



# “Hexaware Technologies Limited Q4 FY16 Earnings Conference Call”

**February 07, 2017**



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February 07, 2017

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Hexaware Technologies Limited Q4 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani. Thank you and over to you, ma'am.

**Latika Gidwani:** Thank you, Janis. Good evening to you all. Welcome to the Hexaware conference call. From Hexaware we have with us Mr. R. Srikrishna – CEO & Executive Director; Ashok Harris – President (Global Delivery); and Mr. Rajesh Kanani – CFO.

We will run you through a short presentation through the webinar. That presentation is already updated on the investor section for the Hexaware website. The Safe Harbor Statement is also available on the Hexaware website, so I shall take it as read. With this, I hand over to you.

**R. Srikrishna:** Hi! Good evening, all. Thank you for joining us today. Like Latika said, we have a presentation on the WebEx, I know that. At least some of you are not in the WebEx but are on the call. Unlike in most quarters there are couple of slides at least that I think it may be worthwhile for you to have access to looking at the slides, it comes a little bit later. So if you have an opportunity please do either log into WebEx or look at the presentation offline from our website.

With that, I would dig into our numbers. We had a reasonable quarter. Last quarter I said that we have our usual seasonal challenges of furloughs and calendar impact, but we do expect to have volume growth and it may result in some growth on quarter-on-quarter basis. But no matter what we will have solid YoY growth. So what happened, I mean, well, we had reasonable quarter-on-quarter growth on the back of solid volume growth and we had a good year-on-year growth too. From an EBITDA perspective, we have our usual kind of calendar, furlough both impact profitability but additionally we

February 07, 2017

also have the full impact of offshore wage increase in Q4 and onsite wage increase starts in Q4 on October 1st. So all of that came in but yet we were able to arrest material decline in EBITDA, but we had absolute growth and a little bit dilution on a margin basis. And of course, PAT we had smart gains in FOREX, good hedging policy and we had a solid growth in PAT. Below the revenue line, our growth from EBITDA and PAT and all other metrics were very solid from a YonY perspective, this is again something that we had spoken about as something that will happen last quarter.

The slide five, for those of you that are offline, talks to where the growth came from. Like I said, it is underlined by volume growth. If you do look point 135, the start point, really there was \$8.5 million almost added due to volume. And though we lost about close to \$4 million due to calendar and furloughs, after a number of quarters we actually reversed the trend on offshore/onshore ratio, so we have actually more grown offshore than onshore which also had a net negative mix. And FOREX, though we gained, the hedge we lost in on a revenue perspective primarily due to cross currency impact, but coming from Pound and Euro. The bill rates were flattish, it has been largely a little bit up or little bit down. So that is on revenue.

And if you look at it from a margin perspective you will see a number of red columns here. Well, we have not called out furloughs but that is also there, there is the incremental increment over Q3 which was the full impact of offshore and onshore started in Q4, that was there. We also had good set of wins in Q4 and Q3 on new deals and a number of those resulted in a higher than normal transition cost, material enough for us to call it out. And then there was like a one-time employee provision that was made. And all of these are really negatives but we then managed margins by substantially improving utilization. So effect there was a little bit drop ultimately but not anywhere we are what it was same period last year which resulted in a smart YonY growth.

Finally, we have been speaking about some operating leverage through our SG&A and we saw some of that play out in Q4. While the absolute spend did

February 07, 2017

not really change, materially from a BPS perspective that reduced because of increased volumes.

Slide seven would show movement of top-20 customers, this is revenues for the quarter. We are now beginning to see kind of more action here. The top in on this list, top skin care lines is actually net new client that got acquired in either Q2 or Q3, I do not recall, but one of those two quarters, it was within 2016 and it has already moved into the top 20, that is good for us. The other three were actually customers that were below existing clients but that we mine better to climb into the top-20.

The following chart, the same chart that we present always, a one year view of how customer relationships, the pyramid has changed and I know there is some kind of questions about it, especially in Q2, a little bit in Q3. So spend a minute going over this. Let's start the second bucket, \$30 million to \$50 million, there were three there; two went up with \$50 million plus which is good, one went down to the \$20 million to \$30 million which is not good. And if you look further down, the \$10 million to \$20 million, one went up in the \$20 million and \$30 million which is good and one went down. And if you look at the bottom of the pyramid, we have had solid growth which we think forms the basis for a solid account base for us to grow in the future, both greater than one and more importantly the one to five-category have all shown growth.

