# Hexaware Technologies Limited

# Q2 2013 Earnings Conference Call

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**Moderator:** Ladies and gentlemen good day and welcome to the Hexaware Technologies Earnings Conference Call. As a reminder for the duration of the conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Ms. Latika Gidwani. Thank you and over to you ma'am.

**Latika Gidwani**: Thanks Lavina. Good evening and welcome to the Hexaware Q2 Earnings Conference Call. The Safe Harbor statement is there with the press release and is also available on the Hexaware website, so I will take that as read. From Hexaware, we have with us today, Mr. Atul Nishar – Chairman; Mr. P. R. Chandrasekar – Vice Chairman & CEO; Mr. R. V Ramanan – Executive Director and Head, Global Delivery; Mr. Rajesh Kanani – CFO; and Mr. Sreenivas – Chief Strategy Officer. With this, I hand over to Mr. Atul Nishar.

**Atul Nishar:** Good afternoon to all of you. I appreciate your interest in Hexaware and for your time to join in this call. Let me give a brief summary. This was a quarter where there was all-round good performance on practically all the financial parameters. We saw during the quarter the order book improving, the pipeline strengthening further, the momentum for growth improving that reflected in the volume growth of 1.5% during the quarter and that also reflects in our confidence for guidance for Q3 at a growth rate of 3.5 to 5.5% growth.

That was also reflected in the new client acquisition at a higher level of 14 new clients during the quarter. On the margin front, this was especially a very good quarter. Our gross margin improved by 170 basis points to 39.4%. The EBITDA margin improved by 440 basis points to 23.7% and the PAT margin improved to 18.2% that is by 260 basis points. So on all the margins, this was a very good quarter and of course Sekar will give you more idea on how he sees this later on going forward.

I would also touch upon the dividend payout policy that we have been following for the last 3 years. The dividend distribution has been at 50% or more. This is the third consecutive year. In the beginning of current year, we had announced that the Board had decided that we would give dividend distribution of approximately 50% of the PAT. In line with that since the profit has been higher at just under 98 crores, we have increased the dividend to 70% with a payout of exactly 50%. This liberal dividend policy also reflects in our return on equity increasing on a regular basis which is now at 35% at the end of Q2.

Another area that I want to address is the DSOs. The DSOs went down to 47 days and what I would like to emphasize is that this level of DSO which is clearly amongst the best in the industry and that is what we have been consistently achieving for now several years clearly demonstrates the execution excellence that we pursue at Hexaware, the delivery efficiency and also very competent account management across the company.

So with these few comments, I would like to sum up saying that we are all happy with the way this quarter has ended and over to you Sekar to give more color to what I have just said.

**P R Chandrasekar**: Thank you Atul. Thank you all for joining us today. I know that the last two days have been hectic with a lot of results. Good news is I think solid performance across the board, so it is nice to enter an environment where the outlook for the sector looks a lot more positive than it did some time ago.

As Atul mentioned I think for Hexaware, Q2 can best be described as a solid quarter. In terms of revenue, we came within our guidance. We had already mentioned that the numbers would be based on what we saw at the time at the beginning of the quarter and that held through. The good news is going forward the outlook is better, but I will talk about that a little later but overall the reason we feel good about this quarter is 1) revenues were within guidance 2) the pipeline build up during the quarter and preceding this quarter has been steady. The pipeline has been good in the US, particularly satisfactory is that in Europe where we have had mixed results for the last year or so, our pipeline is looking particularly healthy giving us a signal that going forward Europe can look better. APAC remains steady and we are beginning to see signs of a turnaround in our BPO operation which has been muted for about a year or so now.

From a customer standpoint, after the unique situation in Q4 and that is the reason I am taking the trouble to specifically talk about that customer, we saw an increase and a bounce back of that client in Q1. You have also seen a continued bounce back of that client in Q2, although in terms of percentage and absolute numbers, they are still not up to the levels they were in towards the end of H1 2012. We will see that happening in Q3 of this year. So therefore our number one client will be back both with healthy revenues as well as growth and the outlook with that particular customer remained strong going forward as well. Similar is the case with our top 10 accounts. Most of them have grown and the top 10 has contributed to 53% of our revenues.

