

Fireside-Chat-AI-day-Session-13-2

Revenues from hunting. And for us, the way we think about it is not what revenues we can generate for a given year. The hunting we do is what determines our growth next year, not this year. So, the important measure for us is how much incremental revenue will deals we close this year add for next year. So that's the problem we've got to solve. Now, I think what AI puts a highlight on that because we spoke about outrunning deflation. One part of it is to enter new markets, new lanes, which we spent time talking about, but the other part of it is also to get more from hunting. So that's the most important problem we've got to solve. Our denominator is going up, so just the scale of deals we need to do need to go up for us to, you know, get to not just an absolute value, but a good percentage chunk of incremental growth from AI.

Secondly, when I think about the two growth engines of client mining as well as hunting, how, I mean, you feel more confident about which of the two if you think about the next 12 to 18 months. Because on the one side, on the client mining side, you've seen a lot of top clients go through the vendor consolidation exercise already. And while on the other hand, you have a new team and strategy going ahead for the hunting. So, where do you feel more confident for next 12 to 18 months?

You know, it is farming, and I'll come back to the why, but, you know, we can't say we'll do one worth of the other. That's not a choice. We have to excel in both. But, you know, mining is inherently more predictable, less risky. There are also two structural things that I think, you know, give us more confidence. One is what he said, whatever. Like, we've had five times intensity in a normal year as in a normal year for consolidations. And we've come out looking good in a vast majority of them. So, the kind of discontinuity, immediate discontinuity is behind us. And, you know, in some of these, the market share gain opportunity is completely ahead of us, and some of it is partially ahead of us. Second thing, the concept of Zerovity platform. This is also one of the reasons behind Zerovity. You, the same platform can deliver multiple services. All the zero pillars can happen from the same platform. Now, this is real implications for how we sell. So we currently have all the independent platforms in any client to land any platform. It takes six months, and in very large customers, it could take a year of security and architecture review before they're, both those teams need to sign off. Security team, architecture team. This is after, of course, somebody from the business says they want that platform. That friction we will reduce substantially. So, it's like the Tesla model. There's one car. You want autonomous driving? You add a software feature, pay for it. It's delivered over there. Actually, in our case, the entire software is delivered. You just turn on more features. So, I think that is, we think, will help. And the fact, you've heard Sid say, it's backward compatible. So, we're going to go to our entire install base of all the platforms and say, we'll give you Zerovity free. We'll replace what you have already with Zerovity. If they accept, I don't know that everybody will, they will go through another security architecture review, but then this time only one. Once they do that, I think then all the services can get delivered from the same platform. So, the second reason why I feel it's definitely more predictive.

Hi. A couple of things. Firstly, just wanted to understand currently in terms of the deals that we are winning, how many are coming through RFPs versus how many are proactively approached by us at this point in time. And in case we are proactively approaching deals, so

are we doing any structuring in that as a lot of our peers are doing, particularly on the mid-cap side of things?

I think area of improvement for us is to increase the percentage of proactive deals. We've done quite a bit of work. I'm going to say in our EN world, existing customer world, about a quarter to 30% of our pipeline now will be proactive. Every single vertical, because the verticals run mining, the geos run hunting, every single vertical has a program now to generate proactive pipeline for each of our propositions. By account, hey, I need to get 5 million of zero license, I need to get AI and SDLC 5 million. They have by account goals set because it has to translate to an account manager level and a service line level. So, every single one has an active program to do that, and I think we will continue to see an increase in this. The second thing, sorry, there was like a five-minute period in Shantanu's session, I stepped out, I don't know if you covered it. In hunting, the way we think about proactive is that hunting, I mean, an account life cycle is in three phases. Hunt, get a client. And then the first year of that, and that is often still with our hunting team. Certainly, overlap between the hunting team and long-term accountants. And then there is farming after. So, one of the motions is, if you land a client with a service or a small program, how can we not wait for that to get complete and RFPs to come or them to invite us? How can we use the same EM principles in an account first month after we land it, first two months after we land it, create park proactive proposals for expanding that? And that has already created two or three great successes for this year. One of the larger deals we announced, can't recall, Q4 last year or Q1 this year, it was like 20-odd million ACV deal was proactive in this. Initially under the account, but then we put in a proactive proposal. There's another one in the works. We landed with a half a million dollar transformation deal. We got a \$50 million proactive proposal right now for taking everything that they have, ITO and product engineering. So that's the proactive part in hunting. Proactive part for landing an account is still limited.