We won \$55 million roughly in new deals and in wins in Q4 which then puts our total year at about \$153 million for 2016 as opposed to \$120 million in 2015, which is good. We do expect that we are still building and improving our hunting capability and we do expect that on a yearly basis the trend will continue. We continue to say do not read too much into a quarter, we had a good quarter it does not mean next quarter will be \$55 million or above, it could be lumpy by quarter but on a yearly basis we expect to see this number to go north. The good thing about the three deals in this quarter, two in Shrink IT and one in Grow Digital, very consistent on our strategy. More importantly, two out of three deals were very consistent with another

February 07, 2017

element of our strategy that we want to go after incumbency and especially in Shrink IT that we think we can take away market share by bringing in automation at the time of renewal. And two of these three deals were won from top three IOP, there were current clients in top three IOP. And the third one, there was no incumbency but we won against top-three and then some other competition as well.

Employee metrics from an attrition, it is stable, we are continuing to see roughly in the 16 zone. This is an all-in number, this is the way we have reported always, we do not like losing employees but we are kind of okay where it is. Utilization on the other hand was a sharp upswing, it helped us manage it up because it helps us overcome the seasonal challenges of Q4. We do think this is a little bit high, so we may dial it down a tad. We think just at this level we may not be able to adequately service our customers within a velocity.

From a geography perspective, North America continues to lead growth, you are seeing a negative QonQ on Europe but that is all currency. If you adjust for currency, Europe grew 3.3% for the year and 3% quarter-on-quarter and also close to 8% YonY. So it is not as good as North America but it is not, really majority of issues surrounding Europe are currency, and we are hoping it soon finds a bottom. APAC on the other hand, I have been saying for some time that here we have crossed the U-turn, so that continues and we do expect to see actually APAC outperforming company average in 2017.

From a vertical perspective, for this particular quarter healthcare and insurance did the best. Travel transportation on the other hand had a sharp fall, but you got to see that in conjunction with the sharp rise it had last quarter, so we are okay. Again, from a 2017, more long-term perspective we expect BFS, like it has been for the last two years, to outgrow company average. We expect travel transportation & healthcare insurance to be roughly at company average and we expect MnC and others to round out and be the one that is below company average.

February 07, 2017

From a horizontal perspective, for the past number of quarters now IMS and BPO have been the fastest growing two horizontals which is a direct proof point of our Shrink IT strategy. BPO business has more cyclicality in Q4, it still grew a little bit below company average but it still grew. But you see the YoY growth is very strong in the BPO business, 32% on a quarter, quarter four to quarter four comparison, and 31% on a full year to full year comparison. IMS on the other hand continued solid growth on quarter-on-quarter just across the board and you will see on a full year basis IMS and BPO growing roughly similar, 31% and 33% or so. The one that is consistently kind of been a little bit challenged business is enterprise solutions, you do see on a full year basis it has come down 2.8% and that essentially is underlined by clients moving to cloud and even if we capture the client's movement to cloud the revenues are lower than what it used to be in the legacy.

I would actually, we have added an additional section on impact of changing environment and it is both to kind of give you proactively our view but also then I would anticipate there are at least a handful of questions on this topic. So we are going to give our view, we are also going to give you plenty of data on Hexaware so you can write assumptions in whatever models you would do. So, summary here, and actually I will stop with the summary and then go to the number slide where there is a little more data here. I think the most important aspect of summary is there has been no execution action or legislations filed yet. At least in pockets there is some confusion that this is already done, but it is not. And second thing is that executive action cannot really impact most aspects of H1B, in fact to the best of our knowledge what it can impact is OPT timelines and H4 Spouse Visa both the which Hexaware has virtually no exposure to, or a very little exposure. Any important changes about salaries and limits and process and everything else has to follow legislative action which much like anywhere else in the world is a slow tough process, legislative process, it has to go through two houses, there are two competing bills, one by Democrats which we think has much lesser chance of anything happening, it is opposition party plus it represents a very narrow interest group, Silicon Valley favors them more than anywhere else. The other

February 07, 2017

are bipartisan but the same two people have placed similar bills that I think were passed in the past. That does not mean that we believe there will be no changes, there could be, which certainly will be kind of foolish not to expect there will be nothing. But there are somethings that we want to highlight that we do think that, changes if any, will be prospective. So this whole question of what is the impact due to our current employee population, we think it is not valid. Any impact, if at all, will be on incremental.

