Management Discussion & Analysis

ECONOMIC OVERVIEW

Global Economy

Global growth for 2018 is estimated at 3.7%, as in the October 2018 World Economic Outlook (WEO) forecast, despite weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.5% in 2019 and 3.6% in 2020, attributed to escalating trade tensions between US and China, soft domestic demand in Italy after recent sovereign and financial risks, weakness in German auto manufacturers due to new fuel emission standards and weakening sentiment in global financial markets. Europe's factory output declined by the biggest margin in three years. According to leading indicators released by the Organization for Economic Cooperation and Development (OECD), the US and many other economies are set for a further slowdown this year. In 2018, China witnessed its slowest economic growth in three decades. Its exports also fell 4.4% in December 2018, the largest fall since 2016, primarily due to faltering demand in most key markets. Imports, too, fell which pointed towards softening demand in the country.

Source: IMF, World Economic Outlook, January 2019

While the World Bank also cut the growth forecast for advanced economies in 2020 to 1.6% (down from 2.2% in 2018), the future is somewhat brighter for the emerging world. As the World Bank report emphasizes, emerging economies are increasingly strained by government debt, which has risen by 20 percentage points of GDP, on average, since 2013, with payments owed largely to private creditors demanding high interest rates.

Actual and Projected Growth of World Economies (%)

	2017	2018	2019	2020
	Actuals		Projections	
World Output	3.8	3.7	3.5	3.6
Advanced Economies	2.4	2.3	2.0	1.7
United States	2.2	2.9	2.5	1.8
Euro	2.4	1.8	1.6	1.7
Germany	2.5	1.5	1.3	1.6
Japan	1.9	0.9	1.1	0.5
UK	1.8	1.4	1.5	1.6
Emerging and Developing Economies	4.7	4.6	4.5	4.9
China	6.9	6.6	6.2	6.2
India	6.7	7.3	7.5	7.7

Source: IMF, World Economic Outlook, January 2019

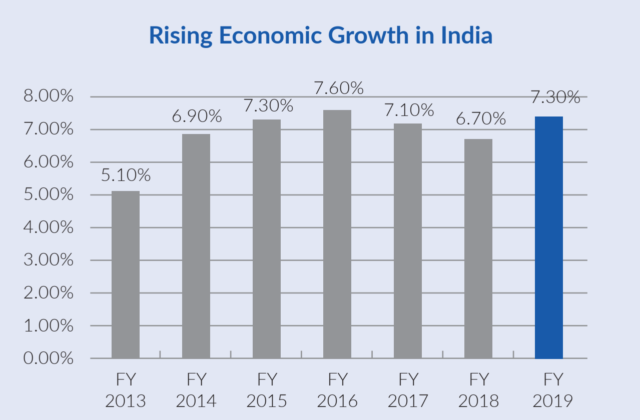
Indian Economy

India's growth accelerated to an estimated 7.3% in FY 2018 (April to March) as economic activity continued to recover with strong domestic demand, which is expected to widen the current account deficit to 2.6% of GDP next year. The World Bank stated in its January 2019 Global Economic Prospects report that while investment continued to strengthen amid the GST harmonisation and a rebound of credit growth, consumption remained the major contributor to growth. It attributed the positive sentiments to an upswing in consumption and investment growth, as the benefits of structural reforms such as the Goods and Services Tax (GST) harmonisation and bank recapitalisation took effect. Inflation is projected to rise somewhat above the midpoint of the Reserve Bank of India's target range of 2% to 6%, mainly owing to energy and food prices. The World Bank report said. India climbed eight places in the latest annual International Intellectual Property (IP) Index released by the US Chambers of Commerce to reach 36th place out of 50 countries, climbing from 44th rank in the index last year.

Rising Economic Growth in India

FY2013	5.1%
FY2014	6.9%
FY2015	7.3%
FY2016	7.6%
FY2017	7.1%
FY2018	6.7%
FY2019	7.3%

Source: Estimates by Central Statistical Organisation



INDUSTRY OVERVIEW

Global Information Technology Sector

Worldwide IT spending is expected to have totaled USD 3.7 trillion in 2018, an increase of 4.5% from 2017, according to the report by Gartner, Inc. Global IT spending growth began to turn around in 2017, with continued growth expected over the next few years. Despite economic uncertainty, businesses will continue to invest in IT as they anticipate revenue growth. Projects in digital business, blockchain, Internet of Things (IoT) and progression from big data to algorithms to machine learning to artificial intelligence (AI) will continue to be the main drivers for growth. Moving ahead, the total global IT spend is projected to touch USD 3.8 trillion in 2019, rising 3.2% from USD 3.7 trillion in 2018, according to the report by Gartner, Inc.

While currency volatility and the potential for trade wars are still playing a part in the outlook for IT spending, it is the shift from ownership to service that is sending ripples through every segment. What this implies is more enterprise use of cloud services instead of buying own servers, they are turning to the cloud. As enterprises continue their digital transformation efforts, shifting to 'pay for use' will continue. This sets enterprises to deal with the sustained and rapid change that underscores digital business.

Enterprise software spending is forecast to experience the highest growth with an 8.3% increase in 2019. Software as a Service (SaaS) is driving growth in almost all software segments, particularly customer relationship management (CRM), due to increased focus on providing better customer experiences. Cloud software is projected to grow at more than 22% this year, compared with 6% growth for all other forms of software. While core applications such as Enterprise Resource Planning (ERP), CRM and supply chain continue to get the lion share of dollars, security and privacy are of particular interest currently.

IT services will be a key driver for IT spending in 2019 as the market is forecast to reach USD 1 trillion in 2019, an increase of 4.7% from 2018. An expected global slowdown in economic prosperity, paired with internal pressures to cut spending, is driving organisations to optimise enterprise external spend for business services such as consulting. In a recent Gartner study, 46% of organisations indicated that IT services and supplier consolidation was in their top three most-effective cost-optimisation approaches.

Source: Gartner Report

Digital Transformation

Worldwide spending on technologies and services that enable digital transformation (DX) of business practices, products and organisations is forecasted to reach USD 1.97 trillion in 2022 at a 5-year CAGR of 16.7%. By 2020, 30% of G2000 companies will have allocated capital budget equal to at least 10% of revenue to fuel their digital strategies as they recognize DX as a long-term investment.

Source: IDC

Worldwide IT Spending Forecast (In USD Billion)

	2017 Spending	2017 Growth (%)	2018 Spending	2018 Growth (%)	2019 Spending	2019 Growth (%)
Data Centre Systems	181	6.4	192	6	195	1.6
Enterprise Software	369	10.4	405	9.9	439	8.3
Devices	665	5.7	689	3.6	706	2.4
IT Services	931	4.1	987	5.9	1,034	4.7
Communication Services	1,392	1	1,425	2.4	1,442	1.2
Overall IT	**3,539**	**3.9**	**3,699**	**4.5**	**3,816**	**3.2**

Source: Gartner (December 2018)

Global IT Industry and IT spending: Key Growth Drivers

a. IT spending is witnessing a shift from ownership to service – increase in use of cloud services by enterprises to not only reduce cost, but gain agility to deal with sustained and rapid changes, and ultimately help them in digital transformation.

b. Software as a Service (SaaS) is driving growth in almost all software segments, particularly CRM, due to increased focus on providing better customer experiences.

c. Cloud software is projected to grow at more than 22% this year, compared with 6% growth for all other forms of software.

d. Cloud spend is not uniform across geographies. US contributes 60% of the cloud spend. Lack of hyper scale data centers in developing markets contributes to slow growth of cloud spend.

e. Global spending on IT security is expected to surpass USD 133 billion in 2019; in EMEA (due to GDPR) it is expected to reach USD 40 billion in 2019, up 7.8% from 2018.

f. Expected global slowdown in economic prosperity, paired with internal pressures to cut spending, is driving organisations to optimise enterprise external spend for business services (IT services and supplier consolidation are top three most effective cost-optimisation approaches).

g. In addition to buying behaviour changes, internal staff is beginning to lag as organisations adopt new technologies, such as IoT devices, to drive digital business. Nearly half of the IT workforce is in urgent need of developing skills or competencies to support their digital business initiatives. Skill requirements such as artificial intelligence (AI), machine learning, API and services platform design and data science are changing faster than ever before.

