"Hexaware Technologies Limited Q2 2020 Earnings Conference Call"

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MANAGEMENT: **MR. R. SRIKRISHNA – CEO AND EXECUTIVE DIRECTOR, HEXAWARE TECHNOLOGIES LIMITED**

MR. VIKASH JAIN – CFO, HEXAWARE TECHNOLOGIES LIMITED

MR. RAM SINGAMPALLI – COO, HEXAWARE TECHNOLOGIES LIMITED

MR. VINAY KALINGARA - INVESTOR RELATIONS, HEXAWARE TECHNOLOGIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Hexaware Technologies Limited Q2 2020 Earnings Conference Call. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vinay Kalingara from Hexaware Technologies. Thank you and over to you, Sir.

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

R. Srikrishna: Thank you for joining this call today. Given the circumstances of COVID, we had an extremely good quarter. The revenue declined by 1.2%; little under 1% in constant currency, but it does represent YoY growth even through the toughest quarter of the shutdown. On reported numbers, it is 10.4% YoY growth. However you calculate your organic growth, you will come to the conclusion that there was growth there as well. Within this 1.2% impact, a vast majority of it was caused by supply side, not all of it. $1.3 million in absolute terms was caused by supply side impact. So if you exclude the supply side, the revenue was substantially flat. There is a fair amount of volume growth as you will see when we walk through the revenue walk. The volume growth was offset by discounts. Customers wanted to reduce spend, that is the most important theme and they achieved it through two mechanisms. In some cases there were one-off concessions that we gave. In other cases we moved work from onshore to offshore, you will see that our mix moved towards offshore and there was reduction in price realization. But both these were kind of compensated for by a healthy increase in volume, which in turn was driven by a sustained improvement in market share across a wide swathe of our clients.

On EBITDA, there is small improvement of 240 bps. Unlike what you seen in a lot of others; our EBITDA improvement was not driven by SG&A reduction. Our SG&A improved by 10 bps, so really what it means is that there was no capability that we shed at all. All the improvement came through improved gross margins; a lot of this is backed by sustainable actions. We hired Ram as the Chief Operating Officer, it is six months to the date almost since he joined and there are a number of actions that have been started which have not necessarily realized full value yet. To be sure, there are one-off cost savings that are as a consequence of COVID, there are also one-off concessions as a consequence of COVID and so a lot of the improvement is sustainable. We will talk a little bit about what we think is sustainable margin going forward.

We had an extremely good quarter on wins as well. We had the best H1 in a number of years on wins. We had $115 million in H1 compared to last year $72 million and prior year of $69 million and so on. We saw quite a drop in activity late March onwards, then a V-shape improvement in activity levels. In mid-June, we saw a substantial pick up. A lot of the wins happened in the latter half of the quarter and like I said already, aside from the NN wins, there was also substantial market share growth in many existing clients. Our pipeline is well-primed, we expect to see continued good performance into Q3. On EPS, we declined 13% quarter-on-quarter, but that was entirely driven by a $6.8 million swing in Forex; we had a massive gain last quarter compared to a loss this quarter. So that was a single reason for the EPS. Our cash balance was very strong, we improved our DSO by five days through Q2, so we closed with over $117 million in cash. Now, if you recall at the end of last quarter, we had said we are going to pause on our dividends and evaluate it based on how the collections go. We saw good collections - that is why we declared a dividend in-quarter and there is a further dividend of ₹1.5 that we have declared for Q2. So there is a fair level of confidence that we are going to continue to do well on cash and collections.

Part of reason we were gaining market share is that our post-COVID themes that we launched among the first in the market, found a lot of resonance with the clients. There are four themes which are essentially reshaping of our three core themes of Automate Everything™, Cloudify Everything™, and Transform Customer Experiences™.

Transform Customer Experiences™, the focus is now on touchless and immersive customer experiences. We think on Cloudify Everything™ we will get a big fillip. People that have taken years to move will try and move to cloud in months and quarters, Automation led sustainable cost take-out, may become the most important focus or that is currently the most important focus for clients. Finally while there is a lot of talk around the industry on providing infrastructure and security for the remote employee. We think that is not the real long-term focus. We think that the softer aspects of engaging the employee in terms of how do you digitize your HR, how do you hire, onboard, background verify an employee, how do you evaluate an employee. So a variety of other aspects of the employee life-cycle, not just infrastructure and security are critical and that is embedded in our 'Engaging the Anywhere Employee' post-COVID theme.

