"Hexaware Technologies Limited Earnings Conference Call"

{October 25, 2016}

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Moderator: Ladies and gentlemen, good day and welcome to Hexaware Technologies Limited Earnings Conference Call. As a remainder, 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 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: Thanks Janice. Good evening to you all. Thank you for joining the Hexaware conference call. From Hexaware, we have with us Mr. R. Srikrishna - CEO & Executive Director, Ashok Harris - President, Global Delivery and Mr. Rajesh Kanani - CFO. The Safe Harbor statement is available on the Hexaware website and I shall take it as read. We are running you through a short presentation through the webinar. For those of who you are not using the webinar, the presentation is updated on the Hexaware website. With this, I hand over to you, Keech.

R. Srikrishna: Good evening all and thank you for joining us today. We had a good quarter and it is consistent with what we have been saying. At the end of Q1 we said, we expect to see good growth through the rest of the year. We also said as the growth comes, then we will improve our margins. So, both those themes have played out. We improved revenue fairly across the board in all service lines, two geos, Europe was flat due to essentially currency contraction of pound, but we also improved margins at an EBITDA level by 210 basis points and a lot of that flowed down as well, except between EBITDA and PAT where we had a little bit of a higher ETR for the quarter, but more on that later.

We have been saying currently again that if you look at our last number of quarters, we were on a good trajectory and then we hit a break in Q4 last year and then a further break in Q1 this year, and then we said we feel confident about Q-on-Q growth from this point and Y-on-Y growth will catch up. So you are seeing that this Y-on-Y growth that has come back largely across the board, but modestly. And I will talk more about Q4 later, but as we are going to Q4, we expect to see smarter Y-on-Y growth to come back.

So on a top 20 customers' movement that we have been reporting on, again there has been a healthy churn; there are a couple of accounts that have grown into our top 20; one from UK and another from North America, and they replaced two North American companies. One of the good things that happened this quarter was that we stepped up our revenues from new clients. I don't read too much into quarterly variations necessarily. I think the benchmark for us is that last year we did $120 million on this and our benchmark for us is to beat that. We will see how handsomely we can beat that in Q4. So, I am not necessarily kind of big on the fact that it went up from last quarter to this quarter, but in general we had a good quarter. So in aggregate this year, if you see, we have had about 100 million, which is already knocking on what we did last year and we have an extremely healthy pipeline.

So, I will talk a little bit more about a couple of the deals, profile wins for you, but also talk about our pipeline. Almost all of our wins for a number of quarters now including this quarter have been based on one of our two growth strategies, Shrink IT or Grow Digital. I will talk about the digital example which is, for those of you looking at the slide, the bottom one, this is actually an exponentially growing healthcare skincare company and what we are doing is to transform their, digitize their IT landscape to continue to help them grow and they expect to continue to grow rapidly for the foreseeable future and there is significant transformation we are doing to help bring in close to straight-through processing for the e-commerce and the entire cycle from order to cash. This is based on our composable enterprise architecture that we have spoken about based on API economy.

There are two deals on Shrink IT; the first one is on application support. This is for a global digital publisher and distributor of children's book; they do both print and digital. We will be first transforming their application landscape and then running it for a number of years. We will be using our application support automation levers to deliver this contract over the next number of years.

And the third one I want to talk about is a BPO deal. This is for a PEO firm in North America and they have substantial HR operations of their business. They outsource HR operations for their customers and we are bringing in our automation principles to help the customer reduce cost on operations and it is done on an outsourced model.

So, those are the three deals, there are three other ones; there are actually six deals that went into this 42 million. All of these deals have fairly well-defined scope, fairly well laid out revenue, step up mechanisms, and starting relatively quickly in some cases.

Our client pyramid continues to have a few interesting movements. At the top, you will see that we had a reduction in the 30 to 50 million pie, but really one has gone up into the above 50 million. So, really for the first time we have two clients in that bucket. And one has fallen down into the 20 to 30 and then, we have one from the 10 to 20 that went up into the 20 to 30 as well. And then you are seeing that we have grown the base, the 1 to 5 quite a bit, which will then help us see the top as we continue to mine accounts. At an aggregate, our top of the pyramid did very well. Our top 5, 10, 20, all outgrew company average and we expect to do well in aggregate with our top-end of the pyramid in our clients.

