“Hexaware Technologies Limited Earnings Conference Call”

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Moderator: Good Day Ladies and Gentlemen and a very warm welcome to the Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani from Hexaware Technologies Limited. Thank you and over to you, Madam.

Latika Gidwani: Thank you, Ali. Good Evening all of you, Welcome to the Hexaware conference call. The safe harbor statement is available on the Hexaware website and I shall take that as read. From Hexaware, we have with us Mr. R. Srikrishna – CEO and Executive Director; Mr. Ashok Harris – President of Global Delivery, and Mr. Rajesh Kanani – CFO. With this, I hand over to you, Keech

R. Srikrishna: Thank you, Latika. Good Evening everyone and thank you for joining us this evening. Before we get into the business of quarterly numbers, I finish four years in Hexaware in actually few days, I joined 28th July four years ago. Ashok joined about 10 days after me, so both of us will finish about four years here soon, so that I will give you a view of what our four-year journey has been from a financial performance perspective. There are of course many more interesting dimensions to the journey, but for those of you that can see the deck online or off-line, it is on Slide 4, we have shown you just four different metrics - revenue part, market cap, EPS over a four-year period. Revenue has grown by 165% in this period, PAT has grown by 178. We have kept pace, actually we have delivered slightly better on PAT then on revenue, and our EPS has grown by 200, that is of course aided by little bit of Rupee depreciation. Now for each of these metrics, all of this has of course resulted in a nice market cap growth. Now, on each of these metrics that there may be one company that is better. On revenue growth, actually there is one company that is better, but that company for example will then be way lower on PAT growth. Revenue growth certainly among the companies for which we have four-year data, there is no one else that is above it, that is all organic growth. In fact, it is hard to find somebody that is all organic growth. We have certainly kind of, we know that L&T has become more public more recently that is doing quite well, but this is a four-year journey there that we put together for you.

During this period, we have enjoyed having conversations with you like this every quarter sparring a little bit with you, thank you for all your support. While we are very proud of what we have done in the last four years, we are equally focused and recognized that the past is actually quite developed, we are quite focused on sustaining and improving this performance for future, so let us talk about Q2 and the future. Q2 I would call it a decent quarter, where we had revenues of 168.5, 3.8% quarter-on-quarter growth. This is reported currency, so we actually lost about 1.5 million due to cross currency, which means on last quarter currency, we would have been close to 170 and which would have been about 4.7% growth on constant currency, which has actually been a very robust quarter. If you recall last quarter, we said we did better than expected, it does not mean next quarter will not be good, next quarter will be quite robust and that is what you are seeing here, but the reported numbers are slightly muted because of cross currency. Our EBITDA essentially kept pace with revenue. In terms of percentage, it has almost exactly the same, there is a little more color on that later, but the headline is the EBITDA kept pace with our revenue growth. Now, do remember that this is the quarter where these are cost hitters, but there were other things that puts-and-takes, which we will come to.

Now, the real good news is that the PAT and then our EPS, both outgrew the revenue substantially and that is mainly because of solid FOREX gains. Actually, the FOREX gains were not so much from in the quarter, but they were from re-rating of current assets, debtors and other assets from the previous quarter that gave us these gains. We will not have anywhere this level of gains going forward, but for this quarter we had wonderful below-the-line gains and as a consequence, our PAT grew almost 20% YOY, almost 10% quarter-on-quarter, and EPS grew 14% quarter-on-quarter. If you look at our revenue analysis, it is a solid block of 4.9% of volume growth with 1.5 going away to cross currency and a tiny amount going away to bill rates, so the vast majority of this came from volume growth. Within the volume growth, again if you see there is some calendar. If you recall, I told you that there is some calendar impact between Q1 and Q2 but it is not huge, there is still a real volume impact outside calendar effect during the quarter. Gross margin is more complicated, so what were the factors that were headwinds, what were the tailwinds, so let us talk about the tailwinds first. The calendar was a tailwind at about 80 odd BPS, FOREX gain the Rupee depreciation added 52 BPS, but there were three major factors and a couple of smaller ones, three major factors that were headwinds.

Our utilization was a headwind, it almost wiped out the calendar gain, but this was planned. I told you last quarter, we will drop utilization. We have actually added 2200 people this year, that is 700 people more than we did the entire last year and of course last year, we had robust growth. This is a planned effort for us to wind down utilization a bit and reduces the utilization a bit will allow us to do two things. It will allow us to improve time to serve our customers, improve our time to service our customers, but also in a period of another one to two quarters, improve our structural cost and our margin, because we are doing so much just in time hiring our cost to serve goes up and by inducing the right talent into the bench, we will structurally be able to improve our cost to serve in the coming two quarters, so that was the planed one, reduction in utilization. Planed H1B visa which is the other big 51 BPS we lost on H1B. In essence, H1B cancelled out the FOREX gains. The calendar gains got wiped out by utilization losses largely. We had a project last quarter that we executed beautifully up and as a consequence, there was some revenue advancement, some revenue that should have come in this quarter. We finished the project ahead of time and with lesser time and effort than we had originally budgeted for, so as a consequence there was a little bit higher revenue and hard profitability last quarter, so which is not there here, so that is the other kind of third big bucket of red.

