Hexaware Technologies Limited

Q2 CY 2014

Earnings Conference Call

July 22, 2014

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hexaware Technologies Limited Earning Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani. Thank you. And over to you, ma'am.

Latika Gidwani: Thanks, Karuna. Good Evening and Welcome to the Hexaware Conference Call. From Hexaware, we have with us Mr. P.R. Chandrasekar – Vice Chairman and CEO; Mr. R.V. Ramanan – Executive Director & Head - Global Delivery; Mr. Rajesh Kanani – CFO; Mr. Sreenivas – Chief Strategy Officer.

The Safe Harbor statement is available on the Hexaware website and I will assume that it is read. With this I hand over to Mr. Sekar.

P.R. Chandrasekar: Good Afternoon, Ladies and Gentlemen. A Warm Welcome to all of you to the Q2 Earnings Call. I sincerely appreciate the interest in Hexaware and for the time all of you are taking to attend to this call.

As I mentioned in April, that Q2 could be strong from a revenue standpoint, it has in fact, turned out to be a good quarter for us from revenue standpoint. Fundamentally, it was a good quarter with broad-based revenue growth.

We did publish the results a little late today because of the board meeting which went on for a little bit longer than anticipated. So, I apologize that you did not have enough time maybe to analyze the results but fundamentally you will notice for those of you who did take a look at it that the growth came across all geographies – Americas grew by 6%, Europe grew at 3%, APAC grew double-digits – and also although we did not report that separately had some good opportunities opening up for us in our BPO business.

The growth was also good across verticals – BFS grew double-digit, GTT grew well, as well as the other verticals which are beginning to fire well, which is our Healthcare and Insurance, as well as our Manufacturing business.

Amongst our horizontals, while we normally talk about Enterprise Apps and BI and Testing, this time around I would like to acknowledge that we saw good opportunities opening for us and growth in both our BPO and Remote IMS businesses, and although they are relatively small in size, we believe that they will continue to grow going forward and hold significant promise both with existing as well as new customers.

From an "Accounts Standpoint" on a client segmentation perspective, our #1 customer which represents a good chunk of our business has been responsible for both some of our good times and bad ones; our H1 was stable and looks very healthy going into H2. Client #2 to 5 grew 6% QoQ. And Clients #6 to #10 grew 15% QoQ. It is also heartening to see that the growth outside our top clients was healthy and to me this is the sign where once our growth becomes a little more diversified on broad base the vulnerability we have occasionally faced in a quarter when multiple clients in our top five or ten have challenges will be reduced.

We added a good number of clients – Hexaware has always been good about adding new clients to our portfolio – we added 13 clients in this quarter, again, it cuts across the regions – 8 from Americas, 3 from Europe and 2 from the APAC region. This broad base of new client wins also cuts across our focus verticals, including Manufacturing, which we launched recently. Out of the 13, we believe that there are 3 to 4 customers which will be multi-million dollar accounts going into 2015.

Now, from an “Operational” perspective, while revenue was strong and the scope for further growth continues to look very healthy, it has been bit of a mixed bag from an operational standpoint. Our profitability and margins did come under pressure in Q2. But, there are also a bunch of things about the quarter from an operational standpoint which I would say are healthy and should help us to get better margins as we move forward.

We had a good strong addition to our headcount; we added 335 people on a sequential basis net, and unlike the last few quarters this quarter our addition was also driven by laterals which is a signal of the kind of growth that we anticipate going into H2 of 2014. In addition, we have also added freshers and continue to add freshers this quarter which will help us in maintaining our costs and keeping some fresh blood in our organization.

On the flip side though while we have added both laterals and freshers into the organization there has been a drop in our utilization. We expect this to gradually improve but overall we do believe that it will stay in a narrow band in the low 70s because going into utilization numbers beyond that we find us to some extent compromise our ability to service the growth opportunities that we are likely to face. The good news though is that our attrition continues to remain stable and we remain one of the lower attrition companies in the industry.

