"Hexaware Technologies Limited Earnings Conference Call"

July 29, 2016

MANAGEMENT: MR. R. SRIKRISHNA – CEO & EXECUTIVE DIRECTOR, HEXAWARE TECHNOLOGIES LIMITED
MR. ASHOK HARRIS – PRESIDENT, GLOBAL DELIVERY, HEXAWARE TECHNOLOGIES LIMITED
MR. RAJESH KANANI – CFO, HEXAWARE TECHNOLOGIES LIMITED
MS. LATIKA GIDWANI – HEXAWARE TECHNOLOGIES LIMITED

Moderator: Good day, ladies and gentlemen 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 this 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 Malika. Good evening and welcome to the Hexaware Conference Call. From Hexaware we have with us Mr. R. Srikrishna, CEO & 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 that as read. We shall be running you through a presentation which is also available on the Hexaware website. With this I hand over to you Keech.

R. Srikrishna: Good evening all, it is good to talk to you all again. For those of you that are on the webinar we are going to start with Slide #number 4. We had a good quarter in terms of sequential growth. Beginning of the year and again at the end of our Q1 we said we expect to deliver robust growth through rest of the year. We also said that we will catch up on margins on an ongoing basis through the year so at least in this quarter we executed both of those; we had a robust revenue growth. We also had profitability that significantly outgrew revenue growth. We are at a stage now where we are delivering good quarter-on-quarter growth, but Y-o-Y numbers profitability metrics especially we will end up catching up on.

If you look at Slide #number 5 for those of you not on the webinar it shows you an analysis of where the revenue growth came from. A good chunk of it came from volume growth, 5.8% of the 6.6% growth came from volume growth and of course the positive calendar helped a lot which negatively impacted the last quarter, it kind of came back this quarter and we had some Forex tailwind and our bill rates in aggregate improved as well, so all of that led to the 6.6% revenue growth.

If you look at the walk on gross margin I know that while we did as well or better than what many of you expected on the revenue front and perhaps also on the PAT front our EBITDA was perhaps lower than what many of you had estimated or at least some of you had estimated. Hopefully this Slide #will help explain some of the underlying rationale for it, so three big factors that went behind altering our margin, we did grow the margins but it's in spite of three things that I will talk to. The first is visa cost. So last quarter we had about 400,000 visa cost, this quarter we had $ 1.3 million, so actually had better than expected allocation which is good and of course the visa cost went up for everyone and we do book the entire visa cost in this quarter in Q2, so we don't spread it during the year. It's good for us in terms of getting more visas but we have $ 1.3 million of visa cost which will not be there for the rest of this year. The second factor is that while our SGA you would have seen remained flat, we actually invested. Our SGA in absolute terms grew sequentially by almost $ 1.5 million and almost 1 million, very close to $ 1 million of this came in a very deliberate spike to build our new brand. The Shrink IT - Grow Digital strategy that we have been speaking about, we are formally launching it into the market, we changed our website early in the quarter and we did a number of things during the quarter around the world to promote our brand. A lot of what we did has long term brand building value but also has value in immediate pipeline building. And that was a deliberate effort for us and we wanted to do it earlier in the year rather than later especially as it pertains to the funnel building exercise.

The third factor again if you are seeing Slide #number 6, you will see that we lost 87 basis points or about $ 1.1 million due to utilization. Now our overall utilization went up a notch to 70% and we still have headroom to grow and I'll talk about that in a minute, but our onsite utilization actually went down in the quarter from 94 to 92. And this is a very deliberate thing so it was not operational inefficiency. There are two accounts, those are two of the three accounts that contribute to bulk of our revenues onshore, both of which saw a good amount of ramp up and both of them require a significant wait period onshore for background verification, like one of them requires 5 weeks, the other requires a little less than 3 weeks and because we saw increased deployment in both these accounts, we had a number of people, they were not on the bench but they were deployed to these accounts, they were waiting for their background verification to be completed. It impacted our profitability for this quarter but it clearly aided our revenue growth during the quarter but it will continue to aid our revenue growth going forward because not all of that impact of growth and revenue was fully realized in Q2. This 1.1 million just to be sure all of it is not from that but a good amount of it is from that. So if you kind of account for some of these our operational performance is quite a bit better and we expect to continue this journey of delivering reasonably robust revenue growth but then profitability outgrowing the revenue in the coming quarters.

