



“Hexaware Technologies Limited Q4 2014 Earnings  
Conference Call”

**February 10, 2015**



**MANAGEMENT:**    **MR. R. SRIKRISHNA – CHIEF EXECUTIVE OFFICER &  
WHOLE-TIME DIRECTOR, HEXAWARE TECHNOLOGIES  
LIMITED**  
**MR. ASHOK HARRIS – PRESIDENT, GLOBAL DELIVERY,  
HEXAWARE TECHNOLOGIES LIMITED**  
**MR. RAJESH KANANI – CHIEF FINANCIAL OFFICER,  
HEXAWARE TECHNOLOGIES LIMITED**  
**MS. LATIKA GIDWANI – ASSISTANT VICE PRESIDENT,  
HEXAWARE TECHNOLOGIES LIMITED**

**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 and Wholetime 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. With this I hand over to Mr. R. Srikrishna. Over to you, sir.

**R Srikrishna:** Good Evening, everyone and thank you for joining this call. We have published a webex link along with the call in details and just a handful of people online for those of you that are on the phone, we have a presentation to go along with the commentary. Like last time we will take up our 20 minutes to walk through some salient aspects of the quarter and then we will throw it open for questions. If you do not have access to the presentation I will try and explain it for your benefit a little more. The copy of the presentation will be on our website later today.

Right here on the first slide for those of you that see it you will see a new graphic about, these represent the three most important things we stand for as a company — Passionate Employees, Innovative Services and Delighted Customers — these form the most important length of our strategy going forward. I had told you last quarter that we have heard multiple requests for better communication and interaction, and I had said we will come back with how will address that. So somewhere in the middle of the year we will come back with a specific date with sufficient notice, we will have like few hours of an investor day where we will have multiple leaders from our side and we will give you a fair bit of insight into our strategy but that is for later.

About Q4, we had a good quarter of growth again and you would see that we have now had few consecutive quarters of really good growth 6.1% CAGR over the last four quarters, this quarter was at 4.1% but we lost 100 basis points on cross currencies, so really the underlying 5.1% revenue growth. Our profitability metrics till EBIT level once again outperformed the revenue metrics, so we grew our EBIT

by 190 basis points, and in absolute terms 16 plus percentage. There was an expansion even at a gross margin level of 10 basis points even though there are some natural headwinds to both revenue and profitability in the last quarter of the year. The growth was broad based, it was not one-off from a client or a vertical or a single deal, virtually every vertical contributed to growth, in fact none grew below 3%, and our Healthcare and Insurance business grew the fastest followed by Banking, Financial Services.

Our different customer segments also contributed to growth; we had top 10 customers, our next 10 customers and our next 30 customers all grew.

And from a service line perspective most service lines kicked in, we had leading growth from IMS followed by the Business Intelligence, Analytics Service.

From a geo perspective there was a clear leader; Europe grew the fastest, Americas did fine over 3% growth, APAC had a seasonally weak quarter; it actually de-grew, but we expect that it is purely seasonal.

We showed this metric last time on the Slide 5 for the first time of what our client metric progression looks like. The bottom one about 1 million is accumulation of everything else. So really if you focus on the client metrics above \$1 million you would see that we are progressing well on improving the depth of our client relationship and towards the middle of the pyramid if you see the clients from 5 to 10 million on an LTM basis there is a material increase from 7 to 13 over just the one year period and of course that is where lot of our growth came from, but it also shows to improving mining ability, and we hope to over time migrate some of these customers further upward towards larger side of the scale. We continue to deliver high return on equity; it was close to 29% this quarter again like last quarter. And on overall shareholder metrics, we believe we will continue to deliver solid returns to shareholders aside from a fairly generous dividend policy, but 70% of our operating profit is paid out as dividend that is what we did this quarter. We also have seen over the past year consistent increase in share price quarter-after-quarter.

We added 10 new clients this quarter; 6 of them came in Europe; 3 came in Americas; and 1 in APAC. From a vertical perspective, there were 3 each in Healthcare and Insurance and Manufacturing and there were 2 each in the other segments.