The second thing we want to point out is that our 2017 supply pool for H1B is already secured, they are already with us, their petitions are already approved at the current prevailing law of standards. They got approved in October and then we wind up deploying them over a 12 months period, because we do not get fresh approvals till next October. So 2017 is done, or at least the first three quarters is done. 2018 likewise, unless there is new law that comes to being before April 1st and will it make assessments but we think the likelihood of that happening is low, unless there is new law that actually comes in place before then, we would actually petition for 2017 also by April 1st and that on the basis of those petitions 2018 supply cycle will also be largely secured. So essentially, we are talking about like a close to two-year runway in which we will have plenty of time to adjust our supply strategy.

So, these are some little more details on what we think may happen for those of you that are looking at the slides, slide 17 and slide 19. I am actually going to spend a minute or two on slide 18 and this is the point where I think for those of you that are not looking at the deck you may find it useful to look at the deck. So, we have got a lot of data here, the left most is the just the Visa types. The next three columns are total cumulative numbers, these are total counts as they exist as of December end 2016. The last three columns are with incremental counts for 2016. The reason we pointed out incremental for 2016 is that will become apparent, but most importantly like I said we think changes will be prospective and hence looking at incremental changes i.e. is more valid for looking at future impact.

February 07, 2017

So, with that explanation, on the fields cumulatively we had 46% of our employees on H1, 17% on L1 and 37% on Citizens and the Green Card others. Now, you see that what we added in 2016, we have materially reduced our dependence on any type of Visas. So H1B has gone down from 46% cumulatively to 43% incremental. Likewise, L1 has gone from 17% cumulative to 12% on the incremental. So on an incremental basis you see that we are pretty close to that half way mark and I see even the half way mark is only referring to H1B which we are comfortably kind of on the other side of. A more interesting aspect is the salary data, so what we have done is to baseline cumulative numbers as of 2016, H1 at a 100, and if that is 100 then L1 is also at 100, I will round off errors in those two. Local hires, Citizens, Green Cards were at 109, so there was a 9% premium on ongoing basis. Now this 100 does not include the cost of Visa processing and really if we include that that will really become something like 104 if we take a two year or a little under two-year tenure. The interesting numbers are in 2016, in 2016 the H1 is at 97 and the local hire is 88, so actually you see that the local hires are roughly 10% less expensive than H1 in 2016 for the people we added in 2016. And we have also provided the count of how many we added under each category in 2016. Now to be clear, the skill pools in citizen, GC are not comparable strictly to the skill pool in H1, so there are different skill pools but these are the average numbers. But part of segregating the skill pools and managing, hiring accordingly is a clear demonstration of strategy already being pursued to increase local hiring, reduce dependence on H1s and also then do it in a way that did not in 2016 negatively impact our cost profiles. And in general, we think this trend of 2016 of reducing the dependence on H1 will continue. We have been investing in expanding our channels of fulfillment and we will accelerate that, especially with increased focus on the requirement from colleges. It helps for us that most of our US employees are centered around two zones, two of our centers in Atlanta and in Virginia, both of which have a rich wave of educational institutions.

I am going to now... I am sorry, actually before handing over to Rajesh to dig a little bit deeper on the numbers, I am going to paint a little bit picture for

February 07, 2017

2017 like we did at the beginning of last year. The revenue growth we expect it to be on constant currency at 10% to 12%. We expect the EBITDA growth to be in line with revenue growth, the absolute numbers of EBITDA will also hence grow in this zone of 10% to 12%, which means our full-year margins for 2017 will be in line with full-year margins for 2016. Obviously at this point we are a little bit ahead on the run rate in Q4. We have a top-five client that decided to in-source their work. The impact of that is already included in this 10% to 12% guidance, so this is post that, without that we would have grown better. The impact on this client, the revenue impact will come more in H2. What we have not put out here is that in general the revenue pattern will continue to be a little bit in that hat shape, like we said last year, with a good chunk of the growth coming in the middle two quarters, Q2 and Q3.