Hello. Yeah. So, second question is on the margins. So, we have talked a lot about investing into the business as well as increasing the commission cycles for sales employees. And you also talked about that growth is our primary focus right now. So maybe for the next one to two years, should we expect that the margins is going to remain where it is or might come off a little bit from here? It won't come off.

It won't come off. There is an opportunity for increasing. That's the point I was making, that the first focus is not to necessarily increase. It certainly won't come down. And also bear in mind, like we showed you 700 people in building platforms. All that is in a P&L. It's not capitalized right now. Sure. Understood. It's an opportunity for us potentially to invest more with... because some of it is truly capital long-term investments, but right now all of it goes into our P&L.

Hi, sir. So just on that one statement we made was that 50% of our revenue has already been like AI-infused AI. And the AI came into the mainframe in the last two years. It might be there for a very long time, but for us it came in the last two years and we have already shifted our revenues towards that 50%. So, I believe the journey towards 70% and 80% might be more shorter. So, in this journey, do you think the growth acceleration for Hexaware might be in the scenario where we are still shifting this towards AI-infused AI where 20% deflation is there?

Yeah. I think the two factors are a little bit decoupled, not 100%, but somewhat decoupled. What I think getting AI-infused revenue means is two things at a conceptual level. First is that some deflation has already happened, not all. Some has already happened. There could be more. You know, you're doing AI with software for software development. With the productivity go up, that's possible. But some deflation already happened. The second thing it means is that customers have chosen us through, like in quite a number of cases, through consolidation processes to be that partner. So, you know, no matter whether there's some deflation or not, further in the revenues, we will be the partner. I think that's the second. Third, in many cases, it also means we've been proactive. You know, Girish Ravindran showed an example of a client where we gave 20-odd percent discount to re-sign the contract with some higher volume, but our revenues have gone up 31% because we were proactive. So, the broader question on acceleration of growth, I mean, I want to reiterate what I said in the investor call in end of Q2, that no matter how you do the math, even, you know, based on the reduced number we said, you can model it as equal for the quarters, more for Q3, more for Q4. But no matter how you model it, we will exit the year at greater than 10% windward growth. And this, you know, by the time we get to Q4, there's no inorganic left. Everything you did is before, in last year. And it is much harder to climb from the hole that we were in last year than it is to sustain when you start with double-digit windward growth.

Got it, sir. And, sir, second question on the hunting part. Like, from the enterprise side, we are still seeing the cost optimization and vendor conservation still to be in the trend, while the investment towards AI infra is not stopping by them. Like, they want to be not left out, at least as a competition perspective. Do you think for a hunting to really benefit us, the mindset has to shift from the AI infra to more of an adoption-based transformation journey that has to come into the enterprise mindset?

Our hunting team, certainly the mindset has to change. For sure, and that's part of what I said in our talent transformation, I put a separate box for client teams. Our expectation from them is they need to be AI thought partners. This is the one line or one word expectation of what our account teams need to be, both in mining and in hunting. So, whatever that means. It means, you saw a slide from Sanjay, we meet clients wherever they are in their AI journey. If they're in early stage, we need to be able to tell them what are the first steps to take. If they're mature, we need to meet them at that and tell them what are the next steps they need to take from wherever they are. So, you're absolutely right. People need to be different. The most important thing we're asking is, hey, you need to be highly AI literate. So, we right now have a 20-hour mandatory training program for all sales. We're giving them two shots at not doing it but clearing. There's a bar after that, right? There's a testing after that. The first bar, first time they don't clear it, we're going to cut a portion of their variable pay. That's a non-nuclear option. Easy governance. So, the second option is nuclear. We're saying we'll get rid of it. We simply can't have people who can't talk the right language. And it's a 20-hour program. It goes into fair. There's not enough propositions. There's not zero license. This is like rag. This is like vectoring. This is core tech. Because unless you understand that you can't have the right conversations with customers. You can't understand the propositions in enough depth.