Our ROE has caught up with improved financial performance. It's back up to the high 20s. In terms of dividend, we announced the last quarter we said we did Rs. 1 per share and we said we are going to continue, while it is a quarter-on-quarter decision by the board, we said we likely to continue holding it at the Rs. 1, not as a percentage level. So, we did that again this quarter, but then we added a buyback on top, more on that later, but we added a buyback on top which will essentially bring the payout per share back to similar or a little bit larger levels than what it was last quarter, last year but in a more efficient manner.

Our employee metrics, I will talk about attrition first and then a little longer on utilization. Attrition has been flattish for a number of quarters - that continues. We are kind of happy with where we are here, we compare favourably to a lot of our peers in the industry.

Utilization improvement has been a clear focus. You see a sharp increase from last quarter to this quarter. We did tell you last quarter that a lot of, though the big chunk of utilization that got lost due to onboarding a client, actually we had two clients, which will then mean good revenue growth in future and once that onboarding program is done, then it will also improve our utilization. So, you see both happened, it did translate to good revenues. You are also seeing improvement in utilization. The improvement in utilization for us is across the board which we have similar improvements in the offshore and near-shore and a smaller improvement in onsite.

We are kind of talking a little bit about where we would like it to be in future. You will see some quarterly kind of ups-downs, but in general, we are happy in this range. There may be +1, +2 but we are happy in this range of low to mid 70s, we think it will position us for being able to address market opportunities in an expeditious manner. We don't want to push it up to heights.

Breaking down the growth where it came from different cuts, geo cuts, the North America led and that has been true for a long time for us. Now, the fact is that our portfolio is heavily tilted to North America. In the current context, global macroeconomics context, that is good, especially due to the fact that we have a relatively small portion compared to industry in Europe, it is good. The contraction in Europe this quarter was entirely due to currency. So, if you do this on a constant currency basis that is actually basically flat on Europe. We do expect to see volume growth in Europe going forward. So, we don't kind of see a huge impact from a Brexit perspective outside the currency, one-time impact that we had right now. In fact, we have been saying, we have been focused on rationalizing. There was a big tail of smaller kind of opportunities that was the bread and butter of our business. We wheeled away from that and instead started focusing on chunkier deals. The wheeling away happened quicker, but the chunkier deals are beginning to happen now.

In fact, one of the deals I spoke about the global publisher of children's books is actually an APAC deal. So, we will continue to see growth in APAC.

From a vertical perspective, again as it has been true for most of the last 8, 10 quarters, banking and financial services continue to leap. This is obviously a little bit at odds with the commentary that is coming out from a lot of our peers. It is primarily to do with the fact that where does our revenues come from. Our two biggest revenue pools in the banking and financial services come from capital markets and US secondary mortgage.

Capital market, there was a lot of nervousness at the beginning of the year Q1, but since then it stabilized and we continue to expect to see to do well. And mortgage business in the US, we think we will continue to do well for the long-term and the retail and corporate banking is a much smaller pool. We are actually a non-incumbent there and we are winning new business on the back of our Shrink IT strategy, but it's still growth for our peer because we are not seeing the pressures that a large incumbent would see.

Healthcare and insurance was the only vertical that actually went down this quarter, but that was, we think of it as a blip. If you look back number of quarters, we have been growing well and we continue to expect to see growth returns very quickly to that vertical.

GTT, we have been talking about past a couple of quarters that there has been some pressures including a client specific one and there was a good uptick this quarter, but in general, we will expect to see that could be among the lower half of performance with long-term still banking, financial services, and then H&I delivering better growth than the other two verticals.

