



Hexaware – Q2 CY25 Earnings July 25, 2025

Operator:

Ladies and gentlemen, good day, and welcome to Hexaware Technologies Limited Earnings Conference Call for the second quarter of CY 2025. 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, Angela. Hello, everyone, and welcome to Hexaware Technologies Q2 CY '25 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 will 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 the 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 a full disclosure which has been made in the investor presentation and the press release. We consider that as read. With this, I'll hand over the call to Keech. Keech, over to you.

R Srikrishna:

Thank you, Niraj. Could you please move to the first slide after the disclosure. Thank you. Hello, everyone. Thank you for joining this early. We know we had to adjust our time based on other people's schedules. Thank you for joining really early, those of you in Mumbai and maybe in Singapore and Hong Kong.

Our quarter on revenue performance this quarter was a little bit softer than what we had anticipated, predominantly driven by delayed decision-making from customers. What it means for us is two things. One, I think it means somewhat lower expectations for the remainder of this year. But I think more importantly, given the strength of our pipeline and given the strength of progress on strategic initiatives, we continue to remain solidly confident of our long-term growth trajectory. But more on that later.

On profitability, we've said that we will get to a 17.1%-17.4% range on reported EBITDA. We are right there. I know there are a lot of puts and takes in one-offs, which we will go through. But the reported

EBITDA is what this shows here. Actually, once you go to the one-offs, you'll realize two things. One is that even for the current quarter, our operational performance is somewhat better than this reported EBITDA. Two, and more importantly, the one-offs set us up for solid improvement in profitability over a period of time.

As a consequence of the one-offs our ETR came down and our EBITDA, in absolute terms, while it grew solidly at 19.4% YoY, our EPS grew even faster. As always, we have a solid cash balance. The most important event for us from a business perspective was the acquisition of SMC. I will talk to the strategic rationale behind it in a few minutes.

Last time we spoke about setting up customer experience centers in New Jersey and in London. We continued that path and did one in Chicago. We had substantial participation from all of our clients in Chicago for this opening. Actually, it's walking distance to many of our major clients in that region.

We continue to do very well on operational metrics. Our acquisition is still the lowest or amongst the lowest in the industry. Our utilization inched up, which actually underpins the solid operational performance. We are very proud to have been ranked number one in 2025 in the Whitelane Research for UK and Ireland.

Every year that it has been published, we've been in the top two or three, and this year, we're really proud that we are number one. Bear in mind when Whitelane announces and publishes this report especially the who's who of UK attends that presentation. Not only were we ranked number one, one of the two or three customer presentations in it was also a Hexaware client who presented.

I will talk a bit about strategic initiatives as we started doing last time. Before I go to the four specific ones, I think what we did a few weeks ago is to launch a new AI-based software engineering offering. I think in general, what the pivot to AI entails is for us to be able to rapidly evolve to new business models, experiment with them. Some of them will work, some may not. But I think the muscle we need to build is agility and the ability to offer new services very rapidly and take them to all of our clients very rapidly. One of them we launched a few weeks ago. This is a new, largely AI-based software engineering offering.

The initiative of legacy modernization using RapidX, we've spoken about quite a bit. We had called out a marker for success as two paid customers getting beyond POCs. I'm glad to say that we've got there, and we will talk about those wins in the wins slide later.

Private equity is an initiative that we launched earlier this year. I had said we will start seeing pipeline and orders later this year and revenue and growth next year. I'm again happy to say that we are progressing on pipeline exactly or slightly ahead of what we thought it should be. We are actually pretty close to hiring a High-Tech head, which I think will give us material boost in a very large untapped segment for us.

The last of them was improving presence in India and Middle East. Middle East continues to have a robust pipeline with still their expectations of orders in Q3 and some revenue growth starting from Q4, and certainly quite a bit next year. On GCC, this strategic imperative for us also coincided with an opportunity to buy a solid company in the space. Let me talk a bit about the why of SMC. If you go to the next slide, please.