Before I bow off this topic, a word on utilization, would it go up a notch, but that was in spite of the onshore utilization coming down so clearly an offshore we move the needle a little bit on utilization. We are still very committed to move it up to in the 72 to 73 range by Q3 which is what we had said last time so that is still very much what our goal is to move it up by about 2-3 percentage points by end of next quarter.

Slide #7 we said we will report on movement into top 20, movement in and out, so there are two clients that moved into top 20. Again these were not new clients that came in in the last year, year and a half, these are older clients but we have been able to grow them to a point where they are in the top 20. One of them is a global insurance company; the other is a global construction and mining company. We won $ 20 million in new TCV from new accounts this quarter. That's clearly lower than the 36 we reported last quarter but it does not worry me or anyone else in Hexaware, we have a very strong pipeline, there are a number of opportunities where we are in the final stages as a finalist with another 1 or 2 competition and we expect a handful of these to decide in Q3. So we very much think of booking on a full year basis and it's bound to have some lumpiness from a quarter-to-quarter basis.

While the left side of the chart describes the new ends, we have also actually decided to profile two wins in existing clients so that's not included in the 20 million but we thought it is important to talk about those because they reflect of our strategy. So first on the new client wins, the one on the top left hand corner for those who are seeing the Slide #8, it's a technology firm in the education space, it's actually a group of companies, a portfolio of companies which have 3 or 4 focus areas in education technology, K12, analytics, back office, hiring and all of these technologies are very much in the front-end digital technology into the interface directly with students. Many of them are in interface directly with students, gaming systems, learning base gaming systems and things like that. And so we are actually going to be their development and digital transformation partner, all of it is on agile global distributor delivery model. A good chunk of this work will be offshore but there will also be some near shore, I will accept, all of it is on agile and application development. It is a primary service line here, there is some testing as well.

The second new client is again proof point on growth, digital as in the first one, proof point on growth digital is to build a digital platform for interface of customers. Again this is completely on agile and this is for a company that runs serviced apartments on a global basis, very large company headquartered in Asia. The first one is headquartered in the US, this one in Indonesia, they run service apartments globally.

I won't talk to both the new clients wins but I'll talk to one because we think that that is an extremely important proof point of our Shrink IT strategy. While it's an existing client it's a new service line and where we displaced top 3 Indian IT competition, robotic process automation led BPO, medium scale complexity of the process and we are displacing like I said our competition but more importantly if the work is being done by 100 people and that's not the exact number but to highlight percentages we will end up doing it with roughly 50 to 55 people and about 15 robots and that's the transformation of the workforce to combination of human and digital workforce and we will run this, we are not just implementing the automation and walking away, we are actually running the people and the digital workforce as a managed service for a number of years. The reason I am pointing this out is because, and this is in the banking industry, we think that this type of work will grow materially in the coming years and right now the penetration depending on what estimates you read, there is going to be several hundreds of thousands of jobs, of people's roles that will get displaced by robots and the current penetration is in low single digits and we think it will grow materially in the next few years and being one of the earliest to have a demonstrable proof point in a banking world we think will put us in an extremely good position to capture growth in this space.

We do report on the client pyramid every quarter so if you look at really over the last year, there is some movement in the middle of the pyramid, the top pretty solid, there is one client moved from the 30 to the 20 bucket, it's on the borderline. We increased the (+50) bucket by 1 which is very solid for us and if you look at the bottom of the pyramid you are seeing that growth happening and if we grow a number of these upward, so the number of $ 1 million move 62 to 76 and the 1 to 5 moved from 43 to 62. And as we execute on better mining and improved mining on some of these and move some of these up we will hope to be able to deliver good growth.