Atul mentioned about our new client acquisition. It remains strong and as I mentioned the pipeline is good across the geographies. I do want to take a minute to also mention that the BFS sector for Hexaware which has been steady, strong and has also helped us win new customers, delivered another good performance this quarter. It now represents about 35 plus percent of our revenues and if you actually club the insurance piece which is part of another vertical, overall BFSI is about 40% of our revenues and we see good prospects because we are focused in those areas where I think we can gain penetration. We are not inclined to get diffused. Capital markets will still be an area of focus and we will continue to grow in segments of banking as well as insurance.

Now coming to margins – Rajesh Kanani, our newly minted CFO, but an Hexawarian of old will take you through these numbers, but I just want to say it has been a healthy number and the important thing is that on the back of solid operational performance which has remained stable this quarter, utilization has marginally improved to 71% and I think we were satisfied and we will keep it somewhere around these levels given the growth that we expect going forward. Our onsite-offshore ratio has been stable more or less and again these can provide us levers going forward from a profitability standpoint. Bill rates have also been largely stable. Offshore has increased marginally. Onsite has decreased marginally, but both are explainable on account of the business mix and at this point I would not read too much into the decline in our onsite rates which still are at a healthy $73-$74.

Bottom-line, I think the outlook looks good. The operating levels look good. The pipeline looks good and we feel based on all of this, we are also saying that we will be able to maintain our margins within a narrow band of plus- minus 1% going into Q3 given the exchange rate as it is today.

With that, I am going to hand it over to Rajesh Kanani to walk you through the numbers. Thank you.

**Rajesh Kanani**: Thank you Sekar. I think the financials are circulated. I will start with the revenue and EBITDA walks. If you look at the revenue bridge, our revenue for the quarter was 94.8 million, well within the guidance, 80 basis points growth from the last quarter. The reason for higher revenue is primarily the volume, volume growth by 150 basis points and the Forex has negatively impacted our revenue by 34 basis points and bill rates specifically onsite rates have led us revenue reduction by 36 basis points.

Now I will go to the EBITDA walk. EBITDA has gone up by 440 basis points. If you see the breakup, gross margins have increased by 170 basis points and SG&A has gone down, our margins increased because of that by 270 basis points.

I will give you the breakup of gross margins. Gross margin has increased primarily increased due to Forex which is 95 basis points and there was a one-time cost of visa in Quarter 1 which is not there in Quarter 2. Because of which, 70 basis points of gross margin has increased. The rest of the factors which have led to increase in margins are miscellaneous, I think there are so many other small factors, only 5 basis points.

Now I will come to the SG&A margins. SG&A has increased by 270 basis points. There are two primary reasons. One is the one-time reversal of cost, because of which there is 150 basis points up and we had one time cost in Quarter 1 which is not there in Quarter 2, 85 basis points and Forex has impacted the margin by 35 basis points. That means margin was up by 35 basis points in SG&A due to Rupee depreciation. SG&A is likely to sustain at 17-17.5% in the coming quarters.

Forex loss has been 621K this quarter versus the gain of 424K last quarter due to rupee depreciation by 9.4% the quarter from 54.30 to 59.39. Capex has been 10.56 crores which is almost similar to last quarter which is 9.9 crores. Tax ETR has been 21.1% which is similar to the last quarter which is 21% and it is likely to be around 21.5-22% in the whole year. DSOs as has been said by Sekar and Atul I think it is 47 days which is best in the industry and unbilled DSO is at 63 days versus 71 days last quarter.

I think with this, I will hand over to the Moderator.

**Moderator:** Thank you very much sir. Participants we will begin the question and answer session. We have our first question from the line of Mr. Srivathsan Ramachandran from Spark Capital. Please go ahead.

**Srivathsan Ramachandran**: Hi Sekar, just wanted to get an update in terms of the large deal pipeline, anything that we have been able to close to signing which we can anticipate in the next 1 or 2 months?

**P R Chandrasekar**: Srivathsan we are still pursuing four deals in which two we are well positioned. Unfortunately I am not in a position to give you a better feel of the timing, but clearly at least we will reach a closure in H2 of this year. Precisely when is a little difficult to say, but as you know these events are binary but having said that we are well positioned and are optimistic.