Now, the net effect of all this is the gross margin dropped a little bit, but that was then amply compensated for by SG&A leverage. Volume leverage was also FOREX impact within SG&A that on all the reduction in gross margin and ultimately will flatten EBITDA. For those of you who are seeing slides on Slide 9, there is a healthy churn, We will not add more commentary except to say that there is a healthy churn in our top 20 mostly arising out of customers growing, not because of customers contracting and I think that churn or just movement in top 20 is best described in the following chart, so I am going to spend some time on this and I will also describe it verbally for those of you that are not seeing it. This one has three charts. The first one is the pyramid, for those of you seeing it, we have had increases of, what this pyramid compares is LTM as of today, Q2 2018 LTM compared to LTM what it was a year ago in Q2 17, and you will see an extremely robust improvement in the client pyramid just across the board. We start with the bottom, million Dollar clients gone up from 81 to 93, $ 1 to $ 5 million clients gone from 66 to 71, 5 to 10 gone from 7 to 12, 10 to 20 gone from 3 to 6. The only negative note is that the two 20 to 30 clients that became one. Just to note, this is one of the two clients that we spoke about last year, the in-sourcing client was in the 20 to 30 million range which has gone essentially, it has become very small, so that is the one that is reduced, but off side that everything else is extremely robust improvement in client metrics.

Then there are two other charts, the one on the top right-hand corner shows change in the top five, 10, 20 clients average this quarter, what the change in contribution and what is the QOQ growth, and you will see that actually the client concentration at the top have been pruned little bit. This is because PS vertical, the one client that is declining I told you we will show quarter-on-quarter growth immediately, you will see later when we show you the numbers of PS vertical that there is marked quarter-on-quarter growth and as a consequence, the top five clients' contribution has actually improved. It grew faster than company average and essentially the rest, there was minimal change. Top 10 degrew a little bit, I mean the others grew roughly at company average. The only one that grew slightly above company average is the top five. The chart below and we have always presented the data, but we thought it is important to call out the important nuances. This again shows top five, next five and next 10 clients, but these are not top five, top 10, top 20 as of this quarter.

This is whatever was top five, 10, 20 last quarter and the growth for those same accounts as it stands this quarter, so there were ABCDE five accounts, the same accounts what it is today. Now, the difference between this and the previous chart is the previous chart some accounts may have churned out of top 20 or top 10 and some new account would have come, so it is an important one, we thought we will spend a minute explaining. Our top five grew at 5.65%, there was change our next five grew at 16%, and our next 10 grew at minus 6.7. Now, I am going to mark this next 10 growing at minus 6.7, I am going to explain it later to you when I talk about the number about the metrics, but essentially our top five and our next five had extremely robust growth. Our next 10 which is 11 to 20 grew at minus 6.7, while it is not on the chart what I can tell you is there was one client that contributed to this, outside that client the next 10 grew at 16.5% quarter-on-quarter, and I will explain that client in subsequent slides.

We had $ 41 million of win in NN in this quarter. Across-the-board, the headline is automation which everything one there is revenue cycle management for a very large hospital system in the US, it kind of represents our one of our early significant moves in the healthcare space and this is all automation led, RCM is an old industry, but we are doing it quite differently in automation. Automation led BPO services for UK bank, automation as a service, we are going to be the automation partner for a large Swiss bank, this is in IT and then they have been testing for a large information services and analytics company, so that is the four NN wins. Now, I have been speaking for couple of quarters about the fact that our EN clients is showing a material growth as a consequence of three or four factors that we have improved our service portfolio. Our clients' recognize that we have improved our service portfolio and have agreed to engage with us. The quality of clients that we have acquired have higher headroom and our engagement teams have been able to carry the message better, so the combination of all four that are EN pipeline has gone up. While we do not report on EN numbers, I have also told you the path that we have some kind of very large deals, Moon shot deals in the EN, which will then be in the 100 range and I have said if we win some of those I will call it out.

