“Hexaware Technologies Limited Earnings Conference Call”

February 11, 2020

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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, 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 Mr. Vinay Kalingara. Thank you, and over to you, sir.

Vinay Kalingara: Thank you, Rayomand. Good evening to all of you. Welcome to Hexaware Technologies Earnings Conference Call. On the call, we have Mr. R. Srikrishna - CEO and Executive Director, and Mr. Vikash Jain - CFO.

As always, there's a full disclaimer in our press release and the investor deck, we shall take that as read. Any non-GAAP numbers mentioned are to be read in conjunction with the GAAP numbers. Please refer to the note, which is included in the investor deck for that as well.

Let me now invite Keech to talk about the results. Over to you, Keech.

R. Srikrishna: Hello, everyone. As always, during the end of the year, we have a longer presentation than normal. We will cover Q4, but we'll also cover a full year view and provide a guidance. So we have a slightly longer presentation than normal.

But before I begin, I want to introduce to all of you a new member of our leadership team. Ram Singampalli joined us 2 weeks ago as the Chief Operating Officer. We are delighted to have Ram. He joined us from Atos Syntel, where he was the Chief Delivery Officer. He spent over 25 years at Syntel in a variety of leadership roles, but finally, as the Chief Delivery Officer, but also having several other operational responsibilities. He has 2 charters, most important charters in Hexaware. The first is to make sure that we are the world's best digital delivery organization. And the second is to continue to transform our workforce into the world's most skilled workforce. Those are kind of the 2 most important remits for Ram, and he has experience of having done this before in his past organizations. We are delighted to have Ram. Ram, over to you.

Ram Singampalli: Thank you, Keech. Hello, everyone. I'm excited to join 20,000 Hexawarians. This is a great team. I'm looking forward to bring Hexaware to the next level. Thank you, Keech, once again.

R. Srikrishna: Thanks, Ram. So we will begin by talking about Q4. We feel very good about where we were at the end of Q4, given that we knew while going in that we're going to have an incredibly challenging quarter. So we've spoken at length about a client with a headwind and of course, we have seasonal headwinds in Q4 on account of calendar, furloughs, wage increases. So, in Q4, we had 2 things that were not normal. Our furlough impact was substantially higher than both what it has been in previous years and what we had anticipated at the beginning of the quarter.

And the second thing was that we had this very steep kind of fall in revenues from what used to be one of our top customers. They still are. But notwithstanding that, we delivered reasonable growth in revenues. We finished the year with just over 17% in growth for the full year, just over 18% in constant currency. We also finished the year with, what we said at the beginning of the year that we will hold our margins in aggregate for the year, flat, so while our revenues grew 17%, our EBITDA post RSU also grew at 17%.

Our EPS growth was for the full year at 9.5%. Non-GAAP was at 15%. Now the only adjustments we make between GAAP to non-GAAP, and we do have a slide on this later, is 3 factors. One is the cost of transaction of the acquisition, the second is the amortization of intangibles and NPV of deferred payments.

Now, we have to bear in mind that our Forex gains for the full year '19 was lower than our Forex gain for full year '18 by $4.5 million. So, notwithstanding that $4.5 million, lower Forex gain we delivered a 15% growth in EPS.

Our Q4 NN wins were very nice set of wins, and I'll talk about them later. They were at $30 million. This takes us to a full year NN of $130 million. Three points of note here. First is that you will see when we talk about the wins that the number of wins have actually gone up, and that's a conscious shift in strategy to do more land-and-expand accounts and more kind of digital deals, if you will, which tend to be of that form and nature.

The second is that last year, we had $100 million single deal that took our numbers a little north of 200 million for the full year, but subsequently, that got canceled, which we spoke about. So in a sense, from an equivalent last year, current year perspective, we have a robust growth just in the TCV, but more so in terms of number of accounts with growth opportunities.

And finally, this continues to be a significant area of investment for us. We think there is still a lot more upside. VC (Vinod C), who you all know has had the most amazing run with our infra business, while he continues to provide oversight to the infra business, his predominant role has shifted to running North America hunting, which we thought was a problem area for us. He's been transitioning into that role for a while, and now good percentage of his time will be spent on that going forward. Sid, who's been with us for a number of years under VC, has taken over effective Jan 1, as the IMS Head. Sid continues to work for VC. And we continue to hire healthily. And what you'll see when you go to some of the numbers with the revenue walks and EBITDA walks is that notwithstanding all the pressure in Q4, there's a lot of confidence in our future, which meant we were investing for 2020, both in terms of potential future billable headcount and in terms of SG&A.

So, Slide 6, for those of you are looking at it off-line, our revenues, we've spoken about Q4, 214.3. Our EBITDA was, pre RSU, was just shy of 15%. We have a drop every year from Q3 to Q4. So the drop is not surprising, but the extent of drop is higher this time. But we will talk about the why of it in a couple of minutes when we do the walk. We had initiated, instituted performance based long-term RSU plan in 2015. And so we've been taking some cost based on projected performance for the last 5 years, and there was an adjustment of that cost that came in, in Q4 at the end of that period. So that took our reported EBITDA percentage up to 15.7% for the quarter.