In terms of service lines, it is a really heartening story for us that virtually every service line grew; save for enterprise solutions, enterprise solutions is not a new story. If you look at wallet share of enterprise solutions within our revenue, two years ago was at high-teens and now this quarter it is about 12%. So, it has been a continuous process of erosion. So, really that is driven by movement to cloud. So, our strategy really is to then make sure that all of the service lines grow smartly to compensate for the softness in this particular service line, which is happening. The growth is underpinned of course by IMS and BPO that have grown really smartly both quarter-on-quarter and Y-on-Y. This is a direct result of our Shrink IT strategy, automation lead, Gen-3 outsourcing in both BPO, RPA lead, and Raise IT platform lead in IMS. These numbers are still off of a small base, but that base is growing, between IMS and BPO it is up to 15%, it was much smaller, even like a few quarters ago. And we feel good about sustaining the kind of growths in these two service lines, and you can imagine that as it becomes larger, if you do sustain these growths, then it will have a more material impact on our overall growth.

Last quarter, we presented a chart, if you recall I said, it is almost to the dates when I finished two years. We presented a chart of what the two-year journey has been from quarter two 2014 to quarter two 2016. And what that showed and we reproduced that chart here was that our revenue grew 27% over the two-year period and our EBITDA and PAT lagged at about 16.5% growth and we said that the next phase of growth we expect to catch up and have a more balanced growth between revenue and profits. You see that in a nine-quarter period that has already happened. In fact at the end of this quarter, really our revenue growth over the last nine quarters is slower than EBITDA growth. Clearly, the pattern, this was also true last year Q3, at the end of Q3, also this sort of has been true that our profit growth outgrew revenue growth, but really what happened for us in Q4 last year is that we dropped quite a bit, we dropped 20%, but in Q3 and Q4 at an EBITDA level and then had further dropped between Q4 and Q1. We do not expect to see that this quarter, but I will talk a little more about Q4 in a few minutes. Actually, I will do that now before handing over to Rajesh.

So, before I speak about Q4, I also said I will give you a little bit commentary on our pipeline. Our pipeline buildup, we have never had as many deals in our pipeline as we do it today, never ever. The 40 million that came off due to wins has been replaced a few times over by new deals entering the pipeline. So, we have a very robust pipeline of material size deals. Some of you that I have spoken one-to-one I said, when I joined Hexaware, when I looked at our pipeline there used to be basically deals in six digits and seven digits, right, and occasionally, you will see an eight-digit, tens of millions of deals, but for the most part there were in hundreds of thousands and some in millions. And today, we clearly added a zero to that, right. So, we will see a number of deals in the tens of millions and occasional one in hundreds of millions in the pipeline and very few actually in the single-digit millions. And so we feel good about the buildup of our pipeline, again a direct result of the strategy we believe we have been stepping up our outreach efforts. If you recall last quarter, we spent a fair bit of money on branding, but it is not just branding, it is outreach to analysts, advisors, and there is a lot more systematic approach to all of that happening, and we are seeing early results in terms of material build-up of pipeline.

So, three things about Q4 or actually four things about Q4. First is, we are confident to see volume growth. So, even this quarter, a vast, actually all of our revenue growth was underpinned by the volume growth and you will see that in Rajesh's chart in a couple of minutes. We continue to expect to see volume growth through Q4. That would be on the flip side counterbalanced by the traditional Q4 headwinds of calendar and furloughs. And furloughs, as always, we kind of get to know a little bit later in the quarter. There is actually a reasonable amount of furloughs we expect to see, but like I said, we expect to have fairly smart volume growth. So, that is the first thing.

And the second thing is that, last year, we saw a sharp drop in profitability, we do not expect to see that. No matter what happens, we expect to that you will see a smart Y-on-Y growth, but our Q4 this year will be materially better than our Q4 last year both in revenue and in profit terms. And if that happens net of furloughs, which is the underlined volume is even much stronger, it then puts us in a much better position for start of 2017 than we started 2016 at. So, that is the kind of the Q4 outlook at this stage for us. With that, I am going to turn it over to Rajesh.

Rajesh Kanani: Thank you, Keech. I will start with financial update. As Keech spoke out that we have a revenue growth of 4.3% Q-o-Q and 8.1% Y-o-Y. In constant currency terms, it is 4.8% and 8.9% Y-o-Y. In INR terms, we had 4% Q-o-Q growth and 10.5% Y-o-Y. In chart, you can see that, it will give you the number also for last four quarters.