And finally, dividend payout, we expect it to be in line with Q4, which is what we said last time too that we expect to continue this, which is kind of a happy compromise to kind of build up some capital, but also return money on a quarterly basis.

Finally, on the quarter, Q1 itself. The commentary is similar to Q4, in that there is some seasonal, there is not enough furloughs, there is little bit furloughs that often carries over into few day of January, but not anywhere like in Q4. But that is a calendar for the reduction from Q4 to Q1. It is always there, so there are some headwinds, but again we expect volume growth, like in Q4 we expect volume growth to happen in and through Q1. And we will see kind of where it lands from a QonQ perspective, but certainly on both revenue and EBITDA we expect to have very smart YoY growth.

With that, I am going to turn over to Rajesh.

**Rajesh Kanani:**

Thank you, Keech. So, I will have financial update. I think as Keech said, revenue for the quarter is \$138.9 million, this is an increase of 2.7% QoQ and 12% YoY. Q4 2016 constant currency revenue is around \$139.9 million, 3.4% QoQ and 13.2% YoY. INR terms the revenue is Rs. 9,409 million for Q4 2016, 4.1% QoQ growth and 14.8% YoY growth.

February 07, 2017

Since Keech has already given a walk on gross margin and SG&A, I will go into the balance sheet items. To start with hedge positions, we have \$151.41 million worth of hedges over a period of eight quarters, out of which measured in USD and INR, \$141.82 at average rate of Rs. 72.57. And then we have Euro-INR and GBP-INR, \$4.2 million, and average rate is for Euro-INR is Rs. 81.26 and GBP is Rs. 101.71. To look at the FOREX gain/loss which will come in the P&L in quarter one and quarter two, again there is a handsome gain, \$770,000 and \$1.05 million, at an exchange rate of Rs. 67.925. Another balance sheet update, cash and equivalents, we have \$65.99 million, again a healthy balance. And this also includes buyback amount of \$20.5 million. As far as DSO is concerned, we have one of the best DSOs in industry that is 43 days and 68 days, including unbilled. We have declared dividend of Rs. 1 per share and the outflow would be \$5.35 million, in rupee terms Rs. 364 million.

CAPEX for the quarter was \$9.2 million and YTD we had \$33.1 million. As we have said earlier, it will be \$42 million. So there is a \$9 million spillover from 2016 to 2017. So CAPEX for 2017 is \$24 million, including \$9 million spillover from 2016. ETR is 25.1% in Q4 2016 versus 25.8% in Q3 2016, largely due to higher revenue and profit in SEZ, 100% SEZ.

With that, I will hand over the floor to question-and-answer session.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Manik Taneja from Emkay Global. Please go ahead.

**Manik Taneja:** I just wanted to prod you further with regards to the outlook within our larger customers, if you could help us understand that? And in addition to that, if you could give us some sense into one of the top-five customers' plan to in-source, if you could give us some details around which vertical would this client be and do you think we could expect this to become a more of a sector wide trend? That is question number one. The second question was with regards to a data that you shared on the on-site staff, if you could help us understand how our base salaries stack up currently?



February 07, 2017

- R. Srikrishna:** Sure. I will just deal with last one real quick, the 100 is \$83,000, so you can do the rest of the numbers, the 100 is \$83,000. On the in-sourcing, I mean, can that happen more? I do not know. There is always gone through phases of one other. We have not seen any major moves from our clients in any material scale expect this one. We have not seen talks of any material ones except this one, and this one is in the GTT vertical.
- Manik Taneja:** And if I can ask you one more, we have seen significant investments from our side on the SG&A side since you took over, in the current quarter also one has seen some of the SG&A leverage come through. Should that not continue going forward or you think there is more need to put in more investments into the business?
- R. Srikrishna:** Our thesis at the highest level is still revenue growth led value creation, right. So we are not in a hurry to squeeze margins out through SG&A leverage. There will be some that happens naturally, we are continuing to invest. I did not put it in the slide, as an example we hired a CTO who joined us on 23rd December. So we will continue to invest in the business. It just is not going to be at the same rate that we did in the past.
- Moderator:** Thank you. We have the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Two questions. Was there any positive surprise during the quarter and what was leading to that? I know you talked about a pretty good volume growth, but from overall revenue point of view do you think there was a positive surprise?
- R. Srikrishna:** No, I mean, well there was one deal that we won which is part of what we spoke that actually ended up yielding revenue within the quarter itself which was not anticipated. And it usually does not happen, right, but this deal kind of structured, I mean they were on a hurry to get out of the incumbent. And so there were some revenue realization in Q4, that was a positive.