Indian IT Sector Overview

India is the leading sourcing destination across the world. It accounted for approximately 55% market share of the USD 185-190 billion global services sourcing business in 2017-18. Indian IT & ITeS companies have set up over 1,000 global delivery centres in about 80 countries across the world.

India has become the digital capabilities hub of the world with around 75 per cent of global digital talent present in the country.

India's IT & ITeS industry was valued at USD 167 billion in 2017-18. Exports from the industry increased to USD 126 billion in FY 2018, while domestic revenues (including hardware) advanced to USD 41 billion.

Spending on Information Technology in India is projected to grow over 9% to touch USD 87.1 billion in 2018. Revenue from the digital segment is seen comprising 38% of the forecasted USD 350 billion industry revenue by 2025.

Management Discussion & Analysis

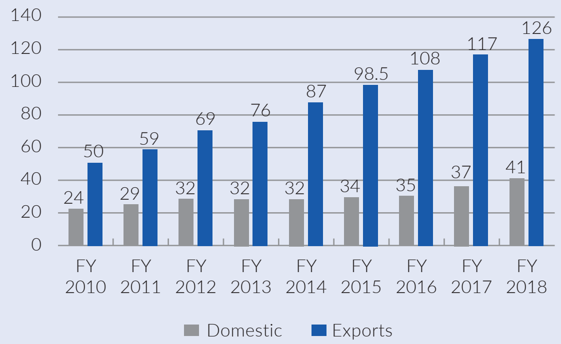
The value created by the digital economy could support 55-60 million jobs by 2025, but will require retraining and redeployment of 40 million workers in new and emerging job roles. All stakeholders in Team India need to play a key role in achieving the USD 1 trillion digital economy.

Indian IT Industry (In USD Billion)

	Domestic	Exports
FY 2010	24	50
FY 2011	29	59
FY 2012	32	69
FY 2013	32	76
FY 2014	32	87
FY 2015	34	98.5
FY 2016	35	108
FY 2017	37	117
FY 2018	41	126

Source: IBEF

Indian IT Industry (In USD Billion)

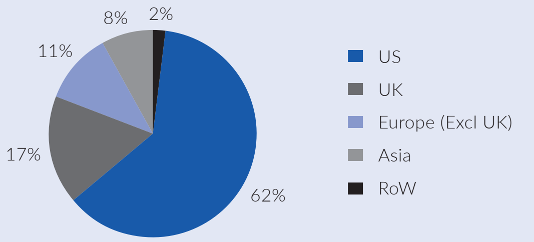


Geographic Break-up of Export Revenue in FY 2018

US	62%
UK	17%
Europe (Excl UK)	11%
Asia	8%
Rest of World (ROW)	2%

Source: IBEF

Geographic Break-up of Export Revenue in FY 2018

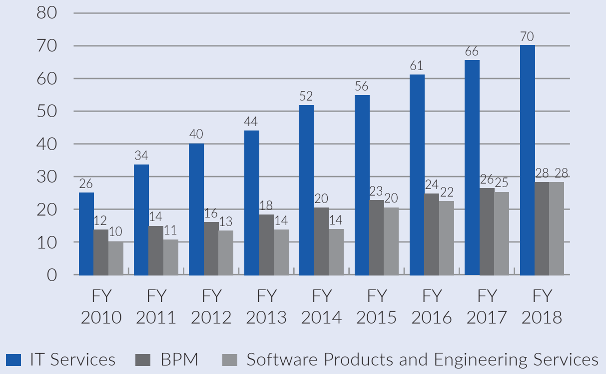


Growth in Export Revenue (In USD Billion)

	IT Services	BPM	Software Products and Engineering Services
FY 2010	26	12	10
FY 2011	34	14	11
FY 2012	40	16	13
FY 2013	44	18	14
FY 2014	52	20	14
FY 2015	56	23	20
FY 2016	61	24	22
FY 2017	66	26	25
FY 2018	70	28	28

Source: IBEF

Growth in Export Revenue (In USD Billion)



Investments/Developments

Indian IT's core competencies and strengths have attracted significant investments from major countries. The computer software and hardware sector in India attracted cumulative

Foreign Direct Investment (FDI) inflows worth USD 32.23 billion between April 2000 to June 2018, according to data released by the Department of Industrial Policy and Promotion (DIPP). Leading Indian IT firms have been diversifying their offerings and showcasing leading ideas in blockchain, artificial intelligence to clients using innovation hubs, research and development centres to create differentiated offerings. Nasscom launched an online platform aimed at up-skilling over 2 million technology professionals and skilling another 2 million potential employees and students.

Road Ahead

India is the topmost offshoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. Export revenue of the industry is expected to grow 7-9 per cent year-on-year to USD 135-137 billion in FY19. The industry is expected to grow to USD 350 billion by 2025 and BPM is expected to account for USD 50-55 billion out of the total revenue.

IT & ITeS Industry in India: Competitive Advantages

Growing Demand	Expanding economy to propel growth in local demand. Strong growth in demand for exports from new verticals
Global Footprint	Indian IT firms have delivery centres across the world and are well-diversified across verticals such as BFSI, telecom and retail
Competitive Advantage	IT and ITeS sector in India has a low-cost advantage by being 5-6 times less expensive than US
Policy Support	Tax exemption of 3 years in a block of 7 years to start-ups under "Start-up India"

Source: IBEF

HEXAWARE BUSINESS OVERVIEW

Head-quartered in Mumbai, Hexaware Technologies Limited is one of India's fastest growing IT enterprises, aiming to revolutionise the traditional IT approach. The key services it provides to its clients globally include - IT, Business Process Outsourcing Solutions and Consulting Services. It provides customised service offerings and effective business strategies to its clients, such as robotic process automation, hyper-converged technology, design thinking and rapid prototyping. The key services include integration, development support, testing services and implementation across all chief project software systems.

Key Industry Segment

- Banking & Financial Services
- Health & Insurance
- Travel & Transportation
- Manufacturing & Consumer
- Professional Services

On a Transformation Journey

The Company is on a transformation journey, helping organisations automate everything, cloudify everything and transform their customer experience. With over 16,205 employees, the Company believes in the philosophy "Your Success is Our Focus". The Company delivered double-digit revenue growth (in US$ terms) of 11.6% in 2018, one of the industry's highest. It reported sustained organic CAGR growth of 12.5% in revenue over the last five years, owing to its excellent client relationships and strong execution capabilities. Europe led geographic growth with a 21.5% revenue growth YoY, while Americas grew 11.7% and Asia Pacific 11.2%.

