HEXAWARE

Hexaware – Q3 CY25 Earnings

November 7, 2025

Operator:

Ladies and gentlemen, good day. Welcome to Hexaware Technologies Limited Earnings Conference Call for the Q3 earnings call. We'll begin today's session with a presentation from the Hexaware management team, followed by a Q&A segment. To ask a question during Q&A, please use the Raise Hand feature located at the bottom of your Zoom interface. This will place you in the virtual queue. I'll now hand the conference over to Mr. Niraj Khemka, Head Investor Relations. Thank you. Over to you, Mr. Niraj.

Niraj Khemka:

Thank you. Hello, everyone, and welcome to Hexaware Technologies Q3CY25 earnings call. In the call today, we have with us Mr. R Srikrishna, CEO, and Mr. Vikash Jain, CFO. In the course of this call, we may make certain statements which are forward-looking and may involve a number of risk and uncertainties. All forward-looking statements made herein are based on information presently available to the management, and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, there is the full disclosure, which has been included in the investor presentation and the press release. We consider that as read. With this, I'll hand over the call to Keech. Over to you, Keech.

R Srikrishna:

Thank you, Niraj. Good morning, everyone. If you could go to two slides from now, please. Yes, thank you. Last quarter, we said our business model is shifted right by 1–2 quarters. What it meant is two things. It meant that deals had slowed down in closure. We expect that to pick up.

The second thing is that no matter what deals close, it would have limited impact on our Q3 or limited to no impact on our Q3 and Q4 revenues. That thesis actually is playing out quite nicely. We will talk about deals later. Deal momentum has picked up, but it does not have an impact on our current quarter revenue, or unlikely to have an impact on our Q4 revenue either.

Our revenues were roughly in line with what we had expected, what we had said, likely we will do up at 3.3% QoQ on US dollar basis. Our profitability improved a little bit, which is normal for Q3. It puts us in line with what we had said from beginning of the year that we will deliver a 17.1-17.4 reported EBITDA margin. Our YTD is about 17.2, so we are in line to deliver that.

Our cash, as always, is very strong. This is a US$228 million closing balance after paying for the SMC acquisition. There were several critical leadership updates during the quarter. Shantanu Baruah joined us as the head of H&I Vertical. He joined us from HCL Technologies, where, for the past decade, he grew their healthcare business from close to zero to a billion dollars. That's a new opportunity for us to grow. A lot of our presence is in Insurance and Life Sciences. Healthcare is a big opportunity area for us to grow, and Shantanu comes with significant expertise there.

Just a few days ago, Eravi joined us as the head of High Tech, Products, and Platform, a new vertical being created by splitting our High-Tech and Professional Services Vertical. This is something we've been speaking about. Eravi comes with a mix of big IT services industry experience, but more interestingly, over the last several years, in the startup ecosystem in the Bay Area. We think that mix of skills is very valuable for us as we build out our High-Tech business.

Our operational metrics are very strong. We continue to add headcount every quarter as we've done for a number of quarters. Our attrition remains amongst the best, and our utilization is very strong. I do want to provide some update on our strategic initiatives. On legacy modernization, we spoke last quarter that we've got two initial paid deals, which was an important marker of progress. I think where we are now is that there are at least three deals that have gone to a point where there are scale transformations. Two of them are RFP situations, and one is sole-source.

We launched in early Q2, offering vibe coding and vibe engineering. We had a simple one-line proposition: build applications 10X faster and 3X cheaper. This is finding widespread acceptance, not just with Hexaware customers, but across the industry as well. I think we've taken a very early lead on widespread training of our workforce and widespread conversations with our customers in vibe coding.

Finally, going on AI, two critical things. One, Siddharth Dhar, who's built a scale business for us in digital ITO, took over additional mantle as the head of AI Practice for us. In the course of this quarter, we launched multiple Domain AI solutions and the contact centre transformation. There are at least three solutions that have already found initial orders with the customers.

We launched one that has Agentic AI for parts of a clinical trial process, and they're actually building one for a client already in that area, and some solutions will soon go into production. We launched a solution for an investment analyst agent to help asset managers, and this is a solution that we already have, again, a client for. A lot of our domain solutions are immediately seeing resonance in the market. Next slide, please.