The good news is we have had two material EN wins in the last quarter and one of them will have revenue impact relatively quickly, the other one will have revenue impact from 2019 Q1 onwards, it is a very, very slow ramp up six months of transition and then a slow ramp up, so that revenue we started in Q1, but other deal revenues is nearer. Actually, I will even spend a minute to describe both those deals. One of them is actually kind of displacing a very large incumbent in a large bank for automation led BPO work. We have not completely displaced the incumbent, but we have been on-boarded as a challenger with a significant chunk of work. The second one we were an incumbent, actually in this one the bank that I spoke about the reason it is an EN win is because we were on-boarded to do a pilot some time ago and to that extent it is an existing client and it is a reasonable size pilot that ran for over a year and then as a consequence of that pilot we were included in a competitive bid process so that is why it is an EN. The other one we were more material incumbent, we had a ton of work, but it is a consolidation exercise where there were other service providers and we wound up more than doubling our book of business. We kept out of our business, but we wound up winning more than doubling our book, it is a wide range of IT services, but headlined by big data factory and application services, those two are the big elements that are other elements, the biggest chunk of it is setting up and running a big data factory for them.

Our employee metrics, our utilization I have already spoken about it, had a planned dip went from 81.3 down to 78.2, so it is a 2% dip in utilization. Our attrition remains range bound, slight uptick, nothing that bothers us. We have some charts that show you on Slide 13 for those of you looking at it off-line that will show you where the growth came from, from a vertical, horizontal and geography perspective, so I am going to spend some time throwing color here. From a geography perspective, last quarter we had a weak NA growth. I told you, do not worry, it is going to come back and sure enough it did, so we have 6.2% quarter-on-quarter growth on NA. You will still see that the YOY growth is tepid, it is at 5.2% but remember both the large accounts that had one off had issues. I had full revenues in Q2 last year and both of them were North

American based, 100% of the revenues are North America, so it is but natural to expect to see YOY growth lagging. There will be partial effect of that in Q3 also, but you would see Q3 YOY improving and a back to fully normalized YOY comparison from Q4 onwards, but that commentary is true for us as a company too from a YOY perspective, but even more true for North America. Europe, smart growth 5.5% quarter-on-quarter, now this is the reported numbers, so clearly their underlying growth was much stronger because all the currency loss was in Europe and 25.5% YOY growth. You see a sharp dip in APAC.

Now, let me go back to, I am going to give you three data points, you will see a sharp dip of minus 12% growth in GTT, minus 12% growth in APAC and you saw our customers 11 to 20 degrowing by (-6.7%). All of these three are the same one client where there is a material cloud migration project that we finished, actually we finished it little ahead of time, last quarter there was a little bit, this quarter that got wrapped up, and this is that it is still an account for us in good standing and we are doing other business and we will win other business, but we successfully concluded a large cloud migration project, so all these three data points are linked to that. APAC while in spite of the minus 12% quarter-on-quarter, they are still growing at 40% YOY. From a vertical perspective, two to three points I will call out, MNC which we said last year Q2, we will start a turnaround story has done better than that, they grew 11% quarter-on-quarter. H&I is not far behind, we think it will continue to do well for long time and professional services, this is the other account where we had a challenge, so you think the challenge reflected in the YOY growth too, but smart QOQ recovery. I told you last quarter that we should have seen QOQ growth even last quarter, it did not happen. I told you we will have QOQ growth in Q2 and you are seeing it here that we have seen smart QOQ growth in PS.

From a horizontal growth, IMS continues to show headline growth, BPO also does very well, both neck and neck on quarter-on-quarter, but IMS still leads on YOY. BPO I will actually catch up for a bit on YOY in the coming quarters. Finally, we said if you were to revise the guidance, we will do so at the end of Q2, so here it is. After accounting for cross currency, we are saying we will grow our revenues 12% to 13% and EPS by 13% to 14%, this is on reported currency, this is not on constant currency. On EPS actually we are ahead of the required run rate already, but what will happen, and you will see momentarily in Rajesh's presentation is that our FOREX gain will take a sharp dip, so while our EBITDA will grow, our FOREX gains will take a sharp dip, this is after accounting for that, so this EPS will grow at 13% to 14%. We are already quite a bit ahead of this run rate, but FOREX gains will fall. With that, I am going turnover to Rajesh.

Rajesh Kanani: Thank you, Keech. I will start with the finance update now. If you see the revenue as Keech has said, you see revenue we have grown QOQ by 4.7%, normal quarter-on-quarter revenue growth is 3.8% and Rupee revenue growth is 8.4% quarter-on-quarter. This quarter we had a gain in other income by 400 K., that is due to one-time income from waiver of liability by a Russian party towards intangible which we were supposed to pay, which we are not paying any more. As far as outstanding hedge position is concerned, we have a hedge of 203.41 million, USD-INR 179.18 with average rate of 70.14, Euro-INR 6.6 with average rate of 85.61**,** GBP-INR 12.58 million with 95.37. As far as the FOREX gain and loss is concerned, as Keech said I think Q3 and Q4 our gains are sharply dropping to 760 K in Q3 and 590 K in Q4 at an exchange rate of 68.47 per USD.

