"Hexaware Technologies Limited Q1 FY 2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone 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, mam.

Latika Gidwani: Thank you, Aman. Good Evening, all of you. Welcome to the Hexaware conference call. The Safe Harbor Statement is available on 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 (Global Delivery); and Mr. Rajesh Kanani -- CFO.

With this, I hand over to you.

R. Srikrishna: Good Evening, everyone. We once again, for the second consecutive quarter we were able to only send you the result, not too much in advance of the call. But this time at least I can tell you why and we will be back to normal from next quarter. So we did have a change of auditor during the quarter, which is unusual, and the new auditor had to be approved by our shareholders today in the AGM that happened just two hours ago. So that is the kind of the reason for all of this. Our earlier auditor was Price and we had a change. So sorry about that. We will be back to kind of normal from next quarter.

We had actually a very satisfying and robust start to the year. Our revenue growth those of you that were there last quarter I told you that we are likely to have a lot of growth coming in the middle of year. Especially because this year that's the way the calendar Q1 is a soft calender. But we did little better than that. Actually, we did better than the CQGR asked for the year in terms of growth for this quarter. So which then puts us in solidly inline to do what we said we will do at the beginning of the year in terms of guidance.

In terms of EBITDA, you will see a flattish slight drop. But essentially what happened is that our margins, gross margins were flat as a percentage which means in absolute terms they grew as much as the revenue did. But we re-invested all of that into SG&A**,** S&M more than GA, and we think that is good for us early in the year to meet the investments because we anticipate a robust year.

Finally, our PAT and EPS did exceptionally well and we knew as part of the planning for the quarter, so that allowed us to spend a little more in S&M. We had guided that last quarter that we will have a net benefit due to the U. S. tax reform. So, we see that impact come through, so our EPS actually had a very robust growth of almost 11%. Again note, we have provided EPS growth guidance for the year again it puts us very solidly in line to meet that guidance.

Those of you that are seeing the chart online, you see revenue our analysis Q-on-Q a walk. But pretty much, the vast majority of the growth came volume. 3.5% of the 3.9% came from volume and two other factors Forex and bill rates that constitute the rest. But the good news is that vast majority came from volume growth. From a gross margin walk perspective, you will see those of you that see the chart, you will see a mix of reds and greens but the net effect of all of that is that the gross margin was flat. There was a little bit improvement on Forex, a little bit improvement in utilization.

We had our usual H1B visa filing fee this quarter. We will have the bigger chunk of the actual cost of H1B coming in Q2, which will impact but that is there in Q2. So there is no kind of change from a Y-on-Y perspective. So while the gross margin was flat, we actually increased investment in SG&A roughly to the tune of 45 bps, which is actually the reduction in EBITDA that you see.

Our top 20 customers once again that is a healthy churn, again there is nobody except the one client which insourced last year, there is no one else that has actually moved out as a result of revenue falling. For the most part, it is because of accounts that were below growing faster that is coming out.

I want to spend a minute or two on the client pyramid, we provided in the Presentation full year LTM view versus a previous LTM view. What you see if you start at the bottom is a lot of robustness in building up of the pyramid and like especially robust for example is the 5 million to 10 million, 6 accounts have gone to 10 and 10 to 20 has gone from 3 accounts to 6. Yes, of course, one of them was 20 to 30 coming down but the rest was accounts moving up. So we feel very good about our portfolio and our pyramid is building up. What that means is that we are continuing to de-risk our portfolio, we are continuing to de-risk, the concentration risk at the top. Now some of it was not kind of planned or desirable like the insourcing or the other account where we have a portion of revenues go away. But the net impact of all of that is that there is a nice de-risking happening at the top and the next 5 accounts and the next 10 accounts continue to do better than company average.

