“Hexaware Technologies Limited
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Hexaware Technologies Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Kalingara. Thank you and over to you, sir.

Vinay Kalingara: Thank you, Steven. Good evening to all of you. Welcome to Hexaware Technologies earnings call. On the call today we have Mr. R. Srikrishna – CEO & Executive Director; Mr. Vikash Jain – CFO and Mr. Ram Singampalli – COO. As always, there is the 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 our results. Over to you, Keech.

R. Srikrishna: Good evening, everyone and thank you for joining this call this evening. This is one of the few events that almost feels normal in that we were always remote, and this continues to be a remote event. We had a slight drop in revenue in Q1, a little over 1% in constant currency which kind of feels like a reasonable outcome given the circumstances. It does represent a strong YoY growth of 17%-18% depending on the currency and this is after accounting for somewhere between a 2% to 3% sequential impact on account of COVID.

EBITDA likewise we had a decline of 80 bps, we would call out COVID impact of somewhere in the range of 100 to 120 bps. There is revenue loss that had little to no cost management effort possible. It could have been higher; it is hard to call the exact impact, but it is in that range. You will see in the next slides, Slide #5, that ultimately up till the PAT level, things are roughly even with last quarter, but then there is a smart EPS growth primarily on account of FOREX.

We have one of our best quarters for NN wins ever. We were on track probably for it to be the best quarter ever. I said in the commentary we had a few weeks ago that Jan and Feb, we started the quarter really well. We had a spate of wins in Jan and Feb and then it kind of came to a pretty sharp stop in March. But notwithstanding that, in aggregate, it was a great quarter with almost $70 million of NN wins. It could have been much better, but it was still a good quarter.

Our closing headcount was roughly the same as last quarter. We did pause in hiring towards the end and we had a gross addition on freshers, that portion of hiring continues and in aggregate we were flat.

We are at Slide #6 for those of you seeing it offline. This quarter is the first quarter we have included IndAS-116. So, I would callout the impact of that on these numbers. At an EBITDA level there is a 100-bps positive impact. At PBT level, there is a 30-bps negative impact which goes into ultimately our EPS. So that is the impact of IndAS - positive at an EBITDA level, negative at a PBT level. Of course in this quarter we also have a one off RSU adjustments from a QoQ perspective. Last quarter we had a substantial one-off adjustment because of the end of the program. So that leads to a little bit of the rough edge on a QoQ basis on EBITDA post-RSU.

Our PAT after accounting for the IndAS impact was flat in absolute numbers and our EPS grew smartly primarily on account of FOREX tailwinds.

We have shown the revenue walk on Slide #7. We had FOREX headwinds. As bad as a quarter that Q4 was; Q1 was worse from a calendar perspective. We got a little bit tailwind with mix and bill rates. But essentially all the drop came on account of volume. The volume impact could have been even higher, there is a material volume drop almost entirely on account of COVID that caused the revenue to drop.

In EBITDA it is a little more complex. There are more factors at play. What we saw as mix increase is positive for revenues and negative for margins. Calendar continues to be a negative for margins. We had utilization drop which is 100% on account of COVID. In fact, the utilization would have improved. Remember Q4 had substantial furloughs and that shows up as bad utilization and you would expect to see it improve substantially. But instead it went down and all of that was on account of COVID. We did have increments in the quarter. Now, of course these increments were executed and given out before COVID became what it is. So, they were done very early part of year and that had an impact. We have multiple cycles; this is one remaining cycle, that is for all our onsite employees. So increments were given out early in the year for them. Then there were other costs, this is the cost of managing the COVID itself in terms of – till we worked from office, all the incremental cost to ensure health of our employees. We also had a client going bankrupt, that is partially COVID, but we put it under here for now. So, those were some of the major puts and takes for EBITDA for this quarter.

I don't have a commentary on GAAP to non-GAAP recon, it is the same as what we have been doing for the past number of quarters. We have adjusted for amortization of intangibles and NPV of deferred payments. The NPV of deferred payments will come down further later this year.

I again don't have specific commentary on depth of customer relationships. The trend is what you have seen for the past many quarters that across each customer bucket we have more clients and our client concentration risk has come down substantially and at this point what used to be our top 5 clients, maybe 1.5 years ago, giving us a mid-40s percentage of business is now coming from our top 10 clients.