Now, I will come to the walk; first, the revenue walk. As you can see, the entire growth is coming from volume, basically $6.3 million, a little bit lower in calendar, and slightly increase in onsite mix. Forex 630K because of cross currency, it has come down primarily due to GBP. Bill rates are slightly low, but that is okay, it is a very negligible number. That is how we reached $135.2 million.

If you come to the gross margin analysis, if you can see 110 basis points, our margin was up. The primary two reasons why our margins are up was utilization, 4% utilization up, and given us 78 basis points growth and then last quarter, quarter two, that means, April to June quarter, we had a visa cost of $1.3 million, which is not there now, so we have again gained 98 basis points plus. But I think the margins have gone down because of the increment 41 basis points. We had offshore increment of 550K which is in terms of basis points, it is 41 basis points, plus calendar one day lesser in offshore, 21 basis points. And that's how we reached 110 basis points of our gross margin results.

As far as SG&A is concerned, it is down by 100 basis points. That means, our EBITDA is higher by 100 basis points. As you know that in quarter two, we had one-time branding expenses plus, that is substantially reduced this quarter. In S&M we had an increment from 1st July and the impact is somewhere around 250K, very little amount. So, in spite of that we have a saving in SG&A.

As far as hedge position is concerned, we have 152 million hedges, a very healthy position. Average rates are very high and primarily way up mainly into USD/INR 142 million out of 152 million.

As far as Forex gain-loss is concerned, in quarter three, we had very handsome gain of 950K. Q4, we will continue and Q1 also we will continue; at 66.61 rate.

As far as balance sheet updates are concerned, cash and cash equivalents, we have $51 million as on 30th September; in rupee terms, 3,426 million. DSO 50 days and unbilled 75 days, which is again very healthy DSO. Dividend, as Keech said, we had declared Rs. 1 per share in dividend payout including taxes will be 363 million; 5.5 million in US dollar terms.

As far as buyback of shares is concerned, we have declared 12% of buyback; that is 12% of net worth. Offer price is Rs. 240. The outflow will be $20.5 million. Number of shares, it will be 5.69 million, representing 1.9% on the equity. EPS increase slightly to be there at 1.9%, and we say that buyback is the most efficient way we are returning capital to the shareholders.

As far as CAPEX is concerned, in the quarter, we have done 6.8 million. So, YTD number, I mean, nine months or three quarter number is $23.89 million. The last quarter, we will see $18 million worth of capex.

As far as ETR is concerned, our ETR is constant at 25.8%, but underlying ETR is 25.3%, because of one-time income, because of certain gains we have got in subsidy, we have ETR of 25.8%.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Manic Taneja from Emkay Global. Please go ahead.

Manic Taneja: If you could help us understand what are we seeing in terms of our top customers? Over the last couple of quarters, we have seen a strong rebound after the weakness that one saw in second half of calendar year 2015. If you could help us understand what are you seeing within your new larger customers? The second question was in regards to the buyback plan. So, last quarter you had curtailed your dividend payout saying that you were looking to conserve cash for inorganic growth opportunities. So, how does the thinking change with this buyback proposal and do you intend to leverage your balance sheet to fund some of the inorganic growth opportunities plus the CAPEX going forward?

R. Srikrishna: There was a little bit of noise from your line especially in the beginning, so I am not quite sure I heard, but I think you were asking about our top clients' rebounding. So, there is absolutely no change to what we said.

We said we expect to see, last quarter itself we had Q-on-Q growth; we said we will expect to see Y-on-Y growth from next quarter that has happened. So, we continue to have strong Q-on-Q growth and actually we return to Y-on-Y growth from that client.

Manic Taneja: So, if I can prod you further on that count, if you could help us understand the outlook within your top-5, top-10 customers because they have been rebounding really sharply over the last couple of quarters.