There are really four rationales for why SMC. The market data is that there are roughly 1,700 GCCs in India today, and that is expected to go to 2,700 over the next 4–5 years. Setting up new GCCs is a robust revenue opportunity, and SMC specializes in that. They've actually set up 30 plus GCCs over the last decade, and actually quite a bit of it in the last few years since they started. I think what that does is to put us in the lane to address that opportunity.

The second thing is that when customers are looking at setting up GCCs, their normal port of call is not outsourcing companies. The set of players that they call who they see as specialists in setting up GCCs in a way that is not conflicting with an outsourcing mentality. Actually, the company that does a lot in this is

ANSR, and the company that does very well in this is also SMC. We actually see that the opportunity is there, but we will be in a far better position to address that opportunity.

The third is that currently what SMC does is to have set up. But what it does not do is transform the operations, especially with the AI opportunity. That's a capability that Hexaware will bring, and we think it will deepen the relationship with the customers for whom we set up GCCs.

And finally, I think while much of the action has been in India, we are clearly seeing a trend where similar capabilities will be needed across other parts of the world, where people may set up GCCs in East Europe or Southern Europe or LATAM.

That's the strategy rationale we feel very good about what SMC brings us. I've always said there are two important things for us in acquisition. It should bring us capability on day one. Two, it should be EPS accretive. There should be a clear pathway to get it to EPS accretive. In this case, it will be EPS accretive on day one.

Go to the next slide, please. A quick thing on the numbers. They did 22 million last year. We think this will grow, even on their own and then the combination with Hexaware, we think, will grow quite a bit in this space.

With that, I'm going to hand over to Vikash, and I will come back later to talk about the outlook.

Vikash Jain:

Let's go to the next. Thank you, Keech. From an overall revenue perspective, we had a good quarter with a YoY growth being 8.6%, as you can see that the growth was led by five out of the six verticals delivering YoY growth. From an FS perspective, the YoY growth is very strong. Sequentially, you see a muted growth of 1.1%. We had called out last quarter that this does have an impact of one of the large clients doing a bit of a spend cuts, which we had already factored in as part of our outlook, and that's reflected. But this is a vertical which will grow from a full year perspective, one of the strongest growths.

Banking, we had called out that we would see a sharp recovery going into the next quarter, and that's what's reflected in the sequential numbers of 13.5%. YoY is starting to pick up from a Banking perspective. M&C is the vertical that had negative growth. This is the vertical that's most impacted by macros in terms of tariff, uncertainties, and trade barriers, and this has led to pause or delay in decision-making. We are seeing that it's stepping down. From here onwards, we would expect it to hopefully see a bit of growth getting into the future quarters.

On the geos, every geo had sequential growth. Asia Pacific, obviously with the SMC acquisitions that we have done, and in addition to the investments that we are making into this region, will start showing growth. The other piece what we would like to highlight, and this is something which we have introduced for the first time in terms of the presentation. This was always part of the detailed financials that we gave in terms of spreading the revenue between IT and BPS.

The key to highlight here is that our IT business is growing at a much faster pace than the company average, and the IT services growth is close to 9%, while BPS is at 4.7%. We'll add it back in terms of how that is being supported by the underlying volume growth, both in terms of the headcount and the utilization as we speak through details in the subsequent slides.

Let's move to the next one. The key highlight here is that we continue to expand our base in terms of adding meaningful clients to our set of customers. We have added one client which is now added to the greater than \$50 million category, and that now stands at four on an LTM basis. In terms of our top clients, despite the fact that one of our clients had a headwind, you would see that our contribution from the top five customers continues to be almost stable to what it was a year back. That's reflective of the fact that the growth is very broad-based, and we continue to have growth in all sectors.

Next. Keech, do you want to take this?

R Srikrishna:

Yes. As said, our long-term revenue outlook remains solid as a consequence of pipeline, as a consequence of wins, and progress on strategic initiatives. The first win... actually, there are two wins here, which are both a RapidX-based legacy modernization. One is for a large airline. One is for a large financial institution. Both cases involve a code written several decades ago that we've been able to bring an X-ray on business logic, too, which enables customers to really transform in a more meaningful way rather than simply transforming code as is. Both these customers were in pilot, and there's a part of it that has moved to production at a larger scale. But both these customers, these are still a small percentage of opportunities that are ahead of us. We continue to expand pipeline and conversations based on RapidX-based modernization.