Just today, we announced another acquisition. This is a company called CyberSolve. CyberSolve is a specialist in IAM. Some of you who follow this space may know that IAM is a critical growth area within the security ecosystem. Every customer is in the process of either starting their IAM journey or completing it because every single application in every major enterprise has to be onboarded to an IAM platform. While the company is a specialist in IAM, the team that comes with it have broad-based security experience that we think will have value for us in our overall security business. Mohit, who's the CEO, will stay and continue with a larger role in Hexaware.

They're moderate-sized, as many of our acquisitions have been. Last year, the revenues were a tad over US$25 million. Their first 18 months this year was US$18.5 million. This is a sole-source deal. We got it at an attractive valuation of just under US$35 million upfront and about US$31.5 million based on performance in the future. Go to the next slide, please.

I spoke about deal momentum picking up. I will speak now to deals in Q3, and I will come back in the end to speak about what we expect may happen in Q4 and the impact for that on a go-forward basis. We've won, I'll say, two or three categories of deals this quarter. The first category is of the four consolidation deals that we've been speaking about. We've won one. This is with a large US and Canadian bank.

The second one we won was not an enterprise consolidation, but consolidation of a booker work. This is something that came new to the pipeline; it closed rapidly within the quarter. This is for a very large global insurance company headquartered in Germany. Aside from that, we won a GCC opportunity, aided in part by our acquisition of SMC. People understand that we are serious players in this space. That's the one that you see in the top right-hand corner.

We won Digital ITO outsourcing deals, two of them. One, again, with a large insurance company. In this case, it was a rebid situation. We were not an incumbent. We displaced a Tier 1 incumbent in this case. Another one that is starting off modest, but the customer is in a space that is rapidly growing. They provide data centre infrastructure, and they're growing very fast. Hopefully, our business with them will grow as they continue to grow.

We also won product engineering for a global fintech platform company that services a very large number of asset managers and hedge funds. We won a marketing analytics deal. The capability came from our prior acquisition of Softcrylic for a large video game streaming platform. Finally, we've been speaking about doing more in Asia. We opened our first client in New Zealand for a major bank. This is tech modernization using Amaze platform.

We are seeing a pickup in deal momentum across categories, smaller deals like the tech modernization enabled by platforms, GCC, consolidation deals, and outsourcing deals, including renewal situations where we were not the incumbent. With that, I'm going to pause and hand over to Vikash.

Vikash Jain:
Thanks, Keech. We can move to the next slide. Revenue for the quarter came in at US$395 million on a sequential basis, a reported number of 3.3%. We did have some headwind coming in from Forex on a sequential basis. Our constant currency growth was a tad higher at 3.4%. In INR terms, this represents a sequential growth of 6.8%.

YoY, the reported number is 5.5%. It obviously includes an impact associated with SMC, the acquisition that we closed in the middle of the quarter. On a proforma basis, our YoY growth is 4.3%. INR terms translated, it's a YoY growth of 11.1%. Growth for the quarter was driven by underlying volume growth, and I'll speak to it more when we cover the operational metrics later during the call, SMC that we closed in the quarter. This quarter, we also had a higher share of license revenue, which was partially offset by the headwinds due to revenue mix change, higher offshore revenue mix in the current quarter versus the prior ones, and marginal headwinds from Forex and BPS. Overall, strong underlying volume growth, SMC, higher license revenues offset by higher offshore mix revenues and headwinds from FX and BPS.

On the margin front, reported EBITDA for the quarter at 17.5%. This represents a 30-bps improvement QoQ, on the back of 50 bps that we did in the last quarter. YoY, it represents a meaningful expansion of close to 154 bps. YTD Q3 EBITDA is at 17.2%, which is well within the guided range, what we gave at the beginning of the year of 17.1-17.4.

The 30-bps improvement in the current quarter, there were a few puts and takes. First and foremost, the operational items added close to 40 bps. FX from a margin perspective was a tailwind at 110 bps. And then there were two headwinds, both of them specific to the current quarter. License revenues, which came in higher in the current quarter, had a headwind of close to 70 bps. In the current quarter, we also saw some medical expenses in the US go up and a higher travel of close to 50 bps. Move to the next one.

Some colour on the unit-level performance. In the current quarter, four verticals, namely the Financial Services, Healthcare & Insurance, Manufacturing & Consumer, and Travel & Transportation, delivered both sequential and YoY growth. Sequential growth for the quarter was led by M&C and H&I. Financial Services business continues to be strong. If you see the current year, FS has posted sequential and YoY growth every single quarter and is expected to be the fastest-growing vertical for us by the end of the year. This is despite the fact that we had a meaningful headwind from one of the large clients driven by the budget cuts at Q1 end.