For the cloud, we launched a product called AMAZE™ in June. This was originally slated for an April launch but because of COVID we postponed the launch by two months till we saw a level of improvement in market activity. AMAZE™ is a patent-pending product that helps customers move to cloud the right way. Now to be sure, there are hundreds of products and platforms that automate some or all of the migration to cloud and we have those too, but AMAZE™ is different and that is the reason it is patent pending. What it does is to help re-factor and re-platform applications, not just migrate as is. And while doing so, it helps applications work in the cloud the right way and helps unlock proper cloud economics by eliminating VMware, by eliminating WebLogic, by eliminating Oracle, and multiple expensive licenses. Before launch, we had a beta stage where we saw very strong traction, actually there are two Fortune 50 clients and an additional Fortune 500 client from prelaunch. AMAZE™; there is not a lot of revenues in Q2 and there will be some in the rest of this year. But it is a very exciting product that we think will be an important revenue and profitability driver for Hexaware going forward because ultimately, we think that next most important phase of cloud is to help move the core to the cloud.

On people, we had a contraction in headcount. We were conservative about hiring, we paused all non-essential hiring including onboarding of batches which will resume in Q3. So the consequence of which our headcount contracted, the attrition slowed down, went down to 14% and since we did not add people, headcount went down. Utilization went to among our best but usually does happen for us in Q2 and Q3 of every calendar year, so that was the people side. A lot of the reduction though - the bigger chunk of reduction came in BPS. The smaller chunk of reduction came in IT. So from a go forward perspective we expect Q2 to be the bottom, we expect some volume growth to happen in Q3 and Q4 and there are some normal cyclical issues that will come in Q4. We do not know the extent for the current year, but there will be some furloughs and there will be usual cyclical factors that will happen in Q4. Most importantly, one of our top three accounts which has caused headwind for us over the last three quarters, we said last quarter that we currently have month-on-month growth and we expect to grow sequentially from Q1 to Q2 - that happened. And we expect that growth to continue for the near future. EBITDA, I already said that Ram joined us six months ago, he instituted a number of structural cost improvement measures. Some of what we have in this clearly is a COVID cost reduction like travel; the current travel costs which is pretty close to zero is not going to sustain. There are also some COVID-related revenue impacts of one-off concessions etc. but given all of that we think, the medium term sustainable margin is in the range of H1 actuals plus/minus some narrow range but essentially H1 actuals.

For those of you looking at the slide off-line I am going to move to Slide Number 7, the primary thing to call out here you will see is that substantial portion of improvement in EBITDA was driven by improvement in gross margin. Actually, that is not apparent from this but only 10 bps of this was driven by reduction in SG&A and it is important to reiterate that we shed zero capability to COVID. Revenue walk Slide Number 8, Forex, Mix, Bill rates, Supply-side impact were all negatives and the Mix and Bill rates kind of go hand in glove. Clients desire is to reduce spend, the win-win situation is for us to move work offshore, but to the extent that objectives are not met with that then there is some short-term concessions through bill rates.

The supply-side impact, the majority of this was in our BPS business not all of it, but majority of it. In IT, it is not that we cannot do a 100% of the work from home, there are just client's certain type of work where there continues to be discomfort from a security and privacy perspective to do the work from home. So some clients have chosen simply not to get the work done through the quarter, but all of these then got made up for by improved volume and bit of a calendar tailwind. Likewise on EBITDA walk, the bill rates were headwind from a quarter-on-quarter perspective as well as visa cost. The visa cost is a headwind cyclically, it always happens in Q2, but pretty much everything else worked in our favor. Forex, the fact that Mix reduced the revenue, but improved our profitability and utilization, which was good because of increased volume and reduced intake of batches. We provide usual recon between the GAAP to non-GAAP numbers, there is not a lot to provide commentary there.