R. Srikrishna: So, we do expect to see continuous good performance from our top-end of the client portfolio. But they are going to be like a quarter where one client is not doing that well, but in aggregate we expect to see the top-5, top-10 clients do very well. The second part of question, first is, when we kind of stabilized the dividend, we spoke about potentially building up a war chest and it continues to be an objective for us, but we kind of continuously think about what is the best allocation of capital. And we saw an opportunity for being more efficient with it and we have not kind of done as much as we could. We kind of went with the modest amount, but not everything that we could do. So, we are still actively evaluating opportunities for acquisition. But, like I said, we are going to be patient. We are not going to be crazy about doing things that are not accretive, which means we are going to be patient. We have to wait till we see the right opportunity. And we do not want to kind of keep holding cash while we are waiting for it. So, that is the rationale for giving it back. We did commit to kind of having maintaining the dividend on that rate, so we are doing both essentially this quarter at least. And of course, we cannot do a buyback every quarter, so the dividend will continue and the buyback is for, it is there now, we will look at it in future. We will continue to evaluate whatever is the most efficient use of capital. The last point is on CAPEX, right. So, what you should know is that while Rajesh said will have $18 million to $20 million spent in Q4 essentially that will bring to an end our biggest CAPEX programs of Chennai expansion and a new campus in Pune to be done. It is a matter of weeks before you finish that. So, the amount of free cash flow that we generate from Q1 will actually be materially high. CAPEX will go down to 1% to 2% maintenance CAPEX kind of a mode; there are no big outlays envisaged. So, the capital that we generate would be quite a bit high from Q1 onwards.

Moderator: Thank you. We take the next question from the line of Vikas Sharda from N T Asset. Please go ahead.

Vikas Sharda: I had a question on this onsite revenue mix, which continues to inch up and is almost 65.6% this quarter. So, two questions, one, when do you expect this ratio to peak out for you. And secondly, in the new deals when you report Shrink IT and Grow Digital, does it mean that Grow Digital is more onsite and Shrink IT is more offsite?

R. Srikrishna: On the first question, I think what will happen before a peak out is that there is a slowdown in the rate of increment of onsite, so that I think will start happening pretty quickly. And that is predominantly in the back of, I spoke about our pipeline, the deal mix is much more offshore heavy, which is of course the desirable place that we want it to be. So, as we begin to kind of including the deals that I spoke about, including the digital deal and virtually all the deals in the pipeline are far more offshore heavy. And so, as we win and start realizing revenues from those, you start seeing the turn in the onsite revenue mix. There isn't necessarily like a dichotomy between Shrink IT and Grow Digital on onsite offshore, but there is some linkage and I have been speaking about it; a lot of digital execution tends to be agile and agile the current kind of medium thinking is more onshore, more near shore and certainly higher percentages onshore or near shore, you do not tend to see like 70%-80% offshore and agile, not right now. We think it will take a little while for to get that.

Vikas Sharda: And just a follow-up like this new center in Romania, would you count it as onsite or offshore?

R. Srikrishna: That is a good clarification. So, our Atlanta, Mexico and in future is near shore which is actually clubbed under onshore, it is not clubbed under offshore.

Vikas Sharda: Because the fact sheet mentions that offshore includes near shore.

R. Srikrishna: So, clarification, Mexico is included in offshore; Atlanta is included in onshore or onsite.

Vikas Sharda: And like Romania would be again onsite or?

R. Srikrishna: We will come back to you on that, we don't have, we haven't started realizing revenues there yet, but would come back to you on that. It will likely be that we reported in onsite.

Moderator: Thank you. We take the next question from the line of Harip Shah from Reliance Securities. Please go ahead.

Harip Shah: I had a query on your utilization. So, obviously I understand last quarter you had the issues of onboarding, so this quarter you were able to finally realize some benefits with high utilization. I just wanted to know from a longer-term perspective, some of your top-tier peers have been mentioning that at least theoretically they can, with this automation, effective use of automation; you can actually get utilization closer to 100%, at least on theoretical basis. So, what is Hexaware's thought process on this side and how do you think, can you possibly get maybe at least up to 80%-85% over a longer period of time; how does Hexaware think of this issue?

R. Srikrishna: Over a long period, the answer is yes. Potentially, to get to that kind of a number, but that is not our current goal of thinking. We do kind of see an opportunity to grow organically quite a bit and I think that if you push the utilization up to 80%-82%, it will hurt our ability to grow and so our current desire is to kind of keep it in this range. We have other levers for margin improvement. There are obviously always headwinds of wage increase and stuff like that, but we have other levers. I mean, notably one that Rajesh spoke about already that we expect to see that newer deals will be more offshore-centric, so that is a clear lever, and we have SG&A leverage and we spend more than half of our gross margin on SG&A. So that is a leverage for us, so we have enough leverage without needing to get crazy and pushing up the utilization.