We had a good robust quarter again from an NN perspective. I do not want to call out the fact that this is a reduction from a sequential quarter perspective, but it is a growth from the same quarter last year perspective. It is a consistent enough pattern that Q1 from a new booking tends to be soft, and essentially Q3 quite often Q4 tends to be best for new bookings. So this is consistent with that. So Y-on-Y there is still growth, I think last year was Rs. 24 million if I recall right, NN wins for Q1, we have done a little bit better than that. There were three deals but I will kind of call out one that the single largest one here. There is a company that administers a number of entrance exams and test globally. Global standardized test that they administer in a number of countries. We are doing at least two sets of services for them as part of this (one) we are doing F&A transformation and they are bringing software development for multiple new products in that they will bring to their customers. There are two other ones as well, both on infrastructure, one for a very large construction machinery company and other for a law firm, please recall our newly form professional services vertical - one of the segments it addresses is legal, it was not segment that we were addressing before and this is another measure of success in that.

Our employee metrics kind of stay range bound. Utilization again remains stubbornly high. I can tell you right now almost for sure that it will fall next quarter in a planned way there has been a significant addition of freshers into the system in quarter one, they will hit our utilization in Q2 but that is very planned and necessary for us to meet our demand through the year while it may cost some quarterly variations it is what we have planned to do for the year. Attrition again range bound, we are quite happy with where it is.

For those of you that are seeing chart 11 and I will give enough commentary for those that cannot. I am going to spend some time on this. The headline, of course, is that from a geographic perspective, APAC led growth, substantial growth in APAC 24% - 25% quarter-on-quarter, remember this is happening now after multiple such quarters. To a point where in absolute terms APAC and Europe are now for this quarter neck-to-neck. Europe, I have been saying that Europe will turnaround and start giving smart growth you are seeing it here. North America, we think it is a bit of an aberration, we have had solid growth in North America, slightly below company average or only slightly below or higher than company average for a number of quarters. This is an aberration so we will see North America back to good performance for next quarter.

From a service line perspective IMS continues to grow, be the fastest growing and this quarter there is a large project, there is a good chunk of work that got completed in fact a little bit ahead of schedule that is the reason why revenues also did better which is the reason for IMS to grow the best. But I want to call out something on this slide. Last year, we had said in August at the investor meet, that we have three areas to fix, two problem areas and one potential future problem areas. The two problem areas - one was enterprise service and the enterprise services was contracting roughly 2% a year for three years and we said we brought a leadership, we brought a number of changes and we said you should start seeing growth. And here you are seeing enterprise services growing Q-on-Q above company average at 4.7 also showing actually a modest Y-on-Y growth. And so, you will potentially see improved Y-on-Y growth in future. This will certainly turn the corner. The second thing we said that was that M&C was growing at half the company average. Roughly while you could not see that before, because it was combined with PS vertical. We have now split our M&C and PS. I will talk about PS in a second. M&C - you are seeing actually now has the second fatest growth for the quarter but in absolute terms, absolutely robust growth for the quarter. I had said success will be if M&C starts growing around company average - that they have already started doing better.

We said we will start providing a breakout for PS as a vertical this quarter and also provide you back data. So, our Press Release has back data for a few quarters. So, we have provided a data a total of five quarters and this one and back quarter for four. So, you will see what it was before. I had said that PS would start showing, would start becoming flat this quarter and start showing Q-on-Q growth from next quarter and Y-on-Y in a few quarters down the line. I think. We are slightly behind schedule. We should have got to flattish. We are slightly behind schedule. But we fully expect to show Q-on-Q growth from Q2 onwards.

That is it about the commentary on the various services lines and geos and horizontals. With that, I am going to turn to Rajesh for update on some more on the financials.

Rajesh Kanani: Thank you, Keech. I will start with the Financial Update. So you know we have our dollar revenue growth at 3.9% Q-o-Q and 12.1% Y-o-Y. CC revenue is grown by 3.3% Q-o-Q and 10.1% Y-o-Y and rupee revenue grew Q-on-Q 4.4% and 9.2% Y-o-Y.

If you look at slide #14, on outstanding hedge position and rates, we have a hedge of $. 202.39 million and USD INR average rate is Rs. 70. 03, Euro INR

84.51 and GBP INR 94.18. With the Forex gain/loss forecast, I think Q2 2018 we will have $1.5 million income and Forex gain of Q3 2018 will have 1.6 million FOREX gains. At an exchange rate of 65.175 per USD.