We launched Amaze several years ago with a proposition to focus on transformation in the right way to cloud. Actually, there is a substantial increase in demand for this work that we're seeing now as customers have moved to cloud and are finding that they're not getting the full benefits of what they thought they would get, both performance and economics. So, this is a very large global healthcare company part in UK, part in Australia, where they've engaged with us for Amaze-based app monetization.

Salesforce launched Agentforce. One of the early implementations and success of that is to use that for sales execution of a global web business in a private equity firm. The next one is again based on Amaze. Like I said, we're seeing a moment where demand for that is peaking. This is a top five global bank. It's been a journey with this prospect for a number of orders for us. But we finally now have not only the first set of paid orders from them, but they also essentially declared Amaze as the standard, only platform that internal application owners can use if they want to refactor applications.

Another large US Fintech firm, a variety of services, AI-driven product development, AI-driven assurance, and cloud ops. A large, one of the top three insurance companies in Belgium, again, substantial work on migration to cloud and finally, another new client. These are all a mix of new and existing clients. The last one that I'll talk about is a property management company that's a new client. It is a multi-billion-dollar company, where we have multiple deals. It's the start of what we think will be a long and fruitful journey with this customer. Back to you, Vikash.

Vikash Jain:

Thank you, Keech. I spoke about the revenue. On the margins, the highlight is we are progressing well on margins and are well on our target to meet a full-year reported EBITDA of 17.1%-17.4%. Particularly with respect to the current quarter, we are pleased with the improvements that we have made. Current quarter saw a margin improvement of 50 bps on a reported basis, and the margin increase was driven by an operational improvement of 100 bps with the improvement in utilization, offshore mix, and some bit of a tailwind from calendar. This was partially offset with currency headwind of 35 bps and one-time charges of 15 bps.

Utilization for the quarter was at 83.7% versus 82.1% in the last quarter, a sequential improvement of 160 bps. We expect the utilization to be range bound within 83%-84% on a full forward basis. That's the level what we had even spoken about in the past that we feel comfortable that we can take our utilization up to 84%.

We continue to improve the offshore mix of revenue. This quarter, there has been an improvement of 110 bps sequentially, and it's almost closer to 300 bps since the beginning of the year.

Coming to the one-timers which had a net headwind, there are a few items, and I'll go through in detail with those. They had a one-time impact of 15 bps. The first one is Softcrylic earnout reversal. The Softcrylic acquisition which we did last year, had a first year earnout of \$25 million. Of the same, \$6.5 million dollars was paid, and you would have expected that for an asset in the data space, the targets that we set were very ambitious. They met part of that, and the balance \$18.5 million dollars was reversed out. This reversal is actually reflected in other income line item of the PnL.

Due to the missed CY '24 targets, we did an impairment testing on the customer relationship on the intangibles in the balance sheet and took a \$4.6 million impairment charge. The impairment charge is actually reflected under other expenses. I want to clarify that the reversals associated with Softcrylic are in the other income line, while the charge associated with the impairments is in the other expenses.

In addition, there were three more items on the cost side. One of the European clients acted in bad faith to settle their dues, and the client is also undergoing some financial strain. There is a legal dispute which is going on with the client. As a matter of abundance prudence, we have taken a provision of \$9 million associated with the client in the quarter. I'd to clarify and emphasize that this is a provision and not a write-off as we are working through our legal options.

We have also initiated a structured workforce reduction program in one of the European country. A one-time charge of \$3.8 million associated with restructuring expense has been booked under employee benefit cost. This is something which will actually start coming back into the PnL in terms of a reduced salary cost in the future, and we expect the benefit to start accruing from Q3 onwards.

All of you are aware, Keech spoke about the fact that we completed the SMC acquisition in July. The diligence for this was obviously taking place in the last quarter, which is in April to June. The diligence expense for this, close to \$1.5 million were incurred in Q2 and are in the other expenses. If you net out all of this, it's a headwind from a PnL perspective of close to \$500K, which turns out to be close to 15 bps. That's what we said, that despite the fact that we have taken the 15 bps of headwind in terms of the cost in the current quarter, we still are at 17.2% from a reported EBITDA perspective. We remain on track to deliver on the reported margins in the range of 17.1%-17.4% for the full year.