H&I delivered double-digit sequential growth this quarter. Some of this growth would be unsustainable next quarter because of one-time license revenues that we had. However, we'll still deliver a strong YoY growth next quarter.

M&C has the fastest sequential growth this quarter, which was a combination of both organic business and SMC. On the organic side, we are seeing that the decline what we had in the vertical has bottomed out, and we see the growth coming back. There are green shoots, both in terms of existing account and the pipeline that's building in terms of new logos.

HTPS has a sequential and YoY decline, driven by some of the project closures. We do see a massive opportunity for growth in the High-Tech space, because that's one space where we think we have a significant amount of headroom to grow. Keech spoke about the fact that we are really excited about Eravi joining us to lead the High-Tech vertical.

Banking, as we had called out in the prior calls, is seeing a sharp recovery driven by both new deals in existing and new logos. Banking delivered a strong sequential growth this quarter on the back of a solid quarter, what we had in Q2. We'll see the growth trajectory continue even from a future quarter perspective.

In Travel and Transportation, the sequential decline is driven more by project closures. There are some puts and takes within the quarter as to how the project starts and closes. In fact, from a full-year perspective, T&T is going to deliver better than the overall company growth.

From a geo perspective, second quarter in a row, that all the three geos have delivered sequential growth. From a full-year perspective, we expect North America to outperform the company growth followed by Europe. We do have some bit of a catch-up to be done as far as Asia Pacific is concerned. On the IT and BPS, similar to the last quarter, we see that the growth rate in IT is far accelerating compared to what the BPS growth rates are. Move to the next one.

We continue to add meaningful clients to our client base, and that's also reflected in terms of the greater than US$50 million accounts. It's a specific call out that on an LTM basis, the number of US$50 million accounts that we have has gone from three to four on a like-to-like basis. Next.

This is the chart which explains all the operational improvements, what we are doing, and which is aiding in terms of our margin expansion that I spoke about, a 154 bps on an YoY basis and the 30 bps that we had on a sequential basis. Starting with our offshore revenue, our offshore revenue now is at close to 49%. That's a 220-bps improvement sequentially and a 520-bps improvement on an YoY basis. Of the 220-bps improvement that we had sequentially, close to half of that came from SMC. SMC being in the GCC space is completely offshore centric, so that is aiding. But outside of SMC, too, we continue to make significant progress in terms of improving our offshore mix.

Headcount for the quarter, we added close to 1,180 people, 750 out of that in IT and 413 in BPS. The 750 that we added in IT, had close to 250 coming in from SMC. Excluding SMC, the IT headcount net addition was close to 500 people. This is the ninth straight quarter of headcount addition. Now, if you see the headcount addition and take into consideration how the utilization is faring, which is 10 bps improvement and has been at the range of more than 83% or 83.5% for the last few quarters, you would see that's driving the underlying volume growth. The headcount addition with the high utilization numbers.

Added to that, we have one of the lowest attrition rates in the industry. We continue to be comfortable at the attrition rates that we have, which is trending around 11-11.5% for the last few quarters. Next. We continue to maintain one of the lowest DSO in the industry, which is at 73 days, and have a very strong cash conversion. Our closing cash balance is at US$228 million after paying for the SMC acquisition of close to US$45 million.

Our OCF to EBITDA on an LTM basis is 80%. This is significantly better than the range of what we had guided at the beginning of the year of close to 70%. Our ETR on a YTD basis is close to 23.5%. What we had guided to from an ETR perspective of close to 24%, I think from a full year perspective, that ETR is going to be tad below at close to 23.7 because we have been able to manage that better than what we had estimated at the beginning of the year. With that, I'll pass it back to Keech.

R Srikrishna:

Thank you, Vikash. We'll go back to the next slide. Go to the next slide, please. On overall outlook, we think the demand environment has stabilized. Variety of factors which you're all aware of that have been impacting it through the course of the year. I will say right now there is a sense of stability leading to improvement, including in M&C. You heard that from Vikash. That's the single sector that has pulled us down quite a bit in this year, and we're seeing signs of recovery in M&C. We had a solid positive growth, QoQ in M&C.

I already said we won two consolidation deals, one which is something that's has been running through the year. Other, which is not an enterprise consolidation, but a consolidation of a significant book of work, that just came in and was won in the quarter itself. There's continued good progress on two others. There's one which we said the phase one got complete, and we have a role to play in that. Phase two, we're not sure, will pick up anytime soon.