I am going to spend a few minutes characterizing the wins we had and also provide some commentary on verticals and horizontals. On wins virtually every deal that we won is a market share shift. At this point, it is rare that clients are spending net new dollars. We think that net new dollars will come, it will come more in the space of customer experience work, but the first knee-jerk reaction is to kind of reduce discretionary spend. I think over the next quarter or two people will readjust that portfolio and where the savings come from. So what all of this means is that new deals at this point are only a market share play, so all deals here are wins from other significant players. All of these, the transition is what we have built and demonstrated multiple times during this quarter of a completely touch-less transition. A completely touch-less go-live process where everyone both from Hexaware and from the client and from the incumbent everybody is at home and yet we execute flawless transitions. The headline deals are in customer service transformation. In that industry the incumbents had trouble in delivering a good level of service for COVID and we are seeing a lot of market share shift there. It is closely followed by migration to cloud and we think we are seeing very early stages of a substantial uptick in the velocity of migration to the cloud. Our attrition went down, that is a continued trend for over a year. Bear in mind, the numbers we report are LTM, you are not going to see wild swings ever. So actually the in-quarter reduction was even steeper than this and some of it is caused by the uncertainty surrounding COVID, but a lot of it is sustainable. You saw this trend start several quarters before COVID and we think it will sustain.

Now, little bit on commentary on verticals, service lines, and geographies. The good news for us from a vertical perspective is that outside of the most obvious verticals that were directly impacted, which is travel which had a 27% contraction QOQ and consumer industries in which have retail and a wide variety of manufacturing which have wide variety of supply side and demand side issues, those were the only two verticals that showed a drop in revenue. All other verticals including BFS grew sequentially. Same for service lines, BPS showed a lot of contraction and a bunch of that was driven by supply side issues. ATM, application development which is where virtually a lot of discretionary spend lies, that like I said earlier, the short term knee-jerk reaction is to stop that. So those are the only two service lines that saw a reduction in revenue, every other service line grew sequentially. On geographies - even though Europe had a negative quarter-on-quarter, they are still our stand-out geography. Their YoY growth is stellar, and we should also remember that currency was as a factor in between Q1 and Q2 for Europe contributed negatively. So we think our best performing geography for the year will be Europe followed by US. APAC, our clients in many ways had kind of the biggest impact even though it is receded now. Some of the impacts especially in the manufacturing sector and travel sector are long-lasting. So APAC was the toughest business and we had to do some rebuilding there and we think the best Geo for us through the year will be Europe. With that, I am going to hand over to Vikash for some additional updates on the finance.

Vikash Jain: Thank you, Keech. Good Evening everyone, I hope all of you are safe and healthy with your families and loved ones. Revenue in Q2 was $208 million and grew 10.4% year-on-year in reported and 11.3% in constant currency, which is very satisfying in the context of the larger economic crisis and the competitive context for the current quarter. In Rupee terms, we grew both sequentially and year-on-year. Sequential growth was 1.8% and year-on-year growth was at 19.9%. On foreign exchange covers, the company has hedges worth $212.98 million for the US dollar at an average exchange rate of 77.2, € 6 million at an average exchange rate of 89.71, and £ 13.36 million at an average exchange rate of 100.32 maturing over the course of next eight quarters from July 2020 to June 2022. Majority of the forward contracts are towards the US Dollars and the forward cover rates are improving quarter-on-quarter, which is good news. Moving to Forex gains and loss - to build on what Keech mentioned earlier, Forex gains and loss include impact from two items, the mark-to-market impact from hedges and translation of monetary assets held in foreign currency at period and exchange rate. In Q1, we had gains of $5.8 million, this was primarily driven by the translation gains as rupee had depreciated significantly or sharply in Q1. Since then, the USD-INR rates have been stable, so there has been limited impact of translation this quarter. The loss this quarter is primarily towards mark-to-market, so the resultant effect of this is that on a quarter-on-quarter basis, impact of forex is a headwind of $6.8 million. This has also led to marginal EPS decline sequentially. For the next two quarters, assuming that the exchange rate holds at the closing exchange rate from a Q2 perspective, we expect that there would be forex gains in Q3 and Q4.

