"Hexaware Technologies Limited Q4 FY15 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 participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your Touchtone telephone. 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: From Hexaware we have with us Mr. R. Srikrishna – CEO & Executive Director, Mr. Ashok Harris – President-Global Delivery, Mr. Rajesh Kanani – CFO. The Safe Harbor statement is available on the Hexaware website and I shall take it as read. With this, I handover to Mr. R. Srikrishna.

R. Srikrishna: We know that you would have all seen the results, so we will try and spend time giving you as much insights as possible. Over the last year our primary objective was to establish momentum in growth and if you look at our 2014, we grew at about 6% to 7% and our first and most important objective was to establish significant growth momentum.

We said that in the beginning of the year, last year 2015, that our goal is to outgrow the NASSCOM guidance which was at that time 12% - 14%. Now we are happy that we have got that on reported currency and obviously the constant currency even better. So in reported currency close to 15% growth.

We have also established good momentum for next year with new booking from new clients at $120 million TCV for the year and that would give us confidence about growth for 2016 and beyond. Now we feel good about the fact that this has come in spite of an obviously soft quarter that we have had so far. So let us look a little bit at both full-year numbers and quarterly numbers.

So first, full-year revenue growth 14.9%, EBITDA before ESOP at 10.9%, after ESOP at 6.7% but PAT grew at 15.8%. So ultimately PAT outgrew revenue growth and of course EPS after the ESOP dilution grew at little over 22%. This is of course on top of a roughly 4% dividend yield.

Now, clearly in FY15 we were investing to grow and that is kind of part of the reason for the numbers differential between revenue and EBITDA, plans that we were creating room for ourselves to grow from, we invested in sales and marketing and solutions but we also then wanted to keep utilization at certain optimum levels, which will enable us to grow not to push the pedal too hard on that.

If you look at Q4, you have seen the numbers, we had a soft quarter. I think there are essentially three factors that impacted our revenue. We had a soft calendar and you will see in

Rajesh's presentation the impact of each of these called out specifically. We had a soft calendar. We had furloughs, which do not happen every year but we had furloughs and clients balancing their budgets. And then we had the impact of floods in Chennai. Almost 45% of our global employees are based in Chennai and so again you will see the impact of that called out but bear in mind we were looking at that. That still represents an estimate because there were some full days lost which we can estimate but there were a number of days with low or poor attendance which are hard to estimate in aggregate. But we have called out to keep the full days and a couple of very low partial attendance days we have accounted for and called that out as the impact there.

From a profitability perspective, obviously all the revenue items impact the profitability. But on top of that there were a couple of things happening. We had a wage hike impact. If you recall in the past we used to have two cycles. For increments we had an offshore increment cycle in July, August, September in three waves and so that continues. So you saw some impact in Q3, the full impact comes in Q4 because of the staggered nature in Q3.

In addition, we used to have the onshore increments from January. Now we decided for a variety of reasons to bring that ahead to October. We did not want increment cycle to go into the next calendar year next Fiscal year from an employee perspective. It used to be like this sometime ago and it had got moved out in the past so we brought it back into October so the wage hike happened in October. So what that means is normally you would have seen a further wage hike dilution in Q1. That is not to be expected because all of it has happened here.

It is not a onetime but it is business as usual but you should know that we brought it ahead by a quarter for onsite. There were a few other one-time things, again you will see them quantified. There was a payment of bonus act that got changed literally in the last day of the year - December 31 and we had to make provision for that. And there were some other one-time costs and we had to kind of accelerate our CSR spending to catch up for the year so that was higher than what it was in previous quarters. So those were the various factors at play that went into Q4. But the cumulative impact of all of that, basically our EBITDA went down to 11.7% and revenues were down 0.8%.

I am on Slide 7 for those of you that are still seeing it online. So we do put out this specific set of reports every quarter. It is basically consistent with our view that you should look at us in a rolling four-quarter basis. That is a better indication of our performance than one quarter, whether it is good or bad. And so you are seeing basically that over the past year essentially our revenue CQGR has been 2.6%. EBITDA has been negative predominantly because last year Q4 was an incredibly good year for us and a lot of it is the opposite of this Q4. There were clients with excess budget that chose to spend it in that quarter. But notwithstanding that, the PAT is CQGR at 3.1% and the EPS post dilution is close to 6%.