**Srivathsan Ramachandran**: Any insights on what we are seeing for the PeopleSoft9.2 version given what Oracle announced or what SAP is talking on, so just wanted your thoughts on how is PeopleSoft or the entire enterprise application services space shaping up?

**P R Chandrasekar:** Sure, 9.2 the outlook is good. PeopleSoft 9.2 has recently been announced. We are seeing an uptick in the market. We have already won 4 projects with our customers in terms of our play to upgrade to PeopleSoft 9.2. As is the case with any new ERP versions which come out in the market, the adoption will slowly pick up as time goes by as it matures, but the interesting thing is the intent of PeopleSoft go ahead with future releases, having commitment to PeopleSoft as ERP products of future from Oracle has clearly shown and then adoption ratio we expect it to be better going forward.

**Moderator:** Thank you sir. We have our next question from the line of Pinku Pappan from Nomura. Please go ahead.

**Pinku Pappan**: Sekar I just wanted to find out about your demand outlook in various verticals, could you talk about how you are seeing the demand in BFS and healthcare?

**P R Chandrasekar**: Pinku overall our pipeline actually is fairly strong, we do not give out the specific numbers, but as compared to December-January of this year, the value of our overall both committed business as well as our high visibility business is markedly better. We talked about the large deals and the total number that has also improved. Clearly on the BFS side and more so in North America, good pipeline with existing customers and a few new opportunities that we are chasing. Particularly good is Europe where frankly for the first time both the pipeline of existing some new opportunities as well as 2-3 large opportunities that we are pursuing is much healthier than it was in the past. APAC has remained steady. We did close one good sized opportunity in our BPO business after frankly a long hiatus in the last quarter which in turn will give us some reasonable business going forward and there are several such reasonable sized deals in BPO.

GTT that is our travel and transportation vertical, there are a bunch of opportunities but the average size is a little lower than what we would like. Healthcare and insurance, on the healthcare side there are two or three good opportunities and on the insurance side as well there are several good opportunities. So overall I hate to give you a very generic view, but BFSI is particularly strong, Europe particularly strong for us given the last few quarters where it was, US stable and APAC stable.

**Pinku Pappan**: That is helpful, but going across your service lines, you seem to have lost some momentum in BI and in your IMS service line, could you just talk about what is happening over these two service lines?

**P R Chandrasekar**: In the case of BI, frankly every single quarter the percentage and volume of business has been going up. In Q1, the overall percentage did dip and I think the absolute number also did dip because the BI business does tend to be, at least in some of those customers, some what project driven and there were two large projects that did come to closure in Q2. Having said that, we are confident that going into H2, it will bounce back. So I am not uncomfortable or rather I am quite comfortable that momentum in BI will resume.

In the infrastructure space, a lot of our win and our focus has traditionally for obvious reasons been on existing customers. We won good business from several of these customers. We won a good sized infrastructure deal even last quarter. We have also launched the new initiative in the enterprise securities space hiring a senior person there from a leading competitor and we have got a bunch of opportunities particularly in the APAC region and so therefore in H2 we feel even that will start looking up.

BI, we are very comfortable. Infrastructure will take a little longer in terms of getting to the old growth level, but there is still healthy growth if you think about it. Sreeni more or less we will end still at about over 50% growth right or 40% growth in infrastructure?

**Sreenivas**: The growth in the remote IMS space will be between 40-50% year-on-year, though coming off a small base.

**P R Chandrasekar**: So while it is not as good as what it was Pinku as you rightly noticed, it is still fairly healthy.

**Moderator:** Thank you sir. We will take our next question from the line of Mr. Manik Taneja from Emkay Global. Please go ahead.

**Manik Taneja**: This question was with regards to your margin performance. There seems solid improvement in margins since last couple of quarters, although aided by currency over here. I was more firm from a medium to longer term perspective, just wanted to get a sense on what kind of margins are you comfortable with especially in the context of the fact that you are trying to increase your penetration, traction outside the top 10 customers and so we think about the sales and marketing expenditure?