Some of the illustrative wins: The third one on this chart here talks about back office support for leading travel service provider, it is a global back office support in multiple languages delivered from multiple delivery centers around the world, and it is a 5-year contract which is representative of the type of deals that we want to do more of going forward, stable, multi-year, annually type deals. We also had really good deal in our mid-size but fast growing capital markets company, where we will do a variety of things, but the most interesting thing being significant amount of end-to-end data management work for them, and then in our Travel, Transportation vertical we had a win in our core historical strength area of end-to-end ownership and maintenance of Enterprise HCM Application. Again that is a little of shift from the past in that historically we would have done an upgrade or an implementation of an HCM Application at this time, and going forward we are focusing more on bulking up these deals by adding maintenance to it or a multi-year maintenance to it, and this deal is an example of what again we want to do more of going forward multi-year including maintenance support.

Our employee metrics continue to do reasonably well; our utilization saw significant uptick up to 73% overall and the underlying big increase came in our offshore utilization which went up to about 68%. We are happy with where it is, it is not our goal to push this envelope a whole lot further because we believe that ultimately very high utilization metrics will lead to impediment for growth especially given our size. Attrition saw on an LTM basis a marginal uptick. I believe that is as a result of the fact that we had our offshore salary increments that we included in October, usually there is an uptick in the quarter right after, and also the fact that there seems to be overall in the industry more hiring and people tend to hire from each other.

We had our share of awards and metrics like every quarter; I am going to point to one which is not a usual award from one of the big analysts, but there are some very geekish forums that run competitions for Analytics on a variety of interesting things, price predictions for commodities, IPL games prediction and so on. Number of these our data scientists and analysts actually won, they came closest to predicting the outcomes which just goes to show our underlying strength in data science and analytics algorithms.

With that I am going to pause and hand over to Rajesh for deep dive on our “Financials.”

**Rajesh Kanani:**

Thank you, Srikrishna. Good Evening, everybody. I will go with the financial update now: I will start with revenue walk; Q4 we had \$114.5 million revenue, up by 4.1% on quarter-on-quarter basis and 14.4% on year-on-year basis. The growth came primarily from volume growth which was 5.6% and there was foreign exchange cross currency headwinds of 107 basis points, so we had constant currency term we had 5.1% growth. And INR revenue for the quarter has been Rs.712 crores, on a Q-o-Q basis the growth of 6.1% and 14.8% on Y-o-Y basis. Now I will take you through EBITDA walk margin; EBITDA margins, as Mr. Keech pointed out, margin is for the quarter is 19.9%, up by 190 basis points from 18%, Q3-to-Q4 2014. I think Q3 here means July, August, September, Q4 means October, November, December that is what we generally follow. Gross margin for the Q4 2014 was at 37.4%, up by 10 basis points from Q3 2014. The reason for 10 basis up gross margin we had second level of increment where we have lost 42 basis points. We had FOREX gains of 34 basis points and other cost reduction of 9 basis points, a very little movement. SG&A is 17.5% for Q4 2014 Vs 19.3% last quarter; it improved by 180 basis points, first reason was one-time cost in Q3 and FOREX gain impact and the leveraging of the revenue. The overall FOREX margin impact of 48 basis points including direct and SG&A due to INR depreciation.

Now I will take you to Slide FOREX Gain and Losses, so I think I will give you some in-depth detail why these slides have been sent. If you see last four quarters, if you look at the orange side, this is the total gain and loss of INR million what we have reported in last Q3 and Q4 and orange bar talks about partial term losses, loss in the current quarter was 2.4 million Vs 560k in Q3 2014. The losses have primarily come because of partial term losses for the old partial term hedges which we have taken. At the moment, company is not taking any partial terms since last more than 1-year, and all partial term hedges have been converted into whole-time hedges, and if you see the Q2 we have FOREX gain at exchange rate of 62.14 and Q1 also we are reducing our losses, so this is not going to impact our PAT going forward. Other item is an exceptional item in the results is a one-time item in Q4 '14 where we have booked 1.05 million worth of cost in US dollar terms, we have renewed a large IT service contract in a traditional scope for 5-years duration, where we have absorbed a few customer employees, and we have some employee obligations based on the restructuring plan and that is how this cost is one-time cost, it is not going to recur in any of the quarters going forward.

Effective tax rate is 22.5% in Q4 Vs 20.8% in Q3 2014. If you adjust the one-time exception item in the PAT we are having a Q-o-Q increase of 6.9% and PAT will further increase in coming quarters with reduction in partial term FOREX losses.