I'm going to spend some time on both the revenue and EBITDA walks, I think these have the best insights as to what happened in our business. So look at the reds, first, our calendar furlough impact was little north of $7 million. So that's close to 3.4%, which is, like I said, both higher than what it was last year and higher than what we had anticipated at the beginning of the quarter. As a quick reference point, last year instead of the 3.4%, this number was 1.6%, in 2018 Q4. You'll see that mix has caused close to $4 million drop, that's essentially on account of the single client ramp down. That's a change in mix caused by that client. And the bill rates coming down is a variety of factors, but in essence, the on-site ratio is coming down, impact the overall average bill rates negatively. So that's all the reds.

But the best thing and why we feel really good about our business is you see 7.5% volume increase in Q4. And which just usually does not happen for us. In Q4, there's a material increase in volume. We have anticipated quite a bit of that. We spoke at the beginning of the quarter that we expect to deliver growth, have volume increase, notwithstanding the headwinds. But what happened during the quarter was the furloughs were higher, the ramp down with the client was a little bit sharper, and yet, our volume growth was actually higher, and we delivered what we had set out to do at the beginning of the quarter.

If you look at our EBITDA. Again, we will talk about the reds and the greens. So the biggest single impact is, again, from calendar and furlough. So, it was 90 bps from that factor. Bill rates, again, this is kind of coming from our on-site business coming down, so the average bill rates come down. And increments were normal. So, this is not abnormal for the quarter. Every year, Q4, we have this impact. Just a quick refresh, the increment cycle starts in Q3, but the full impact comes in Q4, it is the incremental full impact. There are some additional cycles starting in Jan as well. But the big chunk is all of our offshore employees.

The fact that the mix reduced meant there was a positive, so that's the 40 bps there. You will see that utilization improved now. You can see a later slide where our utilization has gone down. That's the reported utilization. The numbers here are adjusted for furlough. So the furlough impact is in the furlough column. And the utilization increase here you see is actually net of the furloughs.

Finally, you will see that we continue to invest substantially in SG&A. We also invested in increasing headcount through the quarter, billable headcount for future. But we also invested in SG&A because we're building out for 2020.

Slide 9 has a GAAP to non-GAAP recon. We'll let you go through it, but to reiterate, there are only 2 aspects that we are adjusting, an amortization cost from the intangibles, which is at about 1.6 million per quarter and there is an NPV of the deferred payments.

Slide 10. This is a customer pyramid, 2 points to call out here. The first is the client concentration. Now, the one good thing that's happened from our client issue is the fact that our client concentration looks a lot better right now. So we're now down to, for this quarter, 33.5% from top 5 and 43%-odd from top 10. We believe right now that this maybe the best among companies of similar size. You also see that just across the board, there is an improvement in client pyramid. Every size of client, there's an increase. Some of it has come from Mobiquity, we called it out last quarter, too, but a lot of it is organic increase.

To me, the one that excites me the most is the 1 to 5 pyramid. That's kind of where, if we mine well, that sets up a really nice base for us to grow clients from. So, I'm going to speak a little bit about wins on NN, but I'm also going to speak about EN. Now last year, a couple of times, we had called out materially EN wins. Now this year, we did not. So, it's not because we were not winning important and substantial EN deals. So, we just thought we will summarize some of the most important ones for the year and call them out. So, I will do that in a minute.

Let's talk about NN for this quarter, the most exciting win is for a mega banking financial services customer. For whom we are going to be running automation as an enterprise program for their infrastructure. So they have many service providers, many programs that they have run, some successfully, some less so. We are coming on top of all those programs to run automation as a service for this mega bank and financial service organization.

This is an example, of a TCV that actually is low, and actually, revenues are also low, but the clients we've had in the past for this service, the margins are well in excess of 50%. So it's a high-value service for us, and that's a type of client that is hard to get an entry into. And we got it because we think we have a highly differentiated offering in the space of infrastructure automation.

We've spoken about Guidewire being an important driver of growth in the past and will continue to do so in the future. So we have another example of that, another significant win. This is consulting-led, again, it's land-and-expand. Guidewire programs tend to be several tens of millions of dollars. So consulting initial program will help us potentially get plenty of downstream revenues.

I'm going to, again, pick a couple of EN deals or 3 maybe. The one on top here is a full multiyear managed testing service for one of the largest, most respected brands in the world and simply across sectors, they are one of the most respected brands, and they are one of the largest automobile companies in the world. And so, we are running, for the next several years, a full managed testing service across their enterprise, across all of their business units.

The second one I want to call out is in BPO. This is again, a large bank, who's been a client for a number of years. We had the situation where we were a dominant player on the technology side with this client. On the BPO side, they had another service provider, one of the top 3 Indian IT companies was the service provider. And after years of being with the other service provider, they moved lock, stock, barrel to Hexaware. And the theme is similar to why we won other such deals in the past, which is we were able to demonstrate a far higher level of automation, a far higher commitment to automation and transformation.

The third one I will call out is a customer experience transformation deal. This is a kind of an end-to-end digital transformation deal for one of the largest real estate companies in the world, certainly the largest in Asia. We are doing a top-down digital transformation program. It'll incorporate any number of facets of the program, content, commerce, mobile apps, API development. So the full transformation program, we are engaged to.