The other factor that has some extent impacted on our margins is that some of the revenue and the growth in that revenue has come from Onsite business. While there are from good, steady high growth customers, the reality is that some of that Onsite business relative to our offshore business does come at somewhat lower margins. Based on what we see with the opportunities with regards to these customers that are growing, we do believe that the Onsite percentage will remain somewhat high, at least in the very near-term. Once these accounts are stabilized as some of the new business that we are winning also stabilizes, we expect the business and the offshore content can move further which in turn will also help in our margin pick up.

So the “Utilization”, the Onsite Growth as well as the Hiring mix of Onsite Personnel, Visa Cost, which we incurred this Q2 last year it was in Q1, this year we have accounted for our visa cost in Q2, as well as the strengthening of the rupee have impacted on the overall margins at Hexaware and Rajesh Kanani when he comes on will provide you with more details over the same.

From “Sales and Marketing” perspective, we continue to make investments. We believe that there are growth opportunities in the future, we have to strengthen our capability in servicing, winning new customers, and the strategy that we have adopted sometime ago of enhancing our field presence with not only hunters but good account managers and farmers and complement that with practitioners folks from a vertical domain as well as horizontal technology and capability practice continues. So we have added people in the field in both Americas, in Europe as well as people in APAC, and that mix continues to evolve, and we have added more practitioners in the field which we firmly believe will strengthen our ability to service our existing customers, make a better business case and improve our conversion rates with new customers and we see and we think the quality of our revenue will also increase.

Based on what the pipeline which today is stronger than we have seen in a long time, we are confident that going into Q3 we will continue to grow well, and this growth will come not only from our top ten accounts, but from clients outside of our top ten as well.

Our Margin picture because of the reasons that I mentioned is likely to remain somewhat range-bound in the near-term. By that I mean at least Q3 and probably maybe even into Q4. We are also likely to implement an offshore salary increase in Q3 as per what we did last year and which will also add to those pressures, and the Onsite revenue will continue which in turn is likely to make this happen.

In addition to that, we have also been undertaking a long-term strategic exercise with one of the leading consulting firms which we talked about last quarter. While we are clearly designed to improve certain aspects such as our sales productivity, our effectiveness, our account management practices, as well as our strategy in terms of a specific vertical, say, horizontals we engage in, does incur a cost which is also adding to the margin pressures we are talking about.

As I mentioned the deal pipelines looks good, both in our existing as well as in our new customers. We did sign a large deal last quarter, we continue to have three or four large deals in our pipeline and there are good signs that we will close another opportunity in Q3.

It has also been an eventful quarter from a corporate standpoint. During the quarter we added two seasoned IT industry professionals in the capacity of independent non-executive directors of Hexaware, these two directors are based in the geographies in which we currently operate – Basab Pradhan is based in the US; Mr. Christian is based in Germany – both bring considerable industry experience. We have talked a little bit about in our press report. Basab, as you know was at Infosys, Christian was responsible for the operations in Siemens in Germany, and he had worldwide exposure in that capacity. We welcome both of them to Hexaware and look forward to their contributions in not only helping us in go-to-market but also adding value to our clients.

To wrap it up, pipeline looks healthy, Europe has grown well, APAC has been strong, BPO is beginning to deliver, Americas has bounced back after a difficult Q1, looks good for Q3 and Q4, the top accounts are coming back to growth, the other accounts are beginning to grow, margins have been stable, and will remain stable, and we see ourselves as a strong profitable company with good customers to whom we can add value and we can grow further.

With that I am going to pass on the mic to Rajesh Kanani – our CFO who will walk you through some of our financial details. Over to you.

Rajesh Kanani: Thank you, Sekar. I will brief on the financials now. Revenue for the quarter has grown by 6.3% on quarter-on-quarter basis. Revenue being 101.96 Vs 95.9 last quarter; the growth has come mainly on account of volume.

If you look at EBITDA walk, EBITDA walk has gone down by 270 basis points from 19.3% to 16.6%, and EBIT has gone down by 250 basis points from 17.4% to 14.9%. If you look at the break-up of EBITDA, gross margins have gone down by 60 basis points largely on account of H1B visa cost and SG&A has gone down by 210 basis points mainly we have cost increase on account of recruitment of advisory firms which is also looking at go-to-market strategy, and then last quarter cost has gone down because of the reversal of certain provisions, including debtors and other provisions, that were being one-time, this quarter cost looks higher, plus we had investments in marketing because of the three main reasons why SG&A has gone up.

