Hexaware Technologies Limited

Q1 CY 2014

Earnings Conference Call

April 29, 2014

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Moderator Ladies and gentlemen good day and welcome to the Q1 FY14 Earnings Conference Call of Hexaware Technologies Limited. 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 this 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. Thank you and over to you ma'am.

Latika Gidwani Thanks Mallika. From Hexaware, we have with us Mr. P. R. Chandrasekar – Vice Chairman and CEO. Mr. R. V. Ramanan – Executive Director and Head Global Delivery. Mr. Rajesh Kanani – CFO, Mr. Sreenivas – Chief Strategy Officer. The Safe Harbor statement is available on the Hexaware press release and on our website, and I will take that as read. Another thing is in the press release we have inadvertently missed giving the global headcount. So, the global headcount at end of March 2014 is 8,952 up 98 on a Q-o-Q basis. With this I hand over to Mr. Sekar.

P. R. Chandrasekar Good afternoon Ladies and gentlemen. A warm welcome to the earnings call, I know it is the end of the earning season and I appreciate the interest of all those on the call in Hexaware.

At the very outset I do want to state that this has been a very disappointing quarter on a number of fronts primarily starting with our revenue line that in turn obviously impacted our margin structure and our margins also declined Q-on-Q compared to Q4 2013. While during the last analyst call I had indicated that revenue in Q1 would be soft. We did not see this coming in terms of the dramatic decline we have had in Q1 2014 compared to Q4 2013. The entire decline can be explained and as a result of a combination of events at several of our top 10 clients. The vast majority of whom originate in the Americas geography and therefore when you see our numbers both our top one, top five, top 10 and Americas you will notice a difference in the percentages as well as the revenue numbers. It was a combination of certain unique client circumstances across several clients. It was related to certain budgeting decisions that were reversed or changed due to the allocation of funds to specific work streams and also some planned ramp downs. To a large extent, this was unanticipated therefore it caught a lot of us by surprise. In addition, in several cases given that it was the first quarter of a new fiscal year, the clients were cautious in allocating their planned spend for the different initiatives and that also resulted in certain growth that we are anticipated in certain accounts not materializing. All in all, this combined impact across multiple clients together resulted in a material impact for the company in terms of our revenue decline Q-on-Q.

I would like to mention here specifically that relationship with each and every one of these customers remains strong, remains stable there is no major cancellation of any large engagement or project. We continued to have projects in hand as well as a pipeline from all of these customers and I am confident that as a group of Top 10 clients while there would be some of the Top 10 that grow in Q2 and some of the Top 10 that will come back to a higher rate of growth in Q3 overall the revenue lines from our top 10 customers will improve in Q2 and will further improve as we go into Q3.

As I indicated the majority of this has been in the Americas region as well as there is number one customer as you can see from the metric also. Europe remained stable and we have had a lot of opportunities materialized in Europe, APAC this quarter has been strong and the good news is in our BPO line of business we have a materially stronger pipeline today than we have had even three to six months ago and we are very optimistic that as these deals close numbers will improve.

Along with this change in our revenue numbers going into Q2 and Q3 2014 in revenues, we also will see our margins improving. Our margins did decline by about 330 basis points on the EBITDA line. 350 basis points on the EBIT line and the 300 basis points on the gross margin line. Rajesh will walk you through a little bit more of the details but the vast majority of this decline is explainable due to our drop in revenue. There were other factors that added to it to some extent one was the increase in our onsite compensation effective January 1, which was in the range of about 3% to 4% and the second was a drop in our utilization numbers by about 1.5%. Given that these top

10 accounts are stable, they will recover and will grow next quarter, I feel confident that our overall numbers will improve.

Added to that fact is also a bunch of other things that I would like to mention, we have added 11 new clients during the quarter, broadly from the Americas and Asia Pacific across major focus areas. The pipeline both in our top 10 as well as in other customers is stronger than we have seen it in a period of time. We continued to chase four to five large deals that we have been doing and we have been talking about for the last several quarters. The good news is that we feel very confident that in at least couple of them we will see a positive result before the end of this quarter and the impact of that showing up in our revenues going into Q3.