Move to the next slide. We continue to make progress on all fronts from an operational metrics perspective. If you see all our metrics are trending upwards: the offshore mix has improved, utilization has improved, and while we continue to add net headcount, which is reflective of underlying growth. When the headcount increases and the utilization improves, it's a very strong signal that the underlying volumes are increasing. Of the 850-odd headcount that we added in the current quarter, 581 of them were in IT and 265 in BPS. That's also reflective of the fact, when I spoke about earlier, that our growth in the IT business far exceeds the company average from a growth perspective.

DSO for the quarter is at 73 days. We had called out last quarter that 75 days at the beginning of the quarter was an aberration and this will come down, and that's what is reflected in the current quarter in terms of the 73 days. That obviously has helped us in terms of our cash conversion. Our cash conversion continues to be very strong. On an LTM basis, the OCF to EBITDA is at 76%, higher than the target that we have set for ourselves at 70%, so we'll continue to work in terms of continuing to deliver 70% plus on an LTM basis on OCF to EBITDA.

The other key highlight, a noteworthy highlight from the current quarter is on the ETR. ETR for the quarter is at 19%. This is driven by some of the M&A-related items not being subject to tax. This is a consequence of how we had structured the contract purposely. We are seeing that benefit play out in the current quarter. With this, we estimate that our full year ETR for the year is going to be at 24%.

All in all, good growth, improving margins. We remain on track from 17.1%-17.4%, and the cash conversion continues to be very healthy. Over to you, Keech.

R Srikrishna:

Thank you, Vikash. We'll go to the next slide, please. I want to spend a little bit time on outlook, both for '25 and more long term. It's hard to imagine a quarter where so many things have changed, from tariffs to geopolitics to, in some ways, back to tariffs and DOGE, specifically for us. There is continued softness in macros. We actually thought things have started stabilizing, but really there is more conversation on tariffs now than was there even a few weeks ago. I don't want to emphasize that this slowdown is entirely cyclical in nature. It's not AI-driven. It is not structural. The AI impact is separate. Clearly, that is not something that has become material at this stage, either positive or negative.

For us, we have four mega consolidation deals. Basically, all of them are still in the works. It's delayed decision-making. One desired part, which we sat out of, that was what we expected to, but they haven't decided the next part. The other three are still work in progress. They've all gone one or two steps more, but have not pulled the final trigger. The other deals are progressing reasonably well. There are a number of wins that I called out, but I'll say decision-making is a bit down.

That's the reason we are setting expectations now that our growth expectations for the year at this stage are lower than what they were a quarter ago, but our pipeline is solid. More importantly, all of our strategic initiatives, which we had identified as growth accelerators, our pipeline is rapidly growing. What that means long term is that our ambition for \$3 billion in calendar '29 remains unchanged. We've been through cycles before. Our historic growth has included bad and good years, and we tend to make up for bad years and good years. Hence, our long-term ambition for \$3 billion remains unchanged.

FS, like Vikash pointed out, in spite of what we called out as a 1% headwind for the company, will translate that to a 3%-4% headwind for FS. In spite of that, they're growing at 16% or so, and we think they will lead growth. We had said TNT will grow well but early in the year, we had expected it to really outperform. That took a dip, but I'll say now maybe that's come back a bit, so TNT will probably lead growth for us.

Banking, if you see our QoQ numbers, is outstanding, double-digit QoQ. The only reason why Banking, we'll say, company average, because the first quarter was a deep hole, was a negative QoQ. But otherwise on a go forward basis, they will lead growth for us.

H&I and HTPS will grow marginally below company average. M&C, and we've said this now for a number of quarters, will see material weakness due to macros. Vikash has spoken enough about margins, so I will not touch upon it again. Maybe with one point that was not touched upon, that we actually expected the ERP costs to end in Q2. It is continuing. It's tapering down, but it's continuing, but our margin outlook remains unchanged, even though those costs are continuing. With that, I will take a pause and we will do Q&A.