Harip Shah: And my second question is do you have any major, as you had mentioned in the start of the call about your dichotomy versus your top-tier peers regarding your BFSI vertical. So, do you have any major exposure to UK BFSI or is it almost entirely US based?

R. Srikrishna: We have some, but it is like our whole Europe revenue is like 12%-13%. And while we do not kind of publish for this play, UK is subset of that, let's just say half and BFS is a subset of that. So, we have some, but it is not huge exposure.

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

Ashwin Mehta: Keech, I have one question in terms of the fact that we are peaking out in terms of utilization based on what you are saying from a nearer term and our pipelines are good in terms of deal flows, still we have not seen any headcount addition this quarter. So, do you expect headcount addition to materially pick up post fourth quarter or in fourth quarter?

R. Srikrishna: The short answer is yes. We will expect to see headcount improvement in Q4 because I am saying we would see volume increase and I am also saying that we are going to be range bound on utilization, so the short answer is yes.

Ashwin Mehta: And secondly, in terms of the buyback, so you would have almost 20 million going out because of buyback. Then, you have close to $20 million of CAPEX and then around 5.5 million in terms of the dividend that is to be paid out. So, are you looking at short-term debt, near-term to fund your working capital?

Rajesh Kanani: No, we are not.

R. Srikrishna: We are not looking at any debt right now because we will be able to manage because it is only one quarter where we have a CAPEX, after there is no CAPEX. So, most likely we will not go for a debt.

Moderator: Thank you. We take the next question from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, usually 4Q and 1Q have been softer last year. So, now we are saying that 4Q there will be growth. So, can we expect next year to be kind of 13%, 14% kind of dollar term growth?

R. Srikrishna: Two things, first is that I did not say 4Q there will growth. Let me go over what I said again, there could be growth, but what I said is that we will definitely have volume growth. So, the underlying business will grow for sure. Now, countering that will be calendar headwinds and bigger headwinds from furloughs. So, that is the outlook for Q4. The second thing I said is that no matter what happens we will have material Y-on-Y growth, our Q4 this year will be materially better than our Q4 last year. And hence, yes, we will go in with the fact that after material furloughs, which are not there actually, we expect furloughs to be more this year than last year. If you then say that we will do much better this Q4 than last Q4, we will then go into FY17 in a better position than we came into FY16. We are not quite prepared yet talk about what that means in terms of numbers, but we will when we talk again in a quarter from now.

Madhu Babu: Sir and second, margins have been very good last two quarters and the impact of wage hike is looking very minimal on the headwind. So, is there any pyramid correction which we have done, which has helped us?

R. Srikrishna: Actually, we gave out handsome increases. This quarter what the number you are seeing is a little bit of a staggered increase. So, it is not like a full quarter impact that people who get in some month and more people in the next month and so on. So next quarter will be like the full increment impact.

Madhu Babu: And lastly, I think there is a secular growth in IMS and BPO. So, now that we have a good reference client base in terms of the Shrink IT team, would our confidence levels in the new deal wins increase for next year onwards for CY17 in these areas?

Rajesh Kanani: We will certainly feel good about winning new deals not only in these areas but in other areas as well, but definitely in these two areas.

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

Sandeep Shah: Keech, just want to understand about the nature of the growth in the capital markets and the mortgage securities where you are. So, what kind of a growth, is it more sticky annuity base deal wins or wallet share win or is it more digital or discretionary project-base kind of revenues

R. Srikrishna: So, in the capital markets, it is a little bit different in the two markets. So, on the secondary mortgage space, there are actually some very large federally mandated multi-year transformation programs for the data and application landscape. And it is, like I said, it is very large federally mandated it has to happen and it is a multi-year program. And we are actually, we have very deep domain knowledge there. So, we are actually in the midst of, actually I would say, leading those programs. So, it is discretionary spend, but it is not short-term discretionary spend, it is multi-year programs. Yet, in that space, we are beginning to grow our long-term annuity portfolio as well because there will come a time in many quarters, two years or thereabouts, where they will start stepping down the outlay for these transformation programs and by that time we want ourselves to be in a spot to have then built up the annuity book and that process has already started. In the capital market space, it has been a strength area for a long time. So, we have a good mix of both. Traditionally, virtually, all of our business has been an application and testing portfolio where we are completely underpenetrated, where we are seeing opportunities now is to cross-sell IMS and BPO, which are annuity offerings, but also kind of focus more on application support through the automation-led approach where we coexist often times with others, so there is an opportunity for us to grow those footprints as well.