February 07, 2017

**Gaurav Rateria:** But does it mean there is some amount of preponement of revenues which have happened from next year's?

**R. Srikrishna:** No there was no preponement, actually they were in a hurry to get out of the incumbent. So there was rapid transition that happened. Did not get completed but a good chunk happened in Q4, so we saw some revenue realization in Q4. There was no advancement of revenues.

**Gaurav Rateria:** Keech, secondly can you give some color in terms of the large client where you have seen the in-sourcing is going to happen in the second half in terms of how big the project was in terms of either the number of people or revenue front, some color on quantitative terms?

**R. Srikrishna:** I mean, it was kind in the top-five, it was higher than our top-five, it was pretty much towards the bottom. And not everything that we are doing for them is going away, so we were doing two big chunks of work, there is work on IT and there is work on engineering and product development. The product and engineering work continues, the IT work is the one that's been in-sourced.

**Gaurav Rateria:** So, do you also build in some amount of margin impact because it is a matured client, a large client and typically those clients have higher off-shoring component and better margins than the company average?

**R. Srikrishna:** Yes, I mean we have kind of built that in into what we said in the outlook that our EBITDA growth in absolute terms will be in line with revenue growth. I mean, clearly, at this point we are already ahead of that equation, right, from a full-year perspective our Q4 is better than full CY 2016, and we are saying we will be at full CY 2016. So, some of that is budgeted. But having said that, the particular portion of business that is being in-sourced was not materially higher than company average, it was, but was not materially higher.

**Gaurav Rateria:** Last question, what do you attribute the margin decline in 2016 to and do you think there are some structural factors which cannot change or do you think there are some factors which could change in 2017 and then you could plough back that into the business?

February 07, 2017

- R. Srikrishna:** I mean, I think you got to look at the 2016 overall picture does get colored quite a bit by essentially last year Q4, and hence where we started this year and then further challenges in Q1, right. So, really there are two worlds, there is a Q1 world and there is post Q1 world. Really if you look at what is the rationale, the big thing behind the margin performance was really last year Q4 and this year Q1, and we are in a deep hole to climb out of. You guys can do the math, our exit our quarterly EBITDA of Q4 was lower than our full year EBITDA for 2015. So that was kind of a hole what we had to climb out of, and then it reduced further in Q1. The only other kind of structural, if you will, that happened is that our onshore business grew faster. And some of that continued, we have said that will slow down, it would not change but the pace will slow down and you are already seeing it slow down.
- Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir, in terms of the in-sourcing, is the work going back to the captive or is it going back to on-site?
- R. Srikrishna:** Captive.
- Madhu Babu:** So is it a part of some digital or something which is more of a core to the business, which they want to keep it in-house?
- R. Srikrishna:** Listen, I unfortunately would not answer more because I will put their confidentiality at risk.
- Madhu Babu:** Okay. And sir, in terms of IMS, the growth has been pretty strong. So how has been the execution from the platform strategy, I mean with the reference clients are we going to see further impetuous in this service line next year?
- R. Srikrishna:** We certainly hope to sustain growth rate in this business, yes.
- Madhu Babu:** And most of it is from new clients, the growth?
- R. Srikrishna:** We do not have a lot of legacy, that is true.



February 07, 2017

- Moderator:** Thank you. We have the next question from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.
- Bharat Shettigar:** One clarification, if I look at your release, it says 26% of the workforce is on-site. How does that reconcile with the 1,687 number of employees that you've mentioned in the presentation?
- R. Srikrishna:** We have contractors.
- Bharat Shettigar:** The rest are contractors, okay. And any sense that we can get about the average salaries there for contractors?
- Rajesh Kanani:** It will be much more than \$100,000.
- R. Srikrishna:** Yes, it is higher than....
- Moderator:** Thank you. We have the next question from the line of Abhishek S from Equirus. Please go ahead.
- Abhishek S:** Just a clarification on the healthcare growth, I mean, this quarter has been good on a sequential basis but looking back four or five quarters the growth has moderated from double digits on a YoY basis to 6%. I mean, any commentary on how do you see this spend happening with the proposed changes, especially in the US? Any commentary would be helpful. Thank you.
- R. Srikrishna:** Sure. So I just restrict it to impact on Hexaware portfolio. We do not have a lot of exposure to segments directly impacted by potential changes in ACA. We have a little bit, but not a lot on payers and even smaller on providers. So these numbers are not as a result of potential changes to ACA, there are other factors at play. In fact, the majority of our H&I business, the much stronger focus is, I mean, much stronger revenue pool is from insurance. And actually we have a little bit outsized presence relative to rest on UK insurance which has a Brexit impact.