If you look at the FOREX for the quarter we had a gain of 165K Vs losses of 202 million last quarter. If you look at CAPEX we have spent Rs.7.4 crores this quarter. ETR is 22.9% Vs 27.9% last quarter. Our underlying ETR last quarter was 21.4%, it has increased, and as we have said ETR is likely to be around 22-23% during the year. DSO is now 51 days in this quarter Vs 48 days last quarter which is still best in the industry along with unbilled it remains at 69 days Vs 70 days in last quarter. Cash balance has been Rs.398 crores from Rs.443 crores at March end, largely due to interim dividend payments made during the quarter.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Srivatsan R from Spark Capital. Please go ahead.

Srivatsan R: Hi, Sekar, just wanted to get your thoughts on the demand. We saw good growth after 1Q which was relatively soft. From a near term point of view or next 12 to 18 months point of view, is there any qualitative commentary you can give in terms of the demand, especially in your non-top 10 clients in terms of both pipeline, where would it stand vis-à-vis maybe six months or a year back, and in terms of the verticals or horizontals where we are seeing good demand?

P.R. Chandrasekar: Overall, I feel very positive about the traction that we are getting.

Europe is coming back strongly both on the face of existing customers and there is a good pipeline. We have also added a few sales people to increase our field presence in Europe, as well as practitioners. If you look at it on a quarter-on-quarter basis we are beginning to see a gradual but steady increase in quarterly revenue in Europe, and I see that continuing to grow based on the pipeline that we have.

APAC has been strong and stable and the efforts that we have made to grow the business in the ASEAN market, we have added people in Australia as well as in India, there is always some level of volatility in the Indian business but overall APAC also looks fairly good and we are now beginning to get a stable of accounts that I hope by 2015 we will have at least a couple of accounts in the multi-million dollar range which are steady, annual, annuity business.

North America Q1 was a challenge. It has bounced back nicely in Q2. I see it continuing to happen in Q3 and Q4. Again, our pipeline is actually healthier than I have seen it in a while. We have added significant resources in North America, more to add depth to our capability, both subject matter experts and practitioners who in turn provide value to our existing customers, as well as have us make improve our conversion rate. So North America also frankly looks quite healthy.

Our top ten has always been little bit of a mixed bag with two or three either being flat or occasionally declining. At least in the near term I see our top ten coming back strongly in Q3 and then continue in that trend in Q4. The good news is the next set of accounts are beginning to ramp up and there are several who I am thinking by Q4 or Q1 will actually enter into the top 20 which in turn then will start giving us absolute numbers that will also reduce the volatility. So if you look at it, we had top ten contributing about 53-54% of our revenues in the past, it is about 50% now, and I would like to keep it in that range steadily as we grow that percentage even declining a little bit because then your dependency drops.

So, our BPO business pipeline is healthier than I have ever seen it, almost three times what it was in the middle of last year with some sizable and good deals, one. Two, more importantly, the work establishment of an integrated IT/BPO capability is beginning to bear fruit. Most of the growth that we had last quarter in the BPO side came from existing customers of Hexaware and the quality of that what we have delivered into these customers has also changed.

The new leader in Europe brings lot of energy, rigor, etc., into the process. We have also hired some practitioners in the US who will add depth. We have strengthened our presence with a leader to run our Enterprise Solutions business outside of the PeopleSoft piece that is specifically SAP and Oracle.

Bottom line, I think we are well prepared, the opportunity list looks good, deal pipeline looks good, and more range cylinders are firing now. There is some growth in US which tends to be a little more Onsite-centric. It is going to continue in Q3 and Q4 which will therefore put some pressure on our margins but

I am hoping it is a nice problem to have and as they evolve, we get some other customers that are offshore content grows it will normalize.

Srivatsan R: Also just wanted to get your comments on the margins and we have seen margins declining quite a bit in the last two-three quarters, on the near term you did outline that it will be more or less give or take here, but if I were to take more four-six quarters kind of perspective do you think leaving currency aside, you would aspirationally go back to the margin trajectory which we used to operate?

P.R. Chandrasekar: That is indeed the case.