Key Service Offerings

- Application Transformation Management
- Application Support and Maintenance
- Business Process Services
- Business Intelligence and Analytics
- Digital Customer Experience
- Enterprise Solutions
- Customer Experience Transformation
- Digital Assurance and Testing
- Infrastructure Management Services

PARTNER-LED GROWTH STRATEGY

The Company has built a partner ecosystem through its collaboration with market-leading technology vendors, product vendors, platform vendors, niche technology providers, future technology providers and business software providers. The right blend of partners, combined with unique service offerings and frameworks and underpinned by robust governance models, enables the customers to reach their goals faster. The partner-led growth strategy of the Comapny has redefined the way business is done by the end customers and optimizes the IT landscape and delivers maximum business results. Strategic global alliances of the Company involve co-developing solutions and building capabilities relevant to focus industries, with the aim of solving critical business challenges.

The Company has developed various proofs of concepts and solutions for diverse industries through in-house centers of excellence, jointly developed with partners. These path-breaking solutions help organisations adopt new technologies effectively and address business challenges across the industries. Today, Hexaware acts as a trusted consulting and implementation advisor for large enterprises globally and is proactively leveraging its partners' capabilities in this journey.

GO-TO-MARKET STRATEGY

- **Automate Everything**

  From the earlier days of automation being done in silos with the use of apps, infrastructure and testing, Automating Everything essentially involves breaking these silos and providing end-to-end enterprise level automation. It has moved way ahead from just being "low cost" to one where it impacts "customer experience". It is no longer just about being cost effective, increasing efficiency and reducing FTE counts, but more about how it impacts customer experience by building synergy and creating a powerful impact. At Hexaware, we are considering the technologies, such as Artficial Intelligence (AI), Machine Learning (ML) and Blockchain, that will enable automation across enterprises, including high-complexity tasks.

- **Cloudify Everything**

  "Cloudify Everything" implies taking automation to the next level. In the years to come, most enterprises will move almost everything on cloud. The concept of Cloud started with the low cost of ownership as enterprises could 'pay as they use'. Today, Cloud has moved a level higher as it is more about scalability, flexibility and agility – by virtue of its ability to reduce time to market and have a better IT infrastructure. It is all about harnessing the power and capabilities of cloud effectively and serving customers better. The Company is creating the culture of consuming the elements available on cloud before building anything.

- **Transform Customer Experience**

  The outcome of the over-arching strategy of Automating Everything and Cloudifying Everything is to enable clients to transform their customer experience. Today, not many companies provide superior and consistent customer experience, as it is a complex task and involves bringing together a range of technologies across the organisation. Today, voice, gesture, text is used at own convenience. Since a lot of organisations do not have solutions around these, the Company will enable enterprises to communicate with their customers, and also provide a superior, consistent and seamless experience.

KEY MARKET DISTINGUISHERS

- One of the fastest growing IT services company with organic growth
- The Straregy to "Automate Everything, Cloudify Everything, Transform Customer Experience"
- Change in senior leadership with "Inside-Out-Outside-In" perspective
- Strong execution capabilities and excellent client relationships
- Execution of 50% digital workforce strategy and culture of innovation
- Solidity in client mining driving new business

INVESTMENTS IN NEW TECHNOLOGIES

- VR/Mixed Reality/AR/Computer Vision/head mounted devices
- Release of CoCo - employee engagement by enterprise level chatbot
- Challenger Program - Ideation platform for ideas for employees
- Blockchain
  - o Established a Blockchain technology lab and helped customers evaluate the right set of tools and platform for their Blockchain initiatives
  - o Delivered multiple Blockchain solutions to customers on some innovative use cases like:
    - Blockchain based open bidding platform for lease finance, to enable effectiveness and transparency in the operation
    - Blockchain based asset tracking solution to track the organizational assets to avoid loss of revenue
    - IOT enabled smart contracts on Blockchain for automatic usage tracking of assets that can enable seamless invoicing and maintenance

INTEGRATED REPORTING

1. HUMAN CAPITAL

Human Resources and Industrial Relations:

In the IT industry, Human Resources plays a pivotal role in defining the growth prospects. At Hexaware, Human Resource is the 'go-to' department for counselling, consultation, and information, among others, due to integrity and the neutral position of this department. The Company promotes just and fair HR practices, and employee-friendly policies and processes. The quality of the employees and the work culture is the key to its success in the long run to sustain and grow as a company. The Company is committed to provide necessary human resource development and training opportunities to equip people with skills, enabling them to seamlessly evolve with ongoing technological advancements.

During the year 2018, the Company planned and executed several training interventions for employees on diverse areas such as technical skills, behavioral skills, business excellence, general management, advanced management, leadership skills, customer orientation, safety, values and Code of conduct and product training.

As the Company caters to a diversified workforce which comprises various nationalities and cultures, every employee's individual development and welfare is at the core of HR practices. The Company believes that motivated employees will help the Company meet its rapidly evolving customer requirements. The Company wants to partner with its people to strengthen its Human Resource processes and HR competencies to contribute to organisational capabilities and employee well-being, thereby making Hexaware a great place to work.

The HR structure is organised to closely align with its business. This has helped the Company focus and collaborate on achieving the common goal of enhanced employee experience.

The HR Shared Service teams are mapped to different geographies for higher accountability. They are primarily responsible for resolving day to day employee queries.

The HR Business Partner teams are aligned to the business verticals and horizontals and are responsible to drive employee engagement, talent management and key people processes.

The Corporate HR team includes Centres of Expertise catering to functional areas such as:

- Compensation and Benefits
- People processes and Policy Design
- Organisational Capability Development
- Talent acquisition (Leadership hiring and Campus Hiring)

Employee Headcount

Year	2012	2013	2014	2015	2016	2017	2018
No	9,069	8,854	10,016	11,375	12,115	13,705	16,205

Key HR Initiatives of FY 2018

Hexaware Technologies Limited has well-defined HR practices and policies in place. The Company recognises its people as its extended family and gives utmost importance to people processes and is constantly benchmarking itself against the industry standards. To reinforce alignment of core beliefs and actions, the Company continues to transform its policies, processes and practices. The HR policies are aligned to its organizational strategy. The Company has automated a lot of administrative tasks to enable strategic initiatives. The Company provides employees with various resources and platforms through which they can communicate within the global organisation. This has further empowered the employees to boost productivity, drive strong performance and focus on client-centric initiatives. To unfold the growth opportunities, the Company not just provides its employees with a competitive compensation, but also holds timely reward and recognition ceremonies. This helps the company to build talent from within and strengthen its engagement initiatives.

Regular engagement activities and surveys are conducted to sense the pulse of the employees and improve their motivation levels. This strengthens the work culture and delivery which lightens the work place atmosphere and enhances employee experience and well-being. The refurbished Facebook@work tool helps employees in connecting with people across the organization at global locations. The Empower survey conducted at the end of the year gave an insight into the drivers for employee morale and what makes Hexaware a great place to work. The relaunched StationH portal provides a one stop shop for employees to get information about the organization wide processes and policies.

Motivated Employees

The Company supports and promotes transparent communication and healthy interactions between leaders and employees at large, focusing on creating a friendly atmosphere and discussing the changing dynamics of the industry. With the implementation of effective change management processes, there exists a clear line of communication among the employees and collectively they work with the mindset of achieving the organisational goals. The Company has put in place various mechanisms that constantly motivate the work force to view the Company's vision and work dedicatedly towards future growth plans.