We will now cover some of the balance sheet items. Significant priority for us as a company during the quarter, was on cash and liquidity as we were in the midst of the crisis. Cash generation in the quarter remained strong and total cash on the balance sheet as of Q2 end was $117.4 million, a record high for us in the last five quarters. Net of debt, this amount was $64 million. We added $59 million of cash to our balance sheet this quarter, this was pretty healthy. This is all without any additional debt, so gross cash addition is the same as the net cash addition, net of debt. This was driven primarily by three factors, one was DSO. DSO was at 77 days, an improvement of five days despite some increases due to selective client extension requests. Second was government incentives in some geographies and the third was tight control on the working capital items. Our OCF as a percentage of EBITDA was a record high of 171% compared to the last quarter, which was at 73%.

What we did not do during this time was curtail on our investments. Keech spoke about that when he referred to the margin walk from a quarter-on-quarter perspective where he explained that a significant chunk of our margin expansion on a quarter-on-quarter basis was because of the gross margins and only 10 bps from SG&A perspective. Now link it even from a perspective of the CAPEX investments. We continue to invest and our CAPEX investment in the quarter was $4.4 million in line with our spend in the last five quarters. So the takeaway is we continue to invest in business.

ETR for the quarter was at 19.1%, base ETR for the year continues to be around 19.5%.

While we maintain and build a strong and liquid balance sheet, we continue to return cash to the shareholders. The Board has approved the second interim dividend of ₹1.5 per share for the current year, this is in in addition to the ₹3 per share that was declared as the first interim dividend for the year on June 23rd, so it is the second dividend declaration in less than 45 days. That is a good testimony to the fact that while we have generated cash, we are returning it back to the shareholders. 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: Thanks for the opportunity and congratulations for very strong execution and surprise. Keech, if I connect your comments about very strong wins in the first half as well as the V-shape recovery in the client activity starting from the latter part of Q2, why are we saying that 3Q and 4Q would be flat to a marginal volume growth? Why that should not reflect into a better growth in the second half as a whole?

R. Srikrishna: If you look at where we thought the business will be beginning of the quarter whereas versus where it ended up, it was quite different. I think there is still is a fair bit of uncertainty in businesses in our clients. We are seeing the number of cases in the US just rise relentlessly every single day. While we have not accounted for a definite second wave, but I think there is plenty of uncertainty in the market still.

Sandeep Shah: Okay, so it is more a conservative way of looking at things?

R. Srikrishna: I would not necessarily say that. I think the activity level had gone to kind of close to zero, everybody has become totally internally focused and the only focus was sustaining operations, making sure business runs, employee are safe, and cut cost. I think from that perspective things have materially improved from there, but it does not mean that customer budgets are going to increase. We do not think that is going to happen. We think we have zoned in on the areas where customers will spend and that is the four themes I laid out. But it is still going to be very much in some areas a spend, in a lot of areas cost cut and everything is a market share gain.

Sandeep Shah: Just a question on margins, assuming this year for the industry is unlikely to be a wage inflation year, if that is true for you and you will have a tailwind of visa cost not repeating. So why are we saying the Q2 margin not sustainable instead of that we are saying a 1H average to sustain over 2H, why not the 13.3% EBIT margin sustaining as a whole?

R. Srikrishna: I think we are accounting for what we are saying is what is sustainable right. There are clearly cost saves right now especially in facilities cost, utilities and transport and in travel that are not sustainable. Those costs will come back as we reopen. So what we have called out is what we think is a sustainable margin plus I think there is accounting for normal cycles. Our Q3 will be good and Q4 will come down, but that happens for us every single year.

Sandeep Shah: Fair enough, and just last question with delisting news being out through your parent, Keech, are you finding difficulty in terms of retaining a talent because that leads to lot of uncertainty for a professional management and with RSU also being there as one of the motivational lever, that also may lead to an uncertainty with the delisting news coming as a whole?

R. Srikrishna: Actually not at all. I think the expectation from management is that even if the delisting were to happen successfully, there would be compensation through ownership plans similar to the RSU. So even if you are not public, there would be similar plans for long-term compensation.

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

Abhishek Bhandari: Keech, Good Evening, I have one question on your employee cost. If you look at the net reduction of almost 1100-1150 people, it is one of the highest compared to our peer set. So I was wondering how much of this would have been natural attrition and how much of that would have been some kind of capacity planning especially for travel vertical and manufacturing verticals, those set of employees. And second related question is you mentioned that you will be onboarding employees in future quarters, the new ones. Could you give us some sense of how many, the numbers around the new onboarding for Q3 and Q4?