Now, part of the reason for our successes in the market in terms of winning new deals, I spoke about the $120 million deals, is we have synthesized our strategy. We have spoken about some elements of our strategy in the past, we spoke about the “Watermelon Effect”, we spoke about our digital strategy being framed as a journey for customers from data to digital. We have kind of finally synthesized those into what we believe will be our positioning, what will represent our positioning and our strategy for the next several years and that is in two phases; Shrink IT and Grow Digital. Shrink IT is really what it says. It is a promise to help customers knock off 30% or about 30% in commodity IT and commodity IT includes application support, testing, infrastructure, and BPO. And really our target market for Shrink IT is customers of other service providers that we believe are dissatisfied and we spoke about the “Watermelon Effect” and the fact that our hypothesis is that there is a number of clients who are not the Top 30, Top 50 clients of the top IOPs who are not fully happy with the relationships. So that is the target market and Shrink IT is the proposition we are taking there. Now we are also quite happy to take it to our current customers.

The second part of the strategy is grow digital and that remains the same what we spoke about, it is a journey from data to digital. So there is some additional proof points for this in terms of new wins in Q4. So for the full year it is $120 million, if we recall last quarter we have said we crossed $100 million so it is roughly $20 million of incremental booking from new deals that happened this quarter. I will call out a couple of quick examples. One of them is a health wellness company and we are going to build a health platform so it is really is a digital platform for engaging this wellness company with their customers. And wellness as a mechanism to ultimately help keep people out of hospitals, we think is an exciting growth area for the next several years.

We did one more decent size infrastructure deal. We spoke about one last quarter, we did a few more actually but one of a decent size for an airline this time, and this is more on the workplace modernization area.

Finally, there is a cloud implementation support and testing in the Workday area. So these are the important deals that were won in the last quarter. We continued to kind of improve on depth of customer relationships and for those of you that have seen this chart that have the pyramid, you will see that on a year Q4 last year to Q4 now, the top of the pyramid has bulked up. The number of clients in the $30 million to $50 million bucket has gone from one to three. Essentially we have moved clients from the $20 million to $30 million bucket up, at least two of them hopped into the $30 million to $50 million bucket. And while this quarter was not great for top 5 clients, on an annual basis they outgrew quite substantially the company average. So we continue to feel very good about our top 5 client relationships.

If you notice we have stopped reporting on our top client and that I want to assure you that the only reason for doing that is basically it is a confidentiality issue. It becomes apparent for those of you that know or get to know who the client is, it becomes a confidentiality issue. So that is the reason we stopped it.

We spoke about top 20 customers' movement and last quarter I said that a proof point for our strategy success is that our top 20 client list has to change. And I said it has to start changing by mid of 2016 and I also said however we will start reporting on it from this quarter.

So here we are. What we have done first is to change the definition of top 20. To do it basis revenue for the quarter instead of LTM that we did in the past because I think LTM impact is going to take much longer to perceive. If you take the quarterly revenue, you start seeing what the future holds. So with that quarterly revenue definition, essentially now there are two new entrants, not new clients but two new entrants into the top 20. This is existing customers that were smaller but there has been significant mining impact and they have gone into the top 20. Now we reiterate what we said before that strategy proof point is that we can also start seeing new customers, new logos, which appear in the top 20 by mid of this year. And we will let you know if that happens or not. We certainly anticipate that it will. Shareholder metrics - I mean come in you know these numbers you will calculate these but essentially we have had a strong dividend payout this quarter too, it brings our total dividend payout for 2015 to Rs. 8.65 per share.

Employee metrics on attrition first and then I will spend a few minutes on utilization. On attrition, we have been saying that we feel good that we will start containing attrition so that is panned out. You see the quarterly reported attrition has come down to 16.9%. The reported attrition is an LTM attrition so it takes time again to show impact and so really if it has come down, in spite of relatively high attrition the previous three quarters, it means that there has been a good dip in the current quarter.

Utilization, this is not the number where we wanted to be. I have said in the past that our comfort zone is in the early 70%s. So we would like it to be 72%, 73% or so. Now some of this utilization fall was a direct result of furloughs and loss of working days due to the Chennai situation. So that will improve hopefully relatively quickly but we will work towards bringing this number up to 72%, 73% range in the next two quarters and that is what we are going to manage to.

North America kind of continues to be the growth leader for us for the year though in the quarter it was a slight shrinkage. Europe had a big kind of shrinkage during the current quarter but APAC did well. Now if you look at the APAC story, the annual growth is negative for APAC while it is positive for the other two regions North America 18.4%, Europe 6%. APAC while it is negative for the year, it is still positive for the quarter. And if you recall our past commentary on APAC, we said we are following a deliberate strategy to walk away from smaller deals which were the bread and butter of our revenue there.

