"Hexaware Technologies Limited

Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Latika Gidwani from Hexaware Technologies Limited. Thank you and over to you Madam!

Latika Gidwani: Thank you, Karuna. Welcome to the Hexaware quarterly conference call. The safe harbor is present on the Hexaware website, I shall take that as read. We shall be running you through a presentation today. That presentation is also available right now on the Hexaware website. So from Hexaware, we have with us Mr. R. Srikrishna, CEO and ED; Mr. Ashok Harris, President, Global Delivery; Mr. Rajesh Kanani, CFO. With this, I hand over to Keech. Keech, over to you!

R. Srikrishna: Good evening, everyone. We also have a fourth person with us. Those of you that read our press release would have seen that we appointed a new CFO effective tomorrow. He is Vikash Jain. Vikash joined us about 1.5 month ago, a little over 1 month ago, as the Deputy CFO. Rajesh is actually retiring later this year. So Rajesh is going to continue to mentor and help Vikash settle into his role through the end of the year. But Vikash is going to take over effective as the CFO from tomorrow. So I want to, before we get into usual business, I want to allow Vikash to say hello to you and introduce himself.

Vikash Kumar Jain: Thanks Keech and hello everyone. Extremely excited in terms of joining Hexaware. It is an interesting time for us in the industry and particularly in Hexaware and the way we have been performing year after year. I am looking forward to working with the leadership team and all the stakeholders in terms of driving the shareholder value creation. Extremely excited to be here and with that I will pass it on now again back to Keech for the Q3 update.

R. Srikrishna: Thank you, Vikash. Welcome. So we had, I think, a great quarter operationally in Q3. Little bit average quarter on revenue, a little bit inverse of what happened in the last quarter. For revenues grew reported at 1.6%, constant currency was at 2.1%. But below that metric, everything else grew solidly. Our each of the metrics below outgrew those. We had EBITDA growth of 8%, over 9% after ESOP cost and ultimately that and EPS growth at 12% quarter-on-quarter, so robust operational performance.

Before you have questions, I am sure there will be on it that our revenue was not up to our expectations our revenue growth. There were actually four sets of reasons behind it. There were some unseasonal furloughs. We expect to get furloughs and budget for them a little bit on Q4, but we had one client that actually had a substantial amount of furlough in Q3. It is quite unseasonal, so and that was not expected or planned for. We lost some Euro cross currency, approx 50 BPS we lost due to cross currency and that is of course we had lost some in currency in the previous quarters too but this quarter, from the previous quarter now we lost 50 bps. We also had there are at least two largish kind of transitions/ramp-ups that have got delayed in terms of final sign-off from clients and going live. This is not due to execution issues on our side. One of them is awaiting regulatory approval and other is just some other issues so both those revenues have been lost for the quarter. They will come in Q4, but they were lost for the quarter.

Finally, it is something that I have spoken to some of you one-on-one in some of the meetings we had that we are beginning to see potentially a set of challenges around supply side for talent in the U.S. So while demand was actually very strong, we had challenges in being able to execute from a supply of talent perspective in the U.S.

You will see the impact of this in some other ways in that our actually margins have improved, one of the reasons is that the mix - offshore mix has increased. The reason the offshore mix has increased is not because there is demand to have actually we have not been able to fulfill all the demand that we had onshore in the U.S. This is, of course, a combination of white-hot labor market, which makes it hard to hire talent. We have actually this is made our attrition pickup, and it is also some of the issues pertaining to the visa regime. So it is a combination of all factors, very tight labor market, more difficultly in the visa programs and a uptick in attrition, which has led to our you know while demand is strong, revenue lower than anticipated because we could not fulfill that demand. So that is kind of the four sets of reasons, which led to what we thought should have been the revenue, it is lower than that, these are the four reasons for that.

The revenue increase was driven materially by volume. For those of you who can see the chart, Slide #6, if you are seeing it offline, you will see that there was a good more than 8.5 million that got added on volume and then we lost due to furlough, calendar, mix, cross currency, so all of these and some on bill rates and then ended up with what growth we did but there was even after accounting for the furlough, calendar and mix, there was 2.7% volume growth.