February 07, 2017

- Abhishek S:** So, would it be fair to assume that based on the TCV deals that we have on the books the growth rate for this particular vertical could accelerate going ahead into 2017?
- R. Srikrishna:** So, in general, I already said this right, we expect BFS to grow faster than company average, we expect travel transportation, notwithstanding that client in sourcing, which is in travel transportation. We expect travel transportation and healthcare initiatives to grow roughly at company average and then M&C and others to round off below company average.
- Rajesh Kanani:** And just a clarification, so the moderation in healthcare portfolio is more because of it is related to Hexaware rather than the industry-specific issues happening in the US, that is correct, right?
- R. Srikrishna:** Correct. So it is not to do with healthcare issues in the US. There is a little bit, but there is a bigger due to Brexit because we have a strong insurance portfolio in UK as part of this.
- Moderator:** Thank you. We have the next question from the line of Abhishek Jain from SKS Capital. Please go ahead.
- Abhishek Jain:** Sir, I want to understand what is the average salary paid to our H1B employees at this point of time?
- R. Srikrishna:** So, I am sorry, I gave that answer. If you have a look at that chart, which is Slide #18, it has all the numbers base line to 100, and 100 is \$83,000.
- Moderator:** Thank you. We have the next question from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Keech, first question is, apart from the visa and the immigration are you worried based on your discussion with the clients that whatever been going on on visa and immigration, the client may be more conservative in terms of releasing the IT spend or making decisions on the IT deal awards?



February 07, 2017

- R. Srikrishna:** I think it is early to assess that. What I would say is there is some confusion and the confusion in part is due to kind of lack of clarity in media. There is some people projected like this law is has passed or executive action has already happened which is going to the change the world. So there is a little bit of confusion as much as you would have realized that we have very deliberately taken a stance of being as transparent as possible in providing you as much information as we can. We are doing the exact same strategy with our employees and our customers and we are proactively reaching out to them to educate them on our view and what it means for us. And essentially what we are telling them is, hey, it does not in any way impact our ability to service you for the foreseeable future.
- Sandeep Shah:** So on a QonQ basis so you did not see any material change and your guidance also not factoring any kind of a big negative surprises here?
- Rajesh Kanani:** Correct.
- Sandeep Shah:** Okay. Keech, in terms of margins, I think you alluded earlier that Q4 run rate better than the full year and Q4 run rate to some extent apart from utilization also driven through offshore shift as well as SG&A. So, although all these three levers plus productivity and automation, don't you believe that margin may have a more upward bias rather than at least a flat or a downward bias. I am not asking a guidance but qualitatively is it the right assumption to look where you can say that these structural levers are now started and may have a gradual improvement going forward?
- R. Srikrishna:** So, the utilization, I already said actually it is our desire to dial it down a little. I have said that in the past that we do not want to push it up to high 70s. We did it in Q4 to manage the seasonal headwinds, but we will dial it back down to what we think are more sustainable levels. But on the other hand, the offshore increase at least at this current level is sustainable and our pipeline has a good mix of offshore heavy deals going forward too. And SG&A, like I said, we are not at a stage where we want to harvest the business, still our team is to grow by top-line growth, so we will continue to invest in the

February 07, 2017

business. So all put, we kind of feel good about the full-year numbers at the full year level, obviously we are starting off ahead of the game there unlike last year where we started off substantially behind the curve.

**Sandeep Shah:** Just last few things. The slide has shown that the wage inflation impact is 60 bps, while this quarter had a full impact of the on-site wage inflation as well as partial wage inflation on offshore. So my estimate says that the impact could have been higher. So what has happened? Is it the selective hikes or there is some deferrals or there has been a change in terms of an appraisal process?