That's the answer to my question. Thanks.

Yeah, Keith. Two questions from my side. So, first is in terms of hunting, is the focus largely going to be organic in terms of hunting, given the fact that some of your peers have done large acquisitions which kind of facilitate or accelerate that? So, first is that. Second, in terms of hunting, is there a filtering criteria in terms of the kind of clients that you're going after in terms of, say, wallet size? And third, given that some of the larger peers like Accenture, HCL are getting into the mid-market side, they've opened up units and maybe others will also do that. One, a sense in terms of our exposure. And secondly, have you started to see anything on the ground?

So, the hunting, I think we kind of think of it in two speeds. One, we've got to find deals that will give us guaranteed revenues. Often, but not always, they tend to be in mid-size organizations, which is a few billions. Two, three, four, five, that size organizations.

We also have very conscious ongoing effort to open large logos, which may not give us revenues for a period of time. May not give us revenues for two years, anything significant. But we are constantly adding large logos. It's a tough job to do some of these because many of them are highly serviced, highly competitive. But we manage to do that, every single quarter. And that is what we think will be kind of future potential for 100 million accounts.

We certainly have criteria in the bottom, things that we don't touch, either size of deals or size of customers. On organic versus inorganic, I think what we buy won't buy. I think for us, the bar has changed. A lot of what the industry has offered to sell is legacy. So how do you think about whether you buy them, even if they're cheap, what do you want to add to deflationary? Buying a big book of business, that's going to deflate. But yet, there are, you know, you heard Eravi, he's on a mission to open Big Tech for us. You find somebody with like four Big Tech logos, we'll buy. So, there are places where market access is helpful. I mean, banks, we have maybe two of top ten. If somebody comes with like three, four, five logos in top ten, we'll buy. Sorry, you had another question on large companies going mid-market. That's nothing new. I mean, our daily staple competition is TCS, Cognizant, Infi. Every single client of ours, they coexist. TCS is there, I would say, in like 80% of our accounts, good or bad. So, I don't see anything new about... The other thing I'll say is that I think we put out this number at the time of IPO, we don't report on it since that, Vikash, keep me honest. At the time of IPO, we said 61 or 60% of our revenues come from clients who are above five billion in revenue. That number has gone up since. So, you know, we're not in the mid-market. You know, we're not in the Fortune 50, we have some there too, but that's not the segment where we are large in, but our customers are good-sized customers.

Thank you, and all the best.

Hello, yeah, hi, just one question. So, in the previous part of the presentation, there was a statement made that the new commission, the incentive structure is now linked on commission. In our earlier conversations, it was said that the commission was more linked on the cash flows as well as the sales that's being realized. So, moving to an incentive model which is just purely based on revenue, how would you think, or how are you offsetting that there could be any impact on margins or cash conversion?

I think you heard Shantanu say, right? If our sales people become rich, we will grow faster. So, it's okay. It's designed that if we perform well, we will pay more, but I think that will get more than offset by growth.

The question was, can it lead to instances where a lower margin deal or a deal with poorer cash conversion could come in? So, are there any safeguards against that? Because the older incentive focused more on cash conversions as well.

So, our current incentive program is also not focused on FCFs or OCFs. It's not based on that. It is a bonus based on some criteria for changing the bonus to commission with, you know, liberal to no caps on the commission. It was never based on cash flow conversion in any case.

We'll come to you next.