Margins, we had a great quarter operationally obviously, forex helped a little bit but that was not the only thing that we did well. There was a reduction in cost in H-1B, which was there seasonally it is there in Q2 not there in Q3 so that helped, utilization improved. Even as we have hired an enormous number of people, our utilization has improved, and calendar was a headwind as was the bill rates, which you saw in revenue, the same issue is a headwind in margins as well. And we did our increments on schedule so the way our increments work is that it is staggered during Q3 that is some people will get August, some will get September, some will get actually from October, so you see partial impact in Q3 and full impact in Q4. So, the partial impact on Q3 is there here that took off about 20-odd bps for us. So that is the overall kind of puts and takes from a margin perspective.

The one thing I do want to call out here, I did say utilization has improved even though we have hired an enormous number of people. So those of you who do even the smallest analysis will quickly realize that our headcount has grown faster than revenue growth has, and that is because there are actually a number of projects with large number of people in transition. So the people are not in bench, they are in transition. They are not realizing revenues yet, and that is the reason why you are seeing that the headcount growth is considerably ahead of the revenue growth that you have seen so far.

Our top 20 accounts are a little bit of the usual ins and outs. We will spend a little bit of time on the pyramid as always and on the client that the concentrations at the top of the pyramid. So those of you who are seeing it offline, Slide #9. So on the top, it remains same, 50-plus million clients, we have 3, we have had 3 now for a while. I think there is a reasonable chance that we will break a higher category in 2019 because some of these are kind of breaching or not far from the upper edges of this 50 million to 100 million category. 30 million to 50 million, we do not have any. 20 million to 30 million, the one has fallen off, but it is on the border and what you see is that $10 million to $20 million has gone up by 2. In the medium term, what we anticipate is that we will be able to build 1 and maybe 2 accounts back into the 30 million to 50 million bucket before 2020, maybe earlier. But that is certainly something that is highly likely given what we are seeing apart from 1 account from the $50-plus million moving into the $100-plus million category.

It is the bottom of the pyramid is very robust, 10 million to 20 million went up 4 to 6, 5 million to 10 million, some quarters ago, there was a lot of concern with some of you that this 5 million to 10 million pocket has actually reduced, now you are seeing that that is gone up over the year materially from 9 to 15 clients in this bucket, and the 1 million to 5 million is also a smart increase from 64 to 70. The client concentrations have actually kind of fallen a little bit because the contributions at the top for the growth rates, at the non-top 5, 10 clients are faster and so you are seeing that the concentration has fallen a little bit in top 5, top 10 and top 20 clients.

We had 25 million of NN wins in Q3. There is a large bank, there is an energy company actually, it is a gas company, a knock for them and we cracked our first deal in the Finnish market. Nordics is something we have been knocking on for some time. We had an anchor client in Sweden that we won some time ago. And this is actually our first client in the Finnish market, something that we think is significant because we think it will help accelerate our penetration in the Finnish market going forward, the first was the hardest.

As we, a word on our pipeline, where it is, we have a really solid pipeline. We expect to finish the year very strongly based on current visibility over the - really the next 60 to 70 days. We expect to finish the year very strongly. We expect to exceed cumulatively for the year what we did last year for sure right, that is what we expect. Of course, with new deals, you never know until it is signed but the outlook is very, very strong in terms of what we expect to do in Q4.

Employee metrics, we already spoken about utilization even in the phase of lots of employee hiring, our utilization has picked up. Attrition has gone up a little bit sharply, 15.7%. We do not like where it is. We think it is reflective of input demand, and more importantly, in the U.S. at least a very tight labor market. So in the past, I have said that in this range we are quite comfortable with the attrition where it is. We are now saying that we do not like where it is at 15.7%. So we have active measures to get it back to a tad lower into 13% or low 14%.

From a vertical geo and horizontal perspective, Europe led the growth for us so North America, first of all, is back to being at or a little bit higher with company average growth. That was not the case last quarter, and there was some, rightfully, there was concern, with the biggest market slowing down. It is still not great, 2.1%, but it is pickup from last quarter. Europe is on a great path and frankly, this is reported currency actually, they lost money on currency their growth in constant currency even better. But you see numbers, those of you who are seeing the slide, 30% year-on-year growth, 6.5% Q-on-Q. In fact, I did say last quarter, there was a project that got ended that whatever little bit of revenue was of that was there last quarter that also ended that is zero essentially this quarter. So it is that net of that deal it is growing so you will see Q-on-Q growth back from next quarter in APAC.