Balance sheet updates are again good news, cash and cash equivalents are growing at $108.41 million, in Rupee terms $ 7423 million, DSO we are at 47 days and 75 days including unbilled. Dividend is Rs. 2.5 per share, 125% and dividend payout will be around 895 million, in Dollar terms 13.07 million. Tax ETR we are at 20% and we were at 20% in Quarter-1 '18 also, I think we will continue there. CAPEX for the quarter was 2.2 million and our yearly CAPEX for the entire 2018 is $ 17.5 million. We will hand over for question and answer session.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, first on the CC growth YOY, so there has been some deceleration in the momentum, so any key reason for that and just on the TCV net new wins, so even that on a YOY has been almost flat for this quarter, so just on the outlook on the growth momentum?

R. Srikrishna: On YOY, I did an explanation for North America, that same explanation is true for the whole company, so let me explain it. If you recall, we had the two client specific issues, one in sourcing and the one partial revenue loss due to a project that got consolidated with someone else. Those two clients had full revenues in Q1 and Q2. The same quarter last year those two clients had full revenues. They have partial revenues in Q3 and in Q4, so when you compare this quarter with last year Q2 YOY, you are seeing the full impact of that let us just say 6% between those two clients. Now, what you see is Q3, the YOY growth will go up materially. The last year the reverse happened, last year our Q3 and Q4 started slowing down because of those two clients revenue impact and this year you are not going to see that, so you will see actually our YOY growth materially accelerating through H2, so you will see in Q3 the YOY growth improves, but it will have partial impact of those two clients. Q4 is when you will actually say that it has no impact, so you should see a full robust YOY growth, when you go back to Q4.

Madhu Babu: Sir, how should we see H2 growth because I think if you see last year Q2, we did almost, we had a better momentum, so how should we see second half of the year in terms of revenue growth?

R. Srikrishna: Till last year, we had a better Q1 and Q2 and then kind of a average Q3, Q4 because of reasons we have gone over many times, so for this year H2 we have given guidance, to meet the upper end of guidance, we need to do 3.8% quarter-on-quarter growth from now one, next quarter and the quarter after, that is what we need to do, so it is pretty robust growth is what we are talking about.

Moderator: Thank you. The next question is from the line of Srinivas Kumar from TRP Capital. Please go ahead.

Srinivas Kumar: I just wanted some commentary from you, broad commentary in terms of the direction of bill rates, how do you see that playing out in the next year or two?

R. Srikrishna: We have been fortunate in that in aggregate our bill rates have remained flattish, even this quarter we showed you how much we lost on bill rates, I can say that again, I think we lost 14 BPS due to bill rates, so it is flattish that is kind of our outlook too.

Srinivas Kumar: Second quick question is I believe I think last quarter you had your auditor resign, are there any reasons why because it seems like as per the SEBI appeal they were only barred from taking on new clients, they did not have to resign their existing?

Rajesh Kanani: I think as per SEBI has said that next one year you can audit whatever clients you have and after that there is a court case, whatever is the outcome we do not know today, there is the reason why we have chosen to go ahead with…

R. Srikrishna: We have uncertainties in life to deal with without having to deal with the legal status of our auditor.

Srinivas Kumar: Last, very quick follow up, there is a small investment in the company called Beta Wind Farm, is that just for tax purposes or?

Rajesh Kanani: It is basically to get cheaper electricity you need to have investment in that company, that is the reason why we have invested in Chennai.

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

Ashish Agarwal: Sir, just one question on the margins, if I look at your EBITDA in absolute terms in Dollars, for the last five to six quarters, it has been around $ 26 - $ 27 million, so how should we look at this going forward?

R. Srikrishna: I think you should see our EBITDA growing in line with our revenue.

Ashish Agarwal: Sir, but Q3 you will also have a salary hike, if I am not wrong so what would be the levers for you to mitigate this apart from the fact that you will not have a visa cost next quarter?

R. Srikrishna: I think not having visa cost is a reasonably big lever, so the two other ones, while our utilization may not go up immediately, having reduce the utilization actually helps us manage structural cost better, so that is an important lever that we think will play out not in Q3 but in Q4 and finally we have a little bit of SG&A leverage, so that is the combination of all of these.

Ashish Agarwal: Secondly on the revenue growth front though you will need 3.8% CQGR to meet your upper end of your guidance, but we have seen historically Q4 has been weak for Hexaware, so is it the right assumption that this time it may not play out?

R. Srikrishna: There will be little bit of seasonality in our furlough and calendar, I think those remain, but as we see today there is certain deals that we have signed that come into revenue from Q4 onwards, so we expect to likely buck that trend, we have given our best estimates right now, but we will grow between 12% and 13% after losing what we did in currency.

Ashish Agarwal: Just one clarification, this 13 to 14% EPS growth, this is Dollar EPS you have calculated on a Dollar basis, right?