The Company has ensured that it attracts, mentors and retains the best talent through effective and assured career development path and a healthy work life balance. The Company focuses on next generation solutions, attracting and retaining the right talent, adheres to a business strategy that impacts people positively and creates a sustainable value for all its employees. The Company aims to align employees' career aspirations with the evolving business needs and promote talent by taking them to the next level. The Company's first thrust is to fill the leadership positions from the existing talent pool by encouraging horizontal movements among deserving candidates from within. This boosts the employee's morale as it gives them an opportunity to showcase their talent and explore their fullest potential. The Company has the performance management system (PMS) to assess the potential candidates for the next role. The PMS system guides employees towards the right career path and gives a clear vision of their career trajectory.

The Company has introduced the higher education program for employees who wish to pursue their MTech Program to upgrade their skills and fulfilling their ambition of pursuing their higher education.

The Company has a well-structured Rewards and Recognition (R&R) program through which managers can recognise or nominate their team members for awards and other incentives. It works as a great motivation program, as it encourages employees to give their best at work and feel valued to be a part of this organization.

Employee engagement

At Hexaware, the Company is geared towards implementing employee engagement initiatives that keep its employees fully engaged in their jobs and emotionally invested in committing themselves by adding value to their team and advancing the organisation's initiatives. Employees attend the regular HR pulse and skip meetings which help in ironing out their concerns and providing the required clarifications. The Company provides its employees with a clear road map for their careers by conducting periodic Open Houses and townhall meetings.

As part of engagement initiatives, various workshops and seminars are organized on diverse topics such as:

- De-stress camp
- Healthy eating workshops
- Financial management
- Medical camps

Management Discussion & Analysis

- Aadhar card camp
- Hexaware kid's day
- Prevention of sexual harassment training

Employee Welfare

There are a lot of employee welfare activities and schemes in the Company to improve and enhance the quality of life for the employee. In its endeavour to improve employee welfare, the Company is invariably exploring value driven initiatives.

- **Counselling service:** With the dynamics of changing industry, consultants are bound to get stressed and pressurized. The personal and Professional issues can take a toll on people and too combat this, the Company has tied up with 1 to 1 help net to provide anonymous counselling services to its employees that they can avail of anytime or anywhere. The Company is fully committed to employee welfare and want to address work related issues that may affect its employees' wellbeing, work performance, workplace morale and mental health.

- **Doctor-on-call:** Well-being programs have a positive impact on the employees and lead to improved team engagement levels, cohesiveness and increased productivity. The Company has appointed an in-house doctor for consultation within the campus as well as on-call.

- **Cordial work environment:** A positive work environment is not only important for our physical, mental and emotional health, but is also important for the Company. The better we feel at work, the more likely we will take pride in what we do. The Company is an equal opportunity employer and is committed to provide a harassment-free work environment to the employees. Various training sessions were conducted for the employees to understand the concept of harassment and the potential repercussions of it.

- **Staff welfare guidelines:** Fun is an integral part of our work culture. The Company organises team outings, office picnics, treks and other sporting and cultural events to ensure that the team members get an opportunity to bond and rejuvenate.

Diversity

The Company has strongly embedded diversity and inclusion into the organisational culture. It has developed an ecosystem focused towards development and advancement of the diverse workforce. Inclusion in the Company is fostered by learning about the cultural backgrounds, likes and interests of employees outside of the workplace and ensure that all employees can partake in decision making and professional opportunities for advancement. The Company has a healthy percentage of women employees which stands at 31.05% of our total workforce. The Company has a dedicated group W@H (Women At Hexaware) which conducts women specific activities like Self Defense Workshops, Women Day's celebration and parenting workshop, among others. The Company also respects the diversity of culture and nationalities and has a workforce spanning multiple countries globally.

Women Employees at Hexaware Technologies Limited

Year	2012	2013	2014	2015	2016	2017	2018
No	2,369	2,741	2,582	3,216	3,634	3,641	5,075

2. INTELLECTUAL CAPITAL

Kindly refer annexure to Directors' report on page no. 53 & 54 for Intellectual Capital (Research & Development).

3. SOCIAL AND RELATIONSHIP CAPITAL

Social and relationship capital is an integral component of the value of business. It involves the business itself and the relationship with and between the employees, communities and the stakeholders. Company's vision is to create a superior value for all its stakeholders through a culture of caring. The Company cares about all stakeholders (employees, shareholders, Government, communities).

Building close relationships based on trust, sharing value and protecting the environment are core to Company's ethos. The purpose of Hexaware Technologies is to deliver innovative products and services that bring a better life, health and well-being to people everywhere. The Company believes that this is the basis on which it will ensure sustainable growth. At Hexaware, the Company develops, improves and invests in relationships with its clients, employees and the society, using an approach based on dialogue and transparency.

4. NATURAL CAPITAL

Kindly refer annexure to Directors' report on page no. 53 for Natural Capital (Conservation of Energy).

5. FINANCIAL CAPITAL

Kindly refer section `Financial Analysis' on page no. 113 onwards.

6. MANUFACTURED CAPITAL

A key aspect of manufactured capital is initiative of the Company to improve operational efficiency, in addition to the physical assets such as buildings and IT laboratories. As one of the key pillars of the strategies, the Company aims to constantly improve it operations and optimise resource efficiency. The investments provide benefits to the Company and the stakeholders by delivering product safety and quality. Investment in this capital is largely aimed at productivity, technological innovation, quality, safety and the environment, with a key focus to reduce costs and improve customer experience. The Company enhances its manufactured capital by employing in its infrastructure, technologies and processes to use the resources efficiently. Manufactured capital greatly assists the Company in facilitating value-creating activities, as the quality of its manufactured capital determines the quality of its services.