We've been fighting attrition for several quarters. And about 2 quarters ago, I said we finally stabilized attrition, but we don't know yet if it's sustainable. That's a good start. Last quarter, we said we've had a slight improvement. Again, we don't know if it's sustainable. This quarter, we had a further reduction. So we feel good about the trajectory. I think you may also see in our press release, that we now have a new Chief People's Officer, Dr. Vishwanath Joshi. He came to us from Great Places to Work. He's a PhD in organizational management. He comes with an agenda to transform Hexaware's culture. And so we feel good that it will substantially, both improve our culture, improve employee engagement, enable us to hire and retain great talent.

While the headline number is reduced, the one underlying factor that has not shown as much improvement as the whole is onshore. So onshore labor markets. U.S. labor markets continue to be very tight. And while there's an overall reduction, the reduction is not as steep in our U.S. attrition. So that continues to be a focus area for us.

Slide 13 for those of you who are looking at it, and there is an equivalent slide for the full year, and I'll kind of give you both commentaries together, I think paint the picture of our business very well. So I'm going to start you with the vertical view here. So you will see that essentially one business; they were negative 6.3% BFS, the full year growth was at 2.7%. And there's a lot of Mobiquity revenues that got added in this, notwithstanding that the full year growth was 2.7%. And you see all the other businesses are on a fabulous growth orbit.

We'll kind of talk about BFS, the large client outlook, all of that in a few minutes, but this is something that gives us enormous confidence for the business that all of our verticals, say, one, are doing extremely well. And early part of last year, there were multiple clients where we had some weaknesses, but towards the end of the year, much of that was recovered, except for the 1 big client, right? And we will talk about where we are with this sector and with that client in a few minutes.

I'm going to skip to another slide because, frankly, I think it has the similar message. So Slide 17 has the same view for the full year, FY '19. So just sticking to verticals, again, you will see that the same story is true that BFS for the full year grew at 5.5% and GTT also grew at 5.2% but that's always been a spotty vertical in terms of growth for us. It was better than what they've done in the last year at least. And then all the other verticals, they are on a completely different orbits of growth.

Now if you take a horizontal view, I'm going to just stick to the full year view because the commentary is the same. The full year view is that multiple horizontals for us were impacted by the large client. The horizontals that were not impacted by it are Enterprise Services. Enterprise services grew at 7.5%, that's we called out as an improvement area. For the previous 3 years, we cumulatively grew negative 6% in that business. And this year, we have a positive growth, and actually, if you see the Y-on-Y Q4 numbers, they are even better.

The second business that was not impacted by the client ramp down was BPS. So that's growing at 31%. All the other businesses had a direct impact from the client. And a business like IMS, you'll see their Q4 Y-on-Y is down quite a bit, good chunk because of this client, but notwithstanding that, the full year growth was at 24%. So I think these couple of slides, give you a good story of the dichotomy in our business and even that dichotomy is substantially led by a single client.

Now I'm going to continue with a full year view on Slide 15, full year revenues were little over 793, EBITDA 15.7%, post RSU and the growth was 17.1%, like we said in the summary slide right at the beginning. The Slide 16, those of you who are looking at it, it's got the GAAP to non-GAAP recon for the full year, which is the same factors, the transaction cost, amortization cost and NPV of deferred payments.

Which kind of brings me to guidance for the full year '20. So we expect to grow the revenues at 15% to 17%. Majority of the growth will happen from Q2. Our post RSU EBITDA will be at 15% to 16%, which is substantially similar to what we are at roughly the same as what we are at today. The range is a little bit lower to a little bit higher. And we will do a dividend of Rs. 8. We did declare a dividend of Rs. 2.5 final dividend for this quarter. So in some ways, we think about 8 as kind of a minimum, we may step it up, but 8 is minimum that we will do for the year.

And back to revenue, so I want to give some commentary and some flavor. First is about the large client, where are we on that? So, the large client, the scenario is substantially similar to what we said at the beginning of Q4 is that we anticipate that the worst will be behind us in Q1. So that is the case. We did have a little bit sharper drop during Q4 than expected, and the drop continued through till December. So, there will still be a sequential revenue drop for this client from Q4 to Q1. That's because the full quarter impact of the ramp-downs that happened in November and December with this client. But the volumes are either stable or increasing from a December end perspective. So whatever we had at December end – it is either stable or improving, and we expect to continue to see that through the year.

There is still slight uncertainty, but there is a reasonable level of confidence that from this point, the volumes will only increase. And like I said, even though there will be a Q-on-Q drop in revenue, that's only on account of the overhang from Q4 into Q1. So the single client, while the worst is behind us from a full year perspective, we have a 3% overhang. So basically, H1 last year was still good for this client, and we are at a new normal, new base, which is substantially lower, about half, in essence of where we were and little lower than half of where we were. And so it's going to cost about a 3% overhang. So this revenue guidance is after accounting for that 3%.

With that, I'm going to stop and hand over to Vikash for little more color on some of the financial aspects.

Vikash Jain: Thank you, Keech. So I'll move on to Page 20, with a view on the numbers in INR terms. In rupee terms, revenue for the quarter was 15,288 million, a sequential growth of 3.2% and a year-on-year growth of 22.1%. Growth in rupee terms was stronger, driven by dollar strengthening during the quarter. From a full year perspective, growth in rupee terms was 20.1%.