In fact there is a fair bit of NN revenues that historically were there in APAC, which we walked away from. We said the strategy now is to go after more material deals and for that strategy to fructify for us to win deals and then start yielding revenues, it will take some time. So what you see in this quarter in APAC is the early sign of that success of that U-turn. So we think APAC has turned that corner, we are seeing early stages of success of that strategy.

From a vertical growth perspective again we will talk about the full year and then the quarter. From a full year you see that banking which is our largest vertical had the best growth 23%. We feel good about kind of the fact that the largest vertical grew the fastest and we feel good that that similar trend will continue into 2016.

Now Healthcare and Insurance and GTT were very similar growth rates close to company average and M&C and others were the lag in growth. As a result of this clearly our contribution from Banking & Financial Services has gone up. So I think at the beginning of the year it was about early 30%s and it has now come to 37% and a lot of that has essentially moved from Manufacturing, Consumer and others into BFS.

Similar on service lines, it is an interesting story in that if you look at our annual numbers, virtually every single service line except for Enterprise Solutions actually grew faster than company averages. So essentially there is one single service line Enterprise Services that shrunk for the year at minus 4% and all the others grew above company average. Clearly the fastest was BPS albeit from relatively small base, I mean we started off the year at less than 5% of revenue from BPS and followed by IMS which again is from a relatively small base.

We have our usual set of awards and recognitions during the quarter so I will not dwell on that. With that, I will hand over to Rajesh for a little bit deep dive on our numbers.

Rajesh Kanani: Thank you, Srikrishna. I will start with financial update now. Our revenue for Q4 2015 in constant currency terms was $124.5 million, down by 0.5% on quarter-on-quarter basis and were up by 10.1% on a YoY basis. And Q4 revenue, as Mr. Srikrishna said, was $124.1 million, down by 0.8% on quarter-on-quarter basis and up by 8.4% on YoY basis. For the full-year numbers, on constant currency basis revenue was $496.8 million, up by 17.6% on YoY basis. For the year 2015 the revenue is at $485.5 million up by 14.9% on YoY basis.

You can see the graphs for the quarterly revenue, how the quarterly revenue have moved and the growth has moved. Our Q4 revenue numbers in rupee terms was Rs. 8,951 million up by 0.1% quarter-on-quarter basis and up by 15.1% on YoY basis. For the full year, revenue was Rs. 31,235 million, up by 21% on YoY basis. Down below there are graphs showing you quarter-on-quarter numbers, how it moved along with QoQ growth and YoY growth.

If you look at the revenue analysis on quarter-on-quarter basis how our revenue moved, what are the major reasons why our revenue moved from $125.1 million in last quarter to $124.1

million in Quarter 4. If you see there are two major reasons why our revenue went down was calendar $2.46 million and Chennai flood and furlough $1.19 million. As Mr. Srikrishna said, it is an estimate. Whatever number of days people were not present or we could see the large absenteeism, that only we could estimate. And positive side was volume was higher to $0.93 million, mix was higher because high onsite mix is there, so revenue grew by $1.38 million and because of bill rate increase, the revenue grew by $0.7 million.

Now, I will start with the EBITDA walk on quarter-on-quarter basis. EBITDA margin for the quarter was 16% excluding ESOP cost, 320 basis points lower than last quarter. Now I will start with the gross margin walk. Gross margin for the Quarter 4 2015 is 34.8%, lower by 180 bps points and the reasons are as follows. The gross margin went down because of the calendar 106 basis points, increments at offshore and onsite 71 basis points, bonus because of a change in threshold and the repayment of Bonus Act was 32 basis points, and higher onsite mix 27 basis points. However the margin was contributed by higher onsite utilization even though our utilization was low but onsite utilization was high. Hence our gross margin grew by 60 basis points and Forex gain was 15 basis points. Due to Chennai flood and furlough we estimated the margin impact around 70 basis points. SG&A cost is 18.8% versus 17.4% in Quarter 3 and higher SG&A cost is due to investment in marketing, G&A cost increase including some costs like CSR we grew by $190,000 and one-time consultancy cost of $250,000. Tax ETR is 21% versus 22.4% in Quarter 3 due to higher profits in SEZ and we got some R&D tax credit in UK, which is a one-time event. Outstanding hedge position is USD-INR156.94 million EUR-INR5.6 million, GBP-INR4.2 million. We continue to hedge as per our hedging policy.