Despite the performance in our revenues I would like to state that our operations have been fairly robust. We have not taken any action that would impact our ability to grow in the future we have continued to invest in various aspects of the organizations strongly believing that the fundamentals are intact, our customer relationships are strong and we will grow going forward.

During the quarter we added 167 freshers to our workforce and as a result of which our overall headcount increased quarter-on-quarter. During the same period we also had a gross addition of 14 members to our sales and marketing team and I think this is the largest number of people that we have included in one single quarter over a long time.

This spans across Europe and Americas primarily across multiple verticals and horizontals both hunters and account managers, consistent with our strategy of having a diversified field force which includes hunters, account managers and farmers as well as practitioners whether they will be vertical domain experts or horizontal technology practitioners who can add value to customers and create more stickiness with our business.

We have also during the quarter as a result of an exercise that we had carried out over the last six – seven months appointed the services of a leading consulting firm to help us refine and walk us through a transformational exercise, primarily in identifying the right micro verticals within our areas of focus to strengthen, to redefine and focus our go-to-market strategy, identify high potential customers as well as institute sales excellence processes in our organization so that one we continue to win good clients, two we are able to grow those clients at an accelerated basis and three develop much more number of $5, $10 and $20 million customers going forward. We remained focused on growing our business, we remained focused on servicing our clients and we have continued to strengthen our organization so that we will grow.

Admittedly this material slowdown in Q1 2014 relative to Q4 2013 is a significant setback for us as we embark into the year 2014 and even though we are confident that we will show good growth in Q2 and Q3 as well as going forward it does make a challenging for us to make 2014 an excellent year but clearly the efforts are on and we are confident that on a quarter-on-quarter basis we see a good opportunity in 2014. We are also comfortable that with the actions in hand as well as the fact that there is no material reason for change we are comfortable that our margins going into quarter 2, 2014 will improve over those margins in Q1 2014.

Bottom line disappointing quarter as a result of several clients. Having said that I wanted to reassure that people on this call that there is no major sectoral issue, there is no major client issue there is nothing that will permanently damage the fundamental strengths of the company, the top customers remain intact, relationships remain intact, pipeline remained strong we are in the verge of closure of two large deals, we closed 11 customers, our pipeline remains very healthy, Europe is stable, APAC has been strong, BPO is good, America has a positive future, all in all things are good, it will still be difficult for us to make up for the debacle here in Q1 but we see growth going forward, we see our margins continue to be strong and we see ourselves as a strong profitable growth company with good customers who will continue to add value, with that I am going to hand it over to Mr. Rajesh Kanani our CFO to walk you through some details of the earnings for the quarter. Thank you.

Rajesh Kanani Thank you Sekar, I think I will discuss on the EBITDA walk**,** and other financial details. Revenue for the quarter as you all know is 95.9 million versus 100.1 million last quarter de-growth of 4.3%. If you look at the EBITDA walk – our EBITDA has gone down by 330 basis points to 19.3% from 22.5% in last quarter and EBIT has gone down by 340 basis points. If you see the breakup of EBITDA gross margins has gone down by 300 basis points, SG&A has led to lower margin of 30 basis points and depreciation has led to another 10 basis points. Gross margin has decreased 300 basis point mainly due to the lower revenue except we had increment in our onsite because of which we have reduced our margin by 100 basis points and the other through lower revenues. If you look at SG&A, SG&A has gone down by 30 basis points but there are couple of things to look at here, there has been a cost increase when we have employed an advisory firm to look at go to market and sales excellence program plus we had added 14 marketing guys, it has increased the cost. However, we had reversal of provisions like debtors and others because of which our margins have gone down by 30 basis points.

Depreciation has been slightly higher because of Chennai premises where we have capitalized two floors of the Chennai premises. FOREX loss for the quarter has been $2.2 million versus loss of $1.7 million last quarter. CAPEX spend for this quarter has been 13 crores, PAT ETR has been 27.9% versus 20.1% last quarter. Current underlying ETR for the current quarter is 21.4% additional 6.5% of ETR is on account of dividend we have received from our US subsidiary. Even though dividend income is not getting reflected in consolidated statement but tax charge remains that's all. The tax ETR has been higher this quarter but underlying tax ETR is somewhere around 21% to 22% in the year.