We have already initiated actions to control, for example, our number of contractors that we have been hiring frankly has been more than we would like, but that is the nature of the beast when you get that Onsite revenue. We are implementing steps in terms of creating the onsite centers to consolidate work there, and we have actually initiated a series of steps to manage some of these costs to improve margins, and we will continue to do that.

We are also investing in our sales, marketing as well as in some strategic initiatives which will keep the margins under a little bit of pressure for the next two or three quarters. But, clearly, fundamentally, things are sound, and the quality of our business remains strong, our G&A has not really gone higher, although we are going to be spending some CAPEX on new facilities. So long term I do believe that margins will revert back, but for the next two-three quarters it will be range-bound.

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

Sandeep Shah: Can you just give us what was the volume growth in this quarter?

P.R. Chandrasekar: 6%.

Sandeep Shah: So, Sekar, just one question, volume growth of 6%, onsite effort mix of 200 bps increase, despite that the revenue growth has been just 6%, it has to be more than 6%. It looks like there is a pricing pressure in this quarter?

P.R. Chandrasekar: No pricing pressure.

Sandeep Shah: Because despite onsite effort mix going up and the volume growth almost similar to the revenue growth, why the revenue growth should be higher than this?

Sreenivas V: No, Sandeep, the full picture is seen when you look at utilization also. So on one hand our headcount went up, on the other hand, the percentage of people at onsite went up, but utilization went down. So net-net revenue grew at 6%, largely contributed by Onsite.

Sandeep Shah: Just in terms of the margin outlook, can you tell us what would be the impact of the offshore wage inflation and any decision on the onsite wage inflation?

P.R. Chandrasekar: As of now, we have decided to give an offshore wage hike in Q3. We will announce it after we give the hike in terms of the quantum, etc.

Sandeep Shah: In terms of the SG&A, it has now increased to closer to around 19.6%. Any view whether as we are investing into SG&A and sales and marketing, whether this ratio will remain at current level?

P.R. Chandrasekar: We have been in the 17.5-18.5% range and I think once our Q3-Q4 numbers come in, our objective will be to remain in that 18.5% category. So, that is where we would want to go, Sandeep.

Sandeep Shah: Sekar, in terms of this 6.4% revenue growth this is material portion of those projects which got delayed in the 1Q has come back or this is something new in terms of a demand which we have witnessed in the 2Q?

P.R. Chandrasekar: Combination. Because it is not that we lost any business in Q1, there are some projects which came to our end like we explained with multiple customers, so some of them which bounced back nicely. We also had clients in outside of the top ten that gave us. So it is a fairly mixed bag, it is not that we have a pile up of inventory which suddenly got down. So it is not temporary in nature, because I am also saying that we continue to grow in Q3.

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

Manik Taneja: Just wanted to understand your comments with regards to the different to the key verticals that we operate in. For the first time, in several quarters, one has seen a significant increase in revenues in the Travel and Transportation vertical, and that is a vertical that has been relatively subdued over the last couple of years. So if you could talk about what you are seeing in that vertical going forward? Second thing was that there have been certain media reports about possible leadership changes. Would you want to talk about, is there any such plan on that front?

P.R. Chandrasekar: I think you make a very astute observation about the growth in our GTT business. It has been going through some difficult times actually for the last almost 18 months. But the good news is I think there is a lot of effort that has gone into that business because we fundamentally believe that we had both the capabilities and that requires certain persistence to grow. So, both in Americas as well as in Europe, we have added accounts, we have also added people, we have added account managers, we have added practitioners in North America, we build solutions and offerings in the logistics space, we won an important customer in the Hospitality segment, and with all of these opportunities I actually see travel and transportation base from the pipeline growing at a good rate, I think it has been growing in the range of 4-5% QoQ, I think that will continue at least through the near-term and it is not spectacular, but it is nice to see this vertical which at one time was a corner stone and which has struggled for a while, come back with some good opportunities and some good growth prospects. So that is on the GTT side.

In terms of the leadership change, Manik, I cannot comment, I have nothing to say on that matter.

Manik Taneja: We have seen such a strong growth in the current quarter and this comes from the back of almost four, five quarters of if I may call a deceleration in revenue growth for us. Should this mean that we go back to double-digit kind of YoY revenue trajectory in the medium term?