**P R Chandrasekar**: We already indicated where we are likely to be going to next quarter which is in a narrow band of plus-minus 1% given where the exchange rate is today. That does as you can fully imagine play a role in margin position. So assuming that the rupee-dollar remains more or less at this juncture, we are planning to make some additional investments in our sales and marketing and we will be announcing some important additions to our team in the next quarter or so. In addition to that, we are already on the lookout for about 8 to 10 additional people in our front end field force who hopefully will be added in the next 3 to 6 months depending on our ability to find the right kind of people. In addition to that, we are adding almost 7 to 8 good, solid consulting practitioner level people in our enterprise solutions, BI as well as financial services domain verticals. So there is a plan to have reasonably good investments in both the front end as well as creating more depth in our verticals as well as in some of the new technologies. Given the scenario, we are looking both at the EBITDA level something in a stable range, I do not want to give a precise number, but I would say plus minus 1% of where we are today is what we are looking at despite these investments.

**Manik Taneja**: With regards to the business from US. You indicated that business in pipeline from US is stable. If you could talk about which pockets who are showing much more strength because when you are looking at results from your peers which have reported numbers until now, you would have seen very strong growth coming in from the US. So if you could talk about what you are seeing on the ground in terms of which area you are seeing strength that will really be helpful?

**P R Chandrasekar**: I want to separate our geography versus company's specific because I do not want you to read our performance as a reflection of how the environment is doing because both in US and Europe, we are still a relatively small player, but we are not immune from the positive or negative moods in those markets.

Clearly without hesitation I can say the outlook that we have and the interest we have in the various offerings as well as the pipeline for the capital market space for Hexaware is very strong and healthy and I think that would still be from a vertical perspective a key driver. The second area where we have had traction in the last 2-3 quarters and to some extent it is also a reflection of renewed energy and focus in that area is healthcare and our bunch of opportunities which we think could hold promise, but we are still relatively small and new players there, but the signs are extremely encouraging given the nature of the opportunities that we are talking about.

In Europe again frankly we have got some good opportunities where we are pursuing across the board. Even there BFS is an important element because we have moved a successful leader who used to work with us in North America to Europe to lead that because we felt that to position someone who succeeded, who understands our offering is familiar with what we do and can take that expertise to Europe. We did that about a quarter or quarter and a half ago and that is already beginning to pay dividends.

Similarly travel and transportation, we actually have more to show in Europe than we have in North America.

**Manik Taneja**: And my last question was with regards to an outlook that you guys indicated for CY13 when you announced your CY12 results in February about a double digit growth outlook for CY13. So given the pickup in revenue growth that you are seeing in September, do you think anywhere close to double digit is possible for the year?

**P R Chandrasekar**: You know what we have guided for in Q3, we do not want to give you a specific guidance in Q4 because I think we can be far more accurate somewhere closer to end September-beginning October about Q4. We are still striving to try to get to that double digit, but if you do the maths, it is going to be tough, but we are hoping to get to a high single digit number.

**Manik Taneja**: And lastly on acquisition plans?

**P R Chandrasekar**: They are progressing. The plans are from a planning and desire perspective, nothing has changed. We have examined a bunch of options, but nothing is imminent and unlikely that anything is going to happen or close in Q3 or Q4 of this year.

**Moderator**: Thank you. Our next question is from the line of Mr. Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah**: Sekar, just first question in terms of the frequency of large deal closures to some extent gets elongated, so in that scenario the outlook given for the third quarter you believe could be one-off and the large deal dependence would be higher to carry forward that momentum beyond the third quarter?

**P R Chandrasekar**: What we are saying in Q3 is based on what we know and the pipeline that we have as well as the confirmed book of business that we got from both our top customers as well as the bunch of newer opportunities with existing and newer clients. We also have visibility with both our top 20, some of the pipeline that we have in the next 21-50 accounts as well as new business that we are chasing going into Q4 and onwards that growth will be continuing.

Clearly for us to be able to hit a much more healthier growth rate, we will need one or two good wins to give us that absolute number which will give you that fillip. We are hoping that if we are successful in some of these deals that we are pursuing in H2, it will set up nicely for going into 2014.

Given where our customers are, given that customer number one is back to healthy growth and all signs are indicating including some large opportunities with that customer itself at least the couple of which could be considered a large deal. We are confident and 4 or 5 of the top 10 also shows signs of healthy growth and as you are aware that is about 50% of our business. So while large deals will help us get an additional fillip, growing at good healthy clip can be sustained on the back of good healthy growth from our top 10 and with the next 10 the new business coming in at 5-6% of our revenues and somewhat better job in the next set of accounts which we are signing to do.