DSO has been 48 days as it has been a last quarter which is best in the industry. However, with unbilled accruals remains at 70 days against 63 days in last quarter. Cash balance has been 443 crore versus 656 crore in December end mainly due to interim dividend paid in this current quarter.

With this I think I will open the session for question & answers.

Moderator Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Spark Capital. Please go ahead.

Srivatsan Hi Srivatsan here. Sekar just wanted to get your thoughts in terms of the growth strategy you had added a lot of sales guys you said you had a consulting firm to relook at micro verticals so it will be helpful if you can just give us an update as to has there been any change to the focus verticals we had or the focus horizontals we had and with this kind of sales addition we would be looking some of the newer verticals also to expand into?

P. R. Chandrasekar Srivatsan thanks for your question and thanks for your call. Fundamentally nothing really has changed. Our approach at least operationally through the current quarter has not been very different from what it was in the past. So nothing that in Q1 can be attributable to any change in our strategy or policy or tactic so I want to get that out of the way.

Having said that we have implemented two three areas where clearly we see as areas on growth tomorrow. In the last quarter we have launched, I think two quarters ago we had launched our HCM practice as an independent business unit within Hexaware which will combine the capabilities that we have in the HR domain as a company which will combine the strength and the capabilities we have in the PeopleSoft area which will also include our capabilities in cloud, which will include our republic offering as well as our recently formed alliances in relationships with Successfactors and Workday and into this we are also rolling in capabilities on BPO to launch HCM capability and offering which will followed by further rollouts into the field as well as dedicated sales people because we genuinely believe that in the HCM area we have unquestioned capability, demonstrated customers as well as have the functional as well as technical expertise to solve customer solutions and problems, so that is there in the HCM area.

As you are aware during the course of last year we have added a new leader in Europe and also created or have a new leader in our healthcare and insurance vertical both of whom are enacting strategies of their own. We are looking at strengthening our account management we are looking at launching a series of initiatives in the Nordic region which we have identified as growth opportunity for tomorrow, we are also looking at creating certain deals which will help us to get some additional growth in Europe which was many quarters has been flat to moderate.

Same is the case with BPO we have a new leader which we inducted into the company some time last year and in the last six months he has enacted a lot of programs both in terms of absolute focus on the verticals and horizontals and the services we will offer the geographies as well as a renewed effort at going after existing Hexaware customers. We have also added domain experts as well as additional capabilities in our BPO operations. While the results in terms of numbers are yet to show, I am glad to say that we have closed couple of deals in the IT plus BPO area there is a significant win in the APAC market which we did couple of quarters ago there is one in the pipeline which we are hopeful of closing by the end of this quarter. In addition, the pipeline that we have in our BPO operation is three times what it has been during the course of the year last year and therefore I am hopeful while the translation time from pipeline to closer is longer in BPO we are beginning to see a very, very encouraging results into that.

Next we have launched a manufacturing vertical which we talked about to the induction of seasoned veteran from a leading company in Q4 2013, he has been marshalling his forces, he has been recruiting members into his team both internally as well as external domain experts we have actually hired three people from outside to provide us manufacturing expertise. He is also formulating areas that we can leverage from within the organization both the horizontal services as well as creating new offerings.

So that is fourth area that we are looking at and finally we have strengthen our enterprise solutions practice by refocusing and redoubling our efforts with a new leader on the Oracle SAP space. So, all in all there have been a series of measures across the company both in the field as well as organizationally to both bolster our ability to win as well as get growth on this organization.

It's a long way to answer but there were number of areas that we have been doing this.

Srivatsan Thanks for detailed answer Sekar, just one more question from my end then I will join later. In terms of the margin trajectory you have said it will improve from quarter-on-quarter is it some form to see on constant currency basis this would some form be the bottom and you don't see unless there is some material negative surprise. You don't see margins breaking down from current levels.

P. R. Chandrasekar I don't want to say never because one has been surprised before but I am stating here that our Q2 margins will improve and there is no reason for me to believe unless there is some really materially event that our margins can won't be stable.