My question is, what is the total deal TCV associated with the new demand areas as a proportion of our current pipeline? And for the new areas, the zero-tech debt, zero vulnerability, zero license, are we seeing faster conversion of pipeline to TCV? And what is the margin profile in these new services?

Some of these are too new, and I explained by service line where we are for it to form a meaningful portion of our pipeline. I think the impact is beyond like the immediate orders, right? When you go and talk about zero license to a client, their perception about Hexaware, our brand image just goes up a different notch. That impact, I think right now, is bigger than the actual impact of the dollar value of the pipeline. The other thing I'll say, it's been true for some time, that close to 100% of the pipeline is AI infused with one of these, and it could be zero ticket, it could be zero backlog. Virtually every single software deal we do is based on AI capabilities. I'm introducing AI to SELC. Every data deal we do includes the SELC. Every ITO deal we do includes a version of zero tickets. So, there's not a single deal where the pipeline is not because of AI, not one.

And what is the margin profile of these new services? What's the company average margins?

Again, the revenues right now are too small for us to be totally deterministic. But theoretically, some of these are fixed price, and they could, and if you start adding token into a price, and I told you the reasons we feel like we can make money on it, it could improve our margins.

Yeah, hi. Most of the similar analyst meet which we have attended has spoken about deflationary impact, which could be in the range of 20 to 50%, and you offset with market share gains in those clients or new clients. And which is why the industry growth is in the range of zero to 2% or 3%, depending on. First, how long this deflationary impact will go on according to you? If you are talking 50% of your revenues AI, and it would have seen some sense of deflationary, would it get end within one or two years? Or you don't know, in the second round, also the deflationary will keep happening because AI technology will keep surprising on upside. So, what amount you took to do the legacy work or the value or the volume, you will need much lesser volume of, or the effort to do the same legacy work two years down the line. So, by when you see the deflationary getting arrested?

So, I don't want to point out something which you didn't ask, but you said. You said in similar events, you're hearing people are saying deflationary impact that will get offset with market share gains. We're not saying that. We're saying there are new TAMS we are going to go after

to more than offset. The only place where we said market share gains is zero tickets. And we have history of doing that. So, I personally don't think that market share gains alone can make up for deflation and deliver high growth. It can make up for deflation maybe for low growth. But can it make up for deflation to get to high growth? No. So we're not saying it is only through market share gains. We're saying it is through new TAMS.

And we showed all the new TAMS. Now, second part. Our view on deflation, and we may have different views between even the three of us, I think it will get to an aggregate maybe 20%. Because different services will have different. There are some that won't happen. There are some that are deflation proof. So, I think it will be once you get to aggregate 20%, maybe 25%, it will happen over maybe four years.

Yeah, I agree. If you take what Keith said in the morning that can correlate between token cost and deflation. Today token cost is only 3-4% of the payroll of a company. That's going to go up. And how are we going to fund token cost? Either by reducing their cost of people or reducing outsource costs. So that is the play that is still not played out in full. So, I think cumulatively getting to 20-25% of deflation over the next three-four years I think is...

But on the timeline-wise, the new TAM may not open immediately, whereas the deflationary could be more front-loaded. So would there be a vacuum or a gap which will have its own... Are you worried on that?

You know, it's hard to predict exact deflation and exact inflation, how they will play out together. There could be some rough pockets. But I think the phase we already are in, to some extent, where the new revenues from the new TAMs are not there and some deflation is definitely there. I said for us in aggregate, I just want to... You know, we said about Q4 exit, double-digit. That's a combination of everything. AI inflation, AI deflation, bear hunting, all of that together, I think we will get to that in Q4.

Second question is, the new TAM, you spoke about AI for business, AI for IT in the second part, and you spoke about 700 people in this innovation centre and 200 FDs and 1,000 AI architects is what you plan to do. I presume it would have a fair contribution to build those business for AI, which are more domain-intensive, where the contextual knowledge of client would be there. In one way, from where we are coming, it seems a decent investment from the effort-wise. But seeing the technology, the way it will evolve in next three to five years, are you under-invested to build those solutions which are domain-centric and to build the case for AI for business? Because AI for IT would be well-served, there will be decent competition, it may get commoditized also. For that, you need that domain-intensive, which could be very sub-domain, where your contextual knowledge will play out for last 20 years with those key clients.