Moving to the next one, where we have an update on our hedge. We continue with our layered hedging policy, wherein we take forward covers up to 24 months. As you can see on the chart, our U.S. dollar forward cover rates are improving quarter-after-quarter, which is good news. As of the year-end, we have a total forward cover outstanding of $238 million, with most of the covers in U.S. dollars.

Moving to the next one, - you'll see that the chart here reflects an impact of 2 items on Forex gain or loss. One is from the hedges, and the other is the translation of monetary assets held in foreign currency at the period end exchange rates. For the quarter, we had a gain of $0.1 million. For the full year, we had a Forex gain of $2.6 million. Now when you will look into it from a year-on-year perspective, the compares what you need to keep in mind is, we had $2.6 million of gain in the current year, but it was substantially lower than the gains what we had in the previous year, which was $6.8 million. For the next 2 quarters, we expect to have profits on forward hedges. Our best estimate based on December closing rates is $0.5 million of profits in Q1 '20 and a $1.1 million of profits in Q2 '20.

On Page 23, we have an update on few items. Cash generation for us continue to be strong. The total cash what we have on the balance sheet as of December end is $35.4 million. The total loan what we have on the books as on 31st of December is $20 million. So net of debt, we have a cash balance of $15.4 million.

Just an update on an item post the balance sheet date, we had our first installment of $30 million, which was due to be paid to Mobiquity in January. We have made the payment of the full amount to Mobiquity in the month of Jan. That's a post balance sheet update for your reference.

DSO, including unbilled, is at 80 days. You would see that DSO has gone up by 4 days sequentially. This is a one-off, where in payment from one customer got delayed because of their internal systems and have subsequently been collected. We expect our DSOs to get back into the range of 75 days on a go-forward basis.

Dividend - the board has proposed a final dividend of Rs. 2.5 per share. This is subject to the shareholder approving them at the upcoming AGM. Once approved, this should mean a total dividend of Rs. 8.5 per share for the full year.

Our ETR for the full year is at 17.7%. This is one of the lowest in the industry. This was helped by our tax planning associated with the SEZ and with the fact that there were NOLs from Mobiquity, which we could use in terms of offsetting some of our taxable profit in the current year. Our base ETR for the next year would be 19.5%.

CAPEX. We continue to invest in our business. Total CAPEX for the year is at $17.1 million. As a point of reference, it's almost 2x of the CAPEX that we incurred last year. In FY '18, we incurred a CAPEX of $9 million. The CAPEX in the current year is $17.1 million.

That was a quick recap of our Q4 and the full year results. With this, we'll open up for Q&A.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Sudhir Guntapally from Motilal Oswal. Please go ahead.

Sudhir Guntapally: When you are guiding for EBITDA increase of 15% to 16%, is this adjusted for IndAS 116? I guess IndAS impact should give a bump up in the EBITDA margins for next year, so despite this, if you are expecting EBITDA growth which is more or less in line with revenue growth, does that mean we are actually building an EBITDA margin contraction, excluding the impact of IndAS 116?

Vikash Jain: Not really. I mean, from a current year perspective, our EBITDA was at 15.7%. We are still working out the impact associated with AS 116, how much that is going to be. And if we bake in that, obviously, 15.7% would go up on the higher end and the range what we have provided to you is 15% to 16%. So that bakes in, but not necessarily in terms of a contraction. And so we have given a range, which factors in the impact of AS 116, but on the higher side of it, it's better than the actual numbers what we had in the current year. And the other point what you need to take into consideration from a current year perspective is, the 15.7% what we delivered in the current year did have a onetime impact, not very material, but did have some onetime impact associated with the ESOP cost reversal that Keech spoke about earlier on the call.

Sudhir Guntapally: Sure, Vikash. And any sense on the quantitative impact because of IndAS 116 for the next year?

Vikash Jain: We are still working on it. So next quarter, when we announce our results, we'll have the firm number to be shared.

Sudhir Guntapally: Sure. And if I look at the revenue walk on Slide #7, there is a sharp negative impact because of fewer working days and there is a sharp increase in volumes, so these 2 items seem to be giving a contradicting message. Can you please throw some more color on where this volume increase is coming from?

R. Srikrishna: So actually, it's not contradicting at all. The volume increase is our indicator of the underlying strength of the business. So this is increase in business. The calendar/furlough is because we have sequential drop in calendar, but some of it. That happens every year. But the big chunk of that is furloughs from our clients. And like I said, this is higher than normal. This is 3.4% this year. Last year, it was 1.6%. So they're not contradicting. I mean we had underlying volume increase, but revenues got impacted because of calendar and furlough.

Vikash Jain: Yes, just to add. Think of it this way, if the number of calendar days were the same as last quarter, and there was no furlough, which was announced by the customer, our revenues for the current quarter would have been higher by additional $ 7 million.

Sudhir Guntapally: Sure, understood. And when we are talking about this incremental volume, so which are the specific, let's say, verticals or service lines, which are driving these incremental volumes?

R. Srikrishna: I mean from a vertical perspective, where everything except one vertical grew. So everything except one vertical. And from a service line perspective, we said there were 2 service lines that were not impacted, which is BPS and Enterprise Services. All other service lines were impacted by this client-specific issue. But yet, all of them except one actually grew.