While last quarter our top 5 clients did not grow well this quarter clearly there was a smart recovery. If you recall I had said that the big client which we thought decline, unexpected decline in Q1 we expect to see immediate recovery in Q2, catch up on our immediate growth for a Q-on-Q and catch up on Y-on-Y in a few quarters that is clearly being true that the client recovered quite smartly and as a consequence you are seeing good growth across the board in the top client portfolio.

Shareholder metrics, you guys are better at computing this, but I will say a word here about dividend. We announced Rs. 1 which is clearly lower than what we have done in the recent past for a few quarters. We had a stage in our evolution where we feel comfortable that we can digest acquisitions. We are also seeing a target rich environment and as a consequence while we will always be conservative about acquisitions from a financial perspective so we will always look to have acquisitions that are accretive we do want to start building up some cap tool for that and yet there is a desire to give back dividends, provide some yield on a quarterly basis. So we are really trying to strike that balance between retaining cash in the company and providing a quarterly yield and the result of that is the Rs. 1 that we announced. I have always said the way we think about dividend is what is the best use of capital if you don't have good use for it and give it back to shareholders. There's no change to that philosophy so we do believe that whatever we are retaining we will be able to put it to good use by, like I said, potentially making conservative accretive acquisitions.

Employee metrics we have spoken about utilization, it went up a notch, we are very committed to pushing this up 2 percentage points or thereabouts in Q3. Attrition had a marginal uptake, nothing that concerns us, its very range bound and we are happy. We are never happy losing employees but we are okay with where we are.

Quick cuts on where the growth came from. Geographically North America continued to do well and close to company average but in this quarter they were the slowest growing. Europe had a smart recovery and APAC I have been saying for a couple of quarters has begun to turn around for us with a new strategy where we stopped focusing on smaller NN deals which were revenue accretive for the year but didn't give us long-term value and instead started focusing on larger opportunities, so that strategy is beginning to work and we are seeing the turnaround in APAC.

From a sectoral perspective, manufacturing MNC had a very smart quarter. Remember we also have our single largest client reported within MNC sector, so in aggregate they had a very smart quarter. Banking finance and services was not that far behind, that sector has been our best performing one for a number of quarters and healthcare did pretty well to. This does not change our view that for the full-year we expect of BFS and healthcare and insurance to be the two verticals that will grow faster than the other two verticals.

From a horizontal perspective BPS and IMS are the two best performing service lines. That's been true for a few quarters especially BPS leading growth has been true for a number of quarters now. It's a direct proof point of our shrink IT strategy. Everything we are winning in that space is as a direct result of an automation lead shrink IT strategy. You are seeing our growth in digital assurance in analytics and application development is all as a result of the Grow Digital strategy. Of course, ADM has both components of shrink and growth, the support part is shrink strategy and the grow part is the AD. So we feel good about the fact that virtually all service lines grew during the quarter.

I wanted to provide you some quick numbers this is on Slide #15 for those of you who are looking at it off-line on Brexit and wage inflation. So Q3 is our offshore wage hike. It staggered during the quarter so the full impact does not come in Q3 there is a partial impact, there is a little bit incremental impact in Q4 and so the impact for Q3 is $ 600,000 on margin. Brexit, 5% of our revenues are in pound, so there is a $ 200,000 impact on revenue. A lot of it is also goes into local costs so there is some impact on margin but it's not material.