Srivatsan Sure I will come back later thank you.

Moderator Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod Two things, is there any change in revenue recognition policy among the top 10 clients which is where this kind of volatility is there?

P. R. Chandrasekar No Ritesh there is no change in revenue recognition policy, there is no change in accounting policy or any other aspect I wish I could tell you that this happened because of some technical reason, but reality is our revenue declined, it declined across multiple clients we did have some growth in our next set of customers, we have won some new customers but given that the top 10 represents over 50% of our revenues in absolute terms it was very difficult for us to make up for it and what you see here is unfortunate but real, there was a decline across multiple clients that happened simultaneous point of time and it does hurt us. There is no other explanation.

Ritesh Rathod And in terms of margins can you walk us through like how much impact would be the salary wage hike in next in coming years how much would be the sales and marketing investment impact and how much benefit we will get it from utilization of revenue coming back to normal level.

P. R. Chandrasekar Ritesh I don’t want to give you specifics all I can say is that with regards to the onsite increment that has been implemented on January 1, I think Rajesh mentioned broadly the implication of that in Q1 2014 numbers. We haven’t yet decided and we will let people know as soon as we have regarding the timing of our offshore implement as well as the quantum of that increment so I am not prepared to share that information at this point in time but you can assume that our norms will be as per industry standards not in terms of timing but at least in terms of our quantum. Number two, and as the revenue increases if you look at our utilization our utilization despite the drop in revenue we have been, we have actually kept it reasonably tight leash on it, we are still at almost 73% blended and utilization which for a company of our size is fairly high, we have always stated that our range of utilization will be somewhere in the 70 to 75 range, 70 to 73, 74 percentile range at a maximum so I frankly do not see utilization going I mean it might go move a percent here or a percent there but I don't see a material change.

P. R. Chandrasekar This is Sekar the entire team is also back here again. Sincere apologies for the technical hitch, we seem to have got disconnected and I also want to assure you it has nothing to do with our results, sometimes everything happens at the same time so I was telling Ritesh that from an utilization standpoint while there is a decline quarter-on-quarter which in turn does affect us and we do see some variation in utilization quarter-on-quarter depending on projects depending on the number of people we have hired and the skill sets required don't see too much change beyond say 73% odd in terms of utilization and frankly I think I have answered the rest of it.

Ritesh Rathod In terms of sales and marketing investments, how much would be that much like because of the new advisory firm which we have appointed and you are going to, you have recruited this quarter also 14 so how much that number would go up, may not be-

P. R. Chandrasekar If you look at our SG&A we have been in the range of 17% to 18% typically, I would suspect that we would remain in that range, we might add another half percent to a percent or so in terms of some incremental cost which you would consider as investments that we are making in terms of our process improvements in consulting advisory etc. going into the future.

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

Manik Taneja First of all couple of questions with regards to the outlook on business both in your CY13 annual report as well as your commentary in the recent past you have indicated that some of the client addition that one saw during last year you will see significant ramp up in business from those clients if you could talk about what are the prospects in terms of business from these clients. Second question was with regards to once again your dividend policy is there a change to our dividend payout policy and finally a question with regards to the fact that after the change at the promoter level the communication to the street as well as analyst has considerably reduced if you could talk about if there is a change in strategy over there as well.

P. R. Chandrasekar Okay Manik as always three good questions. On the first one on the new customers we have been adding as I said on average about 10 to 12 customers a quarter of which typically about three to four tend to be meaningful customers that can be million dollars plus in the 12 to 18 month period. We have had a mixed track record of that in the past. We continued to add this quarter also 11 on the face of it we do believe that there are three or four of them which will become material in terms of at least million plus in the next 12 to 18 months nothing has changed. Our ability to actually convert that and make it happen has been mixed. It has gotten better in the last two three quarters in terms of our average size of our customers. Having said that it is one of the areas that we have been struggling to improve and it is one of the focused areas of this overall exercise as to how, are we picking the right customers, are we doing the right things at the right time as well as are we introducing cross selling mechanisms at an earlier stage of the process because the whole idea is to increase the size of these accounts as well as to increase the acceleration at which these accounts will grow, it's been mixed which is one of the reasons there is still higher dependency and volatility on our top 10 customers but the good news is we do believe that our next 10 are beginning to show some traction as well as there are set of other accounts in our top 50, where in the last 6 to 8 months we have not put account managers in place that is a stronger pipeline happening and I am hoping that in the second half of this year all of these will start to pay dividends that's on the new customers.