Moderator:

Thank you very much. We will now begin the question and answer segment. To ask a question, please click 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. Our first question comes from Ankur Rudra with J.P. Morgan.

Ankur Rudra:

Hi, morning. Thank you for doing the call. Just a question starting on the outlook on the Financial Services and maybe specifically to your GSE accounts. What's been the mix of performance there, and how does the outlook for the rest of the year change? If you can give us an update there, that would really help. Thank you.

R Srikrishna:

Two things. One, we already called out the negative. We said we don't expect further negatives, and that's been true. Second thing we said that one of them is undertaking a large consolidation deal. That hasn't progressed as fast as we thought it will, but what we know now, or recently, is that actually they have suddenly pushed the pedal on that. I don't want to predict when it will close, but they certainly indicated a desire to push the pedal very hard on that. The other one was anyway in good shape. We had won a consolidation deal. The ramp-ups are happening as we had planned.

Ankur Rudra:

My question was the outlook for the year. You were expecting an equally good year this year as last year. I understand the cyclical nature here. Could you update us what's the current status of that, and how long will it take to cycle back to a double-digit growth rate from here on?

R Srikrishna:

It's hard to predict where macro will go. If there's already one trade deal that got announced that's one set, I think if there is more that happen in the next 2 weeks, which is the deadline that the administration has set, I think we will see uncertainty lifting quite a bit. It could be pretty quick.

Ankur Rudra:

So, it's based on the macro where you can think you can get back to double-digit growth depending on a quarter or so then? Is that what we should expect?

R Srikrishna:

It's hard to predict macros. I think what we are focused on is to make sure that with each customer, we are gaining market share. We are doing better than our competition in those accounts. We are winning new logos that are material, both for near-term revenues, but also a mix of logos that may be small to begin with but have very high potential to become mega accounts for us long term. These are the things that we are focused on. What it means is if the macros improve, we will improve faster than everybody does.

Ankur Rudra:

Understood. Last clarification on the EBIT or the EBITDA margin line. If I do exclude the writeback that came from your Softcrylic payout, the EBITDA or the EBIT, whichever you want to take, seems to have been a bit relatively soft, even if I make the adjustments on the impairment costs and the severance cost you've highlighted. Could you maybe elaborate in terms of the underlying margins outside of the write back? How that's trended?

R Srikrishna:

The underlying margin, like we said, is stronger. If you look at the cost, the biggest line item of cost is the provision in our caution; for a client who's acting in bad faith, we are in a legal process. That's the biggest element. The second biggest element is restructuring cost, which I think will have a ROI very rapidly. There'll be some near term, but more in the next few quarters, quite a bit of improvement in operational performance coming as a consequence of that.

Through early in the IPO process, we kept talking about difference between adjusted and reported. We finally said we're going to have one number, which is reported number. Our promise is to pull that. We will get that up to over 7-8%, the reported number. That's what we are at. The one-timers are one-timers, and one of them is from an abundant caution. The other one will help us improve profitability in the near to medium term. We think not only is our current operational performance better than the reported numbers, the nature of one-timers we've taken also set us up for improved profitability in the future

Vikash Jain:

I'll just add one thing to it. When we call out a one-timer, what we mean by one-timer is this is a truly one-off event in the current quarter. These are not events which will have a cascading effect or associated with this charges coming back in the next few quarters, which we will continue to call out one-timers. Those are not the ones. Like Keech called out, ERP expense is one-timer in nature because we are making those investments, but we are not calling it out as a one-timer and adjusting our profits and representing it. This is truly one-off events in the current quarter. That on a net basis had a 15 bps of headwind.

Ankur Rudra:

No, I understand. I was just saying that if you are removing the one-timer, you should also potentially remove the write back in the other income.

Vikash Jain:

We removed that. When we give that 15 bps of headwind, it is net of all of it.

R Srikrishna:

You have to look at our operational metrics. Offshore mix is improved, utilization has improved, attrition is down. These are all the drivers of operational performance, and they're all solidly positive.