Finally, before I turn over to Rajesh for some commentary on cash flow and hedges and CAPEX, yesterday I completed two years in Hexaware and I wanted to give you like a view of what it was when I joined and what it is today. So for the Quarter 2 in 2014 to the quarter that just went by we were a little shy of 102 million revenue, we are little shy of 130 million in revenue this quarter. There's a little over 27% growth in revenue. We had about 16.5% growth in both EBITDA and PAT. This is excluding the RSU of cost; we clearly did not have RSUs in 2014. And our EPS, of course aided by the currency grew at almost 30%, so this has been our two year journey. We feel good about it. We recognize that our revenue growth has led margin growth so far. And I have always said that our strategy is to lead with revenue growth and that margin growth will follow. And we are now in phase where we think that it will be more balanced. Certainly in the next 2-3 quarters in fact it will be the reverse where we expect the margin growth to outpace revenue growth. But from a strategy perspective we still think we are in the early stages of implications of the Shrink IT - Grow Digital in fact we think it will be a number of years for us to fully realize the possible upsides in scale that can come to that strategy but we feel good about where we are in our evolution.

With that I am going to turn over to Rajesh.

Rajesh Kanani: Thanks Keech. I'll start with hedge position and the rates. Our hedge position is 153.96 million. This hedge is covered for two years, that is 8 quarters on rolling basis and major chunk is USD INR 143.18 million at a rate of 71.51, it is a very good rate.

Next slide: As you see Forex gain we had a handsome Forex gain of $ 1.8 million this quarter and going forward also we will have gain on 370 K and 430 K at an exchange rate of 67.525.

The next Slide on balance sheets updates: We have cash and cash equivalents of $ 47.1 million. This is slightly higher than last quarter. Our DSO has been 46 days which is one of the best in the industry and 74 days with including unbilled. As Keech said we have declared dividend of 1 per share and dividend amount will be 363 million in Dollar terms 5.38 million.

As far as CAPEX is concerned we have spent over $ 7.9 million or almost $ 8 million and for the year the CAPEX target is $ 40 million or 268 crores. As far as tax ETR is concerned it is 25.8% versus 24.2% in last quarter. The ETR has increased, so the major reason was one of our SEZ center tax benefit came down to 50% to 100% as it is in the 6th year of operation and also our income non- SEZ income has also increased.

I think with that I will hand over for question and answer session.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: My first question relates to Mr. Srikrishna. Can you help us with more color on the pipeline? You mentioned about it being strong for H2, some more color on either the verticals or how do you see this on a year-on-year basis whether it is double, some quantitative color as well. The second thing is you have mentioned on a comment that you see a more balanced growth both between revenue and margins so is it possible that from a CYO16 or a CYO17 perspective do we go back to the CYO15 levels of 17%? When do you see this transition? And thirdly when do you see the travel and transportation vertical which could start contributing to growth?

R. Srikrishna: Thanks Priya, that's a number of questions. I will try and quickly answer all of them. So pipeline if I compare year-on-year there is material growth. I couldn't put an exact percentage growth but it is materially different. Not just in terms of size but of the total pipeline but just in terms of the types of deals we are beginning to get invited to. Having been through this journey before I know that there is a series of glass ceilings that you break in terms of sizes of deals and types of deals, we certainly have broken one and there is a few more to go. So the aggregate size is substantially better but even individual deal sizes, the types and complexities of deals, the brand names of the organization that we are engaged with are all good. And like we had our actually spike even during the quarter because of all the marketing efforts that we did around the world, even that led to a little bit of a spike in it. I would say from a new deals perspective we have banking, manufacturing, healthcare all have strong pipeline. I wouldn't necessarily differentiate between those and those three will be in one bucket and travel, transportation will be in the next bucket.

Your second question was on margin. So we continuously expect to improve margin this year and what I had said is that our goal is to try and get back to that 17 for the full year and obviously Q1 we had a much lower than that goal and I said we will be a little be underrated in Q2, little bit overrated in Q3 and then catch up hopefully for Q1 and Q4 and that's the journey we are in, that's still where we hope to get to.

The final question on GTT, it's a slow sector. It's never been like fastest-growing for us or probably for that matter for anyone. So we don't kind of expect it to be the significant driver of growth for us in the near term, certainly not for this year.

Priya Rohira: What I read across more on the margins is that given the investments the effort is certainly there, Q3 will be stronger but difficult to comment when 17% is when we achieve, would that be directionally right?