On the balance sheet updates, the good news is cash and cash equivalents has grown to $94 million, in rupee terms Rs 6129 million. DSO is 74 days with unbilled and without unbilled it is 47 days. And dividend we have declared is Re. 1, which is 50% and we are committing that we will give you a capital return of INR 8 per share for the year.

Dividend payout including taxes will be 357.9 million. Tax ETR as Keech said, is 20% this quarter versus 23% last quarter and underlying was 20.5%. So our ETR is likely to stabilize at 20 and 20.5%. CAPEX for the quarter was $1.7 million. CAPEX for full 2018 will be $17.5 million.

With that, I think I will we will we start the 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 Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad: Keech, my first question with the strong quarter coming up next two as you had mentioned earlier, a very modest ask rate why you would not be up in the guidance. I mean is there not an upside raise to that?

R. Srikrishna: First is that, if you are going to up the guidance, I would prefer to do it after two quarters, if you were to change. So I just do not feel like we have enough certainty at this point to make a change.

Apoorva Prasad: Okay. And also, if you can throw some light of what is driving growth in Europe and maybe in terms of verticals?

R. Srikrishna: Sure. So actually Europe around the world for us, one big shift that is been happening over the last 12 months is that our EN deals are becoming more material and that is happening as a consequence of three factors. Our capabilities have expanded. Our service lines have expanded, so there is more for clients to consume from us. Our customers have gotten around to finally recognizing it, not everyone. But a number of them and then our account teams have become better or have been changed and they are able to take that message effectively. And that is actually the best evidence of that is in Europe actually. There is not one account or one deal that is driving growth. It is very secular. There is any number of accounts that are growing in Europe. There is one vertical though that is particularly growing better than the rest which is H&I in Europe.

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

Madhu Babu: Sir, we said earlier that 2Q and 3Q usually are strong quarters, so last year we did 5% kind of growth in constant currency in 2Q. So that kind of momentum will be there in 2Q and 3Q this year?

R. Srikrishna: I am not giving any more specific guidance than what we have already put up.

Madhu Babu: Okay. But we retain the commentary that earlier we said that 2Q, 3Q would be your best quarters on growth?

R. Srikrishna: Yes, especially because the calendar is a little better in Q2 than Q1 and there are deal build-ups from last year that will start giving us revenue from Q3 some even from Q4.

Madhu Babu: Okay. And just one more, sir, on the margin trajectory, I think at least last two quarters the margin trajectory has been softening. So, I think there has been good headcount addition in this quarter. So how should we see margins from hereon over the next three quarters? Thanks.

R. Srikrishna: So, again the guidance at beginning of the year is that our EPS will be flat with revenue. There is no reason for us to change it at this point and you will see some kind of lumpiness quarter to quarter. I did tell you we made some S&M investments earlier this year. We have also made, which is not fully reflected in these numbers, we have added a fair bit of headcount. It is not fully reflected from a utilization perspective, but you will see it definitely reduce utilization quite a bit next year. But that is all planned. So, I am telling you right now you will see it go down but it will help us then fulfill demand effectively for the rest of the year.

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

Sandeep Shah: Keech, your comments regarding 2Q, 3Q seasonally strong also holds true for CY 2018 despite a good start for 1Q?

R. Srikrishna: Again, I am not giving any more specific guidance than what we have already given which is what the growth for the year is. But, yes, I mean this sort of calendar-wise it is a little better. But, see, some of the improved revenues in Q1 was as a result of better execution and earlier completion on a fixed priced project which some of it could or otherwise come in Q2. But with that color Q2 will be better. I mean, Q2 just like calendar-wise it has whatever 4 odd percent more calendar days.

Sandeep Shah: Okay. And second, Keech, in terms of any further client specific issues outside the two accounts which we had last year?

R. Srikrishna: No, no.

Sandeep Shah: Okay. And a few things in terms of the deal flows and pipeline wins and the IT spend both in Europe and North America. Any update in terms of Q-on-Q, is it improving, is it remaining stable or any kind of weakness or softness you are witnessing?