In terms of the dividend there is no change in the policy there is at this point in time frankly not what I would call a stated policy as such the dividend is decided by the board on a quarter-on-quarter basis. I supposed that in the near future as and when the board decides that this is his policy that we would like to state and pursue we will definitely communicate that to the street.

Last point on communication and greater interaction with the street. I accept that as an organization we have kind of withdrawn in the last few months and maybe last couple of quarters to some extent it was also because we were trying to figure out in which direction we will go and the impact of these changes. Going forward I think we will try and correct that and be a lot more visible and available to members of the street.

Manik Taneja Sure and if I can chip in with one more question you talked about two large deals that you are pursuing and expect to close in this quarter itself if you could talk about which geographies which verticals and are these deals within existing set of customers or new customers?

P. R. Chandrasekar Both of these are with existing customers both of these involve expansion of existing set of work that we do with that customer therefore not all of that business will be incremental but it will secure our revenues for the next three to five years depending on the contract as well as get us material incremental business. And they are at very advanced stage and which gives us the confidence to be able to say that they will in fact close in Q2.

Manik Taneja Sure and these would be in which verticals?

Sreenivas V Manik, we will announce after we sign those deals.

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

Ashwin Mehta Sekar I had a question in terms of the revenue decline this quarter so you had closed to $4 million decline how much of that would you attribute to project cancellations or a permanent loss versus just a push back, which should come back in subsequent quarters.

P. R. Chandrasekar Ashwin the honest answer is I really don't know, I wish I know that's not the ideal answer that you would like to hear but the reality is that there have been budgeting issues involved, it's not that a project was terminated and because of any particular execution delivery or any other issue as a result of which we suffered this. There were several projects that were lined up we had people lined up but one or two of them have been deferred there have been changes in one or two organization in terms of their own direction so couple of them have gone away but overall it's hard for me to read too much into this the good news is that I feel that in all of these cases, specifically the clients in which we had the material declines I see them coming back to growth some of them in Q2 and definitely all of them back into Q3.

Ashwin Mehta The second question is in terms of cash levels that you need from an operational perspective what would be the cash levels at which you would be comfortable with?

P. R. Chandrasekar Ashwin, I think we have healthy cash balance at this point in time we continue to generate good cash quarter-on-quarter, we are a cash positive company, we have no debts. We will I can assure you retain adequate amount of cash from a working capital as well as CAPEX and all other operational matters.

Moderator Thank you. The next question is from the line of Pratish Krishnan from Antique. Please go ahead.

Pratish Krishnan I just want to understand this, Sekar typically you know we have seen decline with Hexaware win it's been with one client decline or probably two clients but we have never seen like across top 10 clients decline so I just want to understand I mean how much of these was really surprise and the reason I am asking this is if I look at some of these service clients declined, let's say ERP or testing where we presume companies do have some kind of visibility in terms further ramped downs or at least there is some control over there so if you can comment that on.

P. R. Chandrasekar Pratish I think it's an excellent and a very valid question because it is a surprise if you recall I did mentioned that we would have a soft quarter and I am not trying to get away with that explanation so I knew going into Q1 that there were trouble in couple of clients but I will be candid with you in at least two to three customers the extent of which we got hit in Q1 because either the projects did not pan out or they were delayed in to that or in a couple of customers actually they went into a budget and stranglehold there are all new expenses where can have almost frozen, did catch us by surprise and since there was also if I may share and don't ask me anymore questions because I will not elaborate. There were also couple of issues where some of this was onsite centric, the impact of it was also more material, as you can imagine with the bill rates as they are onsite, even the cancelation of 10 – 20 member project size can have material implications for a company of our size in a given quarter.

Pratish Krishnan And you think I mean this is completely behind you or one should have said something given in this?