R. Srikrishna: Our goal is get to that in aggregate for the current year. It's going to depend a lot on how will we do in Q3 and Q4, clearly that's not where we are today but we think we have the levers to get there. You saw of the three major costs that I described which is the 1.3 million visa cost for the current quarter, that will not exist in Q3 or Q4. Close to $ 1 billion in marketing, there will be some of it but clearly it was intended as a spike earlier in the year for demand generation. And the fall in utilization onshore, there will be sort of that in Q3 too but not quite as and there would be a sequential further fall. There will be some cost due to utilization, due to bench onshore in Q3, because we expect further ramp up in revenues but perhaps won't be quite this level, and of course, there are headwinds of wage hike that we already called out but in balance we still think that utilization we have the 2-3% headroom, so in balance we still think we have the levers left to push up our margins during the next and subsequent quarters.

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

Manik Taneja: Just trying to prod you further, the first question is on margins, so if you could help us understand what kind of wage hikes are we looking at, how are they structured and how should we think about this impact flowing through in terms of our financials over the next two quarters, that is question number one. The second question is with regards to our performance from Europe, so you guys have given the fact that our dependence on Europe essentially is lower than the industry and that's where our focus initially is to drive further traction in this geography, if you could help us understand on the investments that you are making and some of the headways into larger clients here?

R. Srikrishna: Wage hike, I did provide a very specific number, the financial impact is 600,000 for Q3. We haven't provided it yet for Q4 because there is also some onshore hikes that will come which we haven't decided on the numbers yet, so we couldn't provide an impact for Q4. On Europe, notwithstanding Brexit on a more longer term basis we think there is headroom for us to grow and we think there is headroom for Europe to outgrow Americas. So one of our investments we did expand our sales presence, we invested in creating a delivery center in Bucharest, that's not quite ready yet, there were some regulatory clearances that took slightly longer than anticipated. It will get ready in Q3, so that's an important investment for us because clearly being able to deliver within EU is important for a number of reasons. But we would continue those the same direction that we anticipate in a long term for Europe to outgrow US.

Manik Taneja: The other question was in terms of the significant hiring that we are seeing from your side on the sales and solutions team, if you could give some sense in terms of the kind of talent that we are hiring over here because that number over the last 5 to 6 quarters has seen a material change.

R. Srikrishna: So this quarter actually the biggest chunk of hiring into that team was the B School Grads, there were 27 of them that came off campus and they are all from top schools in the country. They are in a number of areas but the two chunky areas where they are focused on, both are related to process, so one is in process from a digital perspective on process re-engineering, the other is from a process perspective on robotic process automation, so to help define to be processes, lean them out and then help with the RPI implementation. So those are the two major areas in which that cord has gone, that not all but those are the two chunkiest areas. So that was the biggest kind of increase this quarter. There were some of those two but that was the most significant portion.

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

Shashi Bhushan: The performance across client bucket has been very strong in this quarter, can you please highlight some of the efforts that has started fructifying in terms of client mining that we have taken recently?

R. Srikrishna: We took a number of actions about a year and a half ago. So there is nothing new that we have done, it's a continuation of that journey. So we strengthened our account management team. We empowered them more, we kind of gave for the larger accounts dedicated architects and pre-sales teams for the most important service lines, we have brought in third party to measure customer satisfaction which we can use as an important tool to kind of fine tune our approach to each individual client, so all of those have been in place for a year and a half or so, of course we are executing better of those. Frankly the client growth has been good almost consistently over the last one and a half years. Last quarter was a significant aberration and we spoke enough about that but particularly outside that this has been true, we have been executing well on growth here for a few quarters.

Shashi Bhushan: On the pipeline, can you give qualitative assessment of pipeline if we are going to have a stronger CY16 compared to CY15 in terms of total deal closure?

R. Srikrishna: I did try and characterize it in a number of different ways in an answer to the question that he had asked upfront, is there some other specific aspect that you would like me to elaborate on?

Shashi Bhushan: The size of the deal pipeline, does it give you some idea that CY16 is going to be stronger than CY15 in terms of deal closure?