P.R. Chandrasekar: Too soon to tell, Manik.

But I do believe that if things go well we will be back to a double-digit YoY growth and continue to gain strength going forward.

Manik Taneja: Any particular reason why in terms of our segmental margins, the margins are significantly impacted on the BFSI business?

P.R. Chandrasekar: I did kind of allude to the fact that there is a lot of growth we are experiencing which is a good problem to have in terms of revenues, but some of that business tends to be Onsite. A lot of that happens to be in the BFS segment.

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

Urmil Shah: Sir, firstly just wanted to understand on the environment. Last quarter, we had multiple issues with many of our top clients. How had this quarter been versus your expectation at the start of the quarter? Have most of the issues been solved or there could be surprise positive or negative going forward?

P.R. Chandrasekar: Urmil, I would like to believe that it has happened, it is not isolated unfortunately, but last quarter was a bit of an aberration, in the sense we got hit by developments at multiple clients. Based on what we see today, I am very confident that Q3 will remain strong and Q4 also looks good, and various steps we have taken with Europe coming back strongly, the pipeline in North America, the steady improvement in our BPO business, the investments that we are making in the new verticals, will reduce the vulnerability to some changes in our top five, but not completely eliminated because they still do represent 50% of our clients.

Having said that pipeline looks good, all the geographies are looking good, at least three of the verticals are looking strong, Enterprise Solutions continues to open doors, BI is growing, IMS is growing, so therefore there is no reason to believe that we will not be growing at a steady state.

Going into Q4 there was a question from I think Manik earlier, I do believe that if things go well we will be back to a double-digit YoY growth and continue to gain strength going forward.

Urmil Shah: Also on the large clients, should we expect a good movement only in the next year, I mean, if you look at the number of clients with run rate of more than $1 million, those have remained steady in the last four, five quarters, there has been a less increase?

P.R. Chandrasekar: I am not sure I follow your question fully, but our top ten will grow, but I am also hoping that the growth will come from the next set of clients and we have opened as you can see 13 customers, out of which I am hoping 3 to 4 at least will grow to a million dollar customers in 2014. So it has got to be a little broad based which I like, because it reduces your dependency and vulnerability to the concentration of the customers in the top.

Urmil Shah: Lastly, wanted to just check the large deal, which you mentioned, was that the deal, which we had indicated in a previous quarter from an existing customer, but for an incremental work?

P.R. Chandrasekar: Yes, that is the deal, we have also talked about it as a large digital transformation opportunity and what we like about it is not only is it good in size, it is with a customer there is huge potential and finally it will allow us to both build and demonstrate capabilities in an area that we believe will show more growth opportunities going forward since we are effectively digitizing and also providing some mobile capabilities to this customer.

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

Dipesh Mehta: I just want to understand about the uptick what we have seen in deal ramp up and correspondingly Onsite volumes. So, whether the nature of those could be requiring onsite work throughout the tenure of the project or you expect once the steady state reach we see offshore to uptick? That is question #1 and it would have some positive implication over life of the project. Second question is about the large deal win. Can you quantify the quantum what we have won in this quarter? And the last is about data side. I just want to know what was the operating cash generated during H1 and I miss about the CAPEX what you guided for the full year?

P.R. Chandrasekar: Dipesh, with regards to what you ask on the Onsite/Offshore, there have been multiple wins, some were typically start more onsite-centric and moves offshore. Having said that we have also won in the last six months some eight wins which are going to be very heavily onsite. Those are going to remain heavily onsite and are likely to also grow onsite. It was a decision we took, it is a good client, it is a good business and good revenues, but because it is more onsite-centric and likely to remain onsite-centric, it is going to be not as margin productive as we would like. But, we are hoping as our other business grows it is still going to be a huge contributor to my revenues as well as our presence in North America which is also a good thing because we will open centers and we will hire more people locally. With regards to the large deal, at this point I am not at liberty to give you a number, but it would fall in the category of what we term "Large Deals" which we normally define as over $25 million. Finally, in terms of operating cash, I am going to hand it over to Rajesh.

Rajesh Kanani: We generated around Rs.140 crores in H1 from operations.

Sreenivas V: About CAPEX what Rajesh has told was we spent about Rs.20 crores in the first half of the year and expectation for the second half is about Rs.60 crores.