We had a great beginning to the quarter in terms of new deal signings. Actually, the full strength is not even reflected in the numbers. If you recall I said there is a shift in strategy to also focus on “land and expand” in high quality accounts but “land and expand” strategy does not immediately show up as a large booking but is highly valuable to us, nevertheless. There is quite a slew of new wins in the early part of the year. And while Europe has been on the roll for some time and you will see that reflected in numbers, we have made substantial investments in ramping up and redoing our US hunting. Many of you may know that we had VC; who used to run our infrastructure business also takeover an additional role of running and setting up or rejigging the US hunting. That investment was beginning to pay off when we saw quite a number of wins in the early part of the year. Like I said, it is gone on pause mode right now, more on that later.

One of the positive fallouts of the situation is that attrition went down. We have been trending downwards on attrition for a number of quarters and that is through a concerted set of investments and efforts. That trend continued but there was a little bit of a sharp drop off in March, so we expect to see this go down a bit further in coming quarters. On the other hand, utilization went down, we expect it to go down quite a bit further in Q2 and start getting to normal in Q3 and Q4. We will talk little bit more about what are our strategies in the face of COVID but as it pertains to utilization. Our primary focus is, once we get past safety of employees, our next focus is how do we continue to maintain and improve on trusted relationships during this period with customers and if that means short-term dip in utilization, so be it.

Some commentary on geographic vertical and horizontal cuts for the quarter but also, later I will talk about what we see is some of the trends going forward. You will see here that APAC had the first impact and the full quarter impact. Europe also had an earlier impact, than North America and almost a full quarter impact, but there was a lot of other underlying strength in the Europe business because of which it still grew. North America had the last impact from a geo perspective, but it is in many ways the sharpest impact and that impact will carry through into Q2.

From a vertical perspective, there are couple of verticals that grew through this quarter and we expect to see that strength going in to Q2 as well at least. BFS and HTPS. BFS - I do want to relate this back to one of the top clients commentary that we have been giving for many quarters. What we said last time is that that client we have seen the bottom in December. Q4 to Q1 there will be a quarter-on-quarter drop, but a month-on-month increase in volume. So, both those are true. As we speak, there was a quarter-on-quarter drop which was anticipated, and so this growth in BFS that we are seeing is despite that. But there is a month-on-month improvement in the client in business volume and we expect to continue to see growth in that client. I will come back to providing some color on what we see going forward on a vertical basis in a few minutes. For now, I am just sticking to what happened in Q1.

Service Lines, there was a pretty uniform hit, I think it is going to be hard to predict the short-term impact of the COVID situation on service lines. It is going to be little bit all over the map. Three things I will call out here, one is Digital. We have three portions of digital: automation, cloud and customer experience transformation. The customer experience transformation component of each of our businesses which we don't see here reported this way - but that continued to shine including the acquired business from Mobiquity and the organic business.

The second thing is that IMS, we are seeing a sharp drop that is attributed to two reasons – one is that the large client we just spoke about, quite a substantial portion of that is on account of IMS. So that impact we have been seeing for a few quarters now, but the big component of the YoY impact is due to that. In addition, if you recall, we spoke about consciously pivoting the IMS business to high-end project and consulting work which gives us higher margin. But that in some way was amongst the first businesses to get paused, capital projects because that is a budget priority but also in many cases because we cannot implement that work in a shutdown situation. It is not supply side from Hexaware but from the client side they don't have employees in offices to execute these projects. So, on the other hand we do think that immediately coming out of COVID and almost a V-shape this business will recover and both cloud and work-from-home will be strong positives for IMS business. So, you will expect to see this coming back up very quickly.