If you look at the Forex gain and losses, for the quarter we had a gain of $680,000 and we estimate gain of $0.5 million in Quarter 1 and Quarter 2 at a USD-INR rate of Rs. 67 which is shown in the chart in Slide 23.

Now the balance sheet updates. Cash and cash equivalents, we have $66.93 million and in INR terms Rs. 4,428 million or Rs. 443 crores. Our DSO is 49 days and 72 days including unbilled, which is very good if you match in IT industry. We declared a dividend of Rs. 2.4 per share, 120% dividend payout including taxes is Rs. 871 million and $13.17 million. Dividend payout ratio is 95.9%.

Capex for Quarter 4 2015 was $8.04 million and for the full year we have spent $21.26. This year in the year 2016, our likely CAPEX spend is going to be around $40 million which will be equivalent to Rs. 268 crores.

Now, outlook for 2016. We aspire our revenues to continue outgrowing our industry. Profitability will be in line with current year 2015, full-year profitability. Q2 and Q3 that means April, May and June and Q3 July, August September are expected to deliver the vast majority of growth in Q1 and Q4 a seasonally soft quarters; that means January, February, March and October, November and December. Dividend payout likely to be similar as current year 2015.

R. Srikrishna: So, we said we will start putting out some guidance and so this is what that is. I think while we are not calling a revenue number, we are saying that we want to continue to outgrow the industry. That is the goal. And the difference if you think of 2014 to 2015 versus 2015 to 2016 is that in the profitability line item, very clearly we expect to be able to manage to do this growth but keep the profitability at the same level as FY15 full-year profitable not the Q4 the full-year profitability.

We also want everybody to understand that we have some fairly strong seasonal patterns because of which we tend to think of relatively straight lining growth, very marked lower growth patterns in our Q1 and Q4 which is JFM and OND. It is actually in good part contributed by calendar. Both those are very soft calendars and the middle two quarters are the strong calendar quarters. So that is our outlook for 2016.

With that, we will take questions.

Moderator: Thank you very much, sir. Ladies and gentleman, we will now begin the question-and-answer session. We will take the first question from the line of Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: I had two questions. First of all, congrats on a great year a decent set of numbers there. Firstly, if I look at your top 5 client bucket, obviously a good acceleration in a full-year basis, but if I look at for the last two quarters, growth seems to be stagnating over there at around $62 million, $63 million coming from the top 5 accounts. So what I wanted to ask was given that backdrop, how confident you are on CY16 growth to be higher than the industry?

R. Srikrishna: So what we have going for us in CY16, which we did not have at the start of CY15 is an order book from new clients. Obviously in 2014 there were some new client bookings which gave us some revenue in 2015, but it is nowhere near this magnitude. In fact we did not quite measure accurately new booking TCV in 2014, but whatever we did that calculation it was about $15 million. So it is a many fold jump in the booking. So that is kind of what gives us the confidence, Nitin.

Nitin Mohta: And the second question was for Rajesh, on the margin front if you look at currency obviously has depreciated through the year. So I wanted to dig a little deeper when you say margins are going to be at the same level where they were in CY15. Does that already take into account the currency benefit that if the rupee remains at Rs. 67, Rs. 68 levels or is there something more that we should expect given that in the first half of CY15, currency was only at Rs. 62, Rs. 63. So just thoughts over there and has that got to do anything with the new wins of $120 million, are they actually diluting margins?

R. Srikrishna: So Nitin and Rajesh may add to this. Really this we said is at our budget currency which is at Rs. 67. So if there is dilution from Rs. 67 there may be some tailwinds.

Nitin Mohta: And the profitability aspect of those new wins, any color on that?

Rajesh Kanani: Yeah so in most deals in the first several quarters are going to be lesser in profitability than what they will be over the term, but we have accounted for that. In what we are saying we have accounted for that. So we expect to be able to manage to keep our overall profitability roughly constant after accounting for the fact that we will have some low profitability in some of the newer deals.

Nitin Mohta: If I can just manage a last one. There is a lot of press reports about potentially Baring exiting the company and I know it is a decision that they would take. But what I wanted to understand was how does that really tie in with your ESOP plans, and have there been any exits at top management level that would just help us allay concerns on the day to day running of the business?