R. Srikrishna: Yes, I should have clarified that, it is all on Dollar.

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

Sandeep Shah: Just one question, Keech, if I look at the revised guidance of 12% to 13%, the incremental Dollar revenue for CY '18, we are making in close to $ 80 million, and similarly in CY '17, we had a similar number, but in CY '17 we had new business wins of close to around 18% growth, so logically it looks like the growth should be slightly higher in a incremental revenue basis for CY '18, is there fair assumption to see that there is some existing business where there is a productivity gains, which have been passed on to the clients?

R. Srikrishna: The absolute increment number in '17 was a little bit smaller, actually about 18 is the right, I mean it is hard to, there are number of things, right, little more attrition in some existing clients, productivity benefits being passed on, slower ramp rate, it is a variety of factors. Last year was a great year, so it is not, unfortunately great year mean is that it should not show as the ideal benchmark, it is a great year. This year we think will be a pretty good year basis what we said, not quite as good as last year though.

Sandeep Shah: The two existing wins which are new business, which you mentioned are two material deals you also said they are close to like $ 100 million, can you clarify?

R. Srikrishna: I am calling them out because they are material.

Sandeep Shah: If I have heard correctly, is it close to even $ 100 million?

R. Srikrishna: Yes, there is that range for sure.

Sandeep Shah: So each one of them could be close to $ 100 million?

R. Srikrishna: Yes. One of them includes a portion which is a renewal and a portion which is new, the other one is substantially new for us.

Sandeep Shah: Just in this quarter's margin, question is why the Rupee depreciation impact is just 50 basis points, I do agree there is a cross currency, but the Rupee depreciation is as big as 4.5% to 5%.

Rajesh Kanani: I think FOREX gain is not 52 basis points only at a gross margin level and that too after cross currency and then as you look at SG&A there is 46bps FOREX impact, so 52 and 46 is 98 basis points, basically.

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

Gaurav Rateria: First question, if you can throw some color in any such large consolidation deal which you won with one of your existing clients, what is your typical expectation of productivity benefit which you need to share with the client and how does any vendor mitigate that headwind with respect to using automation tools from a margin perspective?

R. Srikrishna: I think the first most important variable is what are the service line mix in the consolidation, if it is let us say largely AD then you are not talking about any kind of productivity that is from a development perspective, but it is hard to measure and put into contract. If it is say testing or infrastructure then I think there will be more, BPO also may be more, App support is somewhere in between, so it depends on service mix. I think the range is in that for the infra, for the BPO, for the testing is all in the 30 odd range perhaps for a smaller. They are driven entirely by automation, I think where we are today and I think where quite a number of people are at today is that you have to take a little bit of risk on execution of automation and if you make it then you are able to meet the price point with the client and maybe do even better over time, but if you do not then you are not going to make the margins that you planned.

Gaurav Rateria: Second question, Keech, if you can throw some light on the point which you were talking about adding bench strength which will help you to improve the cost structure on a structural basis, what exactly you are referring to?

R. Srikrishna: It is kind of relatively simple, you had let us say 100 people out of college and they get into the system, they may take four months to get into the system, but once they do, you are reducing average cost of delivery. Now, if you are running a very tight utilization then you do not have a lot of opportunities to inject, so we have done a fairly large injection not just a fresher, but at many levels. We have done a proactive injection of talent, anytime you go on higher just-in-time, you are likely to compromise either cost or quality or both, so we think actually it will help us quite a bit few percentage points to bring down the cost of service.

Gaurav Rateria: Last question from me, you said that margins will be growing in line with the revenue growth for the full Calendar Year '18, but there would be some tailwind from the Rupee depreciation, so ideally should not the margins will be growing faster than the revenue growth?

R. Srikrishna: It will little bit, I think let me say we have done our best to take all those factors and put it into the EPS of 13% to 14%. There is not a lot of incremental tailwind from Q2 and Q3, Q2 already had quite a bit. There are also our entire wage increments ahead of us, usually what happens is that salary increases get funded by currency. Last year our wage increments got funded by utilization improvements, but this year we are going the other way and utilization improvement in a planned way, so our currency will help pay a wage increment for our employees.

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

Ashwin Mehta: Sir, in terms of SG&A, Keech you have seen the SG&A touch almost the lowest levels in the last five years, how much more leverage do you think is possible here going forward?

R. Srikrishna: There are more leverage in G&A, really no leverage on S&M. In S&M, there is a little bit cyclicality in quarters that happens because of changes in branding and promotion kind spend, we spend lot of money, new wins on quarter, we do not next quarter, so a little bit of cyclical strength, but outside that we do not see too much leverage in S&M.

Ashwin Mehta: My second question was in terms of salary hikes, have we taken any decision in terms the kind of salary hikes that we are looking at some of your peers have actually indicated that this year the salary hikes have been higher than last year, so do you see a similar trend at Hexaware as well?