Ankur Rudra:

I appreciate it. As long as you're giving guidance it will improve from next quarter, these will not repeat. I think that's good enough. Thank you.

Operator:

Thank you. Our next question comes from Prateek Maheshwari from HSBC Securities.

Prateek Maheshwari:

Hi, guys. Thank you. Good morning. I have a couple of questions. First on your outlook. You said it's a little weaker than what you expected last quarter and some of the deals that you guys thought would start, some of the mega deals that could start or could come to you have been delayed. Just wanted to understand that earlier you guys thought that probably this would be a good growth quarter. The third

quarter would be a very strong growth quarter, and even in fourth quarter, you will still grow despite the seasonal weakness. How do you think now things will pan out with the changed guidance on outlook?

R Srikrishna:

In some ways, it's a bit of a sliding scale. The sliding scale start depends on when some of these deals decide. But having said that, just basis what we already have, I think Q3 will still grow—grow reasonably well. I'll even say maybe QoQ CC better than what we grew in Q2. That is without assuming that some large stuff can happen. Even if they do, I think there's going to be quite a lag between a decision and revenue. I don't see any large deals having an impact on Q3.

Q3 will still grow nicely, will go better than Q2, but lower than what we had earlier thought. We told it will be an outstanding growth quarter, it will be a growth quarter. Q4, I think still there is some dependence on what actually happens, still depends on some of the pipeline. Bear in mind, while I said the deals are work in progress, they have all progressed. They have all moved, and we are still very much in the heart. To the extent, some of these were designed, and I already said in response to a prior question that one of the clients really has now suddenly woken up and said they want to push the pedal and accelerate decision-making. If some of those happen, then Q4 should be quite nice.

Prateek Maheshwari:

Keech, would you say that the exit would still be strong for you for CY '26?

R Srikrishna:

That's what we're working very hard towards.

Prateek Maheshwari:

One more question. Thanks for the clarification earlier on the margins. A lot of things are one-timer, and will go off. Just wanted to understand two comments you made. One is your ERP cost tapering and will not go out. Just wanted to understand whether the 70 bps of ERP cost, do you think this will completely go out in the second half, or do you think it'll be tapering is what you meant? Just on the restructuring cost, what kind of benefit do you look at from that, if that can be quantified.

Vikash Jain:

From an ERP cost perspective, as you can imagine that a company of our size and scale, a transformational program like this do take time. On the ERP, we are doing it on a phased basis. There are a lot of modules. Some modules which we went live in Q1, there are other modules which have gone live on 1st of July. And will continue to go live on a module-by-module basis. That's the reason that the ERP cost will keep on tapering down. Hopefully by the end of this year, we would have gone live by almost all the modules. That's our target.

When we give the guidance with respect to 17.1%-17.4% at the beginning of the year, at that point of time, we had said our assumption was that ERP cost will go away from H2. We are still holding to that 17.1%-17.4% despite the fact that the ERP cost is not going away completely in H2. This is driven by the fact that our operational metrics are all heading upwards and in the right direction. So that gives us the confidence.

On the restructuring cost, we can't quantify the exact number in terms of how much will come in Q3 and Q4 because we have agreed on a program which has been with the workers' council. That needs to be now on an individual by individual basis, executed with the team. I think the full benefit of that will start

accruing from Q4 end or beginning of Q1 from next year's perspective. But I'll tell you this, that the payback period for this is less than a year.

Prateek Maheshwari:

Lastly, a broader question. Just wanted to understand the acquisition of SMC Squared. Just wanted to understand, Keech, what would be the puts and takes that you would have thought about during this acquisition, in terms of build versus buy? How would you have thought about it?

R Srikrishna:

I laid out the four strategic rationale, but I'll add an important nuance. We did ref calls with customers. What I'm seeing came out consistent. They said, "Listen, we've tried BOT models with traditional outsourcing companies," and they named some of our large competitors. They said, "With them, we never felt like it's a model that works for us. We always felt like there is a tension that is going to be there at the point of transferring. That it won't be easy, one. Two, even before the transfer in the 3-year or 4-year operate phase, we felt like the team is not ours. We felt like the team is the outsourcing company's team." Thus, the client felt like, "Hey, this is a different business model. It is not an outsourcing plus converted to a BOT where I will transfer at the end of 3 years. It is fundamentally different mindset to be able to set up a GCC which is truly mine."