If you look at the balance sheet update, we have healthy cash of \$78.4 million, in INR term it is Rs.494 crores, we had a very healthy DSO of 47-days in Q4 2014 and 63-days including unbilled, and as Mr. Srikrishna pointed out we had a 4<sup>th</sup> interim dividend of Rs.2.5, 125% dividend payout is Rs.90 crores, in dollar terms \$14.3 billion, dividend payout ratio is 104%. Capital expenditure in Q4 was Rs.129 million and the full year for the entire 2014 is Rs.604 million.

With this I will request to go ahead with the question-and-answer session. Thank you.

**Moderator:** Thank you. Ladies and Gentlemen we will now begin the question-and-answer session. The first question is from the line of Nitin Mohta from Macquarie. Please go ahead.

**Nitin Mohta:** I had two questions: Firstly, was on the outlook for next year. Earlier in the day we had NASSCOM outlook for next year. Looking at this quarter results, should we assume that Hexaware would be easily able to beat the high-end of the number over there, which is 14%?

**R. Srikrishna:** I wish I could say that for sure, that would certainly be our attempt to do better than the industry. Last quarter I said that our big focus is on sustainability, we have had a couple of quarters of reasonable performance, and we are working hard to make sure that we carry the momentum, and our goal is to do better than the industry but I leave it at that.

**Nitin Mohta:** Second one was on the attrition bit. While it is still lower compared to some of your peers, but we have been seeing it inching up despite the fact that we had wage hike in the last quarter. So, just thoughts around that?

**R. Srikrishna:** Wage hike usually does kind of lead to a little bit spike in attrition afterwards almost always, but I also think that there is a little bit of more at least medium-term underlying trend that everybody seems to be hiring a little more than before and they are hiring from each other, we are in some big IT campuses with lots of companies around us. So I think that is some of that too.

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

**Sandeep Shah:** Srikrishna, my first question is in terms of the client concentration. So, if you look again at the top-5 or top-10 clients, we are almost at the highest in terms of the revenue concentration. So while entering CY'15, will you believe that this would be a growth issue or you still believe that the prospects in the top clients in terms of growth is still bright in terms of penetration level going forward and should not impact the overall growth for the company in the coming years?

**R. Srikrishna:** I would not talk about a specific client but I would say that in this quarter that just passed, 2 of our top-5 clients outgrew our company average, and 3 of our top 10 outgrew the company average. So while this concentration we actually think that for the most part the client quality is very high and there are still lots of headroom in most of them for us to grow.

**Sandeep Shah:** Any color in terms of the CY'15 IT budgets within these set of clients or within your top-50 accounts?

**R. Srikrishna:** I think some of what is happening is not unlike what is happening broadly that, there is some kind of pressure in US on the "keep the lights on" type budget but yet there is more spending on capital and discretionary spend not just in the digital kind of space, but we think even in core work like application modernization like data modernization. We actually believe that the most important bridge from and if you would the legacy IT into the digital world is data, and it is a particularly strong area for us and it is a lot of work we do in that space. The one another color I will add is that we actually think that the BFS space continuing spending is looking good. From a Europe perspective, it is a little bit slightly different, I think the demand will come from not just discretionary spend but actually it will come from the business spend. Our client spend may be coming down, but we think that will result in more demand for us, because the way they can bring it down is to outsource more.

**Sandeep Shah:** Just was looking at our growth trends. If you look at the years before CY 2014 when the growth was much higher than the industry, the growth used to come from very large deals which used to get signed at Hexaware. The growth revival this time we are seeing in Q2, Q3 or Q4 of this calendar year, the large deal signings have not been happening, but the growth pickup is really strong and that too on a higher base. So, should we read that there are more numbers of smaller deals which are getting

signed at Hexaware, and this could be the new trend going forward, what is your update on this?

**R. Srikrishna:** I think there is a lot of growth from existing customers, so it is not that there is lot of small deals that are yielding growth, there is some of that, but really we spoke about like right up from the graphic for those that can see it the three-pronged strategy, the third one clearly being customer delight, increased customer focus. So we have really done more to put our arms around our top-70 customers and we are still in early stages of doing it, we will continue doing more of it, because we believe actually that we have a high quality customer base and there is a lot of headroom to grow. At the same time to sustain our growth in the long-term we will need our fair share of new deals. I think the shift in focus there which will take some time for it to play out fully but the strategy is not necessarily we go for larger number of smaller deals, it is actually to go for a smaller number of larger deal annuity and multi-year deals. I gave you one or two examples of early success in that front, but I think we are still working to put the fundamentals of that in place and it will take us some time to get result from that, but clearly the focus is to go for lesser number of customers but higher TCVs and multi-year deals.