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

Sandeep Shah: Just, Keech, wanted to understand on the new business, new wins. I do agree that last year, you had $100 million worth of deal, which got canceled. So this year, outside of that, it looks like a growth at $130 million, but historic range before CY '18, you were at $150 million, $180 million. So what is happening? Why the TCV amount - when the deal decision-making for the sector looks improved, looking at the order books of the others. So why the NN wins has not been in our historic range as a whole?

R. Srikrishna: So 2 things, Sandeep. The first is, like I said, what this TCV number does not reflect is actually the number of wins, so the quality of wins has actually increased, and I gave you some examples of that, like the Guidewire consulting deal or the automation-as-a -service deal for a mega bank. These are very small TCVs. The revenue realization and the margin realization can be much higher than what the TCVs impact. That's one. Two is, we do think, however, that there is an opportunity for us to improve. And I told you the most important change, there are lots of others, additions to the hunting team, but the most important change, I told you that VC is practically running it full-time now.

Sandeep Shah: And in terms of Mobiquity, any update in terms of how the business synergy has been working out? Because it looks like from our NN wins, does not look like a bigger benefit, which is coming despite it's almost now 7, 8 months old as an acquisition. And any update in terms of any key attrition in the senior leadership team of the Mobiquity?

R. Srikrishna: Sure. So, in terms of overall synergies, okay? Interestingly, last quarter, we spoke about a significant NN win, there were 2 parts of the deal, one of those parts was aided entirely on account of Mobiquity. And that client, actually, we think, would be a significant client for us in FY '20. So we had the early success there. But interestingly, in Q4, what happened is not necessarily what we anticipated, but pretty good - is that we're seeing a better traction in selling Hexaware services to Mobiquity clients than the other way around. It's all in EN. So, there are 3 clients for whom Mobiquity built a product or built an app, but we were leaving the downstream cloud revenues on the table, either somebody else was doing, the client was doing it. So, there are 3 clients where we've started doing the downstream work as well. So, there is some nice momentum building up on the cloud front. On the CXT front, and if you recall we had both themes as important themes, both cloud and CXT were important themes. So the success – we have had on both sides. The new deal, which we spoke about last quarter was in the CXT side; 3 smaller ones are on the cloud side. So, I think we are headed for a nice 2020 year in terms of synergies. I think more than synergies, though you didn't ask the question, I'm going to use the opportunity to speak about it - The core business trajectory has not changed. One of the bigger things that people are scared about is the acquisition process impacts the core trajectory of a business. That's not happened at all. And that's true for attrition, that's true for any other metric. Does it mean there is zero attrition? There's actually 1 kind of mid- to senior-level person in Europe, that quit. But, that's just business as usual. It's been several months and 1 person leaving is not a huge deal. And that was not anything to do with the acquisition. He left for a completely different reason.

Sandeep Shah: Just a few things. In terms of top client, the way you have commented, it looks like the month-on-month volumes have started increasing. So one can say the worst is behind and client is now on a stable-to-growth path. Second, just wanted to know the EBIT margin, will it be flat on a Y-o-Y after the IndAS? And the third, is it possible to give some color in terms of TCV wins from the existing clients as a whole which can give us some color about the growth outlook as a whole?

R. Srikrishna: Yes. So let me address the last one first, right? I mean, we are giving you the color. Taking all of that into account, the TCV bills, the existing clients, new clients, order book, renewals, everything, and giving you a color, we'll be giving you a pretty good range on what the revenue growth is, right? So our wins, I called out some wins, they are both good size but also rich and diverse. I gave you examples from 3 different service lines. Our EN engagement just continues to improve. Our pipeline from across the board EN and NN continues to improve, but is especially so in EN, right? So, we think that's the best representation. We include renewals, not include renewals, when is it considered renewals, when is it not considered. We think there are just too many variables associated with TCV from an existing client perspective. And the best guidance is to give you an overall revenue.

Vikash Jain: Yes. So, Sandeep, on the EBIT, it is not going to be flat on a year-on-year basis, particularly because of the fact that we are going to be having a transaction cost which is the amortization of intangibles next year into the P&L, which is going to be a full year impact compared to a half year impact what we have in the current year. So that's one part of it because of which it will be - on a GAAP basis, it will show a dilution. But on a non-GAAP basis, it's going to be flat, at least from an amortization perspective. The second one on the IndAS impact. Our expectation is that it should be P&L neutral. But having said that, we need to work out the exact details because depending upon at what level of maturity the leases are, whether it is in the earlier period of the contract versus the latter half of the contract, the impact on the P&L could be dilutive to accretive. We are still in the process of firming up the numbers. Wait for one more quarter before we give you the exact details in terms of the impact of AS 116 on the P&L at an EBIT level.

Sandeep Shah: And just, Keech, comment on the top client as a whole....

R. Srikrishna: Yes. Your commentary was accurate. It's an accurate reflection of where we are. The only thing I would say is they are not the top client, certainly not anymore. They are still a substantial client to be sure. Our Y-on-Y growth from the client is less than 50%. So our volume has come down to less than 1/2 but we are now on a wicket which is stable to moderate growth.

Sandeep Shah: Okay. So entering CY '20, one can say, no large client-specific issues now we have?

R. Srikrishna: Yes. Frankly, we didn't know this client at the beginning of CY '19 as well. We certainly don't know of any at this point. And this particular client, there's always some uncertainty, but month-on-month volumes are stable to growing at this point. They bottomed out in December.