As a consequence, what we know as data points is that when a customer is thinking of setting up GCC, their invite list does not automatically include outsourcing companies. Their invite list automatically includes companies like ANSR and SMC. Those customers are seen as a different service and a different capability.

Clearly, in terms of downsides, there's always like, if there is a transfer, there is a down in revenue. But I think what SMC has demonstrated is that through those cycles, they've still grown. They've ramped down for some customers, but their new customers are solid enough that the net is still a growth on a yearly basis. There could be quarterly ups and downs, but on a yearly basis, they've still shown solid growth.

Prateek Maheshwari:

Thanks, Keech. Thank you for patiently answering my questions.

Operator:

Thank you. Our question now comes from Manik Taneja with Axis Capital.

Manik Taneja:

Thank you once again. Keech, if I recall correctly, last time when you shared an outlook, your outlook for the second half was driven by some of the deal wins that were already in the bag. While I do understand we've seen some delayed decision-making on both consolidation as well as smaller deals, are you also seeing slower ramp up from the deals that you've won in the past? That's question number one.

The second question is that typically in some of these consolidation deals, we tend to see upfront investments, some margin giveaways. Do you think at some point in time this becomes a headwind in the foreseeable future as and when we close that? The third question was for Vikash in terms of both the hiring and the wage hike outlook for the year. Those would be my questions.

R Srikrishna:

The first one, the two bigger consolidation deals we won, I think they're largely going both as per plan. It's true that part of confidence or lot of confidence came from the fact that some were in bag, but certainly there is expectation of more wins, especially when you have such a solid pipeline. I think smaller, mid-size deals are still happening, and there will be continued growth as a consequence. But the bigger deals have got delayed. The expectation, what we'd said of accelerated growth in Q3 and bucking the trend in Q4 was a basis, assuming... We don't have to win all of them. One, maybe two. That's the first part.

The second part, will some of these deals require some sacrifice in margins? If that is what it takes, we will happily do so. We're not quite at that point yet, but if that's what it comes to, we'll happily do so. Vikash, third question is for you.

Vikash Jain:

In terms of the headcount hire, as I said that the underlying business continues to be strong and there is a volume increase which will continue to happen. That is going to be reflective in terms of our net headcount increase. We expect to continue to add. In terms of the merit increases, we are working through the details and evaluating. We'll make an announcement with respect to that as soon as we have gone through the details and made a decision on it.

R Srikrishna:

I'll say two things. One, on headcount, our gross headcount addition in IT. We had said we'll hire between 1,500 - 1,800 people. We're actually well in that range, actually in the upper end or higher than the upper end of that range in Q2. Gross hires were, I don't remember the exact number, but they were in the upper end of that range. On merit increase, we will give a merit increase effective July 1st. We just can't tell you the number before our employees know it. We have kept that promise every year. We will continue to do so. It will be moderated from what it is in prior cycles, but we will give the increase in Q3.

Manik Taneja:

Thank you. All the best for the future.

Operator:

Thank you, our next question will come from Anmol Garg with DAM Capital.

Anmol Garg:

Hi. Thanks for the opportunity. A couple of questions from my side. Firstly, in the SMC acquisition that we have and the BOT type of contracts that we are doing or we are planning to do in this category, are these contracts margin dilutive for us or these are margin accretive? Secondly, would we be using our balance sheet to set up GCCs for these clients?

R Srikrishna:

The quick answer to both of them is no, at least thus far. On the second part, if there is a scale opportunity that requires us to use a balance sheet moderately, we will be open to do so. But that's not been the case so far.

Anmol Garg:

Understood. Secondly, wanted to understand the provision that we have taken for the client in this particular quarter to the extent of US\$9 million. Is there a possibility that there will be some more provisions in the two coming quarters or this is it for now?