R. Srikrishna: That's what; I couldn't predict closures and how much we will win. It's very competitive but the universe pipeline basically known as materially larger, like I said not just in aggregate size but also quality of the types of deals, types of accounts we are engaged in and individual ticket sizes are all better.

Shashi Bhushan: Two bookkeeping questions, you talked about striking a balance between dividend and acquisition, what is the stable payout ratio that we should assume and what are gaps that we are looking to fill out through acquisition?

R. Srikrishna: The dividend policy is that we will evaluate what is the best use of capital, so we are not kind of committing to a number forever but we think this is a good balance where we are at right now what we did this quarter, we think it's a good balance, of course, not sure the stock market hasn't really liked it so far for today. ~~But we think it's a good balance~~. We do think that what money we are not giving back will ultimately yield better returns than the money we are giving back. But yet we are going to dividend out this amount, this is what we think is good balance. Second part of your question what areas are we looking at acquisitions, really is no different from what we were looking at before, we spend some money a little while ago to bring in some expensive consulting effort to validate some of the hypothesis, so have zeroed in on some areas, some micro verticals and some services within healthcare and banking, so those are the two broad verticals but really we are not looking at it that broadly, it's far more narrow than that but I couldn't share that in public what those micro verticals are but healthcare and banking are the two areas.

Shashi Bhushan: Our cash yield is slightly lower than our peers, any specific reason for that and any plans to improve it?

R. Srikrishna: We have had a very generous dividend policy; we have not really chosen not to keep cash that we don't need in the business.

~~Management~~ Rajesh k: I think we are very comfortable with this kind of bank balance. We will be able to manage our cash flow very efficiently.

Moderator: Next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: We are seeing an increase in traction in onsite, last couple of quarters onsite revenues have been growing higher, so would that continue and what is the implication for margins?

R. Srikrishna: We have spoken about this a few times that I expect to see the growth in onsite will slow down there is still the expansion on onsite, we expanded it quite a bit last year. We expect that the growth will slow down, but even if it grows there is going to be some margin impact but then we spoke about all this are the tailwinds, we are going to manage it in aggregate, we think we'll be okay. Some of the new deals, both the deals that we won this quarter are largely offshore but some onshore or near-shore but it is largely offshore, and it's clearly focused for us to increase win on more offshore heavy and more offshore centric deals.

Madhu Babu: Second thing, would the same momentum continue in 3Q, the growth momentum on revenues?

R. Srikrishna: We expect to have a robust H2.

Madhu Babu: Could you talk about our recent partnership with UiPath and also about Blue Prism and how we are leveraging those partnerships for BPO?

R. Srikrishna: Both those and automation anywhere and work fusion, those form the four partners we have in robotic process automation. Our strategy really is that we are seeing some of our competition aligning themselves to platforms they have built or bought. We think that is a flawed strategy. Our focus is very sharply on delivering valued clients and we will use the best available technology to do that and today we think different use cases, the reasons there are four, is that each of these have some unique strengths and they fit different types of use cases and that's the reason we partner with all of them and we will continue to play the strategy that we are not going to own technology but we will buy it. We also think that the cost of this technology will keep falling.

Moderator: Next question is from the line of Deepan Kapadia from Edelweiss. Please go ahead.

Deepan Kapadia: We had aspiration of growing at 10-12% in CY16 that looks a bit stressed. Do we still aspire or do we still see that we could grow at those numbers?

R. Srikrishna: I want to recount everything I said about top-line growth. At the beginning of the year we said we aspire to grow at the top end of the industry which would then be the numbers that you said. But remember that the industry numbers itself is a moving target. Last year the industry did not do what they thought they would do at the beginning of the year. I don't know whether they will this year or not, unlikely they will, unlike the industry growth. At the end of Q1 we said the growth expectations have slightly tapered from there. Between what we said end of Q1 to now there is no change, to expect to deliver robust growth for rest of the year, I will still say we expect to be in the upper end of wherever the industry will end up being for the year.