R. Srikrishna: So that itself, Nitin, was multiple questions, but I will answer it because I know everybody will have this question. First, see Baring has unequivocally denied that they are looking to exit. So I do not know what else they can do. They have said, no. The truth is they are a long-term fund and if they exit this then they need to find another gainful avenue for their investments. So, they have said very clearly that they are not looking to. I do not know what else they can do except to deny it. The ESOP plan in general is not linked to the Baring tenure and we have had no exits of top management. There were some that happened before; in fact we have had additions in top management. We had a new sales leader for North America who joined us in November mid, November end.

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

Gaurav Rateria: Firstly, given that revenue growth will still have a large dependence from the existing clients, could you please help us understand the outlook for the Top 10 and Top 20 clients in terms of their budget planning process for the year?

R. Srikrishna: I mean there is nothing that we have heard that leads us to believe that it is going to be any worse than the previous year in 2015 at an aggregate level. There are some changes and issues, would it tell you that the top client had some budget issues, an overrun on project as a result of which they were rebalancing the budget. Their Fiscal year continues. Their Fiscal year is at July to June Fiscal and so there is going to be some budget pressure in that client till June and then it will change depending on where their overall performance ends up.

But outside an individual client specific like that at an aggregate level, there is nothing that kind of is materially different from what it was last year. What has however true is if you peel that onion a little bit, clearly the desire is to spend more on digital and that has to be funded in part at least by a reduction in commodity IT spend. So there are two kind of little bit opposing forces, which we are seeing not just with our client but across the board in the industry.

Gaurav Rateria: Second question, you talked about Shrink IT so could you help us understand the impact of Shrink IT on your own business? Is this more reflected in your Enterprise Solutions Service offering and which are the areas where you think are prone to or are more vulnerable in terms of Shrink IT theme on the overall IT spend?

R. Srikrishna: So we have taken a very conscious decision that we are not going to be defensive about carrying the same message of Shrink IT to our customers. In fact that will be our public positioning very shortly. Our hypothesis is twofold. First is that the customers that we do, take it proactively too. Everyone that I have spoken to or we have spoken to about it has said, "Keech ~~,~~ if you guys help us do that, we will make sure you do not lose business with us, you do not lose revenues because we want to spend somewhere else and we will give you that business".

I think the trick is in being proactive and I am taking a risk in going and telling customers that we are willing to help them do it. So, we feel good about the ultimate outcomes even within our client base. But on a larger sense we absolutely think the strategy will be accretive to us because our current revenue base is much smaller than the market out there and our opportunity is to cannibalize competition's revenue and that is a far greater pie than our pie of current revenues.

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

Sandeep Shah: Keech, Just the first question is in terms of the Shrink IT. You have already said that the target market is some of the top clients of the Top 10 IoTs, the providers. Any evidence how successfully we have done? I do agree this is a new strategy, but if you can tell us how many clients we have able to convert through this strategy and what kind of offerings and what kind of the differences in your TCV versus the TCV offered by the others in terms of RFPs?

R. Srikrishna: So, virtually all of our client acquisition is through that strategy. All of our new client acquisition one way or the other is through this. Now we actually in our August conference, I do not if you were there, we offered a number of proof points. So I would not go back and talk about those, I will talk about a couple of the new ones that have happened since then. The most recent one is a good example of the watermelon effect and shrink, more watermelon less shrink. There is a client who was with another service provider that moved work to us, it is an agile thought of development and support and testing. Done good portions from offshore even though it is agile and basically they moved because they were not getting the right level of attention, innovation from their incumbent who was with them for eight years.

There are a number of very strong sells so this one is really unhappy and not a lot of shrink in this because a lot of it is there in agile. So the shrink model applies to support in BPO and IMS testing. Some of the other examples from across the year not necessarily in the past quarter or so, I will give you three very quick ones. Testing, client who moved work from China to Chennai; China with another service provider to us in Chennai and the unit labour cost in Chennai is higher than China and yet the total cost of work we deliver is lower because we were able to eliminate work through testing automation. BPO, there was the one client that we spoke about earlier, now we have a second client in the same model; moved revenue cycle management work from India to Atlanta and at the same price because we eliminated a lot of work.

Again there was a high unit cost increase from India to Atlanta, but the total cost is the same and they are far more satisfied with the work being delivered from onshore because there is lot of voice involved in this process and local language is a strong preference. IMS, we have got now a couple of examples where we have shrunk 40% and this is in IMS case, it is not just the labour cost because labour only accounts for somewhere between 25% and 40% of the total budget and impacting that by 30% - 40% does not make it interesting.