R. Srikrishna: We have not made a final decision, and even if we have, our employees will get to know it first.

Ashwin Mehta: Just one last clarification, you indicated in your guidance and EPS growth of 13% to 14%, this is in Dollar terms so essentially given the 4% odd average Rupee depreciation, this should translate to 18% INR EPS, would that be a fair way to look at it?

R. Srikrishna: Actually, we can come back to you with an INR number, we have computed it I do not know it on top of my head, it is probably even more than that in INR, I will come back to you.

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

Ashish Chopra: Keech, just one question from my side was on the deals in automation which is contributing a fair share to your net new wins, is the margin profile fairly constant over the course of the deal because of the fact that the productivity benefit kind of kick in gradually or is there a slightly different profile wherein maybe initially because of your commitments, you make a lower margin and then start ramping it up through the course of execution?

R. Srikrishna: In many deals it is the latter that if we execute well, I mean we will have committed and almost straight-line the productivity gains for the client or there may be slight slope, but straight line but our costs are more unforgiving. We will have full deploy in headcount early in the slack cycle and as we execute automation, we will be able to release headcount.

Ashish Chopra: Would you expect that to probably be a tailwind to the profitability in the course of the quarters to come in case the portfolio is slightly more skewed towards deals that are ramping up currently, but could get more normalized over the course of time would that be a possibility or probably we are at more or less optimal level?

R. Srikrishna: Not for this year, I think kind of we have deals that are coming out of certain cycles going into certain cycles, they kind of even out little bit maybe for this year, it is too early to talk about next year, but if it is a factor next year as it could be, we will call it out.

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

Deepesh Mehta: Just two questions, can you help us understand about if I look gross margin, our gross margin is I think for last few years one of the lowest, now we are in last few quarters excluding this quarter we have seen significant increase in utilization, Rupee is also favorable, so can you help understand how one should look gross margins going forward and where it is likely to stabilize considering all multiple factors which generally impact business? Second question is about the guidance which we integrated in revenue terms, what would one should take underlying business momentum, whether Q4 exit rate is a good indication for underlying business momentum or one should look Calendar '18 performance for underlying business momentum growth for future? Thank you.

R. Srikrishna: I mean arithmetically Q4 has a pretty significant impact on whatever is the following year and if Q4 run rate is healthy then it is certainly translates to higher growth for the subsequent year, so yes, the full-year performance is important, but I think Q4, how you kind of end the year has quite a bit of impact in terms of ask rates for the year. In terms of gross margin, we have given you guidance, I will give a little bit of outlook, but I want to make sure that we are not giving you guidance at each level of our EPS, gross margin, SG&A, at each level, but I will still tell you directionally at least what we expect to happen to gross margin. We expect to improve it from here, let us say on-off ratios being constant, we expect to improve it and the true kind of biggest levers are utilization because this will take a little bit of time, but we will improve utilization a little bit back again, and the second is what I already spoke about as the utilization helping us to improve structural cost, so those are the two factors that will help us improve the gross margin. The bigger factor will remain the onsite-offshore ratio, that is why I am holding that constant. It is our endeavor to improve that as well as in bringing more offshore business.

Moderator: Thank you. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.

Nirav Dalal: I wanted your outlook on the enterprise services, last quarter there was a smart recovery in that and this quarter it was flattish, so just some outlook on that?

R. Srikrishna: First I just want to, this quarter is 0.6% growth, just compared to historically, it has been going down every quarter, so it is actually decent performance, especially when it comes on back of 4.5% quarter-on-quarter growth, we still think of it as positive performance. We still think of it as kind of work in progress that we need to, we have not demonstrated enough sustainability in the turnaround, but we feel very good about the fact that we are in a midst of a solid turnaround. It feels good, we agree it has not done yet, it is not enough data point that, but another two or three quarters, I think we will feel really good about it.

Nirav Dalal: In terms of employee addition now, two quarters strong employee addition, what would be the outlook going ahead?

R. Srikrishna: We will still add employees, Q3 again we plan to add a fair bit, the continuation of the same theme, add employees in a proactive manner so that our responsiveness to customers improves and on cost to service structurally improves, so we are going to continue that team, but we do not expect utilization to drop from here.

Nirav Dalal: Lastly, in terms of the depreciation we saw an increase this quarter, should this quarter be directionally the quarter going ahead?

Rajesh Kanani: One of the SEZ units have come up so that is how the depreciation has increased and it is going to stay at that level.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I just had one question, if you could share some progress on your, you spoke about mining efforts on the Baring's portfolio, so has there been any more improvement over there on the back of the one large deal win what you had in the first quarter?

R. Srikrishna: Out of the four deals that we spoke about this quarter, it is actually the smallest one is the application development and testing for analytics in their company that is partially owned by Baring, so in this case it was a widely competitive process, but we got included in that process because of the ownership, Baring is actually a minority owner, so that is something that happened this quarter, but it is actually a very large client, so it is a small beginning for us. We do hope to potentially grow that account quite a bit.