On the vertical side, H&I and M&C have been really outstanding performance for us through this year and that continues for H&I this quarter. M&C this quarter was not great because of one client not spending as much as we expected but even then their Y-on-Y growth is solid.

From a horizontal perspective, IMS continues to lead the growth for us, very robust. You can see high 40s% year-on-year growth and 10% sequential growth. Lots of our horizontals are on solid Y-on-Y growth. BIBA is on solid growth. ADM is on double-digit growth. BPS has been slowing down Y-on-Y growth, but again, a lot of the transitions I spoke about are actually in BPO space, so we expect them to have smart growth. A little bit in Q4 because some of those revenues will not come fully in Q4. Q1, Q2, you can see them return to some pretty smart Q-on-Q and Y-on-Y growth.

With that, my final slide, we are going to update our guidance. Unfortunately, on the revenue, a tad downward, so from 12% to 13%, we now expect to do 11% to 12% because some of the revenue that got impacted in Q3, that is not coming back. It is too late in the year for us to make up in any meaningful way for it. And of course, a part of this reducing the 1% is also due to currency, almost half of it is due to currency. The other half is the factors that I laid out. So we expect to do 11% to 12% on reported currency. EPS, of course, we will do a lot better. I mean, we have said last quarter 13% to 14% EPS growth will be well north of 20%, will be north of 20%. Based on the current currency, currency is really volatile but based on current currency, that is what we expect will happen.

With that, I am going to turn over to Rajesh for a quick update on some additional finance matters.

Rajesh Kanani: Thank you, Keech. I will start with the financial update. I will start with the revenue, even though Keech has stated earlier that our CC revenue is

2.1% higher on Q-on-Q basis and 11.8% on Y-o-Y basis. Our revenue growth for the quarter-on-quarter is 1.6% and 11.1% Y-o-Y basis. In rupee term, our growth is 6.4% on Q-on-Q basis and 21.8% on Y-o-Y basis.

Now coming to the outstanding hedge position, I think we have hedged 192.94 million hedge outstanding, out of which USD-INR is 170.40 at an average rate of 70.81. EUR-INR are very small numbers.

The forex gain/loss for the Q4 at Rs.72.49 per dollar will be $1.27 million loss. In Q1 2019 also we see a loss at the same rate.

On the balance sheet side, update is that we have cash and cash equivalents of $100.6 million. DSO has been at 83 days as of September-end. But we think the higher DSO was on account of some of the collections, which has not come at the September-end, but they have come in the beginning of October. So if you see, we have come back to a position where we were running our DSO coming, going forward, we will be very low, as usual, earning around 75 per day. Dividend is Rs.2.5 per share. ETR is at 19.1% versus 20% that is primarily because of increase in business in SEZ and result in tax benefits.

Capex for the quarter was $2.4 million in the quarter 3 and $6.4 million at YTD. Even though we have budgeted $17.5 million capex for 2018, that is we should end the year with capex of $14 million.

With this, I will hand over for question-and-answer session.

R. Srikrishna: Just before turning up, to clarify, the DSO went up, but actually, there is a material amount of collections that happened literally in the first week it is already happened first week of the quarter. So it is kind of back to at this point a more normal level of what we have on a cash level. Also there is actually capex if you heard, we are going to spend actually a fair bit of capex in Q4. This is to expand build additional seats in our Chennai campus, and also, we have taken a new rental facility in Mumbai as to furnish that facility in Mumbai. So that is where the capex is going in Q4.

We will now take questions.

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 Gaurav Rateria from Morgan Stanley. Please go ahead

Gaurav Rateria: Keech two questions. Firstly, on the demand side, you said that there was some demand, which could not be met because of supply-side issues. How big was that? Was that also a key reason for revenue being softer this quarter? And second question is that what, you talked about some measures you have taken to address the supply-side issues could you elaborate a little bit on more on that and will that have any cost implication going forward?