Deepan Kapadia: On the margin front will it be right to comprehend that you will be easily be able to take out the cost or the impact of the margins next quarter by the help of utilization?

R. Srikrishna: I explained all the levers, I will do it once again, so on the positive side the fact that we had a seasonal cost in visa this quarter of 1.3 million. It was incrementally 60 odd basis points we had in last Quarter 2 and that will not exist in Q3 and Q4. We had a close to $ 1 million spend in marketing; there will be some in Q3 and Q4 but it's not anywhere near this magnitude. So both those are our tailwinds. There was a fall in utilization on onsite due to ramp-up in a couple of clients that magnitude will reduce. We do expect for the ramp-up in Q3 but the magnitude will reduce. And utilization we think there is a 2-2.5 percentage points headroom, so those are our levers to grow. The headwind we have is the wage hike and a little bit of Brexit and to the extent that there is still a little more on-site growth so that's the other headwind. So in aggregate our profitability will grow faster than revenue for the next two quarters.

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

Ashwin Mehta: You had earlier indicated that almost all of your growth will come in from 2Q, 3Q with 1Q and 4Q not necessarily contributing significantly. Would the seasonality be similar or we expect any change to that?

R. Srikrishna: So it's kind of early to be more specific on Q4 but what we know now really is that outside of furloughs which you don't know about, we actually expect to have a good Q4 too.

Ashwin Mehta: In terms of banking and financial services, that's been a segment that's been driving growth for us. How are you seeing demand there and any impact in terms of any discretionary pullbacks or delays in terms of decision-making that you have started to see?

R. Srikrishna: I assume that question is as it pertains to Brexit, is it or is it a more broad one?

Ashwin Mehta: Yeah it's a more broader question in terms of not just the European banks because your exposure there is much smaller but from a large bank perspective or asset management company perspective any pullbacks that you have seen or discretionary rated pullbacks that you have seen?

R. Srikrishna: No, not on this segment, I mean we are in really three and growing in the fourth, we are in capital markets, we are in secondary mortgage, we are in leasing and we are growing fast in banking and the growth in banking is largely premised on…..so we are not incumbents in that segment. So that segment's challenges represent an opportunity for us so that's on the retail. The other three we are not…. asset managers there is always kind of high sensitivity relative to overall market performance. But nothing out of the ordinary we are not seeing slowdown or pause in any material manner in those three leasing, mortgage and capital markets.

Ashwin Mehta: I just had two bookkeeping questions. First is in terms of what were the subcontracting expenses this quarter and secondly what is our expectation on tax rates going forward?

Rajesh Kanani: Subcontracting cost is basically third-party cost and we have the contractors when we needed. Lot of other travel and those kinds of expenses are there. We aggregate that for schedule 6 purposes. As far as ETR is concerned I think we have seen 25.8 this quarter so it will hover between 25 and 26 in coming quarters.

Ashwin Mehta: But we haven't seen any material jump in terms of subcontractor expenses which were around 12% of sales last quarter.

Rajesh Kanani: You have not seen the jump or you…?

Ashwin Mehta: Have we seen any jump in terms of subcontractor expenses which were somewhere close to 12%?

Rajesh Kanani: They are in line with the revenue growth that's what I can say.

Moderator: Thank you. Next question is from the line of Ruchi Vurde from Emkay. Please go ahead.

Ruchi Vurde: In Q1 our ESOP expenses stood at 1.1 million moving to Q2 ESOP expenses were 0.7 million, going ahead how do we see this line item moving?

Rajesh Kanani: ESOP cost will be somewhere around 950 K around in Quarter 3 and almost 800 K in Quarter 4, that's what we see right now.

Moderator: Thank you. I now hand the conference over to Mr. R. Srikrishna for closing comments.

R. Srikrishna: Thank you all. That was pleasant that we finished a few minutes before, a number of times we have had to go on for up to 20-30 minutes more. So wonderful, thank you all and have a great weekend.

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