Abhishek Bhandari: Can you delve more on to your this part of the business, so have you framed any strategy of going about let us say specific number of the investing companies or are you open to every account which Barings shows you as a kind of an introduction, I am just trying to understand what potentially could be the size of deal wins, may not be from a number perspective, but from a contribution perspective on percentage importance or whatever you call it going forward?

R. Srikrishna: It is kind of, first of all do we go after every account in their portfolio, no. Historically, we have not looked at it at all because they were mostly small, they were too small. Hexaware at one point was the biggest company in the portfolio, and we are too small for us to chase as an account. Even now, we will not look at everything they invest in, it has to be a certain size and they are doing some deals where they are co-investing, like this one is large, but they are co-investing, so we will look at certain size, that is kind of hard to predict how many of such large companies will they invest in future. Existing portfolios, we got covered, it is whatever two to three deals had to be had is there, but they are very ambitious, they had also floated a new fund just now very large fund they are raising capital for it. It is hard for me to predict what velocity their investments will take, but every account of every portfolio company of theirs we have executed in, we have done very well, so our credibility is extremely high, so our chances of winning or kind of doing business with anyone they invest in, if it is interesting for us is quite high.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Just one question I have on the top 10 outlook, do you see a similar churn continue if I am looking for slightly more than a year perspective or you are fairly confident of growth within that?

R. Srikrishna: Actually, top 10 outside those two will not have any issue since then, pretty good and it is all back to robust growth, our top five in fact this quarter grew higher than company average, so quite stable.

Apurva Prasad: Keech, it will also hold true for the travel and transportation vertical ex- the cloud migration impact?

R. Srikrishna: Yes, that is not a client which has gone away or anything like that or we lost a project, nothing, it is a large cloud margin project that got concluded, actually got concluded a little bit ahead of time last quarter and there was some this quarter. It continues to be a robust client for us, we expect to grow that quite a bit, so the answer is yes, that includes travel and transportation.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Systematix Shares & Stocks. Please go ahead.

Ankit Pandey: Keech, I just had a couple, one was just looking at the YOY service lines growth, it has been largely led by IMS, so wondered if you could articulate some of the incremental would you say operating risks, would you say kind of partnership risks, that would be one, and second is, I think he articulated this in the analyst meet last year, where he had said that over a period of time, we would like to incubate new services line, so where are we on that, any visibility or any new germination of new service lines?

R. Srikrishna: On IMS, you said partnership risk operating, I am not quite sure I understand what it means, but there is not kind of particular partner on which we are riding and are dependent on for demand in any manner. For example, if you think that hey, Amazon is taking us to that bunch of clients and we are winning businesses as a consequence of that, no. It is a fairly secular kind of goto market approach, it is not dependent on a particular partner, I do not know if that was the question. Execution risk, operating risk I think there is operating risk to the extent of that we take a little bit forward bets on automation and we have got execute to that, we are well on agenda, but that is the risk it is similar to risk let us say testing or BPO also for us. On new services, our entire transform customer experiences, certain element of cloudify everything and certain elements of automate everything are all new services.

I have last quarter when we spoke about these three kind of new themes, I said at sometime in the future we are giving thoughts to how we will demonstrate progress for you on these themes, it is still work in progress for us, but we will find a way of showing you how we are doing in these. Our early momentum because that is kind of what we will be doing for a little while of these three themes is to more in automate everything, but we are beginning to see momentum, solid momentum in the other two. Our acquisition Dollars will be, and I have spoken about that, our acquisition Dollars will go more into transform customer experiences, then into cloudify everything and not at all into automate everything, and clearly that is an important agenda for us in the next two to three years and once we execute on that side of the agenda also, it will look far more balanced between the three themes.

Ankit Pandey: In terms of skill sets, will it be easier for us to acquire as you just mentioned the three potential new service lines, but is it easier for us to acquire, I think your comfort range is $10 million to $20 million something in that range in the nearterm to medium-term, are you looking at certain acquisitions to bulk up your services?

R. Srikrishna: We are not looking at an acquisition first to bulk up, it is meant our strategy is to focus entirely on adding completely new capabilities and so there are certain skill sets, it is not just skill, I think it is a combination of skill, market access, just new businesses, it is all aspects of a new business, which will be much easier and quicker to acquire that bit, but there are many other skills that we are building and working the hard way, I mean cloudify everything, we are on a path to retrain a substantial portion of our organization in cloud technologies. We declared machine learning as what we call as a foundation skill, what we mean by foundation skill is that every engineer needs to know basics of ML and given after end of 2019, for every employee to know basics of M. It is both, I think for certain skills we will build and train and retrain and other skills we will acquire.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Firstly, we had a good last year, CY '17, this year also after this quarter we have upped our estimates on the growth, so given that we have a better outlook and we are having a more client stability kind of a scenario, what are the profitability aspiration for us going forward, maybe even beyond CY '18?