**Sandeep Shah**: Can you tell us two or three specific things where you are now looking to diversify your growth momentum beyond top 10, what kind of investments we are making beyond the top 10 to mine the accounts better outside these?

**P R Chandrasekar:** See the focus is really 21-50, not necessarily every single one of those accounts, but we have identified a good number that given the profile of what we do there, the size of their IT spend, the competitive environment in those accounts that we feel that will hold promise.

We have also identified 7 or 8 accounts outside of that top 50 which we have opened in the last couple of years which are also very good names where we have opened it in a good way. We have done some good execution and which holds promise and the kind of investments we are making are three-fold.

One clearly there is a significant level of management attention on doing the right thing as far as these accounts are concerned from account planning, to reviews, to customer meetings, and visits. Second we have identified and have started placing dedicated account managers. Here I want to define dedicated, we cannot afford at this point to add a single dedicated account manager for every single one of these accounts, but it is a mixture of few dedicated account managers, several with three accounts under his belt, but by and large people whose primary responsibility and only responsibility will be to focus on farming these accounts and there will be no relief for them to go doing something else and get diverted. This clearly requires discipline as well as an incentive structure that will enable these people to stay focus because we have no illusions about how long it will take. We are quite comfortable in maintaining that and being persistent with this because we think it will pay off in the long run. So therefore these investments are in process. Some more may remain and some results are flowing, but the true benefits of it we believe start coming through in probably two-three quarters and the success rate also we are saying even if it is a 30% or 3 of the 10 accounts where we pursue to give us a good multimillion dollar kick back will give you the kind of growth that we are looking for.

**Sandeep Shah**: Is it fair to now say that the growth momentum we are foreseeing in the third quarter is nothing like a one-off and based on the industry condition, it can continue beyond the third quarter also?

**P R Chandrasekar**: Yes.

**Sandeep Shah**: Sekar on the PeopleSoft 9.2 this time you believe that leveraging this opportunity may be a little challenging with the cloud solutions like Workday are becoming more popular versus the earlier releases of PeopleSoft, what are the client's responses on a third party software versus the cloud based softwares?

**P R Chandrasekar**: Implementing it will not be a challenge. I think as Ramanan explained, the adoption of this technology is taking a little time because customers have multiple options. Having said that at least based on what we have heard from our customers, the features and benefits that 9.2 offers is very hard to replicate especially if customers are used to those features within a cloud based solution and also based on the four that we have won, we believe it will accelerate in terms of adoption.

**R V Ramanan**: Basically the PeopleSoft 9.2 and the fact that Oracle has got committed release versions going forward even for the next 5 years gives confidence to the customers in terms of the roadmap for PeopleSoft as future technology. As you said cloud adoption is definitely higher. Workday is one of the major cloud based HR IT products which is available in the market. There are other competitors of course. Oracle itself has its own version which is Oracle Fusion version which is available on the cloud. So there are combinations of factors which are coming in, but fundamentally PeopleSoft still remains the leader while the other cloud based solutions are also catching up.

We are also partnering with other cloud providers especially Workday. We have put our own people in terms of Oracle Fusion including the development of the product itself along with Oracle joint development of the product.

We are seeing patterns where there are small and medium businesses which are going for cloud based whereas the PeopleSoft's installed base is also increasing at the same time. We are also seeing a hybrid implementation strategy which in terms of people going for a combination of technology saying PeopleSoft is core HR with Fusion modules surrounding that in the cloud platform. So there are multiple ways of implementing it and we are seeing the adoption. Industry is in the verge of some kind of a change, but definitely our overall expertise in the HR IT space including PeopleSoft, our partnerships with Workday, our relationship with Oracle in terms of Fusion as well as the other emerging products in terms of SAP which is the Success Factor which is a product which has been acquired by SAP which is also a cloud based HRMS solution. We feel that together our HR IT as a practice along with PeopleSoft will continue to grow and we see the adoption rates will only improve going forward.

**Sandeep Shah**: And just last question in terms of the hedging this quarter if you look at Q-on-Q THE hedge position has gone down versus an earlier policy of every time we actually improved our position on a Q-on-Q. So is there any change in hedging policy?

**Sreenivas V**: There is no change in the hedging policy. Our policy is 80% in first year and 50% in the second year, it will continue to remain.