RISK AND MITIGATION STRATEGY

Risk	Defining the Risk	Mitigation Strategy
Regulatory and Compliance Risk	The Company's business operations are spread across various geographies and offers wide range of services to its clients which results in the Company getting exposed to various regulatory requirements risks such as the issue of H1B visas or regulatory changes which the new US administration is likely to make which may add to woes of the Indian IT sector.	The Company has well defined regulatory compliance framework to track regulatory compliances globally and has defined owners for various compliances. The framework is not only designed to avoid violation of laws and regulations, but also to protect the Company's ethical standards. The Company has actively worked towards mitigating this risk by establishing several offices abroad, hiring a local workforce and shifting some of its projects nearshore even though it is difficult to predict regulatory changes. The Company has expanded its delivery presence in the European region by opening its global delivery centre (GDC) in Poland, Netherlands, Tver (Russia) to service its European and global clients.
Information and Cyber Security Risk	The Information and Cyber Security Risk has emerged as top risk across industries as companies are moving towards new technologies such as mobile computing, internet of things, cloud computing etc. With the dynamic threat landscape of highly technical nature, this risk is perceived as top of every company agenda internationally due to the possibilities of sophisticated targeted attacks, increasing ransomware threats, malware, data leakage and other security failures.	The Company has a well matured Information Security Management System with Policies, Processes and Controls to minimize the Cyber Security risks. The governance and management of Security compliance and risk is reviewed periodically. The Company is ISO 27001 Certified and engages external Auditing bodies to carry out Type-1 & Type-2 Assessment of SSAE16 and ISAE3402 for SOC1 and SOC2 annually. Internal and external Penetration Testing are conducted to manage the security vulnerabilities.
Competition from Peers	The Company faces competition from Tier 1 companies/ Tier 2 companies. Customers for various reasons including to diversify geographical or vendor concentration risk, seek to reduce their dependence on any one country or vendor and may seek to outsource their operations to other countries or vendors. In addition, some of the Company's clients have sought to outsource their operations to onsite providers of outsourcing services.	The Company's prime focus has been of strengthening strategic partnership with its clients. It has presence in countries where client requires its services. The Company has multiple service offerings covering entire range of IT needs of the client. It has deep relationship with its customers, its average relationship with top 10 customer is 11 years. It has embarked upon the expansion of onsite presence with increasing delivery center capability in US, creating new center in Europe to cater to clients in Europe meeting regulatory requirements. It adheres to presale accountability to drive bid in each vertical. Dedicated sales team including senior leaders are involved in large deals in market.
Talent Unavailability	Lag in deployment of resources for earning revenue, non-availability of relevant skill / skilled staff especially in: • the new age domains such as digital offerings resulting in revenue loss and • US resulting in high attrition and in demand and supply mismatch.	The Company has put in place processes and tools for constant monitoring of the resource in the pool as well as resource on the project getting released for quick deployment. Resources in pool as well as projects are being upskilled / reskilled and appropriate HR actions taken. There is centralised process to forecast the resource requirements based on RFPs / pipelines followed by monitored hiring plans. The Company has also automated entire recruitment and resource management with the help of new age software. For the US, the Company has instituted program to hire graduates from US university. It has also increased retention measures like enhanced benefits. In addition, the Company is also expanding Mexico delivery center to deliver services in US with advantage of talent availability and time zone.

Management Discussion & Analysis

Risk	Defining the Risk	Mitigation Strategy
Data protection and privacy Risk	The leakage and misuse of confidential data and proprietary information increases the risk of non-compliances of privacy and data protection laws. These breaches can also damage the brand, reputation and relationships.	The Company has strategies to ensure Privacy & Data Protection Framework which includes governance, policies, privacy impact assessments, training, data mapping, incident management, and awareness. It also has policies for addressing privacy from the perspective of clients and corporate. The Company's policies and process ensures robust data protection measures in compliance with the global standards and requirements such as GDPR.
HR Related Risk	The Company operates in the industry which is highly dependent on talent and capabilities of its personnel. The Company needs to continuously invest in employee training and development which is intellectual capital for firms. Employee attrition is a major threat that drains the Company's intellectual capital and renders un-competitiveness.	The Company has effective people management systems and strategies, which have led to retaining low attrition levels. It remains focused on building a robust training framework to cater to the development needs of employees across leadership level, which includes professional, functional, technical and leadership development interventions.
Increased cost of services	Increase in salary and other costs affecting margins	Improve operating efficiency by (a) Controlling operating cost (tight budgeting process) (b) Monitor and replace subcontractors with the full time employees wherever possible. (c) Mentor and guide potential candidate to take higher responsibility. (d) Broaden pyramid by hiring new trainee. (e) Improved performance management system leads to efficiency in system. For e.g. targets linked to margin, utilization and customer satisfaction.
Technology Risks / Business model changes	There's a significant disruption driven by technology. Traditional technologies are being replaced by new age ones at an unprecedent pace and in this context, it becomes important for the Company to continuously review and upgrade its technology, resources and processes to mitigate technical obsolescence.	The Company operates in various technology platforms and has developed competencies in various technologies, platforms and operating environments. The Company has been increasing the service offerings including into new age technology like automation, cloud, mobility and digital. It invests heavily on the continuous training for resources. It is also encouraging innovation in service delivery / solution offerings. The Company has strengthen sales team with hunters and farmers to win new client and existing account mining by providing differentiated services / solution by use of automation / RPA. It has also added leadership strength with new heads inducted who has relevant experience.
Industry Risk	The Company caters to almost every sector like banking and financial services, travel and transportation, Healthcare to name a few. Any sectorial downturn will slow-down or affect our business performance.	The Company has developed a firm grip on various sectors and is familiar with the business cycles and performance. This helps it reduce dependency on any one area or sector. Its revenue concentration is fairly balanced. The Company also offers building differentiated solutions / offering within the vertical sub-segments. It has also expanded industry horizon with the launch of Professional Services vertical at the beginning of FY 2018.

Risk	Defining the Risk	Mitigation Strategy
Revenue Concentration Risk (1)	Concentration of business from customers from limited geography	Expansion of onsite presence with increasing delivery center capability in US, creating new centers in Europe to cater to client in Europe. The company has opened offices and centers recently in Sweden/ China/ Poland/ Russia/ Hong Kong etc. Increased focus on markets other than US i.e. in Europe, APAC, AMEA region with dedicated hunting and farming teams.
Revenue Concentration Risk (2)	Client concentration - dependence on few customers	The Company is increasing portfolio of customer contributing > 1 Million revenue a year. The company is managing its top customers well and it can be gauged from the following: – Very long relationship with customers. – Top 5, 10 or 20 customers revenue has grown by 5.3%, 4.9% and 6.2% respectively in FY 2018 compared to FY 2017. – Expansion of client base with high revenue. Customer contributing over USD 1 Million increased to 99 from 88 in the previous year, between USD 1-5 Million to 72 from 71, between USD 5-10 Million to 18 from 7. – In FY 2018, many new customers entered top 20 bucket – Customer satisfaction survey : On a scale of -100 to 100, the Company scored 74.4 as against an industry score ranging from 53.6 to 74.4.
Foreign Currency Risk	The Company earns sizable revenue in foreign currency which exposes it to exchange rate fluctuation risks.	The Company monitors currency movements closely and follows a structured hedging program approved by the Board / Committee of the Board. The Company has systematic hedging policy approved by the Committee of Board and it has been effective in protecting the risk. As on December 31, 2018, the Company had the following hedges maturing over the course of the next eight quarters: • USD 162.12 million at an average exchange rate of 71.83 • Euro 5.84 million at an average exchange rate of 88.22 • GBP 11.32 million at an average exchange rate of 98.70

Management Discussion & Analysis

Risk	Defining the Risk	Mitigation Strategy
Disaster Recovery/ Business Continuity	The Company may be vulnerable to risks due to natural calamities / disasters which may impact business operations and even pose a risk to employee safety.	The Company has a structured business continuity management plan that addresses disruptions at every level of business like city level, country level and even at floor level. The plan framework minimises the impact of outages which includes recovery sites, intra-city redundancies, work from home etc. Business continuity plan was activated during the Chennai flood events in recent past and was successful in minimizing business impact as well as supporting employee safety requirements.
Liquidity Risk	For the Company, the threat to its liquidity could be a risk factor. The liquidity refers to the ability of the Company to meet its cash, collateral and vendor obligations.	Hexaware has been a zero-debt company for the past eight years. It has cash and bank balances including investments in mutual funds (current investment) aggregating to ₹ 8,341 million as on December 31, 2018. The Company has been maintaining efficient cash conversion ratio which is above 70% (cash flow from operations ÷ EBITDA before ESOP cost).
Credit Risk	Large number of revenue transactions are on credit. Default or inability of the client to pay on time will impact the profitability.	The Company has effective receivable management system to maintain the Days Sales Outstanding ratio in a favourable position. DSO ranges from 49 days to 60 days. It focuses review of unbilled revenue to check on long pending item to bill. DSO with unbilled have been in range of 71 to 81 days. The focus has been on adding large and diverse clients to the portfolio, thus minimising the credit risk.
Reputation risk	Negative media coverage and public scrutiny actions by activist shareholders / analysts may divert the time and attention of our board and management and adversely affect the share price	To mitigate this, the Company has adopted following approach (a) Regular screening of media coverage and preemptive response by the senior management (b) Regular interactions with the shareholders and analysts and provide the relevant information in transparent and timely manner. (c) Separate PR team interacting with the investors and analyst.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Board of Directors at Hexaware Technologies Limited are primarily responsible for establishing and maintaining internal financial controls within the Company. This is largely based on the internal controls over financial reporting criteria that has been established by the Company. These are based on the size and the nature of the Company's operations and have been designed to provide reasonable assurance on recording and providing reliable operational and financial information, as per the applicable statutes and with regards to compliance norms.