We do expect more deals to be decided in Q4, with quite a few deals will decide in Q4. There are many where customers have stated intentions of starting a transition in Jan or getting into a new strategic vendor program from Jan. In the consolidation opportunities, there's quite a number of them that have picked up speed in the last quarter or so and will decide in Q4.

Our overall pipeline is the largest ever. It's more than US$3 billion. It's got to this size in part because it got bloated. In Q2 and maybe in later part of Q1, there were not many decisions, neither was it going out with a win or a loss. We expect our pipeline size will reduce a bit in Q4, but in a good way because decisions will happen.

Our Legacy modernization deals are growing, and I said this is worthwhile reiterating that we now have three deals that involve full-scale modernization of material size. Two of them are RFP-based and one is a sole-source deal. What does this mean for the future? It will not have an impact on Q4. We said this last quarter itself. These deals, as positive as the momentum is, will not have an impact on Q4. Q4 will continue to have our regular headwinds of furloughs and calendar. In addition, we have a short-term headwind due to the government shutdown. I want to clarify this is not as it relates to the H-1B fees. A minute on that. We have been reducing our dependence on new H-1s consistently over the last four to five years. As a matter of fact, in this year, much before the new policy was announced, we had applied for zero new H-1s. It was not part of our talent strategy to get new H-1Bs. This is not to do with that.

What is happening is that we currently can't enable visa transfers. The impact is that growth in some accounts and some aspects of some accounts, which are on-site, is restricted because of visa transfers. That's the only pool that we hired from, but it is a chunk, or in some cases, a good chunk of the pool people who have visas with other organizations that we need transfer. Right now, there are no transfers happening. This is not unique to Hexaware. Nobody in the world can get visa transfers right now.

Reiteration on vertical. FS will lead growth for the year, followed by Travel, and then followed by H&I. Banking will lead QOQ growth and eventually will lead full YoY growth. If you recall, it started with a big fall, big negative in Q1, but since then it's been on a tear.

HTPS, there's some commentary. Why is it that we are seeing a drop? There are two things there. One of the customers, we won a consolidation deal earlier in the quarter, that ramp-up is going on, but it's stopped growing in Q3, which is the customer's Q1. There's a significant budget cut in Q1. Some of it is expected, the extent was not. What it meant is that our growth got curtailed. There's another client which had a very significant budget cut. I think choppiness will continue for 1–2 quarters, but it will resume growth. The long-term outlook or even the medium-term outlook for this sector continues to be very strong. Not on Q4, but from Q1 onwards, we will separate reporting for HTPS. We expect that over the next few years, High-Tech will have rapid growth.

Vikash already said M&C has good solid early signs of recovery. Margin, we are narrowing the outlook from 17.1-17.4% to 17.1-17.2% for the full year.

Last comment before we turn over for questions. What does all this mean for FY26, calendar '26? It will definitely be better than the current year. How much better? I think we will provide colour when you come back a quarter from now. We are in a budget cycle. We are having conversations with multiple customers, getting a better understanding of the budget for next year. Also, like I said, there are quite a number of deals that are in the final stage. A combination of that will tell us how much better we will be next year, and we'll provide colour on that when we come back. With that, I will pause and open for questions.

Operator:

Thank you very much. We will now begin the question and answer segment. To ask a question, please click on the Raise Hand button at the bottom of your Zoom interface to enter the queue. Once announced, kindly unmute yourself, state your name and organization, and proceed with your question. If your query is addressed before your turn, you may press the Lower Hand button to exit the queue. We'll pause briefly to allow the team to assemble the list of participants.

Operator:

Our first question will come from Prateek Maheshwari with HSBC Securities.

Prateek Maheshwari, HSBC securities:

Hi, Keech. Hi, Vikash. Thank you for the opportunity. Firstly, I just wanted to check again on your vertical-wise growth. You said there's some contribution from SMC in your Manufacturing vertical. The H&I also grew very strongly this quarter. Just wanted to understand if there is anything. What's driving the growth?

R Srikrishna:

On M&C, I think even if you exclude the contribution from SMC, it would have still grown QoQ, which is actually a very positive sign for us because that's really been the one that's pulling us down. It'll take a few quarters of QoQ growth for us to get back to full-year growth, but I think we have begun that journey in M&C. On H&I, we were operating with our leader for a quarter. Shantanu is awesome. I feel very good about our long-term prospects in H&I.