R. Srikrishna: We will certainly see no softness in the pipeline. In fact, I mean, this is a time of the year when the pipeline tends to build, the closures tend to be slower and then the latter half of the year, it tends to reverse a little bit. Pipeline tends to unwind, and closures tend to improve. From a Y-on-Y perspective you are seeing improvement in pipeline. Both in NN even more so in our existing clients. Actually, I called out of three reasons for improvement in EN earlier. There is a fourth and an important one which is the fact that we have added a number of solid clients in the last three years. A lot of them have headroom for additional services to be sold. So it is a combination of all four that are EN pipeline is looking extremely robust.

Sandeep Shah: Okay. And just in terms of services, can you give some color, will you able to provide us a composition of a digital revenues, how it has been doing, what are your efforts to ramp-up? And second, if you look at your BFS this quarter, which was a growth driver last couple of years it has been slightly sluggish, any reason to call out?

R. Srikrishna: There is no particular reason for BFS. We still expect it to be by the time year is done, we expect it to be at or above company average in terms of growth. I think there is going to be competition for who is the fastest which is a very good thing for the company. Last couple of years, they have been solo with that competition on being the fastest. But I think they are going to get some competition this year from both H&I and M&C specially the way M&C started. But I still expect them to do quite well. Sorry I think you had...

Sandeep Shah: in terms of digital revenues.

R. Srikrishna: Digital revenue. So we do not do, we do not report digital revenues and I have said many times, I will say it again, there is no consistency in what industry calls digital. So we think actually it is quite kind of meaningless to look at digital or report out anything called digital. On the other hand, we do keep calling out the fact that, you can see in our performance you can see how some of the teams are playing out. You can see IMS and BPS growing as a result of automation. You can see ADM growing as a result of customer experience transformation largely and Agile. So you can see digital assurance growing again largely as a result of automation so we will point out to you what teams mean growth or not growth in service lines. But I do not see ourselves kind of joining the bandwagon and saying this is my digital and that is growing so much faster.

Sandeep Shah: Okay. Do you believe your pipeline built up would give you a confidence that the growth can be diversified beyond IMS and BPS going forward?

R. Srikrishna: Yes. So actually, if you see our service line, I mean if you look at our service line growth, our ADM business has been growing consistently. So it is gone a little bit under the radar but it is consistently delivered solid growth. I mean, this quarter it is not. But if you look at the last number of quarters, ADM you will see is right around company average growth or just shy of company average growth. That is very critical for our business because it is a largest chunk for business. If it does not grow well, we will not do well. So there is already diversification, that is the point I am making.

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

Ashwin Mehta: Keech, I had a few questions on the secondary mortgage space. In October 2016 which was 3Q of FY 2016 you had talked about larger transformational programs in this space seeing a stepping down in outlay in two years, so that means more like the end of this year. So, is that still an expectation?

R. Srikrishna: Yes. So, Ashwin, if you had not brought it up, I was going to bring it up proactively for you because I know you had sent this question earlier we could not address it because we were in silent period. You have a long memory. You know bit of yes and no in that the specific program. Big capital program will wind down slowly but it is not going off the cliff. It is going to wind down slowly. On the other hand, that is being more than amply replaced by newer programs. So much like any kind of capital situation in any account, some programs come to an end and other programs start. There is not a reduction in budget and the client, because this program is winding down. Except it is not a cliff, like most large programs if it is intended to get over 2018, it will not go. It will go, at a minimum some quarters beyond maybe even longer. But it is beginning to kind of slow down. But there is no reduction in budget as a consequence of that. There are enough other programs and we continue to maintain a healthy market share in the account so that means we continue to do well in the account.

Ashwin Mehta: Okay. Just to follow-up, in terms of our exposure in BFSI, how big would be the mortgage exposure and any impact did you see from rising interest rates there?

R. Srikrishna: So, it does expose we do not report on it but I would say it is substantial. It is at point of time like say three years - four years ago when I said asset management was by far way and above the largest. It still is the largest, but the gap is not so large anymore. In fact, they are may be quite even because even in these accounts it is not all mortgage there some asset management capital markets spread even within those two accounts. In terms of impact, clearly what is going to happen is that the number of kind of new mortgage origination may get impacted. But these guys are two steps removed from it. There will be some volume impact on their overall business, but they are two steps removed from being a direct correlation with the more direct impact will be on primary mortgage originators. What they do is then they buy it from primary mortgage originator, their core business is to securitize it, resell it as different grade investments to asset managers. So that business will not change substantially but there will be some impact.