**Sandeep Shah**: And strike rate of 56.26, will it be slightly lower in the near term in terms of strike rate versus it would be higher than the average over the period beyond 4 quarters?

**Sreenivas V:** Strike rate will remain the same and this is the equilibrium level. What happens in the future depends on the currency and the prevailing rates then anyway.

**Moderator**: Thank you. Our next question is from the line of Mr. Pratish Krishnan from Antique Finance. Please go ahead.

**Pratish Krishnan**: Sekar in terms of the 4 deals that you are chasing, any color in terms of how many of these would be from the existing clients and in terms of which verticals or geographies they would fall in?

**P R Chandrasekar**: Pratish frankly there are several deals that we are chasing. The four are in good shape and couple of them are reasonably well positioned¸ two particularly well so all happened to be with existing clients.

**Pratish Krishnan**: And any color in terms of geos?

**P R Chandrasekar:** Both Europe and North America.

**Pratish Krishnan**: Assuming these deals kind of pan out as you think, would this be kind of be good enough for you to aim at a double digit growth next year?

**P R Chandrasekar**: Yes.

**Pratish Krishnan**: In terms of the guidance you are looking at 3.5-5.5% dollar revenue growth, is it possible to get the onsite-offshore mix or effort that you are looking at?

**Sreenivas V**: Pratish for looking at every metric, it is hard to give guidance, but frankly when new projects start, they start at onsite. So we will have to see how much of the business they get through ramp up and through new projects. So we will report once the quarter is through.

**P R Chandrasekar**: I do not see reason for a big change.

**Pratish Krishnan**: No, the reason I am asking is you mentioned that margins would still be within the 1% band and you also have the Q3 wage hike coming through, so assuming onsite things, would margins be still within the 1% band?

**P R Chandrasekar**: They will Pratish. Trust me we have done our maths. We are also saying at the current exchange rate levels. So that will give us some room to play and we do have other levers which can still help us in trying to get to these margins within the plus-minus 1 range that you are talking about.

**Moderator:** Thank you. Our next question is from the line of Mr. Nitin Mohta from Macquaire. Please go ahead.

**Nitin Mohta**: My questions were more on the supply side. Firstly if you could give an indication in terms of how many freshers you are looking to hire in third quarter and if possible even for the fourth quarter if you can share that?

**R V Ramanan**: Let me tell you what we have done for the second quarter, we have added 100 freshers in Q2. We have started adding freshers. The reason I mentioned second quarter is though they get added in second quarter, they actually start getting into billing operations in Q3. So effectively with the uptick in revenue in Q3. So we have planned for that and ahead of it we have added 100 freshers in Q2. We intend to add another 50-75 freshers in Q3 and we have also started our lateral hiring process in line with our revenue growth. We expect the headcount to go up in Q3.

**Nitin Mohta**: Got that and in terms of the wage hike, what is the quantum of wage hike that you are giving to your employees?

**R V Ramanan**: We have already announced that the wage hike will be in Q3 in a staggered manner at the lower levels starting a little earlier and as the levels go up, it will be staggered by a month or so, but implementation will be in Q3. We are expecting an average offshore increment with a rate of 10%.

**Nitin Mohta**: Just in terms of margin quantification, given it is going to be staggered if you can help us what kind of margin impact are you building in the next quarter, is that all factored in the plus-minus 1% as Sekar talked about?

**R V Ramanan**: Yes, it is factored. The expected margin impact in Q3 around 100 basis points.

**Nitin Mohta**: Good to hear that you feeling comfortable about industry's demand outlook. I think lot of questions on the call about the deal pipeline, etc., but specifically if I have to ask about the third quarter and fourth quarter, clearly one of the only guys was seeing an acceleration into the second half of this year. So anything that you want to call out at this point of time, are there some project ramp ups happening in larger clients or you see that actually it is cyclical upturn that you are actually seeing now?

**P R Chandrasekar**: As far as Q3. So it is based on the hard bottom up, rollup of numbers of our accounts. So clearly there is a lot of comfort that we are drawing from the uptick in demand in terms of both business and confirmed orders and very highly visible, by that I mean everything more or less signed sealed delivered bar the actual signing to give you that comfort for Q3.