Prateek Maheshwari, HSBC securities:

The other one was, Keech, on your acquisition of CyberSolve. IAM, I think it's a good opportunity. You mentioned that the growth would be about 15%, right? I just wanted to understand. The growth or revenue has been stagnant in recent years. With Hexaware, what growth will it be for that business? Also, if you could share the margins of that business.

R Srikrishna:

On growth, it is a project-based business. IAM itself, they're a specialist in that. The work that we do in CyberSolve is to onboard customers onto IAM platforms. We have a platform that automates and reduces the cycle time quite a bit for onboarding new applications onto the IAM platform. It's a project business.

What I think for us, it means two things. One, we have quite a number of clients who are in this IAM journey. In fact, even right now, for a while before we bought this, we've been partnering with some firms and subcontracting work. The demand from our existing customers is a known pocket of demand.

The second thing is that the team actually comes with a much broader set of capabilities. Combined with that, we think we can do more than the project work. It actually gives us a really good place of trust and seat at the table with the clients for where we can expand. That'll improve growth. On margins, Vikash.

Vikash Jain:

Thanks. Prateek, from a margin's perspective, at an EBITDA level, the margins are largely comparable in the same zip code as what we have on the organic side of the business. However, from an EPS perspective, initially, it is going to be marginally dilutive. That's because of the acquisition accounting. We have to take that amortization of intangibles into the P&L. But quickly, it is going to be EPS accretive very soon.

Prateek Maheshwari, HSBC securities:

Last question is on your HTPS. Basically, I just wanted to understand, you were saying that there was a consolidation opportunity and there's some budget cut. I just wanted to understand if your work would get delayed or there is a cut to your work as well.

R Srikrishna:

There are two different clients. One where we won a consolidation deal earlier in the year. We've been gaining substantial market share in that client, and we're growing. The growth plateaued for Q3 because while we were consolidating, there was a budget cut, which coincided with the beginning of their fiscal year, which is our quarter three. In some ways, the bottom is already there for that customer. It didn't degrow, it just was muted growth or flattish for the quarter. We're already at the bottom there, and we will continue to grow from this point. The original premise of consolidation, gaining market share remains very much in time.

There was another client who had a significant budget cut, which I think the big impact for us was in Q3 that just passed. There'll be a smaller impact in Q4. Much of this was known to us, largely. Q4 will bottom out for that client as well. That's why I said in aggregate, there'll be choppiness for 1–2 quarters. One has already passed, one more ahead of us. After that, there will be growth in this segment.

Prateek Maheshwari, HSBC securities:

Thanks, Keech. Thanks, Vikash. Those were my questions. Thank you so much.

Vikash Jain:

I think I'd just like to add one thing. You had a question with respect to the growth on CyberSolve, which Keech addressed. The other aspect associated with it is you should look at the valuation. The assets in this space generally trade at valuations, which from a multiple of the revenues, are pretty high. From a valuation perspective, the EV of this asset on a revenue base—last year they did close to US$26 million—is US$ 66 million, with an upfront payout of US$ 35 million. The balance US$ 31 million is linked to next 3 years of performance.

It's a judicious use from a capital perspective where acquiring the right capabilities with a very strong management team and good set of logos. But the payouts are all linked to future performance, which obviously are meaningful targets in terms of the growth that we have agreed with the management, which is coming in. It's the capability acquisition, what's happening from a revenue perspective, what we think can happen from a future perspective, but at the right valuation, which is very important to understand.

Prateek Maheshwari, HSBC securities:

Thanks, Vikash. All the best.

Operator:

Our next question will come from Manik Taneja with Axis Capital.

Manik Taneja, Axis Capital:

Hi. Thank you for the opportunity. I had a couple of questions. First one is with regards to some of the near-term challenges that you've highlighted in your Professional Services' customer base. Do you think that becomes an impediment to overall growth in calendar year '26, especially given you also mentioned that you would expect CY26 to be better versus CY25? That's question number one.

The second question was with regards to the segmental margin performance. If you could help us understand the puts and takes with regards to some of those movements, especially in verticals, wherein you have started to pick up growth, like Banking. Even from a Professional Services standpoint, do you think some of these pressure leads to some pressure on margins? Those are my questions. Thank you.