Sandeep Shah: And in the secondary mortgage space also the presence is widely spread or these have been concentrated to two or three clients, because if you are…

R. Srikrishna: It is concentrated. That industry is concentrated. So, if you know the industry, there are really two gorillas and a couple of small ones. So, it is concentrated.

Sandeep Shah: So that does not bother you in terms of, because you are saying it is a long-term growth driver, but you do not foresee a risk of any ramp-downs or something of that sort?

R. Srikrishna: Not on a long-time basis, no, because we are, in those accounts, we are the top-tier technology service provider. There is just nobody out there is that understands the domain as well as we do and have the skill pool that we do for addressing that market. We openly ask and have conversations with our clients whether they see a risk in growing with us and unequivocal answer we have got is that they don't.

Sandeep Shah: And similar is the case in capital markets where your growth is concentrated to few clients or it has been widespread where the branding is helping you?

R. Srikrishna: No, in capital market, we are far more widespread, I mean, we have like 10 of top 20-25 asset managers in the world. We have three of the top five custodians in the world and then a number of others. So, there is a lot more spread.

Sandeep Shah: In terms of travel and transportation, I do agree that this quarter has been increased, but it looks like you are not being confident to carry forward this. So, while some of the other peers including large-caps and mid-caps have been showing up bit of a consistency here. So, what are the problem areas for Hexaware and do you believe this would be a growth driver in CY17?

R. Srikrishna: So, I did say we have an account-specific challenge in this industry. So, it is not necessarily like an industry view. We do expect in CY17 that in our first four verticals that this will be in the bottom two. It will not be the top two growth areas for us.

Sandeep Shah: So, Keech, here the client-specific issues are being concentrated to more than one account?

R. Srikrishna: One account.

Sandeep Shah: And that may continue going forward.

R. Srikrishna: Yes.

Sandeep Shah: Just last few things, on this 4Q margins you said Y-o-Y it will improve, but on a Q-on-Q, you believe it could be slightly a dip, where you are also not confident in terms of a flattish Q-on-Q growth for the Q4?

R. Srikrishna: It depends a little bit, not a little bit, it is going to depend entirely on what is the furlough situation that plays up. We have some visibility, but we don't know all of it yet, and so we have been cautious. What we have been cautious means after accounting for a reasonable amount of furloughs, we still are very confident that we will have smart Y-on-Y growth, but for the rest, whether it is flat, whether we are able to do some growth, it is going to entirely depend on the furlough situation, which we will have a better handle on closer to Thanksgiving, which is roughly a month away.

Sandeep Shah: And just last, on the SG&A, you believe time has come where our spend may reduce where most of the branding efforts which you required are now done and over and the leverage may continue going forward and second, in terms of a buyback, you also said in your comments that it is an efficient way of distributing cash. So, one can say this could be one way of looking at as a recurring nature with the gap of one year in each announcement.

R. Srikrishna: So on SG&A, I think the GA portion kind of would be flattish. There are step ups, step changes that happen when we add on new facilities.

We have added quite a number. We added the Bucharest. We expanded in Atlanta. We added facility each in Mumbai and Chennai, apart from the campus expansions in Pune and Chennai. A lot of those are done, but there will still be some incremental expansions. So, GA will kind of be flattish with some kind of steps coming, but it will certainly grow slower than revenue in 2017. The S&M portion, we will still invest. We are not yet ready to start kind of harvesting that side. We still are in a phase of investing for the future and for growth. But in aggregation, there will be some leverage in SG&A.

Sandeep Shah: And just on the buyback?