We have also based on where we have depending on the stickiness and the continuation of these projects have a reasonable visibility in the Q4 although we believe it can get even better as we close to the year. It gives us the comfort to do that. So really at least for second half of this year, it is based on what we see. What the rollup of our demand is, the RRs (resource requirements), our pipeline, our CRM figures, the reviews our sales teams have done. So it is a rollup of all of these aspects. Going forward of course one has to think a little bit about closing some more deals, many of these opportunities, etc., but H2 based on Q3 is lot firmer. Q4 that comfort is based on the pipeline and the views of our team as well as the continuation of this business.

**Moderator:** Thank you. Our next question is from the line of Mr. Ashwin Mehta from Nomura. Please go ahead.

**Ashwin Mehta**: Just one question in terms of the next quarter growth and growth going forward, how much scope do you see in terms of utilization and would this be more utilization led growth or you will start to add laterals to drive this growth?

**R V. Ramanan**: We are at the utilization which is almost close to 71% given the growth momentum we have; we expect this utilization should be in the same range. We do not expect significant uptick though it will trend upwards. So the addition of revenue would primarily come from the freshers, which I already mentioned which we have taken in Q2 will be productive in Q3 as well as addition of laterals which is what Sekar was talking about the resource requirements going up as part of the studies we have done in terms of the revenue guidance. So the addition would be lateral based in addition to the freshers.

**Moderator**: Thank you. Our next question from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

**Dipesh Mehta**: First question is about this quarter addition. Can you provide some color about quality of clients and how we expect those and may be you can say about first half kind of things and second question is about we see a 1 to 5 million kind of bucket, it is showing some kind of decline for the last couple of quarters. So is there anything to read or you do not see much value to read those things?

**P R Chandrasekar:** So with regards to the new clients, we opened 14 customers and the way we count new customers are clearly ones that we have not billed in before the last one year and they have to hit us a certain cutoff number for them to qualify as a new customer. So clearly if you look at the names on paper, there are about 10 you would consider very promising because in terms of their spend, their overall size, their portfolio, they are very healthy, but we feel that out of that, 4 to 5 could be meaningful clients who can deliver you a million dollar in the coming years.

**Dipesh Mehta**: Second question is about 1 to 5 million bucket; we are seeing some kind of weakness in terms of client numbers, so anything much to read into it or you do not see much value?

**Sreenivas V**: You are right in reading the metric, but when we look at the actual numbers, the drop was very marginal. Clients which were over a million moved to the 900 odd numbers and as a result it dropped out. I do not think there is much to read in that.

**P R Chandrasekar**: So the total number of clients. Our top 10 still gives us good numbers, the next lot is good. In fact one moved from back to 3 to 5 range that went from 7 to 8. One went up by; I guess couple dropped out because the way we count it is it has got to be in the last 4 quarters. Hopefully it will be back to those same numbers next quarter.

**Moderator**: Thank you. Our next question from the line of Nandish Dalal from IIFL. Please go ahead.

**Nandish Dalal:** My question is to Rajesh, your cash generation seems to be poor in this quarter given that your DSOs have reduced sharply. So could you just take me through broad components of what has taken place over there?

**Rajesh Kanani**: I think out of the 3 items in my cash flow, we had paid dividend of 84 crores this quarter because there were two dividends, one for final dividend and other was quarter one dividend. Second was taxes, we have paid around 18 crores and third one was on the foreign exchange side we have to pay some amount and the CAPEX 10 crores. These are the 3-4 items; because of these the even though the cash was higher compared with the last quarter, but still lower than what you expect.

**Nandish Dalal**: And one more question regarding your SG&A during the quarter. You mentioned there are some two onetime expenses. Could you just elaborate on that?

**Sreenivas V**: Nandish what Rajesh earlier said was two things. One is there were certain expenses in Q1 which do not repeat. So to that extent they do not exist anymore. So that gave us almost 85 basis points. The second item was there were certain provisions which were made for areas like sales incentive and bonuses which were reversed this quarter and that is to the tune of almost 150 basis points, so what we have said is that reversal is a one-off which happens this quarter and hence will not continue into the subsequent quarters. To summarize, we also said that the sustainable numbers as far as the SG&A ratio for the next couple of quarters is 17-17.5% as the ratio of revenue.