R Srikrishna:

The short answer to your first question—will PS be a headwind for growth in '26—the answer is no. What are the re-initiating of the two clients? One of them, I think the bottom is already behind us in Q3. The other one, the bigger part of the headwind was in Q3. A smaller part would be in Q4. Both of these were largely known and will be behind us when we finish Q4. It will not be a headwind for us in '26. In fact, it will be a growth driver for us in '26.

On segmental margins, at the highest level, there isn't a material difference that is worthwhile looking at in any level of detail. Vikash, you want to add some colour to that.

Vikash Jain:

From a segmental margin perspective, the two big items in terms of the QoQ movements were in two areas. One was in H&I, the other was in M&C. H&I, as I gave the commentary while giving the performance update for the quarter that some of this growth will taper down from a next quarter perspective. That's primarily because the licensed revenues, what we had a jump in the current quarter. A material portion of that was in H&I as a vertical.

Similarly, the M&C, I did call out that M&C, the underlying business from an organic basis grew, and at the same point of time, it was helped on account of SMC. SMC, being 100% offshore-centric business, comes in with a margin profile, which is better than a mix of both on-site and offshore. That helped us in terms of improving the margins.

Manik Taneja, Axis Capital:

If you can just help us understand any seasonality around both SMC and the cybersecurity acquisition that you announced today.

Vikash Jain:

When you speak about the seasonality, if you look into our business, the key seasonality is associated with calendar, where Q4 is seasonally a weak quarter on account of calendars and furloughs, and then Q2 and Q3 are the strongest in terms of the calendars. I think that's the similar seasonality what we have in this business. Nothing outside of that.

Manik Taneja, Axis Capital:

Great. Thank you and all the best.

Operator:

Our next question will come from Abhishek Pathak with MOSL.

Abhishek Pathak, MOSL:

My question was pertaining to the range of outcomes that we expect in CY26 with regards to the four large deals that we've been talking about. I understand one of those deals has been closed. Can you make us understand, with and without those deal closures, how do you think about CY26 going forward? If they close, or they don't end up closing, what's the range of growth outcomes we are looking at? Thank you.

R Srikrishna:

I'll say two things. One is that a lot of our incremental growth will not just be dependent on the large deals. The two that are remaining, it's not going to be wholly dependent on that. I think that can add to some high growth, but improvement in base growth will come without those large deals, based on a number of other momentum deals in the market.

In terms of overall impact, like I said, all we are in a good position to say right now is that we’ll be better than 25. There are a lot of puts and takes in the current quarter that will help us provide colour and how much. This range that you're asking for, I think, is a quarter away for us. In terms of customers and budgets and deal closures, more will happen in this quarter.

Abhishek Pathak, MOSL:

Understood. As follow-up to that, are you seeing some short-cycle deals coming back? Are you seeing decision-making sort of improve a little bit overall, which would confirm our thesis that those large deals might add less variants to our business because the short-cycle deals will pick up. Are you seeing evidence of that?

R Srikrishna:

Yes. I already said, for next year, the two large consolidation deals that are there in the pipeline is going to really add to growth. Our base growth thesis is not basis those deals. There are quite a number of decent-sized momentum deals that are back on the table for closure.

Abhishek Pathak, MOSL:

Got it. Thank you so much. All the best.

Operator:

Our next question will come from Abhishek Kumar with JM Financial.

Abhishek Kumar, JM Financial:

Hi. Good morning. I have a couple of questions. First, on Q4 outlook. Last quarter or a quarter before that, we had indicated that this year you might buck the trend of decline in Q4. It seems like there are new headwinds now, plus there is a higher base of Q3 because of license which may not record next quarter. Fair to assume that we are looking at maybe slightly more accentuated seasonality in Q4 this year compared to previous years?

R Srikrishna:

I actually want to clarify the past first. We did say that at the end of Q1. But at the end of Q2, the last call we had, we clarified that the deals haven't closed. They've shifted right by a quarter to two. At this point, no matter what deals we close, we don't see an impact of it for Q3 and Q4. I do want to clarify that we did not say last time that we will grow in Q4.

Just on the license stuff, while there's a little bit spike in Q3, actually our multi-quarter average is very much in line with history. Three-quarter average for this year is in line with history. There was a spike in just in Q3. There are seasonal headwinds. We call it the one additional headwind that nobody could have foreseen. It's been there now for 36, 37 days, the shutdown. It'll be a flattish quarter. We won't get growth, but it'll be a flattish quarter.