R. Srikrishna: The buyback, listen, yes, we said it certainly not going to be quarterly, on some periodic basis we will evaluate. It is board's decision at that time, but we will evaluate. If the options exist, then we will certainly look at it very closely.

Sandeep Shah: And just on that, if we expect that quarterly dividend of 1 per share to continue, are we looking for almost a similar kind of a payout ratio as last year?

R. Srikrishna: I have been patient, you probably have lost count of how many questions you did, I will answer this, but we will stop with that and we will give a little bit of chance to anybody else that's waiting. So, what we are committed to, what we will continuously tell is that, we will put your capital to best use. And so dividend we have committed, not committed, but we are largely saying we will do the Rs. 1 per share. Board still has to take a call on that every quarter and whatever then capital is left next year, we will generate a fair bit outside that. We will make sure on an ongoing basis that we use it carefully whether it is acquisition, buyback, more dividends, all options will be on the table.

Moderator: Thank you. We take the next question from the line of Harip Shah from Reliance Securities. Please go ahead.

Harip Shah: I just want to get a sense about how your ADM business is progressing. So, this is the second successive quarter where we have seen pretty healthy growth in this particular segment and you typically expect there has been some pressure the way enterprise solutions is witnessing given the trends in the industry. So, any kind of comments and is this being driven more by incremental development projects or is it more on the maintenance side? So, some sort of color that will be helpful? Thank you.

R. Srikrishna: At this point of time, largely the growth is from development, I would say, agile digital driven projects largely. There is some support increases and that there will be more and more support going forward, like the one of the contracts we just spoke about is ASM deal. Certainly more of that but still now the large part of the growth has come from digital agile development work.

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

Ashwin Mehta: Sir, in terms of the wage hikes next quarter, what's that residual impact that would be felt next quarter on margin?

Rajesh Kanani: It will be 100K around for offshore.

R. Srikrishna: The residual impact for offshore is 100K, but there is a further increment for the onshore that we are in the process of finalizing, so there will be an incremental impact due to that as well.

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

Sandeep Shah: Just Keech, now been entering into CY17 at end of CY16, is it fair to say that the client-specific issue apart from the one client in travel and transportation, you are fairly confident and on a stronger pitch versus when we were at the end of CY15?

R. Srikrishna: The answer is yes. I mean, it is not just because of the client, I do not think it was to do with client specific issue. I did say there's one client and we are confident that client will come back, so it did come back. I think, in general, it is to do with aggregation of our business. Last year Q4 was a hard fall and then Q1 was a further fall. We do not expect to see that this quarter and that is in spite of slightly higher furloughs, this quarter, this Q4 relative to last Q4, which means that the underlying volume of business that will go into next year for us, we expect it to be pretty strong.

Sandeep Shah: And just on the strongest pipeline, which you mentioned, is it fair to assume that, likely in the near-term that you can overachieve beyond 42 million what we have closed in this quarter?

R. Srikrishna: Well, that will certainly be our attempt. I can never predict the outcomes on new deals, but what we can tell you is what I have said, we have great pipeline. There are a number of them where we are in the last two, a number of them, which will decide in Q4. There will be some inevitably that gets pushed, but even in spite of that there would be quite a number that definitely decide in Q4 and we expect to win our fair share or more than our fair share. So, out of that, these all mean greater than this, we will see.

Sandeep Shah: But you do not witness like peers delay in decision-making or pushing back some of the deals to the next quarter?

R. Srikrishna: No. There will be some deals that get pushed back for sure. As I said there is, I mean we are not fortunately in a situation, which we were in some quarters ago, where we were like two, three deals that we were hanging on for the quarter. And then if they get delayed the quarter is dry. We have a fairly robust portfolio of deals that we are in the midst of. And so, yes, some deals will get delayed, but enough will yield results

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. R. Srikrishna for his closing comments. Over to you, sir

R. Srikrishna: Wonderful. Thank you all and look forward to speaking to you again next quarter. I would say this year actually we did not do a physical event. We may end up doing one to coincide with the next quarter results. It is likely that we do, but watch out for details of that from Latika and look forward to either talking to you or meeting you all there. Have a good evening.

Moderator: Thank you. On behalf of Hexaware Technologies that concludes this conference. Thank you for joining us. You may now disconnect your lines.