**R. Srikrishna:** No, none of the above. There has been no selective, there has been no deferral, nothing.

**Rajesh Kanani:** Quarter three also had increment.

**R. Srikrishna:** Quarter three had cumulative impact in Q3 and Q4. So really quarter three had a good chunk of impact for offshore. There are some incremental impacts for offshore in Q3 and Q4 and it has the Q4 impact. Do you remember, Rajesh, upfront Q3?

**Rajesh Kanani:** We can look and tell you during the call if you like, but Q3 had an impact. We had cumulated both.

**Sandeep Shah:** And Keech, just last thing on the dividend outlook we have said in CY17 we can maintain the Q4 dividend payout. So this is over and above the effect of the buyback, which will come into play in CY17 numbers. So, in total the cash distribution would be higher than what we have seen?

**R. Srikrishna:** Correct. So, yes, that is correct. This year we will have, really buyback for us was kind of upping the payback for last year, but the execution is really into this year. So we will pay that and we will pay the dividend cash. And so we have kind, our cash position you will see is pretty strong. And 41 bps was the Q3 impact on wage hike.

**Moderator:** Thank you. We have the next question from the line of Ashwin Mehta from Nomura. Please go ahead.



February 07, 2017

- Ashwin Mehta:** Keech, just reconfirming on what you said, so essentially what you are saying is that 1Q this time around might not see the sequential declines, typically that we see in 1Q. Would that be a fair understanding?
- R. Srikrishna:** Okay, let me repeat what I have said. We have a little bit of seasonal headwinds in Q1, predominantly calendar, slight over flow from Q4. On the other hand we do have volume increase, we will have volume increase. So we will see which winds out, we will see if there is good quarter-to-quarter growth. I would say the chances of negative QonQ growth are limited, we just see if you have a decent positive QonQ growth. But no matter what happens, we will have solid YonY growth.
- Ashwin Mehta:** Secondly, in terms of SG&A we saw a smart reduction as a percentage of sales, not necessarily from an absolute perspective. But do you think these levels are largely sustainable?
- R. Srikrishna:** We will invest and continue to invest. But what I think we will do differently from the past is that we will make sure that investment does not get ahead of revenue growth.
- Ashwin Mehta:** And just one last clarification. So, you indicated that your average salaries on H1s is closer to around \$83,000., Now if I look at your LCA filings, that seems to suggest closer to \$72,000 average. So does this include your ESOPs plus the variable compensation portion which kind of takes it to the 83k?
- R. Srikrishna:** No, does not include any of that, in fact in does not even include the cost of applying for the visa. You remember that our H1B pool is not only from LCAs that we apply for, we also have a number of lateral H1 hires which actually come in pretty much at market rate. In fact, that is higher than the new bill, at least one of the new bills, the 100 K bill, those tend to be higher than that already. It is a mix of both of those pools.
- Ashwin Mehta:** So basically H1B transfers would not fall part of those LCAs?

February 07, 2017

**R. Srikrishna:** Correct. Actually it should, I am not sure whether eventually the transfers also there in LCA. But I suspect you may be looking at the original petition that we filed. Yes, typically the hiring of H1s in the US, we are probably somehow close to \$100,000.

**Moderator:** Thank you. We have the next question from the line of Neerav Dalal from Maybank. Please go ahead.

**Neerav Dalal:** I just wanted some more comment on the on-site/offshore mix. Where do you see this settling down over the next couple of years?

**R. Srikrishna:** What is our desire is to kind of keep it ranged bound at current levels, plus/minus a little bit is our desire. But if you see more business onshore, we are not going to walk away from it. And I think we have amply demonstrated that even though quite a bit of increased onshore business it has been kind of resulted in margin pressures that you would expect, in part because we have pretty smart bidding rates and the work we do is pretty complex.

**Moderator:** Thank you. The next question we have Jay Doshi from Kotak Securities. Please go ahead.

**Jay Doshi:** Just a small question, again, a clarification on this. You mentioned that \$83,000, so does that number include social security taxes as well?

**R. Srikrishna:** No, this is just wages.

**Jay Doshi:** And even the LCA filings do not include that, is that correct?

**R. Srikrishna:** It does not. I want a quick question, any one or two of you would be useful to get a feedback. Are you happy with this level of information and transparency on the topic?