Ashwin Mehta: Fair enough. And just last one small thing from Rajesh, can you remind us on what would be effective tax rate expectations for this year and the next?

Rajesh Kanani: I think this year; we are expecting ETR between 20% and 20.5% is what I said. Next year we are not projecting at the moment.

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

Rahul Jain: So we have said that we have reinvested strongly on S&M, as you see good opportunity in the market, so where we see this trends in specific? And if you could explain where are we investing more from S&M, is it in terms of more foot on ground or opening new risk areas in terms of market goes or capabilities?

R. Srikrishna: So the S&M investment is kind of fairly it is in number of areas, right? If you start at leadership on the back of nine leaders that we added last year, we added very senior hire this year which I spoke about actually I think, in the Q4 call, Sandeep Dhar, but he joined during this quarter, during Q1. We are localizing our continental Europe sales force. We are now diversifying it and localizing that team there. We will continue to kind of add capability in customer experience transformation that is the unit that Sandeep came to lead. We will continue to invest and add capability there. And finally, as we are kind of adding new accounts we need to invest and increase account management and delivery management. So it is a broad base. I would not call maybe one or two areas, but it is a fairly broad based investment.

Rahul Jain: Okay. And secondly, we have recovered some pain parts of the portfolio and have no major headwinds in client portfolio as well. So, in this light, should not we expect a better growth for the total business overall or should we see this in terms of general declining growth rate in the sector? Or maybe you can just say that what is the ideal target growth rate for business of our size given the opportunities and capabilities?

R. Srikrishna: Our kind of our desired growth rate is going to be in teens and I recognize teens as well in a wide range. But that is kind of multi-year desire. As far as this year is concerned like I have already said a couple of times, we do not see enough at this point to change our guidance, so our guidance remains where it was.

Rahul Jain: Okay. Just a small thing on the same thing, this number which you have in mind of teens which has wide range, what was this number, let us say three years ago and how it has changed over the last three years?

R. Srikrishna: See actually our last three years average is been right around teens. I mean, it has been in teens. It has been in mid-teens and our desire is to see and that is not kind of even every year, I think we had a year of 15% or 16% or 15% then we had a drop to about 9%, then we were back almost 16%. But three years cumulative basis it is been in mid-teens and our desire as an organization is how can we build a team that will deliver that kind of performance for a very -very long time.

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

Madhu Babu: Sir, on the manufacturing and consumer can you breakup on what are the sub-verticals of competency for us? And second, APAC has been driving towards the last two quarters - three quarters and growth has been phenomenal. So, which of the regions in APAC where the growth is coming from?

R. Srikrishna: Right. So, manufacturing and consumer has kind of two or three important clusters. It has process manufacturing, it has education, it has retail, telecom. It has some others too. But these are the more important ones. And APAC actually India has been driving growth, Hong Kong, Singapore have been driving growth.

Madhu Babu: Okay. Is it mostly the shrink IT go digital, which is driving growth in APAC as well? And whether this higher growth in APAC is also impacting the margin trajectory over last two quarters?

R. Srikrishna: The answer to second one answer is no. It is actually kind of cloud has been there is one very large project that we are executing which I just spoke about earlier that we completed as bigger chunk than we had planned to in Q1. That is on cloud. And so actually if you want to call out a single in the new themes, cloudify everything is the theme that is driving the single largest driver followed by automate everything.

Madhu Babu: Okay, sir. And just one last question, sir. I mean if you see the larger peers, they are talking of lot of investments in frontend digital services like design studios or user interface customer experience transformation, etc. So, within our verticals of focus, so how are we placed there and how is the recent recruitment? How we can help leverage to drive this business?