**Sandeep Shah:** Any update on that in terms of the pipeline — how is the pipeline looking and what is the average size of the TCV there like for the larger deals?

**R. Srikrishna:** So I will say in aggregate our pipeline kind of looks better after the deals that we closed in Q4, even then our pipeline in aggregate looks better in total TCV terms than it did end of last quarter. There are two or three deals that one could describe as large deals, we are in formative stages, like I said that aspect of our strategy will take some time to pan out, but hopefully we will make one of those work, but more importantly add a few more in our pipeline in the coming two quarters.

**Sandeep Shah:** In terms of the IMS, it has done extremely well for the Hexaware. So, is it the growth coming through the white space searching within the existing set of clients or this is coming from a new set of clients? Do you believe still this would be one of the service which would grow higher than the company average going forward? Do you believe that still we have a scope in terms of improving the margins through the levers within the direct cost as well as within SG&A?

**R. Srikrishna:** A lot of IMS growth currently is from existing customers and there was one new client on IMS that lead to some of the growth, but for a lot of it is from servicing our

customers' upselling, cross selling our vertical customers. We do believe that IMS still have a lot of headroom to continue to be among the fastest growing service lines in the industry for a while. In terms of margin there are, yes, some potential additional levers, but we are not kind of growing crazy in chasing margins, our strategy is to lead with growth, our belief is that if we focus on growth the margins will happen and conversely if you just focus on delivering better margins without the growth we will run into trouble. So really it is we do not want to go crazy on that, I already spoke for example about utilization, we are happy with where we are.

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

**Manik Taneja:** Just wanted to get a sense on first of all the large deal that you have announced, if we could get some broader contours on which space, which areas is this deal and any sense on the incremental revenues from this business, and if you could break up your commentary across the key verticals that you focus on? The second question was on margins. Just wanted to understand is there certain one-off in terms of the sequential decline in SG&A expenses in the current quarter? If you could also give us some sense on when do you expect to roll out wage increments in the next year?

**R. Srikrishna:** I would not characterize a large deal, let me say it is a mid-size deal. On the three examples I gave the one that is the larger of the three is a global travel service provider for whom we are providing essentially a variety of customer-facing services. The interesting thing there is that what we hope to do over time is to really bring in the digital multi-channel transformation into how we interface with their customers. Traditionally it has been a voice-based mechanism, and our goal over time is to move material portion of that into web and mobile channels and self-service channels even through the voice mechanism, and it is multiple languages, and once all the phases are done which is actually close to being done, we will end up servicing them from four different countries around the world — Mexico, Eastern European location, China and actually two locations in India. On verticals commentary, I did say already that we think Banking, Financial Services would continue to do well, Healthcare and Insurance we spoke last time about innovation and service offering creation, a couple of the key ones were in the Insurance vertical, in fact one of them we have already seen our early success, a large global insurance for their APAC operations has chosen us as their fraud detection partner for their claims. So we think that that solution plus others in the pipeline could be a growth driver for us both within our existing

customer base but also to acquire some new clients. The broader healthcare industry clearly tends to be interesting for the whole industry. We have some pockets of clay right now and there is an opportunity for us to do a broader-base play. Airlines have been one of the industries that have profited from the oil price, in the near term many of them have been hedged. So we do kind of see some potential loosening of purse there in that industry which is the strongest kind of sub-segment within Travel, Transport for us, and MNC is a relatively new segment for us, if you recall, we made announcement less than a year ago about hiring a vertical head for that and calling it a vertical. So we are still in formative stages, but we have some interesting offerings and we have some sub-segments that we are doing pretty well in education as an example, telecom as an example, and we are bullish about that segment as well in a medium-term.

- Rajesh Kanani:** On the SG&A, I think in current quarter we do not have any material one-time cost.
- Manij Taneja:** Any thoughts on when do you expect to roll out wage hikes for CY'15?
- Rajesh Kanani:** In Q1 we will have wage hikes roll out for onsite employees, that is January, February, March 2015, impact will be roughly around 100 basis points.
- Manij Taneja:** How about offshore stuff because that got deferred last year?
- Rajesh Kanani:** Offshore we will announce, I do not think it is in January, February, March at the moment.
- R. Srikrishna:** Last year our cycle was in the JAS quarter, it will be this year as well.
- Manij Taneja:** I am just trying to understand some of these deal wins that we have seen in recent past from you. Are they being aided by the new PE parentage, if you could give us some sense?
- R. Srikrishna:** Not specifically, but in general we see opportunities to leverage and they are very helpful in helping us connect with their other portfolio companies or other contacts. So certainly we see that is positive.
- Moderator:** Thank you. The next question is from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

**Ashwin Mehta:** If you look at your incremental revenues, almost 85% of your revenues over the last 12 months have come in from onsite. So what essentially is driving this and do you see a flow through offshore revenue growth going forward, or this is the kind of move that might continue given the nature of demand that you see?