You have to be able to impact the full budget and we have done that through a combination of automation for the people part but also using hyper-converged technology in the data center. So combination of those two, 40% impact on overall budget. So there are a number of proof points for Shrink IT and virtually all of our new client acquisition has a component or an important component of Shrink IT.

Sandeep Shah: Just a follow-up. Just the Shrink IT proposal, which would be offered to existing accounts, you said that the existing account told you that the revenue will not decline because of the additional work which would be coming through the savings. Does that mean that growing the Top 10 or Top 20 accounts at company average would be now difficult because you would have Shrink IT at one end as a proposal which will reduce your revenue, at the other end you will have new areas of growth within your top existing and your overall revenue growth would be minimal or lower?

R. Srikrishna: See, it is not that every single client is going to start executing on this agenda immediately. So of this everybody were to start doing it at the same time, what you say will be true. But that is not what we expect will happen. But part of the trick is simply being proactive and signal intention to kind of willingness to do it and walk the path with the client. The deals that we are winning from incumbents where we have taken the same proposal, we have seen enough times where the incumbent has post facto after we have gone with the bid and they said no, we can also do this, we can also bring automation. And at least in some cases what the client has said is hey, what you were doing all these years, why do not you tell us before that you can. So being proactive is important, it does not mean that all of it will play out immediately.

Sandeep Shah: So does this strategy requires more feet on the ground because you have to keep adding new logos at a very fast pace to keep growing higher than the industry average?

R. Srikrishna: In fact quite the contrary I mean our strategy and we have done it a little bit, we need to do better next year and we will. Our strategy is to reduce the number of logos not increase the number of logos. We want to actually reduce the number of logos and increase the TCV by going after smaller number of larger deals.

Sandeep Shah: Just last two questions as a follow-up. Any one-time revenue and one-time cost which would be recouped in the coming quarters?

Rajesh Kanani: One-time revenue, I do not think we have except that we have lost the revenue of Chennai flood and furlough. One-time cost was bonus and.

Sandeep Shah: The consultancy cost?

Rajesh Kanani: yes Consultancy cost.

Sandeep Shah: So one can expect that consultancy cost and the one-time bonus cost would be recovered in the Q1 of the CY16 as well as the $1.3 million worth of revenue, it can be recouped materially in Q1?

Rajesh Kanani: Yes, that is it.

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

Manik Taneja: If you could give us some sense in terms of how you are seeing demand panning across some of your key verticals like Financial Services and Travel and Transportation? And the second question was on margins; while you have called out that you are expecting profitability to be at similar levels as last year, if you could help us understand where you are in terms of your journey on the investments that you have made in sales and solutioning? You have talked about the potential to move up utilization by about 200 bps, 300 bps over the medium term so are you building in some of the pressure from some of this new business ramp up to negate some of the tailwinds on this side?

R. Srikrishna: That is more than two questions, but we will do our best to try and address all of them. Let me start with what you put in the end, the utilization. So our comfort zone is our goal is to be around that 72%, 73% mark. So we are lower than that, we are going to manage back up to that level. We still do not want to push it too much more than that because then it may impact our ability to grow and be ready for growth. In terms of sectorial outlook, GTT has some tailwinds in terms of oil price. The big beneficiary sector is this sector. There is one sub-segment within this, which is the logistics.

The big tailwind for logistics is the e-commerce business so e-commerce business around the world is booming and this industry is the one that is fulfilling it. There is lots of innovation happening in that industry. Fleet operators like Uber and Lyft and Ola are going to be part of this logistics; Last Mile Network and technology is going to play an interesting role in how they all come together.

And so, the traditional kinds of logistics companies are partnering with companies like these and technology is the enabler for that. So we think there is some tailwind in this sector. It is not traditionally been the biggest trend on IT, but we think there are some tailwinds here. On BFS, last year kind of for us saw a lot of discretionary spend coming back especially in the US and we do not necessarily see a change in that.

There is of course a little bit of a market situation and how it impacts the capital markets companies, one set of clients not known yet fully. I think the first month is obviously not pleasant from the market perspective and it does impact all of our asset management customers. But it is not got to the point where we have started hearing that it is going to alter how they are looking at their technology outlook for the year.

Manik Taneja: And if I can ask one more question. If you could help us understand your CAPEX outlook for next year, where do you intend to spend some of this money and are any inorganic acquisitions also part of this CAPEX plan?