R. Srikrishna: So would we have had UX design and tech capabilities surrounding that or downstream to that as part of ADM business for longish time. And the reason you are seeing ADM, three-year average, the third fastest growing business is that. What Sandeep meant to do is to kind elevate it to one further level. The way we think of our customer experience transformation - there are two themes that he will bring. The first one is the fact that, if you look at all of our industry, we are all organized along substantially similar looking service lines. It does not matter who the company is, right? But really to deliver true customer experience transformation it needs services to be integrated from multiple of the traditional horizontals. And so our new themes, each of our new themes is also meant to be reflected in organizational structures that cut across the traditional horizontal boundaries. The second kind of new thing is to focus on new age user interfaces. We believe the way humans will interact with machines and businesses will change decisively to conversational and visual and gesture as opposed to typing. Even if it is typing, it is going to be conversational typing as opposed to structured inputs into a computer or an app and kind of leading the change into that world. So, what that means is UI as we have noted in the past will become rapidly irrelevant. UI means you had a great mobile app. I think UI in future great UI will mean a conversational interface that can understand everything you say to it. So, these are kind of two changes in focus areas. The first is to integrate across horizontals and the second is to focus on the new age user interfaces.

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

Abhishek Bhandari: Keech, I just had one question, in the Third Quarter Conference Call of 2017, you had indicated that you are starting to hunt into the portfolio companies of Barings to get new business. Can you share some update over there?

R. Srikrishna: Actually, one of the deals that we won this quarter is their portfolio.

Abhishek Bhandari: Yes, incrementally is it going to become one of the most important focus areas for you or this is just one of the new avenues which you are looking into?

R. Srikrishna: Yes. I think incrementally it will become more important. It is not in terms of revenue to the company from that kind of a channel if you will, is a relatively small not material today. But they are becoming more ambitious I think this is kind of public domain information. They are currently rising north of $5 billion new fund. They are raising capital for it. There are not many funds of that size, right? So the individual ticket sizes of the investment will also go up proportionately. So each company they invest in will become a potential target for us.

Abhishek Bhandari: So is there any change in the sales structure or are you going to use the existing sales structure only to get more into this avenue?

R. Srikrishna: We are not changing our sales structure. So, depending on the vertical or the geography that the portfolio is located in that particular unit will be deal it.

Moderator: There is one last question from the line of Ashwin Mehta from Nomura.

Ashwin Mehta: Just one small one, in terms of our earnings guidance of similar growth as last year, this is on constant currency, right or what is the currency assumption there?

R. Srikrishna: I want to clarify our guidance is 10% to 12% on revenue and EPS so it is not similar to last year. So we said our revenue growth and our EPS growth will be parallel, so that is the guidance. From a currency perspective you can take it how you want. The reason we are doing EPS is frankly if the currency moves in one direction our gross margin will improve and our Forex gains will fall. If the currency moves in the other direction, our gross margins will fall, and our Forex gains will improve and the way our hedging is a very heavy hedging for the year. So sensitivity to the currencies for the year is not going to be huge.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Advisors. Please go ahead.

Jay Daniel: Would it be right in saying that at the moment there is a near 1:1 linearity between staff to revenue growth wise?

R. Srikrishna: More or less and that is very consistent with what we want to do because I know where this question is going? If you are focusing on automation, how is it that there is no non-linearity, is that your question?

Jay Daniel: Yes, because you have a goal mentioned in your Annual Report saying that half of the work will be done by machines, you want to be the first company to get there. So how will this play out on staff strength and margins and linearity of revenues and stuff.

R. Srikrishna: Sure, sure. Our goal is that is not to use automation as a mechanism to improve profitability, but instead as a mechanism to improve market share. In fact, we believe that trying to improve profitability using automation is an unsustainable strategy, eventually customers will want to take the money back.

Jay Daniel: And if I were to look at your verticals actually there are two companies. I mean you have BFSI which has been growing quite well over the last two years to three years, but which has margins of just 12% while the others have single-digit growth but with margins of 20%. So you are saying this year it will be more even ended the growth between verticals. So will it be the case in the current year? I mean why is it such a big differential in margin between BFSI and the rest?

R. Srikrishna: So there are actually couple of accounts in BFSI where by law we need to do all the work onshore. So that is the reason for the difference in margins. And a lot of what you see as a total onshore business actually comes from BFS. But yes, this year we do expect more balanced growth.

Jay Daniel: So that will play out on better margins? That will give you better margins this year?