Now, normally we would have at this point just provided an update on guidance and spoken about financials. But I am going to take a few minutes more to talk about operationally how we have done and what we expect to see as a consequence of COVID; in aggregate but also some commentary on verticals and service lines. We spoke about this last time, we set out with three objectives, ensure safety and wellbeing of our employees, deliver exceptional services and contribute to community where we can. And we have done very well across all of those fronts. We transitioned to work from home, a week before the Indian Government called it in India and in almost all places around the world, two weeks before the Indian Government, if we use that as a timeline. So we were work from home before any government mandate in any country. And on IT side within the first 3 working days we were close to 100% and we continue to be so. Only the last percent or two we were not moving was, not on account of us but on account of client permissions. BPS on other hand, the client permission and sometimes the nature of work is more challenging to do work from home and so we were from a revenue perspective about 75% coverage by end of March. Today we improved that to about 80%. And the revenue impact I spoke about for Q1 included some supply side issues especially in the last week and a lot of that came from BPS.

Now we did a customer satisfaction survey. It is an agency that also does for the industry. So, the outcome is basically that our customers were extremely happy with what we did, and we have couple of slides for you to look at offline, but I will call out the Slide #16. This is the outcome of the survey. The right is what had commissioned, and left is what this research agency had done on their own in terms of an industry survey and while on an aggregate most customers were very happy with how the entire industry handled itself with only 3% being unhappy. What you see is that material difference between what percentage of clients for Hexaware were very delighted. So, almost half of our clients were very delighted with only 28% for the industry. So, we did better than the rest of industry.

Our strategy is that if and when in India the government lifts the lockdown and same in other countries, we are not going to be led by government policies. We are going to be led by employee safety, we are going to be led by what does it take for us to deliver a robust and resilient service to our customers. So, we anticipate in the short-term, a very small percentage of employees coming back and that will happen in a very staggered approach with many protocols in place for ensuring safety. In fact, we foresee a scenario where up until the point where there is a widely available vaccine or treatment, we may be on about half employees working from office for a fairly longish period of a year or more and we think in that way; we will meet our dual objective of ensuring continuity of service to customers under most circumstances and ensuring health of our employees.

Now I do want to provide a little bit of commentary on what we expect to see going forward. Calendar Q2 we think would be the worst, so lot of impact that we are seeing is essentially last few weeks of Q1, that will have full quarter impact in Q2 and some cases worse. Some industries, the second order impact in industries will start coming through in Q2 and some of that will spill over into Q3. Recovery will be staggered. Some industries will recover fast, for example – we are seeing a drop in H&I for us. H&I we think kind of medium-term is positive but there were unanticipated stoppage of work in our customer's industry. For example, no clinical trials are happening right now, very few because of social distancing norms and that will resume, and in fact it may resume with a vengeance immediately after shutdown, so it will be a pretty sharp potential V-shaped recovery. So different industries we think will take different paths. H&I will have a sharp recovery, GTT will be the longest impact. Some pockets of our manufacturing and consumer business will have a longer drawn out impact. Retail, some portions of Manufacturing, little bit of Automotive sector, all of those is going to have longer-term impact. BFS, if you look at our subsegment – Asset Servicing, Asset Management, Mortgage, Banking. Asset Servicing usually sees a net positive because of increased focus on cost and outsourcing. So, Asset Managers outsource more to Asset Servicing companies and so usually, we see higher volumes of work in the medium-term in our Asset Servicing.

Mortgage, we expect to see both of our customers in that space, both of whom are material, to do quite well. It is different from GFC in that there is a lot more liquidity in the system, there has been a lot of more speed of action on that front. So, we don't see necessarily a mortgage crisis at this point and so actually there is a lot of refinancing work and the second order impact is that there is potential volume increases in the mortgage business and we expect to see that for rest of this year.

Asset managers, we think there could be a little bit of a delayed impact in Q3. They may not make immediate decisions, but they are going to wait and watch to see their asset prices settle before making decisions.

Our HTPS business, we think will continue to do reasonably well through the year. There will be potentially some impact in Q3, but lot of these businesses are transforming, investing in technology to transform their core business and that is where our play is and that would continue.

Some commentary on horizontal services; all of our themes on digital, which is customer experience transformation, cloud, automation, all of these we think will get renewed and urgent focus. Customer experience transformation, a lot of people think of it as discretionary spend. That may be true in some pockets, but for a lot of clients and a lot of industries in today's context, it is almost a business continuity issue and the easiest to understand that is in the context of restaurants. The restaurants today in many parts of the world are not allowed to dine in, but they can do curbside delivery and unless they have bare minimum digital capabilities, their revenues will go to zero. So, it is really business continuity for them to build and develop digital capabilities. And we think that would be a sustained trend; to help our customers deliver touchless and yet immersive experience, that will be a lasting impact of COVID. To enable to do that people have to move rapidly to cloud and leapfrog digital. Customers that have taken digital transformation at a slow pace will accelerate. And we also think that automation which has been on slow pace will get a boost because that is the most sustainable way of cost reduction which will be a huge imperative for all of our clients.