Rajesh Kanani: As I said, I think the CAPEX is Rs. 268 crores and we will spending mainly in Siruseri Phase II; Pune Hinjewadi, we have started construction and there will be addition on computer equipments and we are opening a new center in Bucharest. These are the three, four places where we are going to spend money.

Moderator: The next question is from the line of Madhu Babu of Centrum Broking. Please go ahead.

Madhu Babu: Sir, last year the constant currency growth was 1.6% for 1Q. So would it be better than that this year or it would be kind of?

R. Srikrishna: So we are giving an overall number for the year certainly not by quarter. What I have said is that Q1 and Q4 are always going to be softer and Q3 and Q2 are going to be better. So we are not providing any more granular guidance than that.

Madhu Babu: And just one more thing on the marketing headcount. It is almost doubled on a year-on-year basis as of Q4. Any reason whether there is strong sales addition there? And just on the pyramid structure because this year the fresher addition has been very strong at around 860 employees. How the pyramid structure is going to play out?

R. Srikrishna: So that is kind of two different kind questions. So on the marketing side essentially we felt like we had to make investments to get build that momentum for growth and we did and so last year basically our sales and marketing spends materially outgrew our revenue growth. We do not anticipate having to do that in FY16. We will continue to invest but it will be closer to the revenue curve and not get a whole lot ahead of it.

So we think we have done a lot, there is still to be done but we have done a lot of what needs to happen. On the pyramid, there is almost kind of two opposing things. So clearly the historic way of driving efficiency was through pyramid and fresher and we will do some of that and we will continue to do some of that. But we are kind of more betting on essentially eliminating the bottom end of the pyramid using automation not all of it but chunks of it.

We think in BPO we can be 30% we think in IMS it could be 40% to 50% we think in ASM it could be 20% right now or 10% to 20%. So that is kind of the direction that we have been doing it. So it is board's strategy. So there will be some fresher induction during the year but there is also going to be then work to eliminate that kind of work totally and that is an integral part of our Shrink IT strategy.

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

Ashwin Mehta: I had one question in terms of onsite revenues you have seen almost a 9% up move in your onsite contributions more than 90% of your incremental revenues over the last two years has come in from onsite. How do you see this parameter going forward and will it be a tailwind from a margin's perspective for you because that should ideally have hurt your margins over the last two years?

R. Srikrishna: So the fact is that there is with some of the new type of work agile, digital - the desire and the need is to keep it closer to customers. So I think in general we are going to see these kinds of on/off ratios sustaining and may be even inching up a little bit. I do not think it will grow quite the way it has been in the last year or two. But I do not see it kind of bucking and I am going the opposite direction in any material way.

But what we do not report on is the fact is that a lot of the growth is not necessarily onsite, some of it is. Lot of it is near site so we have built centers during the year in Atlanta, in Herndon, Virginia we expanded the number of people in Mexico; we have a center in Russia; we have a small one in China and like Rajesh said we are building one in Bucharest right now.

So we see growth coming in; we have seen growth in this and we will continue to see growth in these near-shore centers.

The profitability of the near-shore center is kind of in midway, it is in between the offshore profitability and the onsite profitability. And so we are actively promoting that strategy telling customers you want it in the same time zone in the same language whatever but still do not do it at your site do it near-shore.

I am not sure whether you meant for the question to be will it be a tailwind or headwind for the margins. So what you see we have done is that we have managed not to dilute materially in spite of that happening because we have kind of done some active management to improve margins on those, on the onsite heavy engagements. And we will continue to kind of work on those levers and like we said we think we will ultimately deliver full year profitability which is similar to the full year profitability of FY15 after taking all of these in to account.

Ashwin Mehta: And just one last one. In terms of NASSCOM having talked about a 10% to 12% growth in constant currency terms so the aspiration is still to grow ahead of that, right?

R. Srikrishna: Yes.

Ashwin Mehta: And if I can squeeze one more. This $120 million TCV, the execution period of that would be closer to how many years?

R. Srikrishna: Well, if you want to pick an average I would say four; some are three; some are five. More are five so it is somewhere between four and five would pick as an average.

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

Dipesh Mehta: Just to get better clarity about I think previous participant also tried to get some sense. When we are suggesting Q1, Q4 quarter softness; we are not considering Chennai impact in to that. So we are looking for normal business kind of thing when we suggest that kind of thing?