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

Dipesh Mehta: Keech, just couple of questions. First, on troubled accounts where we are seeing in-sourcing and related implication on us. Earlier, we indicated about their in-sourcing is from 70% to 30%. And in your prepared comment, you indicated about, like, higher-than-anticipated impact. So whether they have in-sourced more than that number? That is question one because the quantification which you provided roughly around 3%, it seems it is more or less in line with that number. But your commentary indicated Q4 impact is slightly higher than anticipated. So, if you can provide some perspective? Second question is on BFS. Last quarter, you suggested some softness in other BFS account and including some of the Mobiquity account. So, what trends we are seeing now, if you can provide some perspective? And the third question is about BPS growth. If you can provide what is driving BPS growth? And how one should look that momentum continuing? Thank you.

R. Srikrishna: So, on the first question, so Dipesh, the client actions were a combination of 2 factors, right? There was the in-sourcing and there was a budget cut. So, there were both factors. So it's not very hard math on 30-70 to 70-30, there's also a sharp budget cut. And there's always kind of round ups and round offs happening at the end of the year to make sure they're caught up for the budget, right? So there was directionally, there was a change on the 70-30. They didn't necessarily in-source more. In fact, I don't think they've actually completed their in-sourcing. I still think they've kind of left a lot of work undone and it's gone into their budget cuts. The client also instituted a large-scale employee transformation program in terms of optimizing the workforce. That's kind of happening. So it's a combination of both factors. For us, the net-net is this, whatever the worst is behind us, right? And I told you we're less than 1/2 the size in the client, but we are now stable to potentially slow-to-moderate growth, right? So the second question was on BFS and Mobiquity. Mobiquity, one of the things that happened was that their largest client was a banking client. We have spoken about it, Bank ABC and this is all public. Bank ABC in November, so now it's public, they launched “ila”, which is an all-digital bank. It's really cool. You can onboard a client in ‘happy path customer’ including initial funding for the account in about 3 minutes. That's just one of the many cool things in that bank. So that was a massive project and essentially, we finished building for the bank. It doesn't mean that there is not going to be continuous improvement and additional features, plus likely additional countries to roll out to in 2020. So that was kind of the major costs because of that big project going live. Underlying business remains strong and we'll talk kind of more about it in Q1. But there's already another similar project for another bank that we've started off like for ABC, another similar project for another bank where we will run Soup-to-Nuts digital transformation that we've already started on for this year. So, it should actually look good. And so you had a third question. Will our BPS business continue to grow? Yes, we are still small. We think it will continue to grow robustly.

Dipesh Mehta: Yes. So just on what is driving that growth, if you can provide some perspective? Because in between we have seen some kind of softness and in the last few quarters, we are seeing acceleration in growth rate. So if you can provide what we did and what is working well for us?

R. Srikrishna: Yes. So, kind of the few quarters of soft growth were extremely high activity. There were 2 large clients under transition. And both were large financial institutions where we were taking over from 2 different large service providers. Sometimes these transitions last 9 months to 12 months and sometimes the staggered transition lasts even longer, right? So that period was a little bit slow in terms of actual growth, but they were intense in terms of activity and now you're seeing the numbers pan out.

Moderator: We move to the next question. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari: Keech, you mentioned that dividend for next year will be Rs. 8 and this year it was 8.5. Just trying to understand why there's the drop and especially in the light of the recent change on the dividend distribution tax, we're actually hoping for dividend increase just on account of that, so why are you guiding for a low dividend?

R. Srikrishna: Well, last year we started by saying 6 and we ended up with higher. Like I said, we are saying minimum of 8. In Q4, we are at a level of 10, we did 2.5. So a minimum of 8. That's the way to think about it.

Prashant Kothari: Okay. And secondly, this revenue growth of 15% to 17%, how much of this you think is like the organic growth?

R. Srikrishna: Well, at this point, we just look at the business as a single business. So all your Q-on-Q numbers, everything is organic, right? So clearly, some of the growth is coming from Mobiquity. Mobiquity business, if it were to be standalone and it's not. If it were the standalone, we will grow a little faster than the Hexaware legacy business so that will continue. But there is obviously strong growth in the original Hexaware business. And all that, like I said, this is notwithstanding the 3% overhang that we have for the current year.

Prashant Kothari: Okay. And when we bought Mobiquity, there was part of the deal consideration which was to be earned out. How are we kind of tracking on those milestones?

R. Srikrishna: So that is still 9 months ahead, roughly. But we fully expect that we will pay that.

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

Manik Taneja: Just wanted to understand how should one be reading into the strong headcount addition that we've done through this year? And also, if you could give some sense as to why we've seen such sort of sluggish performance in our RoW business this year?

R. Srikrishna: Yes. So let me quickly address that. I think in fact, we have some issues to fix, right? It's a small business, so single client issues kind of impact us more than anywhere else. One of the larger clients, there was a large airline client which is under substantial stress. It was already under stress due to some of the political issues in that country and now they are under severe stress. So I will talk a little bit about Coronavirus just after I answer this question, right? So now that client is even more under some extremely severe stress. The headcount addition is really, you saw the volume growth, it's not reflected in our revenue growth. But you saw the underlying volume growth. So, we are being hired not only for that, but hired for what we think could be a strong year for us in 2020. I think you would see that through first quarter also our headcount addition will be ahead of revenue growth. It's just some of the cycles for campus hires and things like that, we'll add headcount, it will have an impact on utilization for Q1. But that's what we will do because we're building for 2020.