And finally, we are calling it, "Anywhere Employees", the concept of an "Anywhere Employee" will be here to stay, post COVID. It could be 30%-40% across the wide cross-section of industry, some more, some less. So, we think a third to a half of work force will continue to work from home and that gives rise to these sorts of opportunities and challenges post-COVID.

Finally, on guidance, much like everyone else, we are suspending guidance for the year. There is a lot of uncertainty about the recovery path across industries. In aggregate, we do expect to see it coming back to pre-COVID levels, the volumes in 3 or 4 quarters but there is uncertainty and so we are, for the current year suspending guidance. We had slightly longer than usual commentary I am going to return it over to Vikash for some additional commentary on our finances.

Vikash Jain: Thank you, Keech. Hello everyone, hope all of you and your families are safe. On the numbers in INR terms. In rupee terms our revenue for the quarter was at 15,418 million, a sequential growth of 0.8% and 22% year-on-year growth. Growth in rupee terms was stronger driven by dollar strengthening during the quarter.

Update on the hedge – we continue with our layered hedging policy wherein we take forward covers up to 24 months in advance. As you can see our US dollar forward cover rates are improving quarter after quarter which is good. As of March-end we have a total forward cover book of $236 million with majority of the covers in US dollars and some of them in GBP and Euro.

In terms of the FOREX gain or loss – the chart you see here has a 6-quarter view which gives in the 4-quarter view in terms of the actuals and then also forecasts what we expect the next two quarters to look like, assuming the quarter end rates hold.

For Q1, we had a gain of $5.8 million and this was primarily driven by (a) translation of monetary assets held in foreign currency and converted at the period end exchange rate which is March closing rate. There was also an item with respect to the gain or losses from hedges. But significant chunk of the gains what you see here was all translation related.

For the next two quarters, we in fact have a different scenario. We are expecting losses in Q2 and profits in Q3 and this is purely a function of the rates at which the forward cover for this period has been taken at various points in the past versus the March closing rates. As you must be aware and you would be tracking that rupee has depreciated significantly compared to the US dollar over the last 6 weeks and hence there is bit of a disbalance in terms of where we think we are going to be getting a gain versus a loss.

Moving to few balance sheet items. The cash generation in the quarter remained very strong and the total cash what we have on the balance sheet as of Q1 end was $58 million. We had a strong cash conversion and our OCF-to-EBITDA for the quarter was at 73% versus 68% from the last quarter. This is after we have paid $30 million to the Mobiquity shareholders in January of the current quarter in line with our deal agreement.

DSO including unbilled for the quarter is at 82 days, marginally higher than last quarter. During these times, our clients are looking for partners who can help them tide over the crisis and we are working with them on multiple fronts, one of them being extending payment terms and we are doing this on a selective basis for few clients, for the clients where we have a deep relationship and we expect that relationships to continue, even flourish in times to come. We expect the DSO to go up in the next 2 or 3 quarters before it starts coming down back to the normal levels in line with what Keech explained as to how he thinks that the business is going to perform over the next few quarters.

Our ETR for the quarter was at 18.6%. Our base ETR for the next 3 quarters continues to be at 19.5%.

On CAPEX, we continue to invest in our business. Some of the investments what we did in the current quarter was in terms of a BCP preparedness with respect to COVID. Our total CAPEX was $4.5 million almost in line with the spend we have had in the past few quarters.

One final comment on dividend: For the final dividend that was declared in Q4, we are on track to pay that subject to approval at the AGM. We will be holding our AGM once the lockdown is lifted. For the current quarter no dividend has been declared for now. We are holding cash to work with our customers and partners during these times. However, we will continue to evaluate based on the ongoing performance of the business and based on how things evolve, we will make a decision on dividend payouts in future.