R. Srikrishna: Yes, and I am talking about future so hopefully next year there will not be another situation like this.

Dipesh Mehta: And about this marketing investment we have almost doubled, I think you also discussed. I just want to understand the area of investment where we have invested and considering already we have made substantial investment you suggested investment pace to in line with revenue. So if you can help us where we have already invested and future investment plans? If you can provide some color there?

R. Srikrishna: So at an overall level the single largest headcount additions went in to solutions building. And they were across service lines but again if we were to call out some; the big ones went into IMS was the single largest. And then there was digital, there was additions in virtually every other area but single largest was I mean the top 2 largest were these two. And we are beginning to see results. I mean IMS case, out of our bookings last year $25 million was from IMS out of the $120 million and that is not what we are building this team for; those kind of numbers. We have built this team and the solutions and the platform we have created we think has much more headroom to grow and the growth will happen as booking first, billing next. So the first sign of growth sees materially higher booking on the IMS space.

Dipesh Mehta: And just about digital whether we have identified selected areas where we intend to invest? If you can provide some color there?

R. Srikrishna: We have framed our digital strategy as a journey from data to digital. We are saying there are three things that customers need to do to fully realize that digital strategy. They need to harness the power of all forms of data; structured, unstructured, sensor, IoT data. They need to modernize their IT landscape for key processes with a view to getting close to straight-through processes. And that modernization will actually kind of follow a process region so the process will come first and then IT modernization will follow that. So process reengineering, IT modernization, harnessing the power of data fully. So these three need to happen to then bring meaningful change in what is commonly thought of as digital, which is change how customers interact with their customers.

Historically it is not here I mean the past kind of couple of years I think the big focus and attention in spend has been on the frontend area how do you connect with customers; portals, mobility applications things like that. But we think that is kind of gone as far as it can without them having to do all the things that we spoke about; that I just spoke about the other three elements. So that is our strategy to focus on these because that is where we think the bigger spend will be for the next several years.

On top of this and I am going to take a minute more on this because I think it is an important question. On top of this, this is what I said is cross vertical. On top of this we are picking one or two areas in each vertical and essentially focusing on that for either partnering with or building potentially and that is part of our M&A strategy to our buying platforms that can bring in the straight-through processing. So while that straight-through processing IT modernization is a broad strategy for any industry on a custom work basis, we will bring in platforms that can do the STP work and our goal is not to offer that as the technology solution but as a BPaaS offering using the platform to deliver detailed services and we will pick a couple of areas that we will do that. And we think we know what they are but we have not quite made the final choice there yet.

Moderator: Thank you. We will take the last question from the line of Raj Kantawala of Equirus. Please go ahead.

Raj Kantawala: Just a few questions like let us say our TCV for CY15 was $120 million so excluding that do we have any other deals from existing customers or existing logos?

R. Srikrishna: Yes, we do. And I think last time also there is a question on will we start reporting TCV from existing customers. We may in future but there is incremental business from new customers as well on top of this. This is only new client, new logos.

Raj Kantawala: So how has that moved compared to last year?

R. Srikrishna: So really TCV from existing customers was definitely not measured in 2014. Even new customers were not measured fully or properly but the existing customers were definitely not measured. But the way we have kind of while it is important to track it and will be a predictor of future revenues there in our customer base we are kind of focused not just on the booking but also conversion to revenue within the year. In new customers is where we have completely abandoned the concept of revenue within the year and totally focused on TCV as the only important metric. So here existing customers TCV is important but really we think revenue is the most important metric there and revenue growth. And TCV is an important metric for new client business.

Raj Kantawala: And sir, just last question. If could clarify on the wage hike. Did you mean that the wage hike would now occur in Q4 for both onsite and offshore or you meant something different?

R. Srikrishna: So I will clarify what I meant. It will happen in Q3 and Q4. So Q3 for offshore but Q3 will have a partial impact because there are three waves in each of August, September and October and so Q3 is partially impacted Q4 will be the full impact for offshore. And onshore is from October 1. Basically what is currently in onshore is in October used to be in Jan. So we actually brought it forward by one quarter.

Moderator: Thank you. Ladies and gentleman that was the last question. I now hand the floor back to Mr. R. Srikrishna for closing comments.

R. Srikrishna: Thank you all for your patience and look forward to speaking to you again in the next quarter call.

Moderator: Thank you, members of the management. Ladies and gentleman, on behalf of Hexaware Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.