The Company strictly follows the statute, laws, rules and regulations of the land, which is regularly reviewed by the statutory and internal auditors. The adequate internal control framework identifies and analyses risks and manages appropriate responses. It also ensures stringent compliance across all the business units and departments. The aim behind this is to safeguard the assets, prevent and detect fraud and errors, and also check completeness of accounting records and timely preparations of financial statements. The Audit Committee then reviews the audit observations and takes the required follow-up actions. The Statutory Auditor's Report on the adequacy and effectiveness of internal finance controls has been provided in detail on Page 161 of this Annual Report.

FINANCIAL ANALYSIS

Financial Year 2018 at a glance

- Yet another year of sustained organic growth with CAGR of 12.5% (in USD terms) over last 5 years.
- Revenue (in INR terms) increased by 17.9% to ₹ 46,477.62 million (FY 2017 ₹ 39,420.14 million)
- In USD terms, Revenue grew by 11.6% to USD 677.66 million (FY 2017 USD 607.49 million). In constant currency terms revenues stood at USD 677.41 million, up by 11.5% (FY 2017 607.5 million).
- EBITDA after RSU cost increased by 12.0% to ₹ 7,338.19 (FY 2017 ₹ 6,551.64 million).
- PAT increased to ₹ 5,834.63 (FY 2017 ₹ 4,995.26 million), increase of 16.8%.
- Earnings per share (Basic EPS) of ₹ 19.65 (FY 2017 ₹ 16.79), up 17.0%.
- FY 2018 dividend distribution of ₹ 7.0 per share on equity share of ₹ 2 each. i.e. ₹ 2,506.03 million. Dividend payout ratio of 43%.

Consolidated Balance Sheet

1. Property, plant and equipment (PPE) and intangible assets

a) Total additions to PPE and Intangibles was ₹ 830.79 million mainly in buildings of ₹ 301.53 million largely at Pune campus, plant and machinery including computer of ₹ 313.39 million, Furniture and office equipments of ₹ 62.59 million and ₹ 67.19 million respectively.

b) The additions also includes ₹ 76.48 million towards software licenses

c) Capital work in progress (CWIP) stood at ₹ 2,244.43 million as at December 31, 2018 compared to ₹ 2,563.06 million as at December 31, 2017. The CWIP is largely in respect of infrastructure development at Chennai and Pune.

d) The Company has provided adequate depreciation in accordance with the useful lives of the assets determined in compliance with the requirements of the Companies Act, 2013.

2. Investments

(₹ in Million)

	Non-current		Current	
	2018	2017	2018	2017
Investment in Associate - Experis Technology Solutions Pte. Ltd.	21.31	19.65	-	-
Other investment - in Beta Wind Farm Pvt. Ltd.	4.58	4.58	-	-
Investment in mutual funds	-	-	101.28	189.19
	25.89	**24.23**	**101.28**	**189.19**

a) Investment in Associate represents 20% ownership interest. During the year, the Group has accrued ₹ 1.66 million (previous year ₹ 2.70 million) of share in profit of associate using equity method accounting. This investment is considered to be of strategic importance wherein Company would provide IT/ITES services to the customers sourced through the associate company, who in turn will source business through business relations of majority partner.

b) The Company has invested ₹ 4.58 million in shares of Beta Wind Farm Limited, a Company engaged in generation of renewable energy. Investment is of strategic nature to avail benefit of renewable energy in Chennai.

c) The Company has invested ₹ 101.28 million (previous year ₹ 189.19 million) in mutual funds representing part of surplus fund in India.

Management Discussion & Analysis

3. Other financial assets

(₹ in Million)

	Non-current		Current		Total		Change
	2018	2017	2018	2017	2018	2017	
Interest accrued on bank deposits	0.93	0.78	0.66	1.06	1.59	1.84	(0.25)
Receivable from service provider	-	-	12.80	-	12.80	-	12.80
Foreign currency derivative assets	101.43	136.10	94.16	586.24	195.59	722.34	(526.75)
Restricted bank balances	34.43	34.55	-	-	34.43	34.55	(0.12)
Security deposits for premises and others	249.20	227.95	6.53	6.28	255.73	234.23	21.50
Employee advances (net)	-	-	52.38	47.97	52.38	47.97	4.41
	385.99	**399.38**	**166.53**	**641.55**	**552.52**	**1,040.93**	**(488.41)**

Total other financial assets Decreased by ₹ 488.41 million comprising of:

a) Decrease of ₹ 526.75 million in foreign currency derivative assets (mark to market gain on forward exchange contracts designated as hedges) due to unfavourable exchange rate movement as compared to the hedge rate (Refer note 25.3 of consolidated financial for the details of derivative assets).

The Decrease above was partially offset by Increase in:

a) Receivable from service provider increased by ₹ 12.80 million, it gets settled on periodic basis.

b) Security deposits for premises and others by ₹ 21.50 million for additional premises on lease.

c) Employee advance increased by ₹ 4.41 million representing advance for the travel.

4. Deferred tax assets

Deferred tax assets increased to ₹ 1,784.14 million from ₹ 1,335.54 million, an increase by ₹ 448.60 million. It comprises of tax effect of temporary difference and MAT credit entitlement. The Company records net positions as assets and liabilities based on tax jurisdictions considering rights to offset. Note no. 10 of the Consolidated Financial Statements provides components of assets and liabilities.

5. Income-tax assets (net)

It represents income-tax paid excess of liability receivable from the tax authorities.

a) Non-current portion of income-tax receivables increased by ₹ 25.81 million to ₹ 374.25 million in FY 2018 from ₹ 348.44 million in FY 2017.

b) Current portion of income-tax receivable decreased to ₹ 36.39 million in FY 2018 from ₹ 72.63 million in FY 2017, decrease of ₹ 36.24 million.