With this we will now open up for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Sir, just the first question, looks like the impact on the revenue growth of 2% to 3% for 10 to 15 days of a lockdown seems slightly higher. So, it looks like the impact is not just supply side but also demand side and as you were saying Q2 would be the worst. So, if 10-15 days of lockdown the impact being 2% to 3%, one can say a very significant QoQ dip in the revenue could be possible in Q2 as a whole?

R. Srikrishna: I think there is a very small correlation between the lockdown period and the revenue impact. Majority of our revenue impact was on account of demand, whereas a small portion primarily in our BPS business that came on account of supply. So really there is not a strong correlation between those two factors. Just to recall, we said 99% of our IT business has been in work from home before the government announced the shutdown. BPS started at 75% now it is 80% coverage on revenue for BPS business in work from home. So, from the BPS business there is still some supply side impact. That is not huge, that is a weak correlation given the number of days of shutdown on the revenue.

Sandeep Shah: Okay. And sir, regarding the April-June quarters, some of your large peers have indicated that the kind of declines which the industry has seen during the GFC slowdown, which was anywhere between 4% to 6% QoQ dip could be the possible decline which may be possible this time as well. So, I am not asking for a guidance, but do you believe that is a right assumption or do you believe because of your portfolio mix the impact could be even bigger than that?

R. Srikrishna: I don't think we will be any worse than the industry. If at all, we will be better, and I do want to use this opportunity to address a different topic that I intended to provide commentary on. I know there is some commentary and we spoke about this in last call in the end of the quarter. There is some commentary and perception that companies like Hexaware, there is a higher consolidation risk. Actually, we see exactly the same opportunities for market share gain that you heard from, some of the other larger players. We see the exact same opportunities. The most important opportunity at this point of time with clients is to gain trust and goodwill and the best demonstration of that for us is in our customer delight survey and you saw data on our performance. The industry performance across the board is pretty good, but notwithstanding that, ours was materially better and that is the basis on which we expect to see, not overnight, we expect to see market share gain opportunities. So, what all that means is, we definitely are going to be no worse than the industry.

Sandeep Shah: That is fair enough. Keech. You said 10% of the revenue from travel and last time you also said education and the fitness business may also have a slight impact. These 3 segments as a whole, are you worried about major client specific issues in the coming quarter and second on the EBITDA margin. The last time the guidance which you have suspended you were looking at 15% to 16% and first quarter is at the lower end. So, there could be some puts and takes on the margins. So, any commentary in terms of how the margin will look like at the current rupee dollar because there is a possibility of a wage hike deferment which may be there for the whole of CY2020?

R. Srikrishna: Okay. So, on the first question first. We don't have large customers in our travel business that we see we any risk in. Our large customers are, systematically important to either the industry as a whole or the countries that they serve; national carrier types or equivalent to that and we just see no risk in business continuity for those clients.

There are some smaller tail end clients - there could be some risk to their continuity, but it is not going to be material to our business. We had one client going bankrupt this quarter and part of the revenue decline is not an in-quarter impact of the bankruptcy but because we have written off a bunch of money. So, some of those may happen but these are smaller clients. The larger ones we see no systematic risk. On your second question on EBITDA, what are the puts and take, I think the biggest short-term headwind is utilization, I do think utilization will catch up in Q3 potentially substantially, definitely by Q4 fully. On the other hand, these will have some costs that are natural fades as a consequence of what is happening, travel, transport, some facilities cost that we otherwise incur. On the other hand, wage increments, postponement or delays or nonpayment of wage increments, these are all potential improvement tailwinds. Aside from utilization the other big headwind is the fact that customers are looking for cost saves in this period**.** Much of it is temporary in nature. Temporary could mean one quarter, two quarters. In some industries and some customers it could be little bit longer and I think that is going to be headwind for margin. Where all of these shapes up we will see, Q2 will definitely be a dip, because utilization I think will be worst hit in Q2 and concession we make to our customers will also be the maximum in Q2. Like I said early, our goal is to use this period to build and sustain and strengthen our relationship with customers. These periods will pass and once we are done, who grows with customers are the people who worked with customers during this period and that is exactly what we want to be. So, those are the puts and takes that we see. The big headwinds - utilization and concession to customers and some of the things that will help us are natural cost saves.