**Jay Doshi:** Yes, definitely, it helps a lot.

**R. Srikrishna:** Any other one or two quick views on this? Oh, they cannot speak. Okay, that's fine. I believe there are two more questions, we will take those. But we will

February 07, 2017

appreciate your feedback, you can write to Latika, just let us know. We are very committed to trying to give you as much information as possible because I think actually that there is a lot of confusion around this topic, more noise than anything else. So we are trying to remove it by just giving you facts, and we will continue to do so. So if you want more, let us know, okay. And we will take the two more questions.

**Moderator:** Sure. We have the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Keech, we certainly appreciate the data on H1B and obviously more transparency the better it is. So just wanted to understand on the revenue guidance of 10% to 12% that we have given, I mean is it possible to really quantify the impact that we are talking in the second half from the travel and transportation client?

**R. Srikrishna:** Yes. The impact in terms of percentage are at current run rate, and obviously that impact will keep contracting as we grow our revenue base. But the current run rate will be about, if we had a full year impact which we do not for this year, we have half-year impact for this year, be about 3%.

**Apurva Prasad:** So just wanted to clarify, that is 3% in the half year of current of 2016?

**R. Srikrishna:** Yes, 3% or so, if we had a full-year impact. So we only have half-year impact.

**Moderator:** Thank you. We have the next question from the line of Nidhi Bengali from Arete Services. Please go ahead.

**Nidhi Bengali:** I just want to ask one question. If it all in the worst case scenario the executive bill is being passed for, let's say, \$130,000 of minimum wages, then how much can be the impact on the margins two years down the line? You were saying that you have already secured for two years, the employees are already on the payroll. So after two years how much could be the impact?

**R. Srikrishna:** So, I did clarify, executive action cannot change that, it has to go through legislative action. And our current view is that that 130k bill is a highly unlikely

February 07, 2017

scenario. So we do not want to kind of put out numbers or whatever on the basis of that. In any case the biggest thing that will happen is the change of supply strategy. So to do numbers, extrapolate numbers based on current supply percentages will really not be a worthwhile exercise. And we have already demonstrated an ability to shift supply strategy even in 2016 even though there was none of this being spoken about.

**Moderator:** Thank you. We have the next question from the line of Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah:** Keech, you said that the changes would be prospective rather than be retrospective. But just a qualitative thought that in that scenario how there would be differentials to be maintained for wage levels of the earlier visa holders versus a new visa holders? Or do you mean to say that then the option is to hire more locals versus the incremental new visa holders? And in that scenario also the wage pressure may come more in terms of the locals?

**R. Srikrishna:** Right. So, two things I will say. First is, yes there will be more mix of local hiring and I have already shown you our 2016 incremental hiring, our local hiring was actually at lower cost than H1B. It is different skill pools, but that is how we will target it. We will differentiate skill pools, what we can hire better from where locally and manage our overall cost pool that way. But more importantly, you should realize that wage differential already exists. There was a question from someone I can't recall, just a few questions ago that your average salary we are seeing is higher than the one for the initial LCA filing. That is because the laterals we hire in H1 are materially higher, there are at that \$100,000 range. So that wage arbitrage already exists. Somebody that goes first time on an H1 and if he or she decides to change jobs, there is currently a wage arbitrage. So it is not a different scenario that will happen in the future.

**Sandeep Shah:** But for the local you believe that talent scarcity would not be a hurdle?



February 07, 2017

- R. Srikrishna:** I think the talent scarcity is an issue at the higher end of skills. I think there is just an opportunity to invest in training and create enough at the lower and middle ends of the pyramid.
- Sandeep Shah:** And just a clarification, the full-year wage inflation in CY16 was 100 bps close to, right?
- R. Srikrishna:** Yes, I mean the Q3 plus Q4 was that.
- Rajesh Kanani:** That is right.
- Sandeep Shah:** Thanks, Keech. I think the disclosures are really helpful and I think one of the few who has given this kind of a detailed disclosure. So it is really helpful.
- Moderator:** Thank you. Well, sir, that was the last question now.
- R. Srikrishna:** Wonderful. Thank you all. And talk to you next quarter.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Hexaware Technologies Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.