enterprise Solutions this is honestly is the one that whether Cloud impact is the highest so we are very sharply focused on the growing part of the Enterprise Solutions business which is the Cloud and like I have earlier said we are the only partner in India authorized to do what they support which is the largest and fastest-growing platform, we also have a healthy business in all but it is the service line which is kind of where the adoption of Cloud is amongst the earliest.
- Nitin Jain:** What portion of this business would be from Cloud and what would be the traditional?
- R Srikrishna:** There was the question that came earlier, we are contemplating reporting that, we don't yet do it, but we may in future.
- Moderator:** Thank you. Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** You did talk about if growth comes back margins will automatically be taken care of. But if I look at on a YOY basis your growth is like 20% on revenues, your gross margins are lower and this is despite better utilization rates. Does

it mean that the incremental business or deals which are coming are they coming that slightly lower margins or maybe lower margins at the initial stage of the contract and hence dragging down margins because those deals are ramping up and second question is with respect to the onsite employees, percentage of onsite employees have been continuously going up from 18.5% to now 22% over last four quarters. Does it mean like you have been creating capacities in anticipation...

R Srikrishna: Actually the second part of your question is part of the answer for the first. Again I would kind of urge you to think about what we report as onsite is a mix of client side and global delivery model. If you think about Agile model as an example right which is how a lot of the new development in the Digital world happens there is a need for higher presence closer to the customer and there is a need for greater presence in same time zones. There is also one of our customers and the project that I spoke about it's going to be significant to Financial Service industry and part of it not all of it, the nature of the work requires for it to be done near-shore so that's kind of the reason for the increase. We also have Mexico, we do report Mexico under onsite. We are growing our Mexico center. The margin profile in the Mexico center kind of aligned between pure offshore and pure onshore or near-shore and that's kind of some of the reasons on the margin but it is also a fact that we've actually expanded ourselves in marketing spend and from year ago this time to now and I don't remember the exact number on top of my head but we have expanded ourselves in marketing spend.

Gaurav Kataria: But Krish does it mean that, it does 0.2% increase in the cost structure because it is driven by the client needs but does it mean it is margin diluted for you?

R Srikrishna: Onsite business is that of lower margin than offshore that is true. But what we are striving to do is for a balance growth across near-shore, onsite, and offshore business. We have to recognize that some of the new realities the type of work will require greater presence closer to customers same time zone as customers.

Gaurav Kataria: So does it mean that a large part of the onsite work which is now coming may have a follow through or offshore related work in the coming quarters or may not necessarily be that be a case?

R Srikrishna: It goes with some exceptions, a lot of the work is not purely onshore or offshore it's a body of work which has to be executed partly onshore, partly offshore but just like for example Agility-type model there is a little more percentage onshore than with more traditional developing models.

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

Sandeep Shah: Just the one question is in terms of the demand patterns there are changes at both the ends, one in terms of “Run the IT” business if you look at, there is a vendor consolidation which is still happening at the same time the pricing has been changing in terms of outcome base more on the managed services basis. At the other end on the discretionary side chain the IT side the demand patterns are changing from the earlier large scale Package Implementation projects to the smaller size deals on the Cloud or migration or in terms of the Digital side of the business so do you believe that our portfolio of services are well enough to capture on both side of the business or still there is a work to be done or to be ready for tapping these kind of a demand changes in terms of trends?

R Srikrishna: We feel very good about where we are, we will take one by one. The first one on “Run the Business” or let me just say traditional services, you are absolutely right that there is a pressure, there is a consolidation and we think there are two things that work in our favor. First is that we believe there is a dire need for a very strong challenger from the Tier- II ranks even in the largest of accounts because the largest of the Tier- I companies have become kind of what like we believe they have left a space much like what some of the larger Western players had a decade ago, where they are able to adequately service their customers but not delight the customers, so that’s in the largest. And certainly there is a space below that largest customers where it’s hard for them to move the needle on their business by acquiring and with the size of business that comes from the next Tier customers. So we take both represent attractive opportunities for us combined with the fact that the things like automation impact incumbents and represent opportunities for us. From a new services perspective we have capability building to do and I think we will for its evolutionary thing we will be for a long time but I don’t believe we are any different than others. There are certainly some pockets where we are better off. In the Cloud and Hybrid Cloud environment given the fact that HCM is one of our applications to move wholesale will be knowing Cloud and Hybrid since for (+6) years. On HCM we’ve actually 30 customers proven experience in doing Hybrid. And on Data and Analytics there has been an incredibly strong area for us historically and we continue to build that strength and we actually believe data is the bridge really between the legacy and the Digital World and it’s an area where we are very strong relative to all of our competitions.

Sandeep Shah: On the HCM side like I’ve always seen that you have the leading off-shore vendor so the kind of deals which are coming is it fair to say that most of those deals are based on SaaS or some element of Cloud and the earlier trend of what Hexaware used to get is in terms of Package Implementation upgrades on premise model so those deals are now there to see or do you believe still there are combination of both which is continue to come.

- R Srikrishna:** Actually we think there will be combination deals, there is going to be some components on SaaS, and other components will continue to be in prem. We actually believe the world will be in that hybrid model for long time.
- Sandeep Shah:** On the bookkeeping side, on the visa side is it fair to say that most of our visa related cost for the calendar year is seen in the numbers?
- R Srikrishna:** We will have some in next quarter too.
- Rajesh Kanani:** Quarter 2 will have also fair amount of visa cost which depends on how much we actually get.
- Sandeep Shah:** As you said growth is the priority and margin will follow but at the same time our numbers does not reflect a bit of headwinds through wages or maybe investment on sales in marketing and the visa because from the current level we want to little bit push in terms of sales and marketing so you believe is it optimistic for you to improve margin hereon or is it a fair target that if we maintain we are happy?
- R Srikrishna:** I won't kind of be more specific than I have. I love your persistence on the number of questions but I really do think that we should move on. The philosophy is focus on growth then the margins will come whether it will improve, stay I wouldn't comment on that. Can we go on a little bit past and we have been okay I want to make sure we have an opportunity to answer as much questions as you may have from as many people. So this is any other person still on the line that has not gone yet, we will do that as a one last question. Otherwise thank you all very much again. Have a good evening, enjoy your long weekend and we will see you on August 5th if we don't talk before that.
- Moderator:** Thank you very much Sir. Let us and gentlemen on behalf of Hexaware Technologies Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.