Sandeep Shah: Okay, fair enough. Just a last question if I can squeeze in. The dividend for conserving cash would be a full year scenario of CY20 where we may not announce any dividends in the next 3 quarters or this is just as of now, we have taken that decision? And all the best and stay safe.

R. Srikrishna: Thank you. It is as of now and even this quarter we may revisit later.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: So Keech, my question is more on the medium-term aspect of your strategy on client mining versus hunting. Now the context is that key success has been in client mining which is reflected in that 5 to 10 million buckets. And also, in the current scenario we are hearing more of vendor consolidation as we have also alluded to. And juxtapose this with the fact that NN wins have been probably the best ever and which is also corresponding with increase in the net addition of clients. I mean how should I really look in terms of your strategy of mining and hunting, putting all of this in context as well as the land and expand strategy what we talked about?

R. Srikrishna: See, I mean we think of these as multiple engines firing. So, six-cylinder engine is going to be do better than four and eight cylinders going to be better than six. So, while our mining strategy was working really well, I think our hunting had fallen behind especially in the US, it was doing well in Europe, it was doing okay in APAC. US had fallen behind, but we are really kept cranking it up and I think it would have given us sustainably additional growth once we got to full performance on that front. And we saw all the evidence of it in the first part of this quarter and unfortunately, I think it is going to kind of pause and we are going to rediscover how to effectively hunt in this period. We have already developed, for example, a touchless transition methodology and a touchless go-live methodology and we have multiple examples even in the last 4 to 6 weeks of touchless transition, touchless go-live. But yet, there is a pause and we have to see how fast it comes up. I think the long-term we will continue to think of it as multiple cylinders all of which will contribute to growth. We will continue to have focus on existing clients, but then we made additional investments to also then focus on hunting both for deals and also for land and expand in important brand names.

Apurva Prasad: And Keech, also on the client concentration side which is significantly reduced in the last one year even during this period including the rollover impact from the large BFS account, so how should again more on a medium term basis should we look at the client concentration, Is this is the new normal or do you see this changing meaningfully further and just one more if I can squeeze in along with that is, what percentage of your revenue from clients do you see as systematic risks that you called out earlier in terms of potential bankruptcies?

R. Srikrishna: Yeah. So, on the first question. I think directionally this is the new normal. I do think, in the next few quarters, we would see it creeping back up; the concentration. I know the accounts in there, and I think they are going to do better in the next one year than the rest of the portfolio. So, you would see it going up a little bit, it is not going to come anywhere close to what it used to be and then it is going to stay there. Some of these risks, I think it is early to assess, there will be some, retail, potentially some small travel clients, but clearly we don't think it as huge otherwise it would have had a more specific number, we don't think of it as huge but in does exist in pockets.

Moderator: Thank you. The next question is from the line of Vimal Goel from Union Asset Management. Please go ahead.

Vimal Goel: Sir, I just wanted to understand once again on this sharp decline that we have seen in IMS, while the earlier understanding or rather my assumption was that maybe IMS maybe could have a lower impact as compared to other service lines because as you said you were already working remote. So, could you just probably give, slightly more detailed outlook on how can IMS span out because one it has been a major growth driver for you and so, what is the outlook there? And as far as your margins are concerned, given the fact that you are going to see accelerated slowdown pressure on your revenues in the coming factor. Do you see margins falling further? But are you still hopeful that you will be able to regain those 13%-13.5% EBIT margins in the medium term, that is my two questions? Thank you.

R. Srikrishna: So, margins, I will do that first, if that is okay. We just called out all the positives and negatives, right? So we said there is going to be utilization but the headwind the short term utilization will catch up during Q3 will catch up fully in Q4, customer concessions are going to be headwinds and that recovery is going to happen in a stage where different cycles across different clients and industries and we will have some saves on bunch of costs, transport, travel, utilities etc. So, where all of these will end? I think we will catch up with normal margins in 3-4 quarters. That is the base scenario. Under some very optimistic assumptions it could be earlier, if things were really bad it could be later but our base assumption is in 3 to 4 quarters we will be back to business as usual, both from a volume and from a margin perspective. On IMS, I think there were two certain things happening. In the past which is one particular client impact, a good chunk of that impact was in IMS business. It is also that what we do in IMS now is consulting and project work which means big projects are migration to cloud, for example that always tends to be a little bit spiky and lumpy if you will but on top of that I think kind of it is a knee-jerk stoppage of work in many pockets that is not reflective of what we think will happen going forward. We think going forward both as a consequence of migration to cloud and as a consequence of increased work around work from home, we are calling it 'anywhere employee'. Both those will be positive tail winds for the IMS business, and we do expect to see it coming back to growth pretty quickly even in Q2.