R. Srikrishna: One of that aspect which you did not call out, but I think it is useful to call out in this context is that a lot of reduction - not all, but a lot of the reduction came in BPS. In IT business, there is an ongoing performance management process that happens every month. The similar process, the exact same process we went through during this quarter as well. In fact there was pause for little while because of regulation, but outside that there was no other kind of planning or step change in IT. The reduction in IT came as a consequence of the fact that (a) performance management, (b) the attrition and (c) the fact that we did not hire. We only hired for where we saw here and now demand. We did not hire batches or be proactive, what we do on a usual quarter and like I said we are resuming that with immediate effect. We do not know the numbers yet, but it will be what we do in every quarter. In fact, there may be little more to catch up for the lost time in Q2.

Abhishek Bhandari: My second question, Keech is on the deal funnel and the deal pipeline and the conversion timelines around it. It is good to see around $45-46 million deal getting closed this quarter, but what can we expect from a go forward basis at least for next two quarters in terms of the velocity? Is it similar to your past experiences or there any changes either plus or minus on that, that will be helpful?

R. Srikrishna: For sure we are going to end up the year with a much higher NN booking than the previous years. So we expect to see continued momentum. We know how the pipeline looks; we know what activity level looks like. It was a slightly little bit of a positive surprise for us. Our start hypothesis was that it is going to be harder to win new clients in this situation and I think that was true for some period. But what we have found is that there is a number of service providers out there that have not done a great job through this period and those service providers are vulnerable. In addition, there is some consolidation opportunities and I think the first phase of consolidation opportunities have tended to target smaller set of vendors. That has led to both market share gains in current clients plus new deal opportunities, so we expect to continue to do very well through this year.

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

Madhu Babu: Sir, just on Mobiquity, how the synergies are playing out, any new transformational opportunities led by Mobiquity we got and any downstream revenues we got from that kind? Second on the cloud migration where most of the competitors are saying that cloud migration is seeing a strong traction, so just your views on that over the next one year what do you see the kind of deal size here?

R. Srikrishna: On Mobiquity, we continue to progress nicely. We had a win which is actually a great example of what the synergies are. We have spoken before of the fact that we were investing in two directions. We were building organic capabilities on content and commerce and we acquired a number of capabilities in strategy design and cloud engineering through Mobiquity. A great example of how it all came together in a COVID situation is for a furniture retailer who is seeing a sudden spurt in demand for home furniture and the business model is moving from selling through stores to selling direct to customers. So we won a deal to implement a rapid e-commerce strategy for this client and this brings together capabilities from both organic build and from the acquired capabilities. So it is progressing nicely.

Cloud, we think is going to be highly accelerated adoption over the next several quarters. In general with or without COVID, the phase of adoption of cloud was the core of the enterprise and that we think will get accelerated. AMAZE™ targets exactly that, AMAZE™ helps move the core of the enterprise in the correct way, not just lift shift applications to cloud, but actually re-platform them, eliminate a bunch of license fees and also help use cloud native services without completely re-writing the application. For a typical, let us say high complexity application, say half million to million lines of code, it could take a million dollars, it could take six to nine months to do such an exercise. AMAZE™ will do it in six weeks to eight weeks and half the price. So we think AMAZE™ will be a huge differentiator for us as enterprises accelerate the journey of moving the core to cloud.

Deal sizes, I think there will be some customers who give it out as deals. But in many cases, this is not necessarily a centrally managed single program that gets given out as deals. That will happen in some cases, but in many cases, these are managed by each application group independently because cloud migration, the correct way to do it is not an infrastructure migration. It is very much an application migration, so we manage it decentralized through application teams.

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

Deepesh Mehta: Couple of questions. First about the BFS if you can provide some perspective, considering our exposure to secondary mortgage client and overall interest rates are treading historically low, so how that situation is likely to play out for us in terms of near term and medium term business outlook? Second question is about the market share which you alluded which is driving growth for us in Q2 and in near term. What one should expect in terms of implication on margin, and last question is data related. Depreciation and amortization has seen sharp uptick, whether it is largely linked with the Mobiquity payment or any one-off there?