Dipesh Mehta: On the OCF side… because if I refer the Q1 release, the Q1 operating cash flow was around Rs.55 crores. So this quarter is roughly around Rs.90-odd crores what we have generated?

Rajesh Kanani: Yeah, that is right.

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

Shashi Bhushan: We have added an independent director from Germany. I understand his contribution as a business leader providing input on different strategy. But just wanted to pick your brain on Continental Europe. Any new strategic initiative that we are undertaking right now in that part of geography?

P.R. Chandrasekar: Shashi, historically, Hexaware has been strong in Continental Europe. Some of our good customers have been in Germany for a while. We have also had historically a good presence which we have further strengthened over the years in the Benelux market. We believe that presence and our understanding of the nuances of working in that market will benefit us as the opportunities unfold, because clearly, there are opportunities in Germany as some of those markets open up more to offshoring, and we want to leverage some of the good things that we have done for example in the Insurance space in the Benelux market. That is #2. #3, we have also launched a foray this year into the Nordics that has been a source of good growth for many of our competitors, there are many large organizations present in those markets, and we have also decided that it is in marketplace that we cannot ignore.

So Continental Europe for us will continue to be an area of huge focus and we will make more investments because we believe it will take a little time but those are valuable and profitable customers who can grow well for us and especially given our history it is a marketplace that we have decided to spend more energy and focus on and hence Christian's presence, his knowledge of that market, his connections with the bunch of large organizations there, we hope will prove very valuable in guiding us in the future growth.

Shashi Bhushan: On tax rate part, our ETR has come down quarter-on-quarter despite higher onsite contribution. How to reconcile that fact?

Sreenivas V: We have explained in Q1 2014 that our underlying ETR is about 21.4% but this Q1 our revenue mix underwent some change and the profitability came down. So basically the tax rate went up on account of certain one-offs which were unique to Q1. So Q2 is 22.9% and our guidance for this year was 22-23%, so we stay true to the guidance of 22-23%.

Shashi Bhushan: Was there any one-time payment involved in those IMS deal that we might have won in this quarter that might have impacted our margin in this quarter?

Sreenivas V: No, there are not any.

Shashi Bhushan: Can you talk about your large deal pipelines, and if you can quantify how many are we chasing right now?

P.R. Chandrasekar: Shashi, we have three large deals that are active, there are a couple of more which are shall I say work in process, in the sense that they are at early stages of development. Out of this, there are two which are in an RFP kind of a mode, one is more a proactive proposal, beyond that I will not be able to say anymore.

Moderator: Thank you. The next question is from the line of Shivam Gupta from Equirus Securities, please go ahead.

Shivam Gupta: The first question is regarding this new deal, which you had announced. So based on your prepared remarks and what you just answered, is it that you are developing some kind of an IP or an asset jointly with your customer base sure intern end up selling to them and other customers in that vertical?

P.R. Chandrasekar: Shiv, this particular opportunity, we have as part of the understanding with the client, we will be working with them on some joint development programs, but it is a larger transformation project that is not just purely an IP; IP happens to be more a portion of the value add and the investments that we will be making along with this client. Our understanding is that once we do that we can utilize some of these methodologies with similar such digital opportunities in other clients.

Shivam Gupta: Since this is being kind of a one trend that we have seen across other companies also, is it that you have the rest of the large deal pipeline also has a higher proportion or higher flavor of such deals?

P.R. Chandrasekar: No, I would not draw a pattern there, Shivam. Actually, it is a very mixed bag, it cuts across verticals and even technologies, so I do not want to say that there is a pattern at this point.

Shivam Gupta: Obviously, it has been a good quarter for us and you had expressed confidence going into Q3 & Q4. So, I would just like to have a bit more granularity there that this confidence is more around some deals which you see ramping up as you go into Q3 & Q4, or is it that the growth is going to come through new projects, or new deals, which will get started in those two quarters?

P.R. Chandrasekar: So, our existing accounts by sheer numbers and mathematics still will represent a bulk of the growth that we will see, Shivam, in the sense that our top 10 still as a percentage represents 50% plus of our revenues, so to that extent whatever new I open, I will have to open a lot to hit that from a mathematical absolute number.