P. R. Chandrasekar I will not say nothing is behind me or nothing is in front of me because having been in this business before I have been surprised we have surprised you once in the past in December of 2012 again unintended and unplanned same has happened today based on my pipeline today based on our conversations that we have had based on a very, very rigorous exercise that we have undertaken post this debacle way the our sales team, our geography teams and our account teams. I feel confident about the pipeline, I feel comfortable that Q2 will be better than Q1. I feel comfortable that our Q3 will also be better than our Q2. Having said that given that top 10 represent 50 plus percent of our revenues given that the average size of that clients are fairly large as you can imagine, if any of our top five has issue it will cause a tremor in our organization and that's really the intent in our bolstering next 10 as well as the tail to reduce and mitigate the vulnerability to these top 10 so I can't promise anything but by and large all I can say is that I feel comfortable in the rest of the year.

Pratish Krishnan And just in terms of the salary I mean your onsite probably have been this quarter I mean any update on the offshore settlement when is the due and any what is the number for that.

P. R. Chandrasekar At this stage I would rather not comment as a team still discussing both in the timing and the quantum and we will communicate this to as soon as we make that decision.

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

Sandeep This is Sandeep from CIMB. Just few things, is it fair to say that almost majority of the clients within in top 10 we had a Q-on-Q decline?

P. R. Chandrasekar It feels that way. I would say yes, if you want to say majority which is (5+) the answer actually is yes, which is really the cause of this problem and the surprise.

Sandeep And Sekar you anticipated that the number would be that high where we will have a Q-on-Q decline like as you said that what you anticipated was a couple of clients versus it looks like that majority of top 10 has an issue.

P. R. Chandrasekar Yes, Sandeep it did surprise me.

Sandeep Is it fair to say because if you look at the service lines it looks like that the decline in the enterprise solution is to an extent of 13% to 14% so is it a structural issue in some of our niche positioning where like a Greenfield implementation on the new ERP projects may not be coming and this issue may not be a near term, this issue could be a medium-to longer-term.

P. R. Chandrasekar I don't think as such necessarily subscribe to that point of view Sandeep, our PeopleSoft or our HCM offering continue to get us new accounts and while in terms of absolute dollar numbers the growth has been less than what it was say in 2011 or 2012 and 2013 it was a little more muted, I honestly think the reason for the decline in our Q1 numbers is not attributable frankly to that particular area, it is more attributable to specific client situations and if I can just mentally go through that list I don't barring maybe one which again is not that issue, it is more a customer issue the rest are not really even enterprise solution projects that we were undertaking.

Sandeep And Sekar, just if you look at the competitors' result which has come, the decline or the soft revenue is not been as big as what we have seen in case of Hexaware so is it some amount of vendor consolidation could also be a risk within some of our top clients.

P. R. Chandrasekar No, Sandeep I know the fact there are competitors have shown good growth this quarter makes it even more or even less palatable for both you as well as ourselves and management team in this organization. Unfortunately, that makes it even harder to explain because there is nothing I can't say the whole sector is bad which is not true. We haven't lost in any of these situations the business to our competitor, this is largely due to client situations of ours and largely due to our own destiny and our own vulnerability to certain projects and engagements, meaning that it's not something that will impact going forward because there is an entry of these are large or small or any other kind of competitor, this is not a competitor attributing any of those five plus customers that we had a challenge in.

Sandeep And what makes you believe that the growth will come back in the second quarter. Is it the deals which are being signed, is it the deals which got delayed have started in the later part of March?

P. R. Chandrasekar Now, to answer your question very bluntly the reason we feel confident is we have done a bottom up, rollup of project-by-project, customer-by-customer, SOW by SOW as well as things in the pipeline that we feel very confident will close in the next few days and the kind of billing it will give so that has, what has really given us the confidence. Yes, it is also as a result of some projects that we have won, it is also due to the addition of some people that are doing and commentary from our customers but fundamental for Q2 is a bottom up, addition of projects people and additions.