R. Srikrishna: On the depreciation I will request Vikash to answer, but I will first address your other topics. On the banking, on the mortgage side because of the interest going down, mortgage rates are substantially up, volumes of mortgage both for re-financing and new homes is up and of course some of it is simply kind of revenge buying. There was a little lull in activity, and it has gone up, but we think it is sustainably up. In any case it is one of these clients that we had a headwind for three quarters and that client has bottomed out. They met their objectives that they had to through the last several quarters, so we are growing with them. So we expect to see, for the next several quarters, sustained growth in that subsector. On asset managers, it is little bit of a mixed bag. Asset prices have done quite well so it is at least neutral to positive which was different from what we had expected beginning of the quarter; we thought asset prices will go down. But interest rates are down which is a negative. So we expect to see that asset management portion to be neutral to flat. There is going to be some continued caution in that sector, even though asset prices are firm currently, I do not think people are kind of saying the worst is behind us, so let us spend more money now.

Vikash Jain: Depreciation - the quarter-on-quarter increase is primarily with respect to the capacity expansion. If you look into the balance sheet, you would see that our capital work in progress (CWIP), balances have come down while the fixed assets balances have gone up, so it is an additional depreciation associated with that. It also has an accelerated depreciation for one-off, but that is a very nominal amount of $200,000 in the current quarter. So the one-off accelerated depreciation is a very small amount. Primarily the increase is associated with the capacity expansion where we continue to invest in fixed assets and on the properties.

Deepesh Mehta: Keech, one question remains unanswered about the market share gain and its implication of profitability?

R. Srikrishna: The market share gain we do not see an implication on profitability. We have taken all of that into account when we spoke about margin sustainability. Ram instituted in some ways, long needed profitability improvement actions along few dimensions, reducing overruns on fixed price, focusing on a lot more sustainable skill creation as opposed to hiring just-in-time and optimizing the pyramid. So some of those have been realized but a lot of it is still unrealized. So we are overlaying that potential improvements along with receding COVID cost benefits and that is kind of how we are seeing the future. As a consequence we think H1 margins within a narrow range are sustainable.

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

Sudhir: Thanks for giving me this opportunity and congratulations on a good quarter. Keech the follow up question on the delisting proposal. So from a business or operation standpoint would love to know your thoughts on the pluses and minuses of delisting the company at the stage of its evolution, any compelling benefits or downsides you see? Secondly, any update on this front, is the process going on as per the expected timelines?

R. Srikrishna: On the latter, the voting is currently on and we have periodic updates on our website on the process. But currently the voting is on and we will announce the results for the voting on August 10th and depending on that outcome, the shareholder will determine the timing, what the next steps are. In terms of plus and minus to the company, you may have seen this in our release as an outcome of the Board meeting that deliberated the delisting before it was sent to shareholders. The promoter has said that their intention is to substantially operate the company in the same way as it does currently and of course, in the normal course of business they do kind of buy and sell businesses. But it is not imminent for them to sell the company or merge with another entity and their intention is to operate it substantially the same way. So given that, we do not see an impact to customers or employees or any other stakeholders.

Sudhir: In the travel and transportation vertical is the worst behind or we expect some more pain going forward? Also to Vikash, any red flags in terms of receivables or provisions that we are seeing in this vertical at this juncture?

R. Srikrishna: I think we are in the worst, so it is not going to get any worse, but it is also little premature to expect recovery. I think we are going to be in the worst for a period of time through '21.

Sudhir: You mean till CY '21?

R. Srikrishna: Yes.

Vikash Jain: Historically if you look in terms of what we have had as AR provision in our books, it has been in the range of ~ 0.1% of our revenue. On the question of in the last two quarters, has there been any customer specific red flags - the answer to that is no. Out of abundant caution we have taken some additional provisions in the books in Q1 and in Q2 which is disclosed in our financial statements. This provision is not necessarily restricted to just travel and transportation customer, it could be any customer who through this pandemic can be impacted financially. So to answer your question specifically that do we have any red flags coming out from the travel and transportation customers, it is not there.