Shivam Gupta: I get that, I was not coming from the client, I am saying that even like in existing client, there is a higher risk to them starting a new project or a new statement of work as compared to an existing statement or work ramping up?

P.R. Chandrasekar: So, again it is more a client-specific situation, I talked about client number one for example, which was soft for the last two to three quarters, it still was a healthy number, but relatively soft compared to our historical past. We have won a bunch of opportunities at that client and we see that it will grow rightly in Q3. Similarly, there are opportunities like this in other customers and that is the nature of the beast, Shivam, it is new clients, obviously, it is new business.

Shivam Gupta: Another question was that in terms of these practitioners that obviously you have been hiring, so where do you account for them – they go in your S&M or they are part of an employee benefit expenses?

P.R. Chandrasekar: Pure S&M. If they are based in the field, and they are not in a delivery role either they are hunters or farmers or practitioners who are proposed to provide presale and other consulting support they fall in our S&M category.

Shivam Gupta: In the exchange filing, I think we have a write-back of around Rs.9 crores odd for employee benefit.

P.R. Chandrasekar: Shivam, I do not quite follow the question, so if you do not mind.

Shivam Gupta: I will take that offline. That is a minute thing. Last question little bit is on the fact that this time we grew well and we added a decent number of people. So, is it that the deals or the work came in skill sets or areas, which are adjacent to the competency we already had in-house?

P.R. Chandrasekar: That is a reasonable conclusion because we have added a lot more lateral than we have added in recent past, and typically laterals you hire based on need, and demand and our ability or inability to fulfill that with our existing batch. So to some extent you are absolutely right, they have come in skill sets that we either did not have a person for, or a person with the appropriate H1 visa. So we have had to hire people depending on requirements as these projects have rolled in.

Moderator: Thank you. The next question is from the line of Kunal Tayal from Bank of America-Merrill Lynch, please go ahead.

Kunal Tayal: Rajesh, you had identified three factors that impacted your SG&A costs this quarter. Could you just break out the quantum of the three factors, please?

Sreenivas V: Kunal, Sreeni here, we do not really break numbers out anymore.

Kunal Dayal: Specifically, if you could talk about the reversal of provisions at least.

Sreenivas V: Kunal, giving one item means giving the other two items also, so let us leave it there.

Moderator: Thank you. The next question is from the line of Ankit Panchmatia from Dalal & Broacha Stock Broking. Please go ahead.

Ankit Panchmatia: I just wanted to know that as we have appointed a consulting firm to improve our operational metrics, so can you just share what kind of timeframe you are looking out for this improvement or for what tenure they are being appointed?

P.R. Chandrasekar: So Ankit, without sharing too much, basically it is a well known global firm. The charter of the project that we have undertaken cuts across two fronts – one is largely around for... lack of a better word, you may call sales excellence, that includes account management, hunters versus farmers, our go-to-market, how we bid on projects, how do we make calls, the training of our personnel, so it cuts across a whole bunch but largely in the world of sales excellence. The other is more strategic. What does our portfolio currently look like, which are those in which we should invest more resources, by that I mean both verticals and horizontals, developing strategies in some which then can be used to develop strategies in the rest, by strategy I mean detailed offerings, areas of focus, gaps in our capabilities, customer and competitive environment, things of that nature. The third piece as a part of this is both also setting up win rooms, which will help us learn on how can we compete and effectively win in the marketplace, that is broadly the gist of this exercise. As part of this exercise we have dedicated people from within the organization to focus on this effort along with this consulting firm and their remit is for them to help us through this process, to train our people in this process, to institutionalize this process and this process is likely to go anywhere from 12 to 15 months.

Ankit Panchmatia: After the completion of this exercise, do you see our revenues reaching at the historic high levels or to cross the same?

P.R. Chandrasekar: Cannot tell you that, clearly we are hoping that our revenue picture will increase, clearly, we are hoping that the quality of our accounts will increase, clearly, we are hoping that the number of larger customers we are able to get will increase. It also means that we are more focused in the areas that we do business, which in turn will result in bigger customers, more offshore, better utilization of our people, etc., thereby resulting in margins, but improving margins is not the remit of this exercise, improving the quality of our revenue, improving the future quality of our customers, and improving the future quality of our depth and content in our verticals and horizontals is the focus.