**R. Srikrishna:** The one thing which is underlying the onshore increase is the fact that we actually started a new global delivery center, we had an existing center in Mexico, we had a small center in Atlanta, but it has now become a much more full scale larger center, we are expanding further in that center this quarter. So actually a lot of our expansion is happening in our global delivery centers, and we continue to see ourselves being a more global company, and we will have European global delivery center in the coming two quarters for sure. So it is not inconsistent with what we want to do. Our model for growth will be to become more global allows us to service more languages, more time zones, and more regulatory issues. So it is not inconsistent with what will happen.

**Ashwin Mehta:** As a follow-up to that, what would be the implications of this on margins and how do you hope to prevent any headwinds in terms of margins because of this move?

**R. Srikrishna:** So I think from a run rate perspective what you are seeing in Q4, even Q3, a lot of the ramp up in the global and offsite had happened, there maybe still a little more percentage swing, but a lot has already happened. So you are seeing the impact of that already in here. We are clearly doing some active and innovative things to manage margins there. As an example, we are using our very significant pool of Mexican workforce and bringing them into the US, much like there has been a long practice of bringing Indian labor into the US markets, we are bringing Mexican labor in there, and that has an additional benefit apart from cost of also being visa-friendly, and in fact Mexican employees in US kind of qualify if that law ever passes, it will qualify within that 50% criteria is local employment.

**Ashwin Mehta:** In terms of Enterprise Application Services, would you say that the drag because of the PeopleSoft portfolio is largely being compensated now by newer areas like SuccessFactors, Workday, or the support work that you are doing, would that be fair to assume given that you have started to see growth there?

**R. Srikrishna:** Growth in Enterprise Services is also outside the HCM practice, other practice is in there. I think shift from PeopleSoft to Cloud will continue, and clearly there is some

compensatory revenue that comes in, in Cloud implementation and support on an ongoing basis, but a little bit of erosion that happens when clients move.

**Moderator:** Thank you. The next question is from the line of Kunal Sanghvi from Birla Sun Life Asset Management. Please go ahead.

**Kunal Sanghvi:** Keech, you spent more than six months into the company. Just wanted to hear your thoughts about how your assessment of having met clients, employees, what would be the key initiatives that you would be focused on going into CY 2015?

**R. Srikrishna:** I have met a lot of clients and a lot of employees, in fact, multiple of our top-20 customers I have met many times. So this is a strong and a deep relationship there and a lot of headroom to grow right. So our average tenure in our top-20 customers are over 7-years and it is only growing because a lot of these customers have come under the last 7-years, so there is none of them going away, so we see with growing time that average tenure will go up, and there is a fairly deep level of trust in many of these relationships, and among the first customers I met told me, Keech, if I want to find out something about my IT, I would go to your employees faster than I would go to my employees, because you guys just know our environment and our business so much better partially because we have been with them for a long time. Our priorities are defined as three-pronged; it is just a very high level to make Hexaware a great place to work and have very passionate employees. To focus on creating differentiated and innovative services rather than that just being a broad stroke we have actually defined four specific teams under which all our service offerings will need to fit in going forward, if it does not fit into that we will not invest in that, and third one, we have become more customer-centric and our focus more on customer delight. As an example, we have done a number of reorganization of our account and delivery teams to make that happen, we redefine KPIs for them to have just to get them far more aligned to customer outcomes not just Hexaware outcomes, I actually believe if they get aligned to customer outcomes, Hexaware outcomes will take care of themselves. We are just launching in the coming two weeks for the first time “Customer Delight Measurement” by a third- party. So we have had whatever an internal measurement at a project-by-project level of customer satisfaction, but we are doing a far more holistic measurement of customer delight. We are terming it not customer satisfaction, but customer delight as being done by a third party. So those three themes are where a vast majority of our focus as a leadership is we have let us say over 40 programs running at under these three themes.