So, the 250 FDs, 1,000 architects you put out is for next 12 months. Is that sufficient for the longer term? No. This is what we put out as what we will create or hire in the next 12 months. Now, again, AI for IT is not all deflation or commoditization. For us, for example, zero license, completely new time, zero tech debt, within IT. On AI for business, I want to repeat something I said earlier in the day. One key aspect of AI for business is to find markets where we can bend either the cost very materially or can completely alter the product materially using tech.

And in those areas, if we have a right to win otherwise, we have access, we have domain strength, then we will experiment with being in that market.

And you saw one of those today, the market data product. That's a 50 billion tap. Do we have everything right now from a domain for that product? Yes. We don't have, if it's successful, we don't have everything for sales and marketing for that product. But if you take that as an example, the next phase of scaling in sales and marketing is a relatively concentrated bet. You know, in a three-mile radius from our office is everybody that we need to sell to. Put two, three, four salespeople, X Bloomberg, X referent of salespeople in Manhattan, you're done. So that's an example of investment which is ahead of us, but domain, I think we have right now. But in aggregate, we will continue to invest. You saw, I think hopefully you saw enough strength in healthcare too today because we've invested already in the last year since Shantanu's come, we've added quite a bit of domain in that. But we'll continue to add, and the 250,000 won't be sufficient for the long term. It's for this year.

Maybe more, a third question on which is more broader is if you want to see yourself with your peers, and particularly mid-cap peers, where you are over-indexed or under-indexed. On these three, four things, we spoke about the domain-led understanding and investment, the service offerings which are more of AI for IT, the client access of Fortune 100, and the go-to-market. So, if you see these four broader pillars of accelerating any IT company's growth rate, and when you compare yourself to your mid-cap peers, where you think you are behind and you need to accelerate, and where you are ahead and the competition needs to catch up?

I think on domain, it's not a single answer. It depends on the domain. Right? So, Coforge, for example, definitely has better in travel.

Yeah. Not taking all domains, like your domain versus a similar competitor, same domain.

I'm just basically saying across all domains. I still don't know how to answer that. I think you have to go domain by domain. Capital markets are definitely stronger, and we saw some evidence of that today. So, I think it depends on domain. MFIS is better in sell-side capital markets. I think horizontal capabilities, AI capabilities, I said in the morning, I think we are best in class, including companies which are much larger than us. The evidence of that for us is customer conversations and winning deals with clients. And innovation, the fact that we are taking services to market which nobody else is. On go-to-market, I think we can definitely improve in hunting. And we are acknowledging that, and you heard some of the things we are doing to improve that.

Sorry, was there another question?

Access to Fortune 100.

I actually think we are in pretty decent shape. Like I said, the revenues, not Fortune 100, but Fortune 500 roughly is 5 billion. Fortune 500 varies a bit, but let's measure our revenues from customers whose revenues are above 5. We're pretty good there, we're north of 60%. It was 60 a year ago, it's gone up since.

We have not addressed BPS, so what's your view on BPS in AI world? That's obviously 10% only, but how do you think that service line grows or does?

So, our BPS business is in three parts. Back office is negligible, FNHR. Front office is small but not negligible. The chunk of it, I'll say maybe 70% of it, 60% of it, is in demand process. And of that, vast majority is in capital markets and some in healthcare. So, I think in both those, we have an opportunity to grow. And we are now in a phase where for each of the domains we are in, we build process maps, level one to level four. We're able to articulate to clients which of these processes, sub-processes, will get impacted by AI and by how much we think. For many of those, we pre-build agentic solutions. And I think in the sales portal you've seen, we can demo those agents right from the sales portal. So, I think that's an area of growth. So, our approach to front and back office is pure tech. We don't really want to be in the business of having people to run those functions. We're going to treat those as pure tech. Or tech first. You know, it's always been that to some extent, but our approach will say we will run it and we'll transform it over time. Now we're saying, hey, we will come and do transformation. That's the approach. If you also want us to run it, we can. But we want to make sure you understand we are a tech first approach to DPO.