Abhishek Kumar, JM Financial:

Second question is on visa transfers. I just want to understand what kind of visa transfers are we talking about, given that we didn't apply for any H-1B this year. Any clarity on that? Is this related to the government-sponsored entity business that was ramping up, or is it related to business as usual?

R Srikrishna:

What the visa transfer means is when we are growing, we hire somebody in the US. If they're working for somebody else, some other organization, they're on H-1 for that organization, we have to transfer that person's H-1 from the current organization to us. That process is stopped for 36 days there. That's what we mean. This is true for every customer. It's not just for the GSE.

Everywhere where there's growth on-site now, quite a bit of that is in the two organizations you referred to. It's not unique to the business in those two customers. It is anyone, anywhere needs to grow on-site, a part of that growth, the pool of talent is coming from prior H1s. That pool of talent is not actionable right.

Abhishek Kumar, JM Financial:

One last question. You indicated significant budget cut in one of your professional services clients where we had won a deal. Just want to understand why was there a budget cut? Is it because of DOGE, because they are exposed to government procurement, or just weakness in their own business?

R Srikrishna:

It's not DOGE. Actually, this particular one is not in the big list for FED. They have obviously some exposure there. We don't know how much, but it's not as a consequence of DOGE. This is a consequence of their business. I also say in this case, it is also a consequence of AI in their business. To some extent, it is that. Not necessarily immediately, but what they anticipate will happen.

Abhishek Kumar, JM Financial:

That's helpful and all the best.

Operator:

We'll take a question that was submitted in writing. If you could help us with the timing and quantum of wage hikes, and how do they compare with possibly what you've been given in the more recent past?

R Srikrishna:

We provided wage hikes from October 1st. It was modest compared to prior cycles, but it's much better than the industry. Our employees appreciate that.

Operator:

We'll take another written question. Is pricing deflation already visible in renewals or new deals?

R Srikrishna:

Every deal has an impact of AI baked in on a go-forward basis. Outsourcing, there's more productivity than before in SDLC. I referred to it briefly. I think there is solid acceptance of AI in every phase of the SDLC. For us, what it means is that if you're dealing with a legacy or a brownfield situation, RapidX uncovers the past and delivers a blueprint as to what to build. Once you have what to build, then it is a variety of coding tools that help customers reduce the build cost.

In addition, we introduced this new service called vibe coding that has significant impact on cost and time in the early cycle of greenfield development. There is an impact on how much effort it will take to deliver this. On the other hand, part of a thesis has consistently been that it will get more than made up for by increased volumes. Legacy modernization is a great example. It's a volume that didn't exist before. It is possible now because of AI.

Operator:

For our next question, we'll return to Prateek Maheshwari with HSBC Securities.

Prateek Maheshwari, HSBC securities:

Hello. Thank you for the follow-up. Could you remind us on your margin expansion? I think the ERP-related savings are still yet to come. Just wanted to understand, what's the plan for that? The second thing, could you also add what could be the furlough impact that you guys may face next quarter?

R Srikrishna:

Just on long-term margins, you're right that the ERP savings haven't come in yet. It's still not gone fully live. At this point, especially in the current economy, the focus all are growth. It's not our first stop to put savings from ERP into margins, but we use it to invest to grow better. Furlough, calendar, together, will have 2.5-3% headwind. Vikash?

Vikash Jain:

In terms of the puts and takes, Prateek, from a current quarter perspective, just to reiterate what I mentioned from a 30-bps improvement on a QoQ. 40 bps was from operational items, primarily, the utilization improvement, what we had, and a mix improvement by close to 220 bps. FX was 110 bps of a tailwind. Higher license cost was a headwind of 70 bps. I spoke about two items specific to the current quarter, which was travel and an increase in medical expenses in the US, which was a headwind of 50 bps.

Prateek Maheshwari, HSBC securities:

I was just looking at your top accounts growth. Top 10 is okay. I just wanted to understand the next 10, that growth has been weak there. I just wanted to understand how that bracket is building up. Are there any comments to share?

R Srikrishna:

I think the second customer in Professional Services is in that 10-20 pocket, which had a significant headwind. That was in the 10-20 pocket. It was in the top 10. It slid to 10-20.

Prateek Maheshwari, HSBC securities:

Got it. Thank you, Keech. Thank you so much.

Operator:

Thank you, ladies and gentlemen. I will now hand the conference over to management for closing comments. Over to you.

R Srikrishna:

Thank you. I look forward to seeing you all a quarter from now.