**Kunal Sanghvi:** You did mention four themes for service offerings. If you can elaborate those four, please?

**R. Srikrishna:** I would not elaborate, they take time, but I am going to quickly go over them in no particular order; the first one is insights from data and delivering people services differently based on insights from data and also looking to incorporate new sources of data constantly. We believe the data is the biggest need for work and the biggest bridge from the legacy world to the digital world. The Second theme is on hybrid between cloud and legacy environments. We believe that for the next decade or more all organizations will have a hybrid environment, and there are some unique aspects of building and managing hybrid environments and we have a lot of experience from our HR business in hybrid, which is scalable across to other applications and other verticals. The Third focus is on the impact of consumerization on our customers. Usually there is a bigger focus on customers relative to their customers, which is a digital strategy, but apart from that also focused on how consumerization as it pertains to our customers employees, because they are also consumers in their private worlds, and then they come into the Enterprise, their expectation from Enterprise technology is different. And the Fourth theme is an Automation, and that is a particularly interesting theme because Automation is ultimately going to result in cannibalization of people-based revenues, and we think given our size, we are strategically well positioned to go after it aggressively relative to our larger peers. So those are the four themes that we are focused on.

**Moderator:** Thank you. The next question is from the line of Aishwarya K from Spark Capital. Please go ahead.

**Srivatsan:** Srivatsan here. Just wanted to get your thoughts on the Interface Application space. You did say that there is a good growth outside the PeopleSoft business also. But in terms of metrics on numbers or the sales process, just wanted to understand how the adoption of SaaS would impact your business portfolio especially in the Enterprise Application in terms of if you are doing a deal which is \$1 million or \$2 million, how does it stack up in a SaaS world? Just wanted to understand if the adoption of SaaS accelerates, what kind of impact it can have both positive and negative?

**R. Srikrishna:** As a general truth when a client moves to SaaS, the revenue realized for a service product comes down, so that is generically true, that is the promise of SaaS, lower time to implement, lower cost to implement, and lower support cost. Specific to us, given that a significant portion of revenue came from implementation and upgrade

and we stop there. So, our strategy is to not stop there but consciously create packaged offerings that will also include multi-year support. So, while the implementation and our upgrade portions will see a dilution, we will not be successful in every case but we try and offer as an add on support right there. And so for us we still see potentially as a net new and incremental opportunity in aggregate.

**Moderator:** Thank you. The next question is from the line of Shivam Gupta from Equirus Securities Private Limited. Please go ahead.

**Shivam Gupta:** This question it was earlier asked from the SG&A part. So if we look at this number either as a percentage of sales or in absolute has declined unlike the commentary where we are investing in new verticals and geography. So, could you please help us give a number which could be there for the next year as a percentage of sales for your SG&A?

**Rajesh Kanani:** It will be ranging between 18 /18.5% -max 19% of the revenue.

**Shivam Gupta:** The second thing is did you share your volume growth number for the quarter?

**Rajesh Kanani:** I think I said that, volume growth was somewhere around 5.6%.

**Moderator:** Thank you. The next question is from the line of Abhay Moghe from IL&FS. Please go ahead

**Abhay Moghe:** I had two-three questions: One, you had some partnership with Mu Sigma on the Analytics side. Just wanted to understand if that is still there and how does it affect your business lines or your P&L? Second thing is on the CAPEX side, you mentioned that a lot of expansion would be there in the global delivery centers and if I see your net additions in employees, it is running quite high and with the type of aggressive growth plans, it may run even higher. So what are your CAPEX plans for the next two-three years, a broad range would do good? Any sense what kind of tax rate would be there for the next year?

**R. Srikrishna:** Where that first question came from, I do not think we have ever had one.

**Rajesh Kanani:** CAPEX 2015 you are referring to I will assume, we are having a plan of spending around \$35 million in 2015, primarily for we are starting a Phase-II in Siruseri in Chennai which we started in the second half of the last year, in Pune we have a land, we are starting another SEZ unit there. So this is the major reason why we have

CAPEX. As far as ETR is concerned, I think 22.5% this quarter. Are you referring to ETR of next year or something?

**Abhay Moghe:** Yes, next year.

**Rajesh Kanani:** It will be somewhere around between 22.5% and 23.5% because one of our SEZ units is going to 50% of tax benefit from next April.

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

**Sandeep Shah:** Just some of the other levers where the industry is moving from and time and material to fix price for a managed service model, so, do we also count that as a lever going forward and where are we right now in terms of that?