R. Srikrishna: We have given composite guidance on margins that we think it will be flat essentially.

Jay Daniel: You have said from the next quarter there would be definitely a decline in utilization. It is going to be planned addition of freshers into the company. So would it result in a decline in value-add for employee? Would it be too broader statement to make?

R. Srikrishna: I am not sure quite what you mean by value-add for employee.

Jay Daniel: That is sales minus staff expenses on a per staff basis.

R. Srikrishna: Well, I mean, temporarily if there are people sitting idle then it will reduce it but same if utilization is lower, revenue per headcount will come down, yes. But we expect it will a temporary injection as we kind of look to manage our supply for demand better.

Jay Daniel: Okay. And, sir, nearly one-third of capital employed is in cash and nearly the entire amount is in current account. I mean, it hardly gets any returns. In fact, there is no return on it?

Rajesh Kanani: Yes, just to manage Forex risk. So, our around 60% money in dollar terms where we are getting very low amount of interest. But then that still manage the Forex across the world we are keeping it money and I think that is what it is.

R. Srikrishna: I mean, we are rethinking about it. But historically given the currency situation there is not a lot of value ultimately and moving the money, getting higher returns and losing it in currency and there is a risk. But we are rethinking about it.

Jay Daniel: So you are saying bulk of this money is lying abroad. Because you have a statement saying that whatever profits are there in subsidiaries will be reinvested there.

Rajesh Kanani: Yes, profits we definitely reinvest but I think lot of money comes from through way of transfer pricing. So as and when money is needed in India that money is transferred here.

R. Srikrishna: But, yes, it is the cash is in subsidiary, yes.

Jay Daniel: Okay, so I mean nearly one-third of your capital employed does not give any return now as of now?

R. Srikrishna: Does not earn any treasury income, yes. You have to evaluate between earning treasury income or losing money on Forex, that is what you have to evaluate at the end of day.

Jay Daniel: Okay. And your capacity increase is largely driven by tax planning right, SEZ requirements?

R. Srikrishna: Yes, head account additions? Unfortunately, where we kind of have campus capacity does not always match with where we need additional people to be deployed, so there are some renting going on, so there is capacity expansion driven by both. This year actually there was none driven by SEZ. I think, the SEZ requirements were completed when we built Phase-II in Chennai and the Pune campus. I mean, Pune got completed early 2017. Chennai Phase-II got middle 2017. Since then all the expansions have been basically driven by demand.

Jay Daniel: Okay. Because most of the Chennai capacity, etc., only half is utilized, less than half is utilized.

R. Srikrishna: Correct. So the Chennai capacity expansion was driven by SEZ.

Jay Daniel: Okay. And going forward your capital investment will not be much?

R. Srikrishna: So we projected we have given you $17.5 million for the year.

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

Sandeep Shah: Yes, Keech, just to follow-up, in most of your comments you said that in verticals also this year the growth may not be just from the capital markets or BFS, it could be GTT and M&C as well. In terms of services also, you also said that it would not be just IMS or BPO, it could be ADM and Enterprise Solution and in terms of the new wins you were also saying that the existing accounts, new wins are also ramping-up and in deal closure also you are saying that there is no softness. But do you still see that you are not getting confirmations to upgrade the guidance or what kind of confirmations you are looking for? So how should we read this connecting the two facts?

R. Srikrishna: Yes. Sorry I had just for one quick clarification. I did not say GTT in terms of competing for top spot on growth. I did not GTT, I did not say professional services. But I did say H&I and M&C could compete with BFS for the top slot in growth. We look at variety of things, Sandeep. I just kind of this is what we did last year, we looked at two quarters of solid actual performance before we tinker of the guidance. So I do not feel kind of good about doing anything basis one quarter.

Sandeep Shah: No, when you budget to get the guidance when you have given the original guidance post 4Q and now when you foresee your assumptions have not majorly deviated, right?

R. Srikrishna: Correct.

Moderator: Thank you. Ladies and gentlemen that was our last question. I now hand the conference over to Mr. R. Srikrishna for closing comments. Thank you, and over to you, sir!

R. Srikrishna: Well, thank you all for your patience for late evening call. I look forward to talking to all of you next quarter and maybe meeting some of you perhaps in between. Thanks. Have a good evening.

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