Sandeep And just last question Sekar, I think as you said that we have appointed a consulting in terms of improving our sales and marketing pitch, we are also making investment in terms of the hunters in terms of the practitioners, it looks like that we are looking to overhaul or making a structural changes in our sales and marketing reorganization, so is it fair to conclude that CY14 would be a year of overhaul or the significant reorganization and the benefits of which come from CY15?

P. R. Chandrasekar No, Sandeep I don't think that's correct. First of all I don't want to link what happened in Q1 to this engagement of this advisory that is decision that we had taken some time in Q4 or even earlier in 2013 it took us a while to identify what we needed to do and the kind of firm that would help us, it so happened the work in actuality started in Q1 and it is coincidence that the revenue declines, so what I want to say is that the appointment is not connected or was not connected, the fact that they are there will now I think help us hopefully resolve some of these inherent issues that we have in terms of both creditability and our excess dependence on our top 10 customers. Now, I think the process of figuring out our value propositions, our sub-verticals, the go to market, the account hurting versus farming, what is working, what is not if an exercise that is currently underway will this result in some changes the answer is yes, but that is more in terms of where we prioritize the investments of our organization, as well as our focus and it will be somewhat more long term in nature. I don't want to say that this in turn will be cause a restructuring period in the company, I think this will be a time where we do evaluate some of our practices we implement more rigor and I am hoping it should not negatively impact our performance in 2014, having said that the fact that we have declined over 4.5 million in Q1 will be the biggest reason why our growth will be bit of a challenge despite growing, or despite hoping to grow well in the next few quarters.

Sandeep Just follow up, I think the growth could be a tailwind in terms of a margin going forward but at the same time there is a likely headwinds which can come through the wage inflation for the coming year as well as if rupee appreciates from hereon, because I think on the attrition we were at 9% and now we are gradually moving up, we are already at 12.6% to 12.8% while the demand on the lateral side is also there, so do you foresee that sustaining margin is a best scenario than the base scenario?

P. R. Chandrasekar It is not going to be easy that's the best that I can answer, you are very right going forward volumes will be back. Yes, our utilization will marginally improve but it's not going to dramatically change. I am hoping that our pyramid will continue to get better. We did add freshers in Q1 despite the challenges we have had. We are planning to add more freshers in Q2 and we are very, very carefully monitoring the hiring of our laterals so managing our costs. Our onsite utilization has been a bit of a challenge, largely because of certain issues that happened in Q1 which we will better control. You are right that there is an anticipated salary hike for offshore which will be a headwind but I hoping the growth that we have in Q2 as well as the growth that we hope to have in Q3 and Q4 we will offset that and we will be able to deliver margins in a stable range.

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

Urmil Shah I would not touch upon the top 10 clients as you have explained in very detail. Just wanted to understand on the outlook for the nine months that is from second to fourth quarter which was there at the start of Q1 and how it is right now, has there been any change?

P. R. Chandrasekar Urmil, see what happened in Q1 does make you relook at your pipeline, your customers and your accounts as well as renew your focus on what you need to get right. Based on the pipeline we have, based on the composition we have add to the top 10. The deal pipeline with both existing as well as new customers, the number of 1 million, 3 million, 5 million kind of size opportunities that we are currently chasing. I would like to say that our outlook going into Q2, Q3, and Q4 looks positive and is the basis on which we feel we will grow.

Urmil Shah And you mentioned about four to five large deals, has there been any change in the same during the quarter, last quarter we did miss out on couple of deal, any such thing happened this quarter?

P. R. Chandrasekar Nothing dramatic to report, Urmil because we still have four to five deals that we mentioned and the couple of them that I said would be we are pretty close to signing and closing this quarter. There are couple of which are somewhat long term and duration and at a more initial stages of their inception. I think once we are little closer to end, I would be able to talk a little more about it.

Urmil Shah Any outlook on pricing on a like-to-like comparison for the top 10 clients?

P. R. Chandrasekar No major comment there, our bill rates have remained fairly stable and I don't see any dramatic developments that should impact our bill rates going forward.

Moderator Thank you. The next question is from line of Atul Soni from Macquarie. Please go ahead.