Manik Taneja: Sure. So could I get the number for fresher addition this quarter? And if you could give us some sense on what you are looking at in terms of fresher hiring for next year?

R. Srikrishna: So for this quarter, it was I think 165. For the full year, it was 631. We expect to increase that substantially in full year '20, substantially.

Moderator: Thank you. The next question is from the line of Harit Shah from India Nivesh Shares and Securities. Please go ahead.

Harit Shah: I just want to get your sense Keech on your idea as far as offshore, on-site mix. So this quarter, your offshore was at the highest level in almost 5 years. So would you believe that this could be a potential margin lever going forward, especially given the numerous cost headwinds that we are facing on various fronts?

R. Srikrishna: It is certainly yes, right? So this client dropping revenues, I think, ultimately has 2 good long-term benefits for us. The first is that our revenue concentration has come down, right? It's just something which is far nicer than what it was. What used to be our top 5 is now our top 10. Our top 10 is lower than what used to be top 5. And the second is that our offshore ratios have improved. So I mean, in the near-term when there is a sharp ramp down, we can't manage cost quite that well instantly. So it is not all showed up in the margins. So certainly, in the long term, it is an important benefit for us that we have a higher offshore leverage.

Harit Shah: Secondly, as you have mentioned about your client concentration improving quite significantly, partly because of maybe ramp down, so for the last couple of years, we've had your top 5, top 10 clients growing in mid- to low single digits. Now hopefully with this client issue behind, can we expect some sort of improved growth in the next year, at least as far as your top 5, top 10 are concerned?

R. Srikrishna: Yes. If you recall, I showed you the slide on how the growth stacks up by vertical, right? That really tells you the story. And we have like north of 30% Y-on-Y growth in 3 verticals. Full year growth of more than 30% in two, close to 30% in one. So yes, I think if this client issue is behind us, which we believe it is now, we will see improved performance. So as I said this earlier, I do want to take a minute to call out what we see as risk associated with Coronavirus. So we do think that there is risk, that there are 2 forms of risks that are happening. The first is kind of the industry that you will all be well aware of. Travel & Transportation, I think, is kind of the worst. And we have clients, I already called out one APAC client. We have other travel clients who canceled routes to China that give them good portion of the revenue. So I think there will be GDS clients that will get impacted. So there would be, we think, some impact in the sector. It's kind of still early to assess what and how much. I don't think anyone has really a good handle on that, but there could be some risks related to that. I think the second which you're beginning to see, and it's not necessarily all logic and rationale-based, but clients are stopping visiting us. 'Don't travel East' is a bit of a mantra or so. Some clients at least are saying, "Okay, we're not going to come to India for a while." That's going to have an impact on us in terms of potentials, new work, displacing incumbents, other incumbents. So these are kind of 2 types of impacts. There are also some reverse travel restrictions on our employees from India and employees from East traveling West. So that also has an impact. So, there are some risks associated with Coronavirus.

Moderator: Thank you. The next question is from the line of Nitin from HSBC. Please go ahead.

Nitin: I had a question on the Mobiquity deferred payments. Just want to confirm that the first tranche of the payment, the $30 million, has been paid in this quarter in January 2020. And is the second tranche expected to be paid in October 2020?

Vikash Jain: Yes. As I said earlier, the first tranche of payment which was due in Jan 2020 of $30 million, has been paid out. The next tranche is due in October 2020 of $20 million.

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

Ashwin Mehta: Keech, just one clarification. So you highlighted some risks on the Coronavirus. So, does our guidance take into account adequate risks there? Or that's something which could be incremental?

R. Srikrishna: Ashwin, I said it's hard to kind of quantify, the situation is so fluid, right? We really would not kind of bake in any material dollar amounts to quantify that risk at this point. I think this will all go away. That's what we're all hoping. But I've been as transparent as possible in calling out the facets of risk that we are seeing.

Ashwin Mehta: And the second thing that you highlighted in your initial remarks was on the attrition onsite. So if you can just give some comments on the staffing onsite, how things are shaping there? And are the pressures similar to what you cited, say, last year? Or things have kind of improved since then?

R. Srikrishna: No. It appears similar, right? And the economy continues to kind of do well in the U.S., the unemployment rate continues to be low and getting lower. So it's not different. So it's a war for talent there.

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

Sulabh Govil: Most of my questions have been answered. I just had another one on outlook for Baring. So what are we hearing from them on the ownership going forward, given that we're nearing the life of the fund debt?

R. Srikrishna: I'm not sure we're nearing the end of the life of the fund; they still have a fair bit of runway in that. So I think we are doing well. There is a lot of confidence in our performance and long-term performance. I couldn't talk for sure as to what and when. But what I can assure you is that there's nothing imminent. There's just business as usual as far as they are concerned, long-term view to business. I mean, I'll give you one little demonstration. I told you about the RSU plan that we started in '15, you will see that we've continued to cost in RSU because there are continued plans that we're putting in place. So just an example of continuity of everything that we are doing as an organization. But having said this, I want to reiterate something that I've said in the past, right? There would be a change at some point of time, I don't know when it'll be, 1 years, 2 years, 3 years. At that point, my objective and everything that I'm working for is to ensure that it's a nonevent for all our stakeholders. It's a nonevent for our employees, nonevent for our customers, for other investors.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Agro Capital. Please go ahead.