R. Srikrishna: Sure. So I mean, I did say, yes, it was a key reason for softer-than-expected revenue is supply-side issue. So yes, there was demand that if you had fulfilled, it is never that we can fulfill all the demand on time. But if we have done what we do usually, we would have had better revenues for sure. So yes, it was the reason. Can we quantify it? No, we are not quantifying it. In fact, it is sometimes hard to put an exact number to it. What are the measures we are taking and will that have a cost impact going forward? I think couple of measures we are taking are to be the higher cost, if needed, yes, to that extent there will be some incremental revenue lower onsite margins. We are taking that in a very conscious decision to protect market share and revenue growth at this point of time. Our belief is that if that labor market situation and the unemployment rate in the U.S. continues, we believe we will be able to negotiate better prices with the clients. So on that hypothesis, we are beginning to essentially lower our thresholds for margin in the short term with the assumption that we will be able to make it up through improved prices. That will not happen overnight with large clients, but that is the assumption. We will also put in other measures that the visa situation has already caused increase in costs for us. That is been happening now because we are applying for renewals more often than we did before and each time you have to reapply for a visa, there is cost to apply and then the salary may also go up because it is on a different skill and a different basis. So some of that is already in our system, but we may do what is happening and one of the reasons for uptick in attrition is that there is a lot of uncertainty with people on visas. There is no saying they will get a renewal or not, it is going more often for renewals than before. And when it does, there is less certainty than it will happen. So there are some mechanisms that we have put in place to address that, which will also have a little bit of a short-term cost for us. But we think it is well worth the money that we will spend on it. So yes, there will be some short-term cost impact, but nothing huge. And nothing that we think we cannot recoup in the long term and some of it through improved pricing from clients.

Gaurav Rateria: Keech, if I can chip in one more. You talked about threshold margin if you could layout what that threshold is for you? And secondly, you talked about the unseasonal furloughs, Is that a reflection of the macro environment or you would call it as a one-off situation?

R. Srikrishna: So the nonseasonal furloughs are one-off. That was a U.S. client. Macros in the U.S. are very strong at this point of time. So you know that better than me. It was one-off. Actually, we have two clients specific. One had a very specific, they had a milestone anniversary for the company so they decided to essentially give a week off to their employees, and they also furloughed all contractors and another was a one-off. So on other question, margin thresholds, we do not disclose that. Whatever I am telling you gets written up on our website. So we do not talk about what our margin thresholds are in public.

Gaurav Rateria: Thank you.

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

Madhu Babu: Sir, last year, we have been almost the leader in terms of growth, and this year has been a bit of soft patch. So considering the pipeline and the outlook what we see, do we see a bounce back next year in terms of momentum?

R. Srikrishna: Even from Q4 and certainly from Q1, you are going to see an accelerated kind of Y-on-Y growth. We have those two client-specific issues that will essentially fully recede after Q4, a lot recedes in Q3, but there is some overhang in Q4. So 100% full out of that impact comes in Q4 and that just that in itself will improve our YOY growth. So it is still a little too early to provide a full view. We will, next call, provide you a guidance for next year but at this point we anticipate it to be a better year. If nothing else because of the fact, that we have the overhang from the client-specific issues would have gone.

Madhu Babu: Second Sir, if you see the results of most of the IT companies, all of them have shown an uptick in subcontracting costs and with the visa issues have been mentioned. So are we saying that the 3-year, after the 3-year, the renewals are getting tougher for the H-1B visas?

R. Srikrishna: They are and actually they are not getting renewed for 3 years at this point. So if you have got this from others, one of the changes that happened is that they do not even if they renew it, it is not for 3 years, it is renewed for the duration of the project.

Madhu Babu: Okay. So the renewal is very shorter duration, so...?

R. Srikrishna: Yes.

Madhu Babu: Okay. And just one more on the travel vertical, that has been volatile if you see the trend over the couple of quarters. Is that the client-specific issue, which is leading to the volatility, or any other issue there?

R. Srikrishna: Yes, so the APAC and travel transportation are linked. It is the one client in APAC with a large project, cloud project, very large, which essentially you know mostly came to an end last quarter, there was a little bit in last quarter that fully came to an end, so they are linked.

Madhu Babu: Okay Sir. Thanks.

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

Sandeep Shah: Thanks for the opportunity. Keech, just first question is there are lot of negative surprises versus your own expectation on the revenue growth but if we look at the margins, it does not been more than ours as well as maybe your expectation. So despite negative surprises on the revenue, your utilization had actually gone up despite you are citing some volume growth issues as well as there is a good addition of employees, which is happening for the last 3 quarters as a whole. So what explains this as a whole?