Nitin This is Nitin from Macquarie. I had two questions firstly, Sekar from a longer perspective I wanted to understand has there been a change in the way you guys at least used to disclose about your deal wins. The reason I am trying to understand is CY10 – CY11 and partly in CY12 one of the reasons why investors got a lot of comfort with this stock was given the way deal pipeline was so the new promoters in place is there a change in and the way you will communicate that to the market that's my first question.

P. R. Chandrasekar Nitin, not really, I think with the new promoters there is a shall I say less of a desire to be go into the mass media but there is really no change in our policy about communicating large deal wins. The unfortunate fact is that we really haven't closed too many in the last few quarters.

Nitin Sure, I am sorry if it's a repeat because I got disconnected in between but any numbers or any targets that you have shared for FY15 in terms of how the overall year could look like for growth.

P. R. Chandrasekar No, Nitin wrong time to ask that I don't want to ask my people either, let's get Q2, Q3 with some robust quarters under our belt and I think we also will be in a position to give you good number with more confidence and you will have more confidence in believing those numbers & our ability to deliver those.

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

Dipesh Mehta Two data related questions. One is you mentioned SG&A contained some reversal of provisions, so can you quantify that amount. Second is about what CAPEX you are looking for calendar '14 and last is if I just want to understand about growth rate and predictability side and last when we reported on last year number it was around February 7th, so we want to understand on monthly rate perspective where you see significant kind of witnessing your revenue momentum and second is considering exit run-rate is likely to be lower than earlier months, do you expect significant ramp up when we exit Q2 kind of thing, which would provide momentum for the next two quarters, so if you can provide some visibility about how the quarter has behaved for us?

Sreenivas V So, Dipesh so let me start with the same sequence. Your first question was about provision reversal and SG&A so Dipesh we don't want to go line by line in terms of journal entries and transactions, Sekar had earlier answered that we expect SG&A to remain in the 17% to 18% region, we are 17.5% so net – net I don't think it really matters in terms of breaking it down any further.

Moving to CAPEX the current quarter expenses as Rajesh Kanani had mentioned was 13 crores, the plan for this year is about 130 crores. We do have some construction plans in our SEZ campuses and hence the number is on the higher side.

The third piece about predictability, the fact is when you look at the numbers clearly on a quarter-on-quarter basis when the numbers go down questions like this come otherwise this question never arise, but as Sekar said based on the visibility that we have and we have done a fairly rigorous bottom-up exercise; that is the basis of the confidence about growth in Q2.

And to ensure we have people ready from a deployment and fulfillment standpoint, our headcount had actually gone up in this quarter 98 is the net addition despite the drop in revenues so I think we are well-positioned even from a people standpoint to deliver both revenue growth as well as fulfill those opportunities as they come up. In terms of visibility frankly this was calendar Q1 which is also the budgeting time, we had a drop in utilization primarily at onsite which also coincides with whatever happened during Q1, so those are the primary reasons why numbers awareness and subsequently you saw the impact on utilization and on margins.

Dipesh Mehta Just about 130 crore CAPEX what would be the building and facility related in that?

Sreenivas V 100 crores approximately.

Moderator The last question is from the line of Nirav Dalal from SBI Cap Securities. Please go ahead.

Nirav Dalal I just wanted to run through the cash flow in the quarter also wanted to know the dividend that you declared, the interim dividend is it part of the balance sheet or no?

Sreenivas V So, Nirav in the next couple of days we will upload the audited financial statements which will have the cash flow details so you can get the details from our websites, we will put it up in the next couple of days. And as far as interim dividend it was paid out in the month of February and hence it has already reduced when you have look at March cash balance. If the final dividend of last year was I think paid today coincidentally that is reflected in the balance sheet.

Nirav Dalal So, the Rs.3 that you have declared in this quarter?

Rajesh Kanani That is also part of the balance sheet.

Moderator Thank you. I now hand the conference over to the management for their closing comments.

P. R. Chandrasekar Thank you first for your interest in Hexaware. Thank you also for your sustained interest and your patience with us, once in a while I know we surprise you but the good news is that the team is strong, customers remain stable, our pipeline is good and we are looking forward to getting back to the good growth path moving into Q2 as well as in Q3. Thanks a lot.

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

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