Vikash Jain:

Associated with this client, there won't be any provision. In addition to that, on a quarterly basis, we continue to evaluate the creditworthiness of all the outstandings that we have in the books and make a generic provision or a specific provision which is required, which is BAU, so nothing out of the ordinary, but specific to this client that has no further outstanding in the books to be provided. Just to repeat, as I said, this is a provision and not a write-off. We are continuing to have discussions with that client and taking all the legal measures which might be there to recover this amount.

Anmol Garg:

Understood. Just one last question on more of a broader basis. If you look at the weakness right now in our company and the general industry, would you say that GCCs are gaining share and the productivity ask from clients leading to vendor consolidation deals, is that the key reason? Or the key reason still remains associated to the macros being where they are?

R Srikrishna:

I think it's macros. For us, specifically, GCCs represent a growth opportunity because whatever reduction in growth from GCC is in some ways in the books for the industry. But there is spend there, and we're not capturing any of it. I think what SMC will give us an opportunity is to capture it. Say, estimated 1,000 new GCCs to set up in the next 4–5 years. Prior to the acquisition, we don't participate in that or participate in a very spotty way. I think what this gives us is the ability to participate in a very strong way. Like I said, the normal port of call for companies that want to set up a GCC is not an outsourcing company. It is firms they see a specialist in setting up GCCs.

Anmol Garg:

Sure. Understood. So, should we take it that this is more of a cyclical trend and the growth for us should return back?

R Srikrishna:

That is what we believe.

Anmol Garg:

Sure. Thank you so much, Keech, for answering the questions.

Operator:

Thank you. Our next question comes from Rishi Jhunjunwala from IIFL.

Rishi Jhunjunwala:

Hi. Thanks for the opportunity. A couple of questions, and to some extent, it may sound repetitive. But firstly, on the SMC acquisition, just wanted to understand the thought process behind that. While financially, it makes total sense, it's EPS accretive from day one. But when we look at it, do you consider it as a capability acquisition? If yes, why? Or is it just getting entry into some of the customers?

R Srikrishna:

I thought I addressed it, but I'll do it again. But to that, I want to add one point to the prior question on cyclical versus structure. I think the biggest proof that it is macro is if you look at our numbers by vertical.

M&C is minus 11.5%. That's all macro. That I think is the biggest proof point that our weakness is macro-relative.

Back to SMC. Some of what I'm going to say will sound repetitive. We think setting up of GCCs is different from an outsourcer agreeing to do a BOT model. That's the most fundamental reason why we think this is a capability. Now, I think a lot of people assume that all it takes is to agree to a BOT model with a client, and that will put you in the lane for setting up their GCCs. What we discovered through engaging with SMC and researching the market is, that is not true. Customers want firms who they see as specialists in setting it up. They will not present firms that don't present a conflict through the process in how they hire people, what salaries they pay them, how they brand the site, resistance, potentially at the end of it for transferring. Now that, they see as coming naturally to outsourcing firms. They see coming naturally to firms that do BOT. That is why we think it is a material new capability. ANSR is a good example. Actually, the person that is there in every one of our GCC deals with SMC is actually ANSR. It's not other outsourcing firms.

Rishi Jhunjhunwala:

Fair enough. Secondly, some of this tempering down in outlook, how much of this is attributable to some of the ramp up in consolidation deals that we were supposed to see in 3Q and 4Q versus the rest of the business where the underlying macro has actually weakened versus where we were 3 months ago?

R Srikrishna:

I think the latter is a smaller impact in that some of the mid-size deals are also slightly slower on decision making. Let me give you an example. If you look at our Others line item, you will see actually it's dropped. Licenses have dropped quite a bit, QoQ. Why? Because people have simply postponed capital expenses. There is some of that. But I think the bigger impact is the larger deals. Before the larger deals decision, it is also macros. People want more clarity on their own business outlook before they make long term decisions on changing partnerships. Both are linked to macro.

Rishi Jhunjhunwala:

Got it. Thank you. All the best, Keech.

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 all for returning again early in the morning. I look forward to speaking to you all again as a group next quarter and meeting some of you during the course of work. Thank you.

Operator:

This concludes our conference call. Thank you all for joining us and now you may now disconnect the line.