R. Srikrishna: First is, I mean, we have had solid volume growth even now. It would have been even better for some of these. The headcount addition not being reflected in revenue, I already explained that, I will go over it again. There is actually quite a number of transitions which are in flight and there is a lot of people who are in those transitions, and they are not in revenue so that is why you are seeing the revenue growth, I am sorry you are seeing the headcount growth getting ahead of revenue growth. So they are in transition. To be clear, if it is material, and some of these are, their cost of the people in transition is not, is accounted for to match with the revenue cycle. So when the revenue starts is when the cost of them will also start. But they are there in the company, they are employed, they are willfully doing transition work. But it is neither been seen in revenue nor in costs or in utilization what you are really seeing is they are only reflected in the total headcount right now.

Sandeep Shah: Okay. And just the ramp-up of the deals, which are got delayed, can you give us the color of those clients in which segment it was and which geography it was? And as well as the furloughs with 1 client or it were with 2 clients because you said?

R. Srikrishna: Actually, it was 2. I did, so one of the clients had milestone anniversary year. And if I say what milestone is, you would start guessing which client. So they had a milestone anniversary year. So they decided to kind of give time off to their employees. So that was kind of known to us before, but we decided was to also in the same time furlough, I think, contractors and partners and there was another one. So you had another question.

Rajesh Kanani: Ramp up.

Sandeep Shah: Yes.

R. Srikrishna: Yes, clients with the ramp-up. So across sectors, we have one going on, actually, we have two going on in FS. We have one in healthcare and we have one in travel. So there are some smaller ones but I would say from larger ones, there will be 4, so it is across sectors and of these 3 are in the U.S., 1 is in the APAC.

Sandeep Shah: Just last question, in terms of wage inflation coming into the coming quarter, plus there could be some fourth quarter, the 1Q wage inflation come for the onsite employees, plus you also said that some of the measures you are taking in terms of fighting with the supply-side issues, may have some short-term margin implications. So where do you see your comfort level in terms of a margin at least for the near term?

R. Srikrishna: I mean, the Q3 is always a little bit of a high watermark for our margins and that is why I always say, whenever we give guidance also I say look at our full year average margins. So I think what we expect will happen instead little bit under Q3 is what the Q4 will be that is also because of the usual seasonal factor, the furloughs, the calendar days being lower, on top of that, some of these additional aspects and the wage increase will impact, all of that it will be lower than Q3, but higher than the Q1 and Q2 numbers. I want to clarify something. You said Q1 we will have onsite wage increments. Actually, last year, we advanced that cycle from Q1 to Q4 so actually, Q4 will have full impact of the offshore employees and onshore employees coming and that will be about 50 bps impact between Q3 and Q4, just on the wage increment.

Sandeep Shah: So Keech, when you say attrition, you are not comfortable and if we look at the total impact of the wage because this quarter was marginal and you are saying Q3 will have a full wage impact of just 50 bps. So on a annual basis, it looks like less than 80, 90 bps. So is it enough or you to have to look at some other measures?

R. Srikrishna: See what happens is that every time there is a renewal for visa in onsite, there is actually an increase that happens. So there is essentially a lot of increase at least for a category of employees who are on H-1B has already happened it is already in our numbers. It happens other times when we apply for renewal, there is a different category under which you apply and there is a different salary that it has to be applied for. So in aggregate, it is not but it is not sufficient, but a lot of increase has already happened. It happened much before the cycle started.

Sandeep Shah: Thank you. If I have more, I will come in the followup. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Thanks for the opportunity. Sir just a couple of questions about if one look at the deal win, our first nine months seems to be lower than last year so can you provide some colors about deal win and the momentum? How you see overall pipeline and translate into actual win kind of thing and your win rate? Second question is about the enterprise side. Last year, we expected enterprise to now start contributing to growth. For last couple of quarter, I think, it is yet work in progress kind of thing we are not seeing concrete results. If you can provide some more details about how we look Enterprise Solutions to play out? And third is about BFSI. I think BFSI growth trajectory remains softer for us. If you can provide some colors there, outlook and other thing?