**Moderator**: Thank you. Our next question from the line of Mr. Raj Shekhar from Cholamandalam Securities. Please go ahead.

**Raj Shekhar**: I am just concerned about the sluggish growth in the Enterprise Solution segment in the last 3-4 quarters. Can you throw some light on the reasons behind the sustained weakening with the uptick in demand from the new PeopleSoft Version; can we expect a better growth in the segment going ahead?

**R V Ramanan**: The enterprise services business has been steady and one of the reasons also the 9.2 is yet to take off in a big way as the product has been recently released and the product general availability was also delayed which is finally available. We already won 4 customers. So we expect that to take off. So going forward the movement will be upwards.

**Moderator**: Thank you. We have the last question from the line of Mr. Abdul Karim from Narnolia Securities Private Limited. Please go ahead.

**Abdul Karim**: Over the last few quarters, Hexaware has developed up significant competency in Social Mobility, Analytics and Cloud technology. Can you put some light on this development and how it will be helpful for revenue ramp up and how many clients you have added related to this segment during the second quarter?

**R V Ramanan**: Abdul SMAC as a technology is referred to Social, Mobility, Analytics and Cloud is one of the emerging technologies which are actually changing the business landscape especially the IT landscape. We have invested heavily on that in terms of building expertise. We have built our own accelerators. We have built our own framework, enable customers to adopt these new technologies. We are seeing more and more adoption of it. It is not easy to quantify in terms of revenue, but in terms of the technology adoption rate it is extremely good and we expect this to be the paradigm shift going forward in terms of technology change the way the web technology change from legacy to the web kind of movement. We expect that kind of a movement in this technology. So we are also investing heavily on this. Currently we are working with multiple customers. Most of them are existing customers where we have helped them analyze social data in the travel sector especially some of the large airlines in terms of setting up their social data analytics extending that to the mobile platform. We have set up something for the ERP which gives some complete visualization of ERP on the mobile platform. So we have set up a center of excellence primarily around the SMAC technology. We are working on new technologies like augmented reality. So we are helping multiple customers with that. I cannot correlate the number of new wins to it, but we are working on these technologies for lot of the existing customers.

**Abdul Karim**: How do you see the impact of the US Immigration Bill?

**P R Chandrasekar**: Abdul the US Immigration Bill has multiple components that have implications for our industry not just Hexaware of course. You are also aware of the developments in the Senate as well as things that are going through the House. So I do not want to repeat it too much, but at borderline the consensus seems to be that the most onerous elements of the Immigration Bill specifically related to outsourcing as a whole are unlikely to be enforced or become a reality. However, there are other elements of the bill that may be retained in the current form or in some other fashion which is I am talking about the percentage of H1L1 required, some increase in visa fee etc. Given this aspect, that is one more element which is important to know, so that clearly seems to be a greater sense of optimism that the way this will end is not going to be as bad as was original feared that is number one.

Number two we as an organization at least with the base of customers that we work with have frankly not had any concerns expressed by them or any pushback or any change in decisions having anything to do with this bill or ask for us to move people or change things out or fundamentally change anything about the way we do business which also clearly means that it is not yet complete or they do not believe the consequences are going to be so severe.

Number three we as an organization are preparing ourselves; however, to make sure that we mitigate even the impact of the bill as it may come out as and when it does which is by, 1) Steadily increasing the number of locals as a percentage of our onsite personnel which today is quite healthy already. 2) Further leveraging our base of operations in Mexico which we have recently expanded because the people coming from Mexico into the United States are outside of the purview of that count which is a part of that restriction, I am talking of H1L1. 3) We are also looking at expanding the number of people within our own onsite teams to be applying for green card which again will help us mitigate that risk and 4) we are also looking at opening centers in the United States which in turn will allow us to hire local people and therefore further mitigate the impact. We believe that by the time this bill is likely to be or as it gets into sometime in 2015, we should by and large be able to do this without any adverse impact on Hexaware's business.

**Moderator:** Participants thank you very much for all your questions. I would now like to hand the conference over to Mr. Atul Nishar for closing comments.

**Atul Nishar**: Thanks to all of you. Thanks for all the questions and very active participation, appreciate that.

**Moderator:** Thank you sir. On behalf of Hexaware Technologies Limited that concludes this conference.

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