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

Dipesh Mehta: Sir, just one question on, you indicated about credit period extension in pricing discussions. Can you provide any incremental detail, how significant it could be and whether it can be recovered, whether it is short term price negotiation which are happening, or you are expecting it to be having implication over medium term, both the credit period extension as well as price. If you can provide some color, it would be helpful?

R. Srikrishna: I think both those will be short term. We have not seen a single instance of a client where they are using the situation as a leverage to get concessions which are not in line with their business situation. So, all the discussions happening are short term in nature. Now what short term means itself varies by industry and customers. It could be a quarter or two, in some rare cases it could be for longer, but it is all short term. The credit extension, ultimately, I think aggregate impact will be single digit number of days increase in DSO, that is what we think the aggregate impact would be. So, there will be some clients where we do more but that is what we anticipate, a few days increase in DSO. And we would be fine with that and we are obviously going to be careful about where we do that. Where we expect a systematic risk, we are going to be lot more careful, where we don't, it is going to be an easy discussion with clients. On discounts, I think it is a more complex conversation, essentially the focus for us is client asked for a discount and how do we demonstrate that we are willing to share in the pain but also then show the pathway to clients on how they can save a lot of money and some of that will translate to potentially additional business for us. So that is the strategy. It is not new; it is what everybody else will be doing as well. It is what the industry did in 2008. We think there are real opportunities and pockets for us to gain business volume even if there is a concession for a period of time. We will be coming out of it with higher volume with what was a depressed price in the rearview mirror and then once the price returns to normal will be in a better situation.

Dipesh Mehta: Okay. And just last around the bankruptcy client. So first is about whether we are seeing any challenges in our top 10-20 clients and the bankruptcy whether it was any significant client for us, thank you?

R. Srikrishna: The answer to both of questions is No. So not a significant client, we don't see a risk in our Top-20.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Securities. Please go ahead.

Sudheer Guntupalli: Regarding your commentary on the two top clients in the secondary mortgage segment, one of these entities seem to be sounding caution and looking forward to handholding from the government at this juncture. Many news reports also seem to suggest that these entities may need permanent bailout as COVID-19 situation remains bad. So, what gives you confidence on the segment overall and especially on the assumption that the worse is maybe largely behind in the topline, where we have been seeing headwinds due to internal restructuring even before COVID-19?

R. Srikrishna: I think in that client, first off we have evidence of month on month increase up until this point of time which includes through the COVID situation. So, we have clear view, that we know that there is. We were expecting beginning of the quarter to see month-on-month increase. That happened, but that also continued through COVID. So that I think is the first and most important piece that gives us confidence. I think, US has learned its lesson in terms of what interventions are needed to prevent a mortgage catastrophe, I don't think the country can afford a mortgage housing issue on top of everything that has happened, so I just don't see that happen. And yes, I know that at some point of time, depending on how many millions of household default or delay payments, these firms may need additional balance sheet help, but if such situation does arise, I think the government will provide it because why would they not? They know what the solution is. They have been through this before.

Sudheer Guntupalli: Sure, sir. And my second question is on balance sheet to Vikash. There was a strong increase in cash and cash equivalents during the quarter. A part of it might be due to the improved cash conversions. The borrowings have also increased by almost 260 crores. So, have we borrowed more to conserve cash on the balance sheet during tough times or any more color on this front will be helpful?