R. Srikrishna: Just to answer the questions in the reverse order you asked often. On BFS, actually the BFS is for us two of our top 5 accounts are 100% onshore accounts in BFS. So all of the challenges we just spoke about of supply-side challenges in the U.S. pertain to other accounts too, but the biggest impact of those is in these two accounts and hence, the biggest impact from vertical perspective is for BFS. So that is on BFS so demand in BFS is actually quite a bit stronger than the growth numbers that you see here and like I said earlier, hopefully, we will fix it soon. On the second one was on ES. For ES, we have seen a little bit up and down, we certainly seen improvement since we have got in new leadership, we saw some quarters of positive growth. It is still not on a sustainable path that is for sure it is still work in progress but we are very kind of pleased with number of things that have happened. It may have got lost in the rest of in our financial numbers today, but we made another announcement about a partnership with Microsoft earlier today. So Microsoft, we are one of their few 360 partners. So, it is a global strategic relationship partnership with Microsoft. It is primarily focused around cloud, Azure and within that there are a number of focused joint go-to- market initiatives on a focused set of services. In those services that we have identified as high potential joint go-to- market within this relationship, many of them are in the ES space. And among other things, as we start to execute on that, we will also improve ES, there are other things also happening, it is not the only thing, Microsoft partnership, but it is a net new thing for us, the Microsoft relationship, it just got announced today. Your first question was on the deal pipeline. So I already said that we have very robust pipeline, both long-term and near term. We at this point while there is not certainty on new deals ever, but our strong expectation at this point of time is that we will close the year better than last year so which means we have to have bumper Q4, which is what we expect, a lot of years actually Q4 tends to be the best quarter. We will get worked on through the year and customers want to finish up and get it into their budgets. They want to finish up in Q4, so they can realize value in the next financial year.

Dipesh Mehta: Just to follow-up on the deal part. So you expect this year net new deal win to be better than last year for the full year?

R. Srikrishna: Yes, we do.

Dipesh Mehta: And have we seen any change in our win rate and our proposition perspective overall, if you can provide some details there because first 9 months, it seems to be no different than last year.

R. Srikrishna: That is correct and however, like I said, we expect to finish the year higher than last year, which means bumper Q4, which is our current expectation. Do we see changes in win rates? Yes, I think we have this gradual journey going. I think more than looking at win rates it aggregates how we like to think of it as win rate by size of deals. So I think we are certainly seeing an improvement in win rate in larger size of deals. I spoke last quarter about the fact that while we do not report on EN wins, I spoke about two things, which I think bears the attrition. The first is that we had two material EN deal wins. The second is that we are seeing a dramatic improvement in our EN pipeline and that the improvement in the EN pipeline is underlying causes for factors. We have improved our capabilities to service customers on a broader range of services. We acquired over the last four years a set of higher quality customers where the headroom to growth is higher. Our account teams are able to more consistently carry the message with greater conviction about our full range of capabilities and as a consequence of all of these, customers have started recognizing that we are a changed organization, and they are willing to invite us into their largest and most complex deals. So I think what we are seeing is an ability to win larger deals, which will first come in EN and then go to NN and we spoke about two of those last quarter in EN, and we have more in the pipeline, which some of those some of it which at least we will win.

Dipesh Mehta: And the delay, which has seen, is not part of EN, right the two deal, some of the delay in revenue booking and other things?

R. Srikrishna: Actually, we are. So the four ones I covered, one is NN, the other three are EN.

Dipesh Mehta: Is part of the two large deals, which we last quarter, announced?

R. Srikrishna: Yes. One of them, of those two, one has given us revenues so far the other one, there is partial.

Dipesh Mehta: Thank you Sir.

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

Ashwin Mehta: Thanks for the opportunity. Keech, in terms of your guidance for the year, essentially for the next quarter it is a pretty wide range, almost 1% to 4.5% so essentially, what factors need to play out for you to be at, say, the higher or the lower end of this range?

R. Srikrishna: Furloughs. The single factor that will make the biggest difference as to whichever the range we are in will is furloughs.

Ashwin Mehta: Okay. And secondly in terms of the supply-side constraints that you are talking about, is that resulting in much higher onsite attrition? And are some of the players starting to play disruptive in terms of, say, transfers on visas or poaching onsite and is that also a factor?

R. Srikrishna: So yes, our onsite attrition has kicked up. Like I said, the supply side is a concoction of three sets of issues. It is just a white-hot labor market, it is visa issues and it is higher attrition, so it is all three put together. And yes, as a consequence, people hire from each other.

Ashwin Mehta: In terms of the two BFS accounts that you were talking about, which are largely onshore, so are these staffed with the largely locals or it is possible to staff them with H-1B resources as well?