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

Ashwin Mehta: Thanks for the opportunity, Keech and congrats on good set of numbers. Had one question in terms of, so we typically have our top three accounts which actually did well being more onsite centric plus our BPO seems to have fallen this quarter in terms of revenues and still our offshore mix has improved by almost 270 bps. So from a servicing perspective even for the mortgage clients, is there some shift in terms of servicing from offshore or it is a much more accelerated move in terms of some of the rest of the businesses, which is why there is almost a 270 bps shift towards offshore?

R. Srikrishna: It is the latter, mortgage clients are still all onshore, but in multiple other clients, there is a faster adoption of offshore during the COVID.

Ashwin Mehta: Historically, Keech, we have talked about that our range in terms of utilization is closer to lower than what we are currently at, so essentially going forward do you see hiring pick up for yourself or in the interim we could continue to see elevated utilizations?

R. Srikrishna: You are absolutely right; we do expect to see slightly lower utilization than the current quarter. While volume increases is one driver and that will continue for the rest of this year. What happened in Q2 that will not happen in Q3 is that we completely paused all non-essential hiring and strategic hiring, we have resumed though.

Ashwin Mehta: Lastly for Vikash, in terms of our depreciation levels is this more sustainable level other than that $200 K element, is this largely sustainable, would that be fair to assume?

Vikash Jain: Yes, so on a go-forward basis what you should model is $200 K lesser than what the Q2 actuals are.

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

Manik Taneja: Keech, just wanted to understand given the fact that this quarter was expected to be the worst and then we have seen only a sub 1% kind of a sequential drop, so while we are seeing strong performance in the certain segment, is this a broad-based improvement that you are seeing across these verticals or this performance has actually been aided by certain key customers. And then how should we reconcile your outlook with the headcount rationalization that we have seen in the quarter?

R. Srikrishna: I did call even in this quarter, three of our five verticals demonstrated growth and two of them that did not grow were Travel & transportation with minus 27% QoQ and M&C business went down in mid-single digits. So both those are the immediate obvious ones that are impacted, all the rest of the industries grew. Last time I spoke for the fact that the healthcare segment is not growing, or healthcare has been impacted, gyms are closed, clinical trials have stopped, hospitals non-COVID activities have come down, so all of that is true but finally healthcare grew. So we do think that travel, transportation will be the worst and like I said I think that will continue for another year-and-a-half. But we think all the other industries will be little bit bumpy road to recovery but all our businesses will recover.

Now, how do you reconcile the head count, I did say there was no rationalization. Ultimately, a good chunk of the reduction was in BPO and the reduction was in areas where we just do not see demand coming back. For example, we have a client which processes for hundreds of embassies and missions worldwide, they process a vast chunk of new visas given out every year across the world and we do like 60% and 70% of that for them. That volume kind of went close to zero, actually did go to zero for some months, it is not going to come back anytime soon. So it is a very much travel related, where we can have couple of clients like that. We had a client which is in education which is a very seasonal volume, it comes during some quarters of enrolling people for certain exams and none of that happened this year. So where we do not see kind of demand coming back in the near future is where we did not keep the headcount. Of course there was an additional factor that we did not take in batches we spoke about that, but we have resumed that in Q3.

Moderator: Thank you. The next question is from the line of Shraddha from Asian Market Securities. Please go ahead.

Shraddha: One question, could you talk about the demand trends in manufacturing and consumer verticals?

R. Srikrishna: We think it is on a path to recovery, it is going to be little bumpy, but it is on a path to recovery.

Shraddha: Just one bookkeeping question, what would be our subcontracting cost to revenue as a percentage?

Vikash Jain: Close to 14 percentage of revenue.

Shraddha: How would that number change quarter-on-quarter?

Vikash Jain: I mean in absolute dollar it has gone up on a quarter-on-quarter basis.

Shraddha: As percentage of revenue?

Vikash Jain: I do not have that readily; we will get that number to you.

Moderator: Thank you very much. Ladies and Gentlemen, that will be the last question for today. I will now hand the conference over to the Management for closing comments.

R. Srikrishna: Thank you all for joining us today and look forward to speaking to you again soon, stay safe.

Moderator: Thank you very much. On behalf of Hexaware Technologies 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)