R. Srikrishna: Philosophically, our value thesis is on delivering EPS growth by revenue growth. It is not by expanding profitability, that is just philosophically long term. I think there are any number of unknowns that could become headwinds in profitability and there are few things in our back pocket to help defend against that, so operating leverage from currency, but currency can go either ways and some structural cost initiatives that we are doing now, but philosophically our goal is not to expand profitability, it is to grow continuously and thereby give you EPS growth.

Rahul Jain: Basically, the objective is to have a good CC growth from a revenue perspective and similar growth run rate one should expect from an EPS perspective?

R. Srikrishna: Correct.

Rahul Jain: On that point, I mean how we see this sentiment in the market in terms of your competitive intensity in terms of pricing of the market or maybe general spend from the client perspective, is it changing any with favorable, unfavorable similar what is your view on that?

R. Srikrishna: I am not quite sure I understood the linkage between our philosophy and the market conditions, but I will do my best to answer that, maybe you want to clarify again, make sure I understood, how are the two linked, our philosophy of holding profitability.

Rahul Jain: Basically, in plain vanilla what is the outlook in terms of the opportunity in the market versus what it is today or what it was maybe couple of quarters back improving, if improving is it driven by client spending more or is it because of our positioning turning better or whatever you can give flavor on?

R. Srikrishna: Our three themes that we have picked for our future, automate everything, cloudify everything, and transform customer experiences. We think has a runway for a very, very long time each one of these, 10 years or more. We are very bullish about demand in each of these three themes. We do not think it is going to be particularly impacted by macros, maybe in short-term cycles, but for the long-term all of these will happen, and all of these will happen in all the markets we work in across geographies, so we think it is not just general market condition, what are you focused on, what services are you taking in the market, and whatever we are doing, we are very confident about long-term demand.

Moderator: Thank you. We will take the last question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Krish, just want to understand how to look at the service line of DA and BIBA because both of them is together close to 30% and can you split in terms of what kind of digital or new services within that as a proportion to the total 30%, just want to understand because you are saying three features of automate everything, cloudify everything, and transform customer experience, just wanted even understand can you quantify, are you started measuring this in terms of the overall revenue size internally within Hexaware?

R. Srikrishna: There are almost three questions there, what portion of DA and BIBA is digital we do not report on that, you know that, but what I am going to do is to answer, I am going to characterize it for you. In each area, I am going to give you examples of service lines that would be either be in the automate or cloudify or transform customer experience, so in Digital Assurance in our testing business, automation is a big thing and that is clearly the automate everything. We actually have testing around usability testing, so which means let us say you have mobile app, you have website, we actually kind of can measure how easily usable it is and how actionable recommendations on how to improve their usability and we use five different techniques for doing this, so that is an example of DA service, which is aligned to transform customer experiences. We have Workday and that is the service in DA that is aligned too, likewise in BI and analytics, we have analytics offerings which are linked to transforming customer experience. Our fastest growing service is within BI is the service called EDMA, which is essentially to build data warehouses on the cloud, so moving let us say Teradata to Redshift, it saves an enormous amount of money for clients, both on infrastructure but also on license. Like Redshift, you can also move into Azure, Azure has a similar service, so that is an example of BI service linked to cloudify everything. There is lots of automation in data migration and data testing, those are examples of BI services aligned to automate everything, so each service is aligned you will find actually services aligned to each of these three themes, we do not report on them, do we measure them, yes. To your question, have you begin measuring them, yes, we have.

Sandeep Shah: Just on the EN deals which you have spoken about, can you share some average tenure within that?

R. Srikrishna: Both are five years.

Sandeep Shah: Last thing, my assumption is we also work with one of the large US HR-based services and one of your large Indian peer has clinched a large deal through an acquisition of Indian arm of that large US HR services, will this affect us in terms of revenues from that client, if I am correct in terms of assuming we work with that client?

R. Srikrishna: First, I cannot confirm if we work with that client or not, I know which one you are referring to. I will say in general that whatever that HR client we work with which I am not confirming or denying that it is the one you are referring to, our kind of size of a business from them has been reducing substantially, vast majority of our business with them was supporting the PeopleSoft environment for their customers, and over the past few years they have rapidly migrated away from PeopleSoft to Workday and when they move to Workday, they do not give the work to us because they have made multiple acquisitions on Workday themselves, so till it is PeopleSoft it is Hexaware otherwise it move to on their own, so the revenue is still there, but it has shrunk and it continues to shrink every quarter, so they are not like a huge deal in the big picture of things for us.

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

R. Srikrishna: Thank you all, sorry we went a little bit over time, but hopefully the Q&A session was useful for you and look forward to speaking to all of you next quarter.

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