R. Srikrishna: So we have a mix. We actually have a mix of on locally hired, people from H1 but we also have a third category of people from our Mexico center, which is a different category visa.

Ashwin Mehta: Okay, fair enough. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Thanks for the opportunity. Keech, one of the other pointers that you had been highlighting earlier not in this call, but in terms of strategic outlook was also on probably the inorganic foray and some of those investments that could come through. So just wanted to know as to, are we looking at some something like that fructifying in the more immediate future? And secondly, how would it change the outlook on the payouts, if at all?

R. Srikrishna: So one of my colleagues kind of used this phrase, and which I think aptly describes how our philosophy and our approach to acquisitions is. So he was quoting Dhoni from an interview after the 2011 World Cup, after India won, but really Dhoni was asked about, "Hey, how much did India want to win this?" And Dhoni said, "We were very keen, but we were not desperate." So I think that accurately most accurately depicts how we think of acquisitions. We are very keen, but we were not desperate. So which means we keep looking hard we keep putting offers when we think it is good, we keep doing due diligences but we will pull the trigger only when we are, there is a very, very high level of conviction. So we have very active pipeline, very, very active pipeline. So does that translate to be we being able to say when can something happen? No. So but we are very active in the market. Will it translate revenue payouts? No. So we are committed to keeping, I think at the beginning of this year, we said 8. We will end up doing 8.5. So no, it would not impact payouts. We have like over $100 million cash, we will assume some debt, I have spoken about it before in terms of capital strategy, we will optimize by using debt, so we will continue paying dividends.

Ashish Chopra: Got it. That is it from my side. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much. My questions have been answered.

Moderator: Thank you. The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Sumeet Jain: Thanks for the opportunity. So Keech, I wanted to understand the two material deals what you announced earlier I think you quantified some that were close to $100 million. So can you tell us like when do you plan to start ramping up on them and what are the duration of those contracts?

R. Srikrishna: Right, so I want to clarify. I did not quantify them but I did say they are say material. The, one of them is transition is going on, right, a lot of the additional headcount we see is in that, which we spoke about the fact that headcount growth has gotten ahead of revenue growth that is due to this deal. Before to set expectations down a little bit, this is a lot of it is BPO so the bill rates are lower, so it is not that odd if those same number of people have been likely to deal very different contract size, it is not, just in BPO. The other one actually is partly in revenue and will get fully in revenue in Q4.

Sumeet Jain: Okay, got it. And I mean, in terms of, I mean, executing on the future good demand, how do you think the visa restrictions in U.S. going to play out particularly given that they are planning to probably give the definition of specialty occupation. Do you see any concern around that at this stage?

R. Srikrishna: Before answering, I just want to clarify one more thing about the first the BPO deal, though, I said it is not in revenue yet, when it starts coming in the revenue, also it would not be all in one quarter, it is going to be ramp up, transitions go in multiple ways. So it will be over some period of time. On the H-1B, we do not know what is being planned. In general, if more is going to come to that is skilled, I just do not see that directionally kind of impacting us negatively, but we do not know the specifics.

Sumeet Jain: Got it. And just lastly, I mean, given your momentum going into this year, I mean, I know it is too early, but do you expect we can continue to have a double-digit kind of a growth on topline next year? How do you or how are you looking at the overall?

R. Srikrishna: I have no doubt about that.

Sumeet Jain: Okay got it. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead.

Ruchi Burde: Keech, I wanted to know for this on-site supply constraint that you mentioned, in your view over medium- to long-term, what would serve as a good solution to this issue?

R. Srikrishna: Well, I think the administration has to relook at some of how they think of policies. I do not control that I think that is the solution. They have to grow labor pool by easing up immigration. But given that that is not happening from our side, we need to kind of invest more in building our brand to hire talent locally from colleges, invest more in training programs like we do here onshore, so all of these are underway for us. I think there was a question about what are some of the initiatives. These are also initiatives, stepping up, hiring from colleges, creating local talent, improved branding for us to be able to attract good talent in colleges. So these are the things that we need to do more.

Ruchi Burde: Understood. That is it. Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. R. Srikrishna for his closing comments. Over to you, Sir!

R. Srikrishna: Thank you very much for being patient. We look forward to speaking to you all next quarter again.

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