6. Other assets

(₹ in Million)

	Non-current		Current		Total		Change
	2018	2017	2018	2017	2018	2017	
Capital Advances	47.05	1.37	-	-	47.05	1.37	45.68
Prepaid Expenses relating to leasehold land	530.30	525.04	-	-	530.30	525.04	5.26
Other Prepaid Expenses	219.56	226.25	496.28	448.81	715.84	675.06	40.78
Indirect taxes recoverable	112.21	81.10	79.99	143.85	192.20	224.95	(32.75)
Others	-	-	23.08	12.56	23.08	12.56	10.52
	909.12	**833.76**	**599.35**	**605.22**	**1,508.47**	**1,438.98**	**69.49**

Other assets increased to ₹ 1,508.47 million from ₹ 1,438.98 million, increase by ₹ 69.49 million mainly on account of following.

a) Increase in capital advances by ₹ 45.68 million for the furnishing being done at premises.

b) Increase in other prepaid expenses of ₹ 40.78 million and other assets by ₹ 10.52 million.

c) Above increase was partially offset by decrease in Indirect tax recoverable by ₹ 32.75 million.

7. Trade receivables and Unbilled

Trade receivables as at December 31, 2018 stood at ₹ 8,031.00 million as against balance of ₹ 5,360.31 million as at December 31, 2017, increase of ₹ 2,670.69 million. Day's sales outstanding (DSO) stood at 60 days compared with 49 days at the end of 2017.

Unbilled revenue stood at ₹ 2,729.85 as at December 31, 2018 as compared to ₹ 2,368.50 as at the end of previous year, increase of ₹ 361.35 million.

DSO with unbilled stood at 81 days as on 31st December 2018 verses 71 days as on 31st December 2017. Though the DSO has increased, the Company is of the view that the receivables are collectible based on its assessment.

8. Cash and cash equivalent and Other bank balances

Cash and cash equivalents aggregate to ₹ 8,050.55 million as at December 31, 2018, increase of by ₹ 2,903.14 million from ₹ 5,147.41 million as at December 31, 2017.

Other bank balances representing balances held for the unclaimed dividend stood at ₹ 154.38 million at the end of FY 2018 compared to ₹ 150.26 million at the end of FY 2017.

Total cash & bank balance including investment in Mutual Fund was at ₹ 8,340.64 million as on 31st December 2018 equivalent of US$ 119.54 million.

9. Share Capital

The paid-up share capital of the Company as at December 31, 2018 was ₹ 594.72 million comprising 297,360,989 Equity Shares of ₹ 2 each. During the year, 557,232 shares were allotted under ESOP plans.

10. Other Equity

Other equity comprises of reserves and surplus and other comprehensive income.

Total other equity increased by ₹ 3,844.79 million to ₹ 23,323.93 as at December 31, 2018 from ₹ 19,479.14 million as at December 31, 2017.

Reserves and surplus included in the other equity includes retained earnings, securities premium, general reserve and other reserves comprising of share option outstanding account, capital reserve, capital redemption reserve and special economic zone (SEZ) re-investment reserves.

a) The Securities premium balance increased by ₹ 117.35 million on transfer of ₹ 114.43 million from stock option outstanding account on exercise of stock options by the employees and receipt ₹ 3.32 million on exercise of stock options.

b) Special Economic Zone (SEZ) re-investment reserve – During the year, the Company transferred ₹ 749.63 million to SEZ reserve from the balance in retained earnings and ₹ 297.26 million was transferred from the SEZ reserve to the retained earnings being utilization for acquisition of plant and machinery. The balance of ₹ 476.45 million is to be utilized in next 3 years as per provisions of the Income-tax Act, 1961.

c) Share option outstanding account increased by ₹ 259.31 million. During the year the Company recorded ₹ 373.74 million of stock based compensation in relation to its RSU plans and transferred ₹ 114.43 million to securities premium on exercise of stock options.

d) The General reserve balance remained same at ₹ 2,144.05 million.

e) Retained earnings balance increased by ₹ 2,926.33 million. Profit for the year was ₹ 5,834.63 million, other comprehensive income for the year part of retained earning was ₹ 33.00 million representing actuarial gains net of tax effect thereon.

Dividend distribution during the year was ₹ 2,506.03 million. During the year, the amount transferred to SEZ re-investment was ₹ 749.63 million and amount transferred from SEZ re-investment was ₹ 297.26 million.

f) Capital redemption reserve balance as at December 31, 2018 is ₹ 11.39 million created in accordance with the provisions of the Companies Act, 2013 in relation to the buy-back of shares during the previous year.

g) Other comprehensive income consists of Currency translation reserve and Hedging reserve balance.

i.) Currency translation reserve is on account of conversion of foreign operations from their functional currency to reporting currency of the Company which is INR. The balance as at December 31, 2018 is ₹ 1,501.78 million. The same will be transferred to profit and loss on disposal of foreign operations.

ii.) Hedging reserve balance consist of mark to mark gain on foreign currency forward contracts designated as hedges to hedge the foreign currency risk. The balance as at December 31, 2018 stood at ₹ (14.86) million net of tax impact as against ₹ 465.83 million as at December 31, 2017.

11. Borrowings

The Group does not have any borrowings. Fund requirements are managed with the internal accruals.

12. Other financial liabilities

(₹ in Million)

	Non-current		Current		Total		Change
	2018	2017	2018	2017	2018	2017	
Unclaimed dividend	-	-	154.38	150.25	154.38	150.25	4.13
Capital creditors	-	25.55	74.93	125.54	74.93	151.09	(76.16)
Deposit received from customer	-	-	0.03	0.03	0.03	0.03	-
Employee liabilities	-	-	1,550.17	1,323.12	1,550.17	1,323.12	227.05
Foreign currency derivative liabilities	72.95	3.40	135.18	4.49	208.13	7.89	200.24
Others	2.69	2.21	-	-	2.69	2.21	0.48
	75.64	**31.16**	**1,914.69**	**1,603.43**	**1,990.33**	**1,634.59**	**355.74**

Other financial liabilities Increased by ₹ 355.74 million to ₹ 1,990.33 million as at December 31, 2018 as compared to balance of ₹ 1,634.59 million as at December 31, 2017.

The Increase is on account of increase in employee liabilities by 227.05 million on increased head count, increase in foreign currency derivative liabilities by 200.24 million on adverse exchange rate movement as compared to hedge rate.

Unclaimed dividend balance has increased from ₹ 150.25 million at the end of FY 2017 to ₹ 154.38 at the end of FY 2018, increase of ₹ 4.13 million. This balance represents the dividend not claimed by the shareholders for which the Company maintains adequate bank balance specially earmarked in accordance with the provisions of the Companies Act, 2013.

The Increase was partially offset by decrease in capital creditors by ₹ 76.16 million.

13. Provisions

a) Non-current

It is respect of gratuity liability Increased to ₹ 230.38 million as at December 31, 2018 from ₹ 179.35 million as at December 31, 2017. Increase is on account of service cost the year. The parent Company in India provides gratuity benefits for its employees wherein the plan is funded with the fund balance kept with Life Insurance Corporation of India. The gratuity liability is based on the valuation from the independent actuary.

b) Current

The balance represents the provision towards compensated absences and other short-term employee benefits. The provision as at December 31, 2018 decrease to ₹ 685.28 million i.e. decrease of ₹ 14.33 million compared to balance as at December 31, 2017 of ₹ 699.61 million.

Provisions others reduced to ₹ Nil million from ₹ 7.67 million of last year. The reduction was on account of payment of ₹ 6.14 million and adjustment of ₹ 1.53 million during the year. The reduction is mainly on account of outflow/adjustment on account of employee benefit obligation on contract acquisition in previous years

14. Trade and other payables

It comprises of trade payables and accrued expenses. Total balance as at December 31, 2018 was ₹ 3,299.90 million as compared to balance of ₹ 2,204.23 million as at December 31, 2017.