So how much is now tech, how much is it now platform delivered already for this BPS, whatever BPS we have?

So, I think the most recent deal we did on DPO is 100% platform. Entire vertical versus the entire? Small.

I mean, small revenues. The first deal, actually I think we announced it publicly. Last month or so. Last quarter. 100%, in fact, this client, they are also paying us for the platform fee. That non-linearity, different pricing model, this is a client where it's happened, they signed a contract. But small. See the capital markets, the healthcare processes, they're all large companies. They're always going to use their platforms. They're not going to let us use our platforms. They may, for commoditized stuff, if you're doing F&A or HR, we're not doing this. And we will not do this.

Sure. On this 30% win ratio, where are you already?

I think you heard Shantanu said we are somewhat better right now, but we want to increase the denominator. As we increase the denominator, we want to do larger deals, I think that will go down.

And how much is your large deals stream right now? Like you said, you want to establish. Do we have something currently?

We've not historically had a separate large deals team.

Okay.

So that's a new team that some elements of it is in place, is being created. So in Europe, Paramar has hired a large deals head. Sure.

Shantanu is in the process of doing that.

Okay. Got it.

Thanks.

I want to make sure there's no hands up. There is.

Okay. We'll take one question. We'll come back to you.

Hi. Are we seeing the inverse of zero license playing out? Sorry, inverse of? Zero license playing out, which is, let's say companies like SAP or ServiceNow creating their own agents to kind of do the implementation, customization, and maintenance work, which reduces the scope for services firms?

So, SAP, Oracle, and Workday, I think there are some more nuanced points of view what we take to market. So, our team will tell clients, here are areas where you should adopt agents within the SAP or Workday or Oracle ecosystem. Jewel and I forget all the names for those. Here are areas where you should consider adopting agents outside of what is in their ecosystem. Right now they're all walled. And they're also putting a toll gate on access. SAP said they're going to charge for agents that want to access whatever is inside their wall. So, they've already put the wall. So, there are things that is best done in agents within that wall. And yet there are some things that can't be. So, there will be no option but to pay that toll. So, we have a fairly nuanced point of view. We put any number of agents in production. So let me give you an example. One of our clients has issued, this is in the course of the last quarter, 500 employment letters without being touched by a human. This we implemented agents in Workday. This is a very large global conglomerate. So, for a process like that, we think it's best to stick to the agents in Workday. So, we're not doing one-size-fits-all.

Sorry, we'll keep this as the last question because Chennai's traffic can be unpredictable. But we are here. So, if there are follow-up, we can take it up separately. There was a question there.

So, you have talked about the competition that you face in the typical deal like TCS or Infosys. So, in an account where both those large companies as well as Hexaware the IT vendors of that company, incrementally in what areas, maybe what top three, four areas where we are winning more deals against the likes of TCS, Infosys, or Cognizant? And maybe you can compare the era pre-AI and post-AI and how it has helped a company like us.

I think TCS is the most omnipresent competition. I'll just generally say patterns. And I don't know, like AI, how it is changing materially, but run deals will be with them. AMS will be with them. Scale customers, Infra will be with them or somebody else like them, Wipro or HCL. So, we're not in those large multi-year run contracts. What we do very well is in domain transformation projects and in data. I think that is even more so now with AI. I mean, the airline that Sanjay spoke about, TCS runs the Infra. TCS runs a lot of the centralized app support. But the transformation work, TCS competed. Their platform was evaluated. Others' platforms were also evaluated. We won.

Thank you all. We hope you found it interesting, and we'll talk to you at our usual quarterly calls next.

Thank you.