Mihir Manohar: I wanted to understand, given the interest rate changes which have happened in the U.K. so that is from LIBOR, they are going to shift to SONIA. So just wanted to understand what kind of opportunity is there pertaining to change in interest rates? And when are you seeing inquiries in this particular matter?

R. Srikrishna: We've built a full solution offering around this transition. In fact, I would love to come and sell to all of you. The first thing every client needs to do is to figure out what contracts are linked to LIBOR and what are not. And for organizations with thousands of contracts, that's easy. But for organizations with tens of thousands or hundreds of thousands, it's quite a monumental task. So, the first aspect of our solution is to use technology, AI and NLP to point out which contracts need work on. There are other aspects to our solution as well. We have actually a first client for this. We have one client that is revenue bearing for this service. But it doesn't seem to be kind of as huge an opportunity for us yet. I think many clients are still in the planning phase. And we think when they get to execution phase during some part of 2020 is where we will have some opportunities.

Mihir Manohar: Okay. So if you can just update with the deadline which is there for the start of implementation of SONIA?

R. Srikrishna: Well, I mean, the deadline is 2020, right? So that is the deadline. But the need for large-scale intervention comes with very large clients. So, lot of customers who have contracts in smaller volumes, I mean, could still be large companies, but the nature of business, the number of contracts is not so high, the opportunity may not be huge for us. They can and will do substantially all of it on their own, but there could be opportunities. Like I said, we are our first client where they have very large-scale number of contracts that they need to look into.

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

Sandeep Shah: Yes, Keech, just one follow-up. As you said that the furlough, calendar impact was higher, plus the top client volume growth being better in Jan versus December, so why are we calling out the growth to start from Q2 instead of Q1 as a whole? So, what are the challenges in Q1 and the growth rate could be really lower than Q4?

R. Srikrishna: So first of all, there is a further calendar drop from Q4 to Q1, right? That's just a base. The second is, every year, we see a pattern where customers kind of have uncertainty because for mass majority of our customers it's the beginning of a new budget year. And so there are delays in SOWs, people sign it a week late, 2 weeks late. Some customers have furloughs that extent into early part of Jan. So we've kind of seen that happening time and again. So we've essentially accounted for that in our planning process and accounted for that in what

I'm telling you - that the growth majority will happen from Q2. There's just lots of discontinuities around Jan 1st that can happen with clients.

Sandeep Shah: Fair enough. And just few book-keeping questions. In terms of the loan, if you look at how the drawdown will happen because the current cash and bank balance versus the deferred payment liability which is there, it looks like the current cash balance is not enough. I do agree there would be a future cash generation, but do you expect the loan amount from $20 million to further increase in the Q1 of this calendar year and the whole year of CY '20?

Vikash Jain: Sandeep, if you recall, when we announced the deal, at that point of time, we had mentioned that the total loan what we are taking to fund the deal is approximately $47 million, $20 million of term loan and $27 million of working capital. And we have said that we'll draw down on the working capital line as and when the need arises. We have been running a tight ship on cash management. This has helped us not draw down on working capital line for most of the times. For funding the first tranche of $ $30 million we will use some of the working capital line. You'll see it when we come out with our Q1 results. We might have some drawdown, but not the whole limit up to the $27 million. We feel comfortable in terms of generating enough cash to fund the deal for what we had already done for the $30 million and for the balance $20 million. The other piece to note here is, what we are seeing as an increase in the cash balance, this is despite the fact that our DSOs have gone up by 4 days. It was just on the balance sheet date that we did not have few collections hitting our bank account. If the DSOs were at the same levels as last quarter, our cash balances would be higher by another $9 to $10 million. You need to take that into consideration. So, net-net, we are comfortable in terms of generating enough cash from the business and have enough credit line available to fund the Mobiquity deal.

Sandeep Shah: Just few things, on the tax rate from 17.3%, you said the base rate for CY '20 would be 19.5%. Is it correct, which I have understood? And second, Keech, you said the dividend of Rs. 8 per share which you have guided for this year is the bare minimum and maybe a conservative way of looking at it?

R. Srikrishna: Yes, to the second one. We'll tell you the first one.

Vikash Jain: Yes, you're right, our ETR was 17.3% from a Q4 perspective and 17.7% from a full year perspective. We expect it to go up to 19.5% next year, that's primarily on account of 2 factors. Current year, we had a onetime gain in the P&L associated with the transaction cost in Mobiquity which won't be there in the next year. And the second aspect is the change in the mix of the profits which are generated out of the SEZ unit versus the non-SEZ unit. So that's changing for us in next year which is driving the tax rate up. The other point what you should take into consideration is, if you look into FY '18 which did not have any of these onetime events, our base tax rate was 19.7%. So what we are guiding to from an FY '20 perspective is still 20 bps lower vs FY18 actuals.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference over to Mr. R. Srikrishna for closing comments.

R. Srikrishna: Well, thank you all. Thank you for your patience. I know we've gone quite a bit longer than usual. Thank you and look forward to speaking to you all on next quarter.

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

(This document has been edited to improve readability)