Of the total, trade payables increased by ₹ 579.10 million to balance of ₹ 1,871.12 million as at December 31, 2018.

Accrued expenses increased to ₹ 1,428.78 million as at December 31, 2018 an increase of ₹ 516.57 million from the balance as at December 31, 2017 of ₹ 912.21 million. The accrual has increased mainly on account of increase in general business activity.

15. Other current liabilities

It includes advance from customer, unearned revenue and statutory liabilities. Other current liabilities stood at ₹ 1,014.28 million as at end of 2018 as compared to ₹ 589.67 million at end of 2017.

Advance received from customer as at end of FY 2018 was ₹ 190.12 million (previous year ₹ Nil). Unearned revenue balance as at end of FY 2018 was ₹ 314.12 million compared to ₹ 217.99 million as at December 31, 2017 i.e. Increased by ₹ 96.13 million. The increase represent billing advance of the service provided to the customer.

Statutory liabilities represent liabilities not due as at the end of the year. It increased by ₹ 138.36 million to ₹ 510.04 million as at December 31, 2018 as compared to balance as at December 31, 2017 of ₹ 371.68 million

16. Current tax liabilities

It represents provision for income-taxes, net of advance tax. The balance as at December 31, 2018 Increased to ₹ 195.85 million as compared to balance of ₹ 65.28 million as at December 31, 2017.

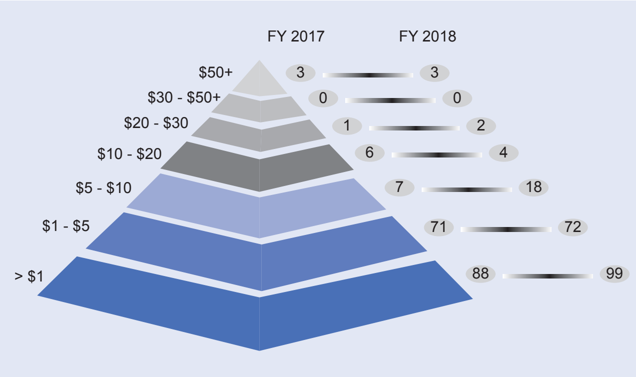
Consolidated results (P&L)

1. Income from operations

Income from operations increased to ₹ 46,477.62 million in 2018 from ₹ 39,420.14 million in 2017, growth of 17.9%. The growth in Dollar terms was 11.6%, reaching USD 677.67 million in 2018 from USD 607.49 million in 2017. Revenue in constant currency was USD 677.41 million in 2018, growth of 11.5%. Growth was driven largely by volume increase, aided by higher onsite mix.

Our repeat business continues to be around 95%.

Over the past few years the focus has been on adding and growing clients with meaningful revenue base. This has led to revenue growth being higher than growth in number of accounts, leading to increased revenue per client. In 2018, the Company added 1 client to the $20-30 million category, 11 in the $5-$10 million category. Significant expansion in the $ 5-$20 million revenue category was a real highlight for the Company. Overall the Company added 11 clients in the > $1M category. The revenue concentration from top 5 and top 10 has come down to 41.6% and 51.7% in FY 2018 as compared to 44.1% and 55.0% in FY 2017.



2. Other income

Other income increased to ₹ 105.48 million from ₹ 35.82 million in 2017, increase of ₹ 69.66 million. The increase is mainly attributed to increase in interest income by ₹ 44.47 million and write-back liability no longer required of 27.39 million.

3. Exchange rate gain

Exchange rate gain increase in FY 2018 to ₹ 471.45 million as compared to ₹ 449.62 million in FY 2017. This has resulted due to systematic foreign currency hedging program and movement of various currencies during the year.

4. Software and development expenses

In fiscal 2018, software and development expense increased to ₹ 10,250.37 million from ₹ 7,391.93 million in the previous year, i.e. an increase of 38.7%. As a percentage to sales, these expenses were 22.05% compared to 18.75% in 2017, the increase attributed to higher subcontracting cost at onsite.

5. Employee benefit expenses

The employment expenses with stock based compensation costs (RSU costs) increased to ₹ 24,799.53 million from ₹ 21,686.54 million, an increase of 14.4%.

Ratio of employee cost-to-revenue marginally improved to 53.36% in 2018 as against 55.02% in 2017. The worldwide employee count including subcontractors was 16205 as of December 2018, an increase of 2500 compared to headcount of 13,705 as of December 2017.

In Financial Year 2015, the Company instituted long-term incentive plan in the form of grant of Restricted Stock Units (RSU). The compensation cost recognized using fair value method for these RSU is ₹ 373.74 million for the 2018 which is included in employee benefit expenses.

6. Operations and other expenses

Operations and other expenses increased to ₹ 4,089.53 million in 2017 from ₹ 3,790.03 million in 2017, an increase of 7.9%. Increase was largely on travelling, service charges, repairs and maintenance costs and business promotions. As a percentage to revenue, these costs were 8.8% in 2018 compared to 9.6% in 2017.

7. Depreciation and amortisation

Depreciation and amortisation expense increased to ₹ 650.55 million in 2018 compared to ₹ 632.77 million in 2017, increase of ₹ 17.78 million largely due to additions of infrastructure at Pune campus and computers and softwares.

8. Income-tax expense

Total tax expense reduced to ₹ 1,431.18 million in 2018 compared to ₹ 1,410.56 million in 2017. Effective tax rate decreased to 19.7% compared to 22.0% in previous year. The decrease is mainly due to increase in exempt income due to new business is being executed from new SEZ's as well as reduction in the tax rate in USA.

9. Profitability

The Companies profit before tax increased to ₹ 7,265.81 million in FY 2018 as compared to ₹ 6,405.82 million in FY 2017, increase by 13.4%.

Profit after tax increased to ₹ 5834.63 million in FY 2018 as compared to ₹ 4,995.26 million in FY 2017, increase by

Management Discussion & Analysis

16.8%. As a percentage to revenue profit before tax remained at 12.6% in FY 2018 compared to 12.7% in FY 2017.

EPS-basic increased by ₹ 2.86 to ₹ 19.65 for FY 2018 compared to ₹ 16.79 for FY 2017.

Consolidated cash flow (₹ in million)

	2018	2017
Net cash from operations	5,487.03	4,762.40
Net cash used in investing activities	(454.52)	(938.00)
Net cash used in financing activities	(2,502.21)	(2,795.80)
Net increase in cash and cash equivalent	2,530.30	1,028.60

During the FY 2018, out of the cash from operations of ₹ 5,487.03 million, ₹ 454.52 million was used in investing activities largely towards acquisition of property plant and equipment and intangibles of ₹ 608.68 million. Financing activities was largely towards payment of dividend of ₹ 2,506.03 million.

Net increase in cash and cash equivalent during the year was by ₹ 2,530.30 million.

CAUTIONARY STATEMENT

Certain statements in this Management Discussion and Analysis Report concerning the future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, ability to manage growth, intense competition in IT services including those factors which may affect company's cost advantage, wage increases in India, company's ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, company's ability to manage its international operations, reduced demand for technology in key focus areas, disruptions in telecommunication networks, company's ability to successfully complete and integrate potential acquisitions, liability for damages on company's service contracts, the success of the companies in which Hexaware has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry.

For and on behalf of the Board of Directors

Date: March 12, 2019
Place: Mumbai

Atul K. Nishar
Chairman