Ankit Panchmatia: In the previous quarter we added 11 clients and the active clients were 235 and in this quarter we added 13 clients.

Sreenivas V: So Ankit, it basically means that some of the clients with whom we did some projects, those projects came to an end, and subsequently, we do not have any active work with those clients.

Ankit Panchmatia: On net basis, we added just three clients

Sreenivas V: Yes, net-net it is 3 clients, that is correct.

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

Sandeep Shah: In terms of this new deal win, this is an incremental business and is it coming from an existing account?

P.R. Chandrasekar: It is coming from an existing account, it is inclusive incremental business, but we have also structured it in a way that we have secured the existing business also for the next five years.

Sandeep Shah: And the incremental part we term it as a large deal or because what we said is it maybe upwards of $25 million, so should I say that the $25 million or more than that...?

P.R. Chandrasekar: $25 million plus would be the size of the overall deal.

Sandeep Shah: Which includes some part of your existing business?

P.R. Chandrasekar: That is right.

Sandeep Shah: What kind of demand in the Banking, Capital Markets which has been coming now. As we were highlighting entering into

CY14 that this vertical will remain strong and it looks like barring the first quarter the growth has bounced back. So...

P.R. Chandrasekar: It looks healthy, pipeline is very good, some of our existing customers continue to look very promising, and we are beginning to make some entry and forays into Europe, when our traditional faith has been more in the US. So all in all, BFS continues to be strong and probably still our fasting growing vertical.

Sandeep Shah: As we were been focusing to broad base the growth beyond the top ten for now, more than I believe a year, so have we reached to a level where client-specific issue in the top ten may not impact us much because of the top line created outside that?

P.R. Chandrasekar: Not completely out of the woods yet. It is not that there are issues, it is more variance and some demand, there are no major issues from project or execution or delivery standpoint, but there is still a vulnerability on our part given our dependence on our top 10 for some blips in demand from that side.

Sandeep Shah: You have been hiring SAP and the Oracle outside the PeopleSoft. What is the demand outlook for that, because it looks like the license revenue growth for both these SAP, Oracle is on pressure and the demand is shifting from on-premise to the Cloud kind of a software?

R V Ramanan: Sandeep, our revenue from these two practices are not exactly high, but the demand overall there is a slight sluggishness, I do not see a demand decrease for either the SAP or Oracle in the near term. We do see strong demand and we are seeing a lot of opportunities in the pipeline which has been generated for these two enterprises.

Sandeep Shah: Is it the more upgrades of the on-premise software or is it something?

R V Ramanan: It is both upgrades as well as implementation, which eventually leads to support and maintenance as well.

Sandeep Shah: What we are trying to say the margins would be range-bound. So in the coming quarter we will have a hit through the wage inflation. So will we able to recoup that headwind or right now our focus is largely on the growth and we will look margin on a medium to longer term?

P.R. Chandrasekar: I do not want to get drawn into that debate, Sandeep, but I am not suggesting that our margins are going to take a dramatic hit or anything like that, all I am saying is that you are not going to see dramatic improvements in our margins in the next two to three quarters. We are working hard to ensure that we maintain our margins at similar levels, that is what I meant by benchmark. There is an offshore salary component that is going to come. We are also likely then to grow and hopefully we will try and offset some of that, but we are also continuing to invest. So overall I see our margins remaining somewhat in this range in the next couple of quarters.

Sandeep Shah: In terms of growth momentum we believe that in a small range we can continue what we have witnessed in the Q2?

P.R. Chandrasekar: I do not want to go too much into the future. I have said that we believe based on our pipeline and the visibility that we have with our existing accounts and our opportunities, we will have a healthy growth in Q3.

Moderator: Thank you. That was the last question from the participant. I would now like to hand over the floor back to Mr. Chandrasekar for his closing remarks. Over to you, Sir.

P R Chandrasekar: I would like to thank all the participants on the call for taking the time to join us for our Q2 Analyst Call. We enjoyed the questions and the interactions. Wish you the very best for the rest of the earnings season, and look forward to connecting with you all in the next earnings call. Thank you once again.

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

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