Vikash Jain: The cash and cash balance have gone up from $35 million to $58 million which is an increase of $23 million. It is primarily all on account of operations. The debt balance went up from $20 million to $53 million, which is an increase of $33 million. As I mentioned, we paid $30 million towards the first tranche of payout that was due to Mobiquity shareholders. The increase in the debt balance was primarily towards paying the Mobiquity installments. It was not related to shoring up the balances in the balance sheet. So, it is primarily all driven by cash from operations. The other aspect which also helped is, we had declared the dividend, we were expecting to hold an AGM but obviously because of the lockdown the AGM has not yet been held. There has not been dividend payout which we generally see in each of the quarters.

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

Madhu Babu: One on the work from home, we are saying that it could continue for a prolonged period of time and a possible disruption can happen in this delivery model. So, your views around that because we have been proactive on the automation to gain market share in select service lines. So, whether this can be a disruptor for you to take advantage and build a new delivery model around that?

R. Srikrishna: So, the short answer is yes. We actually think that the disruption will come not just from work from home, but the moment we have essentially the set of technologies in place to ensure, not just a productive and engage the employees but also delivery platforms to ensure that we can deliver services effectively in work from home. The moment we have that in place, I think the real disruption will come from enabling gig workers through the same platforms and it just expands the workforce to include many demographics which would otherwise be out of the workforce, it expands our geographic capabilities and it alters the economics for the industry. Brings in a lot more variability. So, it increases the talent availability. So it is not just work from home, we think there is a big shift to gig workers in the IT space in BPS space that has come.

Madhu Babu: And second one on the Mobiquity portfolio. How is the utilization there and for us the balance sheet is having very minimal net cash? So, the working capital expense, I mean even larger vendors are saying that, because of strong position they will be able to give favorable terms. So how we will address this because our net cash is very minimal, net of debt. Thanks.

R. Srikrishna: So, Mobiquity, we think that a lot of the customer experience transformation work is not necessarily kind of discretionary that will get stopped. It is now an integral part of the business. I mean, as an example. One of the quick service restaurants and retail space that we service, the overall business volume is down dramatically, but ordering through the mobile app we built is up 90%. So that is a good example of how this is actually business continuity, it is not some pet project. On the balance sheet. I will ask Vikash to respond.

Vikash Jain: When we did the Mobiquity acquisition, we had planned to fund the deal through a combination of internal resources and through credit line. And we had announced at that point of time that we have taken a credit line which is close to $50 million for us to fund it. Until now we not drawing down because we were doing really well in management of our funds. And at that point of time there was no need for us to draw down on the lines. And even now there was no need for us to draw down on the lines, but we went ahead and took that to pay the first instalment primarily because of the reason we know that during these times we have to partner with our customers and with our vendors in terms of working with them to help them mitigate this crisis and come out of it stronger. These might include some of the items like price discounts and extended payment terms. So I get the point while you are looking at it in terms of cash balance as net of debt, but even on a pre-COVID basis we always had done business planning which assumed that we are going to be having a debt on our balance sheet for few quarters till the time the Mobiquity deal was totally complete**.** So, we will continue to have this debt on the balance sheet and from a working capital perspective I think we have enough resources which are available on the balance sheet with a $50 million plus to work with our partners and our customers in terms of extending the support what is required. So the net summary is, I don't think we are going to be in a disadvantaged position compared to any other player in the industry in terms of partnering with our customers during this time.

R. Srikrishna: And cash on the balance sheet, is cash on the balance sheet, debt is how we got to the cash, but it doesn't detract from the cash in anyway.

Moderator: Thank you. The next question is from the line of Smit Rastogi from UBS Asset Management. Please go ahead.

Smit Rastogi: My question is that there is a US dollar bond, offshore bond which is coming due next year at the HT global level, can you please comment on any refinancing plans for that bond or any related comments on that?

R. Srikrishna: Two things. First, is that it is a question best addressed to the bond issuers, which is not Hexaware, the bond issuers are Barings. The second is there is plenty of time and Barings has strong and deep relationships with capital markets around the world and they have done this many times over and there is plenty of time. But it is a question that is best addressed to the bond issuers.

Moderator: Thank you. Due to time constraint, I now hand the conference over to Mr. Vinay Kalingara for closing comments.

Vinay Kalingara: Thank you, all for joining the call**.** Thank you.

R. Srikrishna: Thank you all for attending.

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

(This document has been edited to improve readability)