**R. Srikrishna:** Yes, we do count it as a lever, first, in terms of moving from time and material to fixed price for a managed service, we do not just think of it is margin lever, in fact, it could wind up being margin dilutive in the short-term, but we think of it as a stability and sustainability lever more than as a margin lever. So clearly, there is a push to put more of our ongoing proposals in the future as managed service a fixed price and also where the opportunity present itself either at the time of renewal or on a proactive basis, try and convert some of our current business also into that. Like I said we do not necessarily think of it as much as a margin lever as it is a sustainability lever.

**Sandeep Shah:** So any percentage currently we have from time and material?

**R. Srikrishna:** Time and material is around 70-75%.

**Sandeep Shah:** Any update in terms of the employee pyramid, whether that could be a structural lever going forward in the medium to long-term?

**R. Srikrishna:** Again, we would continuously look at different levers to sort of have better margins, but not necessarily focus too much on margins but the focus would be more in terms of growth. So, some of the new technologies may necessarily need a different type of mix to enable that growth and we would focus more on growth rather than looking at the pyramid and trying to optimize it. But having said that, we are significantly investing in terms of taking fresh engineers into the organization. So, there is a plan to hire quite a significant number this year.

**Sandeep Shah:** In the SG&A in Q2 of CY'14, we said that there is additional cost of 150 basis points through hiring of a consultant and we said that this may go out by the September of 2015. So, any update on this? Will this be a margin tailwind going forward?

**R. Srikrishna:** I think major work with that consultant is almost over, I think they are having small work, but other than that major work is over.

**Sandeep Shah:** What could be one of the reasons for this SG&A being declining from 19.3% to 17.5% in this quarter?

**R. Srikrishna:** There could be some other, but that is also one of the reasons.

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

**Ashwin Mehta:** We had indicated last time in the last quarter that you expected near-term seasonality in 4Q and 1Q. We did not witness that in 4Q. Do you see the volatility reduced in 1Q as well? What I am coming from is that we have in the past had issues in terms of time gaps between project closures and project starts. So are we looking at much lesser volatility going forward there?

**R. Srikrishna:** First in Q4, the amount of furloughs was limited than we expected, that is one of the reasons why was not soft as we thought it would be. There are two or three issues – one is a lower calendar quarter, there is also weather that becomes a factor and certainly is, even yesterday major snow storms in parts of Northeast. There is some amount of non-renewal or reoffering of the funding in some cases. So our earlier commentary in Q1 remains.

**Ashwin Mehta:** And just a clarification, did I hear it correctly that you are looking at 18% to 19% of revenue as SG&A because that would be an increase versus where you are? So, where are the additional investments likely?

**R. Srikrishna:** 19% would potentially represent an upper end, but certainly we have identified some areas that we want to invest in. Europe, we want to expand our presence in some areas, Nordics we have not been present historically, we want to start addressing Nordics, we want to expand our footprint in Germany where we have good strength and it has been a slow growing market historically for everyone, but I think the inflection points that has been anticipated for ever maybe closer than we think. Just

across the board we want to make investments in large deal and sourcing advisory deals. We are currently hiring for those. Sourcing advisory tends to be the most important source of pipeline for large deals. And these are unique talents and relatively high cost talent. We are strengthening our IMS practice, we are hiring for that. So those are some of the pockets of investment and there is just an ongoing practice investments in those four themes that of innovation we spoke about, we are strengthening and hiring not just people but other investments as well in those areas.

**Moderator:** Thank you. The next question is from the line of Shivam Gupta from Equirus Securities Private Limited. Please go ahead.

**Shivam Gupta:** I just wanted to say on the employees, which you took for a client, how many employees were rebadged into the company?

**R. Srikrishna:** This has client confidentiality involved here, so we could not address that, not for any other reason, I will just leave it at that, I mean, you can probably do your guess work from the numbers.

**Shivam Gupta:** Then just to like put it the way, 60s million which is classified as exceptional, so that is expenses over the salaries which these employees will draw, right?

**R. Srikrishna:** Actually right now there is a provision for some potential restructuring, which is highly likely to happen over the term of the contract, but we have provisioned for it right now.

**Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the call to Mr. R. Srikrishna for his closing comments. Over to you, sir.

**R. Srikrishna:** Thank you all once again for making time to listen to us and all your interesting questions and look forward to talk to you again next quarter.

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